Responsible Investing

ESG Practical Guide to the Sustainability Preferences Questionnaire

2022

ESG PRACTICAL GUIDE TO THE SUSTAINABILITY PREFERENCES QUESTIONNAIRE

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This document provides you with:

key concepts and definitions of the ESG Regulation[1];

(I) information to help you understand ESG concepts, and whether and how they might be relevant to your investments;

(II) additional explanations to support you in completing your Sustainability Preferences Questionnaire (the "Questionnaire");

(III) information on how the Bank will recommend or invest on your behalf in investments that are both suitable to you (according to your client profile) and meet your Sustainability Preferences, if you have any;

(IV) we strongly recommend you read this document carefully prior to completing your Questionnaire.

1. What are Sustainability Preferences?

As an investor, you may wish to make investments which aim to have a sustainability ambition. Under the ESG Regulation, you have the right to express specific sustainability preferences when making those investments, by deciding whether and, if so, to what extent, one or more of the following financial instruments should be integrated into your portfolio:

→ Financial Instruments that, in some proportion, are invested in **"environmentally sustainable investments'**, which are investments deemed to be aligned to the EU Taxonomy Regulation (the Taxonomy)[2]. Please refer to the Category 'A' section below for further details.

→ Financial instruments that, in some proportion, are invested in **"sustainable investments"**, as this term is defined in the EU Sustainable Finance Disclosure Regulation ('SFDR')[3]. There is a wider range of financial instruments falling under this category, which may include financial instruments of the "environmentally sustainable investments" category. Please refer to the Category 'B' section below for further information.

→ Financial Instruments which consider **Principal Adverse Impacts ('PAI') indicators on sustainability factors**. These indicators are specific metrics measuring the negative effects of the economic activity related to these financial instruments on ESG factors – for example, greenhouse gas emissions, waste generation, gender pay gap, and board diversity. Please refer to the Category 'C' section below for more details.

These choices described above are what is referred to as your "Sustainability Preferences". These categories represent different ESG investment approaches and ESG features that a financial instrument may adopt in carrying out its sustainability ambition or objective. As an investor, you can express preferences for one or multiple ESG categories, as further explained below. Financial instruments falling into either one of these categories will be referred to in this document as "ESG Investments".

Category A: Financial Instruments making "environmentally sustainable investments"

Under this category, financial instruments make, in some proportion, "environmentally sustainable investments". This means that these financial instruments are linked to investments made into "environmentally sustainable activities" as defined in the Taxonomy.

The Taxonomy is a classification system for companies which allows them to determine if the economic activities in which they are active can be considered as "environmentally sustainable". Under the Taxonomy, there are four conditions to be satisfied for an economic activity to be qualified as "environmentally sustainable": the activity must make a substantial contribution to at least one of six defined environmental objectives mentioned below, comply with relevant technical screening criteria, not do any significant harm to any of the environmental objectives, and comply with minimum social and governance safeguards.

The six environmental objectives are:

- Climate change mitigation
- Climate change adaptation

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1 Commission Delegated Regulation 2021/1253 of 21 April 2021, amending the Delegated Regulation (EU) 2017/565. See in particular article 2 (7).

2 Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088.

3 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.

- Sustainable use and protection of water and marine resources
- Transition to a circular economy
- Pollution prevention and control
- Protection of healthy ecosystems

As an investor, when you choose to invest in an instrument which makes “environmentally sustainable investments”, the instrument will be linked to economic activities which will be reported by the issuer of the instrument as Taxonomy-aligned, which will drive how and to what proportion the financial instrument can be viewed as Taxonomy-aligned. For example, if a company derives 10% of its revenues from Taxonomy-aligned activities (and respects the other Taxonomy conditions), then 10% of its revenues would be considered as Taxonomy-aligned, and a similar proportion of Taxonomy-alignment could be attributed to an investors’ holdings in this company.

For more information on the Taxonomy, please refer to the Annex of this document.

