ESG Approach at Rothschild & Co Bank AG

1. Introduction

This document describes how ESG (Environmental, Social and Governance) aspects are integrated into the investment policies and activities at Rothschild & Co. Bank AG (the Bank). The Bank comprises both the Swiss Bank and its subsidiary in Germany, Rothschild & Co Vermögensverwaltung GmbH.

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

1) **It helps to mitigate risk and potentially enhance performance for our clients' wealth**.
Companies with high ESG standards tend to be better managed and offer superior long-term profitability. Moreover, ESG is becoming an increasingly important factor in financial markets with stocks or bonds of companies with inferior ESG track-records 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 3 pillars of the Bank's ESG approach are:

1) **Establish a coherent ESG framework**
This includes having both an active **exclusion** (Section 2) and **ESG integration** guidelines (Section 3).

2) **Strengthen the Bank's stewardship activities**
This includes having an active **voting & engagement** policy (Section 4).

3) **Developing responsible investment solutions for clients** (Section 5).
This includes increasing the investment offering for clients looking to invest responsibly, including thematic investment opportunities.

These 3 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 are based on the exclusion principles of Rothschild & Co Group. These can be summarised as:

(1) Exclusion of investing in companies that design and produce cluster munitions and / or land mines in accordance with the Oslo Treaty (2008) and the Ottawa Convention (1997); (Section 2.1)

(2) Exclusion of investing in companies which to the Group's knowledge are in breach of fundamental principles due to gross corporate misconduct such as severe infringements of human rights, substantial environmental damage or those linked with corruption and bribery activities; (Section 2.2)

(3) Exclusion of investing in companies involved directly in thermal coal production, exploration, mining & processing and power generation using thermal coal. (Section 2.3)

For the discretionary portfolios and funds managed by the Bank the principles imply the avoidance of investments in or loans to "excluded" companies (companies that meet the criteria for exclusion).

The Investment Control team is responsible for monitoring the discretionary holdings for exclusion at least on a quarterly base and reports to the Risk Committee.

For advisory activities the exclusion approach implies that securities issued by excluded companies shall not be recommended to clients. Moreover, if an excluded security is a client wish, the client shall be made aware that the security contravenes the Bank's principles.

2.1 Exclusion of companies involved with the production and distribution of controversial weapons (Oslo/Ottawa policy)

Companies linked with the production and distribution of anti-personnel landmines (according to the Ottawa convention) and cluster ammunition (according to the Oslo convention) are excluded from investment.

2.1.1. Exclusion criteria for single securities (equities, bonds, loans)

The list of companies is produced using the database of the MSCI ESG Manager[1] by screening companies with the field "any ties" to cluster ammunition and anti-personnel mines set to "yes".

The ESG and Portfolio Analytics team is responsible for creating the list of securities issued by these companies, the parent company and its subsidiaries.

2.1.2. Exclusion criteria for indexed securities and third-party funds

For indexed securities the same criteria apply as for the coal policy set out at Section 2.3.

For *third-party long-only active funds* the manager must show that it has an Oslo/Ottawa policy equivalent to that of Rothschild & Co or alternatively that he /she is committed to introduce one until 30.06.2021. If this is

[1] A product by MSCI ESG Research LLC

not the case the Bank has to exit funds positions by that date. No new fund investments are allowed for funds whose managers do not have an Oslo/Ottawa policy.

2.2. Exclusion for companies whose business practices violate fundamental environmental standards and humanitarian principles

2.2.1. Exclusion criteria for single securities (bonds, equities, loans)

In taking the decision to exclude a company on the basis of conduct, the Bank is guided by industry-wide recognised standards such as that set by Norges Bank's conduct-based exclusion list, set by Norway's Council on Ethics.

Specifically, companies on the exclusion list of the Norges Bank[2] in the category "conduct-based" are excluded from investment. These companies are deemed by the Norges Bank as contributing to or responsible for:

a. Serious or systematic human rights violations, such as murder, torture, deprivation of liberty, forced labour and the worst forms of child labour;

b. Serious violations of the rights of individuals in situations of war or conflict;

c. Severe environmental damage;

d. Acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions;

e. Gross corruption; and

f. Other particularly serious violations of fundamental ethical norms.

