

## Responsible Investment Policy

Pictet Asset Management's Responsible Investment Policy has been written in accordance with the requirements of the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on Sustainability-related disclosures in the financial services sector (SFDR), and of the Directive (EC) 2007/36 of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies amended by Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 as regards the encouragement of long-term shareholder engagement (text with EEA relevance) and its implementing measures (together, Shareholder Rights Directive II – SRD II).

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May 2021

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## 1. INTRODUCTION

For decades, sustainability has been central to our way of thinking. Since the Pictet 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 Asset Management believes in responsible capitalism and takes an enlarged view of the economy and its interactions with civil society and the natural environment. As such, we expect issuers to respect both planetary boundaries and international standards on governance, human rights and ethical business practices.

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.

As an active manager, we believe that leveraging the power of investors to trigger positive change across issuers enables us to make better long-term investment decisions for our clients. Indeed, through our active ownership programme, we aim to fulfil our responsibilities as investors and to help shape a more sustainable, prosperous, healthy and equitable society.

This document explains how Pictet Asset Management implements Responsible Investment strategies and covers key topics such as research, investments and monitoring of issuers, exclusion criteria, and active ownership activities.

This Policy applies to all Investment Teams. It is approved by Pictet Asset Management's Investment Management Committee and reviewed annually.



## 2. RESEARCH, INVESTMENT AND MONITORING

### 2.1 Scope

This section applies to all actively managed strategies. It does not apply to passive strategies whose primary objective is to replicate the composition and performance of underlying indices.

### 2.2 Purpose

The foundation of our understanding of issuers are the regular meetings that our investment teams attend each year with companies' management and sovereign issuers' representatives. These discussions, coupled with ongoing analysis and monitoring, contribute to our understanding of all dimensions of issuers strategies, plans and operations and inform our investment analysis and decision-making.

### 2.3 Our Approach

When investing on behalf of our clients, we apply the core tenets of responsible investment. To achieve this, we focus our attention on:

- The clarity and robustness of the issuer's long-term strategy
- The functioning and calibre of governance structures and effective leadership<sup>1</sup>.
- The financial strength and performance of issuers and the fair valuation of underlying securities.
- Sustainability risks<sup>2</sup> & opportunities and adverse impacts of potential investments on society and/or the environment<sup>3</sup>.

Interaction with issuers take the form of one-to-one discussions, shareholder/bondholder meetings, investor roadshows and/or conference calls. The objectives of these interactions are to assess an organisation before investment, monitor that their strategy is being implemented in line with our expectations and ensure that issuers are on track to meet their goals and objectives.

In addition to ongoing dialogue with issuers' representatives, Pictet Asset Management relies on various sources of information to analyse and monitor potential investments, including financial press, analysts from other financial institutions (including brokers), credit rating services, ESG research providers and media reports.

The key features of our Responsible Investment strategies are presented in the table below. Each category of investment strategy applies certain exclusions relating to direct investment in companies and countries and that are deemed incompatible with Pictet Asset Management's approach to responsible investment. Please refer to *Appendix B* for a description of our Exclusions Framework.

<sup>1</sup> See *Appendix D* for further details on Good Corporate Governance Practices.

<sup>2</sup> See *Appendix A* for a description of Sustainability Risks.

<sup>3</sup> See *Appendix C* for a description of key metrics used for monitoring adverse impacts



## 2.4 Key features of our Responsible Investment strategies

INVESTMENT STRATEGY	INVESTMENT PROCESS	EXCLUSIONS	ACTIVE OWNERSHIP	SFDR <sup>4</sup> CLASSIFICATION
ESG Integrated	Securities of issuers with high sustainability risks and/or principal adverse impacts may be purchased and retained in the portfolio.	Level 1	Yes	Art. 6
Core Standards	Securities of issuers with high sustainability risks may be purchased and retained in the portfolio, subject to good governance practices <sup>5</sup> .  Principal adverse impacts are reduced by excluding certain categories of issuers.	Level 2	Yes	Art. 8
Positive Tilt	Seeks to increase the weight of securities with low sustainability risks and/or to decrease the weight of securities with high sustainability risks, subject to good governance practices <sup>5</sup> .  Principal adverse impacts are reduced by excluding certain categories of issuers.	Level 3	Yes	Art. 8
Best in Class	Seeks to invest in securities of issuers with low sustainability risks while avoiding those with high sustainability risks, subject to good governance practices <sup>5</sup> .  Principal adverse impacts are reduced by excluding certain categories of issuers.	Level 3	Yes	Art. 8
Positive Impact	Seeks to invest mainly in economic activities that contribute to an environmental and/or social objective <sup>6</sup> .  The ESG characteristics of issuers are taken into account to increase or decrease their target weight, subject to good governance practices <sup>5</sup> .  Principal adverse impacts are reduced by excluding certain categories of issuers.	Level 3	Yes	Art. 9

