

The Transition Offering: the EFG approach to ESG

1. Introduction

At EFG, we recognize the rising demand for more responsible and sustainable investments from our clients, propelled by both regulatory shifts and evolving consumer behaviours, particularly influenced by the next generation. As an investment firm and asset allocator, we believe in the value of Environmental, Social, and Governance (ESG) factors in guiding informed investment decisions. Considering those aspects can help mitigate the total risks associated with the investments we make. These include reputational, governance and operational risks, among others.

This paper provides additional information on how New Capital funds integrate ESG considerations among its products with a particular reference to funds classified as Art. 8 and above according to SFDR.

This document:

- Describes our ESG Investment Approach and how we evaluate the ESG score of direct investments, mutual funds, and exchange traded funds;
- Provides more information on our implementation;
- Provides more information on the three categories of investments which are included in our funds, which are Sustainable Investments, Promotional Investments, and Other Investments.

The content of this document applies to all New Capital SFDR Art.8 and above funds with the exclusion of the New Capital BlueOrchard Global Impact Credit Fund.

2. The ESG Investment Approach

Direct Securities: the GRIP

To perform our ESG analysis of Direct Investments, Equities and Fixed Income securities, EFG designed an internal framework, the Global Responsible Investment Platform (GRIP). GRIP integrates up to 400 data points for each company from several data

providers and aggregates them into 18 thematic ESG Key Performance Indicators (KPIs) covering water consumption, air pollution, business integrity or employee health and safety, that can be regrouped into three main themes: Environment, Society and Governance (ESG).

These KPIs allow to better understand how a company manages environmental, social or governance factors in its activities, and, when aggregated and weighted according to their industry-specific importance, they provide a final ESG score that can be used to estimate a company's ability to respond to sustainability challenges.

Since we launched GRIP in 2012, we have regularly reviewed its methodology, which is based on the principle of materiality (see below section on the topic for more information) and expanded its data and investment coverage, as we adapt to new emerging sustainability challenges and changes in the regulatory landscape. The GRIP process has also been reviewed twice over the years from independent advisors.

Data Sources

The GRIP is fed with data obtained from several data providers including:

- Sustainalytics
- Refinitiv
- RepRisk
- CDP and other NGOs
- Analysts' inputs

GRIP uses Refinitiv and Sustainalytics as the main data providers, RepRisk as the main controversy - incidents- data supplier and information from NGOs such as CDP (Carbon Disclosure Project) for specific data points. Finally, our data approach can be enriched with some interactions we may have through our asset management firm EFG Asset Management (EFGAM) and its engagement with some companies into which we may consider investing client money or investor funds.

Given coverage from our external data providers varies in terms of data availability, approach and depth of coverage, we have created an internal weighting scheme that can cater for all these differences and adjusted the weights according to each firm’s data coverage.

These KPIs are at the centre of our analysis and have an ever more important role in defining whether we consider a company Promotional, as we further explain below.

