

# Customer information regarding sustainable investments

As of: April 2024

Generally speaking, sustainability means acting in a way that is environmentally, socially, and economically responsible in order to leave behind a liveable planet for future generations. A mandatory framework for sustainability in the financial industry has been created via numerous legislative initiatives at the global and EU level.

## Regulatory background

By ratifying the Paris Agreement (Paris climate accords from 2015), the signatory states have committed to limiting the global temperature increase to well below 2°C and, if possible, to 1.5°C compared with 1990 levels. The United Nations 2030 Agenda for Sustainable Development prompted European lawmakers to rethink the role of the financial sector.

The EU defined climate neutrality starting in 2050 as the most important strategic goal in the Green Deal. Based on these fundamental cornerstones, the EU developed the Financing Sustainable Growth action plan with the goal of ensuring that capital primarily flows into environmentally, socially, and economically responsible companies, countries, and projects. At the same time, financial risks caused by climate change, environmental destruction, resource scarcity, and poor corporate governance (sustainability risks<sup>1</sup>) must be managed.

The European Commission's initiative encompasses four central measures:

1. Taxonomy Regulation<sup>2</sup>: joint classification system for sustainable economic activities.
2. Disclosure Regulation<sup>3</sup>: disclosure of ESG information in order to ensure transparency and comparability for sustainable products.
3. Amendments to the Commission Delegated Regulation on the Markets in Financial Instruments Directive (MiFID) and the Commission Delegated Regulation on the Insurance Distribution Directive (IDD): Since 2 August 2022, customers have been able to specify their sustainability preferences. These affect the suitability assessment of a product.
4. Benchmarks Regulation: Indicators will provide comparability for sustainable investment products.

## What sustainable investment means (ESG factors)

Sustainable investment decisions must take the so-called ESG factors into account:

**Environment:** protecting the climate and environment, e.g. using resources efficiently, preventing environmental pollution, promoting a circular economy<sup>2</sup>, and protecting biodiversity and ecosystems.

**Social:** promoting social justice, e.g. tackling social inequality, preventing cooperation with dictatorships and authoritarian governments, and fostering inclusion.

**Governance:** promoting responsible corporate governance, e.g. preventing child labour and forced labour, complying with tax regulations, and preventing bribery and corruption.

To this end, legislators have defined sustainability criteria that must be considered in the course of investment advisory activities. This ensures transparency and comparability for sustainable investments and prevents greenwashing (promoting investments as "sustainable" although they are not).

---

<sup>1</sup> A sustainability risk is defined as an event or condition relating to the aspects of the environment, social issues, or corporate governance whose occurrence could potentially have material negative effects on the value of the investment. A distinction is made between financial materiality, i.e. how the environment affects the investment ("outside-in"), and the (negative) effects that a company has on its environment and sustainability ("inside-out").

<sup>2</sup> Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088; referred to in short as the Taxonomy Regulation

<sup>3</sup> Regulation (EU) 2019/2088 – EU Sustainable Finance Disclosure Regulation (SFDR)

## How sustainable products can be classified

A distinction is drawn for investment funds, endowment life insurance policies, and asset management products based on whether and to what extent an investment takes sustainability aspects into account:

- Investment products that promote, among other characteristics, **environmental (E)** and/or **social (S)** characteristics, provided that the investee companies follow **good governance (G)** practices. These products are often referred to as “Article 8 investment products<sup>4</sup>”.
- Investment products aimed at achieving a specific sustainable investment objective. These products are often referred to as “Article 9 investment products<sup>4</sup>”.
- Investment products that do not take **environmental or social** criteria into account.

This distinction is important because there are special pre-contractual disclosure requirements for sustainable investment products and regular reporting is required by law. Investee countries and companies are evaluated on the basis of data from research databases of an independent ESG research and rating company.