<sup>4</sup> Refers to Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on Sustainability-related disclosures in the financial services sector (SFDR)

<sup>5</sup> See *Appendix D* for further details on Good Corporate Governance Practices

<sup>6</sup> Example environmental and social objectives may include: climate change mitigation and adaptation, pollution prevention, promotion of the circular economy, sustainable use of water and marine resources, support of healthy ecosystems, social cohesion, social integration, support of labour relations and human capital development.



## 2.5 Escalation Strategy with Corporate Issuers

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 social matters, we would pursue a number of courses of action:

We typically begin with discussions with company representatives. If we are not satisfied with the outcome of these discussions, we may prioritise the company for engagement<sup>7</sup> either bilaterally, in collaboration with others or through our engagement service provider. We may also vote against management at company meetings. If we are still not satisfied that the management team are acknowledging or addressing our concern(s), we may also consider supporting the submission of shareholder resolutions initiated by third-parties or joining shareholder groups.<sup>8</sup>

Ultimately, if the various escalation channels have been exhausted and we see insufficient progress over time, we may decide to reduce or sell our holdings.

## 3. CORPORATE ENGAGEMENT

### 3.1 Scope

We engage on behalf of our long only, actively managed equity and corporate debt holdings. In addition, passive equity investment teams regularly support firmwide engagement activity.

### 3.2 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 behind 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<sup>9</sup>, to satisfy ourselves that they fully understand and address them effectively over the short, medium and long term.

### 3.3 Approach

We engage 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 programme with corporate issuers. These companies are identified jointly by investment teams and our ESG team. Each company is selected because we identify significant ESG risks and the strategic nature or size of our holding is significant enough to indicate that our engagement will likely be effective.

Targeted engagement led by Pictet Asset Management entails regular and ongoing company dialogue as we seek to become strategic partners of the companies in which we invest. The frequency of interactions varies depending on the status of each engagement, the availability of company

<sup>7</sup> See section 3 for our approach to Corporate Engagement.

<sup>8</sup> See section 4.6 for more information on Shareholder Resolutions.

<sup>9</sup> Including relevant sustainability risks and adverse impacts on society and the environment



representatives and their willingness to engage. Interaction will occur at least twice per year per issuer and typically involves a combination of face-to-face meetings, videoconferences, telephone calls and written communication.

### › **Tier 2 – Collaborative Engagement**

Taking part in collaborative engagement with other investors forms the second tier of our approach. Pictet Asset Management recognises that there are occasions when it is better to act collectively rather than individually, particularly if our investment is relatively small in relation to the enterprise value of the company.

Collaborative engagement is reviewed on a case-by-case basis by the ESG team (in conjunction with relevant investment teams) to ensure the objectives are aligned with those of our clients. Before committing to any new investor collaboration, we assess the relevance of the initiative, the method of engagement, the credibility of associated partners and any regulatory implications, including acting in concert.

### › **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.

Engagement conducted by Pictet Asset Management is coordinated by the ESG team and always involves participation from investment teams either as engagement leads or as support.

For each engagement conducted by Pictet Asset Management, we set or support defined objectives, we track progress against these objectives and in some cases, if they are not met, we may reduce or sell our holdings.

## **4. PROXY VOTING**

### **4.1 Scope**

The following principles are used to define the securities eligible for proxy voting<sup>10</sup>:

- › For actively managed funds, we aim to vote on 100% of equity holdings.
- › For passively managed funds, we aim to vote on companies representing 80% of underlying benchmarks by weight<sup>11</sup>. This target may be revised upwards or downwards for specific strategies depending on factors such as portfolio size, geography or market capitalization.
- › For segregated accounts, including mandates and third-party (i.e. sub-advisory) mutual funds managed by Pictet Asset Management, clients who delegate the exercise of voting rights to us

<sup>10</sup> This activity does not include indirect investments through third-party funds that we invest in on behalf of our clients, where we expect those managers to exercise their votes according to their own policy and report accordingly to relevant Pictet Asset Management entities.

