Rothschild & Co
Wealth Management

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Sustainable Investment Approach

How we consider ESG factors within our investment process

Cover: a view across the mountains and into the valley below at Wengen, Lauterbrunnen, Switzerland.

1. Introduction

This document describes how environmental, social and governance (ESG) factors are integrated into the investment activities at Rothschild & Co Bank AG (the Bank). The Bank comprises of both the Swiss Bank and its subsidiaries Rothschild & Co Vermögensverwaltung GmbH in Germany, Rothschild & Co España S.A. in Spain, Rothschild & Co Wealth Management (Europe) SA Luxembourg, Rothschild & Co Wealth Management Israel (R&COWMI) Ltd. in Israel and the Rothschild & Co Wealth Management Middle East.Limited in the UAE.

The Bank is part of the Rothschild & Co Group, which comprises of four divisions: Global Advisory (GA), Wealth Management (WM), Asset Management (AM) and Merchant Banking.

The Bank believes the consideration of ESG factors is essential for three reasons:

1. It helps to mitigate risk and possibly enhance performance for our clients' wealth.
   Companies with high ESG standards tend to be better managed and might offer superior long-term profitability. Moreover, ESG is becoming an increasingly important factor in financial markets with the stocks and bonds of companies with inferior ESG track-records more likely to be downgraded.

2. It helps contribute to a more equitable and sustainable world.
   The Bank sees responsible investing as an opportunity to achieve a lasting impact by playing an active role in the successful transformation of industries towards a more sustainable future. This can be achieved through good stewardship and active ownership with the aim to foster better ESG practices.

3. It meets growing ESG awareness from the Bank's clients.
   Clients' attention to ESG issues is increasing. The Bank wants to evolve its investment activities to better meet these requirements and needs.

The main pillars of the Bank's ESG approach are:

1. Exclusion guidelines.
   These describe which investments are excluded due to the negative social and environmental impact of the investee companies.

2. Definition of sustainable investments
   This section describes the Bank's definition of sustainable investments as well as investments aligned with environmental and social characteristics according to the guidelines introduced by the SFDR (EU Sustainable Finance Disclosure Regulation).

3. Integration of ESG in security selection, portfolio construction and advisory
   This section outlines how the Bank integrates ESG aspect into its portfolio management and advisory activity.

4. Bank's stewardship activities.
   This includes having an active voting and engagement policy. See the Bank's Stewardship Guidelines for more information.

These pillars apply to the Bank's discretionary mandates including the funds the Bank manages, as well as its advisory business.

2. Exclusion guidelines

The Bank's exclusion guidelines can be summarised as:

1. Exclusion of companies that have any tie with the production or distribution of controversial weapons.
2. Exclusion of companies that breach one or more of the principles of the UN Global Compact.
3. Exclusion of companies involved in thermal coal production, exploration, mining and processing, and power generation using thermal coal.
4. Exclusion of companies with significant exposure to the production, supplying, retailing and distribution of tobacco.
5. Exclusion of companies below a minimum ESG rating.

2.1. EXCLUSION OF COMPANIES WITH AN INDUSTRY TIE TO CONTROVERSIAL WEAPONS

Aligned with SFDR, we define controversial weapons as landmines, cluster munitions, chemical or biological weapons. An industry tie includes ownership, manufacturing, or distribution. The list of companies is produced using the database of the MSCI ESG Manager[1] by screening companies with the field "any tie" to controversial weapons according to SFDR.

2.2. EXCLUSION FOR COMPANIES WITH SERIOUS VIOLATION OF THE PRINCIPLES OF THE UN GLOBAL COMPACT

Companies with very severe violations of some of the ten principles of the United Nations (UN) Global Compact[2] are excluded from the investment universe.

The ten principles cover:

- **Human Rights:** Protection of human rights and no involvement in human rights abuses
- **Labor:** Enable freedom of association and collective bargaining, eliminate all forms of forced labor, abolish child labor and elimination of discrimination of employment and occupation
- **Environment:** Support approaches to environmental challenges, promote environmental responsibility and encourage development of environmentally friendly technologies
- **Anti-Corruption:** Work against corruption in all its forms

The list of companies is produced using the database of the MSCI ESG Manager by screening companies with the field "UN Global Compact Alignment" set to "Fail".

