



Group Sustainability Risks in Investments Policy

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I. KEY DEFINITIONS

- **Engagement** – The act of undertaking constructive dialogue with investee companies/issuers with a view to improve environmental, social, and governance (ESG) practises.
- **ESG factors** – environmental, social or governance aspects. Examples of such aspect are pollution, carbon emissions, health & safety, labour conditions, board diversity, and anti-corruption.
- **Exclusion** – the act of barring an entity's securities from being purchased for a portfolio due to business activities that are deemed unethical, harmful to society, or in breach of laws or regulations.
- **Funds** – collective investment vehicle that is widely held which holds a diversified portfolio of securities
- **SFDR** – Regulation 2019/2088 of European Parliament and the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector. SFDR is a European regulation introduced to improve transparency in the market for sustainable investment products, to prevent greenwashing and to increase transparency around sustainability claims made by financial market participants.
- **Sustainability risk** - is an environmental, social or governance (ESG) event or condition that, if it occurs, could cause a material negative impact on the value of the investment.
- **SI team**- shall mean in sustainable investment team which is part of the Investment & Client Solutions ('ICS').
- **FRR team**- shall mean Financial Risk and Reporting team which is part of the Risk Function at Quintet
- **GFS team**- shall mean Group Fund Solution team
- **BRM team**- shall mean Business Risk Management
- **Voting** – shareholders (typically) receive voting rights to be cast at annual or extraordinary general meetings on a range of strategic and environmental, social, and governance (ESG) matters
- **Quintet** – Quintet Private Bank Europe (S.A.) including its branches and subsidiaries.

II.PURPOSE

This document summarises our processes relating to the integration of sustainability risks in the investment decision-making and investment advisory processes, to ensure that sustainability risks are adequately identified, measured, and managed in the investment process. As per article 3(1) of the SFDR Quintet must publish and maintain on their website policies on the integration of sustainability risks in their investment decision-making process.

In September 2022, the Board of Directors (BoD) of Quintet Group revised its Risk Appetite Statement and defined its appetite for Sustainability, Climate, and Environmental risks (collectively referred to as “sustainability risks” under this policy) as low. Accordingly, the Group *“is implementing a holistic approach to assess, quantify, and monitor these risks, which are progressively integrated into its practices and processes, from the investment process to the governance, as well as strategic planning. In doing so, Quintet aims at implementing a strong control framework in place, to mitigate these risks, to the extent possible, and fulfil its role as most trusted fiduciary to its clients.”*

This low appetite for sustainability risks applies accordingly to all investments made by Quintet as part of its fiduciary duties. Sections 0.4. and 5.5. describe the activities and processes Quintet carries out to ensure a proper management and continuous monitoring of those risks.

In addition, a set of Key Risk Indicators (KRIs) have been defined and are reported on a quarterly basis to Quintet’s Board Risk and Compliance Committee (BRCC). Relevant trigger and limit levels were determined for these KRIs and are subject to periodical re-assessment, in order to continuously reflect the appetite of Quintet’s BoD for these risks.

III.TARGET POPULATION

This policy covers all employees for the following departments:

- Investment Client Solutions (ICS)
- Discretionary Portfolio Management (DPM)
- Business Management Risk (BRM)
- Group Risk

This policy covers only Quintet Investments activities, including Quintet funds and Discretionary Portfolio Management (DPM) propositions. It does not concern Quintet corporate activities.

IV.EXECUTIVE SUMMARY

- **Identification of sustainability risk:** Sources of sustainability risks to investments - including physical and transition risks, reputational risk, regulatory risk, or litigation risk of investee companies as detailed in section 5.2.

