

# Pictet Wealth Management Responsible Investing Policy

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Pictet Wealth Management's Responsible Investment Policy has been written in accordance with the requirements of the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on Sustainability-related disclosures in the financial services sector (SFDR), and of the Directive (EC) 2007/36 of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies amended by Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 as regards the encouragement of long-term shareholder engagement (text with EEA relevance) and its implementing measures (together, Shareholder Rights Directive II – SRD II).

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## 1. Introduction

For decades, sustainability has been central to our way of thinking. Since the Pictet Group (“the Group”) was founded in 1805, we have aimed to ensure the prosperity of our clients over the long term. In doing so, we have instinctively considered the interests of future generations.

Pictet Wealth Management (“PWM” or “the Bank”) believes in responsible capitalism and takes an enlarged view of the economy and its interactions with civil society and the natural environment.

Consistent with our fiduciary duty to act in the best interests of our clients and our adherence to the UN Principles for Responsible Investment (UN PRI), we are committed to integrating material Environmental, Social and Governance (ESG) criteria in our investment processes and ownership practices with a view to enhance returns and/or mitigate risks over the medium to long term. We also aim to include ESG aspects in our risk management and reporting tools in order to maintain high standards of transparency and accountability.

This document describes how the Bank integrates Sustainability Risks as part of its investment decision-making process as well as its investment advice where relevant, implements Responsible Investing strategies, and performs its Active Ownership responsibilities on behalf of its clients, in full acknowledgement of their rights as investors and for their benefit. This includes: the monitoring of investee companies, proxy voting and issuer engagement.

This Responsible Investing Policy applies to all PWM staff managing discretionary investment mandates, funds or Pictet Equity Certificates (“PECs”), providing investment advice to clients, and/or exercising active ownership responsibilities or duties. It is approved by Pictet Wealth Management’s Responsible Investing/ESG Steering Committee and reviewed annually.

## 2. ESG Integration and Responsible Investing

### 2.1 Scope

This section applies to funds and PECs managed by PWM, discretionary investment management mandates and to investment advice where relevant.

### 2.2 Purpose

Our understanding of corporate issuers and fund managers is based on a multitude of factors, of which the regular meetings our Research teams attend with companies’ management, respectively fund managers, is paramount. These discussions coupled with on-going analysis and monitoring contribute to our understanding of the different dimensions of their strategies, plans and operations, and inform our investment analysis and decision-making.

### 2.3 Our Approach

We apply the core tenets of good company ownership within our fundamental research-driven investment processes. Our goal is to ensure that investee companies are well-run and meet credible reporting standards. To achieve this, through our research and meetings with company representatives, we strive to focus our attention on:

- The clarity and robustness of the company’s corporate strategy as defined by the board.



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- The functioning and calibre of the company's management team and its ability to implement strategy through effective leadership<sup>2</sup>.
  - The financial strength of a company, its capital structure, and the fair valuation of issued securities.
  - Sustainability risks<sup>3</sup> & opportunities, and adverse impacts of potential investments on society and/or the environment<sup>4</sup>.

These core tenets can only be applied if there is regular ongoing interaction with either a company's board members or company's management. Interaction with companies takes the form of one-to-one discussions, shareholder/bondholder meetings, investor roadshows and/or conference calls. The objectives of these interactions are to assess an organisation, monitor that their strategy is being implemented in line with our expectations and ensure that issuers are on track to meet their goals and objectives.

In addition to ongoing dialogue with company representatives, the Bank relies on various sources of information to analyse and monitor companies. Sources of information utilised within our research process include financial press; analysts research from other financial institutions (including brokers); credit rating services, ESG research providers and media reports.

The Bank integrates sustainability risks as part of its investment decision-making process as well as its investment advice where relevant. Across research, investment activities, risk management and advisory services, we place emphasis on the inclusion of high-quality environmental, social and governance data when evaluating corporate issuers. To this extent we have developed a proprietary ESG Scorecard that provides a focused view of both ESG risks and opportunities. Our ESG Scorecard is based on a curated set of the most material data points, across four pillars: Corporate Governance, Products & Services, Operational Risks, and Controversies.

Similarly, for fund manager selection we systematically address ESG issues with our investment partners and encourage improvements of current practices, if necessary. We have developed a comprehensive ESG questionnaire that includes both firm-and fund-level questions. The completed questionnaires are assessed on four pillars: Management Firm commitment to ESG, Investment Process, Active Ownership, Monitoring and Reporting. Based on this assessment, each fund is then assigned an ESG score ranging from 1 (ESG Laggard) to 5 (ESG Leader).

<sup>2</sup> See *Appendix D* for further details on Good Corporate Governance Practices.

<sup>3</sup> See *Appendix A* for a description of Sustainability Risks.

