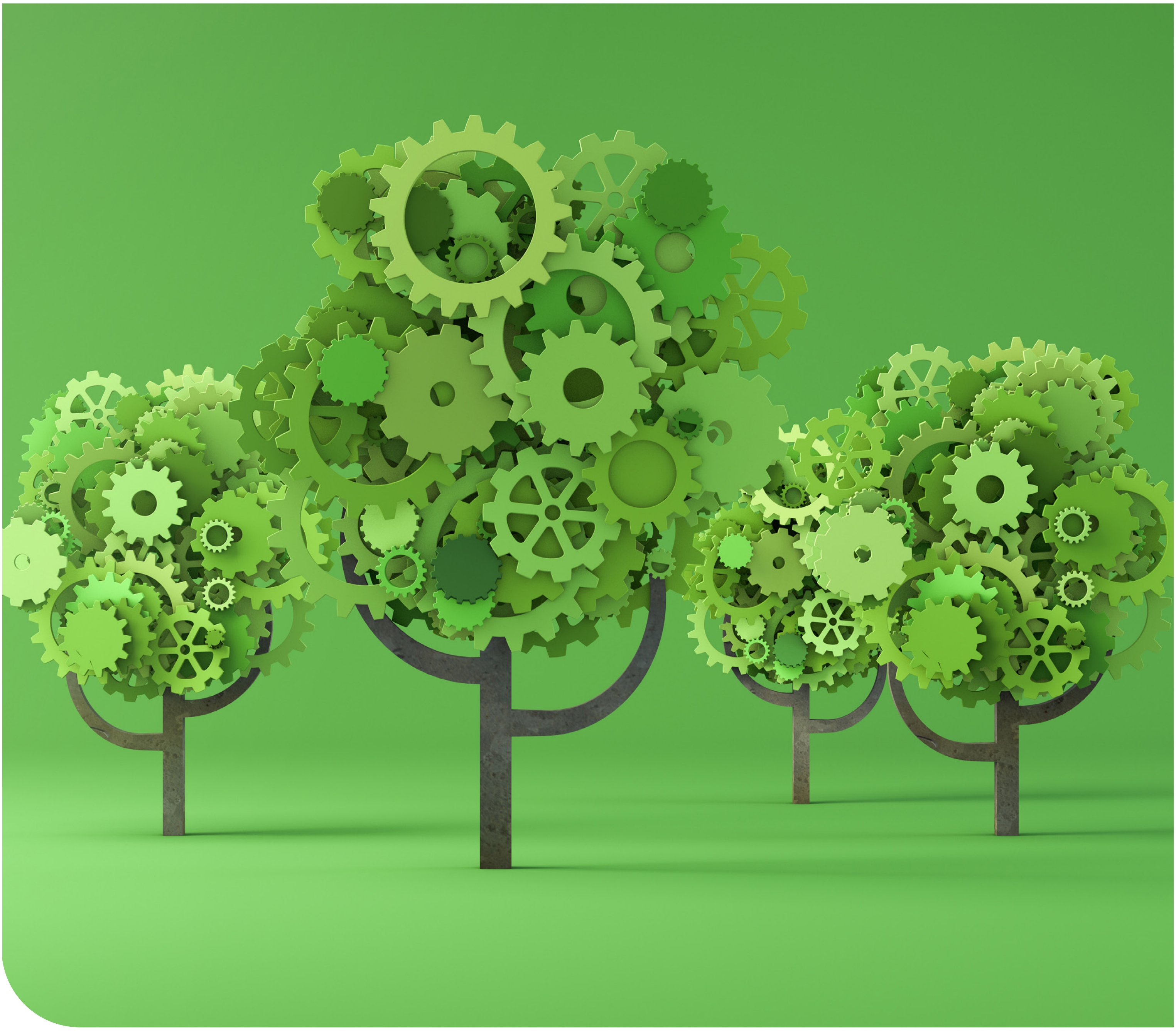
Responsible Investing

Sustainability Risk Integration Policy (art.3 SFDR)

2021



DISCIPLINED BY NATURE. FLEXIBLE BY DESIGN.
The icons alongside represent our investment process. Through a disciplined provision of investment policy and security selection at the global level, regional portfolio management teams have the flexiblility to construct portfolios to meet the specific requirements of our clients.

HIGHLIGHTED IN THIS PUBLICATION:

GLOBAL STRATEGIC ASSET ALLOCATION

GLOBAL SECURITY SELECTION

REGIONAL ASSET ALLOCATION

REGIONAL PORTFOLIO CONSTRUCTION

SUSTAINABILITY RISK INTEGRATION POLICY (ART.3 SFDR)

The ESG considerations contained in this document can change without notice.

1. Introduction

EFGAM is committed to Sustainable and Responsible Investments and to supporting sustainable financial markets. The Asset Management arm of EFG, EFGAM is member of Swiss Sustainable Finance (SSF) and a signatory to the United Nations Principles for Responsible Investment (PRI). As a group aiming to produce financial returns for our clients, we believe that to obtain a rounded view of investments, of their risks and opportunities we need to look at them with a wide lens; Environmental, Social and Governance (ESG) issues are part of such an effort. While it is not always possible to directly link ESG considerations to financial value, we believe ESG performance can provide a proxy for the quality of management and for the capacity of the investee to deliver sustainable competitive advantage.

