

PICTET ASSET MANAGEMENT

Responsible Investment Policy

NOVEMBER 2025

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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1. INTRODUCTION

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 Principles for Responsible Investment (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.

Our Responsible Investment Policy outlines our approach to ESG as a firm and how we integrate ESG into our investments.

2. ORGANISATION

Within the framework defined by the Pictet Group Stewardship & Sustainability Board (GSSB), Pictet Asset Management's Executive Committee has overall responsibility for approving and overseeing implementation of our Responsible Investment policy. It is reviewed on a regular basis but at least annually.

In order to ensure effective implementation of our Responsible Investment Policy, we have implemented a model that embeds ESG responsibilities through governing bodies and teams across our organisation. This includes a dedicated Responsible Investment (RI) Team and a network of ESG Specialists / Champions that lead efforts in their respective teams.

3. RESEARCH, INVESTMENT AND MONITORING

3.1 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.

3.2 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.

3.3 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 leadership¹;
- The financial strength and performance of issuers and the fair valuation of underlying securities; and
- Sustainability risks² & opportunities and adverse impacts of potential investments on society and/or the environment³.

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.

The key features of our Responsible Investment strategies are presented in the table below. Each category of investment strategy applies certain exclusions relating to 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.

¹ See *Appendix D* for further details on Active Ownership Guidelines on Corporate Governance.

² See *Appendix A* for a description of Sustainability Risks.

³ See *Appendix C* for a description of key metrics used for monitoring adverse impacts.

3.4 Key ESG features of our Investment Strategies

CATEGORY	KEY ESG FEATURES	EXCLUSIONS	ACTIVE OWNERSHIP	SFDR CLASSIFICATION ⁴
ESG Integrated	Uses ESG considerations as an input for security selection and/or portfolio construction. 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
ESG Focused: 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 ⁵ . Principal adverse impacts are reduced by excluding certain categories of issuers ⁶ .	Level 2	Yes	Art. 8
ESG Focused: Best in Class	Seeks to invest in securities of issuers with low/ decreasing sustainability risks while avoiding those with high/ increasing sustainability risks, subject to good governance practices ⁵ . Principal adverse impacts are reduced by excluding certain categories of issuers ⁶ .	Level 2	Yes	Art. 8
Positive Impact	Seeks to invest mainly in economic activities that contribute to an environmental and/or social objective ⁷ , subject to good governance practices ⁵ . Principal adverse impacts are reduced by excluding certain categories of issuers ⁶ .	Level 3	Yes	Art. 8/ Art. 9

⁴ 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).

⁵ See *Appendix C* for further details on Good Governance Practices.

⁶ See *Appendix C* for further details on consideration of Principal Adverse Impacts.

⁷ See *Appendix C* for further details on Sustainable Investments.

4. CORPORATE ENGAGEMENT

4.1 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.

4.2 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 issues⁸, to satisfy ourselves that they fully understand and address them effectively over the short, medium and long term.

4.3 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 RI 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 representatives and their willingness to engage. Interaction will occur at least once 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 RI 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 always involves the participation of investment teams either as engagement leads or as support, and may be coordinated by the RI team if needed.

⁸ Including relevant sustainability risks and adverse impacts on society and the environment.

For each engagement conducted by Pictet Asset Management, we set or support defined objectives and track progress against these objectives.

4.4 Escalation Strategy with Corporate Issuers

When we are not satisfied with the outcome of an engagement, we may deploy an escalation strategy that may include voting 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 groups⁹.

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.

5. PROXY VOTING

5.1 Scope

The following principles are used to define the securities eligible for proxy voting¹⁰:

- 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 weight¹¹. 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 have the choice between Pictet Asset Management's voting guidelines or their own voting guidelines.

5.2 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.

5.3 Voting Guidelines

In line with our Active Ownership Guidelines¹², our proxy voting upholds generally accepted standards for well-governed companies. They address the way companies are directed and controlled and cover the central pillars of corporate governance including board & management, executive remuneration, risk control & reporting, and investor 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>

⁹ See section 5.6 for more information on Shareholder Resolutions.