2.3. THERMAL COAL EXCLUSION GUIDELINES

Due to the high CO2 emissions caused by the burning of coal and its impact on global warming, the Bank will not invest (or lend money to) companies heavily involved in the mining of coal and the production of electricity with coal. Metallurgical coal used in the production of steel is not considered since there are currently no alternative technologies in the field.

a. Involved in new thermal coal mining, thermal coal fired power plants or in the development or expansion of coal transportation assets or other coal-related infrastructures;
b. Coal share of revenue of more than 10% for companies from the mining and power sector;
c. Coal share of revenue of more than 50% for companies involved in coal services such as coal exploration, processing, trading, transport & logistics, equipment manufacturing, coal-related maintenance and engineering services, and coal-to-liquids and coal-to-gas production;
d. Annual thermal coal production exceeds 10 MT per year;
e. Installed coal capacities are greater than 5 GW.

For a group of companies, the exclusion applies to all that meet the criteria. For example, if a subsidiary has a csr >10% but the parent company does not, then the subsidiary and not the parent company will be excluded.

The exclusion data stem from the latest available Global Coal Exit List by Urgewald (www.urgewald.org), an NGO based in Germany. The list is usually updated yearly. These thresholds are applicable as of 2024 and will annually be reviewed.

[1] A product from MSCI ESG Research LLC available on the MSCI ONE platform.

[2] https://www.unglobalcompact.org/what-is-gc/mission/principles

The Bank, together with the Rothschild & Co Group, can exempt from exclusion those companies based in an OECD country that have a credible coal exit plan by 2030 and by 2040 if based elsewhere.

An analyst within the Group (the sponsor) is responsible for analysing the company, its exit plans and proposing the exception. The exception list is approved by the Wealth & Asset Management Sustainability Committee.

Additionally, green bonds issued by "excluded" companies are exempt from exclusion. If a bond can be considered as a green bond instrument is verified by the respective fixed income analyst.

2.4. TOBACCO EXCLUSION GUIDELINES

The Bank excludes issuers with high exposure to tobacco from its investments to align with its commitment to social responsibility, as tobacco products are linked to significant public health issues and environmental harm. Additionally, avoiding tobacco investments helps the Bank mitigate long-term financial risks associated with increasing regulation and litigation in the tobacco industry. We define high exposure via the following criteria:

a. Producers (5% of revenue)

b. Suppliers, retailers and distributors (15% of revenue)

The revenues are estimated by MSCI ESG Manager and added into our data feed. This contributes to our ability to monitor issuers and our portfolio.

2.5. MINIMUM ESG RATING

ESG ratings are separated into seven brackets: AAA (leader), AA (leader), A, BBB, BB, B (laggard), CCC (laggard). An ESG rating is an industry-adjusted metric and includes the assessment of material topics across the Environmental, Social and Governance pillars, such as climate change, pollution, human capital, corporate governance, or corporate behaviour.

We exclude those companies from our investments with an MSCI ESG rating[3] of CCC and B. These are the two lowest ratings and show that the company has insufficient environmental, social, governance and practices. If a stock in the universe is downgraded to below BB, it must be excluded from the universe and sold within three months' time. Bonds may be grandfathered, meaning that existing positions can be kept until maturity, if liquidity is low.

[3] See, https://www.msci.com/esg-and-climate-methodologies

2.6 EXCLUSION CRITERIA FOR INDEXED SECURITIES AND THIRD-PARTY FUNDS

We exclude long-only funds and indexed securities with an overall rating below BB. We also exclude those with a cumulative exposure of 10% to excluded companies per our exclusion rules. The assessment is based on the MSCI ESG Manager.

2.7 OUT OF SCOPE ASSETS

Hedge funds are not in scope of the exclusion monitoring. However, they are emphasized upon as part of the ESG onboarding and Investment Due Diligence, through which we submit a questionnaire demanding the fund be transparent on its investments into controversial entities (UNGC breachers, Landmines and Cluster Bombs, Chemical and Biological weapons, Thermal Coal, Oil & Gas, Tobacco and Alcohol).

Other out of scope assets include Private Assets and Derivatives due to a lack of methodology and/or data availability.

BOX 1: IMPLIED TEMPERATURE RISE

- MSCI ESG Research LLC bases its calculations on one of several carbon budgets reported by the Intergovernmental Panel on Climate Change (IPCC), which provides policymakers with a scientific assessment on climate change on a regular basis.
- This Implied Temperature Rise (ITR) is calculated based on companies' current and future carbon emissions.
- Future emissions are measured by using carbon budgets. These are set to quantify the amount of CO2 a company can emit by 2050 to limit its contribution to below 2°C of warming.

3. The Bank's definition of Sustainable Investments and investments aligned with other environmental and social characteristics

Following the Sustainable Finance Disclosure Regulation (SFDR)[4] from the European Union, investments can be split into two categories, namely investments that have environmental and social characteristics and investments that do not. Investments with environmental and social characteristics can be further split into three pillars, namely sustainable investments, EU Taxonomy-aligned investments, and investments aligned with other environmental and social characteristics.