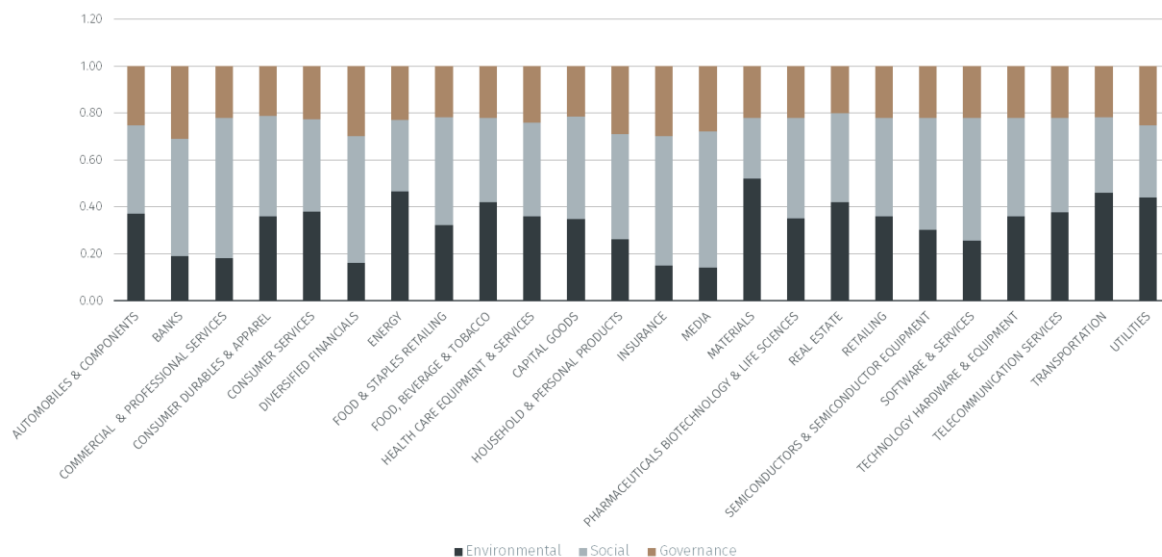
As outlined before, they are evaluated through multiple data sources that help us to understand:

- **Policies:** what are the policies, rules and targets a company has in place to manage key issues related to the respective KPI.
- **Outcomes:** the measurable effects of companies’ activities such as tons of CO2 emissions or the number of accidents.
- **Controversies:** the controversies related to companies’ activities and operations to evaluate if they are “walking the talk” and behaving in the interest of all their stakeholders.

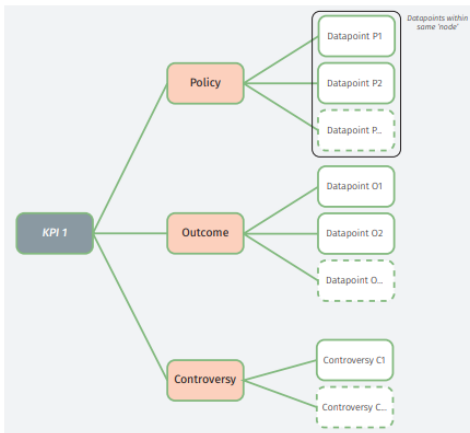
Summary methodology explanation

The GRIP ESG score is based on the principle of materiality, meaning that a stronger weight is assigned to those KPIs that are believed to be more important to each company depending on its industry group. For example, the importance of water consumption can significantly vary between industries and sectors. Therefore, the thematic KPI “water” is much more relevant (i.e., has a much larger weight in the final ESG score) for a mining company than for a media one. Similarly, as per the table below, the full set of Environmental KPIs is more heavily weighted for energy firms than for companies in the financial sector.

Relevance of E,S,G KPIs for different Industry Groups



Source: EFGAM GRIP, June 2024



Source: EFGAM.

Once the KPIs for a specific company have been calculated, they are weighted and summed according to their relevance to each company, to obtain a final ESG score, expressed with a 0 to 100% scale, with 100% being the best score, that provides a simple and synthetic summary of the ESG characteristics of a company. We of course must be aware of its limitations as it is indeed very challenging to represent the complexity of a company as well as all its relations with multiple stakeholders and the external environment in one single score.

Alignment with Sustainable Development Goals (SDGs) - Corporates

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint to improve human life and protect the planet by 2030. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call to action for a global partnership between developed and developing countries aiming to end poverty and hunger, improve health and education, reduce inequality, strengthen justice and institutions, ensure clean water, promote circular ways of production, expand clean energy, and spur economic growth, all while tackling climate change and working to preserve our oceans and forests. Every SDG contains multiple actions or targets that can contribute to its accomplishment. These goals have been primarily drafted to be a framework for government action, but the spirit of these goals can be followed by everyone, companies included.

The translation of the SDGs into corporate life comes with some complexities, as many of the targets go beyond the daily duties of people and corporations. For example, the goal n.1 “Poverty eradication” is mainly linked to a country’s legislative measures. A corporation can of course support this goal through external philanthropic activities or charities. However, these types of actions are difficult to be clearly linked to the company’s operations and can therefore be seen as a type of “social greenwashing”.

