Vontobel

Impact & Sustainability Guidelines

Conviction Equities Boutique, Impact & Thematic

Investments, Conviction Equities

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1. Introduction

This document addresses the increased demand for transparency from clients, prospects, and financial market participants in general.

We describe our sustainable investment objective and sustainability indicators that are used to measure its attainment. We further detail how impact and sustainability considerations are integrated into the investment decisions.

The document reflects our current approach, and we expect that it will evolve over time to adapt to further changes in investment practices, data availability, technology, or regulation. The document and the subsequent research methodology are reviewed on an ongoing basis.

The document is subject to and build upon the group wide ESG Investing and Advisory Policy, which details Vontobel's general approach to ESG investing, governance structure and general implementation of ESG Investing.

The document is applicable to all impact investing strategies as well as to segregated client mandates and white label funds, unless specifically covered by a separate agreement.

2. Sustainable Investment Objective

The investment strategies have a sustainable investment objective which is to invest in companies that contribute to defined Impact Pillars through their products and services. A detailed description of the Impact Pillars for our investment strategies can be found in **Appendix I.**

The targeted companies provide products and services along the whole value chain, which have the potential to tackle today's pressing problems such as climate change, environmental degradation, population growth, urbanization, and rising inequalities. Information about the minimum percentage of sustainable investments applied by the respective financial product can be found in the precontractual disclosures, if applicable.

Additionally, the investment strategies select investee companies based on certain minimum environmental and/or social standards as well as certain minimum business practices.

At the same time the investment strategies avoid investments in certain economic activities that significantly harm society and/or the environment.

The investment strategies also follow an active ownership strategy and conduct voting[1] and engagement activities, which are among others related to the sustainable investment objectives as defined by the impact pillars.

3. Responsibilities

Our analysts are responsible for the impact and sustainability assessment as part of their investment analysis. In addition, a specialist role for impact and sustainability assessment is assigned to ensure a "four-eye-principle" throughout the entire investment process.

In controversial or borderline investment cases, the ultimate decision on whether a company is investable from an impact and sustainability assessment lies with an independent committee, comprised of at least three people who are not otherwise involved in the investment case in question. Such an independent view is key to ensure that the impact and sustainability assessment is not influenced by an otherwise potentially strong investment case.

4. Impact & Sustainability Investment Approach

4.1 Positive Selection Criteria

At the core of our investment strategy is the belief that our economy is moving towards a sustainable future. Growing awareness, behavioral shifts and innovation drive the transition. Asset owners can benefit and accelerate the change through impact investing by tackling social and environmental challenges such as resource scarcity, rising pollution, aging of population or health problems. A comprehensive set of positive selection criteria allows us to identify companies that use their talent and innovation to enable this change or provide solutions (products and services) to those challenges.

4.1.1 Impact Strategy Assessment

The investment process includes a structured assessment and documentation of each investee company's strategy relevant to their impactful businesses. Each analyst systematical assesses a company along the following six points:

1. **Management strategy**: commitment to expand impactful activities, possibly combined with reduction of critical ones.
2. **Internal drivers for impactful products & services**: Capex allocation, R&D budget or acquisitions may serve as indicators.
3. **External drivers for impactful products & services**: growth potential of end-market and possibly achievable profitability drives the score.
4. **Measuring and reporting key indicators on impact achievements**: what gets measured gets managed, often a driver for improvements in management and culture.
5. **Potential risks related to impactful activities**: such as policy or regulatory changes, customer preferences, technology risks or hurdles and competitive landscape.
6. **Potential risks related to non-impactful activities**: regulatory requirements or emission limits may lead to increasing costs, stranded assets, legacy liabilities, or reputational issues.

[1] Where Vontobel is authorized to exercise voting rights.

These six scores aggregate with equal weights to an overall impact strategy score for each company. This assessment helps us to better understand the benefits as well as the potential risks, also relative to peers or similar industries. It can also be used as a guide for engagement on impact themes, and an indication of potential non-financial risks to the strategy. To be investable, a company needs to have a positive overall impact strategy score (lowest score -3; highest score +3). Inherently, the first four assessment points show a positive score, while the last two risk related assessment points show a negative to neutral score. The investment strategies only invest in issuers that have an overall positive impact strategy score.

4.1.2 Impact Assessment

Impact Pillar / “Purity Factor”

Each investment case details the relevance of the investee companies’ business activities, and what we call a “purity factor” is defined based on the revenues generated with products and services that contribute to at least one of the defined Impact Pillars. Revenue segment reporting of investee companies serves as a guidance for this positive revenue contribution assessment, and a minimum of 20% revenues from impactful activities is required. This revenue contribution is re-assessed at least annually.

SDG Mapping

The UN Sustainable Development Goals (SDGs) were adopted by all United Nations member states in 2015 as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030. SDGs are achieved via joint efforts of governments, society and business. The SDG compass (developed by Global Reporting Initiative, UN Global Compact and World Business Council for Sustainable Development) outlines key business activities addressed by each SDG and provides direction on how companies can align their strategies as well as measure and manage their contributions.

Through the contribution to one or more impact pillars, each company – consequently – also supports to at least one of the SDGs through their products and services. We use the SDG compass as a guidance to assess to which SDGs each investee company contributes. The investment strategies’ consolidated alignment to SDGs is an output of the investment process and not an investment target. SDG contributions through operational activities of investee companies are not considered. The SDG mapping is reviewed at least annually.

Impact Indicators

Quantitative indicators are defined with the aim to provide data to better demonstrate the investee companies’ impact. These impact indicators (IIs) serve our impact analysis and shall measure the company’s contribution to the impact pillars.