- **Management of sustainability risk:** Sustainability risks are managed through a combination of adherence to international standards, active ownership, exclusions, ESG integration, and controversy monitoring as set out in section 5.3.
- **ESG integration:** This is the process of analysing and assessing sustainability and / or ESG risks and incorporating the assessment into opportunity identification, investment assessment, investment decision making, and portfolio construction process. We set out our integration process across individual securities, collective investment vehicles and portfolios in section 5.3.5.
- **Monitoring of sustainability risk:** Ongoing monitoring of investments is conducted via the Quintet Investment Universe - the list common to all entities within Quintet that represents the set of all validated securities that can be used in discretionary portfolios or advised upon. Monitoring of single line equity and fixed income are set out in section 5.4.
- **Escalations and reporting:** Quintet operates an escalation procedure through control functions as well as designated responsible officers as set out in section 5.5.
- **Transparency and disclosure:** Quintet is committed to providing timely and relevant communication and reporting of its sustainability risk efforts both externally and internally in full compliance with the current regulatory requirements. Quintet publishes a public version of this policy and related matters on its website as well other related reports set out in section 5.6.

V.POLICY PROVISIONS

5.1. INVESTMENT RELEVANCE

Quintet views sustainability factors as sources of both risk and return and believes such factors are financially material to the investment process across a broad range of assets and geographies.

5.2. IDENTIFICATION OF SUSTAINABILITY RISKS

There are different types of sustainability risks that may impact the investment case. Not all risks may be relevant to all investments therefore the investment team identifies the material sustainability risks relevant to for the particular strategy, industry or sector etc. Examples of sustainability risks include, but are not limited to:

5.2.1. CLIMATE AND ENVIRONMENTAL RISKS TO THE INVESTMENT

Climate risks represent all possible risks to an investment induced by climate change and its consequences. They are divided into two broad categories: physical and transition risks.

Physical risks are typically the negative impacts of (i) either an increasing accumulation and intensity of acute extreme weather events, for example heat waves and storms, or (ii) longer-term chronic changes in mean values and ranges of various climate variables, for example temperature,

precipitation, and sea levels. A failure to adequately manage physical climate risks may lead to, amongst other consequences, the destruction or damage of facilities, the disruption or failure of supply chains and logistics, and potential changes in demand for products and services.

Transition risks materialise as the additional costs, loss of market share, or loss of competitiveness, induced by the transition to a greener economy. They can occur because of environmental or social factors such as emerging technologies or policies (e.g., pushing towards less polluting practises), or shifts in consumer preferences. A failure to adequately manage transition risks may lead to, amongst other consequences, the impairment of defunct or outdated assets or reserves, the loss of customers, and the need for significant capital expenditure.

Other (non-climate) environmental risks cover all negative impacts linked to a degradation of the environment, the pollution of land or marine ecosystems, losses of biodiversity, the scarcity of natural resources, etc. Despite being not directly linked to climate change, these various factors bear essentially the same types of risk for individuals, corporate firms, and society in general, as those identified above.

5.2.2. REPUTATIONAL RISK TO THE INVESTMENT

Reputational risks may arise due to a variety of reasons such as inadequate controls, excessive risk-taking, and lack of due diligence. In the event an investee entity violates a sustainability norm or fails to adequately manage its sustainability risks, the entity may suffer reputational damage. Consequences of reputational damage include, but are not limited to, a loss of customers, the loss or degradation of supplier relationships, or a withdrawal of funding from financial partners.

5.2.3. NON-COMPLIANCE RISK TO THE INVESTMENT

Non-compliance risks may arise due to voluntary or involuntary violation of the law. In the event an investee entity violates a sustainability norm or fails to adequately manage its sustainability risks the entity may suffer regulatory consequences. Regulatory consequences include, but are not limited to, monetary fines, the removal of licenses to operate, increased supervision, or reporting burdens.

5.2.4. LITIGATION RISK TO THE INVESTMENT

Litigation risks may arise due to voluntary or involuntary harm to internal or external stakeholders, caused by action or inaction. In the event an investee entity violates a sustainability norm or fails to adequately manage its sustainability risks, the entity may be subject to litigation. Consequences of litigation include, but are not limited to, monetary settlements, loss of intellectual property and removal of licenses to operate.