¹⁰ 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.

¹¹ We do not exercise voting rights in share blocking markets across passive strategies.

¹² See *Appendix D* for further details on Active Ownership Guidelines.

<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.

5.4 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 RI 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 RI team and must be supported by written rationale.

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

5.5 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

5.6 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 RI 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.

6. ESG DATA

6.1 Data Sources and Processing

Pictet Asset Management has selected a range of specialist providers for ESG data to support our firm-wide ESG integration and active ownership activities. Data received from external providers may be complemented by internal research and analysis provided by our Investment teams and ESG specialists.

To ensure data quality, we have implemented proactive controls in our data warehouse. These checks assess gaps and fluctuations in the time series, as well as changes in data coverage.

ESG data are updated daily in our internal data warehouse and are made available to our investments teams through various systems, such as our internal ESG Scorecard, Portfolio Management System, and Tableau dashboards.

Although we prioritise reported data over estimated data, we do rely on estimations to some extent, where reported data are not available. Data reported by companies and regulatory authorities are prioritised over estimated data from external providers and ranked higher in terms of reliability for investment and active ownership activities.

Quality issues trigger automated alerts, which are followed by manual reviews from our data and ESG analysts/specialists, and where necessary, by engagements with third-party ESG data providers. Additionally, we perform momentum analysis on different ESG data to better identify risks and opportunities.

6.2 Limitation to Methodologies and Data

Key limitations to our methodologies may include a lack of data coverage and/or quality. Our methodologies are informed by reliable sources gathered from diverse reputable third-party research providers that are experts in their areas. In cases where the information from third-party providers is deemed incorrect or incomplete, we retain the right to engage with them or to deviate, on a case-by-case basis.

ESG data availability is continually improving, and we are leveraging more and more on our data using information from different providers. However, certain data may not be available for all issuers in the fund or benchmark, which means that ESG indicators provided at the portfolio level may not be fully representative. Therefore, it is important to consider coverage ratios when interpreting the levels of ESG indicators. At the portfolio and index level, an ESG indicator is considered significant if we have coverage on more than 50% of eligible assets (in-scope instruments). We address these limitations by constantly monitoring potential new relevant data sets from providers.

7. 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 RI 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.

8. 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.

9. 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.

10. TRANSPARENCY

Pictet Asset Management publicly discloses how we implement this Policy on an annual basis through the Reporting and Assessment of the 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

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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 labour 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

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Pictet Asset Management's exclusions 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 severe breaches of international norms including state sponsorship of terrorism, severe human rights violations, and threats to international peace, security, and stability¹³.

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.

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

Pictet Asset Management's exclusions framework constitutes a minimum standard for investment strategies in scope. Such strategies may apply more stringent exclusion criteria.

Exclusions are informed by reliable sources gathered from reputable third-party research providers, non-profit organisations, and governments. Pictet Asset Management retains full discretion over the implementation of exclusion criteria and reserves the right to grant exemptions on a case-by-case basis in instances where issuers are on a credible pathway to improve on ESG issues that triggered the exclusion. Such exemptions may be initiated by investment teams or by the RI team and must be supported by a written rationale subject to validation by Pictet Asset Management's Investment Management Committee and the Head of RI. Validated exemptions are reviewed at least annually by Pictet Asset Management's Investment Management Committee and the Head of RI.

When new exclusions are agreed, they come into force with immediate effect, precluding new investments.

Existing investments in excluded securities are divested from relevant portfolios on a best effort basis, but in principle no later than three months after taking effect depending on market conditions. This three-month timeframe equally applies to portfolios that are repositioned and subsequently subject to a higher level of the exclusion policy. Pictet Asset Management's Investment Controlling team is responsible for ensuring that exclusions are implemented 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.

¹³ Companies whose risk country corresponds to a country excluded under Level 1 or Level 2 exclusions are also excluded.