EFG distinguishes between transversal and more activity-specific SDGs. Transversal SDGs could potentially be attributed to all companies such as SDG 5 on “Gender Equality”, SDG 11 “Sustainable Cities and Communities” and SDG 16 “Peace, Justice and Strong Institutions”. Other ones such as the SDG 6 on “Clean Water and Sanitation” is much more industry specific. For instance, SDG 6 is not assigned to companies in the software or banking industries, since water consumption is not a material (important) topic for them, whereas for mining or consumer goods companies it is indeed.

The approach implemented by EFG mainly relies on its internal GRIP engine which, as previously explained, defines a number of high-level KPIs to score ESG performance across multiple domains such as Water, Waste, Employment Quality etc. These KPIs are translated into SDG alignment, meaning a company with great management of employment practices, and hence a very high KPI score related to Employment Quality, can be said to align to the SDG 8 “Decent Work and Economic growth” and a company with a good Water KPI score can be said to align with the SDG 6 “Clean Water and Sanitation”, if water consumption is material for the specific industry the company belongs to.

In some instances, the SDG alignment can be attributed through a qualitative assessment based on revenues derived from specific activities (e.g., a solar panel company with limited ESG disclosures) or following a more qualitative assessment of company practices. In other cases, it can be attributed through sectorial selection, e.g., SDG 3 Good Health and Well-being can be, under certain conditions, assigned to companies in the Healthcare or Pharmaceutical sectors. Finally, SDG 7 Clean and

Affordable Energy can also be attributed to companies on the basis of their involvement in renewable energy production or consumption. As an additional control SDGs attributions go through a final controversy check: if we deem a company is exposed to too many litigations or controversies referred to the SDG in focus, the attribution of the SDG will be neglected.

Alignment with Sustainable Development Goals (SDGs) - Sovereign

The process to assign an SDG to a sovereign entity combines two steps:

The first one consists of a negative screening and has the aim to replicate the UN Global Compact assessment that focuses on respect of human rights, environmental protection, and anti-corruption practices. It excludes all the countries that have a normalized score below 50% in one of the following three key indicators: Human Rights, Carbon Emissions Intensity, and Control of Corruption according to the internal methodology.

The second step consists of a positive screening and leverage of the Sustainable Development Report (<https://dashboards.sdgindex.org/>), which evaluates the approach of countries towards the 17 SDGs. If a country is considered by the report to have achieved one SDG or is progressing towards that goal, it can be said to be aligned with the specific SDG.

To receive the final SDG attribution, a sovereign issuer must pass both mentioned screenings: if it is considered aligned with the requirements of the second assessment (SDG index) but does not meet the negative test, the SDG is not assigned. With respect to sovereign investments EFG assesses all the 17 SDGs.

GRIP light

GRIP is highly dependent on the inputs from the various data feeds. When they are missing or only available in very limited quantity, the analysis becomes more complex. As such we developed a “GRIP light” approach to cover companies where limited data availability makes a full ESG analysis less meaningful. This complementary approach

mainly exploits external data obtained from RepRisk and Sustainalytics “core” frameworks. It is based on a smaller set of data and is also used for supranational or government agencies, but also for holding companies, not reporting at holding level. Clearly, given the lack of precise details, this approach can only provide a high-level estimate of the ESG riskiness of a firm.

Proxy Voting

Most of the New Capital Equity funds are under scope of the EFGAM voting policy. EFGAM believe that proxy voting can be an important tool to share our opinions as shareholders. As such we have an important role to in improving shareholder value using all available tools which also entails incorporating ESG considerations into proxy voting policy. More details on the EFGAM Voting policy can be found on the Responsible Investment section of the website in the EFGAM Voting Guidelines Document.