<sup>11</sup> We do not exercise voting rights in share blocking markets across passive strategies.



have the choice between Pictet Asset Management's voting guidelines or their own voting guidelines.

#### 4.2 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 our responsibility to engage with and challenge companies' management to ensure that the issuers we invest in on our clients' behalf 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.

#### 4.3 Voting Guidelines

In line with Good Corporate Governance Practices<sup>12</sup>, our proxy voting upholds best practice in corporate governance including board and management, 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.

The complete version of these guidelines can be found under the following links:

<https://www.issgovernance.com/file/policy/active/specialty/Sustainability-International-Voting-Guidelines.pdf>

<https://www.issgovernance.com/file/policy/active/specialty/Sustainability-US-Voting-Guidelines.pdf>

Pictet Asset Management's voting guidelines are reviewed every year and adapted as appropriate to reflect the specificities of certain regions and/or ownership structures.

#### 4.4 Research & Decision Making

To assist us in performing our proxy voting responsibilities, Pictet Asset Management 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 Pictet Asset Management. All recommendations are communicated to relevant investment teams and the Environmental Social Governance (ESG) team.

Pictet Asset Management 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 clients. Such divergences may be initiated by investment teams or by the ESG team and must be supported by written rationale.

<sup>12</sup> See *Appendix D* for further details on Good Corporate Governance Practices.





In instances when consensus cannot be reached between the investments teams and ESG team, the decision is escalated to relevant Chief Investment Officers (CIOs) and, if necessary, the Head of Investments.

#### 4.5 Security Lending

Security lending can impair our ability to execute our voting rights. As a result, investment teams wishing to exercise full voting rights have two options:

- › Recalling shares on loan on a case-by-case basis
- › Removing a portfolio from the securities lending pool

#### 4.6 Shareholder Resolutions

Shareholder resolutions at Annual General Meetings (AGMs)/Extraordinary General Meetings (EGMs) are evaluated in accordance with Pictet Asset Management'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.

Pictet Asset Management does not usually assume the role of an activist investor and does not initiate shareholder resolutions or shareholder groups. However, Pictet Asset Management may consider supporting the submission of shareholder resolutions initiated by third-parties, or joining shareholder groups, based on the following criteria:

- › How would the proposal enhance or protect shareholder value in the short-term and long-term?
- › Liquidity and other technical issues that may impact specific portfolios, such as a share blocking period between the submission and the general assembly.
- › Legal and compliance issues (such as concert party action or transparency requirements relating to ownership size).

Supporting the submission of a shareholder resolution, including the number of shares and corresponding accounts earmarked to support the submission, is subject to agreement by relevant investment teams and the ESG team. In cases where no consensus is reached, the decision is escalated to the relevant Chief Investment Officer and, if necessary, the Head of Investments.

## 5. CONFLICTS OF INTEREST

Pictet Asset Management is an independent asset manager and consequently is free of many of the conflicts of interest that are faced by larger or more dependent financial institutions.

However, we recognise that conflicts of interest may arise within the context of exercising our Responsible Investment activities. For example, we may face firmwide conflicts of interest when voting against management of a company who is a client, or whose pension scheme or senior management are clients of Pictet Asset Management. Likewise, personal conflicts of interest may arise

Pictet Asset Management's Executive Committee is responsible for establishing a framework, implementing systems, controls and procedures to identify, escalate and manage conflicts of interest, including those arising from issuer engagement or proxy voting. Every employee is responsible for identifying and



escalating potential conflicts of interest so that they may be appropriately managed and resolved. All of our staff are required to undertake regular training to ensure they are aware of their obligations and adhere to this policy. Our policy can be viewed [here](#).

Any material conflict of interest arising in the performance of our Responsible Investment activities are referred to the relevant CIO and Pictet Asset Management's ESG team to ensure that we always act in the best interests of our clients. If necessary, issues may be raised to Pictet Asset Management's Head of Investments and/or CEO for determination.

