Vontobel

Investing with ESG preferences

ESG Investment Framework for Private Clients

1. What is it about

Sustainability is a process and an opportunity to take proactive and forward-thinking measures to create a sustainable future. For Vontobel, this means learning out about and understanding your expectations and needs when it comes to sustainability. This will enable the bank to offer you transparent, tailored advice on how specific investment instruments impact environmental, social and governance (ESG) issues.

Vontobel has launched an ESG Investment Framework for its private clients. This helps identify clients' ESG preferences and ensures they are integrated into the investment process. This brochure explains what ESG preferences are and how choosing an ESG preference affects the advice and the range of products available. It also provides information to help you choose the ESG preference that best aligns with your needs. A glossary at the end of the brochure gives detailed definitions of key terms related to ESG investment solutions.

The ESG Investment Framework complies with the guidelines set by the Swiss Bankers Association ("SBA"). For clients residing in the EU or EEA, sustainability preferences are documented in accordance with the EU MiFID II (Markets in Financial Instruments Directive) regulations. Details can be found in section 4.

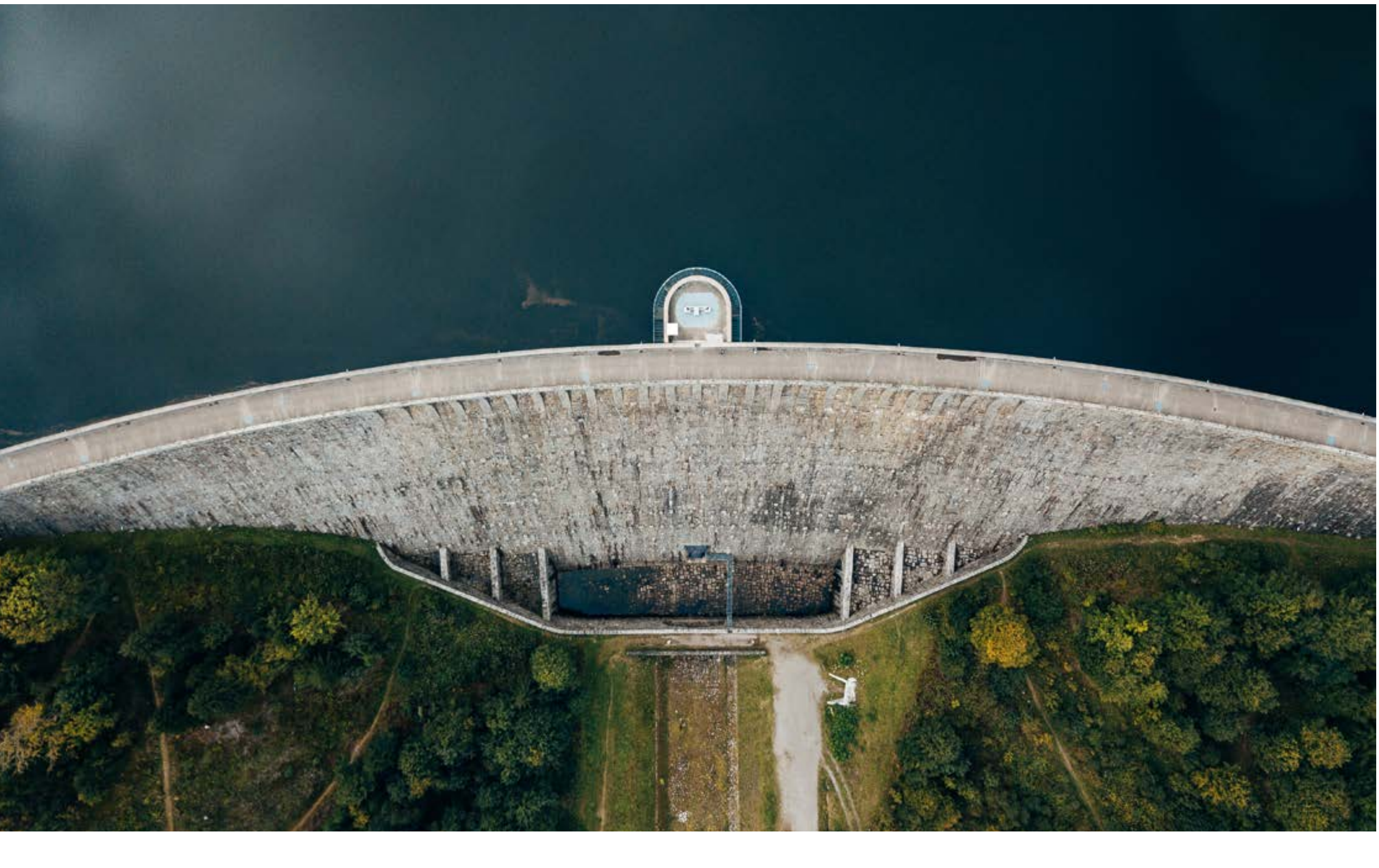
2. Vontobel and sustainability

Vontobel is deeply committed to sustainability and embeds ESG criteria into its investment processes. As a globally active investment house with Swiss roots, Vontobel takes its responsibilities towards society and the environment seriously. By offering comprehensive advice to our clients on ESG investments and developing ESG solutions, Vontobel helps you achieve your financial goals while aligning with your ESG preferences. Vontobel is actively committed to transparency, ethical business practices, and creating long-term value in order to contribute to a sustainable future.

