Group Sustainability Risks in Investments Policy

QUINTET
PRIVATE BANK

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Contents

A. KEY DEFINITIONS

- **Engagement** – The act of undertaking constructive dialogue with investee companies/issuers with a view to improve environmental, social, and governance (ESG) practises.
- **ESG factors** – environmental, social or governance aspects. Examples of such aspect are pollution, carbon emissions, health & safety, labour conditions, board diversity, and anti-corruption.
- **Exclusion** – the act of barring an entity's securities from being purchased for a portfolio due to business activities that are deemed unethical, harmful to society, or in breach of laws or regulations.
- **Funds** – collective investment vehicle that is widely held which holds a diversified portfolio of securities
- **SFDR** – Regulation 2019/2088 of European Parliament and the Council of 27 November 2019 on Sustainability-related disclosures in the financial services sector. SFDR is a European regulation introduced to improve transparency in the market for sustainable investment products, to prevent greenwashing and to increase transparency around sustainability claims made by financial market participants.
- **Sustainability risk** - is an environmental, social or governance (ESG) event or condition that, if it occurs, could cause a material negative impact on the value of the investment.
- **SI team** - shall mean in sustainable investment team which is part of the Investment & Client Solutions (‘ICS’).
- **FRR team** - shall mean Financial Risk and Reporting team which is part of the Risk Function at Quintet
- **GFS team** - shall mean Group Fund Solution team
- **BRM team** - shall mean Business Risk Management
- **Voting** – shareholders (typically) receive voting rights to be cast at annual or extraordinary general meetings on a range of strategic and environmental, social, and governance (ESG) matters
- **Quintet** – Quintet Private Bank Europe (S.A.) including its branches and subsidiaries.

B. PURPOSE

This document summarises our processes relating to the integration of sustainability risks in the investment decision-making and investment advisory processes, to ensure that sustainability risks are adequately identified, measured, and managed in the investment and advisory process. As per Article 3(1) of the SFDR Quintet must publish and maintain on their website policies on the integration of sustainability risks in their investment decision-making process.

In September 2022, the Board of Directors (BoD) of Quintet Group revised its Risk Appetite Statement and defined its appetite for Sustainability, Climate, and Environmental risks (collectively referred to as “sustainability risks” under this policy) as low. Accordingly, the Group “is implementing a holistic approach to assess, quantify, and monitor these risks, which are progressively integrated into its practices and processes, from the investment process to the governance, as well as strategic planning. In doing so, Quintet aims at implementing a strong control framework in place, to mitigate these risks, to the extent possible, and fulfil its role as most trusted fiduciary to its clients.”

This low appetite for sustainability risks applies accordingly to all investments made by Quintet as part of its fiduciary duties. Sections E.3. and E.4. describe the activities and processes Quintet carries out to ensure a proper management and continuous monitoring of those risks.

In addition, a set of Key Risk Indicators (KRIs) have been defined and are reported on a quarterly basis to Quintet’s Board Risk and Compliance Committee (BRCC). Relevant trigger and limit levels were determined for these KRIs and are subject to periodical re-assessment, in order to continuously reflect the appetite of Quintet’s BoD for these risks.

C. POLICY PROVISIONS

C.1. Investment Relevance

Quintet views sustainability factors as sources of both risk and return and believes such factors are financially material to the investment and advisory process across a broad range of assets and geographies.

C.2. Identification of sustainability risks

Quintet views sustainability factors as sources of both risk and return and believes such factors are financially material to the investment process across a broad range of assets and geographies. At Quintet, we identify sustainability risks to encompass environmental, social and governance risks, as defined below:

C.2.1. Environmental risks to the investment

Environmental risks can be related to climate and other (non-climate) environmental matters such as biodiversity loss, pollution and land degradation .

Climate risks represent all possible risks to an investment induced by climate change and its consequences. They are divided into two broad categories: physical and transition risks.
Physical risks are typically the negative impacts of (i) either an increasing accumulation and intensity of acute extreme weather events, for example heat waves and storms, or (ii) longer-term chronic changes in mean values and ranges of various climate variables, for example temperature, precipitation, and sea levels. A failure to adequately manage physical climate risks may lead to, amongst other consequences, the destruction or damage of facilities, the disruption or failure of supply chains and logistics, and potential changes in demand for products and services.