3.1. SUSTAINABLE INVESTMENTS

3.1.1. Corporate securities (stocks and bonds)

We follow the guidelines of the SFDR regulation to define a sustainable investment. According to SFDR a sustainable investment is an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

[4] See, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN

[5] See, MSCI ESG Research LLC, https://www.msci.com/eqb/methodology/meth_docs/MSCI_ACWI_Sustainable_Impact_Index_Feb2020.pdf, p.5 ff.

BOX 2: SUSTAINABLE IMPACT FRAMEWORK[5]

ENVIRONMENTAL IMPACT	Climate change	Alternative energy
		Energy efficiency
		Green buildings
	Natural capital	Sustainable water
		Pollution prevention and control
		Sustainable agriculture
SOCIAL IMPACT	Basic needs	Nutrition
		Major disease treatments
		Sanitation
		Affordable real estate
	Empowerment	Small/medium enterprise finance
		Education
		Connectivity

According to this framework the Rothschild & Co Group has defined specific metrics that an investment or the investee company must meet to be considered as sustainable.

Environmental and social objective
With a harmonized approach across the Rothschild & Co Group, an environmental or social objective of a company is given, if the company is either aligned with a warming pathway agreed on in the Paris Agreement back in 2015 (COP21)[6], or if the company has a substantial share of revenues contributing positively to an environmental or social objective.

Paris-Alignment
In measuring the alignment with a warming pathway in-line with the Paris Agreement, below 2°C, the Bank uses the Implied Temperature Rise (ITR) metric developed by MSCI ESG Research LLC. The ITR metric is a forward-looking metric ranging from 1.3°C to 10°C.[7]

A company needs an ITR being not higher than 2°C to be "Aligned[8]" and to be considered as having a sustainable environmental objective.

Sustainable impact solutions
The other condition for a company to be considered as sustainable by Rothschild & Co is to have a share of revenues in sustainable impact solutions of at least 20%. The company can have at least 20% of its total revenues or capital expenditures derived from products/services that have a positive environmental and/or social contribution as defined by the EU Taxonomy regulation or MSCI ESG Research LLC.

In measuring revenue exposure to sustainable impact solutions, the Bank uses the metric of Sustainable Impact Solutions, a Revenue Percentage developed by MSCI ESG Research LLC as well as the EU Taxonomy.

Sustainable Impact Solutions - Revenue Percentage is a numeric value expressed in percentage, ranging from 0-100%, showing the revenue of companies derived from products and services with positive impact on the society and/or the environment. The general themes considered for revenue exposure are climate change, natural capital, basic needs, and empowerment (see Box 2 for more details).

Good Governance (GG) Practices
In measuring good governance practices, the Bank uses the governance score developed by MSCI ESG Research LLC and emphasizes certain criteria. This metric is a numerical value, that can range from 0-10 and is one of the three Environmental, Social and Governance pillars of the overall MSCI ESG rating. The governance score covers the themes of cooperate governance and corporate behaviour. Topics such as ownership and control, board, pay, accounting, business ethics and tax transparency are considered across both themes. [9]

The Bank requires a governance score of at least three with additional weight being places upon financial materiality such as remuneration, tax and bribery & corruption.

Do No Significant Harm (DNSH)
The last condition to be assessed for a company to be considered as sustainable is that it does not do any significant harm to environmental and/or social objectives.

[6] See, https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement

[7] See, MSCI ESG Research LLC, https://www.msci.com/our-solutions/climate-investing/net-zero-solutions/implied-temperature-rise

[8] Given the specificizes of the ITR model a 2°C boundary fits best to the below 2°C Paris-aligned target, see https://www.msci.com/our-solutions/climate-investing/net-zero-solutions/implied-temperature-rise

[9] See https://www.msci.com/documents/1296102/34424357/MSCI+ESG+Ratings+Methodology.pdf

[10] https://www.eba.europa.eu/regulation-and-policy/transparency-and-pillar-3/joint-rts-esg-disclosure-standards-financial-market-participants

BOX 3: GOOD GOVERNANCE PRACTICES

QUALITATIVE GOVERNANCE	At least 50% independent board members
	Measures or policies to monitor employee satisfaction
	Compliance with the UN Global Compact Principles
SOCIAL IMPACT	Under 10% of shareholders voted against some company's pay policies and there are no severe controversies concerning remuneration practices
	The company does not pay less than 20% taxes compared to its statutory tax rates and there are no severe controversies concerning taxes.
	Robust bribery and anti-corruption policy in place and facing no significant allegations of bribery or corruption.
MSCI GOVERNANCE SCORE	Incorporates all indicators as per the MSCI methodology

In the Regulatory Technical Standards (RTS)[10] of the SFDR the EU describes a set of 64 indicators, the Principal Adverse Impact Indicators (PAIs), to assess of the sustainability performance or any adverse impact on sustainability aspects. The PAIs indicators measure climate and environmental performance, but also social matters.