<sup>4</sup> See *Appendix C* for a description of key metrics used for monitoring adverse impacts



## 2.4 Investment solutions key features

Investment solutions	Investment Process	Exclusions <sup>5</sup>	Engagement <sup>6</sup>	Voting <sup>7</sup>	SFDR Classification <sup>8</sup>
ESG Integrated	The strategy considers Sustainability Risks	Yes, but limited	Yes	Yes	Art. 6 (including Sustainability risks)
ESG Focus	The strategy considers Sustainability Risks and promotes environmental and/or social characteristics, subject to good governance practices of investee companies	Yes	Yes	Yes	Art. 8
Positive Impact	The strategy considers Sustainability Risks and targets social and/or environmental objectives, subject to good governance practices of investee companies	Yes	Yes	Yes	Art. 9

<sup>5</sup> Please refer to **Appendix B** for a description of our Exclusions Framework

<sup>6</sup> See section 3.2 for more details on Corporate Engagement

<sup>7</sup> See section 3.1 for more details on Proxy Voting

<sup>8</sup> Refers to Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on Sustainability-related disclosures in the financial services sector (SFDR).



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## 3. Active Ownership

### 3.1 Proxy Voting

#### 3.1.1 Scope

Whenever both local regulations and client contractual documentation allow us, we intend to vote on behalf of our Discretionary and Advisory clients on the companies we cover where disclosure of shareholder's identity is not requested or when such disclosure has been duly authorized by the clients.

It does not include indirect investments through third-party funds, where we expect those managers to exercise their votes according to their own policy and report accordingly.

#### 3.1.2 Purpose

The overarching purpose of our voting is to protect and promote the rights and long-term interests of our clients as shareholders. We consider it to be our responsibility to support and/or challenge companies' management to ensure that the issuers that our clients invest in are well-run, adhere to their strategy and deliver shareholder value. We aim to support a strong culture of corporate governance, effective management of environmental and social issues and comprehensive reporting according to credible standards.

#### 3.1.3 Voting Guidelines

Our proxy voting guidelines are based on generally accepted standards in environmental & social matters, and corporate governance including but not limited to board & executive remuneration, risk management, and shareholder rights (see Appendix D for more detail). Given that the long-term interests of shareholders are the paramount objective, we do not always support the management of companies and may vote against them. We also reserve the right to deviate from our voting guidelines to consider company-specific circumstances.

Our proxy voting guidelines are reviewed every year and adapted as appropriate to reflect the specificities of certain regions and/or ownership structures.

#### 3.1.4 Research & Decision Making

To assist us in performing our proxy voting responsibilities, the Bank uses the services of third-party specialists to provide research and to facilitate the execution of voting decisions at all relevant company meetings worldwide.

Third party specialists are tasked with collecting meeting notices for all holdings and researching every resolution according to Voting Guidelines defined by the Bank. Based on these information, and other relevant publicly available information or relevant information collected from engagement. Pictet ESG specialists draft a vote recommendation and discuss it internally with relevant teams within Pictet Wealth Management.

The Bank retains full discretion over all voting decisions and always reserves the right to deviate from third party voting recommendations on a case-by-case basis in order to act in the best interests of our clients. Such divergences may be initiated by relevant teams within Pictet Wealth Management and must be supported by written rationale.

In instances when consensus cannot be reached, the decision is escalated to the Chief Investment Officer.



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### 3.1.5 Shareholder Resolutions

Shareholder resolutions at Annual General Meetings 'AGMs'/Extraordinary General Meetings 'EGMs' are evaluated in accordance with our Voting Guidelines.

The Bank does not usually assume the role of an activist investor and does not initiate shareholder resolutions or shareholder groups. However, the Bank may consider supporting the submission of shareholder resolutions initiated by third parties or joining shareholder groups.

## 3.2 Corporate Engagement

### 3.2.1 Scope

The scope of corporate engagement is corporate issuers holdings from the Pictet Wealth Management Investment Universe, approved and actively covered by our analysts, and fulfilling several criteria including potential influence (measured by current holdings), severity of the issue identified, issue linked to priority themes (climate, water, nutrition, long-termism), etc.

### 3.2.2 Purpose

We consider it our fiduciary duty to engage selected corporate issuers to positively influence a company's ESG performance and to protect or enhance the value of our clients' investments. We press management to adopt appropriate policies, practices, and disclosure in line with established best practices. We focus on companies where structural weaknesses in the governance and/or management of environmental and social issues have been identified.

### 3.2.3 Approach

Depending on the ESG issue identified with a given company, we might engage corporate issuers through a combination of targeted in-house-led discussions, and via collaborative institutional investor initiatives:

- › **Tier 1 – Direct Engagement**

The first tier is our Direct Engagement with corporate issuers. These companies are identified by relevant teams within Pictet Wealth Management.

Direct engagement entails regular and ongoing company dialogue and can take the form of, or be a combination of, the following communication channels: face-to-face meetings, video conferences, telephone calls and written communication.

- › **Tier 2 – Collaborative Engagement**

Taking part in collaborative engagement with other investors forms the second tier of our approach. The Bank recognises that there are occasions when it is more effective to act collectively rather than individually, particularly if our investment is relatively small given the enterprise value of the company.

For each engagement conducted by the Bank, we aim to set or support defined objectives, track progress against these objectives and in some cases, if they are not met, we may reduce or sell our holdings over-time. Our overall approach is based on a dedicated engagement procedure and a set of engagement guidelines.