Category B: Financial Instruments making “sustainable investments”

Under this category, financial instruments are considered to invest into “sustainable investments” as this concept is defined in the SFDR. In the SFDR, a sustainable investment can be:

- An investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy; or
- An investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities.

In either case, in addition to respecting the above requirements, a “sustainable investment” must also not significantly harm social or environmental objectives. Investee companies must also follow good governance practices with respect in particular to sound management structures, employee relations, remuneration of staff and tax compliance.

There are currently many ways in which sustainable investments can be made, provided that the sustainability features of these investments, and specifically their contribution to an environmental and/or social objective, are measurable. These investments can include “environmentally sustainable investments” under the Taxonomy and other types of sustainable investments which are not captured by the Taxonomy.

Please note that for categories A and B, reporting by corporate entities and investment funds on environmentally sustainable investments (Taxonomy-aligned) and sustainable investments is expected to start progressively between 2022 and 2024.

Category C: Financial investments which consider Principal Adverse Impact (PAI) indicators on sustainability factors

Under this category, the financial instrument will consider the effect of its related investments on sustainability factors.

Economic activity can have a positive or negative impact on the environment and society. PAI indicators are a way of measuring the negative impact of this economic activity across sustainability factors.

The EU has identified 14 mandatory key indicators, and more additional voluntary ones, to report for entities in scope of the reporting. The mandatory indicators are divided into two broad categories:

- Environmental Indicators, such as greenhouse gas emissions, carbon footprint, exposure to companies active in the fossil fuel sector, share of non-renewable energy consumption and production, energy consumption, biodiversity, water emissions, hazardous and radioactive waste;
- Social and Employee Matters Indicators, such as violations or lack of monitoring of United Nations Global Compact Principles and OECD Guidelines for Multinational Enterprises, gender diversity and pay gaps, and exposure to controversial weapons.

There are many ways that these indicators can be considered when making investments. Pursuant to the SFDR, and under applicable and forthcoming corporate reporting requirements in the EU, qualitative or quantitative criteria are set out to show the respective commitment of issuers to address the impact of their activities over time.

As an investor, you may then choose to exclude from their portfolios companies which are poor performers against those Indicators; privilege the best performers; or choose to engage with these companies in getting them to improve their practices.

2. How and when will the Bank capture my Sustainability Preferences?

The Bank will capture your Sustainability Preferences under the ESG Regulation through the Questionnaire which you will fill out with the assistance of your CRO at the Bank.

This Questionnaire will cover:

→ First, your ESG Investor Profile, which is included in the section titled "Your Sustainability Preferences and Profile" (Questions 1-5);

→ Second, your Sustainability Preferences under the ESG Regulation, which are included in the section labelled "Sustainability materiality of your Investments" (Question 6-8).

These sections are further detailed below in section 3.

The Questionnaire will be i) completed with you at the onboarding stage; and (ii) reviewed with you during any upcoming meeting on your investments or through the next regular update of your information carried out with the support of your CRO. All parts of the Questionnaire must be completed.

Given that the Bank will perform suitability assessments also considering your Questionnaire, it is important for you to provide us with up-to-date, accurate and complete information to allow the Bank to act in your best interest.

3. What should I consider when completing the Questionnaire? And how will my ESG Investor Profile interact with my investment objectives and my Client Risk Profile?

There are two parts to the Questionnaire.

→ The **first part of the Questionnaire (Question 1-5)** asks about your interest in sustainable investments. It will provide us an indication of your overall interest as an investor to consider ESG factors in your portfolio investments and will determine which is your ESG Investor Profile.

→ Your profile will be determined as either **Neutral, Interested,** or **Highly Interested**. Each profile is associated to a minimum target allocation to ESG Investments that you would like to see implemented in your portfolio(s).