Rothschild & Co. might make exceptions to the Norges Bank list by engaging with the company based on criteria validated by the Group Responsible Investment Committee. Exceptions are possible for companies that can show that management is willing to take action to exit the Norges Bank list. The maximum engagement period is 24 months. After that the company must be exited if it is still on the list.

The ESG and Portfolio Analytics team is responsible for creating the list of securities issued by companies in the Norges Bank list. It contains equities and bonds issued by these companies and their subsidiaries.

2.2.2. Exclusion criteria for indexed securities and third-party funds

For practicability reasons indexed securities such as *structured products, ETFs and indexed funds* are not within the scope of this exclusion policy unless the underlying index has a weight in "excluded" securities higher than 20%.

For *third-party long-only active funds* the manager must show that it has a fundamental principles exclusion policy equivalent to that of Rothschild & Co or alternatively that he is committed to introduce one until mid-2022. If this is not the case the manager Bank has to exit funds positions by that date. Similarly, new fund investments are allowed only if the fund manager commits to implement such a policy until mid-2022. The responsible Bank's fund analyst is responsible for assessing and monitoring this.

Criteria for the exclusion of *hedge-funds* are still under discussion

[2] https://www.nbim.no/en/the-fund/responsible-investment/exclusion-of-companies/

2.3. Thermal coal exclusion guidelines:

Due to the high CO2 emissions caused by the burning of coal and its impact on climate change 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.

2.3.1. Exclusion criteria for single securities (bonds, equities, loans).

a. Miners: Coal share of revenue (csr) > 20% and/or annual production > 10 MT (mega tons), capacity expansion plans;

b. Electricity producers/utilities: Coal share of power production (cspp) > 20%, annual coal electricity production > 5 GW (giga watts), capacity expansion plans

For a group of companies, the exclusion applies to all the companies that meet the criteria. For example, if a subsidiary has a csr >20% but the parent company does not, then the subsidiary and not the parent company is to be excluded. However, all other criteria are generally "inherited" to the parent company for fully owned subsidiaries.

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 generally updated yearly.

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 (see Boxout 1). Within the Group an analyst (the sponsor) is responsible for analysing the company, its exit plans and proposing the exception. The so-called exception list is approved by the Group Responsible Investment Committee.

The criteria above are valid from 1.1.2021 and must be met by the end October 2021.

Boxout 1
Supporting companies engaged in a coal exist strategy

Where companies are not involved in developing new thermal coal capacity but have direct exposure to thermal coal in excess of the thresholds defined in Rothschild & Co's exclusion policy, the business will

- Engage with companies to discuss their coal exposure;
- Continue to support companies implementing a thermal coal exit strategy on a case-by-case basis;
- Not invest nor lend or cease to invest in or lend to companies which, following engagement, do not implement a thermal coal exit strategy.

2.3.2. Exclusion criteria for indexed securities and third-party funds

For practicability reasons indexed securities such as *structured products, ETFs and indexed funds* are not within the scope of the coal exclusion policy unless the underlying index has a weight in "excluded" securities higher than 20%.

For *third-party long-only active funds* the manager must show that it has a coal exclusion policy equivalent to that of Rothschild & Co or alternatively that he is committed to introduce one until mid-2022. If this is not the case the manager Bank has to exit funds positions by that date. Similarly, new fund investments are allowed only if the fund manager commits to implement such a policy until mid-2022. The responsible Bank's fund analyst is responsible for assessing and monitoring this.

Criteria for the exclusion of *hedge-funds* are still under discussion

3. ESG Integration in security selection and portfolio construction

ESG considerations play an important role in the selection of the securities of the Bank's recommended universe and in portfolio construction.