Mutual Funds and ETFs ESG assessment

The process to assess the ESG characteristics of Mutual Funds and ETFs is completely separated from the process used to score direct securities. This approach mainly focuses on the investment process of the third-party collective investment scheme and also leverage the data obtained from the EET template to keep consistency with the SFDR regulation. Our Fund Selection team performs a detailed due diligence on third party funds while for ETF the assessment is mainly quantitative.

Once a fund or ETF pass the internal due diligence that include governance, financial and ESG considerations, their ESG characteristics are codified according to the reported EET data, as explained further below.

3. The New Capital approach

The above methodologies are used in our New Capital approach with the aim to capture investment opportunities and reduce risks resulting from the transition to a more sustainable economy.

The objective is not to sacrifice return but to pair financial performance with environmental or social considerations.

EFGAM believes the transformation to a more sustainable economy is underway as new consumer behaviors and changing business models are affecting investor demand creating new investment opportunities which can be tapped into.

Within our approach we classify investments into the following three characteristics: **“Sustainable”**, **“Promotional”** and **“Other”** in line with SFDR categories, using the internal methodologies previously described. The process to assign those ESG characteristics is slightly different across the multiple asset classes and investment vehicles and better explained in the following chapters.

With respect to companies the two prerequisites to be considered as either Promotional, Sustainable or Other is to comply with basic international norms and our internal rules. Before assigning such characteristics, we screen companies to ensure they respect the following “Standards”:

- Main standards such as United Nations Global Compact principles (UNGC), ILO Core Labour Conventions, UN Guiding Principles on Business and Human Rights or OECD Guidelines for Multinational Enterprises
- No production or involvement in controversial weapons in line with SVVK lists.
- No exposure to issuers deriving more than 20% of their gross revenues from the extraction, production and/or sale of thermal coal or oil, unless they have published a clear and credible exit/reduction/net-zero strategy.
- ESG rating confirmed below the internally defined threshold of 25% after an additional analysis or engagement when needed.

Companies found to be breaching those external norms and internal rules are excluded from New Capital funds classified as Art.8 and above. To screen and monitor companies which are part of such investment universe complying with those standards, EFG uses data sourced from Sustainalytics, Urgewald, Swiss Association for Responsible Investments, RepRisk and internal analysis.

With respect to Mutual funds and ETFs the prerequisite is to pass the internal due diligence as previously explained.

4. Sustainable Investments

Generally speaking, investments which are at the forefront of the “transition” towards a more sustainable economy due to their environmental products or services, investments, or efforts to reduce CO2 emissions are considered “Sustainable”.

a) *Direct investments - Equities / Fixed Income Corporates*

EFG defines certain companies as being “Sustainable” if they meet specific criteria. These are companies that, in addition to respecting the “standards” defined above in section 3 for being included in the Transition Offering, help the economy transitioning to an economic model that reduces the negative footprint on our society and the environment due to their sustainable practices or products. The definition of “Sustainable” focuses on absolute and measurable criteria.

Environmentally Sustainable Investments

At EFG, a security could be considered Environmentally Sustainable through:

1. Meaningful exposure to EU Taxonomy activities
2. Measurable contribution to an Environmental Objective
3. Net-Zero Alignment
4. Green Financing

The first approach to attribute the “Sustainable” characteristic exploits the EU Taxonomy of environmentally sustainable activities. In order to meet the EU’s climate and energy targets for 2030 and to achieve the objectives of the European Green Deal, the EU Commission defined some requirements that any activity must respect to be considered Taxonomy aligned.

The activities must contribute to at least one of the following six environmental objectives:

1. Climate change mitigation
2. Climate change adaptation
3. The sustainable use and protection of water and marine resources
4. The transition to a circular economy

5. Pollution prevention and control
6. The protection and restoration of biodiversity and ecosystems

In addition, they should not significantly harm any of the other objectives, and must respect basic human rights, labour standards and finally stringent technical criteria. Under the EU taxonomy rules any activity not respecting any one of the above criteria cannot be considered Taxonomy aligned.

All these requirements ensure high-quality standards and EFG qualifies any company that has more than 25% of revenues or capex linked to Taxonomy aligned activities as “Sustainable”.