In addition to the evaluation according to sustainability criteria, there are various environmental assessment systems (e.g. ecolabels) that can be used to identify and classify environmentally friendly products. In Austria, the most well-known ecolabel is the Austrian Ecolabel sponsored by the Federal Ministry of Climate Action, Environment, Energy, Mobility, Innovation and Technology and the consumer protection association Verein für Konsumenteninformation (VKI).

Sustainable investment products have to meet a series of sustainability criteria and go through a strict audit process. Schoellerbank AG has defined several sustainability criteria.

## What sustainable investment means at Schoellerbank

Sustainability is assigned the highest priority at Schoellerbank, which is why we are committed to the following screening process:

- In the first stage, a screening is conducted based on exclusion criteria<sup>5</sup>. This means that companies from controversial business areas are excluded as investments. Companies that generate a certain proportion of their revenues in the specified industries are generally excluded from the investment universe. Alternatively, the proportion of earnings can be used.
- Compliance with the UN Global Compact<sup>5</sup>: Companies in violation of the principles of the UN Global Compact are excluded from investments from the sustainable investment universe.
- In the second stage, the issuers remaining after the screening process are assessed with regard to their social and environmental standards. This second selection stage excludes the issuers that exhibit poorer performance than their peers in terms of the sustainability factors.

Exclusion criteria	For investments in individual securities and investment funds of Schoellerbank Invest AG	For investments in investment funds/ETFs of all other investment companies
Production or extraction of coal or energy generation from thermal coal	More than 2% of revenue	More than 5% of revenue
Production or distribution of controversial weapons such as anti-personnel mines, cluster munitions, and chemical or biological weapons	Absolute ban, more than 0% of revenue	Absolute ban, more than 0% of revenue
Particularly problematic extraction methods for fossil fuels such as fracking, tar sands, and Arctic oil	More than 5% of revenue	More than 5% of revenue
Production or distribution of tobacco products	More than 5% of revenue	More than 5% of revenue
Energy generation from nuclear fuels and extraction or processing of nuclear fuels	More than 5% of revenue	More than 5% of revenue
Production or distribution of spirits	More than 5% of revenue	Not applied
Production or distribution of pornography	More than 5% of revenue	Not applied

<sup>4</sup> Article 8/Article 9 of Regulation (EU) 2019/2088 – EU Sustainable Finance Disclosure Regulation (SFDR)

<sup>5</sup> The assessment of potential investments in companies and sovereigns on the basis of sustainability criteria employs information from research databases of an independent ESG research and rating company.

Production or distribution of games of chance	More than 5% of revenue	Not applied
Production or distribution of weapons or military armaments	More than 5% of revenue	Not applied
Production or distribution of genetically manipulated agricultural crops	More than 5% of revenue	Not applied
Interventions in human germline therapy, human cloning procedures, or human embryonic stem cell research	Absolute ban, more than 0% of revenue	Not applied
Performance of animal testing that is not required by law – outsourcing of animal testing to third parties is attributed to the outsourcing company	More than 5% of revenues for products developed with the help of animal testing	Not applied
Direct or indirect investments in foodstuffs and agricultural raw materials (e.g. commodity futures, certificates, or commodity funds). Investments in companies that are active in this business area are not excluded.	No revenue limit	Not applied
<b>Compliance with the UN Global Compact<sup>6</sup></b>	<b>For investments in individual securities and investment funds of Schoellerbank Invest AG</b>	<b>For investments in investment funds/ETFs of all other investment companies</b>
Companies in violation of the principles of the UN Global Compact are excluded from investments from the sustainable investment universe.	Severe and very severe violations <sup>6</sup>	Very severe violations <sup>6</sup>

## SUSTAINABILITY CRITERIA FOR GOVERNMENT BONDS

A screening based on the exclusion criteria<sup>7</sup> is performed for the sustainability criteria for government bonds. This means that government bonds with the following criteria are excluded as investments.