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## 4. Conflicts of Interest

The Bank is sensitive to any activities, interests or relationships that might interfere with, or even appear to interfere with, its ability to act fairly and in the best interests of its clients. The Bank puts long-term interests ahead of short-term gains. The Bank is committed to identifying and mitigating or avoiding potential conflicts of interest in its business activities whenever the potential for damage to clients arises, or the appearance thereof. The Bank implements appropriate measures such as segregation of functions, internal directives, training, monitoring, management reporting, counterparty selection or outsourcing, adapted product design, client disclosures and/or contractual arrangements, client compensation or declining to act for a client. Every employee who believes that they, or the Group, are faced with a potential conflict of interest, is encouraged to proactively disclose and address it, or decline the corresponding business.

Within the context of exercising our Responsible Investment activities, for example, we may face firmwide conflicts of interest when voting against management of a company who is a client, or whose pension scheme or senior management are clients of Pictet Wealth Management. Likewise, personal conflicts of interest may arise

Every employee is responsible for identifying and escalating potential conflicts of interest so that they may be appropriately managed and resolved. All of our staff are required to undertake regular training to ensure they are aware of their obligations and adhere to this policy.

Any material conflict of interest arising in the performance of our Responsible Investment activities are referred to Pictet Wealth Management's ESG team to ensure that we always act in the best interests of our clients. If necessary, issues may be raised to Pictet Wealth Management's CIO for determination.

## 5. Market Abuse

The Group has implemented several guidelines, procedures, and code of ethics to ensure that employees act in respect of what the Bank can expect in terms of honesty, loyalty, and integrity. The aim is to protect its image, reputation and potential damages resulting from transactions carried out by employee for their own account that are considered unethical or in violation of law or regulations:

- to prevent conflicts of interest that may arise between the Group, its employees, and its clients (such as front running, parallel running and after running);
- to prevent employees from using their position or grade to gain pecuniary advantages based on information for example that may be likely to influence market prices, exchange rates or interest rates;
- to protect the Group's staff against financial risks resulting from transactions for employees' accounts that may be disproportionate with respect to their assets and/or income, or the execution or monitoring of which may require a disproportionate amount of time out of their working hours;
- to ensure the transparency and smooth running of securities markets and to guarantee the equal treatment of all investors.

In this context, the Bank takes an active role in ensuring transparent, free, competitive, and efficient markets, and equal treatment of investors. The Bank's goal is transparency, good faith and honesty in all our





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dealings. The Bank does not tolerate any attempt to manipulate or tamper with the markets or the prices of financial instruments.

Every employee must ascertain whether information received is public and, if not, whether it could affect the value of an investment (material non-public information or 'inside information'). The employee will report receipt of confidential, price-sensitive information for inclusion on a watchlist, to ensure such information is restricted to a limited circle of insiders, under strict confidentiality safeguards. The Bank aims to ensure that all securities transactions have an economic basis and are executed at the prevailing market price.

In addition, employees' operations are monitored by a dedicated unit within the Human Resources department to ensure compliance with the mentioned guidelines, procedures, and code of ethics.

## 6. Remuneration

The remuneration policy integrates sustainability risks by way of the policies and procedures which Pictet employees are bound to respect. Compliance with internal (Policies & Procedures) P&Ps form a part of an employee's annual review, which may include ESG limitations and taking into account sustainability risks based on the type of products or services selected by clients served by that employee. In addition, Pictet employees are held to the Group's general engagement on sustainability and responsible investing, as relevant to their function.

## 7. Transparency

Pictet Wealth Management publicly discloses how we implement this Policy on an annual basis through the Reporting and Assessment of the UN PRI and UN PRB and through our Active Ownership Report.

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# Appendix A

## Sustainability Risks



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## Sustainability Risks

### Sustainability risk:

Sustainability risk is the risk arising from any environmental, social or governance events or conditions that, were they to occur, could cause a material negative impact on the value of the investment. Specific sustainability risks will vary for each investment, and include but are not limited to the following:

### Environmental risk:

The risk posed by the exposure to issuers that may potentially be causing or affected by environmental degradation and/or depletion of natural resources. Environmental risk may result from air pollution, water pollution, waste generation, depletion of freshwater and marine resources, loss of biodiversity or damages to ecosystems. Environmental risks may negatively affect the value of investments by impairing assets, productivity, or revenues, or by increasing liabilities, capital expenditures or operating and financing costs.

### Transition risk:

The risk posed by the exposure to issuers that may potentially be negatively affected by the transition to a low carbon economy due to their involvement in exploration, production, processing, trading and sale of fossil fuels, or their dependency upon carbon intensive materials, processes, products and services. Transition risk may result from several factors, including rising costs and/or limitation of greenhouse gas emissions, energy-efficiency requirements, reduction in fossil fuel demand or shift to alternative energy sources, due to policy, regulatory, technological and market demand changes. Transition risks may negatively affect the value of investments by impairing assets or revenues, or by increasing liabilities, capital expenditures or operating and financing costs.