We also believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. As such EFGAM is also committed to more and more consider the externalities produced by companies and investments on the environment and society. An improved control in both directions will reward long-term, responsible investment and benefit the environment and Society as a whole.

2. Analysis

To better drive the ESG integration process EFGAM has an ESG analysis team that collaborates with the investment teams worldwide. The ESG team structures and maintains bespoke tools and analysis that help monitor ESG factors in the investments and products managed by EFG and collaborates with other teams to define ESG analysis processes that are consistent across the group.

Direct Investments

With reference to direct investments EFGAM owns a proprietary ESG assessment tool, the GRIP[1] (Global Responsible Investment Platform) that is based on financial materiality and allows us to assign an ESG rating to invested companies with a 0% to 100% scale where the weak ESG companies receive a lower rating. For covered companies GRIP may include up to hundreds of datapoints divided across different KPIs (Key Performance Indicators), that are selected and weighted in line with our view on the sector specific financial materiality of the different industries. The definition of our framework follows the following structure:

i. Definition of industries/sectors.

ii. Definition of the Key Performance Indicators (KPIs) and of a scheme to organize them (KPIs tree). The KPIs and the scheme cover the relations between any company and its stakeholders.

iii. Definition and grouping of the data needed to assess the KPIs.

iv. Definition of the materiality (weight, relevance) of KPIs for each industry/sector.

v. Definition of additional requirement specific for each industry/sector.

The data used for GRIP are currently sourced from Refinitiv, RepRisk and CDP.

3rd Party Mutual Funds (Long Only Funds)

EFGAM owns a proprietary ESG assessment tool for 3rd party funds that is based on a combination of top down and bottom up approach that consider the specific investment process of the funds.

The top down approach starts with the assessment of the UN PRI (Principle for Responsible investments) transparency score that is used together with additional consideration to identify and verify ESG elements of the investment process, based on an internally defined questionnaire. Exclusion of controversial weapons is also expected.

To compliment the top down analysis, EFGAM also reviews Morningstar's ESG portfolio scores for each equity fund and, due to limited fixed income data availability, EFGAM prefers to use MSCI ESG data for bond funds which operate a similar rating approach.

Finally, the bottom up & top down scores are combined to give an overall ESG score. As a consequence of this approach, our approved "Long Only" fund list is rated with respect to the ESG integration and funds are classified accordingly.

While this list is used for most of our investments, Portfolio Managers also have the discretion to invest in funds that are outside this list. However, also in this case, the ESG integration level of these funds is assessed, albeit with a slightly different process: in such cases local Portfolio

[1] A more detailed description of the GRIP can be found on: https://www.efgam.com/doc/jcr:620279ad-9b4b-4482-93f2-1d7d6fb49e0d/04_Rating%20methodology.pdf/lang:en/04_Rating%20methodology.pdf

Managers are required to analyse the level of ESG integration of the investee funds and to identify if the specific strategy can create a bias that increases sustainability risks through the use of a specific template that has been revised following the "JOINT ESAS FINAL REPORT ON RTS UNDER SFDR" in February 2021. EFGAM plans to use this amended template, that also considers PRI reporting scores and ESG integration practices, at latest starting from Q2 2021.

Alternatives and Hedge Funds

The analysis of sustainability risk into the alternative funds is a complex task as, within alternatives, the ESG integration is quite rare (poor data quality). Nonetheless the EFGAM Due Diligence questionnaire is used to integrate ESG specific questions to assess if the specific strategy can create a bias that increases sustainability risk.

When the investee fund does not integrate consideration on sustainability risks, the Alternative team communicate to the external manager that we would like him to integrate it and that *ceteris paribus* we give preference to funds that integrates sustainability risks.

3. Performance and Risk

One of the key objectives of investing is to produce returns, and we are very much aware that there is no return without risk: it is therefore paramount to monitor the variables that could have a negative impact on investment performance such as the financial or the extra-financial factors that can impact the risk-return profile or have financial consequences.

EFGAM monitors and appraise how the implementation of the current Investment Policy impacts risk-adjusted investment results and takes appropriate action should the results be unsatisfactory. Regularly the ESG team assesses the link between risk and ESG profile. The assessments performed so far clearly show a positive correlation between equity volatility and sustainability risk expressed by a low ESG score..

In the case of fixed income assets the relation between ESG and risk/return is more controversial as the worst companies tend to have a higher yield and therefore, unless they go bankrupt, i.e. they provide higher returns. In the fixed income space the name of the game is downside protection and sustainability risks are assessed with the aim to better understand if the yield we get from an investment is aligned with the whole set of risks we take: the financials, but also the extra-financial ones that can have an impact on the bottom line of the company.

For these reasons since many years EFGAM decided to focus on ESG as an additional risk parameter.