## 6. INSIDER STATUS

In relation to our Responsible Investment activities, a key consideration is ensuring that Pictet Asset Management does not, during the course of its interactions with company representatives, become an unintentional insider rendering us unable to trade on behalf of clients.

Pictet Asset Management generally does not seek to become insiders as this significantly restricts our ability to deal in the securities of the company concerned. However, where the receipt of inside information may lead to positive outcomes for our clients, and does not unduly restrict our ability to trade, then occasionally we may choose to receive inside information subject to compliance pre-approval. To ensure that our ability to deal in stocks is not restricted, we request that companies and their advisers do not make us insiders without our prior agreement.

All potential inside information shall be sent to our Compliance department who act as a gatekeeper and determine whether the information should be accepted or not by Pictet Asset Management.

## 7. REMUNERATION

Pictet Asset Management Remuneration Policy (available on our [website](#)) integrates the consideration of Sustainability Risks. In addition, Pictet employees are held to the Group's general engagement on Sustainability and Responsible Investing, as relevant to their function.

## 8. TRANSPARENCY

Pictet Asset Management publicly discloses how we implement this Policy on an annual basis through the Reporting and Assessment of the UN PRI and through our Responsible Investment Report.

In addition, proxy voting activity detailing annual voting statistics as well as an explanation of voting instructions by company meeting and resolution is reported publicly on our [website](#).



# Appendix A

## Sustainability Risks



## SUSTAINABILITY RISKS

### **Sustainability Risks**

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 portfolio, and include but are not limited to the following:

#### **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, 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, operating and financing costs.

#### **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, 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 labor 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, operating and financing costs.

#### **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.



## Appendix B

Exclusions Framework



## EXCLUSIONS FRAMEWORK

Pictet Asset Management's exclusion framework covers companies and sovereign/quasi sovereign issuers:

- For companies, exclusions are based on a combination of revenue thresholds derived from controversial activities that are deemed harmful to society and/or the environment, and severe breaches of international norms on human rights, labour standards, environmental protection and anti-corruption.
- For sovereign and quasi-sovereign issuers, exclusions are based on international sanctions as defined by Switzerland, the European Union and the US Office of Foreign Assets Control.

Exclusions apply to actively managed funds, certificates, and discretionary mandates. They do not apply to passive strategies that replicate market indices or open-ended funds managed by third-party managers.

Exclusions are based on reliable sources gathered from reputable third-party research providers. Pictet Asset Management retains full discretion over the implementation of exclusion criteria and reserves the right to deviate from third-party information on a case-by-case basis in instances where it is deemed incorrect or incomplete. Such exemptions may be initiated by investment teams or by the ESG team and must be supported by a written rationale subject to validation by Pictet Asset Management's Investment Management Committee.

Exclusions apply to all types of securities (equities, bonds, convertible bonds) issued by excluded entities, as well as bonds issued by related financial vehicles. They also apply to participation notes and derivatives issued by third-parties on such securities. Short positions (direct or indirect) are allowed.

Existing investments are divested from relevant portfolios based on market conditions, but in principle no later than one month after taking effect.

Pictet Asset Management Compliance is responsible for verifying that no investments are made in excluded securities through pre- and/or post-trade checks.

The name of excluded issuers can be disclosed to clients upon request, subject to third-party provider agreement on data disclosure.



## Company Exclusions based on Controversial Activities and Revenue Thresholds

ACTIVITY	LEVEL 1	LEVEL 2	LEVEL 3
<b>Fossil Fuels and Nuclear Energy</b>			
Thermal Coal Extraction	>25%	>25%	>25%
Thermal Coal Power Generation	-	>25%	>25%
Oil & Gas Production	-	-	>25%
Oil Sands Extraction	-	>25%	>10%
Shale Energy Extraction	-	>25%	>10%
Off-shore Arctic Oil & Gas Exploration	-	>10%	>10%
Nuclear Power Generation	-	-	>50%
<b>Weapons</b>			
Production of controversial weapons	>0%	>0%	>0%
Military Contracting Weapons	-	>10%	>10%
Military Contracting Weapon-Related Products and/or Services	-	-	>50%
Small Arms Civilian Customers (Assault Weapons)	-	>10%	>10%
Small Arms Civilian Customers (Non-Assault Weapons)	-	>10%	>10%
Small Arms Military/Law Enforcement Customers	-	>25%	>25%
Small Arms Key Components	-	>25%	>25%
<b>Other Controversial Activities</b>			
Tobacco Products Production	-	>10%	>10%
Adult Entertainment Production	-	>10%	>10%
Gambling Operations	-	>10%	>10%