The overarching goal of our investment activities is to achieve a superior risk-adjusted long-term return for the wealth of our clients. At the same time, we want to improve the ESG characteristics and decrease the carbon footprint of our investments.

We quantify the goal of improving the ESG profile of our investments by means of two main indicators, the **overall ESG score** and the **Carbon Exposure Risk score**.

The overall ESG score measures how well a company performs on environmental, social and governance issues compared to other companies (peers) in the same industry. The importance of the 3 different factors varies by industry. Companies with a below average ESG score are considered riskier since they are more likely to be impacted by factors such as controversies, new social and environmental regulations, bad reputation, litigation risk, poorly motivated work force and financial mismanagement.

The Carbon Exposure Risk score measures the probability and severity that a company is negatively impacted by climate change. Climate change exposure can be physical, for example through extreme heat or flooding, policy related, for example through the introduction of a carbon tax, or technological, for example through competitors developing greener products. The risk is a function of the company's exposure to climate change and of how well the company is managing that exposure.

Although carbon exposure risks are already contained in the overall ESG score of a company the Bank is of the opinion that climate change is such an important and pervading factor that it deserves to be considered at the same level of importance as the overall ESG track record.

3.1. The overall ESG score

3.1.1. Companies and securities (stocks, bonds) issued by a company

The overall ESG score generally corresponds to the same score by MSCI ESG Research LLC. The ESG track-record, similarly to the MSCI ESG Rating is a letter rating and is a translation of the MSCI ESG score, which is a numerical value.

These metrics are industry-adjusted, meaning that they are relative to the average of the industry a company belongs to (See Boxout 2). The Bank has selected industry-adjusted (relative) metrics instead of absolute metrics because it recognizes that sectors have economic importance. Transformation to better ESG standards is therefore achieved not by avoiding sectors but rather by investing in those companies with superior ESG practices within the sector.

Boxout 2
An industry approach

& Co takes an industry vs. absolute approach to analysing companies' average ESG positioning. This “best-in-class” rating approach avoids investment bias, allows a comparison on comparable metrics and allows investment teams to identify active engagement opportunities, where dialogue rather than disinvestment may help to bring companies towards the goal of contributing to a more sustainable future.

The table below shows the mapping between overall ESG ranges with the ESG track record and the MSCI ESG Letter rating.

Table 1

ESG track-record	**Relative to industry peers**	**MSCI ESG Rating**	**Overall ESG Score[3] range**
Very strong	Well above average	AAA	8.6 - 10.0
Strong	Above average	AA	7.1 - 8.6
Medium	Average	A	5.7 - 7.1
		BBB	4.3 - 5.7
Weak	Below average	BB	2.9 - 4.3
Very Weak	Well below average	B	1.4 - 2.9
		CCC	0.0 - 1.4

In exceptional cases the MSCI score can be overwritten by the equity analysts of the Bank for the stocks covered in-house. This must be justified, documented and reviewed at least annually.

The ESG track record, ESG rating and ESG score of bonds and equities are inherited from those of the issuing company.

If the issuing entity is a government or a supra-national organization then the corresponding MSCI ESG score/rating is considered.

3.1.2. Indices, indexed funds and long-only funds not covered by the research of the Bank

Indexed funds are all those fund securities that replicate an index, such as index funds and passive ETFs.

The overall ESG score is the position-weighted average of the score of the components. The ESG track record and the MSCI ESG rating are derived from the ESG score[4] according to Table *1*. In calculating an average, securities without rating are not considered.

[3] The intervals might slightly change over time following MSCI's calculations and are therefore only indicative. For further information please refer to the "MSCI ESG rating Methodology" document.
[4] This score does not correspond to the MSCI ESG fund score but rather the MSCI Fund Weighted Average ESG score as described in the document "MSCI ESG Fund Rating Methodology".

3.1.3. Active long-only funds covered by the Bank's research

The ESG track record is derived from the fund's ESG score. The fund's ESG score is the sum of:

1) 60% of the **holding ESG score**, as described in 3.1.2; and
2) 40% from a **fund manager ESG score**.