We rely on reported data from the companies we invest in; sources may include annual reports, corporate social responsibility reports, website content or other investor information. Requesting additional data and motivating companies to measure and publicly disclose applicable data and indicators is also an important part of our engagement work. Neither the defined IIs nor the collected data is meant to be exhaustive, as only reported data is considered; where no adequate data is found, we refrain from considering any estimates. An exception lies within potential avoided emissions (PAEs). Carbon4 Finance is the data provider for carbon and climate information since April 2024. They possess a particular expertise, and may add data, or amend the company reported data, with their own estimates, methodologies, and base lines to assess a company’s performance towards PAE and climate protection.

With regards to climate change and carbon indicators, our focus lies on solution providers that help and enable to reduce future emissions – a more holistic approach to carbon emissions. We have adopted the concept called “potential avoided emissions” (PAE), which we believe centers on enablers of the transition towards a low carbon economy. It focuses on the emissions avoided through the use of the company’s products and services. The concept measures the emissions of the entire value chain which allows assessing a potential contribution to achieve the climate goals. This includes companies that generate, for instance, clean energy through their products and services or reduce energy needs of buildings and improve efficiency in industrial processes. It measures the potential emissions avoided thanks to efficient beneficial effect of the company’s products and services versus the amount of greenhouse gases that would be released otherwise.

The impact indicators are independently reviewed by ISS ESG with self-selected samples of data points per type of metric. Their annual review and verification statement is published in our Impact Reports.

4.2 ESG Risk Assessment

The described positive contribution to our sustainable investment objectives shall not be hampered with significant harmful activities or material ESG risks.

Companies with controversial business activities are excluded. Third party data on involvements serve to screen companies – but for investment candidates we conduct an individual company assessment to determine whether a stock is finally excluded.

The assessment is embedded in different levels in our investment process. To identify and monitor Potential Critical ESG Events (PCEE), Vontobel investment teams are provided with ESG data and assessment methodologies from external ESG data providers such as MSCI or Sustainalytics.

The respective policies can also be found on our webpage: https://am.vontobel.com/en/esg-investing

A detailed description of our exclusion criteria can be found in **Appendix II.**

A range of additional guidelines on several specific ESG issues are relevant for our in-depth company research and give us a guidance for assessing specific controversial behavior. These are described in **Appendix III.**

4.2.1 Do No Significant Harm (DNSH)

In respect of any Issuer considered to be a Sustainable Investment, in addition to meeting the strategies defined thresholds for environmental / social objectives, they must pass two additional tests: DNSH and Good Governance.

The DNSH test requires that the business activities of the investee companies shall do no significant harm to any other sustainable objective. This aspect is assessed via an extensive screening using all mandatory and multiple additional Principle adverse impact indicators (PAI)[2] are considered.

Recognizing the multifaceted nature of sustainability, we have structured our approach around four distinct impact areas: climate and energy efficiency, nature, basic needs, and empowerment. This segmentation allows us to holistically assess the impact of investments on key sustainability dimensions. Our assessment is based on a two-step approach. In an initial step, we identify potential negative impacts associated with an investment. If these impacts can be mitigated, we proceed with a second step in which we conduct a rigorous analysis of mitigation measures implemented by the companies in question.

If a company is flagged for potential negative impacts and lacks appropriate mitigation measures, it does not pass the DNSH test. Consequently, such companies are excluded from being considered sustainable investments. Notably, an exception is made for the empowerment area, where we integrate aspects relating to diversity into our active ownership activities, particularly in our voting policy.

To facilitate our assessments, we rely on a combination of reputable data sources. MSCI ESG and Sustainalytics provide valuable insights into a company's ESG performance.

This aspect is assessed via critical business involvements and controversies, whereby data points from external ESG data providers serve as a guidance and are monitored on an ongoing basis. Companies with a Sustainalytics (SA) controversy level 5 or ESG Risk Score > 40 and/or MSCI ESG red flag controversy or overall rating CCC are excluded for investments.

Additionally, our own research efforts are employed to gain a deeper understanding of the nuanced aspects of sustainability specific to each industry and company.

An illustration of the DNSH approach can be found in **Appendix IV**.

4.2.2 Good Governance

Strict adherence to good corporate governance is critical as management decisions are central to a company's performance, as well as how it handles its ESG risks. In addition to the criteria mentioned in section 4.2.1, common governance indicators include sound management structures, such as board independence and diversity, employee ownership, remuneration of staff, tax compliance, rights of minority shareholders, executive remuneration as well as audit and accounting oversight.

Sustainability data points from external sources for each company (absolute and relative) provide a first guidance. We look at a broad array of ESG risk criteria which are an integral part of the company investment analysis as a mean to reduce risk. We explicitly comment where the data points are particularly weak or indicate controversial activities.

The investment strategies further ensure good governance of the investee companies via active ownership (as further described in section 5).

4.3 Documentation and Monitoring

Positive impact contribution criteria and risk assessments described in this document are documented in a proprietary impact database. For each company, we describe the businesses considered as impactful, and the proportion of related revenues are accounted for in the so-called purity factor. We further describe the management's strategy related to these impactful businesses, as described above. We add comments on particularly critical ESG ratings, higher controversy levels and controverse business involvements, but also assignments to SDGs wherever it may not be obvious. Relevant impact indicators for the invested companies are recorded in this database too, including the source. Furthermore, external data on DNSH, MSS and PAI indicators are commented if further explanation is deemed necessary or helpful.

Fact-finding engagements on topics relevant to our impact objectives are documented in an internal software where also specific instructions for voting at shareholders meetings is documented. Furthermore, meetings with company management are also logged in this research library. Often environmental and social aspects are also discussed during these meetings, such engagements are documented in conjunction with the company meeting note.

