

Sustainability Risk Statement

1. Introduction

EFG is committed to Sustainable and Responsible Investments and to supporting sustainable financial markets. The Asset Management arm of EFG, EFGAM is member of Swiss Sustainable Finance (SSF) and a signatory to the United Nations Principles for Responsible Investment (PRI). As a group aiming to produce financial returns for our clients, we believe that to obtain a rounded view of investments, of their risks and opportunities we need to look at them with a wide lens; Environmental, Social and Governance (ESG) issues are part of such an effort. While it is not always possible to directly link ESG considerations to financial value, we believe ESG performance can provide a proxy for the quality of management and for the capacity of the investee to deliver sustainable competitive advantage.

We also believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. As such EFG is also committed to more and more consider the externalities produced by companies and investments on the environment and society. An improved control in both directions will reward long-term, responsible investment and benefit the environment and society as a whole.

2. Analysis

The analysis applied to multi-asset and multi-product portfolio such as the discretionary mandates follows different routes that are based on the specificities of the underlying securities.

EFG ESG analysis team structures and maintains bespoke tools and analysis that help monitor ESG factors in the investments and products managed by EFG and collaborates with other EFG teams to define ESG analysis processes that are consistent across the group.

Direct Investments

With reference to direct investments EFG owns a proprietary ESG assessment tool, the GRIP¹ (Global Responsible Investment Platform) that is based on financial materiality and allows us to assign an ESG rating to invested companies with a 0% to 100% scale where the weak ESG companies receive a lower rating. For covered companies, GRIP may include hundreds of datapoints divided across different KPIs (Key Performance Indicators), that are selected and weighted in line with our view on the sector specific financial materiality of the different industries. The definition of our framework follows the below structure.

- i. Definition of industries/sectors.
- ii. Definition of the Key Performance Indicators (KPIs) and of a scheme to organise them (KPIs tree). The KPIs and the scheme cover the relations between any company and its stakeholders.
- iii. Definition and grouping of the data needed to assess the KPIs.
- iv. Definition of the materiality (weight, relevance) of KPIs for each industry/sector.
- v. Definition of additional requirement specific for each industry/sector.

The data used for GRIP are currently sourced from Refinitiv, RepRisk and CDP.

Third Party Mutual Funds (Long Only Funds)

EFG owns a proprietary ESG assessment tool for 3rd party funds that is based on a combination of top down and bottom up approach that consider the specific investment process of the funds.

The top down approach starts with the assessment of the UN PRI (Principle for Responsible investments) transparency score that is used together with additional consideration to identify and verify ESG elements of the investment process, based on an internally defined questionnaire. Exclusion of controversial weapons is also expected.

To compliment the top down analysis, EFG also reviews Morningstar's and MSCI ESG portfolio scores for each equity and fixed income fund.

Finally, the bottom up & top down scores are combined to give an overall ESG score. As a consequence of this approach, our approved "Long Only" fund list is rated with respect to the ESG integration and funds are classified accordingly.

While this list is used for most of our investments, Portfolio Managers also have the discretion to invest in funds that are outside this list. However, also in this case, the ESG integration level of these funds is assessed, albeit with a slightly different process: in such cases local Portfolio Managers are required to analyse the level of ESG integration of the investee funds and to identify if the specific strategy can create

a bias that increases sustainability risks through the use of a specific template that will be used for all new investment and renewals of investments.

Alternatives and Funds of Funds

The analysis of sustainability risk into the alternative funds is a complex task as, within alternatives, the ESG integration is quite rare. Nonetheless EFG Due Diligence questionnaire incorporates ESG questions to assesses if the specific strategy can create a bias that increases sustainability risk.

¹A more detailed description of the GRIP can be found on <https://www.efgam.com/doc/jcr:620279ad-9b4b-4482-93f2-1d7d6fb49e0d/ESG%20Rating%20Methodology%20Jun21.pdf/lang:en/ESG%20Rating%20Methodology%20Jun21.pdf>

3. Performance and Risk

One of the key objectives of investing is to produce returns, and we are very much aware that there is no return without risk. It is therefore paramount to monitor the variables that could have a negative impact on investment performance such as the financial or the extra-financial factors that can impact the risk-return profile or have financial consequences.

EFG monitors and appraises how the implementation of the current Investment Policy impacts risk-adjusted investment results and takes appropriate action should the results be unsatisfactory. Regularly the ESG team assesses the link between risk and ESG profile. The assessments performed so far clearly show a positive correlation between equity volatility and sustainability risk expressed by a low ESG score which is the reasons why EFG since many years decided to focus on ESG scores as an additional risk parameter.

In the case of fixed income assets the relation between ESG and risk/return is more controversial as the worst companies tend to have a higher yield and therefore, unless they go bankrupt, they tend to provide higher returns. In the fixed income space the name of the game is downside protection and sustainability risks are assessed with the aim to better understand if the yield we get from an investment is aligned with the whole set of risks we take: the financials, but also the extra-financial ones that can have an impact on the bottom line of the company.