Transition risks materialise as the additional costs, loss of market share, or loss of competitiveness, induced by the transition to a greener economy. They can occur because of environmental or social factors such as emerging technologies or policies (e.g., pushing towards less polluting practises), or shifts in consumer preferences. A failure to adequately manage transition risks may lead to, amongst other consequences, the impairment of defunct or outdated assets or reserves, the loss of customers, and the need for significant capital expenditure.

Other (non-climate) environmental risks cover all negative impacts linked to a degradation of the environment, the pollution of land or marine ecosystems, losses of biodiversity, the scarcity of natural resources, etc. Despite being not directly linked to climate change, these various factors bear essentially the same types of risk for individuals, corporate firms, and society in general, as those identified above.

C.2.2. Social risks to the investment

Social risks are risks related to, but not limited to, employee health and safety incidents, poor working conditions, product safety failures, land conflicts and non-compliance with labour standards. These can have negative impacts on the financial performance of companies, for example, through the inability to attract and retain staff, loss of customers, reduced demands and costs of legal actions and/or compensations.

C.2.3. Governance risks to the investment

Governance risks can be related to, but not limited to, the inadequate management of environmental and social issues, non-compliance with corporate governance frameworks or codes, board ineffectiveness and accounting issues. Such risks can have negative impacts on the financial performance of companies, for example, through damaged reputation, fines, legal costs and/or compensations.

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C.3. Management of sustainability risks in portfolio management

The management of sustainability risks may vary per type of investment and asset class. Quintet has implemented processes to manage sustainability risks when investing in single lines and when investing in collective investment vehicles.

A. Single-line investments

C.3.1. Adherence to International Standards

Quintet adheres to multiple international standards in favour of sustainable practices, such as the United Nations Principles for Responsible Investment (UN PRI), which requires its signatories to commit to investing responsibly. The UN PRI offers a set of principles including ESG incorporation into the investment analysis and decision making process and active ownership process.

In its single line investments, Quintet invests in companies that adhere to the ten principles of the United Nations Global Compact as well as the related chapters of the OECD Guidelines for Multinational Enterprises and the related UN Guiding Principles on Business and Human Rights.The SI, BRM and Investment risk teams monitor on a continuous basis the adherence of its investees to these standards. Any non-compliant firm is excluded from Quintet's investment scope.

C.3.2. Active Ownership

Active ownership is the use of the rights and position of ownership to influence the activities or behaviour of investee entities. Quintet believes that active ownership is an effective means of mitigating sustainability risks. Quintet's SI team executes this policy through such actions as engagement with company management and proxy voting.

With regards to engagement, Quintet works with an engagement partner who conducts dialogues on its behalf with companies to improve their practices and behaviours regarding sustainability matters, with a focus on climate change, human and labour rights, human capital management and board effectiveness. With regards to voting, Quintet uses its position as owners of equities to support improvements regarding key sustainability issues at the companies that it owns.

Please refer to Quintet's Group Active Ownership Policy for more details.

C.3.3. Exclusion

Exclusion is the conscious divestment or refusal to purchase securities issued by an entity. Quintet believes that exclusion is a viable means of managing sustainability risks, particularly when active ownership has previously failed or is not feasible. Quintet applies exclusions across single line equities and fixed income securities. Quintet uses a set of exclusions to avoid and limit exposures to some high sustainability risk factors including certain exposure to thermal coal, violators of the UN Global Compact, issuers on the EU arms embargo list and issuers involved in controversial weapons.

Quintet executes this approach through the Quintet Group Investment Universe (GIU), the list common to all entities within Quintet that represents the set of all validated securities that can be used in portfolio management purposes and related processes. The SI and BRM teams execute the day-to-day application of the exclusion list and report any breaches to the FRR team which, as second line risk management, reports them to the Board of Directors as part of its overall KRI follow-up. The Investment risk team monitors breaches of the exclusion list on a monthly basis and notify the portfolio managers, who will need to follow the divestment practices as required in the exclusion policy. Please refer to our Group Responsible Investment Policy for more detail on our exclusion policy.

C.3.4. Controversy Monitoring

Controversies refer to ESG incidents or events that have a negative impact on the environment, society, external stakeholders, or entity value. They can be related to, but not limited to environmental matters such as pollution and animal welfare, social matters such as labour relations, occupational health and safety; and governance matters such as accounting and tax practices, bribery and corruption and business ethics. Quintet's SI team operates a process of controversy monitoring across single line equities and fixed income securities, using third-party data suppliers. This ongoing process enables us to detect potential sustainability risks and to trigger further actions (e.g., active ownership or exclusion) wherever needed. Please refer to our Group Responsible Investment Policy for more detail on controversy monitoring.