The impact database and research library are used for reporting purposes as well as in client meetings to showcase the investment process with individual company examples. For all holdings, a broad range of ESG data from third party providers is regularly observed.

Compliance with the requirements outlined in 4.2 ff for all invested companies is monitored by the investment team on an ongoing basis. If a security does not comply with the binding criteria described below, the Investment Manager divests from such an issuer within a period to be determined by the Investment Manager without exceeding in principle three months after such breach was detected, considering prevailing market conditions, and

[2] Esma, 2021-02-02, Final Report on draft Regulatory Technical Standards

taking due account of the best interests of the shareholders.

While some data points are key for exclusion criteria, others serve as indicators for a broader perception of each company from rating agencies' point of view. Deteriorating data points may be early warning signs for a company to reach a threshold for exclusion. With the broader monitoring we try to act before a breach would materialize and require a divestment; this may include an engagement with the company, or in cases where remedy may not be expected within a reasonable time, to already start divesting the stock.

5. Active Ownership

We believe active ownership is an important tool to contribute towards sustainable economies, societies, and the environment. Also, ESG issues can materially impact the future success of a company and therefore its investment returns. Consequently, we put a strong emphasis on direct engagement with our investee companies, particularly on social and environmental issues and thereof arising opportunities. We also participate in collaborative engagement and exercise our voting rights as an integral part of our investment process.

5.1 Direct Engagement

Our analysts and portfolio managers directly engage with the management of companies on relevant topics as part of their fundamental research activities. For areas flagged as key ESG risks, we engage in a direct dialogue with our holdings. We state our views in a constructive fashion and encourage companies to improve their risk management practices as well as impact and sustainability. Additionally, we carry out informal fact-finding engagements as part of our structured research process – either due to data gaps or to better understand a company's performance and policies. These engagements address material sustainability issues that are relevant to our sustainable investment objective.

Our key engagement objectives are linked to our impact pillars and impact indicators. A detailed description for our strategies' key engagement objectives can be found **in Appendix VI.**

Where an investee company is flagged for serious controversies, we maintain a regular review of the evolving situation, ever vigilant of the potential need to divest if the situation is not remedied. Engagement could be escalated through additional meetings with the management and dialogue with the board chairman and non-executive directors. Where these engagements do not progress in the direction that we believe is in the best long-term interests of shareholders, the environment and social aspects, or the shareholding is insufficient for an effective escalation on a standalone basis, other options are considered, including, but not limited to:

- Voting against resolutions at shareholder meetings
- Collaborating with other institutional investors; and/or
- Divesting

5.2 Collaborative Engagement

For indirect engagement we work with Columbia Threadneedle Investments (CTI) reo® since the beginning of 2022. Such collaborative engagements allow us to exercise greater influence than the size of our holdings would otherwise permit and to benefit from CTI reo® specialist resources and experience. An additional major benefit is that CTI reo® establishes a long-term engagement plan with objectives and milestones, and this persists irrespective of investment inflows and outflows by CTI reo® clients, i.e., it can take a truly long-term perspective and will maintain regular pressure as long as the issue persists. We regularly observe that the type of engagement which helps drive structural changes is most effective in the context of long-established dialogue and a relationship of trust.

5.3 Voting

Exercising voting rights for our Vontobel Funds and segregated mandates is part of our fiduciary duty and is done in the best interests of our investors.

For voting we work with CTI reo® services since the beginning of 2022. Analysts and portfolio managers receive alerts of upcoming company meetings along with voting recommendations and supporting research. These are reviewed by analysts, and a decision is made whether to support the voting recommendations of CTI reo® services. Unless overruled in specific cases, voting is based on a standardized policy agreed by CTI reo® services and Vontobel. This voting policy has taken into account the requirements of all applicable laws and regulations and related standards, e.g. the "UK Stewardship Code" issued by the Financial Reporting Council.

6. Reporting

We comply with all the disclosure and reporting requirements as requested by SFDR.

In addition, we acknowledge that material sustainability factors are often of medium to long-term nature and difficult to quantify. For this reason, we emphasize the importance of transparent communication on how material sustainability considerations influence the decision making of our investment managers. We therefore provide our clients with quarterly reporting for our Funds and segregated mandates. Impact and sustainability is an integral part of this publication. This reporting includes but is not limited to 1) Positive revenue contribution ("purity factor"), 2) SDG contributions, 3) Sustainability profile, 4) Summary of our direct engagement activities, 5) Summary of the collaborative engagement activities, 6) Summary of the proxy voting, 7) Consideration of principle adverse impacts.

In addition, we publish an annual Impact Report for our investment strategies that outlines the potential positive impact on environment and society associated to the investee companies, our methodology of data gathering and interpretation, and the impact attributable to the strategy's ownership.

Appendix I: Impact Pillar Description

Environmental Impact Pillars

Lifecycle management: Reusing resources and reducing waste is increasingly important. Advanced manufacturing companies integrate product lifecycle concepts including aspects such as disposal, waste management and recycling technologies into product design and manufacturing processes.

Resource-efficient industry: Efficient industries play a vital role in a move towards a more environmentally friendly world. Clean and efficient production processes will reduce energy and materials consumption while increasing the output needed to cope with rising demand. Importantly, digital transformation is paving the way for new approaches to product development, production and the entire logistic.

Building technology: Housing and residential applications make up one of the largest share of global energy and water consumption. Companies related to this pillar provide technologies and materials to lower the environmental impact over the lifecycle of a building, from site selection through design and materials choices, construction, operation, maintenance, building upgrades and demolition. The trend towards zero-emission or low-energy houses presents opportunities for investors.

