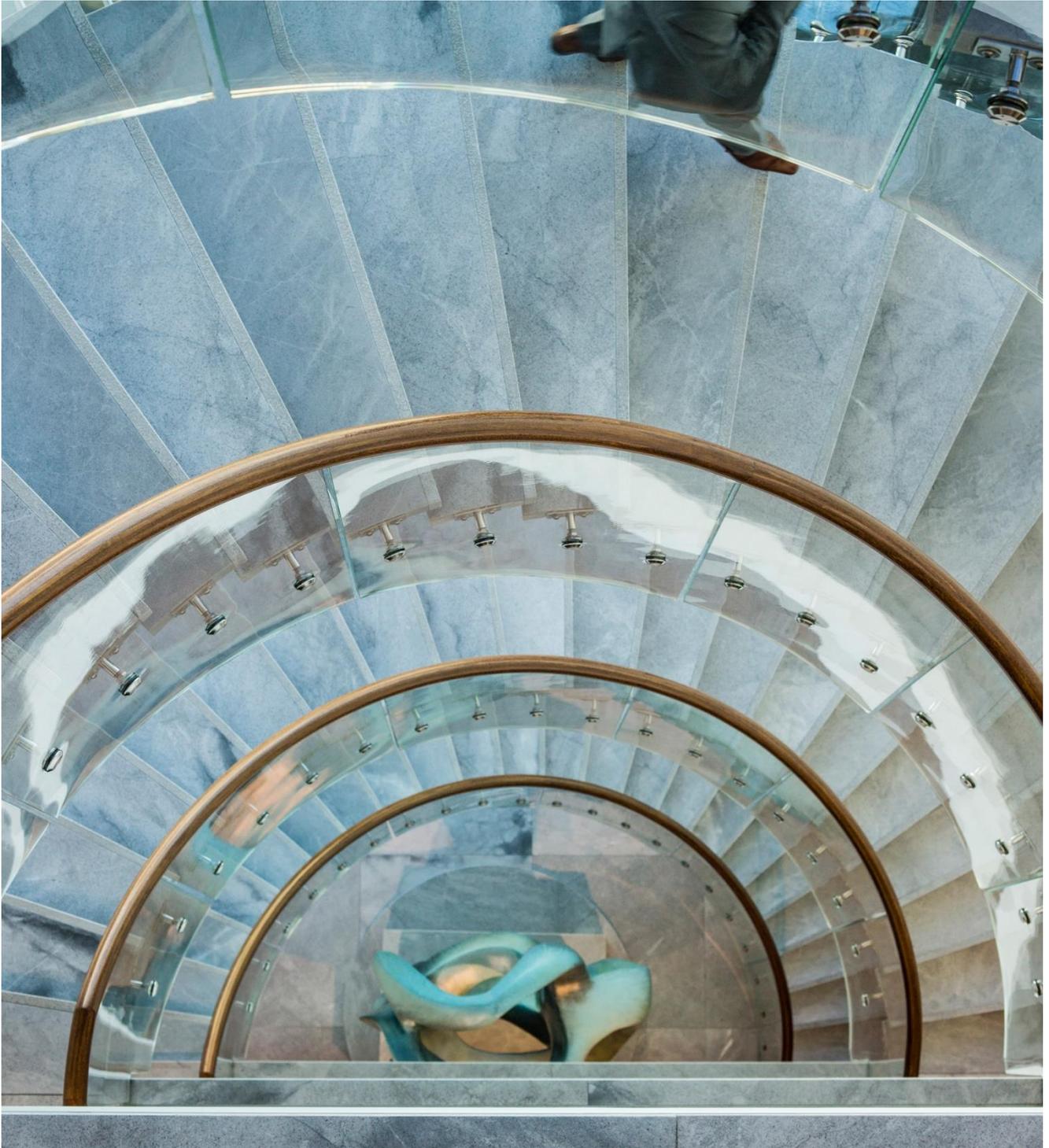


# Pictet Wealth Management Responsible Investing

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## 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 (“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 in the investment process (ESG Integration), 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 is approved by Pictet Wealth Management’s Investment Platform Executive Committee and reviewed annually.

## ESG Integration and Responsible Investing

### 2.1 Scope

This section applies to Pictet Wealth Management Investment Universe, approved and actively covered by our analysts.

### 2.2 Purpose

Our understanding of corporate issuers is based on a multitude of factors, of which the regular meetings our Research teams attend with companies’ management is paramount. These discussions coupled with company 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

When investing in companies on behalf of our clients, 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.
- The functioning and calibre of the company’s management team and its ability to implement strategy through effective leadership.