For the DNSH criteria to be fulfilled, the Bank requires from a company to report on the subset of PAIs outlined in the table below. For industry-specific PAIs, companies are expected not to be in the lowest quintile. For the other PAIs we outline expected criteria to be met. Finally, the company will be evaluated on penalization basis for all below listed PAIs to assess if no significant harm is done.

3.1.2. Bonds issued by government-related and supranational issuers

Debt securities issued by states are considered sustainable if the issuing state meets, firstly, the following conditions:

- Transparency International Corruption Perception Index > 40[11]
- ESG score >= 4
- Rule of law indicator in the Worldwide Governance Indicators database by the World Bank > 0[12]
- Not in the EU list of non-cooperative tax jurisdiction[13]
- Fundamental rights sub-score of the World Justice Project Rule of Law Index[14] >=0.5
- Ratified the Paris Agreement[15]
- Ratified the UN Convention on Biological Diversity, with or without subscription of the Nagoya Supplement[16]
- GINI index on equality of < 50[17]
- Freedom House index = "Free"[18]

Furthermore, the decarbonisation plans, and efforts of the state must be considered either "sufficient" or "almost sufficient" by the Climate Action Tracker[19], an independent initiative with the major task of tracking government climate action against the agreed goals of the Paris agreement of keeping warming well below 2°.

Regional and local governments inherit the same characteristics of the national government. Supranational organisations will generally inherit the sustainability characteristic of the state with the biggest underlying financing share.

3.1.3. Green and social bonds

Green bonds are considered sustainable if

[11] www.transparency.org/en/cpi/2021

[12] http://info.worldbank.org/governance/wgi/

[13] https://taxation-customs.ec.europa.eu/common-eu-list-third-country-jurisdictions-tax-purposes_en

[14] https://worldjusticeproject.org/rule-of-law-index/

[15] https://treaties.un.org/Pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XXVII-7-d&chapter=27&clang=_en

[16] www.cbd.int/countries/

[17] https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Gini_coefficient

[18] https://freedomhouse.org/reports/freedom-world/freedom-world-research-methodology

[19] https://climateactiontracker.org/

[20] https://ec.europa.eu/finance/docs/level-2-measures/C_2022_1931_1_EN_annexe_acte_autonome_part1_v6.pdf

TABLE 1: MAIN PAIs ASSESSED BY THE BANK, DESCRIBED BY THE SFDR[20]

GREENHOUSE GAS EMISSIONS[21]	2. Carbon footprint
	3. GHG intensity of investee companies
	4. Exposure the fossil fuel sector
	5. Share of non-renewable energy consumption and production
	6. Energy consumption intensity per high impact climate sector
BIODIVERSITY	7. Activities negatively affecting biodiversity-sensitive areas
	8. Emissions to Water
WASTE	9. Hazardous waste materials
SOCIAL AND EMPLOYEE MATTERS	10. Violations of UN Global Compact principles and OCDE guidelines
	11. Processes to monitor compliance with UN Global Compact principles and OECD Guidelines
	12. Gender Pay Gap
	13. Board gender diversity
	14. Exposure to controversial weapons

It should be noted that any violation of our exclusion policy is naturally taken as a harmful activity.
The information on the single PAIs is delivered to the Bank by MSCI ESG Research LLC. Furthermore, the Bank uses the UN Global Compact indicator developed by MSCI ESG Research LLC to assess if a company breaches the UN Global Compact principles or OECD Guidelines for Multinational Enterprises[22], as outlined in section 2.2. In addition, a company should have no exposure to controversial weapons (PAI 14). For more information, a chart explaining the framework can be found in the appendix.

they meet the Green Bond Principles (GBP) by the International Capital Market Association (ICMA). Likewise, social, sustainability and sustainability-linked bonds are considered as sustainable if they meet the corresponding principles by the ICMA[23].

3.1.4. Funds and indices

The share of sustainable investments is defined and calculated by the fund manufacturer and needs to be reported, if the product is registered for the European market and is classified as Article 8 or Article 9 according to SFDR regulation. In general, the definition of sustainable investments might depart from the definition of Rothschild & Co.

Information on the share of sustainable assets can be taken from the products European ESG Template (EET) or other product disclosures, if available.

The share of sustainable investments for Article 6 funds or funds outside of the EU not reporting according to SFDR is zero. An exception are Swiss-domiciled funds for which the share of sustainable assets may be calculated on a look-through basis according to the Bank's sustainability definition for single securities.

The share of sustainable investments for market indices is calculated on a look-through basis according to the Bank's sustainability definition for single securities.