The fund manager score is determined by the Bank's fund research according to the criteria shown in Table *2*.

Table 2

Internal Rating	Subtopic	Weight	Fund xy Sub-topic score
Policy	ESG Integration	10%	7.00
	Exclusion policy	10%	6.00
	Proxy voting	20%	4.00
	Engagement	20%	6.00
Implementation	Current Implementation	20%	8.00
	Planned initiatives	5%	n.a.
	Reporting	10%	7.00
	Company internal commitment	5%	6.00

3.1.4. Structured products

The structured products used within the Bank's investment activities are mostly of the form bond/money market instrument plus one or more options on, mostly, equity instruments (indices, single stocks). The combination is structured in such a way that no negative values can be assumed by the security.

The overall ESG score of the structured product is calculated as:

1) 40% of the ESG score of the issuer of the product; and
2) 60% of the ESG score of the underlying of derivative component.

In cases where the underlying of derivative components is of the form "worst of" then the simple average of the ESG score of the underlying securities is taken.

If the overall ESG score for either the issuer or the underlying are missing then the available score is taken.

3.1.5. Other securities

Currently no ESG score for not-securitized instruments, such as money market accounts, as well as private market, real estate or derivative securities other than structured products as described in 3.1.4 is calculated.

It is the goal of the Bank to extend the ESG assessment and the calculation of the ESG metrics to these financial instruments as soon as feasible and possible.

3.2. The Carbon Exposure Risk Score

In general, the Carbon Exposure Risk Score equals the Low Carbon Transition Score metric by MSCI[5]. The Carbon Exposure Risk rating is derived from these metrics following the mapping in Table *3*.

Table 3

Carbon Exposure Risk rating	**Carbon Exposure Risk Score/ MSCI Low Carbon Transition Score**	**Expected impact of carbon reduction policies**
Negative/ mitigating	7 – 10	Positive contribution to CO2 reduction
Neutral	6.5 – 7	Not affected
Low	5.5 – 6.5	Products/operations mildly affected
High to mid	2 – 5.5	Products/operations significantly affected
Very high	0 - 2	Products/operations not compatible with carbon neutral world

3.2.1. Companies and securities (stocks, bonds) issued by a company

For companies and the securities issued by the company the Carbon Exposure Risk is derived from the corresponding MSCI Low Carbon Score for the company.

In exceptional cases the score can be overwritten by the equity analysts of the Bank for the stocks they cover. This must be justified, documented and reviewed at least annually.

3.2.1.1. Green Bonds

An exception is done for "*green bonds*" whose proceeds are earmarked for green projects, mostly aimed at reducing greenhouse gas emissions.

For these bonds MSCI does not deliver a *Low Carbon Transition Score* different from the issuing company. In this case Fixed-income research analyses the issue documentation and proposes a Low Carbon Transition Score. The proposal is reviewed by the ESG and Portfolio Analytics team and a decision is taken.

In general, "genuine" green bonds are assigned a score of 8.5, which places them in the negative/mitigating category.

3.2.2. Indices and long-only funds

The Low Carbon Transition Score is the position-weighted average of the corresponding scores of the component securities. The Carbon Exposure Risk is derived from the score according to Table *3*. In the calculation of the average, securities without score are not considered.

3.2.3. Structured products

[5] Climate Change Metrics – Low Transition Risk Assessment, March 2019, MSCI ESG Research LLC

The calculation and the Low Carbon Transition Score and hence of the carbon Exposure Risk corresponds to that of the ESG track record. Please refer to 3.1.4 for reference.

3.2.4. Other securities

Currently no Carbon Exposure Risk score for bonds issues by government entities or supra-national institutions (unless classified as Green Bonds), for not-securitized instruments, such as money market accounts, as well as private market, real estate or derivative securities other than structured products is calculated. It is the goal of the Bank to extend ESG assessments and the calculation of ESG metrics to this kind of securities as soon as sensible and feasible.