- The financial strength of a company, its capital structure and the fair valuation of issued securities.
- Sustainability risks & opportunities, and adverse impacts of investments on society and/or the environment<sup>1</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 discussion; shareholder/bondholder meetings; investor road-shows and/or conference calls. The objectives of these interactions are to better understand the business model and corporate strategy together with its implications for financial performance.

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 from other financial institutions (including brokers); credit rating services, ESG research providers and media reports.

### Key Features of ESG Integration and Responsible Investing strategies

Investment Strategy	Investment Process	Exclusions	Engagement	Voting (equities only)	SFDR Classification
ESG Integrated	The strategy considers Sustainability Risks <sup>2</sup>	No	Yes	Yes	Art. 6 (including Sustainability risks)
ESG Binding	The strategy considers Sustainability Risks and promotes environmental and social characteristics	Yes	Yes	Yes	Art. 8
Positive Impact	The strategy considers Sustainability Risks and targets social and environmental objectives and positive impact	Yes	Yes	Yes	Art. 9

## 2.4 Escalation Strategy

Where we consider that a company is underperforming, governance or management structures are failing to meet the standards expected, or we have other concerns on, for example, strategy or environmental or

<sup>1</sup> See Appendix A for a description of Sustainability Risks

<sup>2</sup> Securities of issuers with high sustainability risks and/or principal adverse impacts may be purchased and retained in the portfolio.



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social matters, we would pursue several courses of action. First, we would discuss with company representatives and then if needed we may prioritise the company for engagement<sup>3</sup>.

Ultimately, if we see insufficient progress over time, we may decide to reduce, or sell our holdings.

## Proxy Voting

### 3.1 Scope

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

### 3.2 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 engage with and 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.

### 3.3 Voting Guidelines

Our proxy voting guidelines are based on generally accepted standards of best practice in environmental and social practices and corporate governance including but not limited to board compensation, executive remuneration, risk management and shareholder rights. 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 management from time to time. We also reserve the right to deviate from our voting guidelines to take into account company-specific circumstances.

### 3.4 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 the implications of every resolution according to Voting Guidelines defined by the Bank. All recommendations are communicated to relevant teams within Pictet Wealth Management Investment platform.

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

<sup>3</sup> See section 4, for more details on Corporate Engagement.

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clients. Such divergences may be initiated by relevant teams within Pictet Wealth Management Investment Platform and must be supported by written rationale.

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

### 3.5 Shareholder Resolutions

Shareholder resolutions at Annual General Meetings 'AGMs'/Extraordinary General Meetings 'EGMs' are evaluated in accordance with the Bank's Voting Guidelines. Evaluations are based on their own merits and are supported when they would improve the company's corporate governance or business profile at a reasonable cost.

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.

## Corporate Engagement

### 4.1 Scope

The scope of corporate engagement is Pictet Wealth Management Investment Universe, approved and actively covered by our analysts.

### 4.2 Purpose

We consider it our fiduciary duty to engage selected corporate issuers in order 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 practice but focus on those that lag or where accidents or events bring to light structural weaknesses in their governance and/or management of environmental and social issues.

Where appropriate, we engage companies on material ESG issues, to satisfy ourselves that they fully understand and address them effectively over the short, medium and long term.

### 4.3 Approach

Depending on the ESG issue with a given company and/or business priority, we might engage corporate issuers through a combination of targeted in-house-led discussions, third party engagement services and via collaborative institutional investor initiatives:

- › **Tier 1 – Targeted Engagement**

The first tier is our Targeted Engagement with corporate issuers. These companies are identified by relevant teams within Pictet Wealth Management Investment Platform. Each company is selected because we have identified significant ESG concerns based on different data sources.

Targeted 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, videoconferences, telephone calls and written communication.

- › **Tier 2 – Collaborative Engagement**



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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 better to act collectively rather than individually, particularly if our investment is relatively small given the enterprise value of the company.

› **Tier 3 – Engagement Service Provider**

The third tier of our engagement is conducted by an external service provider. This engagement is designed to address issues that arise in relation to companies' failings on governance issues and/or significant deviations from relevant international norms and standards such as the UN Global Compact, OECD Guidelines for Multinational Enterprises, as well as human rights and environmental conventions.

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.

## 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, will proactively disclose and address it, or decline the corresponding business.

## 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.



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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 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.

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## Appendix A

### 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.

Our investments take into account sustainability risks, by integrating in the investment process Environmental Social and Corporate Governance (ESG) factors, based on proprietary and third-party research, to evaluate both investment risks and opportunities.

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.