Exclusion criteria	For investments in individual securities and investment funds of Schoellerbank Invest AG	For investments in investment funds/ETFs of all other investment companies
Countries that do not meet the minimum standards of the anti-money laundering regulations (catalogue of measures of the global Financial Action Task Force – FATF)	✓	✓
Countries that do not make sufficient climate protection efforts (German Watch e.V.'s Climate Change Performance Index score below 40)	✓	✓ A comparable indicator can also be used.
Countries that apply capital punishment	✓	✓
Countries with especially high military budgets	✓ More than 3% of GDP	✓ More than 4% of GDP
Countries that have not signed the Paris Climate Agreement	✓	✓
Countries that cover more than 10% of their primary energy needs with nuclear power and do not have a nuclear power phase-out scenario or a moratorium on nuclear power plants	✓	✓
Countries that have not ratified the UN Convention on Biological Diversity	✓	✓

<sup>6</sup> The assessment of the severity of the violation is based on information from research databases of an independent ESG research and rating company.

<sup>7</sup> The assessment of potential investments in companies and sovereigns on the basis of sustainability criteria employs information from research databases of an independent ESG research and rating company.

Countries in which corruption in the public sector is perceived to be excessively high (Transparency International's Corruption Perception Index score below 50)	✓	✓
Countries that violate democratic principles or fundamental/human rights. As soon as a country violates a criterion (controversy), investments may not be made in that country. Controversies are measured using the following indicators: <ul style="list-style-type: none"> <li>• Freedom House Index: If a country is classified as “not free” or “partly free” by the non-governmental organisation Freedom House, this represents a controversy.</li> <li>• Child labour: The widespread employment of children in a country represents a controversy.</li> <li>• Discrimination: If the legal and social equality of people such as women, people with disabilities, ethnic or racial minorities, and people who identify as “LGBTQI” is severely restricted in a country, this represents a controversy.</li> <li>• Freedom of association: When people’s freedom of association and their right to organise themselves and conduct collective bargaining negotiations are severely restricted in a country, this represents a controversy.</li> <li>• Freedom of speech and press: A significant restriction of freedom of speech and press constitutes a controversy.</li> <li>• Human rights: If fundamental human rights are restricted in a country, this represents a controversy.</li> <li>• Labour rights: If labour conditions in a country are particularly poor, especially in terms of minimum wages, working hours, and health and safety regulations, this represents a controversy.</li> </ul>	✓	✓

Because of the services that it offers (asset management, investment and insurance advisory), Schoellerbank AG qualifies as a financial market participant and as a financial advisor for the purposes of the EU Sustainable Finance Disclosure Regulation (Regulation [EU] 2019/2088; SFDR). As a financial market participant, Schoellerbank AG takes principal adverse impacts on sustainability factors into account in its sustainable asset management activities. As a financial advisor, Schoellerbank AG takes principal adverse impacts on sustainability factors into account in the course of its investment and insurance advisory activities (see the document “Declaration on the consideration of principal adverse impacts on sustainability factors in investment and insurance advisory”).

### What does this mean for you when it comes to investment advisory?

Thanks to the updated MiFID guidelines, from August 2022 you can specify your personal sustainability preferences that are to be taken into account for investment advisory services. If you take advantage of Schoellerbank’s expert investment advisory services, we will

- provide you with detailed information about options for and the purposes of sustainable investments,
- add your sustainability preferences to your investor profile,
- recommend investments to you that fit your investor profile – i.e. that match your investment objectives, your knowledge, your risk tolerance, your financial means, and, of course, your sustainability preferences,
- provide you with legally required information about the recommended investments – including information about sustainability aspects.

#### Please note:

- You can change your sustainability preferences at any time.
- The consideration of sustainability criteria limits the investable universe. This can have positive and negative effects on the return of the financial products that are covered in the advice provided to you.

## What is meant by sustainability preferences

After we have informed you about the meaning of sustainability for investments, you can decide whether and to what extent we should take your sustainability preferences into account at the product level for your future investments.

You decide the portion of the investment amount your sustainability preferences should apply to individually each time you receive investment advice.