3.1.5. Other securities

Money market accounts and physical commodities are out-of-scope. More specifically, they are securities related to commodities that are physically deposited. Commodity funds are also out-of-scope.

The sustainability criteria and definition for the securities of non-liquid asset classes such as real estate, private equity and debt as well as hedge funds, derivatives and structured products will be defined at a later stage if feasible.

3.2. INVESTMENTS ALIGNED WITH THE EU TAXONOMY

The goal of the taxonomy implemented by the EU is to define if certain economic activities can be counted as sustainable activities or not.

In a first place it is assessed, if an economic activity is eligible (e.g., production of vehicles) and afterwards if it is aligned (e.g., zero emission vehicles) with the taxonomy. The EU hereby defines certain criteria and thresholds an economic activity needs to fulfil to be taxonomy aligned[24] [25]. For a company, the taxonomy alignment is reported as the percentage of revenues or capital expenditures that are generated by taxonomy aligned activities.

For companies that have not reported on their taxonomy alignment, we will use the corresponding estimation by MSCI ESG Research LLC.

For funds and indices, the EU Taxonomy alignment is calculated as a weighted average of the corresponding position values. The value is taken from the European ESG Template (EET) as calculated by the product manufactures, if available. Otherwise, we calculate it on a look-through basis.

3.3. INVESTMENTS ALIGNED WITH OTHER ENVIRONMENTAL AND SOCIAL CHARACTERISTICS

Some investments do not qualify as sustainable; however, the investee company or government issuer might follow standards or practices that are aligned with other environmental and social characteristics. Rothschild & Co Group has defined specific metrics that have to be met for an investment to be considered aligned with other environmental and social characteristics.

3.3.1. Corporate securities (stocks and bonds)

A company is aligned with other environmental and social characteristics if, firstly, it meets the DNSH criteria as described in sub-section 3.1.1. Secondly the company must have an MSCI ESG rating of at least AA[26] from MSCI ESG Research LLC.

With this approach, the Bank wants to ensure, that the company does not harm environmental and social objectives and has superior ESG performance across its three pillars: Environment, Social and Governance

3.3.2. Bonds issued by government-related and supranational issuers

Debt securities issued by states are considered aligned with other environmental and social characteristics if they meet the first set of criteria outlined in section 3.1.2. but their efforts to reduce carbon emissions are considered not sufficient by the Climate Action Tracker.

[21] Due to a lack of available data, we are postponing the inclusion of PAI 1 (Scope Emissions) into the framework until it becomes available

[22] www.msci.com/documents/1296102/14524248/MSCI+ESG+Research+Controversies+Executive+Summary+Methodology+-++July+2020.pdf/b0a2bb88-2360-1728-b70e-2f0a889b6bd4

[23] www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/

[24] https://eur-lex.europa.eu/legal-content/EN/

[25] https://eur-lex.europa.eu/eli/reg_del/2021/2139/oj/

[26] www.msci.com/documents/1296102/21901542/ESG-Ratings-Methodology-Exec-Summary.pdf

Regional and local governments inherit the same characteristics of the national government. Supranational organisations will generally inherit the sustainability characteristic of the state with the biggest underlying financing share.

3.3.3. Funds and indices

For third-party funds, the following conditions apply:

An article 8 or 9 fund/ETF needs to report its share of sustainable investments, investments aligned with environmental or social (E/S) characteristics, as well as taxonomy-aligned investments. In contrast, Article 6 funds or those without SFDR classification are not considered sustainable or aligned with E/S characteristics. Consequently, they do not need to report, and the corresponding investment shares are always zero.

The figures are reported in the European ESG Template (EET) and/or on the manufacturer's website. If available, the reported share of sustainable investments is used to calculate the corresponding metric at the portfolio level.

The fund manufacturers' definition of sustainable investments does not need to be, and is in most cases not, the same as that of R&Co Bank. However, it must adhere to the SFDR framework, which requires that the investments have an environmental or social objective, follow good governance practices, and do not significantly harm (DNSH) the stated environmental or social objective.

For Swiss-domiciled funds not reporting into the EET the share of assets aligned with other Environmental or Social (E/S) characteristics may be calculated on a look-through basis according to the Bank's definition for single securities.

The share of assets aligned with other E/S characteristics for market indices is calculated on a look-through basis according to the Bank's corresponding definition for single securities.

3.3.4. Other securities

Money market accounts and physical commodities are out-of-scope, more specific: Securities related to commodities that are physically deposited. **That means liquid and physical commodities do not have ESG characteristics.**

The sustainability criteria and definition for the securities of non-liquid asset classes such as real estate and private equity and debt as well as hedge funds, derivatives and structure product products will be defined at a later stage, if feasible.