### Physical risk:

The risk posed by the exposure to issuers that may potentially be negatively affected by the physical impacts of climate change. Physical risk includes acute risks arising from extreme weather events such as storms, floods, droughts, fires or heatwaves, and chronic risks arising from gradual changes in the climate, such as changing rainfall patterns, rising sea levels, ocean acidification, and biodiversity loss. Physical risks may negatively affect the value of investments by impairing assets, productivity, or revenues, or by increasing liabilities, capital expenditures or operating and financing costs.

### Social risk:

The risk posed by the exposure to issuers that may potentially be negatively affected by social factors such as poor labour standards, human rights violations, damages to public health, data privacy breaches, or increased inequalities. Social risks may negatively affect the value of investments by impairing assets, productivity, or revenues, or by increasing liabilities, capital expenditures or operating and financing costs.



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## Governance risk:

The risk posed by the exposure to issuers that may potentially be negatively affected by weak governance structures. For companies, governance risk may result from malfunctioning boards, inadequate remuneration structures, abuses of minority shareholders or bondholders' rights, deficient controls, aggressive tax planning and accounting practices, or lack of business ethics. For countries, governance risk may include governmental instability, bribery and corruption, privacy breaches and lack of judicial independence. Governance risk may negatively affect the value of investments due to poor strategic decisions, conflicts of interest, reputational damages, increased liabilities, or loss of investor confidence.

Consequent impacts to the occurrence of sustainability risks can be many and varied according to a specific risk, region, or asset class. Generally, when a sustainability risk occurs for an asset, there will be a negative impact and potentially a partial or total loss of its value. However, the integration of sustainability risk analysis should mitigate the impact of such risks on the value of the investments and could help enhance long-term risk adjusted returns for investors.

For more information on risks, please refer to the brochure "General description of risks pertaining to financial instruments".

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# Appendix B

## Exclusions Framework



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## Exclusions Framework

PWM Responsible Investing exclusion framework covers:

### 1. corporate, sovereign/quasi sovereign issuers

- › For companies, exclusions are based on a combination of revenue thresholds derived from high-ESG risk activities that are deemed harmful to society and/or the environment, and severe breaches of international norms on human rights, labor standards, environmental protection and anti-corruption.
- › For countries, , exclusions or enhanced due diligence are based on (i) inter-national sanctions as defined by Switzerland, the European Union and/ or the US Office of Foreign Assets Control (OFAC), (ii) EU financial sanctions, (iii) countries affected by violent conflict as defined by the World Bank (iv) an independent assessment of countries' vulnerability to conflict or collapse as determined by the Fragile State Index (FSI)<sup>9</sup>, (v) countries subject to export related sanctions by the EU. Country exclusions apply for sovereign, quasi sovereign and corporates. Enhanced due diligence applies to sovereign and quasi sovereign.
- › Exclusions apply to funds and PECs managed by PWM, discretionary mandates and investment advisory services. For the latter, recommendation of investment concerning excluded companies is not allowed. Exclusions do not apply to passive strategies that replicate market indices or open-ended funds or certificates not managed by PWM.

### 2. Funds (open-ended and exchange traded):

- › For Funds, exclusions are based on the fund's ESG score (as described in section 2.3).
- › Exclusions apply to discretionary mandates and investment advisory services. For the latter, recommendation of investment concerning excluded funds is not allowed.

### Data sources and scope

For companies, sovereign and quasi-sovereign issuers, exclusions are based on reliable sources gathered from reputable third-party research providers. The Bank retains full discretion over the implementation of exclusion criteria and reserves the right to deviate from third-party information on a case-by-case basis in instances where it is deemed incorrect or incomplete, for example in the case a company is undergoing a sustainable transformation. Such exemptions may be initiated by investment teams and must be supported by a written rationale subject to validation by senior members of the PWM investment platform and need to be monitored on an on-going basis.

Exclusions apply to all types of securities (equities, bonds, convertible bonds) issued by excluded entities, as well as bonds issued by related financial vehicles. They also apply to participation notes and derivatives issued by third parties on such securities. Exclusions apply to securities negotiated on primary and secondary markets, as well as OTC instruments. Short positions (direct or indirect) are allowed.

<sup>9</sup> The FSI is an annual ranking of over 175 countries based on different pressures they face that impact their levels of fragility. The index assesses structural indicators of a country which are grouped into four clusters: (i) cohesion (eg security apparatus, group grievances), (ii) economic (eg economic decline, uneven development), (iii) political (public services, state legitimacy), and (iv) social and cross-cutting indicators (eg demographic pressure, refugees and internally displaced persons). Source: <https://fragilestatesindex.org/global-data/>



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The name of excluded issuers can be disclosed to clients upon request, subject to third-party provider agreement on data disclosure.

PWM Investment Risk & performance is responsible for verifying that no investments are made in excluded securities through post-trade checks.

Existing investments are divested from relevant portfolios based on market conditions, but in principle no later than one month after taking effect.