Company Exclusions based on Controversial Activities and Revenue thresholds¹⁴

ACTIVITY	LEVEL 1	LEVEL 2	LEVEL 3
Fossil Fuels			
Thermal Coal Extraction	25%	25%	10%
Thermal Coal Power Generation (High-income Country)	25%	25%	10%
Thermal Coal Power Generation (Rest of the World)	-	50%	10%
Expansion of Thermal Coal Extraction or Power Generation	-	-	Excluded
Oil & Gas Production	-	-	10%
Oil Sands Extraction	-	25%	10%
Shale Energy Extraction	-	25%	10%
Off-shore Arctic Oil & Gas Exploration	-	10%	10%
Weapons			
Production of controversial weapons ¹⁵	Excluded	Excluded	Excluded
Production of nuclear weapons from countries signatory to the NPT	-	-	Excluded
Military Contracting Weapons	-	10% ¹⁶	10%
Military Contracting Weapon-Related Products and/or Services	-	-	10%
Small Arms Civilian Customers (Assault Weapons)	-	10%	10%
Small Arms Civilian Customers (Non-Assault Weapons)	-	10%	10%
Small Arms Military/Law Enforcement Customers	-	25%	10%
Small Arms Key Components	-	25%	10%
Addictive Products			
Alcoholic Beverages Production	-	-	10%
Tobacco Products Production	-	10%	10%
Adult Entertainment Production	-	10%	10%
Gambling Operations	-	10%	10%
Gambling Specialised Equipment	-	-	10%
Agriculture			
Genetically Modified Plants and Seeds Development	-	-	10%
Genetically Modified Plants and Seeds Growth	-	-	10%
Pesticides Production	-	-	10%
Pesticides Retail	-	-	10%
Palm Oil Production and Distribution	-	-	10%

Company Exclusions based on Breaches of International Norms

CRITERIA	LEVEL 1	LEVEL 2	LEVEL 3
Breaches of, or severe controversies related to UN Global Compact Principles or OECD Guidelines for Multinational Enterprises	-	Excluded	Excluded
High controversies related to UN Global Compact Principles or OECD Guidelines for Multinational Enterprises	-	-	Excluded ¹⁷

¹⁴ Exclusions apply if % revenue is equal to or greater than the mentioned value.

¹⁵ Regarding nuclear weapons, this exclusion applies 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 (NPT).

¹⁶ Applies only to companies that do not meet minimum standards of business ethics and responsible conduct, or are not subject to internationally recognised arms export control frameworks.

¹⁷ Applies only to Sustainable Investments. See *Appendix C* for further details on Sustainable Investments.

Country Exclusions

CRITERIA	LEVEL 1	LEVEL 2	LEVEL 3
Countries identified as state sponsors of terrorism, with serious deficiencies in measures to combat financial crime, or subject to international sanctions. This is evaluated in light of criteria such as the FATF blacklist, EU sanctions and the OFAC ¹⁸ list of state sponsors of terrorism	Excluded ¹³	Excluded ¹³	Excluded
Countries significantly undermining international security by perpetuating internal unrest or external aggression or associated with severe social violations. This is evaluated in light of criteria such as the Fragile States Index, EU and Swiss arms-related export sanctions and human and civil rights violations	-	-	Excluded

Explanatory Notes on Adverse Impacts of Controversial Activities¹⁹

Adult Entertainment Production: 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.

Alcoholic Beverages Production: This includes the manufacture of alcoholic beverages. Alcoholic beverages are considered controversial because excessive drinking can lead to social problems (addiction) and health problems.

Off-shore 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 weapons²⁰.

Gambling Operations: This includes gambling services (operation of casinos, lotteries, bookmaking, online gambling, etc.). 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.

Gambling Specialised Equipment: This includes 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

¹⁸ "State Sponsors of Terrorism" is a designation applied by the United States Department of State to countries that repeatedly provided support to acts of international terrorism.

¹⁹ Source: Sustainalytics, Pictet Asset Management.

²⁰ 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.

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.

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.