3.4. INVESTMENT ALIGNED WITH E/S CHARACTERISTICS

A bond or stock investment is aligned with E/S characteristics if it either sustainable or aligned with other E/S characteristics. If it is none of the two but some of the activities of the investee company are taxonomy -aligned according to section 3.2 then the investment will be aligned to E/S characteristics for the share of the sales of the investee company that are taxonomy-aligned.

For a third-party the share of investments aligned with environmental and social characteristics is the maximum of the share of sustainable investments (%), share of investments aligned with EU Taxonomy (%) and investments aligned with other E/S characteristics (%), as reported in the European ESG Template (EET).

For Swiss-domiciled funds not reporting on the share of assets aligned with E/S characteristics within the EET, the metric is calculated on a look-through basis according to the Bank's sustainability definition for single securities.

Likewise, the share of assets aligned with E/S characteristics for market indices is calculated on a look-through basis according to the Bank's corresponding definition for single securities.

4. Integration of ESG in security selection, portfolio construction and advisory

4.1. SECURITY SELECTION

4.1.1. Stocks and bonds

The main goal of our security selection is to contribute to the achievement of above-average financial risk/return characteristics for the Bank's strategies and portfolios over the medium to long term. A security should firstly deliver the exposures to asset classes, markets and sectors that are required to reach the desired tactical positioning within the Bank's top-down approach. Secondly the security should offer a positive idiosyncratic return, i.e., a return above that of its industry peers.

The same approach is applied for ESG considerations. A security should contribute to the overall ESG goals of our portfolios (see section 4.2). We will therefore tend to favour companies and its securities that score better than peers across the range of metrics that we use to measure and assess the ESG characteristics and performance of our portfolios.

4.1.2. Funds

We have introduced a structured questionnaire supporting us to assess the ESG characteristics of third-party funds. This aids us in monitoring their Responsible Investing Frameworks and ESG reports.

The required data is sourced from the European ESG Template or other sources from the fund manufacturer and provided by our data provider MSCI ESG Research LLC.

[27] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R1253&from=EN

R&Co Fund ESG Score

The required data is sourced from the European ESG Template or other sources from the fund manufacturer and provided by our data provider MSCI ESG Research LLC.

The scores can range from 0 to 10 and is the sum of the sub-scores. The calculation is summarized in table 2 and includes factors focused on regulation such as SFDR, PAI, or the EU Taxonomy. The score serves as the deciding factor for fund selection when comparing two otherwise similar funds.

4.2. PORTFOLIO CONSTRUCTION AND ADVICE

4.2.1. MiFID II sustainability

The Bank has implemented the delegated act[27] regarding MiFID II to consider sustainability preferences of investors and to match adequate investment portfolios across all its locations.

The Bank has defined three types of investors depending on their interest in sustainability: "neutral", "interested" and "very interested". For neutral investors no requirements are set for the suitable portfolios. For interested investors the suitable portfolios must have at least an allocation of 30% in investments with E/S characteristics as defined in Chapter 3.

For "very interested" investors the corresponding minimum allocation must be at least 65%.

In exceptional phases caused by the capital market environment or in the build-up phases of a portfolio, the liquidity position may be above average.

TABLE 2: ESG INDICATORS

		ESG FACTORS (VIA MSCI ESG RESEARCH)	CONDITION
FUND ESG SCORE	SFDR	Fund Classification	Article 6 or not available, Article 8, Article 9
		% Sustainable Investments	0-100%
	PAIs	Considers PAIs?	No, Yes
	EU Taxonomy	% EU Taxonomy	0-30% or higher
	Engagement practices	Proxy Voting in place?	No, Yes
	Climate change	Implied Temperature Rise (°C)	>2, <=2, <=1.5
	EET audit	Audited by Third-party?	No, Yes

* If the liquidity is more than 20%, the calculation in investments with E/S characteristics defined by the SFDR (Chapter 3) is based on securities (stocks, bonds, funds) and 20% liquidity.

* Liquidity of more than 20% is therefore not taken into account in the calculation.

This rule is limited to the exceptional phases defined above and to a maximum time period of 3 months. Thereafter, the client's sustainability preferences must be met again.

4.2.2. ESG implementation in discretionary portfolio management

The main objective of portfolio management is to achieve a superior risk-adjusted performance relative to benchmark over the medium to long term.

Provided that this main objective is not compromised and that the criteria for target market suitability are met the objective is to outperform the corresponding benchmarks across the sustainability metrics in Table 3 below.

In general, the benchmarks are composed of "traditional" market indices, meaning indices with no ESG or similar tilt. They represent therefore the average ESG characteristics of the underlying security markets.