5.3. MANAGEMENT OF SUSTAINABILITY RISKS

The management of sustainability risks may vary per type of investment and asset class. Quintet manages sustainability risks in the following ways, as appropriate for the relevant risks.

5.3.1. ADHERENCE TO INTERNATIONAL STANDARDS

Quintet adheres to multiple international standards in favour of sustainable practices, such as the Principles for Responsible Investment. In addition, it encourages investee entities to adopt the same level of standards. For instance, Quintet requires investees to adhere to the United Nations' Global

Compact Principles, a set of ten general principles relating to human rights, labour, environment, and anti-corruption practices. The SI and BRM teams monitor on a continuous basis the adherence of its investees to these sustainability guidelines. Any non-compliant firm is excluded from Quintet's investment scope.

5.3.2. ACTIVE OWNERSHIP

Active ownership is the use of the rights and position of ownership to influence the activities or behaviour of investee entities. Quintet believes that active ownership is an effective means of managing sustainability risks and effecting change. Quintet operates a policy of active ownership across single line equities, fixed income securities and with third-party fund managers. Quintet's SI team executes this policy through such actions as proxy voting¹ and collective and individual engagement with a company's management. Please refer to Quintet's Group Active Ownership Policy for more detail.

5.3.3 EXCLUSION

Exclusion is the conscious divestment or refusal to purchase securities issued by an entity. Quintet believes that exclusion is a viable means of managing sustainability risks, particularly when active ownership has previously failed or is not feasible. Quintet applies exclusions across single line equities and fixed income securities. Quintet executes this approach through the Quintet Group Investment Universe (GIU), the list common to all entities within Quintet that represents the set of all validated securities that can be used in portfolio management purposes and related processes. Please refer to our Group Responsible Investment Policy for more detail on our exclusion policy.

The SI and BRM teams execute the day-to-day application of the exclusion list and report any breaches to the FRR team which, as second line risk management, reports them to the Board of Directors as part of its overall KRI follow-up.

5.3.4 CONTROVERSY MONITORING

Controversies refer to ESG incidents or events that have a negative impact on the environment, society, external stakeholders, or entity value. Quintet's SI team operates a process of controversy monitoring across single line equities and fixed income securities, using third-party data suppliers. This ongoing process enables to detect potential sustainability risks and to trigger further actions (e.g., active ownership or exclusion) wherever needed. Please refer to our Group Responsible Investment Policy for more detail on controversy monitoring.

5.3.5 ESG INTEGRATION

ESG integration is the process of analysing and assessing sustainability risks and incorporating the assessment into opportunity identification, investment assessment, investment decision making, and portfolio construction process. Quintet undertakes ESG integration at multiple levels.

A. Individual securities / single lines:

Quintet's SI team integrates ESG at the individual security level through an internally developed sector-specific materiality matrix and issuer factsheets. This process combines industry best practices, such as frameworks from the Sustainable Accounting Standards Board, third-party data,

¹ Voting is currently implemented for direct line equities within all flagship managed by Brown Shipley, Insinger Gilissen, KTL, excluding Merck Finck and Puilaetco ().

and in-house expertise. As the materiality of sustainability risks varies over time, we update our underlying frameworks as new insights and best practices emerge, for which we leverage our in-house expertise, as well as the expertise of our ESG service providers. ESG integration is complementary to other (market, credit, or duration) risk assessments in the investment making process.

B. Collective investment vehicles:

Quintet requires third-party managers of collective investment vehicles to apply sustainability risk management practices, and to actively engage with their investee entities to adequately maintain suitable risk management standards.

To ensure such standards, Quintet's GFS team conducts an extensive sustainability due diligence process on each third-party manager and collective investment vehicle in which Quintet invests, combined with extensive reporting requirements on third-party managers and continued monitoring.

5.4. MONITORING OF SUSTAINABILITY RISKS

Sustainability risk management processes described above rely largely on a continuous monitoring of all investments, single line equities, and fixed income securities in the GIU.

I. Data

Sustainability risk identification, assessment, and monitoring processes are supported by the use of external expert information sources from third-party providers.