Palm Oil Production and Distribution: This includes palm oil production or palm oil refining/trading. Palm Oil is considered controversial because large areas of tropical forests and other ecosystems with high conservation values have been cleared to make room for vast monoculture oil palm plantations – destroying critical habitat for many endangered species. Other major ESG concerns related to palm oil production are violations of human, labour and land rights. Furthermore, public campaigns have alerted consumers by publicly linking companies that use palm oil in their products to deforestation and human rights abuses. Nonetheless, the oil palm tree is the most efficient oil crop in terms of land use. It has the highest yield compared to other oil crops per hectare of land. It is also a healthier alternative to trans fats used in the food industry.

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 Production: This includes 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 - APPROACHES AND DEFINITIONS UNDER SFDR

APPENDIX C - APPROACHES AND DEFINITIONS UNDER SFDR

This Annex sets out Pictet's approaches to and definitions of some of the key concepts outlined in the Sustainable Finance Disclosure Regulation (SFDR): Sustainable Investment, Does No Significant Harm (DNSH), Good Governance Practices and consideration of Principal Adverse Impacts (PAIs).

1. Sustainable Investment Framework

SFDR defines "Sustainable Investment" as:

- an investment in an economic activity that contributes to environmental or social objectives;
- provided that such investment does no significant harm to any of the objectives; and
- provided that the investee company follows good governance practices.

As a disclosure regulation, SFDR does not specify (i) which environmental and social objectives must be followed, nor what constitutes (ii) a contribution to an environmental or social objective, (iii) a significant harm or (iv) a good governance practice. Instead, SFDR requires financial market participants to define and disclose their own approach to these concepts.

Pictet Asset Management's Sustainable Investment Framework builds upon our expertise and convictions in Responsible Investment to define what we consider as "Sustainable Investment" under SFDR across different asset classes. It reflects our current views and interpretation and, as such, may be subject to change at any time.

For corporate and sovereign investments, we define the concept of "Sustainable Investment" at issuer level, with the exception of use-of-proceeds labelled bonds for which it is defined at instrument level. For third party funds, we adopt the "Sustainable Investment" definition and results provided by the fund manager.

(I) ENVIRONMENTAL AND SOCIAL OBJECTIVES

We measure contribution of economic activities against the following environmental (E) and social (S) objectives:

1. Decarbonisation (E): Reducing anthropogenic greenhouse gas emissions in line with the objectives of the Paris Agreement;
Examples of activities: renewable energy production and equipment, energy storage, low-carbon transportation
2. Efficiency & Circularity (E): Increasing materials and energy efficiency, extending products lifecycle and reducing waste and pollution;
Examples of activities: industry 4.0 technologies, materials and energy efficiency software and technologies, environmental consulting, recyclable or renewable materials, waste treatment services, recycling
3. Natural Capital Management (E): Ensuring the sustainable use, management and preservation of natural resources, habitats and ecosystems;
Examples of activities: sustainable forestry, sustainable or organic agriculture, aquaculture, precision agriculture technology, vertical farming, harvesting and irrigation technologies, livestock health
4. Healthy Life (S): Promoting health through physical and mental well-being and healthier diets, increasing food safety and reducing food loss and waste;
Examples of activities: pharma, biotech, medical devices, telemedicine, care providers, fitness, healthy food products and ingredients, food storage and preservation, grocery and food delivery, professional kitchen equipment
5. Water, Sanitation & Housing (S): Ensure safe and sustainably managed drinking water, affordable and efficient housing and sustainable urbanisation;
Examples of activities: water supply, treatment and distribution, water technologies, smart building technologies, sustainable building materials, efficient home appliances, homebuilders, property management

6. **Education & Economic Empowerment (S):** Promoting life-long learning, education and employment, and improving access to convenient and affordable financial products and services;
Examples of activities: educational services, edtech, professional training, student accommodation, recruitment assistance, workforce management, digital payments, money transfer, support services and technologies for SMEs
7. **Security & Connectivity (S):** Ensuring the security of individuals, businesses and governments in both the physical and digital world, and developing networks and technologies to increase connectivity and access to digital services.
Examples of activities: work and road safety, access control, IT security, critical data infrastructures, certification and inspection services, network equipment and software, telecom infrastructure, accessible mobile devices

(II) CONTRIBUTE TO AN ENVIRONMENTAL OR SOCIAL OBJECTIVE

An investment must meet at least one of the following criteria to be considered as contributing to environmental or social objectives.