The **second approach** to qualify an investment as “Sustainable” includes investments that have a positive effect on the environment. This is the case when the majority of revenues are obtained from specific activities related to renewable energy, environmental restoration, sustainable mobility, water or waste management, circular economy etc. For a company to be considered “Sustainable”, the exposure to those activities must represent more than 50% of its revenues. In addition, the company must not significantly harm the above highlighted objectives.

A **third approach** to qualify an investment as “Sustainable” focuses on efforts to reduce emissions. Companies with Net Zero commitments and targets and a credible and demonstrable approach to reduce Green House Gas (GHG) emissions in line with the Net Zero goal set out by the Paris Agreement of limiting global warming well below 2°C, are also considered sustainable. To assess the alignment to Net Zero EFG combines different methodologies with a leading role played by its “Climate Engine” that forecasts future company emissions and compares them with reference sectorial pathways to measure the alignment with Net Zero objectives and represent our main approach to define whether a company is Net Zero or not. More details can be found in the already published document “Climate Engine: an overview”.

Finally, the **last approach** focuses on labelled bonds that are covered by ICMA, Green Bonds Standards, or in the future by the EU Green bonds standards. Such bonds when issued with a clear

commitment on the use of proceeds, can be considered “Sustainable” investments, even if they are issued by companies that are not considered sustainable. Other investments such as Sustainability-linked bonds with sustainable characteristics can also be considered “Sustainable” after a manual assessment. We believe that financing non-sustainable companies to decarbonise and improve their sustainability profile is a fundamental step in achieving climate goals and societal needs.

Sovereign entities are never considered sustainable, but in line with the above, certain types of their labelled bonds can.

b) *Mutual Funds and ETFs*

Mutual funds and ETFs are considered as “Sustainable” by New Capital if they are classified as Art.9 and consider at least two environmental and two social PAIs. This additional screen allows us to remove products with characteristics that are too weak. Usually these products have sustainability at the core of their product design or at the core of the underlying Index construction policy and are often thematic in nature (e.g. concentrating on Clean Energy, Water, etc.).

5. Promotional Investments

Differently from “Sustainable” investments, the “Promotional” characteristic generally captures investments with some relative strengths compared to others. These securities don’t have a clear direct effect on the transition towards a more sustainable economy, but thanks to their approach contribute creating the sound “ecosystem” that is necessary for the global efforts.

a) *Direct investments - Equities / Fixed Income*

Corporates

Companies which respect the “Standards” defined above in section 3 for being included in the Transition Offering, can be qualified as “Promotional” investments if in addition they are

considered aligned with at least one UN SDG, which, as previously described, contain both environmental and social aspects. We believe SDGs represent a simplified but useful classification when describing and reporting ESG characteristics with a common and easy to understand framework. According to this approach a company that obtains an above-average performance in at least one KPI and is considered aligned with the corresponding SDG, is characterised as “Promotional”. We believe that this approach is also financially sensible as companies that are able to better serve their stakeholders’ needs and better align to real social and environmental issues are reinforcing their competitive position. Better serving the multiple stakeholders of a company can be seen as a positive step to build future success.

Sovereign Issuers

The attribution of the Promotional characteristic to sovereign issuers is determined on the basis of the SDG attribution previously described. If a country receives at least one SDG, meaning it also passes the negative tests, it is considered as Promotional.

b) *Mutual Funds and ETFs*

With respect to Mutual funds and ETFs, EFG considers them as “Promotional” when they are classified as Art.8 and consider at least two environmental and two social PAIs. All these securities have additionally to go through and pass the internal due diligence process.

6. Other Investments

Finally, the last ESG characteristic captures investments that, according to the EFG framework, have all the requisite to have financially sound performance, but have no relative ESG strengths nor direct exposure to the transition risks.

a) *Direct investments*

Direct investments into companies are considered “Other” by EFG, if they respect the minimal “Standards” defined above in chapter 3 for being included in the Transition Offering, but do not show enough positive characteristics to be classified as either “Promotional” or “Sustainable”.

b) *Mutual Funds and ETFs*

Mutual funds are considered “Other” when they pass the internal due diligence that also incorporates ESG considerations.

c) *Commodities*

With reference to commodities, these are considered by New Capital as “Other”.