## Company Exclusions based on High-ESG Risk Activities and Revenue Thresholds

INVESTMENT SOLUTION	ESG INTEGRATED	ESG FOCUSED
ACTIVITY		POSITIVE IMPACT
<b>Fossil Fuels and Nuclear Energy<sup>10</sup></b>		
Thermal Coal Extraction	>25%	>25%
Thermal Coal Power Generation	-	>25%
Oil & Gas Production	-	>25%
Oil Sands Extraction	-	>10%
Shale Energy Extraction	-	>10%
Off-shore Arctic Oil & Gas Exploration	-	>10%
Nuclear Power Generation	-	>50%
<b>Weapons</b>		
Production of Controversial Weapons	>0%	>0%
Military Contracting Weapons	-	>10%
Military Contracting Weapon-Related Products and/or Services	-	>50%
Small Arms Civilian Customers (Assault Weapons)	-	>10%
Small Arms Civilian Customers (Non-Assault Weapons)	-	>10%
Small Arms Military/Law Enforcement Customers	-	>25%
Small Arms Key Components	-	>25%
<b>Other Controversial Activities</b>		
Tobacco Products Production	-	>10%
Adult Entertainment Production	-	>10%
Gambling Operations	-	>10%
Genetically Modified Plants and Seeds Development	-	>25%
Genetically Modified Plants and Seeds Growth	-	>25%
Pesticides Production	-	>10%
Pesticides Retail	-	>10%

## Company Exclusions based on Breaches of International Norms

INVESTMENT SOLUTION	ESG INTEGRATED	ESG FOCUSED
CRITERIA		POSITIVE IMPACT
Companies in severe breach of UN Global Compact Principles on human rights, labour standards, environmental protection, and anti-corruption	No	Yes

<sup>10</sup> Additional exclusions apply to instruments exposing the bank's balance sheet to fossil fuel sector (thermal coal and oil & gas), including PEC and structured products issued by the bank generally. Please visit our group website for more information about our Climate Action Plan.





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## Country Exclusions

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INVESTMENT SOLUTION	ESG INTEGRATED	ESG FOCUSED
CRITERIA		POSITIVE IMPACT
Countries (i) listed as State Sponsors of Terrorism as defined by the Office of Foreign Assets Control <sup>11</sup> or (ii) subject to EU financial sanctions targeting central banks and/or State-Owned enterprises (SOEs)	Yes	Yes
Countries (i) classified as very high or high risk in the Fragile State Index or (ii) affected by violent conflict as defined by the World Bank	Watchlist <sup>12</sup>	Yes
Countries (i) listed under “alert” on the Fragile State Index or (ii) subject to export related sanctions by the EU	No	Watchlist

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## Fund Exclusions based on internal ESG scoring

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INVESTMENT SOLUTION	ESG INTEGRATED	ESG FOCUSED
CRITERIA		POSITIVE IMPACT
Funds with ESG scoring <2	No	Yes

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## Explanatory Notes on High-ESG Risk Activities<sup>13</sup> deemed harmful to society and/or the environment

### Fossil Fuels and Nuclear Energy

**Thermal Coal:** This includes mining thermal coal or generating electricity from thermal coal. On a lifecycle basis thermal coal is more carbon intensive than other fossil fuel sources, while from an energy generation perspective it is easily substitutable. Thermal coal, also known as energy coal, or steam coal, is mainly used in power generation.

**Oil & Gas Production:** This includes the oil and gas upstream, midstream, and downstream. Petrochemicals and distribution activities are not included. The Oil & Gas industry is controversial because of its high carbon intensity and the impact on climate change. Also, it is very resource intense in terms of land and water resources. Its impacts on ecosystems include spillages, waste management issues, and spontaneous flaring, which can lead to fines and are associated with reputational risks. In certain geographies oil & gas operations are associated with strained relations with local communities and with issues with governance

<sup>11</sup> “State Sponsors of Terrorism” is a designation applied by the United States Department of State to countries that repeatedly provided support to acts of international terrorism

<sup>12</sup> In addition to exclusions, the bank maintains a watchlist including countries that require additional due diligence by investment teams prior to invest

<sup>13</sup> Source: Sustainalytics, Pictet Wealth Management



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and business practices. Health and safety issues are also important as repetitive accidents can lead to operational disruption or fatalities.

**Oil Sands Extraction:** This includes oil sands extraction activities. Oil sands are considered controversial because they are extremely carbon intensive, and dirty – their extraction methods cause air pollution ‘in situ’, as well as water withdrawal, and contamination from mining.

**Shale Energy Extraction:** This includes the extraction of shale gas and/or oil. Shale energy extraction involves environmental risks like water pollution and carbon emissions. Rock fracture, fracking, is needed to make natural gas flow through the shale, which poses environmental concerns due to its potential effects on the watershed. Shale energy is also associated with slightly higher carbon emissions than conventional resources.

**Arctic Oil & Gas Exploration:** This includes oil and gas exploration activities in offshore Arctic regions. Exploring for oil and natural gas in the Arctic is controversial in the context of global climate change as well as because of the increased risk of environmental disasters.

**Nuclear Power Production:** This includes the production of energy from nuclear sources. The use of Nuclear Power has advantages in that it has low CO2 emission, is not a scarce resource, and that some isotopes can be used for medical applications. Significant downsides are the substantial environmental damage and long-term health concerns for living organisms in case of accidents, nuclear waste disposal, and potential usage of waste as input for nuclear weapons.