EFG carefully monitors the exposure of their investments to climate change risks focusing on emissions and preparedness to react to transition and physical risk. Appropriate tools, such a CO2 scenario model, are at disposal of fund managers and analysts to check company exposure to CO2 risks. Additional tools provide information about coal and fossil fuel exposure. The specific attention we paid to fossil fuel intensive industries proved to be beneficial for the past performance of our investments.

Assessing the sustainability risks and performance of the third party funds is a more complex exercise due to different approaches and rating system used by fund managers. Exclusion criteria also play a significant role in making this assessment even more complex. Finally, the amount of fully ESG integrated funds is still limited. Following the many academic papers that suggest the existence of a positive link between ESG and risk/return of investments (or the lack of a negative correlation) we believe that ESG integration in our fund analysis will provide a better risk/return profile for our investments.

4. Integration

The integration of sustainability risk into our discretionary managed portfolios can follow slightly different steps according to the specific product and more than one approach can be applied at the same time. At least 90% of discretionary mandates holdings need to be ESG screened with respect to sustainability risk, according to the specific rules for the different asset classes.

Direct Investments

EFG considers ESG integration as being part of a sound due diligence process and as such decided to remove from its investable universe companies that receive a score lower than 25% unless an engagement process to increase this score or certain KPIs is put in place. These companies are usually exposed to significant controversies or are not transparent making almost impossible to correctly assess their sustainability risk exposure.

Companies with a coal share of revenues >30% are also removed from our universe to reduce the stranded asset risk and the risk of a sudden collapse of revenues.

The integration of sustainability risks is done through two alternative channels:

- EFG adopts an ESG checklist that also focus on the main sustainability risk allowing investment professionals to better assess and keep track of the different risks that need to be considered during companies' due diligence (Equity and Fixed Income)
- Integrating ESG scores in the algorithms that define the attractiveness of investments meaning that the higher the sustainability risk, the higher needs to be the expected return that is expected to justify holding the security. (Applies to equity only)

EFG also maintains an ESG questionnaire that empowers financial analysts and portfolio managers to ask the right ESG questions to companies to understand their sustainability risks.

In addition to that EFG carefully monitor the exposure of its investments to climate change focusing on emissions and preparedness to react to transition and physical risk. Appropriate tools, such a CO2 scenario

model based on NGFS scenarios, or a list of companies significantly exposed to coal and fossil fuel is at fund manager disposal. The strict control we applied on these industries proved beneficial for the performance of our investments.

Indirect Investments - Mutual Funds

EFG owns a proprietary ESG assessment tool for 3rd party funds, that is based on a combination of top down (PRI Transparency assessment) and bottom up approach that consider the specific investment process of the funds.

The top-down approach starts from PRI scores that are used by the fund selection team as a top down input together with additional consideration to identify and verify ESG elements of the investment process. To compliment the top down analysis, EFG reviews Morningstar's and MSCI's ESG portfolio scores for each equity and fixed income fund.

Finally, the bottom up & top down scores are combined to give an overall ESG score. As a consequence of this approach, Funds in the approved "Long Only" fund list used by discretionary portfolio managers are rated with respect to the ESG integration and classified accordingly.

While this list is used for most of our investments, EFG Portfolio Managers also have the flexibility to buy funds that are outside this list. However, also in this case, the ESG integration level of these funds is assessed, albeit with a slightly different process: local Portfolio Managers are required to analyse the level of sustainability risk integration of the investee funds and to identify if the specific strategy can create a bias that increases sustainability risk through the use of a specific template.

Considering the lack of alternatives non ESG integrated funds can be selected/bought when the analysts or portfolio manager deem a reasonable ESG integrated alternative doesn't exist, with a comply or explain approach.

Indirect Investments - Alternatives

Portfolio managers have however the discretion to invest in ESG integrated funds also when they believe that the better monitoring of ESG risk can produce a more favourable risk/return profile.

Considering the lack of alternatives non ESG integrated funds can be selected/bought when the analysts or portfolio manager deem a reasonable ESG integrated alternative doesn't exist, with a comply or explain approach.

5. Exclusions

EFG also applies some additional ethical and exclusion consideration in its investment process excluding from its investment universe companies that produce cluster bombs, landmines, biological or chemical weapons or companies that produce nuclear weapons for countries that didn't signed the Nuclear non-proliferation treaty. Additionally, companies that are deemed to be in breach of the UN Global Compact principles are removed from our investable universe unless a clear engagement process is set-up.

As sustainability risks continue to evolve and their understanding change over time, EFG periodically reviews and updates its sustainability risk policies, procedures and practices.

DUE TO THE LATE PUBLICATION OF THE FINAL RTS REGULATION (FEBRUARY 2021) EFG DECIDED TO OPT-OUT AND DOES NOT CONSIDER THE ADVERSE IMPACTS OF INVESTMENT DECISIONS ON SUSTAINABILITY FACTORS. EFG PLANS TO REVISIT THIS DECISION BEFORE YEAR END.

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