

# The Pictet ESG Scorecard

We believe companies pursuing sustainable business practices are more likely to thrive in the long term as they are better at identifying, understanding and managing longer-term challenges, be they economic, social, environmental or regulatory in nature. Integrating environmental, social and governance practices is not only the right thing to do; it also adds value to our clients' portfolios in the long term.

Across research, investment decisions, risk management and advisory services, we place emphasis on the inclusion of high-quality environmental, social and governance data when evaluating corporate issuers. As such, and specifically to inform investment decisions and active ownership activities, we have developed a proprietary ESG Scorecard providing a focused view of ESG Risks and Opportunities. The Pictet ESG Scorecard is at the foundation of our existing ESG integration across the Group and is one of the key building blocks for reaching our 2025 vision of being a leading responsible investment firm.

## A structured approach to ESG integration

We believe investment success stems from a rigorous and repeatable process. It is not about being lucky or having access to privileged information. It requires a rigorous and unbiased method for gathering and analysing information, taking decisions and executing them with discipline. Integrating ESG information is no different, which is why we have opted for a structured approach to dealing with this fast-evolving field.

The ESG Scorecard is based on a curated set of the most material data points, across four pillars:

### 1. Corporate governance:

Are companies managed for the long-term?

- e.g. Board competence & independence, executive remuneration, audit & risk control

### 2. Products & services:

How “future-fit / compatible with the Sustainable Development Goals (SDGs)” is their product-mix?

- e.g. Are they generating revenue by addressing public health and/or environmental issues? Are they offering “clean & safe” products & services?

### 3. Operational risks:

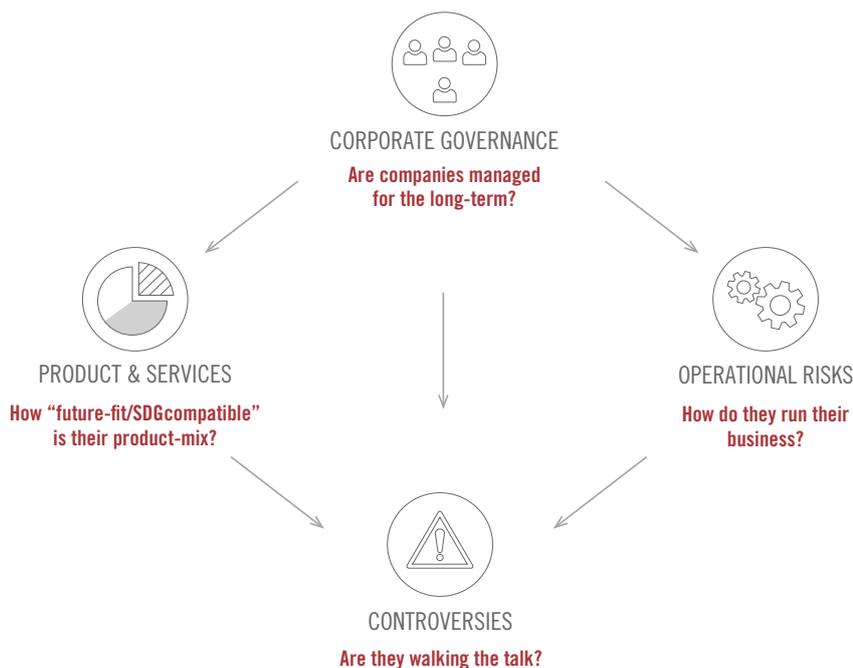
How do they run their business?

- e.g. What is the carbon intensity of their operations?
- Are they exposed to extreme weather events and other climate risks?
- Are they managing other environmental and social impacts associated with their activities and supply chain?

### 4. Controversies:

Are they walking the talk?

- e.g. Bribery & corruption, market abuse, product recalls



### Overcoming the data aggregation challenge

The Pictet ESG Scorecard is underpinned by a robust framework of data and threshold selection, driven by deep data knowledge, analysis and experience. Rather than going down the route of aggregation and risk losing the details that matter, our investment teams use flags as indicators for their own fundamental research and decision-making processes. The Scorecard indicates areas of concern from an ESG perspective through red flags. Meanwhile, areas seen as positive from an ESG perspective are indicated through green flags.

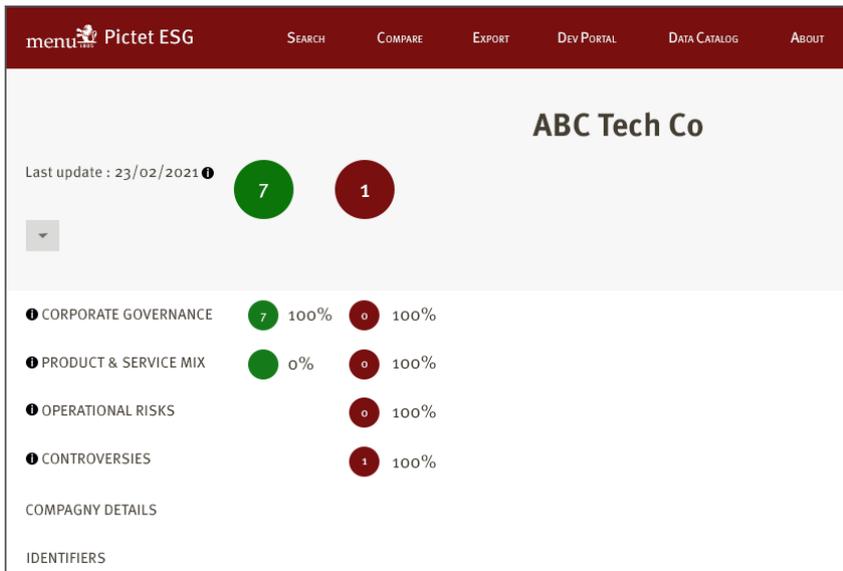
Flags can stem from each individual data source and are summed at both pillar and Scorecard level.

Individual or multiple companies can be uniformly compared within and across sectors and locations to identify leaders and laggards.

### The beginning of a journey

This is an important and necessary journey. We believe ESG is one of the few exceptions to the standard risk-return paradigm. In our view it is essential to embed ESG factors in our investment decisions as it is our hypothesis that they will outperform in the long run. We also recognise that the stability they provide reduces investment risks and increases investment opportunities. This necessarily implies that ESG factors are a negative risk premium, which makes an ESG approach specific and similar to the so-called 'low-beta anomaly'.

The field of ESG integration is continually evolving as more, higher-quality and increasingly sophisticated data becomes available. Pictet's ESG Scorecard is curated by a committee of experts which meets quarterly to discuss the evolution of the model and ensure that we keep abreast of developments and continue to bring a meaningful and comprehensive view of ESG factors to be considered in the investment process.



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