The bank's positioning in the area of sustainability has been determined by the Board of Directors in cooperation with the Executive Committee. At the same time, six sustainability commitments have been defined that address the options available to Vontobel to make its contribution in the area of sustainability. They include the following areas of action:

- By 2030, achieving a balance between CO_2 emissions and the removal of CO_2 from the atmosphere in operations and in our banking book ("net zero").
- Governance and transparency
- Equality, diversity and inclusion
- Commitment to the community
- Advising private clients on the benefits, opportunities and risks of ESG aspects when investing
- Incorporating ESG criteria into investment decisions

While the first four points focus on Vontobel as a company overall, the last two points specifically address our clients. We see it as our responsibility to inform each client about the opportunities and risks associated with ESG investments. Additionally, our portfolio managers are dedicated to incorporating ESG aspects into their active investment decisions.



3. The Vontobel ESG Investment Framework

3.1. Overview
The ESG Investment Framework has been designed to integrate ESG criteria in a straightforward and transparent way. It is built on the following three pillars:

1. Predefined ESG preferences which each client can choose from. Each ESG preference is defined by the application of specific ESG criteria.
2. Investment instruments and investment management mandates are classified based on the ESG criteria applied to each ESG preference.
3. Reporting that ensures transparency and provides an opportunity to further optimize your portfolio based on the chosen ESG criteria.

These three elements ensure that ESG criteria can be considered based on a clear and comprehensible method. They also offer transparency regarding how your portfolio aligns with these ESG criteria and how it evolves over time.

The following sections provide more detailed insights into the three basic elements of the ESG Investment Framework.

3.2. ESG preferences
In addition to selecting the appropriate mandate and individual investment strategy, each portfolio also includes the choice of one of three ESG preferences.

The three ESG preferences defined by Vontobel are based on different approaches to evaluating and categorizing ESG aspects when investing. These are implemented using distinct ESG criteria:

Risk-adjusted performance
Optimizes risk-adjusted performance by incorporating financially material ESG aspects.

The ESG preference "Risk-adjusted performance" serves as the minimum standard, focusing on financially material ESG risks in order to optimize returns. This means that the impact of ESG risks on companies is considered. However, the impact that companies have on the environment and society is not factored into investment decisions. With only a limited set of exclusions based on few ESG criteria, this approach offers you access to the broadest possible investment universe. This ESG preference is particularly suited to clients whose primary goal is maximizing returns. We apply the ESG criteria of this minimum standard across all our mandates. However, the ESG preference "Risk-adjusted performance" does not qualify as a sustainable investment solution under the SBA guidelines.

Mitigation of negative effects
Reduces the negative environmental and social effects of investments.

The ESG preference "Mitigation of negative effects" also considers ESG risks and builds on the first ESG preference by incorporating additional indicators. These indicators serve as criteria to exclude certain socially controversial areas such as tobacco and weapons, and to align the portfolio with less environmentally harmful criteria, for example, by focusing on climate-related factors like carbon footprint. This approach takes into account both the potential impact of the environment on companies and any potential impact of companies on the environment and society when making investment decisions. Investment solutions classified under "Mitigation of negative effects" are considered ESG investment solutions according to the SBA guidelines. However, due to the additional criteria, this ESG preference offers a narrower choice of securities compared with the "Risk-adjusted performance" preference.

Positive contribution
Invests in companies that offer products and services that actively and positively contribute to the UN SDGs.

The ESG preference "Positive contribution" includes all indicators of the first two ESG preferences. In addition, the focus is on investments in companies whose products and services have a positive effect on the environment and / or society. The classification is aligned with the United Nations' Sustainable Development Goals ("SDGs").
The wide range of indicators considered results in a correspondingly narrower investment universe. Investments classified as "Positive contribution" qualify as sustainable investment solutions under SBA guidelines.

3.3. Effect of the choice of ESG preferences on product selection

In investment management, your choice of ESG preference determines which mandates are best suited to your needs. When offering investment advice, your relationship manager has access to an investment universe of varying sizes based on your chosen ESG preference.
The more ESG criteria considered, the smaller the available investment universe becomes.

Please note that you can change your ESG preference at any time and select different preferences for different portfolios.

You also have the flexibility to choose investment instruments yourself, even if they do not align with the indicators of your selected ESG preference. In such cases, your Relationship Manager will inform you that the instrument does not match your ESG preference. Your Relationship Manager will also regularly review and discuss with you whether you wish to retain investment instruments in your portfolio that do not align with your ESG preferences.

3.4. Classification of investment instruments in investment advice

The ESG Investment Framework focuses on the investment instruments equities, corporate bonds, government bonds and investment funds. These are assigned an ESG preference based on the aforementioned ESG criteria and defined thresholds. Some instruments, such as cash and gold, either lack sufficient data or cannot be classified within the ESG Framework. Structured products are not classified, but may be recommended by the Relationship Manager for the ESG preference "Risk-adjusted performance." For each instrument, an assessment is evaluated to determine whether the thresholds for the individual ESG criteria are met. Based on this evaluation, instruments are assigned an ESG preference. The Relationship Manager may only recommend instruments that meet or exceed the client's selected ESG preference. Table 1 provides an overview of the ESG criteria applied.