<b>ACTIVITY</b>	<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>
Genetically Modified Plants and Seeds Development	-	-	>25%
Genetically Modified Plants and Seeds Growth	-	-	>25%
Pesticides Production			>10%
Pesticides Retail			>10%

### Company Exclusions based on Breaches of International Norms

<b>CRITERIA</b>	<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>
Companies in severe breach of UN Global Compact Principles on human rights, labour standards, environmental protection and anti-corruption	No	Yes	Yes

### Country Exclusions based on International Sanctions

<b>CRITERIA</b>	<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>
Countries subject to hard sanctions by Switzerland, the European Union and the US Office of Foreign Assets Control.	Yes	Yes	Yes





## Explanatory Notes on Adverse Impacts of Controversial Activities<sup>13</sup>

**Adult Entertainment:** This includes the production of adult entertainment and the operation of adult entertainment establishments. Adult Entertainment can be considered controversial as it is claimed that it may undermine faith and family values. Other concerns are that the materials show the subordination of (wo)men.

**Arctic Oil & Gas Exploration:** This includes oil and gas exploration activities in offshore Arctic regions. Exploring for oil and natural gas in the Arctic is controversial in the context of global climate change as well as because of the increased risk of environmental disasters.

**Controversial weapons:** This includes weapons that have indiscriminate effects, cause undue harm and are incapable of distinguishing between civilian and military targets. Some controversial weapons, such as cluster munitions, antipersonnel mines, chemical and biological weapons, as well as nuclear weapons, are regulated by international conventions. Controversial weapons include:

- (a) Anti-personnel mines;
- (b) Cluster weapons;
- (c) Biological and chemical weapons (including white phosphorous);
- (d) Nuclear weapons<sup>14</sup>.

**Gambling Operations:** This includes gambling services (operation of casinos, lotteries, bookmaking, online gambling, etc.) but not gambling products (slot machines and other gambling devices). Gambling is considered controversial because it can lead to addiction, with sufferers exhibiting many of the same problems as those with substance addictions, creating severe social problems.

**Genetically Modified Plants and Seeds:** This includes the development and/or cultivation of genetically modified seeds and/or plants, as well as the growth of genetically modified crops. The use of genetically modified seeds is considered controversial because of health and socio-economic (patented biotechnology) concerns as well as environmental risks associated with the spreading of GMOs to other plants in the ecosystems. Other concerns are increasingly pesticide resistant weeds and insects due to increased use of chemicals.

**Military Contracting:** This includes manufacturing of weapons or weapon components or providing weapon-related products or services to the army or the defense industry. Military contracting, also referred to as the defense or armaments industry, can be considered controversial for reasons of pacifism, asymmetric defense-related purchasing power between countries, negative effects on economic growth and development particularly in post-conflict areas as a result of defense spending, potential issues around transparency and corruption, and its potential for (re-)fueling wars and conflicts.

**Nuclear Power Production:** This includes the production of energy from nuclear sources. The use of Nuclear Power has advantages in that it has low CO2 emission, is not a scarce resource, and that some isotopes can be used for medical applications. Significant downsides are the substantial environmental damage and long-term health concerns for living organisms in case of accidents, nuclear waste disposal, and potential usage of waste as input for nuclear weapons.

<sup>13</sup> Source: Sustainalytics, Pictet Asset Management

<sup>14</sup> In the case of nuclear weapons, exclusions apply to companies that have their registered office in a country which is not a signatory to the 1968 Treaty on the Non-Proliferation of Nuclear Weapons.



**Oil & Gas Production:** This includes the oil and gas upstream, midstream and downstream. Petrochemicals and distribution activities are not included. The Oil & Gas industry is controversial because of its high carbon intensity and the impact on climate change. Also, it is very resource intense in terms of land and water resources. Its impacts on ecosystems include spillages, waste management issues, and spontaneous flaring, which can lead to fines and are associated with reputational risks. In certain geographies oil & gas operations are associated with strained relations with local communities and with issues with governance and business practices. Health and safety issues are also important as repetitive accidents can lead to operational disruption or fatalities.