## Weapons

**Controversial weapons:** This includes weapons that have indiscriminate effects, cause undue harm and are incapable of distinguishing between civilian and military targets. Some controversial weapons, such as cluster munitions, antipersonnel mines, chemical and biological weapons, as well as nuclear weapons, are regulated by international conventions. Controversial weapons include:

- (a) Anti-personnel mines;
- (b) Cluster weapons;
- (c) Biological and chemical weapons (including white phosphorous);
- (d) Nuclear weapons<sup>14</sup>.

**Military Contracting:** This includes manufacturing of weapons or weapon components or providing weapon-related products or services to the army or the defense industry. Military contracting, also referred to as the defense or armaments industry, can be considered controversial for reasons of pacifism, asymmetric defense-related purchasing power between countries, negative effects on economic growth and development particularly in post-conflict areas as a result of defense spending, potential issues around transparency and corruption, and its potential for (re-)fueling wars and conflicts.

**Small Arms:** This includes firearm weapons such as guns, rifles, and pistols and manufacturers of components of these weapons. Firearms can be considered controversial as they are reported to be a major factor in the increase of armed conflict worldwide. They are the weapon of choice for many terrorist groups around the world and often hinder smoother rebuilding and development after a conflict has ended.

<sup>14</sup>In the case of nuclear weapons, exclusions apply to companies that have their registered office in a country which is not a signatory to the 1968 Treaty on the Non-Proliferation of Nuclear Weapons.

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Besides the loss of human life and physical harm, armed violence also has significant (direct and indirect) economic costs.

### **Other Controversial Activities**

**Tobacco Products:** This includes cigarettes, cigars, tobacco, electronic cigarettes, paper used by end consumers for rolling cigarettes, filters, snuff tobacco, etc. Tobacco is considered controversial because of the negative health consequences (cancer) of long-term use of tobacco products, also leading to substantial medical costs for society. Tobacco companies are exposed to significant financial and reputational risks because of legal cases and class actions brought against them.

**Adult Entertainment:** This includes the production of adult entertainment and the operation of adult entertainment establishments. Adult Entertainment can be considered controversial as it is claimed that it may undermine faith and family values. Other concerns are that the materials show the subordination of (wo)men.

**Gambling Operations:** This includes gambling services (operation of casinos, lotteries, bookmaking, online gambling, etc.) but not gambling products (slot machines and other gambling devices). Gambling is considered controversial because it can lead to addiction, with sufferers exhibiting many of the same problems as those with substance addictions, creating severe social problems.

**Genetically Modified Plants and Seeds:** This includes the development and/or cultivation of genetically modified seeds and/or plants, as well as the growth of genetically modified crops. The use of genetically modified seeds is considered controversial because of health and socio-economic (patented biotechnology) concerns as well as environmental risks associated with the spreading of GMOs to other plants in the ecosystems. Other concerns are increasingly pesticide resistant weeds and insects due to increased use of chemicals.

**Pesticides:** This includes the manufacturing or marketing of pesticides including herbicides, fungicides, and insecticides for agricultural application/crop protection. The use of pesticides is considered beneficial as it can help farmers prevent damage to their crops and control the number of invasive species. However, pesticides are also considered controversial because of their potential toxicity to humans and animals and their bioaccumulation, especially when applied for crop protection in agriculture and in large-scale horticulture. Pesticides are also known to have a variety of detrimental health effects on humans such as irritation of the skin and eyes and effects on the nervous system.

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# Appendix C

## Adverse Impacts on Society and the Environment



## Adverse impacts on society and the environment

We consider and, where possible mitigate adverse impacts of our investments on society and the environment through a combination of portfolio management decisions, active ownership activities, and exclusion of certain categories of issuers (see Appendix B).

Subject to data availability, Bank Pictet & Cie (Europe) A.G. is committed to report on a best effort basis the principal adverse impacts of its investments on sustainability factors through the indicators and metrics listed in the table below.

### Key indicators and metrics applicable to investments in companies

Adverse Sustainability Indicator (Group)	Adverse Sustainability Indicator	Metric
Greenhouse gas emissions	PAI 1. GHG emissions	Scope 1 GHG emissions
		Scope 2 GHG emissions
		Scope 3 GHG emissions
		Total GHG emissions
	PAI 2. Carbon footprint	Carbon footprint
	PAI 3. GHG intensity of investee companies	GHG intensity of investee companies
	PAI 4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector
Energy performance	PAI 5. Share of nonrenewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as percentage
	PAI 6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of Investee companies, per high impact climate sector
	PAI 7. Activities negatively affecting biodiversity sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity sensitive areas where activities of those investee companies negatively affect those areas
Water	PAI 8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average
Waste	PAI 9. Hazardous waste ratio	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average