EFGAM carefully monitors the exposure of its investments to climate change risks focusing on emissions and preparedness to react to transition and physical risk. Appropriate tools, such a CO2 scenario model, are at disposal of fund managers and analysts to check company exposure to CO2 risks. Additional tools provide information to coal and fossil fuel exposure. The specific attention we paid to fossil fuel intensive industries proved to be beneficial for the past performance of our investments.

Assessing the sustainability risks and performance of the 3rd party funds is a more complex exercise due to different approaches and rating system used by fund managers. Exclusion criteria also play a significant role in making this assessment even more complex. Finally, the amount of fully ESG integrated funds is still limited. Following the many academic papers that suggest the existence of a positive link between ESG and risk/return of investments (or the lack of a negative correlation) we believe that ESG integration in our fund analysis will provide a better risk/return profile for our investments.

4. Integration

The integration of sustainability risk into our funds follow slightly different approaches according to the specific line of products, that in some cases promotes environmental and social characteristics. With reference to the latter a separate document is available.

Direct Investments

- EFGAM considers ESG integration as being part of a sound due diligence process and as such decided to remove from its investable universe companies that receive a score lower than 25% unless an engagement process to increase this score or certain KPIs is put in place. These companies are usually exposed to significant controversies or are not transparent making almost impossible to correctly assess their sustainability risk exposure.

- Companies with a coal share of revenues >30% >30% and no plan to reduce or mitigating action in place, are also removed from our universe to reduce the stranded asset risk and the risk of a sudden collapse of revenues.

- The integration of sustainability risks will be done through two alternative channels:

  1. Following the release of the "JOINT ESAS FINAL REPORT ON RTS UNDER SFDR" in February 2021 EFGAM adopted an ESG checklist that also focus on the ASIs (Adverse Sustainability Indicators) allowing investment professionals to better assess and keep track of the different risks that need to be considered during companies' due diligence (Equity and Fixed Income) EFGAM plans to use this amended template, at latest starting from Q2 2021.

  2. Integrating ESG scores in the algorithms that define the attractiveness of investments meaning that the higher the sustainability risk, the higher needs to be the expected return that is expected to justify holding the security. (Applies to equity only).

- EFGAM also maintains an ESG questionnaire that empowers financial analysts and portfolio managers to ask the right ESG questions to companies to understand their sustainability risks.

- In addition to that, EFGAM carefully monitor the exposure of its investments to climate change focusing on emissions and preparedness to react to transition and physical risk. Appropriate tools, such a CO2 scenario model based on NGFS scenarios, or a list of companies significantly exposed to coal and fossil fuel is at fund manager disposal. The strict control we applied on these industries proved beneficial for the performance of our investments.

- Finally, with reference to New Capital funds, engagement activities and voting with a specific Climate Voting policy complete the different risk integration steps. More details can be found in our Engagement and Voting policies published on the website.

Indirect Investments - Mutual Funds

The ESG analysis of 3rd party funds follows the process previously described. When selecting funds for implementation in portfolios fund managers are required to, *ceteris paribus*, give preference to ESG integrated funds. Portfolio managers are also allowed to invest in ESG integrated funds when they believe that the better monitoring of sustainability risks can produce a more favourable risk/return profile.

Considering the limited availability of ESG integrated funds to date, non-ESG integrated funds can be selected when the analysts or portfolio manager deem a reasonable ESG integrated alternative doesn't exist, based on a comply or explain approach.

Indirect Investments - Alternatives

The ESG analysis of 3rd party funds follows the process previously described. When selecting funds for implementation in portfolios fund managers are required to, *ceteris paribus*, give preference to ESG integrated funds. Portfolio managers also have the discretion to invest in ESG integrated funds when they believe that the better monitoring of sustainability risk can produce a more favourable risk/return profile.

Considering the limited availability of ESG integrated funds, non-ESG integrated funds can be selected when the analysts or portfolio manager deem a reasonable ESG integrated alternative doesn't exist, with a comply or explain approach.

EFGAM Advisory services

The integration of sustainability risks has the aim to better understand if the return/yield we expect from an investment is fully aligned with the financial and extra-financial risk we take. Within our Advisory services our professionals have at their disposal approved lists containing ESG rating and/or ESG classification for most of the securities. When providing investment advice, they consider the level of sustainability risk.

Investment advice on Hedge Funds and Alternatives currently do not integrate Sustainability Risk.

5. Exclusions

EFGAM also applies some additional ethical and exclusion consideration in its investment process excluding from its investment universe companies that produce cluster bombs, landmines, biological or chemical weapons or companies that produce nuclear weapons for countries that didn't signed the Nuclear non-proliferation treaty.

As sustainability risks continue to evolve and their understanding change over time, EFGAM periodically reviews and updates its sustainability risk policies, procedures and practices.

Important Information

The value of investments and the income derived from them can fall as well as rise, and past performance is no indicator of future performance. Investment products may be subject to investment risks involving, but not limited to, possible loss of all or part of the principal invested.

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