Banque Havilland (Liechtenstein) Ltd.

SFDR Disclosure on Sustainability Risk in Investment Decision Making Process

The EU's Regulation on sustainability-related disclosures in the financial services sector (the "Sustainable Finance Disclosure Regulation or SFDR") was published in December 2019 and forms part of the EU's package of measures relating to Environmental, Social and Governance (ESG) issues. The EU Council adopted the Disclosure Regulation (2019/2088) on 27 November 2019. It entered into force on 29 December 2019 .The EU Council subsequently adopted the Taxonomy Regulation (Regulation 2020/852), which entered into force on 12 July 2020. Both Regulations are applicable in the Principality of Liechtenstein since 01 May 2022.

Banque Havilland strongly believes that promoting higher Environmental, Social and Corporate Governance principles in the society is an important objective that should be pursued globally and across all industries and stakeholders. In order to comply with this new regulatory framework Banque Havilland has implemented a Sustainability Risk Procedure which set out the guiding principles to integrate sustainability risks into its investment decision making process.

The Bank focuses on the below tools to address and mitigate sustainability risk in its investment portfolios:

- **ESG Ratings:** the Bank believes that the most relevant sustainability risk is captured by the extra drawdown risk, and this can be controlled and mitigated by avoiding unintended large exposure to the lowest quintile of the ESG scoring universe. For this reason the Bank, through its Investment Committee, will review on a semi-annual basis its allocations in discretionary portfolios and advisory portfolios to make sure that the exposure to the lowest quintile ESG rated securities remains limited. The Bank deems a semi-annual ex-post review methodology sufficient given the low turnover of the discretionary and advisory portfolios and the fact that the sustainability risk tends materialize over the medium and long term. The calculation of the rating will rely on MSCI ESG Rating for stocks and the Morningstar ESG Rating for funds. Non-rated securities will not be subject to any internal shadow rating. The measurement will apply to each single portfolio.
- **Diversification:** for a portfolio not concentrated in a specific industry or country, the most effective and simple way to address and mitigate indirectly sustainability risk, as any other financial or non-financial idiosyncratic risk, is through sound portfolio diversification and construction, as documented by numerous academic research papers. As a general rule, a portfolio holding more than 25 stocks has a diversification level not dissimilar to a portfolio holding hundreds of stocks. This means that company specific risks related to sustainability risk are diversified in the same way as risks related to its business model, fraud, poor management, liquidity and any other company specific risk. The Bank maintains a high level of diversification in the majority of its discretionary and advisory portfolios.
- **Use of EU domiciled investment vehicles:** as of 30/11/2020, circa 70% of the Bank`s total discretionary portfolio is allocated to external funds domiciled in the European Union. For this reason, a large portion of the sustainability risk is indirectly mitigated by the fact that those funds are subject to the SFDR themselves, and hence need to put in place all the related measures. Moreover, as several funds held in the Bank portfolio belong to managers with over 500 employees, as from 30 June 2021, it will be for them mandatory to report on adverse sustainability impact as well.

More details on the Bank's approach on sustainability risk can be obtained on request.