ESG PREFERENCES	EQUITIES AND CORPORATE BONDS	GOVERNMENT BONDS	INVESTMENT FUNDS
Risk-adjusted performance	– Companies are not associated with controversial weapons – Companies do not violate any of the following international standards: The Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, Principles of the United Nations Global Compact (UNGC), Conventions of the International Labour Organization (ILO), and the United Nations Guiding Principles on Business and Human Rights (UNGP) – MSCI ESG rating is between AAA and BB	At least one of the following conditions is not met: – Ratified signatory to the Paris Agreement – Freedom House status: free – No EU and UN sanctions	Funds are included in the Vontobel investment universe, but do not specifically pursue sustainability goals
Mitigation of negative effects	– Companies are evaluated to determine if their revenue from the following business activities remains below thresholds defined by Vontobel: conventional weapons, tobacco production, thermal coal, and fossil fuels. Additionally, the key metrics for the companies' implicit temperature increase and carbon footprint must also fall below specified limits.	All conditions must be met: – Ratified signatory to the Paris Agreement – Freedom House status: free – No EU and UN sanctions	All funds that are in the Vontobel investment universe and support sustainability goals
Positive contribution	Besides meeting the above criteria, the company must significantly support the SDGs through its business activities.	No instruments available	In addition, the instrument must significantly support the SDGs or qualify as a sustainable product under EU regulations (Article 9 SFDR).

Table 1

For investment instruments that cannot be assigned to any of the aforementioned ESG preferences, a distinction is made based on the three classifications outlined in Table 2.

CLASSIFICATION	
Outside of the scope of application	Instruments such as cash deposits, foreign exchange, and loans are not associated with sustainability and therefore cannot be classified according to ESG criteria. However, these instruments may still be included in portfolios.
Not covered (data not available)	Companies with no MSCI ESG rating, those not evaluated for violations of international standards, or whose business activities are unknown and not covered by the Vontobel Research Team, are categorized as “not covered.” For you as an investor, this means these investments cannot be evaluated for indicators and so will not appear to you in the investment proposal or statement of assets. Likewise, funds that fall outside the Vontobel investment universe are not covered.
May not be recommended by the Relationship Manager	Companies associated with controversial weapons or those that violate international standards or have an MSCI ESG rating of CCC or B are not recommended. Government bonds from countries that are not subject to conomic sanctions may be recommended.

Table 2

3.5. Classification of investment management mandates

Each investment management mandate is classified according to an ESG preference. The classification of investment management mandates is determined by the classification of the investment instruments used. The portfolio manager incorporates the ESG criteria from the ESG Investment Framework. Another key distinction between the mandates is the benchmark used. For mandates classified as “Risk-adjusted performance”, a traditional benchmark is used. For investment management mandates classified according to the other ESG preferences, a sustainable benchmark is, however, used.

Your Relationship Manager will be happy to provide you with an overview of the currently available mandates.

3.6. Reporting and monitoring

For each mandate, your statement of assets will include information on the ESG indicators relevant to your chosen ESG preference. The scope of the reporting will depend on the specific ESG preference you have chosen. For investment advisory mandates, ESG indicators are also included in the investment proposal, which will also tell you if a product does not align with your chosen ESG preference. An overview of the ESG indicators covered in the reporting is provided below. Detailed descriptions of the individual ESG indicators can be found in the appendix.

	INTEGRATION OF ESG RISKS		
Risk-adjusted performance	Average MSCI rating of the portfolio	Companies with violations of international standards	Companies with ties to controversial weapons
	NEGATIVE SOCIAL EXTERNALITIES	**NEGATIVE ENVIRONMENTAL EXTERNALITIES**	**CLIMATE-RELATED METRICS**
Mitigation of negative effects	Companies with links to conventional weapons	Companies with links to thermal coal	Carbon footprint
	Companies with links to tobacco production	Companies with links to fossil fuels	Implied temperature increase (ITR)
	CONTRIBUTION TO THE UN SUSTAINABLE DEVELOPMENT GOALS		
Positive contribution	SDGs related to environmental issues	SDGs related to social issues	

Table 3

3.7. Regulatory principles (SBVg)
As the industry association for Swiss banks, the Swiss Bankers Association (SBA) is committed to continuously improving the framework conditions for sustainable investing. The SBA guidelines ("Guidelines for the financial service providers on the integration of ESG-preferences and ESG-risks and the prevention of greenwashing in investment advice and portfolio management") aim to make sustainability an integral part of advisory discussions within investment management and investment advisory mandates. A key focus of these guidelines is the capturing of ESG preferences.

The complexity, lack of universal definitions and subjective nature of sustainability evaluations can sometimes result in investors' expectations regarding the sustainability of their investments not being met. Addressing this risk is one of the Swiss Bankers Association's (SBA) ambitions. Besides capturing ESG preferences, the SBA guidelines require transparency in describing the methods, approaches and indicators used in the selection of products. The same applies to reporting, which informs clients about the sustainability of their portfolio. In addition, Relationship Managers undergo regular training on sustainable investing to provide you with advice on the potential and opportunities related to this topic.

4. ESG preferences for clients resident in the EU and EEA

4.1. Choice of sustainability preferences based on MiFID II
Banks must define sustainability preferences for their clients residing in the EU and EEA based on EU regulatory requirements. Clients must indicate whether and to what extent they wish to include financial instruments that take sustainability aspects into account in their investments.