- **If you are "Neutral"**, you will have no specific minimum target allocation to ESG Investments. ESG considerations will not be specifically factored in when providing you with investment advice or portfolio management services. You will still benefit from our selection approach to investments, which considers sustainability risks and may apply some ESG considerations in its overall investment process. Please reach out to your CRO if you wish to know more about our selection process.

- **If you are "Interested"**, we will aim to implement with you a minimum target allocation of 10% to ESG Investments across all your advised and/or discretionary portfolios with us.

- **If you are "Highly Interested"**, that minimum target allocation will be raised to 30%.

→ In some cases, depending on your overall Client Risk Score, the ESG Investor Profile may be restricted or not available given the higher investment risks that they carry, which may not be fully compatible with your Client Risk Score. If this is the case, we will inform you and discuss with your available options.

→ The **ESG Investments** which we will consider in advising you or managing your portfolio will be financial instruments that take at least one of the three approaches to ESG features described in section 1 above. We believe it is important that you benefit as an investor from the most reliable and accurate data required to assess the sustainability claims made in the financial instrument in which you invest. We will focus our selection process on financial instruments which are subject to the highest level of regulatory disclosure as to their sustainability features. This will mean, for the most part, in-house or third-party investment funds regulated under the SFDR and which either have a sustainable investment objective and commit to make "environmentally sustainable investments" or "sustainable investments"; or funds which promote environmental or social characteristics and commit to make a minimum proportion of "sustainable investments".

→ Our reporting to you will indicate how your portfolio is aligned with these minimum allocation levels over time (see section 5 for more information).

→ If you are an "Interested" or "Highly Interested" ESG Investor pursuant to your Sustainability Preferences Questionnaire, the Bank will provide you with recommendations or investment solutions which meet first, suitability requirements[4] - i.e. in line with your investment objectives and risk profile - and second, your ESG Investor Profile.

→ Additionally, **when we provide you with investment advice**[5], our investment proposal will explain why our recommendations meet suitability requirements and your ESG Investor Profile as well. In this context, the Bank will ensure that your minimum portfolio allocation to ESG Investments is met (i.e. 10% if you are Interested and 30% in case you are Highly Interested) and this information will be provided to you through the Investment Proposal document as well as monitored via the Bank's periodic reporting, as presented in section 6 below.

→ **When we manage your assets under a discretionary portfolio(s)**, we will invest in a similar manner as described above, seeking to fulfill your minimum target allocation to ESG investments accordingly.

→ Please note that, whilst some ESG Investments which could be recommended to you or invested on your behalf could aim to have a positive and real-world impact, **the ESG Investor Profiles themselves do not follow any specific ESG investment strategy, and do not make or contain any claim that, by implementing them, they would result in any actual and measurable real-world positive impact.**

The **second part of the Questionnaire (Questions 6-8)** asks about the level of "sustainability materiality" that your portfolio should feature and aims to capture your Sustainability Preferences under the ESG Regulation previously described in section 1. This section is only relevant if you have an "Interested" or "Highly Interested" ESG Investor Profile.

Please note that:

→ At present, and until further notice, the Bank will collect your Sustainability Preferences but will not factor them into account in its suitability process given the limited availability of appropriate market data related to and financial instruments reporting on such sustainability features (Categories A, B or C) and related. This situation is expected to improve in the course of 2023. As a result, for the time being, only your ESG Investor Profile and its corresponding minimum target allocation to ESG Investments will be considered as part of the suitability assessment process. In the upcoming future[6], the Bank will factor in its suitability assessment these Sustainability Preferences prior to providing you with investment advice or investing on your behalf.

→ If you have expressed any Preferences to be invested in either a "moderate" or a "significant" proportion in financial instruments invested in "environmentally sustainable investments" (Category A) or in "sustainable investments" (Category B) or a combination of them, those ranges will be subject to corporate reporting and fund reporting which will be progressively available in 2023. With corporate reporting developing, these ranges should correspond to the following levels (with the proportion referring to the proportion of revenues of companies held in your portfolio which are reported to be derived from environmentally sustainable investments and/or sustainable investments, as the case may be):

- For a moderate proportion, a range between 10% and 30% of your total portfolio;
- For a significant proportion, a range above 30% of your total portfolio.