Social and employee matters	PAI 10. Violations of UN Global Compact (UNGC) principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	PAI 11. Lack of processes and Compliance mechanisms to monitor compliance with UNGC principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance / complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	PAI 12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies
	PAI 13. Board gender diversity	Average ratio of female to male board members in investee companies
Human rights	PAI 14. Exposure to controversial weapons (antipersonnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons
<b>Other Adverse Sustainability Indicator (Group)</b>	<b>Other Adverse Sustainability Indicator</b>	<b>Metric</b>
Emissions	AI 4. Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement
Anti-corruption and anti-bribery	AI 15. Lack of anti-corruption and anti-bribery policies	Share of investments in entities without policies on anti-corruption and anti-bribery consistent with the United Nations Convention against Corruption

### Key indicators and metrics applicable to investments in sovereign issuers

<b>Adverse Sustainability Indicator (Group)</b>	<b>Adverse Sustainability Indicator</b>	<b>Metric</b>
Fossil fuels	PAI 17. Exposure to fossil fuel through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels
Energy efficiency	PAI 18. Exposure to energy-inefficient real estate assets	Share of investments in energy inefficient real estate assets



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# Appendix D

## Good Corporate Governance Practices







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## Good Corporate Governance Practices

As a long-term investor in equity and debt instruments, we are convinced that corporate governance is a critical element of companies' success. Good practices outlined below are based on generally accepted standards in relation to the central pillars of corporate governance including board & management, executive remuneration, risk control & reporting, and investors' rights. They provide a benchmark for assessing companies and exercising our active ownership duties throughout the life cycle of an investment, from pre-investment phase to engagement, proxy voting and right up to the point of exit.

Notwithstanding the aspirational nature of these good practices, we recognise that governance frameworks can be both complex and multi-dimensional. We take a holistic approach to analysing governance recognising that every entity is different and that changes to the equilibrium in one element of corporate governance may create unintended consequences in others.

Whilst mainly applicable to listed companies, these good practices can also be applied, where relevant, by bondholders to private companies.

### 1. Board & Management

The boards of the companies in which Pictet Wealth Management invests clients' monies should be focused on long-term value creation. This should include periodic assessments of strategic direction, leadership and management, risk management, stakeholder relationships, internal controls, and operating performance.

The board of directors is accountable to shareholders and bondholders, and it is our expectation that board members must at a minimum be competent and exhibit expertise relevant to the company, its industry and ongoing market developments. The suitability of a board member may be called into question where they have been explicitly involved in prior financial mismanagement and/or ESG controversies. Companies should therefore disclose enough biographical information about directors to enable investors to make a reasonable assessment of their track record and value add to the company.

Board members should have enough time to devote to the role so that they can effectively discharge their duties. We will assess time commitment on a case-by-case basis looking at the number of public, private and third sector roles that an individual is committed to. Every member of the board should stand for re-election by shareholders at regular intervals, preferably annually, but at a minimum no less than every three years.

**Leadership:** Our preference is for leadership of the board and leadership of the company to be separate. This reflects the important role the board plays in monitoring and challenging senior management. Where the chairman and CEO are not separate there should be a lead independent director identified to act as an effective conduit for investors to raise concerns.

**Structure:** Diversity and balance are critical factors when assessing boards. Pictet Wealth Management expects that the board should be balanced such that no one group should dominate the board. There should be independent non-executive representation on the board that can give investors a degree of protection and assurance by ensuring that no individual or non-independent grouping has unfettered powers or dominant authority. Typically, we require that a majority of board members be independent from management or significant shareholders. Individual independence is assessed on a case-by-case basis having regard for tenure, relationships with major shareholders and any previous connections to the company.



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**Family/Founder Companies:** We define family/founder companies as those where one individual or party controls more than 30% of the economic or voting rights. For these companies, we typically apply a lower threshold of 33% for board independence to reflect the realities of their ownership structure. In case of family/founder companies, the extent of shareholders rights expectation is naturally reduced, and this particularity will be considered in the investment case. When we decide to invest in such companies, we will keep regular communication with the management.

**Committees:** Boards should establish relevant committees for audit, remuneration and nominations. Other committees, such as a sustainability committee or corporate social responsibility committee, may be created if they bring additional strategic value to the board. In all cases, we expect committees to have at least a majority of independent non-executive directors.

**Diversity:** We believe that board diversity can lead to improved corporate governance and strategic oversight. It can also lead to greater innovation, better risk management and stronger connections with customers, employees, and business partners. Companies and boards should be able to demonstrate that they are diverse organisations across gender, ethnicity and thought. At this time, gender diversity at board level is the most transparent measurement available to investors and we actively consider voting against individuals on boards that are not making progress on this area.

**Succession:** Boards should develop short-, medium- and long-term succession plans for senior management. The internal pipeline of talent should be monitored and benchmarked on a regular basis. Similarly, the board should ensure that it is also subject to rigorous succession planning and skills-based assessment. In managing a company for long-term success, boards need to consider the implications of strategy and determine the impact of decisions on timeframes beyond a single individual's tenure.

**Assessment:** Boards should undertake regular reviews of their performance. Such an exercise should seek to consider the performance of individuals and the whole board. It should also review the continued appropriateness of the skills in the boardroom given the long-term strategic direction of the company. Any issues identified should be resolved through operational and/or personnel changes.