7. Consideration of Adverse Sustainability Indicators at portfolio level.

As part of the SFDR, some New Capital funds committed to consider certain Principle Adverse Impact indicators (PAIs) that measure externalities such as CO2 emissions, tonnes of hazardous waste generated, etc. created by the portfolios. To implement this requirement, New Capital funds classified as SFDR Art.8 or higher are subject to checks on greenhouse gas emissions, water emissions and hazardous waste creation. For each fund, a specific threshold is set based on the characteristics of its benchmark. Funds may not exceed unless they invest in securities that are actively committed to reducing and mitigating negative impacts on the environment. If this is not the case, New Capital contacts the companies to discuss how to reduce the impact and, if the discussions prove unsuccessful, reweight the portfolio or divest the security to bring the level back within the desired threshold.

This document has been produced by EFG Bank CH ("EFG") for use by Swiss based clients only.

This document is being provided by EFG International AG or/and its affiliates (hereinafter referred to as "EFG") solely for information purposes and is not intended to be a solicitation or offer, recommendation or advice to buy or sell interests in any security or financial instrument mentioned in it, to effect any transaction, or to conclude any transaction of any kind whatsoever (referred to hereafter as "Investments"). It is intended for the sole use of the recipient and may not be further distributed, published, used, reproduced for any other purpose or referred to in any manner and the information, opinions or conclusions contained in it may not be referred to without, in each case, the prior express consent of EFG.

Whilst EFG shall use reasonable efforts to obtain information from sources which it believes to be reliable, EFG, its directors, officers, employees, agents or shareholders assume no liability regarding the content of the document and give no warranty as to the accuracy, completeness or reliability of any data relating to securities and Investment products, information, opinions or forecasts mentioned in the document and thus assume no liability for losses arising from the use of this document.

The content of the document is intended only for persons who understand and are capable of assuming all risks involved. Before entering into any transaction, the recipient should determine if the relevant security or financial instrument mentioned in the document suits his particular circumstances and should ensure that he independently assesses (together with his professional advisers) the specific risks and the legal, regulatory, credit, tax and accounting consequences of any purchase of securities or financial instruments mentioned in the document.

The content of this document shall be limited to opportunities represented by certain Investments with respect to the conditions in the market at a given time, and thus is only valid for a very limited period of time. EFG makes no representation as to the suitability of the information, opinions or securities and financial instruments mentioned in the document. Historical data on the performance of the securities and financial instruments or the underlying assets in this document is no indication for future performance.

The value of the Investment and the income arising from the Investment may fall as well as rise. Part or even the whole amount invested may not be recovered upon realisation of the Investment.

The present document has been compiled by a department of EFG which is not an "organisational unit responsible for financial research" as defined in the Swiss Bankers Association's Directives on the Independence of Financial Research and, as such, is not subject to the provisions of that regulation. EFG may engage in securities transactions, on a proprietary basis or otherwise and hold long or short positions with regard to the Investment, both in a manner inconsistent with the view taken in this document. In addition, others within EFG, including sales staff, may take a view that is inconsistent with that taken in this report. The content of this document provides information, opinions or conclusions that may differ from analyses carried out by other units of the Bank, and in particular may not comply with the Investment strategy of the Bank.

If you have received this document from any affiliate or branch referred to below, please note the following:

Switzerland: EFG Bank AG, Zurich, including its Geneva and Lugano branches, is authorised and regulated by the FINMA. Registered Office: EFG Bank AG, Bleicherweg 8, 8001 Zurich, Switzerland. Registered Swiss Branches: EFG Bank SA, 24 quai du Seujet, 1211 Geneva 2, and EFG Bank SA, Via Magatti 2, 6900 Lugano.

2025 All rights reserved.