4.2.3. ESG implementation in portfolio advisory

Discretionary portfolio management and portfolio advisory are both services based on the same investment strategies and hence ESG approach.

However, contrary to discretionary management, in advisory the client has the last call on the proposed transactions and can also do transactions not recommended by the Bank.

As to ESG the Bank shall only recommend investments that are allowed by the exclusion guidelines and that are in line with the sustainability preferences of the client according to MiFID II.

If some investments are a dedicated client wish, the client shall be made aware of those investments that are not in line with the Bank's ESG approach, or if those investments lead to an overall portfolio allocation no longer suitable to the client's sustainability preferences.

4.3. MINIMUM PORTFOLIO COVERAGE REQUIREMENTS

The portfolio coverage for an indicator is defined as the ratio of the position-weighted sum of the securities for which the indicator is available and the position-weighted sum of all the securities that are in scope for that indicator.

For the calculation and reporting of the portfolio ESG indicators (Table 3) a coverage of at least 80% is required. If this not the case the Bank must increase the share of securities for which the indicator is available. Assets such as cash are considered out of scope and thus not counted in the overall assessment.

TABLE 3: TARGETED ESG METRICS

PORTFOLIO METRIC	DEFINITION
Share of investments with E/S Characteristics	As defined in this document
Share of sustainable investments	As defined in this document
Portfolio ESG score	Position weighted average of MSCI ESG score of the portfolio companies
Carbon footprint	Financed scope 1, 2, 3 CO_2e emission per EUR Mil. invested as reported or estimated by MSCI ESG Research LLC
MSCI Governance Score	Incorporates all indicators as per the MSCI methodology

5. Being an active ESG investor

Through good stewardship as an active investor, the Bank aims at encouraging the companies it invests in to improve their ESG risk management, enhance disclosure and develop more sustainable business practices.

This can be achieved by the Bank exercising its voting rights for the companies it is invested in and by engaging with companies and discussing/promoting ESG practices either individually or in collaboration with other investors.

5.1. EXERCISE OF VOTING RIGHTS (PROXY VOTING)

The Swiss Bank exercises the voting rights of the stocks it recommends and in which it is invested directly through its discretionary mandates and the funds it manages.

For some funds for which Rothschild & Co Vermögensverwaltung GmbH is mandated with portfolio management, it acts as a voting rights advisor for the management company of these funds. For some other funds for which it is mandated with portfolio management, Rothschild & Co Vermögensverwaltung GmbH exercises the voting rights itself directly. For administrative and practical reasons, the voting rights for the shares contained in the discretionary portfolios cannot be exercised for mandates that are not funds.

A separate document describes in more detail the Bank's proxy voting policy.

The exercise of voting rights is based on recommendations by the third-party research provider Institutional Shareholder Services (ISS) according to their SRI (socially responsible investing) voting policy.

ISS SRI's recommendations are validated by the Bank's investment committee which reserves the right to deviate from these decisions.

At the end of every year the Bank issues a document listing the companies for which it has exercised its voting rights and the outcome of each vote.

5.2. ENGAGEMENT

5.2.1. Memberships

The Bank views collaborative engagement platforms and membership bodies as opportunities to increase knowledge and leverage networks to meet the demands and needs of its engagement priorities.

The Bank is a signatory of the UN's Principles for Responsible Investment (PRI). As a signatory, the Bank publicly commits to developing and contributing towards a more sustainable financial system via six underlying principles.

The Bank is also a member of Swiss Sustainable Finance (SSF). By joining SSF the Bank has access to Switzerland's central information platform for sustainable finance, including the opportunity to collaborate on industry-wide working groups to tackle some of the most pressing issues that we face as investors in the development of sustainable finance today.

5.2.2. Active engagement activities

The Bank engages with investee companies in a structured way on ESG matters and has so far taken part in collective engagement initiatives. Other companies of the Rothschild & Co Group also participate and engage in collective investor actions with companies in and outside of the Bank's investment universe.