Sustainability preferences must be chosen separately for each mandate. Table 4 provides an overview of the three categories of sustainability preferences by European law.

DESIGNATION	PRINCIPLE ADVERSE IMPACTS	SUSTAINABLE INVESTMENTS	ENVIRONMENTALLY SUSTAINABLE INVESTMENTS (EU TAXONOMY)
Abbreviation	**PAI**	**SFDR**	**EUT**
Description of preference	Exclusion of companies whose economic activities have specific adverse effects on environmental and social aspects	– The company's activities must contribute to a sustainability goal, – They must not significantly harm any of the Sustainable Development Goals, and – The company must follow good corporate governance practices.	– The company's activities must contribute to environmental objectives, – They must not significantly harm any of the environmental objectives, – They must meet the EU (EU Taxonomy) criteria and – The company must comply with certain international standards.

Table 4

In accordance with the regulations, you can choose a combination of these three sustainability preferences for your investment advisory or investment management mandate. You can find out how we implement this for our clients in the following section.

The investment universe is severely restricted depending on the choice of MiFID II sustainability preferences. The figures in the table indicate that currently relatively few companies meet the criteria under the Disclosure Regulation (Regulation (EU) 2019/2088, hereinafter also referred to as "SFDR") or Regulation (EU) 2020 / 852 (hereinafter also referred to as "EU Taxonomy" or "EUT"). The preference for "environmentally sustainable investment" (as defined by the EU Taxonomy Regulation) significantly limits the potential investment universe. For example, in the broad-based MSCI World Index, only five percent of equities currently meet the criteria of the EU Taxonomy Regulation.

INDEX	PAI	SFDR	EUT
MSCI World	97%	6%	5%
MSCI World ESG Leaders	100%	8%	8%
MSCI World SRI Select red. Fossil Fuel	100%	11%	10%
SPI Swiss Performance Index	100%	8%	1%
SPI ESG Multi Premia	100%	6%	2%

Table 5

Further details on the regulatory background are available in section 4.3. Additional information on the criteria can be found in the appendix under section 6.3.

4.2. Mapping MiFID's ESG preferences to the ESG Investment Framework

To ensure consistent and easily understandable communication with our clients on the topic of sustainable investments, Vontobel aligns the ESG preferences of MiFID II clients with its ESG Investment Framework, which includes "Risk-adjusted performance", "Mitigation of negative effects," and "Positive contribution". Clients residing in the EU and EEA therefore choose their sustainability preferences in accordance with EU regulations. However, in its documents and reports, Vontobel communicates based on the ESG Investment Framework. In the background, we ensure that the criteria align and that your chosen sustainability preferences are implemented.

Figure 1 illustrates how sustainability preferences under MiFID II are mapped to ESG preferences within the ESG Investment Framework. The categories "no preference," "PAI" and "SFDR" are directly aligned with a specific ESG preference.

MIFID SUSTAINABILITY PREFERENCES		ESG INVESTMENT FRAMEWORK FOR PRIVATE CLIENTS
No consideration of ESG criteria	→	Risk-adjusted performance
Consideration of the main adverse effects on sustainability factors (PAI)	→	Mitigation of negative effects
Consideration of sustainable investments in the portfolio (SFDR)	→	Positive contribution
Consideration of environmentally sustainable investments in the portfolio (EUT)	→	No product available

Figure 1

Currently, we are unable to offer products for the sustainability preference "EU Taxonomy" ("EUT") due to insufficient data.

The following combinations are therefore available:

- No sustainability preference
- PAI
- PAI and SFDR

Under EU regulations, for "SFDR" and "EUT," only a specified proportion of the instruments in the portfolio must meet the defined ESG criteria. As a result, individual instruments are not required to comply with these criteria. In contrast, the ESG Investment Framework evaluates each instrument individually to determine whether it meets the defined ESG criteria. This approach is therefore stricter. However, there may still be instances where certain instruments do not meet the defined criteria. This can happen for the following reasons:

- No data is available
- The instruments cannot be valued, such as cash, gold or some structured products
- You have an advisory mandate and have purchased instruments at your own request that do not align with your chosen ESG preference

For each ESG preference under the ESG Investment Framework, a fixed minimum share of the portfolio is defined for the three MiFID II sustainability preferences "PAI," "SFDR" and "EUT" for which the corresponding ESG criteria must be met. An example of this is shown in the following table: For the most up-to-date figures, please visit our website at vontobel.com/esg-pref-pc.

	PAI	SFDR	EUT
Risk-adjusted performance	0%	0%	0%
Mitigation of negative effects	75%	0%	0%
Positive contribution	75%	1%	0%

Table 6

4.3. Regulatory principles (EU)

Clients residing in the EU and EEA are governed by EU law regarding sustainability preferences These EU-defined preferences are based on several regulations and were introduced as part of the EU Sustainable Finance Action Plan. The action plan defined the following objectives:

- To reorient capital flows toward sustainable investment to achieve sustainable and inclusive growth;
- To manage financial risks stemming from climate change, natural disasters, environmental degradation and social challenges; and
- To foster greater transparency and long-termism in financial and economic activity.