Clean energy infrastructure: Clean energy represents a significant component of a low impact to human intervention on the environment. The overall focus lies on emission reduction, renewable energies, and technologies enabling a stronger, smarter, and greener grid.

Low emission transportation: The logistics and transportation sectors are large contributors to global emission and pollution. Companies need to offer innovative solutions and technologies to better connect a global and converging world through improved logistics as well as low-emission transportation that also saves time and resources. We concentrate on companies that develop key technologies for the future of mobility.

Clean water: Rising water consumption as well as pollution has become a global problem. Challenges include not just the delivery or treatment of drinking water in arid regions, but also the maintenance of the existing infrastructure in industrialized countries. We focus on companies providing technological solutions for efficient water usage, proper wastewater treatment, purification, and desalination.

Social Impact Pillars

Sustainable Food & Agriculture: Ensuring food security by harvesting opportunities from ecological and fair agriculture, efficient irrigation and fertilization, safe and hygienic packaging, and efficient logistics.

Equal Opportunities: Addressing inequalities and raising standards of living by providing high-quality education, innovative working solutions, and access to financial services for underserved populations.

Good Health & Well-being: Improving health and quality of life by promoting healthy lifestyles, and enabling access to efficient healthcare, safe and affordable drugs as well as innovative medical technology.

Responsible Consumption: Adapting to changing consumer preferences and trends such as a focus on brands with high sustainability credentials or socially responsible extraction of natural resources.

Appendix II: Exclusion Criteria

In January 2025 Vontobel has established a minimum exclusion framework structured around three levels. Level 3 being the strictest exclusion level, is the one which is applicable for the impact investment strategies. This includes an alignment with the requirements outlined by the Paris-Aligned Benchmark regulation, among other high standards. Additionally, the Vontobel Fund – Global Environmental Change received the "Towards Sustainability" Label awarded by Febelfin and follows its detailed Quality Standards 2023. For complete details of all rules stemming from this label please see their website for up-to-date information.[3].

The following critical activities are screened and monitored during the investment process. Such an evaluation includes all entities that are financially consolidated. We avoid investments in companies with critical business involvements. The following list shows the relevant business involvements that lead to the exclusion of whole subindustries or individual companies. In order to keep the below listed exclusion criteria operationally feasible in terms of a detection limit, the following percentages refer to the share of revenues. If the company does not provide any revenue figures on certain exclusions, as it occurs sometimes with utility companies, we may refer to percentages of total installed capacity.

1. Energy sector

We provide investors with an investment option that complies with the Paris -Aligned Benchmark Regulation, thus the strategies have strict exclusions especially for fossil fuel related sectors.

1.1 Thermal Coal extraction

Based on a lifecycle approach, thermal coal is the most carbon intensive fossil fuel source and therefore carries a disproportionate danger to the climate (as well as to public health), while from an energy generation perspective it is easily substitutable. Thermal coal is mainly used for power and heat generation. We exclude companies with more than 1% revenue exposure to exploration, mining, extraction, refining or distribution. Any company that has expansion plans related to thermal coal, based on the Urgewald[4] coal exit list, would also be excluded.

1.2 Oil and Gas extraction

Oil and gas follow coal in terms of carbon intensity, air pollution and accidents.[5] Of note, the generation of artificial heat and pressure needed for unconventional oil and gas extraction requires significant quantities of freshwater, that leads to challenges in both supply and disposal management. These unconventional oil and gas extraction techniques are also frequently employed in the Arctic, a region known for its extreme environmental sensitivity and status as one of the planet's most fragile biological ecosystems. The extreme condition of this region also increases the risk of environmental disasters.[6]

The strategies exclude any company that derives more than 5% of their revenues from **conventional**[7] or **unconventional**[8] oil or gas extraction activities.

1.3 Enabling activities in the fossil fuel sectors

Companies with **enabling** activities shall derive less than 25% of its revenues from bespoke products, equipment or services dedicated to allowing the execution of businesses in the above-described sectors of coal, oil and gas (unconventional and conventional).

2. Electricity generation

Coal power utility companies with more than 5% of revenues from thermal coal power and heat generation are excluded. Furthermore, companies that have more than 10% of capex dedicated to thermal coal related activities and have the objective of increasing revenues thereof are excluded too. Companies that have a SBTi target set at well-below 2° C or have a SBTi 'Business Ambition for 1.5° C' commitment may be investable. Also, companies that have more than 50% of capex dedicated to activities contributing to our sustainable investment objectives may be investable. The rational for such exceptions lies in the requirement of some companies to operate such plants due to electricity/heat supply security reasons. Nonetheless, they must have a clear strategy to decrease their CO_2 intensity and a clear intention/strategy to invest and diversify to clean sources of electricity/heat

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[3] https://towardssustainability.be/the-label/quality-standard; QS23 currently applies
[4] Based on Urgewald list. More information can be found under //https://www.coalexit.org/
[5] Source: https://ourworldindata.org/safest-sources-of-energy
[6] Source: Chapter 6 of IPCC Sixth Assessment Report https://www.ipcc.ch/report/ar6/wg3/chapter/chapter-6/
[7] Includes exploration, extraction, processing (not oil to chemicals) and transportation (not distribution). All subject to the more detailed rules and exceptions in Febelfin's QS23
[8] This includes tar sands oil, coalbed methane, extra heavy oil and arctic oil & gas, as well as oil & gas from unconventional production methods such as fracking or ultra deep drilling.

generation. The PAI indicators for GHG emissions provide a good guidance for the development of a utility company's path to reduce its carbon emissions.[9]

Nuclear power utilities with more than 20% of total revenues in nuclear power generation are excluded. Utilities that invest in new nuclear power plants are excluded as well as producer of core components for nuclear power plants or uranium miners. Plant location risks and operational safety track record of nuclear facilities are carefully assessed and can lead to an exclusion.