## 2. Remuneration

When examining the pay arrangements of senior executives, Pictet Wealth Management considers foremost the structure of total compensation and the alignment of management incentives with investor interests. Within this, we recognise that, to attract and retain high quality management, it may be necessary for companies to pay at levels which allow them to compete in the global market for executive talent.

In setting a remuneration framework, remuneration committees should:

- i. Strike an appropriate balance between fixed and variable, short and long-term elements of pay, placing a premium on reward for genuine sustained performance.
- ii. Assess executive performance through clearly disclosed and robust financial metrics that result in the execution of the stated strategy. Without being prescriptive, we expect companies to be mindful that certain financial metrics (for example GAAP-reported EPS) may create an incentive to overfocus on delivery of those specific metrics at the expense of long-term performance. Increasingly, we recognise that there is also scope for the introduction of environmental and/or social targets. Where possible, these should be science-based or auditable. Such measures can foster alignment and generate value where they are essential to the long-term success of the business. For example, there is broad investor expectation that companies will align elements



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of executive remuneration with greenhouse gas reduction targets and/or decarbonisation efforts within a given timeframe.

- iii. Where possible, satisfy long-term incentives through shares which have a performance period of at least three years with an additional holding period applied. Such “deferred” shares should be subject to malus/clawback rules.
- iv. Not re-price, adjust or amend “in-flight” stock options and awards.
- v. Encourage appropriate levels of long-term share ownership amongst the company leadership and, where possible, foster share ownership throughout all layers of the organisation.
- vi. Avoid arrangements that would encourage the destruction of long-term investor value or “one-off” incentive arrangements concerning specific ventures that may distort alignment with total corporate performance and returns. For example, transaction-based incentive arrangements.
- vii. Avoid creating arrangements that excessively dilute long-term investors’ interests and/or create excessive or unwarranted costs.

### 3. Risk Control & reporting

**Reporting & Transparency:** The annual report and accounts of companies should be properly prepared, in accordance with relevant accounting standards. Companies must communicate clearly with investors. This obligation extends to producing quality accounts and communicating timely and relevant information. Transparency, prudence, and integrity in the accounts of companies are factors which are highly valued by investors. We also expect companies to bring the same levels of transparency and integrity to their reporting on material environmental & social issues.

**Auditor:** Audits provide a valuable protection to investors and should prioritise the integrity of accounts. In order to provide objectivity and a robust assessment of the accounts, the auditors should be independent. Where independence is compromised or perceived as being compromised due to a conflict of interest, the auditor’s suitability will be called into question.

**Auditor Tenure:** The length of time both the audit company and the audit partner have served in their capacity with a given company will be factors in determining independence. Companies should consider rotating their auditor over time and we believe that companies should put their external audit contract out to competitive tender at least every ten years.

**Audit Fees:** Companies should be encouraged to distinguish clearly between audit and non-audit fees. Audit committees should keep under review the non-audit fees paid to the auditor, both in relation to the size of the total audit fee and in relation to the company’s total expenditure on consultancy services. The rationale for any payment of non-audit fees should be clearly disclosed to shareholders so that they may determine the appropriateness of such payments.

**Corporate Taxes:** Payment of taxes is a corporate responsibility, and we expect companies to pay the appropriate level of tax in the jurisdictions where they have operations and are subject to such liabilities.

### 4. Investor rights



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**Voting Rights:** We favour a capital structure where one share equates to one vote. Boards should provide strong arguments to justify the introduction or maintenance of equity shares with special voting rights, golden shares, or other split capital structures.

**Shareholders' Interests:** We will oppose any proposal or action which materially reduces or damages shareholders' rights. As long-term investors, we expect to be given the opportunity to approve: (i) transactions with related parties and (ii) major corporate changes or transactions that materially dilute the equity or erode the economic interests of existing investors.

**Capital Management:** Pictet Wealth Management expects companies to run an efficient balance sheet that minimises the cost of capital. Boards must also maintain an appropriate level of gearing which recognises the risks attaching to debt across the cycle. Where companies cannot use excess capital efficiently, boards should consider returning this capital to shareholders either through dividends or a well-structure buy-back programme, whilst being mindful of the impacts such excess returns can have on the interests of bondholders. Capital should be used for value accretive acquisitions.

Companies should seek shareholder approval for, and fully justify, general authorities permitting unlimited or substantial capital authorisations or blank cheque preferred stock. The creation of different classes of equity share capital must also be fully justified. We recognise that in some instances it is appropriate for companies to have a degree of flexibility to issue shares for cash without offering them first to shareholders on a pre-emptive basis. Accordingly, such authorities to issue shares without pre-emption rights should not exceed recognised market guidelines. Issuances above these guidelines require a clear rationale as to why they would be in the best interests of existing shareholders.

**Shareholder Resolutions:** Increasingly, shareholder resolutions are being proposed to address corporate behaviour on material environmental and/or social issues. Such resolutions are evaluated based on their own merits and are supported where Pictet Wealth Management believes they would improve the company's long-term positioning at a reasonable cost.