Within the framework of the sustainability preferences, you determine the following three sustainability criteria:

1. Inclusion of or minimum proportion of environmentally sustainable investments pursuant to the Taxonomy Regulation:
  - The investment makes a substantial contribution to at least one of the following environmental objectives:
    - Climate change mitigation
    - Climate change adaptation
    - The sustainable use and protection of water and marine resources
    - The transition to a circular economy
    - Pollution prevention and control
    - The protection and restoration of biodiversity and ecosystems
  - The investment does no significant harm to other environmental objectives.
  - Investments are made in companies that comply with the minimum standards and guiding principles with regard to social aspects and good corporate governance.
  - Investments are made in accordance with solid, scientifically based technical assessment criteria specified by the European Commission.
2. Inclusion of or minimum proportion of **sustainable investments** pursuant to the Disclosure Regulation:
  - Investments in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water, and land, on the production of waste, and greenhouse gas emissions, or on the impact on biodiversity and the circular economy.
  - Investments in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration, and labour relations.
  - Investments in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of these objectives.
  - Investments in companies that follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff, and tax compliance.
3. The consideration of factors whose impacts conflict with an environmentally sustainable economy in which good governance practices and social aspects are taken into account. The consideration of these principal adverse impacts on sustainability factors (PAIs) in your investment means that the products that are recommended to you strive to prevent such negative sustainability impacts.

These 64 PAIs in total are compiled at Schoellerbank by assigning them to the following five main categories:

- **Reduction of greenhouse gas emissions** – e.g. carbon footprint, emissions of air pollutants, emissions of ozone-depleting substances
- **Protection of biodiversity** – e.g. activities negatively affecting biodiversity-sensitive areas, land artificialisation
- **Reduction/prevention of groundwater contamination and marine pollution** – e.g. exposure to areas of high water stress, investments in companies without sustainable oceans/seas practices
- **Waste prevention (hazardous waste)** – e.g. non-recycled waste ratio, hazardous waste ratio
- **Regard for social and labour-related issues/standards** – e.g. incidents of discrimination, lack of a human rights policy, lack of anti-corruption and anti-bribery policies

You can find detailed information about the grouping of the 64 PAIs in the annex “Principal adverse impacts on sustainability factors”.

## Our investment recommendations

Based on the personal information provided in your investor profile, the advisors will recommend an investment product to you that builds on your personal risk tolerance and takes your sustainability preferences into account. We only recommend sustainable products that meet Schoellerbank's sustainability criteria and for which the provider of the product supplies data on at least one of the three sustainability criteria.

Just like for other types of investments, you will receive a comparison of the previous target market criteria of the product and the information in your investor profile for each sustainable investment product that is recommended (target market assessment and suitability assessment). In addition, we will now provide you with a clear overview of the extent to which your sustainability preferences match the individual sustainability criteria of the investment product.

## Suitability assessment of sustainability criteria – possible assessment results

1. The following assessment sub-results are possible for each of the three sustainability criteria (as per the "Sustainability preferences" section in your investor profile: a) Minimum proportion of sustainable investments pursuant to the Taxonomy Regulation, b) Minimum proportion of sustainable investments pursuant to the Disclosure Regulation that take environmental and/or social characteristics and responsible corporate governance into account, and c) Sustainability factors):

### When is an assessment sub-result "suitable"?

An assessment sub-result is "suitable" when

- the customer's specification is completely fulfilled or exceeded
- the customer specified "no preference for minimum proportion" or "no preference" (for sustainability factors) and the product does not have a score of "0" or no score.

### When is an assessment sub-result "partially suitable"?

An assessment sub-result is "partially suitable" when the customer's specification is partially fulfilled.

### When is an assessment sub-result "not suitable"?

An assessment sub-result is "not suitable" when there is a customer specification (i.e. a specific minimum proportion or specifically selected sustainability factors) and the product has a score of "0" or no score.