To implement the Action Plan, several regulations were adopted and phased in over time. The framework specifically includes the following key regulations:

Extension of the MiFID II Directive

The extension of the MIFID II Directive (Delegated Regulation (EU) 2021/1253), in force since August 2, 2022, requires financial service providers, particularly those offering investment advisory and investment management services, to inquire about their client's sustainability preferences. The criteria can be defined differently for each mandate. If a client chooses to invest in sustainable products, they must communicate their sustainability preferences to their Relationship Manager. The Relationship Manager must consider the client's sustainability preferences when offering investment advice.

EU Taxonomy Regulation

The EU Taxonomy Regulation, in force since July 12, 2020, defines a classification system that contains a list of environmentally sustainable economic activities. The Regulation is designed to support the EU in scaling up sustainable investments and implementing the European Green Deal. The EU Taxonomy Regulation aims to provide companies, investors and policymakers with appropriate definitions of which economic activities can be considered environmentally sustainable. This clarity seeks to provide certainty for investors, protect private investors from greenwashing, help companies become more climate-friendly, reduce market fragmentation and help redirect investment to where it is most urgently needed (source: ec.europa.eu).

Disclosure Regulation

The third important regulation is the Disclosure Regulation. The focus is on eliminating information asymmetries between financial service providers and investors regarding sustainability risks, the marketing of environmental and social characteristics, sustainable investments and the consideration of adverse impacts on sutainability. These "principal adverse impacts" (in short: "PAI") are indicators of the negative external impacts of economic activities on sustainability factors ("adverse external impacts").

The SFDR Regulation also defines further transparency obligations, based on the nature and marketing of financial products to prevent "greenwashing." Three distinct levels of disclosure requirements are defined:

- Products under Article 6 – involve the consideration of ESG risks or an explanation of why ESG risks are deemed not relevant for a product in question;
- Products under Article 8 – promote environmental or social characteristics; and
- Products under Article 9 – specifically aim to achieve a sustainability objective.

5. Further information

Please note that Vontobel cannot collect companies' sustainability data itself, but relies on data providers and third-party information. Vontobel has carefully selected these providers and reviews them regularly. However, occasional errors in the available data cannot be entirely ruled out.

For more details on sustainable investments at Vontobel, please visit our website at:

Bank Vontobel AG
vontobel.com/esg

vontobel.com/esg-pref-pc

vontobel.com/sfdr-pc

vontobel.com/mifid

Bank Vontobel Europe AG
vontobel.com/sfdr-pc

vontobel.com/mifid

6. Appendix

6.1. Description of the indicators used in ESG reporting

Carbon footprint
This carbon responsibility metric indicates the amount of greenhouse gases emitted per million EUR invested in this portfolio. Companies' emissions are allocated to all outstanding equities and bonds based on enterprise value including cash (EVIC). A distinction is made between three categories of greenhouse gas emissions:

Scope 1 Direct emissions that are owned or controlled by a company.

Scope 2 Indirect emissions from the generation of the energy a company purchases.

Scope 3 All indirect greenhouse gas emissions (not included in Scope 2) that arise in the company's value chain, including upstream and downstream emissions.

Implicit Temperature Rise (ITR)
The ITR indicator provides information on how well companies are aligning with global temperature targets. It is based on the two temperature thresholds established by the Paris Agreement climate targets and is expressed in degrees Celsius. We distinguish between two categories where these thresholds are exceeded: Deviation and strong deviation.

MSCI ESG Rating
The MSCI ESG Rating is designed to identify risks and opportunities in the areas of environment, social and governance (ESG). The analysts research issuers and countries and rate them on a scale from AAA (best rating) to CCC (worst rating). For companies, this includes exposure to industry-specific ESG risks and their ability to manage those risks compared with other companies in the same industry. For governments, the ratings illustrate how ESG indicators can impact a country's risk profile and governance. They offer insights into how these factors may influence the long-term sustainability and competitiveness of a nation's economy.

United Nations Sustainable Development Goals (UN SDGs)
As a foundation for the "Positive contribution" of your investments, this report is based on the United Nations' 17 Sustainable Development Goals (SDGs).

Relevant for this indicator are companies that make a "Positive contribution", categorized into those with ecological and social contributions. A "Positive contribution" is defined as revenue generated from products or services that exceed a threshold set by Vontobel and contribute to 15 of the 17 Sustainable Development Goals (SDGs). SDGs 16 and 17, which relate to corporate governance, cannot be systematically attributed to specific companies or investments and are therefore excluded from consideration. The SDGs are a global blueprint for achieving a better world for people and our planet by 2030 and were adopted by all member states of the United Nations in 2015.

Companies with ties to controversial weapons
Controversial weapons include cluster munitions, landmines, biological or chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons and / or undetectable fragments.

Companies with links to fossil fuels
This category includes companies engaged in activities related to fossil fuels, such as mining, processing, storage and transportation of petroleum products, natural gas, thermal coal and metallurgical coal.

Companies with links to thermal coal
This includes companies generating revenue greater than or equal to a threshold set by Vontobel from the coal used in power plants (including lignite, hard coal, anthracite, and steam coal)and from sale of such coal to external parties.

Companies with links to tobacco production
This includes tobacco producers whose revenue from tobacco production meets or exceeds a threshold set by Vontobel.

