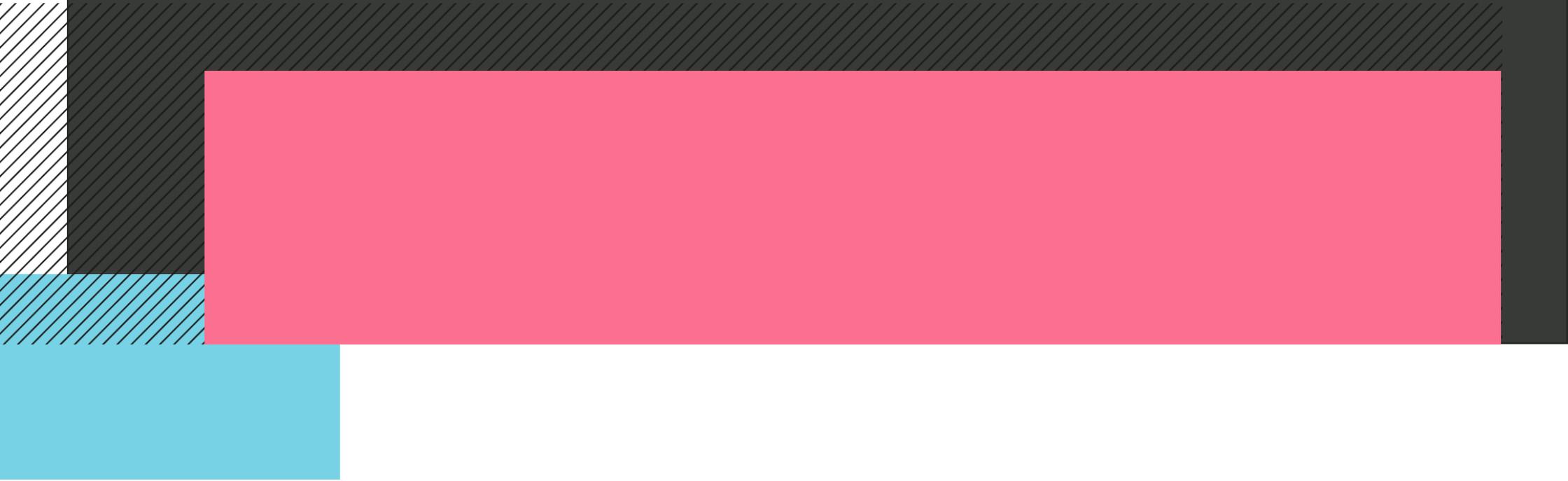


ESG Investment Framework for Private Clients

Threshold values

A decorative graphic at the bottom of the slide consists of several overlapping rectangular blocks. On the left, there is a vertical stack of three blocks: a white block with black diagonal lines, a solid light blue block, and a solid dark blue block. To the right of these, a large pink block extends across the width of the slide. Above the pink block, a dark grey block with fine white diagonal lines spans the width of the slide.

Contents

ESG Investment Framework for Private Clients: Thresholds	3
1. Purpose of this document	3
2. Classifications	3
3. Direct investments	4
4. Investment funds	7
5. Government bonds	7

ESG Investment Framework for Private Clients: Thresholds

1. Purpose of this document

This document supplements the brochure “Investing with ESG preferences, ESG investment framework for private clients”¹. While the brochure describes the regulatory basis and the ESG investment framework, this document sets out the thresholds applied to the individual ESG indicators.

2. Classifications

Various ESG indicators are examined for equities and bonds. If the most fundamental ESG indicators are below a certain value, these instruments may not be recommended to clients as investments. In this case, they are classified as “non-advised.” Instruments for which ESG information is missing are classified as “not covered.” All other instruments are classified according to one of the three ESG preferences listed: “Risk-adjusted performance,” “Mitigation of negative effects,” and “Positive contribution.” Investment funds are analyzed and classified accordingly by the Vontobel fund research team.

Classifications	Explanation
Risk-adjusted performance	<ul style="list-style-type: none"> – Minimum ESG criteria – The primary objective is to optimize returns by taking into account financially material ESG risks.
Mitigation of negative effects	<ul style="list-style-type: none"> – Based on the ESG strategy “Risk-adjusted performance” – The goal is to avoid negative externalities by avoiding investments in companies with negative environmental and social impacts
Positive contribution	<ul style="list-style-type: none"> – Builds on the first two ESG strategies – In addition, this ESG strategy aims to invest in companies whose products and services have a positive impact on the environment and society.
Non-advised	<ul style="list-style-type: none"> – Minimum ESG criteria are not met. – The instrument is not investable from an ESG perspective
Not covered	No ESG information is available from data providers, or the instrument cannot be assessed from an ESG perspective (e.g., money market instruments).

¹ The brochure can be found on the Vontobel website at www.vontobel.com/esg-pref-pc.