3.3. Minimum Quality requirements for securities

The securities, equities and bonds, with a "Well Below Average" ESG Track record and a "Very High" Carbon Exposure Risk may not be included in the Bank's recommended universe.

If a stock in the universe is downgraded to below the minimum quality requirement it must be excluded from the universe and sold within 3 months.

Bonds may be grandfathered, meaning that existing positions can be kept until maturity if liquidity is low.

3.4. ESG objective of portfolio management

The objective of portfolio management is to improve the ESG characteristics of the managed portfolios without compromising risk-adjusted return.

Formally, the ESG objective of the investment strategy is that a portfolio's overall ESG and the Carbon Exposure Risk scores are higher than those of its benchmark. The Bank also strives at improving the value of the ESG and the carbon exposure risk scores over time although no explicit minimum rates of improvement are set.

The two scores are calculated as position-weighted average of the corresponding scores of the portfolio positions whereas money market positions and positions without scores are excluded.

For the overall ESG score the portfolio positions should have a coverage of, excluding money market holdings, at least 80%. The coverage for the Carbon Exposure risk score metric should be at least 70%.

The benchmarks of the portfolios are currently composite benchmarks with the underlying components being "traditional" market indices without an ESG tilt or objective.

There are no other ESG metrics that are explicitly targeted. However, the investment strategy should result in many ESG indicators being better than the corresponding ones of the benchmark.
In particular, the strategy has no defined target asset allocation for holdings aligned with ESG characteristics or for sustainable investments. The approach is however expected to lead to a share of ESG-aligned and possibly of sustainable investments higher than market average.

4. 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.

4.1 Exercise of voting rights (proxy-voting)

Starting with 2021 the bank plans to exercise the voting rights of the stocks it is invested in via its discretionary mandates and in the funds it manages.

A separate document[6] describes in more detail the Bank's proxy voting policy.

The scope of the Bank's voting policy covers those stocks contained in the model portfolios of Switzerland (the Mosaique portfolios) and those of Rothschild & Co. Vermögensverwaltung in Germany.

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

ISS' recommendations are validated by the Bank's investment committee who keeps the right to deviate from these decisions.

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

4.2 Engagement

The Bank engages with companies primarily through collaborative initiatives and membership platforms.

As a business line within the Rothschild and Co. Group, the Bank is able and will join several investor initiatives which other members of the Group are already involved with. Two of which it is already a member of are listed below:

4.2.1 Principles of Responsible Investments

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

1) Incorporate environmental, social and governance (ESG) issues into the Bank's investment analysis and decision-making processes;
2) Be active owners and incorporate ESG issues into the Bank's ownership policies and practices;
3) Seek appropriate disclosure on ESG issues by the entities in which the Bank invests;
4) Promote acceptance and implementation of the Principles within the investment industry;
5) Work together to enhance our effectiveness in implementing the Principles; and
6) Report on the bank's activities and progress towards implementing the Principles.

Moreover, the Bank participates in the collective effort of the PRI to encourage companies and governments to implement and improve ESG and sustainability standards.

4.2.2. Swiss Sustainable Finance platform

[6] Rothschild&Co. Bank AG Voting Policy

The Bank is also a member of Swiss Sustainable Finance. Founded in 2014, the SSF association is based in Zurich, Geneva and Lugano and brings together 164 members and network partners from financial service providers, investors, universities, business schools and public sector entities. Its aim is to ensure that the Swiss financial center achieves a leading position in sustainable finance.

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 in order to tackle some of the most pressing issues that we face as investors in the development of sustainable finance today.

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

5. Developing Responsible Investment solutions

The Bank is systematically integrating its ESG policy as set out above into the investment processes for discretionary mandates. In addition, the Bank is developing a range of investment solutions for its investment & portfolio advisory clients so as to meet the needs of those seeking to invest in environmental, social and governance factors.

These solutions include advice on the use of passive investment strategies, third-party funds, single line equities and fixed income (green-bond) issuers which give clients exposure to themes pertinent to responsible, sustainable and impact investing strategies.

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