→ These ranges may vary and may be revisited depending on the evolution of reporting by corporate entities and investment funds.

Finally, the Bank **applies a portfolio-based approach** in addressing your ESG Investor Profile and your Sustainability Preferences. This means that your choice of an "ESG Investor Profile" and your "Sustainability Preferences" will apply across all portfolios for which the Bank could be providing you with either Investment Advice (Advisory Portfolios) or Portfolio management services (Discretionary Portfolios). If you have not yet subscribed to these services, you will need to do so for the Bank to be able to factor your "ESG Investor Profile" and "Sustainability Preferences" (to the extent they can be offered to you in your jurisdiction). Please consider that the Bank is not required to and will not capture such preferences in the context of a pure "execution-only" (EO) relationship.

4 See Article 54 of MiFID II Delegated Regulation 2017/565.

5 In the event you have an Advisory Mandate with the Bank.

6 At present time (August 2022), we forecast that the Bank will be able to start factoring your Sustainability Preferences at the earliest in the course of 2023. Once sufficient market data is available, the Bank will reach out to you to discuss how your Sustainability Preferences are to be addressed.

If the Bank recommends to you investments which are suitable to you but do not meet your ESG Investor Profile preferences (e.g. do not reach your minimum portfolio allocation to ESG investments), the Bank will (i) inform you in order to ascertain to what extent you may wish to adapt your ESG Investor Profile on a temporary or permanent basis, and (ii) document your decision (of adapting your ESG Investor Profile, for instance) in the suitability report included within the investment proposal. This adaptation will not extend to your Client Risk Profile, which will remain unaffected by your decision to adapt your ESG Investor Profile.

Any investment advice that we may provide you with for meeting your ESG Investor Profile and your Sustainability Preferences may result in some rebalancing of your portfolio and investments into specific products (e.g. the switching of financial instruments). The Bank will analyse the cost and benefit of any switch and provide you with this analysis, subject to conditions.

4. **What happens if I want to change my ESG Investor Profile (outcome of Questions 1-5) and/or my Sustainability Preferences (Questions 6-8)?**
Your ESG Investor Profile and your Sustainability Preferences may change, particularly considering your personal circumstances and/or as the product offering availability evolves. Should you wish at any time to make changes to your ESG Investor Profile or to your Sustainability Preferences, please contact your Client Relationship Officer who will be able to assist you. We will also periodically confirm your ESG Investor Profile and your Sustainability Preferences, along with your overall Client Risk Profile, to ensure they remain up-to-date, accurate and complete.

5. **What additional information will I receive on the sustainability features of my portfolio(s)?**
If your profile is that of an “Interested” or “Highly Interested” ESG Investor, on a periodic basis the Bank will provide you regular reporting through your “Health Check Report” as to if/how your minimum target portfolio allocation to ESG Investments is being met. When additional market data is made available in due course, we will also report on how your Portfolio is aligned to your Sustainability Preferences.

6. **What is EFG’s approach to the selection of Financial Instruments from a sustainability standpoint? How does the Bank evaluate the sustainability features of the Financial Instruments?**
In addition to considering the specific ESG features of the financial instruments of Categories A, B and C described previously in section 1, the Bank applies two main different criteria to select financial investments from a sustainability standpoint.

In some cases, we refer to external ratings or assessments, such as the ones directly provided by the issuer of the product or reported by third party providers.

In other cases, we apply internal measurable methodologies to better assess the impact of the investment and finally sometimes the two approaches are complementary and aggregated.

For more information, please visit:

www.efginternational.com/ch/asset-management/responsible-investing

www.efginternational.com/ch/asset-management/responsible-investing/frequently-asked-questions.html