Companies with links to weapons production
This includes manufacturers of conventional weapons systems and components whose earnings from such activities meet or exceed a threshold defined by Vontobel.

Companies with violations of international standards
The international standards considered include: The Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, Principles of the United Nations Global Compact (UNGC), Conventions of the International Labour Organization (ILO) and the United Nations Guiding Principles on Business and Human Rights (UNGP).

6.2. Information on MiFID sustainability preferences

Principal adverse impacts ("PAI")
Regulation (EU) 2020/1288 ("RTS") contains a comprehensive list of principal adverse impacts ("PAI"). These indicators essentially consist of a range of environmental, social, and governance (ESG) metrics, addressing aspects such as carbon emissions, fossil fuel pollution, biodiversity impacts, social conflict, and gender parity on a company's board. They highlight the areas and extent to which a company may create negative impacts on its environment (commonly referred to as "negative externalities"). Companies must disclose at least the 18 mandatory PAIs.

Exclusion criteria
- Armor and controversial weapons
- Tobacco
- Power plant coal
- Government bonds: exclusion of bonds issued by governments that violate human rights or fail to meet climate protection goals.

Ten Principles of the UN Global Compact
Monitoring for significant violations of the ten principles of the UN Global Compact focuses particularly on the following areas:
- Human and workers' rights
- Environment
- Corporate governance practices and sanctions

Exclusion of companies with violations of international standards
Exclusion of companies if the overall assessment of controversies shows that their business activities or products violate international standards related to corporate governance, environmental, or social impacts.

Consideration of the criteria for implementing Vontobel Private Clients' sustainability preference, Principal Adverse Impacts (PAI).

"Sustainable Investments" (based on SFDR)
The SFDR defines a sustainable investment as an investment in an economic activity that a) contributes to an environmental or social objective, provided that b) the investment does not significantly harm any of the environmental or social objectives and that c) the company concerned follow good corporate governance practices (see Art. 2 No. 17 SFDR).

Contribution to an environmental or social objective An economic activity that
- contributes to the realization of an environmental objective, measured for example by key resource efficiency indicators relating to energy, renewable energy, raw materials, water and land use, waste generation and greenhouse gas emissions, or impacts on biodiversity and the circular economy; or
- contributes to the realization of a social objective, in particular an investment that contributes to the fight against inequality or promotes social cohesion, social integration and labor relations, or an investment in human capital or economically or socially disadvantaged communities (SFDR Art. 2 (17).

No significant compromise
None of the above objectives may be significantly compromised.

Compliance with good corporate governance practices
The following practices are defined:
- Solid management structures
- Tax compliance
- Good employee relations
- Fair employee remuneration

Consideration of the criteria for implementing Vontobel Private Clients' sustainability preference, Principal Adverse Impacts (PAI).

Environmentally sustainable investments (EU Taxonomy)
The EU Taxonomy Regulation defines an environmentally sustainable investment as an investment that a) significantly contributes to one or more of six environmental objectives, b) does not significantly harm or negatively impact any of the other defined environmental objectives, c) meets a series of minimum social safeguards and d) meets the technical screening criteria of the EU Taxonomy Regulation (Article 3 of the EU Taxonomy Regulation). The preference for “ecologically sustainable investments“ imposes greater restrictions on the range of eligible investments compared with the preference for “sustainable investments.”

Makes a significant contribution
Through its activities, the company makes a significant contribution to the realization of one of the following environmental objectives:
- Mitigating climate change
- Adapting to climate change
- Sustainable use and protection of water and marine resources
- Promoting the transition to a circular economy
- Pollution prevention and controls
- Protecting and restoring biodiversity and ecosystems

Minimum social standards
The following regulations must be observed:
- OECD Guidelines for Multinational Enterprises
- Guiding Principles on Business and Human Rights
- Declaration of the International Labour Organization on Fundamental Principles and Rights at Work
- International Bill of Human Rights

No significant compromise
Even if the company makes a “Positive contribution” to one of the objectives listed above, it must not have a negative impact on other objectives.

Technical evaluation criteria
List of economic activities defined and assessed as sustainable by the EU

Consideration of the criteria for implementing Vontobel Private Clients’ sustainability preference, Principal Adverse Impacts (PAI).

6.3. Glossary

Definition of key terms related to “Sustainable Investments.”

Alignment with the Paris climate goals (“Paris Agreement”)
The Paris Agreement, adopted at COP 21 in Paris in 2015, aims primarily to mitigate climate change. Its objective is to limit the global temperature increase this century to well below 2° C above pre-industrial levels.

Changes to MiFID II
The appropriateness and suitability test defined in MiFID II has been expanded to include sustainability preferences. Investors must be asked about their sustainability preferences, which must then be considered in every financial instrument transaction (see also: Commission Delegated Directive (EU) 2021 / 1269).

ESG
The abbreviation ESG covers the dimensions of sustainability. Environmental aspects focus on managing climate change and adapting to its effects. This also includes environmental concerns such as preserving biodiversity, preventing environmental pollution, and promoting the circular economy. The social category encompasses the elimination of inequality, fostering inclusion, and ensuring good industrial relations. Socially sustainable actions also encompass investments in human capital and respect for human rights. Governance focuses more closely on the corporate governance of public and private institutions, including their administrative structures. This also includes a company’s personnel and remuneration policies. These factors are crucial for integrating social and environmental considerations into the decision-making process. (Source: ec.europa.eu).