**Oil Sands Extraction:** This includes oil sands extraction activities. Oil sands are considered controversial because they are extremely carbon intensive, and dirty – their extraction methods cause air pollution ‘in situ’, as well as water withdrawal, and contamination from mining.

**Pesticides:** This includes the manufacturing or marketing of pesticides including herbicides, fungicides and insecticides for agricultural application/crop protection. The use of pesticides is considered beneficial as it can help farmers prevent damage to their crops and control the number of invasive species. However, pesticides are also considered controversial because of their potential toxicity to humans and animals and their bioaccumulation, especially when applied for crop protection in agriculture and in large-scale horticulture. Pesticides are also known to have a variety of detrimental health effects on humans such as irritation of the skin and eyes and effects on the nervous system.

**Shale Energy Extraction:** This includes the extraction of shale gas and/or oil. Shale energy extraction involves environmental risks like water pollution and carbon emissions. Rock fracture, fracking, is needed to make natural gas flow through the shale, which poses environmental concerns due to its potential effects on the watershed. Shale energy is also associated with slightly higher carbon emissions than conventional resources.

**Small Arms:** This includes firearm weapons such as guns, rifles, and pistols, manufacturers of components of these weapons. Firearms can be considered controversial as they are reported to be a major factor in the increase of armed conflict worldwide. They are the weapon of choice for many terrorist groups around the world and often hinder smoother rebuilding and development after a conflict has ended. Besides the loss of human life and physical harm, armed violence also has significant (direct and indirect) economic costs.

**Thermal Coal:** This includes mining thermal coal or generating electricity from thermal coal. On a lifecycle basis thermal coal is more carbon intensive than other fossil fuel sources, while from an energy generation perspective it is easily substitutable. Thermal coal, also known as energy coal, or steam coal, is mainly used in power generation.

**Tobacco Products:** This include cigarettes, cigars, tobacco, electronic cigarettes, paper used by end consumers for rolling cigarettes, filters, snuff tobacco, etc. Tobacco is considered controversial because of the negative health consequences (cancer) of long-term use of tobacco products, also leading to substantial medical costs for society. Tobacco companies are exposed to significant financial and reputational risks as a result of legal cases and class actions brought against them.



## Appendix C

Adverse Impacts on Society and the Environment



## ADVERSE IMPACTS ON SOCIETY AND THE ENVIRONMENT

We consider and, where possible mitigate adverse impacts of its investments on society and the environment through a combination of portfolio management decisions, active ownership activities, and exclusion of issuers associated with controversial conduct or activities (see Appendix B).

Subject to data availability, Pictet Asset Management Europe SA is committed to report on a best effort basis the adverse impacts of our investments through the indicators and metrics described in the table below, while striving for full coverage of the mandatory indicators proposed by the Regulation (EU) 2019/2088.

### Key indicators and metrics applicable to investments in companies

INDICATOR	METRIC
GHG Emissions	GHG Emissions
	Carbon footprint
	GHG intensity of investee companies
	Exposure of companies to fossil fuels
	Share of non-renewable energy consumption and production
Social and Employee matters	Violations of UN GC principles
	Board gender diversity
	Exposure to controversial weapons

### Key indicators and metrics applicable to investments in sovereign issuers

INDICATOR	METRIC
Environmental	GHG intensity



# Appendix D

Good Corporate Governance Practices



## GOOD CORPORATE GOVERNANCE PRACTICES

As a long-term investor in equity and debt instruments, we are convinced that corporate governance is a critical element of companies' success. Good practices outlined below are based on generally accepted standards in relation to the central pillars of corporate governance including board & management, executive remuneration, risk control & reporting, and investors' rights. They provide a benchmark for assessing companies and exercising our active ownership duties throughout the life cycle of an investment, from pre-investment phase to engagement, proxy voting and right up to the point of exit.

Notwithstanding the aspirational nature of these good practices, we recognise that governance frameworks can be both complex and multi-dimensional. We take a holistic approach to analysing governance recognising that every entity is different and that changes to the equilibrium in one element of corporate governance may create unintended consequences in others.

Whilst mainly applicable to listed companies, these good practices can also be applied, where relevant, by bondholders to private companies.