Hydro power plant selection is based on a case-by-case basis. Hydro power utilities that operate large dams are scrutinized. The planning and management of such a dam must be based on a thorough environmental impact assessment and provide transparent information.

For other sources of high CO_{2e} intensity power generation any company that derives more than 50% of its revenues from high CO_{2e} intensity power generation activities is excluded (GHG intensity of more than 100 g CO_2e/kWh).

3. Weapons and other military services

We recognize the need of legitimate and democratically elected governments to maintain armed forces, which adhere to international laws, and hence the legitimate need for an armaments industry. However, companies focused on arms or otherwise services to armed forces are, by definition, not relevant to any of our impact pillars and hence irrelevant to our strategies. In the rare event that a company which is relevant to a pillar and fulfills our minimum 20% "purity" requirement is also involved in arms manufacturing or otherwise servicing armed forces, we apply a 10% maximum threshold of revenues. This includes products, or components thereof, and services which by design are dedicated for weapons manufacturing or military use. For example, a radio or optical instrument specifically designed for military purposes or a micro-processor whose primary application is as part of a weapon. It does not include generic or dual-use products and services such general purpose micro-processors, consulting and remediation services, trucks, etc.

Controversial weapons, in contrast to conventional weapons, have a disproportionate and indiscriminate impact on non-combatants, sometimes even years after a conflict has ended, and by design often cause unnecessary suffering. We define controversial weapons as those banned by widely ratified conventions. These are:

- The Ottawa Treaty (1997) which prohibits the use, stockpiling, production and transfer of anti-personnel mines.
- The Convention on Cluster Munitions (2008) which prohibits the use, stockpiling, production and transfer of cluster munitions.
- The Chemical Weapons Convention (1997) which prohibits the use, stockpiling, production and transfer of chemical weapons.
- Biological Weapons Convention (1975) which prohibits the use, stockpiling, production and transfer of biological weapons.
- The Nuclear Non-Proliferation Treaty (1970), which prohibits the use, stockpiling, production and transfer of nuclear weapons by non-nuclear countries.

For the sake of clarity, we consider anti-personnel mines, cluster munitions, chemical and biological weapons, as well as nuclear weapons manufactured by non-nuclear countries as controversial weapons. Companies producing such **controversial weapons**, dedicated components thereof or provide essential and dedicated services are excluded based on a maximum threshold of **0%** of revenues. The exposure to controversial weapons also considers our approach to the SFDR PAI indicator on controversial weapons (PAI 1.14).

4. Adult Entertainment

Adult Entertainment is excluded from investments with a threshold of 5% revenues.

5. Tobacco

Tobacco producers are excluded with a threshold of 0% of revenues. A 10% revenue threshold on distribution activities (including retail of such products) is applied.

[9] All subject to the more detailed rules and exceptions in Febelfin's QS23

6. Alcohol

Alcohol producers are excluded (threshold of 5% of revenues) and retailers/wholesalers distributing alcohol products are excluded with a threshold of 10% of alcohol revenues.

7. Palm Oil

Palm oil producers are excluded with a threshold of 5% of revenues and retailers/wholesalers distributing palm oil products are excluded with a threshold of 10% of palm oil revenues.

8. Fur Farms

Fur farms are locations where fur-bearing animals are raised commercially for their pelts. Such producers are excluded with a threshold of 5% of revenues.

9. Gambling

Companies that derive revenues from gambling (e.g., casino and online operators, bookmakers, slot machine producers and supporting products and services) are excluded (threshold of 5% of revenues).

Appendix III: Guidelines on additional ESG issues

1. Biodiversity[10]

Humanity has already caused the loss of over three quarters of all wild mammals and half of all plants, with the current rate of extinction accelerating[11]. The Intergovernmental Platform on Biodiversity and Ecosystem Services (IPBES) carried out a global assessment of biodiversity and ecosystem services and found a significant loss of species and plant diversity over the past 50 years, approximately 25% of all species already risk facing extinction[12]. It is estimated that more than half of global GDP is highly or moderately dependent on nature and the cost of inaction in the face of biodiversity loss is estimated to rise to USD 14 trillion by 2050. As nature loses its capacity to provide natural capital and ecosystem services (such as healthy soils, clean water, pollination, and a stable climate), businesses that are highly dependent on nature will suffer significant losses.

Under Vontobel's DNSH screen a company is flagged as "Significantly Harming" in respect of Biodiversity, if it fulfils at least one of these conditions:

- The company has severe/very severe controversies related to Biodiversity & Land Use.
- The company has >5% of revenues from the following activities that are considered to have significant negative impacts on biodiversity: palm oil, soy, cattle, timber, and biofuels (excluding second generation).

Mitigation measures can be considered as detailed in Appendix IV.

2. Water Use and Effluence

Water is one of the most precious resources on the planet. More than 1 billion people do not have access to clean drinking water. Also, for industries with high water demand, this resource becomes critical and scarce. A growing number of water users are competing for limited water supplies. The World Resource Institute identified 37 countries that already face "extremely high" levels of water stress, meaning that more than 80% of all the water available annually, is already withdrawn by agricultural, domestic, and industrial users. Industries with high water usage that operate production sites in such areas need to set up a forward looking and robust water management. Apart from agricultural industries, companies in the energy, materials or industrial sectors may be highly affected. Such vulnerable companies are assessed with more scrutiny to water related issues; details to operational eco-efficiency, community relations, biodiversity, emissions, opportunities in clean technology etc. can be observed. There are no strict thresholds for this explicit criterion.