Equities and corporate general bonds: The issuer has at least 20% combined exposure (as measured by revenue, EBIT, enterprise value or similar metrics) to economic activities that contribute to environmental or social objectives. Exposure is determined through fundamental analysis, through reported revenue alignment with the EU Taxonomy, or through a proprietary rule-based model using third-party revenue classification data to identify revenues derived from relevant economic activities. An issuer exposed to multiple economic activities contributing to several environmental or social objectives is associated with the predominant economic activity and its corresponding environmental or social objective.

Corporate and sovereign labelled bonds: The instrument is a Green, Social or Sustainability use-of-proceeds bond. An instrument financing multiple economic activities contributing to several environmental or social objectives is associated with the predominant economic activity and its corresponding environmental or social objective.

Sovereign general bonds: The country reduces absolute and relative CO₂ emissions in a way that is, in the opinion of the manager, consistent with stated climate objectives; or is, in the opinion of the manager, in the process of implementing policies that may lead to a meaningful improvement in reducing CO₂ emissions.

(III) DO NO SIGNIFICANT HARM (DNSH)

We have defined DNSH Thresholds for companies' and countries' behaviour towards international norms and involvement in products and services that have high adverse impacts on society and the environment, and we consider issuers at or above these thresholds as doing significant harm to environmental or social objectives. DNSH Thresholds correspond to the thresholds of Level 3 exclusions defined in Appendix B.

Corporate issuers: For an investment in a corporate issuer's equity, general bonds or labelled bonds to be considered as doing no significant harm to environmental or social objectives, the corporate issuer must:

- (i) Remain strictly below all the DNSH Thresholds; and
- (ii) Have the sum of its revenues from products and services with a DNSH Threshold remain strictly below 20%.

Sovereign issuers: A sovereign issuer must meet the DNSH Thresholds for an investment in its general bonds or labelled bonds to be considered as doing no significant harm to environmental or social objectives.

(IV) GOOD GOVERNANCE PRACTICES

The issuer of a corporate investment must meet the criteria defined in the section "Good Governance Practices" of this annex to be considered as following good governance practices.

2. Good Governance Practices

The Good Governance Practices criteria apply to issuers of all corporate investments of Art. 8 and Art. 9 products. To determine whether a company meets minimum requirements for good governance practices under SFDR, Pictet Asset Management ensures that companies it invests in do not have severe controversies or UN Global Compact breaches that are linked to various topics including sound management, employee relations, remuneration of staff and tax compliance. How breaches to UNGC Principles and severe controversies map to good governance practices is set out in the table below.

Good Governance Practices

	SEVERE CONTROVERSIES							BREACHES TO UNGC PRINCIPLES						
	Operations Incidents	Env Supply Chain Incidents	Prod. & Service Incidents	Business Ethics Incidents	Governance Incidents	Public Policy Incidents	Employee Incidents	Social Supply Chain Incidents	Customer Incidents	Society & Community Incidents	Human Rights	Labour	Environment	Anti-Corruption
Sound Management Structures				* Bribery and corruption * Business ethics	* Corporate governance	* Lobbying and public policy			* Anti-Competitive Practices * Data Privacy and Security		* Principle 1: Support and respect the protection of internationally proclaimed human rights * Principle 2: Ensure no complicity in human rights abuses			* Principle 10: Fight corruption in all its forms including extortion and bribery

Employee Relations		* Employees – Human rights * Labour relations * Occupational Health & Safety	* Employees–Human rights (Supply chain)	* Principle 3: Uphold the freedom of association and the effective recognition of the right to collective bargaining * Principle 4: Eliminate all forms of forced and compulsory labour * Principle 5: Abolish child labour * Principle 6: Eliminate discrimination in respect of employment and occupation
Remuneration of Staff		* Corporate governance	* Labour relations	
Tax Compliance	* Accounting and taxation			

Consideration of Principal Adverse Impacts

We implement the consideration of PAIs to issuers of all corporate and sovereign investments of Art. 8 and Art. 9 products.