### 1. BOARD & MANAGEMENT

The boards of the companies in which Pictet Asset Management invests clients' monies should be focused on long-term value creation. This should include periodic assessments of strategic direction, leadership and management, risk management, stakeholder relationships, internal controls and operating performance.

The board of directors is accountable to shareholders and bondholders, and it is our expectation that board members must at a minimum be competent and exhibit expertise relevant to the company, its industry and ongoing market developments. The suitability of a board member may be called into question where they have been explicitly involved in prior financial mismanagement and/or ESG controversies. Companies should therefore disclose enough biographical information about directors to enable investors to make a reasonable assessment of their track record and value add to the company.

Board members should have enough time to devote to the role so that they can effectively discharge their duties. We will assess time commitment on a case-by-case basis looking at the number of public, private and third sector roles that an individual is committed to. Every member of the board should stand for re-election by shareholders at regular intervals, preferably annually, but at a minimum no less than every three years.

**Leadership:** Our preference is for leadership of the board and leadership of the company to be separate. This reflects the important role the board plays in monitoring and challenging senior management. Where the chairman and CEO are not separate there should be a lead independent director identified to act as an effective conduit for investors to raise concerns.

**Structure:** Diversity and balance are critical factors when assessing boards. Pictet Asset Management expects that the board should be balanced such that no one group should dominate the board. There should be independent non-executive representation on the board that can give investors a degree of protection and assurance by ensuring that no individual or non-independent grouping has unfettered powers or dominant authority. Typically, we require that a majority of board members be independent from management or significant shareholders. Individual independence is assessed on a case-by-case basis having regard for tenure, relationships with major shareholders and any previous connections to the company.

**Family Companies:** We define family companies as those where one individual or party controls more than 30% of the economic or voting rights. For these companies, we typically apply a lower threshold of 33% for board independence to reflect the realities of their ownership structure.

**Committees:** Boards should establish relevant committees for audit, remuneration and nominations. Other committees, such as a sustainability committee or corporate social responsibility committee, may be created if they bring additional strategic value to the board. In all cases, we expect committees to have at least a majority of independent non-executive directors.

**Diversity:** We believe that board diversity can lead to improved corporate governance and strategic oversight. It can also lead to greater innovation, better risk management and stronger connections with customers, employees and business partners. Companies and boards should be able to demonstrate that they are diverse organisations across gender, ethnicity and thought. At this time, gender diversity at board level is the most transparent measurement available to investors and we actively consider voting against individuals on boards that are not making enough progress on this area.

**Succession:** Boards should develop short-, medium- and long-term succession plans for senior management. The internal pipeline of talent should be monitored and benchmarked on a regular basis. Similarly, the board should ensure that it is also subject to rigorous succession planning and skills-based assessment. In managing a company for long-term success, boards need to consider the implications of strategy and determine the impact of decisions on timeframes beyond a single individual's tenure.

**Assessment:** Boards should undertake regular reviews of their performance. Such an exercise should seek to consider the performance of individuals and the whole board. It should also review the continued appropriateness of the skills in the boardroom given the long-term strategic direction of the company. Any issues identified should be resolved through operational and/or personnel changes.

## 2. REMUNERATION

When examining the pay arrangements of senior executives, Pictet Asset Management considers foremost the structure of total compensation and the alignment of management incentives with investor interests. Within this, we recognise that, in order to attract and retain high quality management, it may be necessary for companies to pay at levels which allow them to compete in the global market for executive talent.

In setting a remuneration framework, remuneration committees should:

- (i) Strike an appropriate balance between fixed and variable, short and long-term elements of pay, placing a premium on reward for genuine sustained performance.
- (ii) Prioritise simplicity and transparency of metrics in performance measures.
- (iii) Assess executive performance through clearly disclosed and robust financial metrics that result in the execution of the stated strategy. Without being prescriptive, we expect companies to be mindful that certain financial metrics (for example GAAP-reported EPS) may create an incentive to overfocus on delivery of those specific metrics at the expense of long-term performance. Increasingly, we recognise that there is also scope for the introduction of environmental and/or social metrics. Where possible, these should be science-based or auditable. Such measures can foster alignment and generate value where they are essential to the long-term success of the business. For example, there is broad investor expectation that companies in fossil fuel intensive sectors will align elements of executive remuneration with greenhouse gas reduction targets and/or decarbonisation efforts.
- (iv) Focus incentive arrangements primarily on total corporate performance and only then on areas of individual responsibility.
- (v) Where possible, satisfy long-term incentives through shares which have a performance period of at least three years with an additional holding period applied. Such "deferred" shares should be subject to malus/clawback rules.
- (vi) Not re-price, adjust or amend "in-flight" stock options and awards.
- (vii) Encourage appropriate levels of long-term share ownership amongst the company leadership and, where possible, foster share ownership throughout all layers of the organisation.
- (viii) Avoid service contracts and provisions providing compensatory arrangements in excess of one year.
- (ix) Avoid arrangements that would encourage the destruction of long-term investor value or "one-off" incentive arrangements concerning specific ventures that may distort alignment with total corporate performance and returns. For example, transaction-based incentive arrangements.
- (x) Avoid creating arrangements that excessively dilute long-term investors' interests and/or create excessive or unwarranted costs.

### 3. RISK CONTROL & REPORTING

**Reporting & Transparency:** The annual report and accounts of companies should be properly prepared, in accordance with relevant accounting standards. Companies must communicate clearly with investors. This obligation extends to producing quality accounts and communicating timely and relevant information. Transparency, prudence and integrity in the accounts of companies are factors which are highly valued by investors. We also expect companies to bring the same levels of transparency and integrity to their reporting on material environmental & social issues.

**Auditor:** Audits provide a valuable protection to investors and should prioritise the integrity of accounts. In order to provide objectivity and a robust assessment of the accounts, the auditors should be independent. Where independence is compromised or perceived as being compromised due to a conflict of interest, the auditor's suitability will be called into question.

**Auditor Tenure:** The length of time both the audit company and the audit partner have served in their capacity with a given company will be factors in determining independence. Companies should consider rotating their auditor over time and we believe that companies should put their external audit contract out to competitive tender at least every ten years.

**Audit Fees:** Companies should be encouraged to distinguish clearly between audit and non-audit fees. Audit committees should keep under review the non-audit fees paid to the auditor, both in relation to the size of the total audit fee and in relation to the company's total expenditure on consultancy services. The rationale for any payment of non-audit fees should be clearly disclosed to shareholders so that they may determine the appropriateness of such payments.

**Corporate Taxes:** Payment of taxes is a corporate responsibility and we expect companies to pay the appropriate level of tax in the jurisdictions where they have operations and are subject to such liabilities.

### 4. INVESTOR'S RIGHTS

**Voting Rights:** We favour a capital structure where one share equates to one vote. Boards should provide strong arguments to justify the introduction or maintenance of equity shares with special voting rights, golden shares or other split capital structures.

**Shareholders' Interests:** We will oppose any proposal or action which materially reduces or damages shareholders' rights. As long-term investors, we expect to be given the opportunity to approve: (i) transactions with related parties and (ii) major corporate changes or transactions that materially dilute the equity or erode the economic interests of existing investors.

**Capital Management:** Pictet Asset Management expects companies to run an efficient balance sheet that minimises the cost of capital. Boards must also maintain an appropriate level of gearing which recognises the risks attaching to debt across the cycle. Where companies cannot use excess capital efficiently, boards should consider returning this capital to shareholders either through dividends or a well-structure buyback programme, whilst being mindful of the impacts such excess returns can have on the interests of bondholders. Capital should not be used for value destroying acquisitions.

Companies should seek shareholder approval for, and fully justify, general authorities permitting unlimited or substantial capital authorisations or blank cheque preferred stock. The creation of different classes of equity share capital must also be fully justified. We recognise that in some instances it is appropriate for companies to have a degree of flexibility to issue shares for cash without offering them first to shareholders on a pre-emptive basis. Accordingly, such authorities to issue shares without pre-emption rights should not exceed recognised market guidelines. Issuances above these guidelines require a clear rationale as to why they would be in the best interests of existing shareholders.

**Shareholder Resolutions:** Increasingly, shareholder resolutions are being proposed to address corporate behaviour on material environmental and/or social issues. Such resolutions are evaluated based on their own merits and are supported where Pictet Asset Management believes they would improve the company's long-term positioning at a reasonable cost.