Under the Vontobel DNSH screen a company is flagged as "Significantly Harming" in respect of water if it has severe/very severe controversies related to Water Stress.

Mitigation measures can be considered as detailed in Appendix IV.

3. Pollution & Waste

Critical companies are flagged with controversies related to "Toxic Emissions & Waste" (severe or very severe). Where such a DNSH flag is raised a second step may then be undertaken to remove the flag if the company has policy/procedures in place allowing it to mitigate negative impacts (either in direct operation or in supply chain). When evaluating policies, we look for whether they are in line with relevant industry standards, if externally verified; if the company dedicates sufficient resources to manage the issue; if good governance including senior management accountability; and if appropriate remediation measures have been taken in event of controversies.

Mitigation measures can be considered as detailed in Appendix IV.

4. Diversity and Inclusion (Gender and Other)

We recognize the importance of ethnic and gender diversity and inclusion as a critical issue of social justice, and we recognize its real value to our business and the businesses we invest in. We expect our investee companies to address systemic racism and gender bias and the under-representation of minorities in the workforce of under-represented groups. Diversity at leadership and board levels is particularly important as we believe that a suitably diverse mix of skills and perspectives is critical to the long-term effectiveness of the board and the strategic direction of the company.

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[10] Biodiversity can be understood as the variety of life on earth, or the variation that exists in the natural world, such as the genetic variability between a group of individuals of one species, or between that species and another in its community--or between a whole ecosystem and another.

[11] World Economic Forum and Price Waterhouse, Coopers and Lybrand (WEF/PwC), 2020. '*Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy*'. And WEF 2020a. *The Future of Nature and Business*. WEF, Geneva, Switzerland.

[12] The IPBES found that natural ecosystems have declined by 47% on average compared to earliest estimated states. Approximately 25% of species are already threatened with extinction. Ecological communities on land have declined 23% on average and the global biomass of wild animals has fallen by 82%. IPBES (2019), *The Global Assessment Report on Biodiversity and Ecosystem Services – summary for Policy makers.*

Diversity & Inclusion are integrated in our assessment of human capital management and board composition. Under these factors we consider metrics (to extent available) such as policies on diversity, inclusion and discrimination, gender & minority breakdown of workforce, pay details, females in leadership roles and percentage of women on the board. Diversity and Inclusion is also an important part of our voting approach. Through our proxy voting partners, CTI reo®, we support diversity through voting against the chair of the Nomination Committee (or next appropriate director when that chair is not up for re-election) when the board does not have appropriate levels of female representation or where market appropriate levels of gender or ethnic diversity are not reached. Certain social PAI indicators such as unadjusted gender pay gap, board gender diversity are of help. As far as the data availability allows, we will consider related engagement with outliers in these areas.

5. Taxation

As multinational companies continue to face increased scrutiny in relation to their tax practices, we evaluate companies' exposure to potential earnings, governance, reputational and broader societal and macroeconomic risks. Companies with low global tax rate and complex financial structures, potentially indicating tax evasion purposes, are assessed with particular scrutiny. Where corporate disclosure is poor, we may engage with companies to encourage improvements in their publication of tax-related information to support our investment decision.

6. Oppressive Regimes (Government and Company Level)

The UN Security Council has primary responsibility for the maintenance of international peace and security. It has 15 members, and each member has one vote. The use of mandatory sanctions is intended to apply pressure on a state or entity to comply with the objectives set by the Security Council without resorting to the use of force. Today, there are 14 ongoing sanctions regimes, which focus on supporting political settlement of conflicts, nuclear non-proliferation, and counterterrorism. We adhere to the official UN list of sanctioned countries[13] and do not invest in companies domiciled in such a country. The management company operates a program reasonably designed to ensure general compliance with economic and trade sanctions-related obligations applicable directly to its activities.

As the strategies we manage do not invest in sovereign bonds, no position is taken on purely sovereign issues, such as existence of the death penalty, the status of political rights or civil liberties at a national level, etc.

7. Violation of UN Global Compact and other International Norms

Companies' compliance with international global norms and standards is assessed implicitly during the standard sustainability due diligence process. In a first step we rely on the assessments of Sustainalytics and MSCI ESG for their analysis of compliance with global norms. Sustainalytics includes in their Global Standards Screening the global norms and standards that are enshrined in: i) the UNGC, ii) the Organization for Economic Co-operation and Development Guidelines for Multinational Enterprises (OECD MNE Guidelines), iii) the United Nations Guiding Principles on Business and Human Rights (UNGPs), as well as iv) their underlying conventions and treaties. MSCI ESG adds to this screening for compliance with the International Labor Organization's fundamental principles. If a company that we are invested in is found in violation with these international global norms and standards (based on these data points: Sustainalytics (SA) "Overall Global Compact Compliance Status": "Non-Compliant" or MSCI ESG "Global Compact Compliance": "Fail"), we will divest. For companies that are on UN GC watchlist of MSCI ESG or SA, we conduct a detailed review of the reasons for the watchlist status and the response measures taken by the company. If the company is: a) responsive on the issue, b) has started to take adequate rectification measures, and c) a schedule to evaluate progress can be identified, we will engage with the management prior to an investment, respectively to a divestment. Our assessment is in line with the PAI indicators on the overall compliance with UN Global Compact and OECD guidelines for multinational enterprises.