C.3.5. ESG Integration

ESG integration is the process of analysing and assessing sustainability risks and incorporating the assessment into opportunity identification, investment assessment, investment decision making, and portfolio construction process. Quintet undertakes ESG integration at multiple levels.

Quintet's SI team integrates ESG consideration at the individual security level through an internally developed sector-specific approach as well as at company level. Companies are measured on the degree to which a company's economic value is at risk driven by ESG factors. An issue is material if its presence or absence in financial reporting is likely to influence the decision made by investors. To be considered relevant in the materiality assessment, an issue must have a potentially substantial impact on the economic value of a company and, hence, its financial risk- and return profile from an investment perspective. ESG integration is complementary to other (market, credit, or duration) risk assessments in the investment decision-making process.

B. Collective investment vehicles

When investing in collective investment vehicles, Quintet takes into consideration the sustainability risks integration policy of the vehicle managers where available. Quintet also assesses the exclusion policy of the vehicles to understand their process to avoid and limit exposures to certain sustainability risk areas. In addition, Quintet requires that managers have an active ownership policy in place to structurally engage with investee companies and vote where appropriate.

To ensure such standards, Quintet's GFS team conducts an extensive sustainability due diligence process on each third-party manager and collective investment vehicle in which Quintet invests, combined with extensive reporting requirements on third-party managers and continued monitoring.

C.4. MANAGEMENT OF SUSTAINABILITY RISKS IN INVESTMENT ADVICE

When providing advice on single-line securities, Quintet define the eligible investment universe using a set of exclusions in order to avoid and limit exposures to some high sustainability risk factors including certain exposure to thermal coal, violators of the UN Global Compact, issuers on the EU arms embargo list and issuers involved in controversial weapons.

In addition, Quintet further mitigates sustainability risks in the advised equities and fixed income securities through engagement. Engagement is conducted via an engagement partner who undertake dialogues with company management on our behalf in order to manage sustainability risks and improve sustainability practices at investee companies.

When providing advice on collective investment vehicles, the eligible universe for investment advice must undergo a fund assessment process where their responsible investing practices are evaluated, including the manager's understanding of ESG factors and their willingness to engage with the companies they invest in.

Please refer to our Group Responsible Investment policy for more details.

C.5. MONITORING OF SUSTAINABILITY RISKS

Sustainability risk management processes described above rely largely on a continuous monitoring of all investments, single line equities, fixed income securities and collective investment vehicles in the GIU.

I. Data

Sustainability risk identification, assessment, and monitoring processes are supported by the use of external expert information sourced from third-party providers.

II. Process

Sustainability risk management is integrated into the investment and investment risk framework, where first and second lines of defence have distinct responsibilities.

III. Infrastructure

Third-party sustainability research and expert data is incorporated into information systems and is made available to investment and relevant risk staff.

IV. Adaptation

Sustainability risks can change, so our models and processes are continuously updated. Ongoing education of investment and relevant risk staff is necessary.

C.6. ESCALATION AND REPORTING

In the event that a sustainability risk is not adequately managed within functions and workflows, Quintet operates an escalation procedure through control functions. In the event of a breach, this will be escalated by BRM to ICS, and if necessary to 2nd line of defence.

In addition, escalation may occur via designated persons to the Authorised Management and to the Board of Directors see section F.1 for details.

C.7. TRANSPARENCY AND DISCLOSURE

Quintet is committed to providing timely and relevant communication and reporting of its sustainability risk efforts both externally and internally in full compliance with the current regulatory requirements.

Quintet publishes a summary of its Group Sustainable Risk Policy on its website. It also publishes related reports and disclosures including, but not limited to Responsible Investment Policy, an annual Active Ownership Report, and sustainability information within the Quintet Group Annual Report.

Change log

Version	Approval date	Details
1.0	06/09/2021	Initial version
2.0	09/02/2023	Amendments in order to accommodate and align with the requirements of SFDR. Incorporation of the 2022 Group Risk appetite statement as well as update of the 3 lines of defence model. Name of the Policy changed/has been adjusted
3.0	31/12/2023	Update definition of sustainability risks Provide more details in portfolio management and advisory process
4.0	11/07/2024	Addition of how sustainability is integrated.
5.0	31/12/2024	Updated Policy Provisions.