II. Process

Sustainability risk management is integrated into the investment and investment risk framework, where first and second lines of defence have distinct responsibilities.

III. Infrastructure

Third-party sustainability research and expert data is incorporated into information systems and is made available to investment and relevant risk staff.

IV. Adaptation

Sustainability risks can change, so our models and processes are continuously updated. Ongoing education of investment and relevant risk staff is necessary. Quintet operates staff training on sustainability topics and Quintet's Performance monitoring team monitor and track attendance and completion.

5.5. ESCALATION AND REPORTING

In the event that a sustainability risk is not adequately managed within functions and workflows, Quintet operates an escalation procedure through control functions. In the event of a breach, this will be escalated by BRM to ICS, and if necessary to 2nd line of defence.

In addition, escalation may occur via designated persons to the Authorised Management and to the Board of Directors see section 6.1 for details.

5.6. TRANSPARENCY AND DISCLOSURE

Quintet is committed to providing timely and relevant communication and reporting of its sustainability risk efforts both externally and internally in full compliance with the current regulatory requirements.

Quintet publishes a summary of its Group Sustainable Risk Policy on its website. It also publishes related reports and disclosures including, but not limited to Responsible Investment Policy, an annual Active Ownership Report, and sustainability information within the Quintet Group Annual Report.

VI. GOVERNANCE

6.1. FIRST LINE OF DEFENCE

The first line of defence owner is the Group Head of ICS. The Group Head of ICS represents the sustainability function on the Group Authorised Management Committee and shall escalate any identified issues when appropriate.

He/she delegates the day-to-day management of sustainability risks to the Chief Investment Officer (CIO) function, and more particularly the SI team, the Group GFS team, and the BRM team.

The Group Chief Executive Officer represents the sustainability function on the Group's BoD.

The first line of defence is responsible for ensuring an effective monitoring and control environment is in place to meet all requirements as laid out in this document. In particular, they design and implement processes and procedures to ensure respect of this policy and escalate any concerns related to its interpretation.

6.2. SECOND LINE OF DEFENCE

The second line of defence owner is the Group Chief Risk Officer (CRO) who delegates day-to-day second line risk controls process to the FRR team. They monitor the proper application of this policy by the first line of defence, and ensure the reporting of Sustainability, Climate and Environmental risk KRIs to the BRCC.

Regulatory Compliance team provides 1st line of defence with assistance regarding the interpretation of relevant regulatory requirements and ongoing monitoring of regulatory landscape.

6.3. THIRD LINE OF DEFENCE

Internal Audit and other independent assurance providers, as third line of defence, provide additional assurance on the proper implementation of the control framework by first and second lines of defence, by reviewing policies, processes, and procedures, and checking their application.

VII. TRAINING AND ANNUAL CERTIFICATION

This Policy is not in scope of the annual certification process nor is it included in the set of mandatory policies required upon employee onboarding.

VIII. VERSION CONTROL AND METADATA

Group Policy Document version control

Version	Modification Date	Approval Body	Approval date	Changes
1.0		ExCo	2021-09-06	Initial version
2.0	2022-10-			Amendments in order to accommodate and align with the requirements of SFDR. Incorporation of the 2022 Group Risk appetite statement as well as update of the 3 lines of defence model.

Group Policy Document Metadata

Writer	Quintet's Group Head of Sustainable Investing
Owner	Group CIO - Group Chief Investment Officer
Policy document category	Policy (Level 1)
Group affiliates and population in scope	All CIS staff, and any individuals involved in investment management of portfolios
Employee onboarding	No
Annual certification process	No
Last approval date and Body	ExCo
Effective date	
Expected review date	
Related documents	Group Investment Policy Group Responsible Investment Policy Group Active Ownership Policy Principal Adverse Sustainability Impacts (PASI) Statement
Policy replacements	Group Sustainable Risk Policy
Laws, regulations, and standards	EU Sustainable Finance Disclosure Regulation (SFDR)
Risk taxonomy	Sustainability, Climate & Environmental risk