8. Animal Testing

Within the Pharma, biotech and life sciences, animal testing may still be an important part of the development, manufacturing and testing of medicines (although the practice is slowly decreasing). Beyond pharmaceutical use, animal testing is also a practice in other industries, notably chemicals, food, household and personal care products, and tobacco. Best practice is to diligently adopt the '3R principles' (Reduce number of animals used; Refine processes to minimize stress; Replace with alter-native solutions) and integrate welfare standards for the treatment of animals, such as being accredited by the Association of Assessment and Accreditation of Laboratory Animal Care International. These principles encourage alternatives to the use of animals in the testing of medicines while safeguarding scientific quality and improving animal welfare where the use of animals cannot be avoided. Various regulations in emerging and developed markets are pushing the 3R principles, and 40 countries have

[13] https://www.un.org/securitycouncil/sites/www.un.org.securitycouncil/files/subsidiary_organs_factsheets.pdf

bans on use of animal testing in cosmetics, while some require it. Overall, conflicting legal requirements globally combined with high reputational risk leads to very low transparency on this complex ethical issue.

We recognize the need of selective and often unavoidable animal testing across industries, including many being in compliance with local regulations. We therefore do not exclude the practice by companies in both pharma and non-pharma use. However, as part of our individual company assessment, we examine their policies and practices on animal testing, commitments to animal welfare, initiatives for finding alternative solutions, as well as compliance with local laws and with the local food and drug regulatory requirements (e.g., following Good Manufacturing Practices, Good Clinical Practices, Good Laboratory Practices, where applicable). The issue falls within the wider topic of product governance and is assessed case by case.

8. Wood Pulp Production

Where the wood pulp production is associated with the clearing and burning of forest lands, it releases harmful gases into the atmosphere leading to environmental damage. Therefore, the reduction of the environmental impact has become a crucial topic. Similar to palm oil, we find certain positive assurances in well regarded certifications such as the FSC label (Forest Stewardship Council). However, we assess involved companies on a case-by-case base and exclude companies that do not meet minimum standards in employment, development, deforestation and conservation practices.

9. Genetically Modified Organisms (GMOs)

The use of genetically modified crops, designed to increase agricultural productivity (such as by increasing drought resistance) have advocates and equally strong critiques. GMOs are considered controversial because of potentially negative health effects as well as environmental risks associated with the uncontrolled spreading of GMOs and weeds to other plants in the ecosystems. Furthermore, socio-economic aspects, making farmers dependent on GMO suppliers, often as a result of the infertility of modified plants, or by bundling patented biotechnology seeds with specific pesticides, are of great concern. Other concerns are increasingly pesticide resistant weeds and insects due to increased use of chemicals.

Acceptance levels and regulatory requirements vary greatly across countries. Globally, the production of GMO crops is growing, particularly in soybean and corn growing nations such as the US, Canada, Brazil, and Argentina.

New scientific developments based on the so-called gene-editing technology are followed closely too, as new genomic techniques are deemed to have positive effects. The pros and cons of gene-editing and modifying are weighed against each other, and companies involved in the growth of such crops or development/cultivation of such seeds/plants are assessed on a case-by-case base, considering all the above-mentioned aspects.

Appendix IV: Do No Significant Harm (DNSH) Process

PAI[14]	STEP 1: DNSH TESTS	STEP 2: ANALYZING MITIGATION MEASURES
CLIMATE		
T1: 4	**Does the company have a significant exposure to fossil fuel extracting activities?** – > 1% coal extraction – > 10% oil extraction – > 50% gas extraction – > 5% oil sands and arctic oil/gas	No mitigation measures are eligible for companies with significant exposure to fossil fuel extraction activities. Accordingly, such companies will by default be considered as significantly harming.
T1: 5 T2: 4, 5	**Does the company have a significant exposure to power generation from fossil fuels?** – > 10 % coal power generation – > 50% other sources of high carbon intensive power generation	Eligible mitigation measures include: credible transition plan in place (e.g. Science Based Targets, net zero targets, reduction of carbon emissions demonstrated during the past years), > 20% revenues derived from climate solutions, regional emission norms and longer transition pathways are considered for emerging market companies.
T1: 1, 2, 3, 6 T2: 4	**Is the company a high carbon emissions emitter?** Top 50 emitters (absolute emissions) and/or under the top 5% highest emitters within industry for companies active in high impact climate sectors (based on carbon footprint or intensity), based on scope 1 and 2 emissions.	
NATURE		
T1: 7 T2: 10, 11, 15	**Does the company have significant exposure to the production of soft commodities directly linked to deforestation? (> 5% of revenues from palm oil, soy, cattle, timber)**	Eligible mitigation measures include: initiatives, procedures and/or policies in place to develop sustainable practices within their own operations or supply chain (e.g. operating in line with relevant industry standards (e.g. RSPO), externally verified standards, if the company dedicates sufficient resources to manage the issue; if good governance including senior management accountability. For supply chain we look for technical assistance to obtain sustainable certification, implementation of specific sustainable requirements for suppliers and robust measures to verify compliance.
T2: 7, 10, 11, 14, 15	**Does the company have instances of severe controversies related to biodiversity and land use?**	Eligible mitigation measures include: initiatives, procedures and/or policies demonstrating efforts to mitigate significant negative impacts and remediation measures in event of controversies.
T1: 8 T2: 7, 8	**Does the company have instances of severe controversies related to water stress?**	
T1: 9 T2: 13	**Does the company have instances of severe controversies related to toxic emissions and waste?**	
BASIC NEEDS		
T1: 10, 11 T3: 1, 4, 5, 9, 10-17	**Does the company have instances of very severe violations of international norms (UNGC, OECD,…)?**	No mitigation measures are eligible for companies that have instanced of such violations or have exposure to controversial weapons. Accordingly, such companies will be considered as significantly harming. This assessment is conducted as part of our process to identify "Critical ESG Events".[15]
T1: 14	**Does the company have any exposure to controversial weapons?**	
EMPOWERMENT		
T1: 13	**Does the company have a diverse board? (Subject to regional thresholds)** Typically judged as <13.5% women directors in emerging markets and <27% Women in developed markets, but this is subject to further regional thresholds set by corporate governance codes, listing exchanges, etc	In this area, we believe strict thresholds are not proportionate for defining significant harm. Instead, we prefer a market nuanced approach to identify under-performance and find active stewardship (voting and engagement) the better approach to address weakness. Voting allows us to use our shareholder influence to support board candidates and resolutions that align with our diversity values. Engagement, on the other hand, enables constructive dialogue with companies, promoting awareness about the benefits of gender diversity and encouraging voluntary improvements.
T1: 12 T3: 7	**Does the company have instances of severe controversies related to discrimination[16] and workforce diversity or an excessive gender pay gap?**	

