
Appendix B

Exclusions Framework



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)⁹, (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.

⁹ 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/>



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
Fossil Fuels and Nuclear Energy¹⁰		
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%
Weapons		
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%
Other Controversial Activities		
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

¹⁰ 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.



Country Exclusions

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 ¹¹ 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 ¹²	Yes
Countries (i) listed under “alert” on the Fragile State Index or (ii) subject to export related sanctions by the EU	No	Watchlist

Fund Exclusions based on internal ESG scoring

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

Explanatory Notes on High-ESG Risk Activities¹³ 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

¹¹ “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

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

¹³ Source: Sustainalytics, Pictet Wealth Management



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 weapons¹⁴.

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.

¹⁴In 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.

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.