For corporate issuers, PAIs are considered through exclusions, DNSH Thresholds and, where relevant, entity-level initiatives.

For sovereign issuers, PAIs are considered through exclusions, DNSH Thresholds and Sustainable Investments eligibility criteria.

How exclusions, DNSH Thresholds, entity-level initiatives and Sustainable Investments eligibility criteria map to PAIs and their related indicators is set out in the tables below.

Consideration of Adverse Impacts: Corporate Issuers

CORPORATE ISSUERS			PRODUCT LEVEL															ENTITY LEVEL (ENGAGEMENT AND VOTING ACTIVITIES CONDUCTED AT PRODUCT LEVEL WHERE RELEVANT)					
			Level 2 Exclusions																				
			DNSH Thresholds																				
Principal Adverse Impacts	Indicators		Thermal Coal Extraction Thermal Coal Power Generation Oils Sands Extraction Shale Energy Extraction Off-shore Arctic Oil & Gas Exploration Production of Controversial Weapons Military Contracting Weapons Small Arms Adult Entertainment Production Gambling Operations Tobacco Products Production Severe Controversies Breach of UNGC Principles or OECD Guidelines										Oil & Gas Production Military Contracting Weapon-Related Products & Services Gambling Specialized Equipment Alcoholic Beverages Production Genetically Modified Plants and Seeds Pesticides Production and Retail Palm Oil Production & Distribution High Controversies					Climate Action Plan & Group Engagement Focus (Climate) Group Engagement Focus (Water) Group Engagement Focus (Nutrition) Group Engagement Focus (Long-termism) Group Engagement Focus (Breaches of Global Norms)					
Greenhouse Gas Emissions	PAI 1	GHG Emissions	✓	✓	✓	✓	✓									✓							✓
	PAI 2	Carbon footprint	✓	✓	✓	✓	✓									✓							✓
	PAI 3	GHG intensity of investee companies	✓	✓	✓	✓	✓									✓							✓
	PAI 4	Exposure of companies to fossil fuels	✓	✓	✓	✓	✓									✓							✓

Biodiversity	PAI 5	Share of non-renewable energy consumption and production	✓	✓	✓	✓	✓		✓		✓
	PAI 6	Energy consumption intensity per high impact climate sector	✓		✓	✓	✓	✓			✓
	PAI 4 (additional)	Investments in companies without carbon emission reduction initiatives									✓
	PAI 7	Activities negatively affecting biodiversity-sensitive areas	✓			✓	✓	✓	✓	✓	✓
Water	PAI 8	Emissions to water			✓	✓				✓	✓
Waste	PAI 9	Hazardous waste and radioactive waste ratio			✓	✓				✓	✓
Social and Employee matters	PAI 10	Violations of UNGC principles						✓	✓		✓
	PAI 11	Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises						✓	✓		✓
	PAI 12	Unadjusted gender pay gap*									*
	PAI 13	Board gender diversity									✓
	PAI 14	Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)					✓				
	PAI 15 (additional)	Lack of anti-corruption and anti-bribery policies						✓	✓		
	Other	Exposure to conventional weapons					✓	✓			✓
Other	Exposure to addictive products						✓	✓	✓		

*We do not systematically take into account PAI 12 due to the very low data availability. We do however use it as an engagement point when speaking with Board or management at investee companies as appropriate.