[14] These "Principal Adverse Impacts" indicators are stemming from the SFDR Regulatory Technical Standards. While they may not be used as such in our methodology, for instance due to data quality and/or coverage, we consider that the test being conducted is a proxy to the area being addressed through these indicators.
[15] More information can be found in our ESG investing and advisory policy under https://www.vontobel.com/esg-library/
[16] Very severe controversies related to discrimination will be assessed as part of our process for the identification of "Critical ESG Events". A confirmed critical ESG event will be classified as significantly harming and so be excluded from being considered sustainable investments.

Appendix V: Integrated Investment Approach

	Determine opportunity set	Idea generation	In-depth company research	Portfolio & risk management	
Fundamentals	**Meet criteria** – Business activities relevant to impact pillars – Market cap and liquidity	**Identify opportunities** – Drivers & cycles – Value chain – Landscape – Barriers – Financial indicators	**Analyze opportunities** – Understand company's value drivers and embedded Cash Flow expectations – Model key value drivers and scenarios (5–10 years' forecasts) – Results in investment recommendations with target price and conviction level	**Unconstrained** – Position sizing based on upside, conviction, «purity factor»[4], liquidity and risk – No explicit limits for impact pillars, countries, sectors or styles	**Monitoring** – Financials, strategy and management developments – Portfolio characteristics (Bloomberg/ StyleAnalytics)
Impact & sustainability	– Exclude controversial sectors[1] – Exclude companies that do not comply with international norms such as UN Global Compact[2] – Exclude companies with severe controversy or high risk level[3] – **«Purity factor»**[4]: typically above 50%, min 20%		– Map contribution to the SDGs[5] and **assess potential impact** – Assessment of impact strategy: – High controversy risk levels or UN Global Compact watch list[6] must be reviewed by the team – Evaluate EU-Taxonomy alignment and assess Doing No Significant Harm (DNSH) – Meet minimum social safeguards[7]	– Monitor sustainability performance and controversial activities – **Active ownership** through direct and collaborative engagement as well as voting – Measure and disclose contributions to SDGs, impact indicators and EU-Taxonomy alignment	

[1] As disclosed in Appendix II, Exclusion Criteria.
[2] UN Global Compact Compliance: Sustainalytics "No" or MSCI ESG "Fail" are excluded.
[3] Sustainalytics controversy level 5 or ESG Risk Score > 40; MSCI ESG: red flag controversy or overall rating CCC are excluded.
[4] Revenue contribution from impactful activities
[5] SDG = UN Sustainable Development Goals.
[6] Sustainalytics controversy level 4; MSCI ESG orange flag controversy; UN GC watchlist at Sustainalytics or MSCI ESG.
[7] Comply with UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

Appendix VI: Key Engagement Objectives

Climate reporting remains a key focus for all our company engagements. Our effort lies on more detailed reporting on potentially avoided carbon emissions (PAE) and an improvement of expressing carbon reduction targets. We are working with the companies to align their targets with an SBTi Net Zero Strategy or achieve an SBTi approval where this has not been the case yet.

Below you find the key engagement objectives for the corresponding environmental and/or social topics:

Environmental topics:

- Climate change and related risks and opportunities
- Potential avoided carbon emissions
- Water management/stress
- Energy efficiency
- Renewable energies
- Waste management
- Technology innovation

Social topics:

- Access to healthcare business activities
- Educational and information services
- Activities along the food chain
- Reducing inequalities through better diversity and inclusion

Methodological Limits

In assessing the eligibility of an issuer based on ESG research, there is a dependence upon information and data from third party ESG data providers, and from issuers, and on internal analyses, which may be based on certain assumptions or hypothesis. The data obtained from third-party data providers or issuers may be incomplete, inaccurate, or unavailable and the assumptions or models on which internal analysis rests may have flaws which render the internal assessment incomplete or inaccurate. As a result, there exists a risk of incorrectly assessing a security or issuer, resulting in the incorrect inclusion or exclusion of a security. Considering that ESG data providers may change the evaluation of issuers or instruments at their discretion and from time to time due to ESG or other factors, updated information on the methodology used by our current ESG data providers can be found on their websites. There is also a risk that the Investment Manager may not apply the relevant criteria of the ESG research correctly or that our portfolios could have indirect exposure to issuers who do not meet the relevant criteria. These risks pose the main methodological limits to our sustainability strategy. Neither the strategies, nor the Management Company nor the Investment Manager make any representation or warranty, express or implied, with respect to the fairness, correctness, accuracy, reasonableness, or completeness of an assessment of ESG research and the correct execution of the ESG strategy.