ESG investment solutions
Investment solutions, i.e. investment management and investment advisory mandates that incorporate ESG criteria.

ESG approaches
Approaches to integrating ESG indicators into the investment process.

ESG characteristics
The nature and extent to which ESG indicators and / or approaches are incorporated into a financial services provider’s ESG investment solutions.

ESG indicators / ESG criteria
Indicators or criteria that financial service providers incorporate in their ESG investment solutions.

ESG preferences
ESG preferences always refer to the ESG preferences defined in the ESG Investment Framework for Private Clients. Clients’ preferences are used to assess whether, and to what extent, ESG characteristics should be integrated into their investment solutions. In contrast, sustainability preferences, as defined by EU regulations, refer to the preferences that clients are required to provide (see “Sustainability Preferences (EU Definition)”).

ESG risks
Current or potential future effects of ESG indicators that could positively or negatively influence the value of investment solutions An example would be a factory building located in a flood-prone area.

EU Action Plan for Sustainable Finance
The EU Sustainable Finance Action Plan is part of a broader effort to align finance with the specific needs of the European and global economy, for the benefit of the planet and our society. The Action Plan focuses on achieving the following key objectives:

1. To direct capital flows toward sustainable investment to achieve sustainable and inclusive growth;
2. To manage financial risks stemming from climate change, natural disasters, environmental degradation and social challenges; and
3. To foster greater transparency and long-termism in financial and economic activity.

(European Commission document: “Action Plan: Financing Sustainable Growth”)

EU Taxonomy Regulation
The EU Taxonomy Regulation establishes a classification system that contains a list of environmentally sustainable economic activities. It is designed to support the EU in scaling up sustainable investments and implementing the European Green Deal. The EU Taxonomy Regulation aims to provide companies, investors and policymakers with appropriate definitions of which economic activities can be considered environmentally sustainable. This clarity seeks to provide certainty for investors, protect private investors from greenwashing, help companies become more climate-friendly, reduce market fragmentation and help redirect investment to where it is most urgently needed (source: ec.europa.eu).

Greenwashing
If bank customers are knowingly or unknowingly deceived or misled about the ESG characteristics of financial products or advisory processes, this is called greenwashing (SBA statement on the ordinance on reporting on climate-related activities, swissbanking.ch [in German])

Greenwashing (EU definition)
Practices by which companies give a misleading impression of their environmental impacts, whether positive or negative. Greenwashing deceives market participants and denies companies striving to improve the environmental sustainability of their products and activities a fair advantage. Ultimately, greenwashing results in a less environmentally friendly economy. To counter this issue, the European Green Deal states: “Companies making environmental claims must substantiate them using a standardized method to evaluate their environmental impact.”

Sustainable investment (EU definition)
A sustainable investment is an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, greenhouse gas emissions or on its impact on biodiversity and the circular economy; or an investment in an economic activity that contributes to a social objective, in particular tackling inequality or fostering social cohesion, social integration and labor relations, or an investment in human capital or in economically or socially disadvantaged communities, provided that this investment does not significantly harm any of those objectives and the company in which the investment is made follows good corporate governance practices, in particular with regard to sound management structures, employee relations, remuneration of staff and tax compliance (Regulation (EU) 2019/2088).

Sustainable finance (EU definition)
Sustainable finance refers to the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects (source: ec.europa.eu).

Sustainability factor (EU definition)/ESG factor
As defined in the Sustainable Finance Disclosures Regulation (SFDR), this refers to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.(Regulation (EU) 2019/2088).

Sustainability preferences (EU definition)
Sustainability preferences always refer to the preferences defined in accordance with Delegated Regulation (EU) 2021/1253 Article 2 (7), which apply to client domiciled in the EU and EEA. Clients’ preferences are used to assess whether, and to what extent, ESG characteristics should be integrated into their investment solutions.

PAI (principal adverse impacts)
The Disclosure Regulation defines “principal adverse impacts” as negative impacts of investment decisions on sustainability factors. (Public Consultation Report on Taxonomy extension options linked to environmental objectives, July 2021).

SDGs (Sustainable Development Goals)
The SDGs are 17 goals set by the United Nations in 2015 to promote sustainable development. These include goals such as poverty eradication, gender equality, decent work, responsible consumption, climate protection and reduced inequalities (according to sdgs.un.org/goals). (Source: ec.europa.eu).

For example, a single passenger on a long-haul flight from Zurich to New York and back (12600 kilometers) generates an average of around 2.6 tCO2e—assuming they are flying on an average passenger aircraft with 320 people on board.