### When is an assessment sub-result "not assessable"?

An assessment sub-result is "not assessable" and is not taken into consideration in the overall assessment when the customer specified "no preference for minimum proportion" or "no preference" (for sustainability factors) and the product has a score of "0" or no score.

2. The assessment results for the individual criteria are summarised in a suitability statement on sustainability, which represents the overall assessment result:

- The overall assessment result is "not suitable" if at least one assessment sub-result is "not suitable".
- The overall assessment result is "partially suitable" if at least one assessment sub-result is "partially suitable" and no assessment sub-results are "not suitable".
- The overall assessment result is "suitable" when all of the assessment sub-results taken into account in the overall assessment are "suitable".

Based on this well-founded information, you can then decide if you also want to invest in the recommended sustainable and partially suitable investment product.

If the overall assessment result is "not suitable", then the investment product is not suitable for you with regard to the sustainability preferences specified in your investor profile in the opinion of Schoellerbank.

If the overall assessment result is "partially suitable" or "not suitable", you decide how to adjust your sustainability preferences when concluding the given order.

## Sustainability in asset management

Along with traditional asset management, Schoellerbank offers sustainable asset management. All of the financial instruments contained in the portfolio must meet Schoellerbank's sustainability criteria for the selection of sustainable financial instruments. More detailed information about the environmental and social characteristics can be found in the pre-contractual information for the given investment approach of the sustainable asset management mandate.

If you already invest in an asset management mandate at Schoellerbank, you can switch to a sustainable variant. In the case of both the initial conclusion of a sustainable asset management mandate and a switch to a sustainable asset management mandate, the sustainability preferences specified in your investor profile are compared to the sustainability criteria of the sustainable asset

management mandate. The assessment logic at the portfolio level is the same as that applied to individual instruments (see item entitled “Suitability assessment of sustainability criteria – possible assessment results”).

### **Market situation**

At present, the available selection of sustainable investment products that meet the legal requirements of the EU Disclosure Regulation is still fairly limited, and this also affects Schoellerbank. This is primarily because many providers do not (yet) provide data and/or only limited or incomplete scores regarding the sustainability criteria. Therefore, it is possible for sustainable investment products to have very low scores for the sustainability criteria at the moment. If these scores do not meet your requirements as per your specifications for the sustainability preferences in your investor profile, the products can only be recommended to you as “partially suitable” (see item entitled “Suitability assessment of sustainability criteria – possible assessment results”). It can be assumed that the available selection will increase significantly in the coming years. Schoellerbank will expand its portfolio of sustainable products on an ongoing basis, as well.

### **GENERAL INFORMATION**

#### **You should note the following as an investor:**

Every capital investment involves a degree of risk. The value of the investment and the earnings generated by the investment can change suddenly and considerably and therefore cannot be guaranteed. Currency fluctuations can also influence the performance of the investment. The investor may fail to recover the full amount of capital invested, for example, if the capital is only invested for a short period. Under extraordinary circumstances, it is possible to lose all of the invested capital, including the purchasing fees. Please note that the provided figures and performance information refer to past performance, which is not a reliable indicator of future performance.

#### **Disclaimer:**

This document does not constitute a financial analysis, investment advice, or an investment recommendation. In particular, this information is not an offer or solicitation to buy or sell securities, or a solicitation to make such an offer. It is intended solely as introductory information and is not a substitute for advice provided on the basis of the investor’s individual circumstances and knowledge.

This information has not been issued in compliance with the legislation to promote the independence of investment research and is not subject to the prohibition of trade following the dissemination of investment research.

For information regarding Schoellerbank’s general procedures for handling conflicts of interest and the disclosure of benefits, please refer to the MiFID brochure. Your advisor will be happy to provide you with detailed information.

# Annex: Principal adverse impacts on sustainability factors

When collecting your sustainability preferences for investment, **principal adverse impacts on sustainability factors (PAIs)** can also be taken into account. These PAIs conflict with an environmentally sustainable, social, and responsible economy and should be avoided. We have grouped the **64 PAIs** defined in the EU Disclosure Regulation into the following **five main categories**, and you decide which categories are particularly important to you for your investment.