3. Direct investments

Criteria	Risk-adjusted performance	Mitigation of negative effects	Positive contribution	Further information
MSCI ESG Rating	>=BB	>=BB	>=BB	The MSCI ESG rating must not be lower than BB on a scale of AAA, AA, A, BBB, BB, B to CCC.
Critical controversies				
International sanctions	✓	✓	✓	
PCEE process	✓	✓	✓	<ul style="list-style-type: none"> – Controversy ratings by data providers MSCI and Sustainalytics are reviewed in the PCEE process and either confirmed, rejected, or the company is placed on a watch list. – Companies with confirmed controversies may not be recommended to clients. – Controversies are primarily understood to be events that may have negative environmental and social impacts, as well as violations of international standards such as the UN Global Compact.
<ul style="list-style-type: none"> – International standards – Critical ESG incidents 				
Weapons				
Controversial weapons	0 %	0 %	0 %	<ul style="list-style-type: none"> – Anti-personnel mines (Ottawa Treaty (1997)), – Cluster munitions (Convention on Cluster Munitions (2008)), – Chemical weapons (Chemical Weapons Convention (1997)), – Biological weapons (Biological Weapons Convention (1975)), – Undetectable fragments (Protocol I of the Convention on Certain Conventional Weapons (1980)), – Incendiary weapons (Protocol III to the Convention on Certain Conventional Weapons (1980) and – Blinding laser weapons (Protocol IV to the Convention on Certain Conventional Weapons (1980)).
Conventional weapons		<10 %	<10 %	
Nuclear weapons		0 %	0 %	Nuclear weapons are listed under conventional weapons in ESG reporting.
Other controversial activities				
Alcohol	Production	<10 %	<10 %	
	Distribution	<10%	<10 %	
Tobacco	Production	0 %	0 %	

Criteria	Risk-adjusted performance	Mitigation of negative effects	Positive contribution	Further information
	Distribution	<10 %	<10 %	
Adult entertainment	Production	<10 %	<10 %	
	Distribution	<10 %	<10 %	
Gambling	Operations	<10 %	<10 %	
Fossil fuels				
Extraction				
	Thermal coal	<1 %	<1 %	
	Oil sands and oil production in the Arctic	<5 %	<5 %	
	Oil production in general	<10 %	<10 %	
	Gas production	<50 %	<50 %	
Energy production				
	Thermal coal	<10 %	<10 %	
	Other CO2-intensive sources	<50 %	<50 %	
Climate-related indicators				
CO2 footprint				
	Scope 1 to 3 / SBTi	<1,000 t / m EUR	<1,000 t / m EUR	t / m EUR: Tonnes of CO2 per million euros of company value including cash
	Scope 1 and 2 / SBTi	<100 t / m EUR	<100 t / m EUR	If one of the two thresholds is exceeded, the company is still investable, provided that a validated SBTi target is in place. <ul style="list-style-type: none"> – Scope 1: Emissions in companies – Scope 2: Emissions from the generation of purchased energy – Scope 3: Emissions from suppliers or from the consumers of products and services
	Implicit temperature increase	Not used as a criterion for investment decisions but it is shown in the ESG report.		Implied temperature rise (ITR) compares companies' current greenhouse gas emissions with projected emissions for Scopes 1 to 3. Based on an emissions budget until 2050 (Paris climate targets), it is calculated whether the climate target will be achieved or whether the company will exceed the budget.

Criteria	Risk-adjusted performance	Mitigation of negative effects	Positive contribution	Further information
Sustainable investments				The basis is the data point "MSCI Sustainable Investment according to SFDR 2 (17)."
Good corporate governance			✓	
Company does not cause significant harm			✓	
Positive contribution			✓	A positive contribution can be demonstrated either by passing the economic test (at least 20 % of revenue from MSCI-defined Sustainable Impact Solutions) or by having a CO2 emissions reduction target approved by the Science Based Targets Initiative (SBTi).

Science-based targets (SBTs)

The Science Based Targets Initiative (SBTi) is a joint initiative of several organizations that develops methods and criteria for effective climate protection in companies and validates corporate targets. If global warming is to be limited to 1.5 degrees, only a certain amount of CO2 may be emitted worldwide. Based on this amount, calculations are made for various sectors to determine how quickly emissions must be reduced in order to achieve the 1.5-degree target. Each company calculates its own targets based on this reduction path.

4. Investment funds

For investment funds, the methodology described above is applied as uniformly as possible. Comparable criteria are taken into account, but these are derived from proprietary data points.

	Risk-adjusted performance	Mitigation of negative effects	Positive contribution	
General fund screening	✓	✓	✓	Investment funds must be screened by the fund research team and deemed investable, with minimum ESG criteria applied.
ESG screening		✓	✓	The fund research team assesses whether the funds fundamentally meet the criteria of the ESG strategy "Mitigation of negative effects."
Sustainable investments in accordance with EU SFDR 2 (17) or SBTi Target available or SFDR Article 9 investment funds			✓	If a fund achieves at least 50 % in the MSCI data point covering sustainable investments in accordance with EU Regulation SFDR 2 (17) and SBTi Target, the investment fund is classified as "Positive contribution." Investment funds that are documented as Article 9 funds in accordance with SFDR are also classified as "Positive contribution."

5. Government bonds

	Risk-adjusted performance	Mitigation of negative effects	Positive contribution	
Minimum classification	✓	✓	✓	All government bonds are classified as having at least a "Risk-adjusted performance."
Freedom House status		✓	✓	Freedom House assesses global freedom in an annual report entitled "Freedom in the World" and assigns countries a score from 0 (least free) to 100 (most free) based on 25 indicators (10 political rights, 15 civil liberties). These scores determine the status "free" (71–100), "partly free" (36–70) or "not free" (0–35).
EU/UN sanctions		✓	✓	
Green bond			✓	If the instrument is also classified as a green bond, it receives the classification "Positive contribution."

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