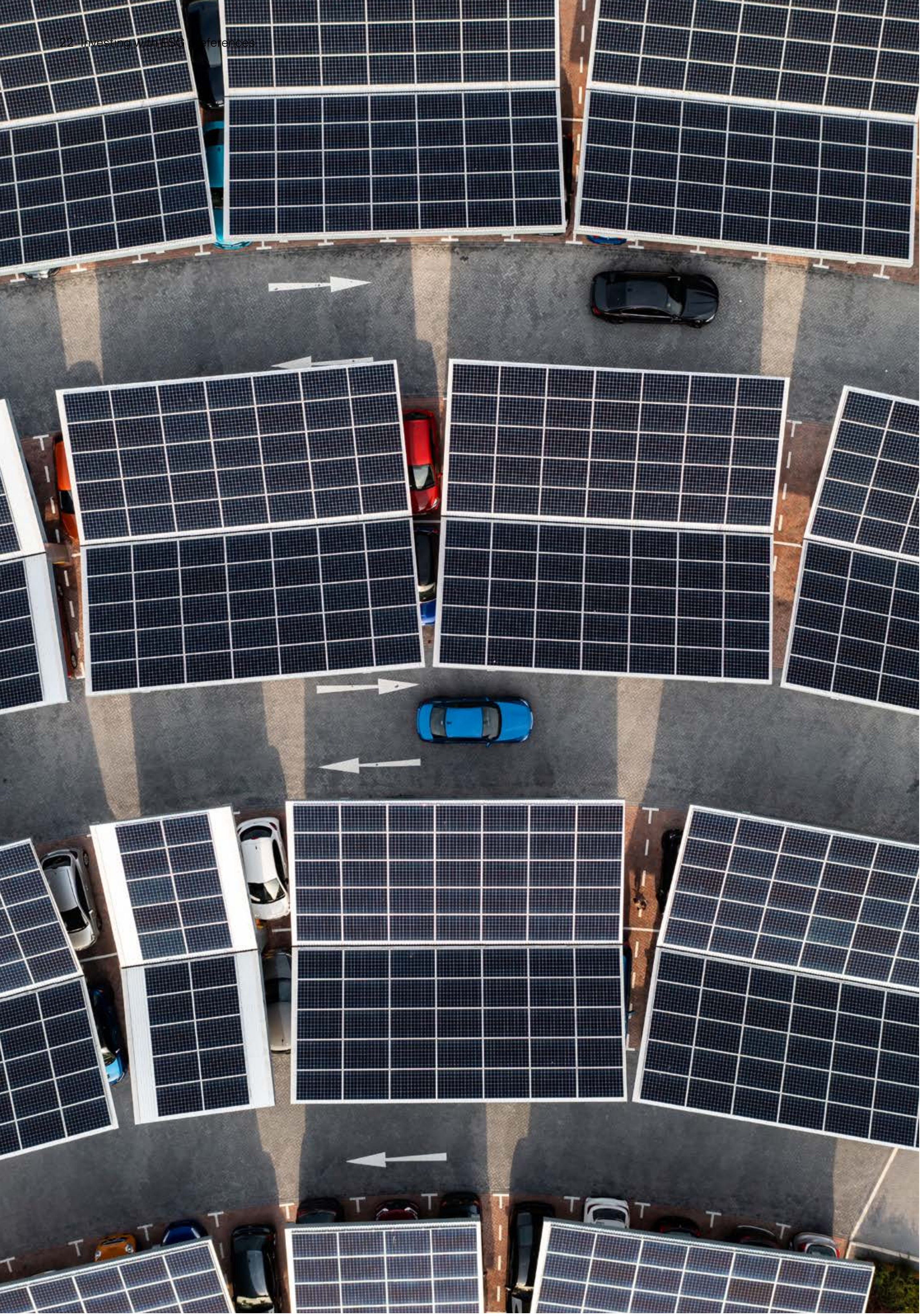
Sustainability commitments
Vontobel has defined six ESG commitments with binding targets that are measured and reported.

For more information, please visit our website.
vontobel.com/sustainability-framework

Sustainable finance
Sustainable finance refers to any form of financial service that integrates environmental, social and corporate governance (ESG) indicators into business or investment decisions, aiming to deliver sustainable benefits for clients as well as society as a whole.

tCO2e
Tonnes (t) of carbon dioxide (CO_2) equivalent (e), carbon dioxide equivalent is a standard unit for measuring greenhouse gas emissions, regardless of whether they come from carbon dioxide or another gas, such as methane.

Regulation on Sustainability-Related Disclosures in the Financial Services Sector (SFDR)
The SFDR requires financial product providers and financial advisors to disclose sustainability aspects to end investors. The obligation to consider sustainability risks applies to financial market participants (such as asset managers and institutional investors), all companies offering financial products and managing client funds, as well as financial advisors in relation to all investment processes. Furthermore, disclosure requirements are introduced to address negative impacts on sustainability issues at both company and financial product levels. It must therefore be clear whether financial market participants and financial advisors take negative externalities on the environment and social justice into account in their investment decisions/advice and, if so, how this is reflected at product level (source: ec.europa.eu).



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The higher the minimum share you choose, the less choice you currently have in terms of available products, which will limit the diversification of your portfolio, at least temporarily. As a result, you may not be able to take advantage of the same opportunities or market trends as investors who do not follow sustainable preferences. Companies may not meet high performance standards in all aspects of sustainable investing. There is also no guarantee that a company will meet expectations regarding corporate responsibility, sustainability and / or impact. In addition, selecting a high minimum share may mean that we cannot offer you an investment management mandate or that we cannot provide you with investment consulting. If this situation should arise as a result of your selection, your Relationship Manager will inform you. We would also like to point out that you can adjust your sustainability preferences at any time once you have set them. Information on ESG investments and integration, as well as sustainability-related disclosures, can be found in our ESG library at vontobel.com/sfdr.

For clients domiciled within the EU or the EEA

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