Appendix

PRINCIPLE ADVERSE IMPACT (PAI) INDICATORS

	PAI	DESCRIPTION
GREENHOUSE GAS EMISSIONS	1. Greenhouse Gas Emissions	Measures the carbon footprint of investments
	2. Carbon footprint	Total emissions from the investee companies
	3. GHG intensity of investee companies	Emissions relative to revenue
	4. Exposure the fossil fuel sector	Investments in fossil fuel companies
	5. Share of non-renewable energy consumption and production	Proportion of energy from non-renewable sources
	6. Energy consumption intensity per high impact climate sector	Energy use relative to revenue
BIODIVERSITY	7. Activities negatively affecting biodiversity-sensitive areas	Impact on biodiversity
	8. Emissions to Water	Pollutants released into water bodies
WASTE	9. Hazardous waste materials	Proportion of hazardous waste generated
SOCIAL AND EMPLOYEE MATTERS	10. Violations of UN Global Compact principles and OCDE guidelines	Breaches of international standards
	11. Processes to monitor compliance with UN Global Compact principles and OECD Guidelines	Absence of monitoring systems
	12. Gender Pay Gap	Gender pay disparity
	13. Board gender diversity	Proportion of women on boards
	14. Exposure to controversial weapons	Investments in controversial weapons
REAL ASSETS	15. Energy Consumption Intensity per Square Meter	Energy use in real estate
	16. Fossil Fuel Consumption	Use of fossil fuels in real estate operations
SOVEREIGNS AND SUPRANATIONALS	17. Investments in Countries with Social Violations	Sovereign investments in countries with social issues
	18. Investments in Countries with Environmental Violations	Sovereign investments in countries with environmental issues

MSCI ESG RATINGS MODEL HIERARCHY

3 PILLARS	10 THEMES	KEY ISSUES
ENVIRONMENT	CLIMATE CHANGE	Carbon Emissions
		Climate Change Vulnerability
		Financing Environmental Impact
		Product Carbon Footprint
	NATURAL CAPITAL	Water Stress
		Biodiversity & Land Use
		Raw Material Sourcing
	POLLUTION & WASTE	Toxic Emissions & Waste
		Packaging Material & Waste
		Electronic Waste
	ENVIRONMENTAL OPPORTUNITIES	Opportunities in Clean Tech
		Opportunities in Green Building
		Opportunities in Renewable Energy
SOCIAL	HUMAN CAPITAL	Labor Management
		Health & Safety
		Human Capital Development
		Supply Chain Labor Standards
	PRODUCT LIABILITY	Product Safety & Quality
		Chemical Safety
		Consumer Financial Protection
		Privacy & Data Security
		Responsible Investment
	STAKEHOLDER OPPOSITION	Controversial Sourcing
		Community Relations
	SOCIAL OPPORTUNITIES	Access to Finance
		Access to Health Care
		Opportunities in Nutrition & Health
GOVERNANCE	CORPORATE GOVERNANCE	Ownership & Control
		Board
		Pay
		Accounting
	CORPORATE BEHAVIOR	Business Ethics
		Tax Transparency

GOOD GOVERNANCE (GG) BREAKDOWN CHART

	PENALTY	DESCRIPTION
QUALITATIVE GOVERNANCE	1	Less than 50% **independent board** members
	+	
	0.5	No measures or policies to monitor **employee satisfaction**
	+	
	1	No compliance with the **UN Global Compact Principles**
	+	
FINANCIAL MATERIALITY	2	At least 10% of shareholders voted against some company's **pay** policies or there are severe controversies concerning **remuneration** practices
	+	
	2	The company pays less than 20% **taxes** compared to its statutory tax rates or there are severe controversies concerning taxes
	+	
	2	No or too narrow **bribery** and anti-corruption policy in place or facing significant allegations of bribery or **corruption**
	+	
	8.5	If MSCI Governance Score <3 then **penalty 8.5**

We calculate the good governance score GG as 17 minus sum of penalties and rescale to 0-10

= **GG SCORE > 7.25**

GG SCORE < 7.25 FAIL GG

DO NO SIGNIFICANT HARM (DNSH) BREAKDOWN CHART

EXCLUSIONS

UN Global Compact Violation	Any Tie to Controversial Weapons	Significant Involvement in thermal coal	More than 5% tobacco revenues

↓

if breach → **fail DNSH and score = 0**

SAME ASSESSMENT FOR ALL INDUSTRIES

Share of non-renewable energy consumption	Exposure to fossil fuel sector	Board Diversity	Gender Pay Gap	No monitoring of global norms	Impact on biodiversity
If >90% excessive use of fossil fuels	**If yes,** then significant contribution to warming	**If less than 10% of female directors** in the board	**If male earn 20% more** than female employees	**If yes,** then potential societal damage	**If yes,** then potential biodiversity damage

↓

1 or not reporting → **penalty**

ASSESSMENT RELATIVE TO INDUSTRY PEERS

Carbon footprint	Carbon Intensity	Energy consumption intensity	Emissions to Water	Hazardous waste intensity

If company does not report but at least 30% of the peers report

↓

2 Unsatisfactory reporting practices → **penalty**

If company belongs to the 20% worse scoring industry peers

↓

3 Bottom of the range → penalty

COUNT PENALTIES

1 + 2 + 3 = Calculate: Possible max penalties – sum penalties & rescale (0-10)

DNSH SCORE

10 : Not harm
0 : Maximum harm
<7 : Fail DNSH

Important information