Sustainable investment for clients domiciled / based in the EU / EEA

Introduction

St.Galler Kantonalbank (SGKB) advises clients domiciled or based in the EU or the EEA. Accordingly, asset management and investment advisory service are carried out based on the guidelines of the EU.

Due to the growing global demand for sustainable investments, the EU launched an action plan to make financial flows sustainable and promote sustainable investments. Therefore investment advisory service is to be expanded to include sustainability aspects. For this purpose, new requirements have been included in the MiFID II Directive, which came into force on 02.08.2022.

The development towards more sustainability is managed under the three pillars of sustainability: ESG. "E" stands for environmental compatibility, "S" for social and "G" for responsible corporate governance. Economic activities should also serve these goals. Companies are considered sustainable if they try to achieve these goals through their economic activities.

The European legislator obliges institutions to ask their clients about their preferences regarding sustainability aspects. The sustainability preference is the decision whether and to what extent sustainable financial instruments should be taken into account.

Your sustainability preference is required

With a conscious decision in favour of or against sustainable investments, you set the course for the personal investment proposal that SGKB will make you.

If you are neutral towards sustainable investments, all investment solutions are available to you as before.

If, on the other hand, you have a preference for sustainable investments, your advisor will recommend a sustainable solution.

The four sustainability preferences

The preferences cover different aspects of the three pillars of sustainability: ESG. We offer you our bank's own sustainability standard in addition to the three sustainability classes according to MiFID. We would like to explain these four possibilities to you below.

SGKB's sustainability standard

SGKB's sustainability standard is based on a holistic understanding of sustainability (see chart on page 3).

SGKB uses a systematic methodology and MSCI ESG research for an optimal choice of financial instruments to invest in. In this context, the three sustainability filters that lead to a sustainable portfolio take into account the ESG sustainability components. In the final selection phase, economic criteria from financial analysis are also applied. These above-mentioned requirements are reviewed on an ongoing basis for shares and, for bonds, at the time of purchase. Third-party funds are excluded from this as they take their own sustainability approach into account in the investment process.

Implications for you when choosing this preference

In order to be able to serve this sustainability preference, your advisor will recommend an asset management solution that follows the "SGKB sustainability standard".

Ecologically sustainable according to the EU Taxonomy Regulation

The focus of this sustainability preference according to the Taxonomy Regulation is on the achievement of one of the following six environmental objectives:

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water and marine resources
- Transition to a circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems

You can determine whether you want to invest in a financial instrument with a minimum proportion of environmentally sustainable investments to achieve one of the above environmental objectives. The EU has determined conditions that qualify economic activities for the six environmental objectives. They thus offer a guarantee that a significant contribution is made to one of these objectives and, at the same time, that none of the other objectives are significantly harmed.

My first bank. St.Galler Kantonalbank

Implications for you when choosing this preference

The standards of the taxonomy regulation will ensure the highest possible level of environmental compatibility in accordance with MiFID II. The problem with taxonomy at this stage is that the range of environmentally sustainable funds is still small. However, SGKB will be able to suggest at least one financial instrument to you. The fund provider will set out the concrete implementation of environmental sustainability and evidence of the positive impact on the environment in its pre-contractual disclosure and periodic reports.

Sustainability according to the EU Sustainable Finance Disclosure Regulation

The focus of the sustainability preference according to the Sustainable Finance Disclosure Regulation is on social and environmental issues as well as responsible business management. Sustainable, in this sense, means economic activities that contribute to the achievement of an environmental objective outside the scope of the Taxonomy Regulation, 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 its impact on biodiversity and the circular economy, or an investment 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, or an investment in human capital or economically or socially disadvantaged communities, provided that principles of good governance are also applied.
This sustainability is very often reported by fund providers on the basis of the UN's 17 Sustainable Development Goals (so-called SDGs).
You can determine whether you want to invest in a financial instrument with a minimum proportion of sustainable investments as defined above.

Implications for you when choosing this preference

If you choose this sustainability preference, you are opting for a medium level of sustainability according to MiFID II. SGKB will be able to suggest at least one financial instrument to you based on our recommendation list. The fund provider will set out the concrete implementation of sustainability and proof of the positive impact on the environment or social issues in the pre-contractual disclosure and periodic reports.

Sustainability considering the Principal Adverse Impacts on sustainability factors

This sustainability preference takes into account the Principal Adverse Impacts (PAIs) on sustainability factors. PAIs can be divided into five groups:

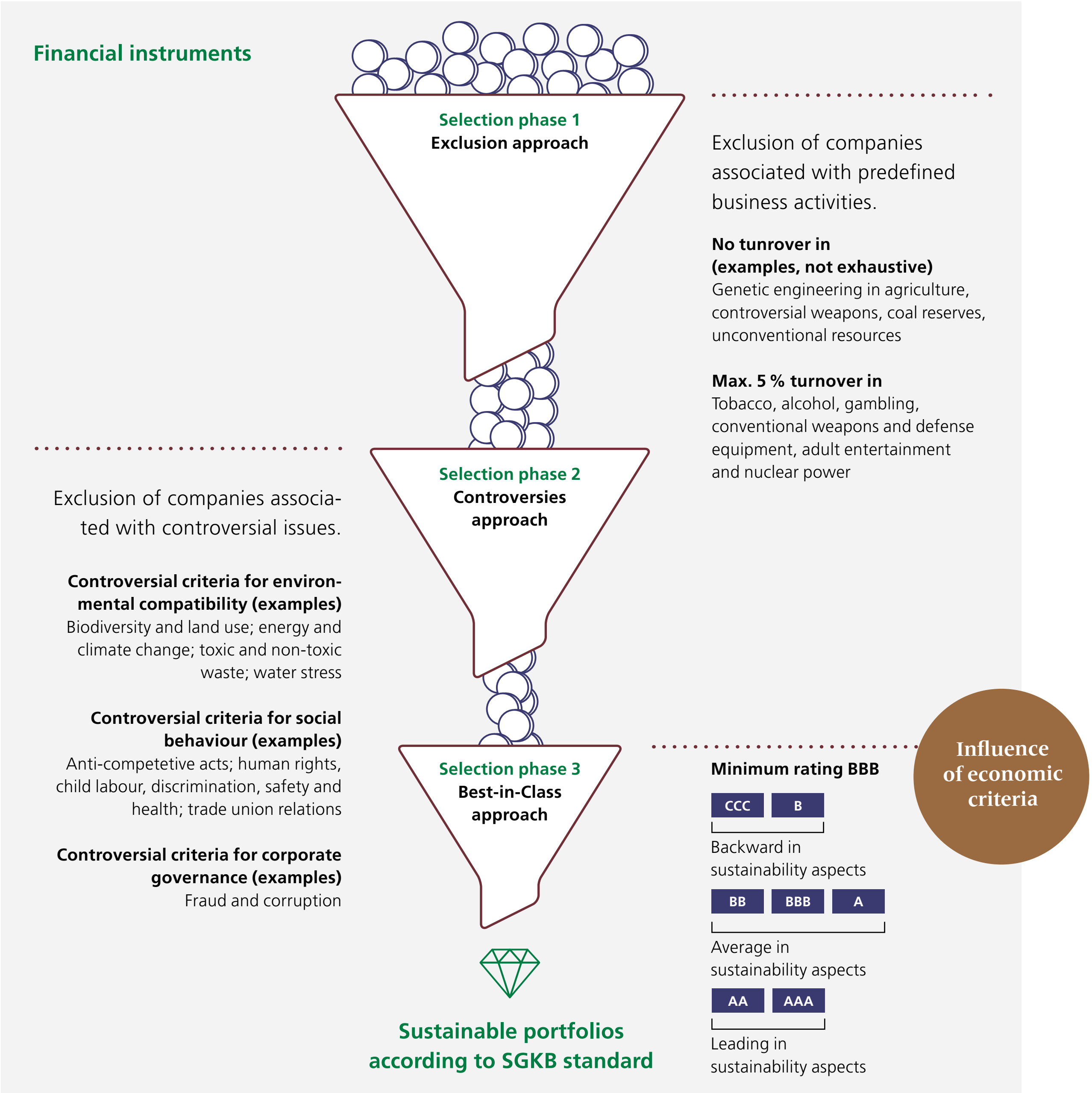
- Greenhouse gas emissions
- Biodiversity
- Water
- Waste
- Social and employee matters

Implications for you when choosing this preference

If you choose this sustainability preference, you are opting for the lowest level of sustainability according to MiFID II.
SGKB will be able to suggest at least one financial instrument to you based on our recommendation list. The fund provider will set out the consideration of the Principal Adverse Impacts on sustainability factors in the pre-contractual disclosure and periodic reports.

Risks related to sustainability

ESG risks can arise in connection with sustainability. These may arise due to events or conditions from the areas of environmental compatibility, social issues and responsible corporate governance already mentioned. They may currently, but also in the future, have a negative impact on profitability, costs, reputation and thus on the value of the company as well as the price of financial instruments.
Environmental risks include physical risks such as damage and costs arising from extreme weather events caused by climate change, such as storms or flooding. In addition, transition risks are also taken into account, which include, for example, regulatory risks or liability and legal risks. Social risks can arise, for example, from violations of employment standards, a lack of attention to occupational health and safety or unfair treatment of staff. Corporate governance risks may include, for example, unequal treatment of shareholders or a lack of control mechanisms. ESG risks can have different effects on financial instruments. It is therefore important that these risk factors are taken into account when selecting financial instruments. In SGKB's sustainability approach mentioned above, these risks are analysed and reduced by including the minimum rating of BBB through the research of MSCI ESG.


Financial instruments
Selection phase 1
Exclusion approach
Exclusion of companies associated with predefined business activities.
No tunrover in (examples, not exhaustive)
Genetic engineering in agriculture, controversial weapons, coal reserves, unconventional resources
Max. 5 % turnover in
Tobacco, alcohol, gambling, conventional weapons and defense equipment, adult entertainment and nuclear power
Selection phase 2
Controversies approach
Exclusion of companies associa-ted with controversial issues.
Controversial criteria for environ-mental compatibility (examples)
Biodiversity and land use; energy and climate change; toxic and non-toxic waste; water stress
Controversial criteria for social behaviour (examples)
Anti-competetive acts; human rights, child labour, discrimination, safety and health; trade union relations
Controversial criteria for corporate governance (examples)
Fraud and corruption
Selection phase 3
Best-in-Class approach
Minimum rating BBB
CCC
B
Backward in sustainability aspects
BB
BBB
A
Average in sustainability aspects
AA
AAA
Leading in sustainability aspects
Influence of economic criteria
Sustainable portfolios according to SGKB standard