Consideration of Adverse Impacts: Sovereign Issuers

SOVEREIGN ISSUERS			PRODUCT LEVEL	
			Level 2 Exclusions	
			DNSH Thresholds	
Principal Adverse Impacts	Indicators		SI eligibility of general bonds	
			Countries identified as state sponsors of terrorism, with serious deficiencies in measures to combat financial crime, or subject to international sanctions.	Countries significantly undermining international security by perpetuating internal unrest or external aggression or associated with severe social violations
Environmental	PAI 15	GHG intensity		✓
Social	PAI 16	Countries subject to social violations	✓	✓

APPENDIX D – ACTIVE OWNERSHIP GUIDELINES

A. Corporate Governance

As a long-term investor in equity and debt instruments, we are convinced that corporate governance is a critical element of companies' success. Aligned with the International Corporate Governance Network we agree that the sustainable success and value creation of a company involves meeting legitimate investor needs for returns on capital while maintaining positive relations with key stakeholders, including the workforce, customers, suppliers, communities, and civil society more broadly.

The principles outlined below are based on generally accepted standards for well-governed companies. They address the way companies are directed and controlled and cover 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 principles, 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. As a global investor, we also recognise that local rules and cultural norms may lead to different governance standards but we encourage explanations where divergence occurs from these principles.

Whilst mainly applicable to listed companies, these principles can also be applied, where relevant, by bondholders, or other providers of debt, 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:

- a. Strike an appropriate balance between fixed and variable, short and long-term elements of pay, placing a premium on reward for genuine sustained performance.
- b. Prioritise simplicity and transparency of metrics in performance measures.
- c. 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 green-house gas reduction targets and/or decarbonisation efforts.

- d. Focus incentive arrangements primarily on total corporate performance and only then on are-as of individual responsibility.
- e. 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.
- f. Not re-price, adjust or amend “in-flight” stock options and awards.
- g. Encourage appropriate levels of long-term share ownership amongst the company leadership and, where possible, foster share ownership throughout all layers of the organisation.
- h. Avoid service contracts and provisions providing compensatory arrangements in excess of one year.
- i. 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.
- j. 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 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 buy-back 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.

B. Fossil Fuels

As a long-term investor, Pictet Asset Management is committed to addressing financially material climate risks and opportunities in our investments and supporting the transition to a low-carbon economy in line with the objectives of the Paris agreement. This is particularly relevant for investments in the fossil fuel industry, considering that fossil fuels are the largest contributor to greenhouse gas emissions²¹.

Building upon the Climate Investment Principles of the Pictet Group, the active ownership guidelines outlined below provide a framework for engaging with companies active in the extraction and production of fossil fuels.

Notwithstanding the aspirational nature of these principles, we recognise that the transition to a low carbon economy is a long-term, complex and multi-dimensional issue. Therefore, we take a holistic approach to analysing a company's position, acknowledging that every case is unique and at a different stage of maturity.

1. BOARD OVERSIGHT OF CLIMATE CHANGE

We advocate for robust board oversight of climate-related risks and opportunities. This includes ensuring that boards have the necessary expertise and information to effectively set transition strategies that are integrated into the company's governance practices, including executive remuneration, risk management and reporting. We reserve the right to vote against Board members of (i) companies that have material exposure to oil & gas and lack a credible transition strategy and (ii) companies that are expanding thermal coal mining or power generation capacity.

2. SHORT- AND LONG-TERM DECARBONISATION TARGETS

We encourage companies to set and disclose ambitious short- and long-term decarbonisation targets, including those addressing material Scope 1,2 and 3 emissions. These targets should be supported by credible transition plans.

3. NET ZERO COMMITMENT

We support the adoption of net zero commitments by companies, with clear timelines and interim targets. Companies should provide detailed plans on how they intend to achieve net zero emissions, including investment plans.

4. ACTIONS ON METHANE EMISSIONS

We engage with companies to implement best practices for methane emissions management, including regular monitoring, reporting, and reduction strategies. Given the high global warming potential of methane, we emphasize the importance of minimizing leaks and venting across the value chain.

²¹ IPCC (2022), Climate Change 2022: Mitigation of Climate Change