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Explanation of the sustainability preference query

1. Introduction

The United Nations has defined 17 development goals, the so-called Global Goals, for sustainable development. To achieve these goals, the European Union also wants to hold the financial services industry accountable.



The development towards more sustainability is referred to as ESG. Economic activities should also serve these goals of ecology, social justice and the principles of good governance. Companies are considered sustainable if they try to achieve these goals through their economic activities.

The European legislator obliges institutions to ask their customers for their preferences on sustainability issues. The sustainability preference is the decision of a client whether and to what extent he wants to consider financial instruments that take sustainability aspects into account in his investment. Art. 2 No. 7 of Regulation (EU) 2017/565 provides several alternatives for this purpose. The sustainability preferences available for selection are explained below.



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2. The sustainability preferences

The European legislator would like to offer you as a customer the following sustainability preferences to choose from:

2.1. Sustainability according to the Taxonomy Regulation

The strictest sustainability preference is the one according to Art. 2 No. 7 a) IR 2017/565, which allows you to determine whether a minimum share should be invested in environmentally sustainable investments as defined in Article 2 No. 1 of Regulation (EU) 2020/852. These are financial instruments that comply with the Taxonomy Regulation, i.e. the EU's set of rules defining ecological investments. These are economic activities that make a significant contribution to the achievement of one of the environmental objectives according to Art. 9 of the Taxonomy Regulation and do not entail any significant impairment of the other environmental objectives.

The so-called taxonomy is intended to determine which economic activity may be classified as sustainable/ecological. 6 environmental goals are defined:

- Climate protection
- Adaptation to climate change
- Sustainable use and protection of water and marine resources
- Transition to a circular economy
- Avoidance and reduction of environmental pollution
- Protection and restoration of biodiversity and ecosystems

According to the Taxonomy Regulation, an economic activity by a company is classified as environmental if it significantly promotes at least one of the above-mentioned six environmental objectives and does not significantly compromise the other environmental objectives.

The technical details are defined by so-called delegated acts.

In order to meet the requirements of the taxonomy, companies must ensure that the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights, including the fundamental principles and rights from the 8 core conventions set out in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work and from the International Bill of Human Rights, are followed.

The benchmarks from the taxonomy would ensure the highest possible level of sustainability for you. However, there may not yet be enough financial instruments available on the market that meet these requirements, especially in the first phase of implementing the sustainability preferences.

2.2. Sustainability in accordance with the Disclosure Regulation

The second sustainability preference that you as a client can choose are financial instruments where you as a client specify that a minimum proportion should be invested in sustainable investments as defined in Article 2(17) of Regulation (EU) 2019/2088, the so-called Disclosure Regulation.

These are economic activities that contribute to the achievement of an environmental objective, measured for example by key indicators for resource efficiency in the use of energy, renewable energy, raw materials, water and soil, for waste generation and greenhouse gas emissions or for the impact on biodiversity and the circular economy, or an investment in an economic activity, that contributes to the achievement of a social objective, in particular an investment that contributes to the fight against inequalities or promotes social cohesion, social inclusion and labour relations, or an investment in human capital or for the benefit of economically or socially disadvantaged groups, provided that principles of good corporate governance are also applied.



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If you, as a client, choose this sustainability preference, you would be choosing a medium level of sustainability. We can use our own judgement and discretion to decide whether an issuer meets these criteria and may therefore be included in your investment.

2.3. Sustainability preference through consideration of PAIs

The third sustainability preference is the decision by you as a client to consider financial instruments that take into account the most significant adverse impacts on sustainability factors, where the qualitative or quantitative elements used to demonstrate this consideration are determined by the client or potential client. Definitions can be found in Art. 4, 6 and 7 of the Disclosure Regulation.

Adverse impacts on sustainability factors are determined using so-called sustainability indicators. These sustainability indicators are

- Greenhouse gas emissions
- CO₂-footprint,
- the general greenhouse gas emission intensity of a company,
- the company's commitment to fossil fuels,
- share of energy consumption and generation from non-renewable energy sources,
- intensity of energy consumption by climate-intensive sectors,
- Impact on areas of biodiversity in need of protection,
- water consumption of a company,
- the amount of hazardous and radioactive waste,
- violations of the UNGC Principles and the OECD Guidelines for Multinational Enterprises,
- lack of compliance processes and mechanisms to comply with the UNGC Principles and the OECD Guidelines for Multinational Enterprises,
- gender pay gap,
- Gender diversity in governance and oversight bodies,
- engagement in controversial weapons (anti-personnel mines, cluster munitions, chemical and biological weapons),

For investments in states and supranational organisations:

- Greenhouse gas emission intensity,
- Violation of social provisions and the United Nations conventions

For investments in real estate:

- Exposure to fossil fuels through investment in real estate,
- Exposure to real estate with poor energy efficiency

We have defined companies that pursue a dedicated ESG strategy with consideration of the standard PAIs on environmental and/or social topics as companies that take material PAIs into account. In addition, these companies must take into account minimum exclusions. These minimum exclusions mean:

For companies:

- Arms production over 10% (outlawed weapons over 0%)
- Tobacco production over 5%
- Coal over 30%

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Serious violations of UN Global Compact (without positive perspective):

- Protection of international human rights
- No complicity in human rights violations
- Upholding freedom of association and the right to collective bargaining
- Elimination of forced labour
- Elimination of child labour
- Elimination of discrimination in respect of employment and occupation
- Precautionary principle in dealing with environmental problems
- Promotion of greater environmental awareness
- Development and dissemination of environmentally friendly technologies
- To work against corruption in all its forms

For state issuers, no serious violations of democracy and human rights.

In addition, issuers must accept a recognised industry standard for the implementation of good corporate governance practices.

2.4. Companies on the road to transformation

The implementation of sustainability issues at issuers has only just begun at many companies. The implementation of sustainability issues is sometimes associated with considerable preliminary work and implementation difficulties. Generally, one speaks of transformation in this context. In your sustainability preferences, you can also express the wish that companies be allowed to be considered on the path to transformation. In this case, you leave the assessment of the transformation steps to the discretion of the institute. We can decide at our own discretion whether an issuer meets these criteria and may therefore be included in your investment.

3. Your decision

You are not obliged to choose one of the sustainability preferences shown above. As a company, we endeavour to be able to make you an offer that takes sustainability preferences into account. Please also take into account the respective market situation with regard to the available financial instruments in a particular area.

The preferences are set by you in our client profile or in the appendix "Sustainability preferences".