## THE FIVE MAIN CATEGORIES AND THE ASSOCIATED DETAILS ARE AS FOLLOWS:

### Reduction of greenhouse gas emissions (19 PAIs)

- Greenhouse gas (GHG), greenhouse gas emissions (Scope 1, 2, 3, total)
- Carbon footprint
- Greenhouse gas intensity of investee companies
- Exposure to companies active in the fossil fuel sector
- Share of non-renewable energy consumption and production
- Intensity of non-renewable energy consumption and production
- Greenhouse gas intensity
- Exposure to fossil fuels through real estate assets
- Exposure to energy-inefficient real estate assets
- Emissions of inorganic pollutants
- Emissions of air pollutants
- Emissions of ozone-depleting substances
- Investments in companies without carbon emission reduction initiatives
- Breakdown of energy consumption by type of non-renewable sources of energy
- Share of securities not certified as green under a future EU legal act setting up an EU Green Bond Standard
- Share of bonds not certified as green under a future EU legal act setting up an EU Green Bond Standard
- Greenhouse gas emissions
- Energy consumption
- Raw materials consumption for new construction and major renovations

### Protection of biodiversity (4 PAIs)

- Activities negatively affecting biodiversity-sensitive areas
- Share of securities not certified as green under a future EU legal act setting up an EU Green Bond Standard
- Share of bonds not certified as green under a future EU legal act setting up an EU Green Bond Standard
- Land artificialisation

### Reduction/prevention of groundwater contamination and marine pollution (11 PAIs)

- Water pollution
- Water usage and recycling
- Investments in companies without water management policies
- Exposure to areas of high water stress
- Land degradation, desertification, soil sealing
- Investments in companies without sustainable land/agriculture practices
- Investments in companies without sustainable oceans/seas practices
- Natural species and protected areas
- Deforestation
- Share of securities not certified as green under a future EU legal act setting up an EU Green Bond Standard
- Share of bonds not certified as green under a future EU legal act setting up an EU Green Bond Standard



## **Waste prevention (hazardous waste) (6 PAIs)**

- Hazardous waste ratio
- Investments in companies producing chemicals
- Non-recycled waste ratio
- Share of securities not certified as green under a future EU legal act setting up an EU Green Bond Standard
- Share of bonds not certified as green under a future EU legal act setting up an EU Green Bond Standard
- Waste production in operations

## **Regard for social and labour-related issues/standards (32 PAIs)**

- Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises
- Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises
- Unadjusted gender pay gap
- Board gender diversity
- Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)
- Investee countries subject to social violations
- Investments in companies without workplace accident prevention policies
- Rate of accidents
- Number of days lost to injuries, accidents, fatalities or illness
- Lack of a supplier code of conduct
- Lack of grievance/complaints handling mechanism related to employee matters
- Insufficient whistleblower protection
- Incidents of discrimination
- Excessive CEO pay ratio
- Lack of a human rights policy
- Lack of due diligence
- Lack of processes and measures for preventing trafficking in human beings
- Operations and suppliers at significant risk of incidents of child labour
- Operations and suppliers at significant risk of incidents of forced or compulsory labour
- Number of identified cases of severe human rights issues and incidents
- Lack of anti-corruption and anti-bribery policies
- Cases of insufficient action taken to address breaches of standards of anti-corruption and anti-bribery
- Number of convictions and amount of fines for violation of anti-corruption and anti-bribery laws
- Average income inequality score
- Average freedom of expression score
- Average human rights performance
- Average corruption score
- Non-cooperative tax jurisdictions
- Average political stability score
- Average rule of law score
- Share of securities not certified as green under a future EU legal act setting up an EU Green Bond Standard
- Share of bonds not certified as green under a future EU legal act setting up an EU Green Bond Standard