Climate-related Disclosures
2022

PICTET

1805

PICTET GROUP 30 June 2023

Foreword

For Pictet, climate change represents both an urgent challenge and an opportunity to build a more sustainable economy. We believe it will have a material impact on asset prices and investment returns in the coming years and significantly reducing the environmental impact of our activities and investments is a core component of our Ambition 2025 strategy. As we outline in our Climate Investment Principles, which are a guide for our investment teams, no economic system will be immune to the impacts of severe climate change. Consequently, the investment decisions made today will have a strong bearing on how climate change and its consequences unfold tomorrow.

It is therefore our fiduciary responsibility to play an active role in accelerating the transition of the global economy towards a net-zero emissions future in line with climate science. This means leveraging all tools at our disposal to effect positive change, including our own assets and operations and how we manage our clients' assets and use our influence. To this end, in 2021 we committed to the Net Zero Asset Managers initiative and the Science-based Targets initiative, before publishing a Climate Action Plan in 2022.

In the first iteration of our Climate Action Plan, we outline how we will realise these long-term commitments and short-term objectives. The plan is designed to incorporate new insights and developments, based on regular reviews, continuous learning and constant improvement grounded in the latest data and expertise.

Initially we will focus mostly on climate change mitigation, but we have started the interlinked work needed on climate adaptation and other environmental topics like water conservation and biodiversity protection.

We do not aspire to be the leader of the financial services sector when it comes to climate, because for us all to win, there can be no losers. It is in our collective best interest that we all take first place in this race. For our clients, we compete against our peers on our services and offering; for the planet we are committed to collaborating with our peers, as well as industry bodies, policy makers and other organisations. This document is based on our roadmap for mobilising the change we consider necessary to both reducing risks for the financial system and delivering long-term performance for our clients.

RENAUD DE PLANTA
Senior Managing Partner

Governance

Tackling the climate challenge is very complex, partly because its worst effects will be felt over a long-term time horizon. Pictet's governance and core business model are well suited to managing the required transition, given the average tenure of our Managing Partners is 21 years. This makes them accountable for decisions taken today over multiple decades.

Pictet's eight Managing Partners are owner-managers who compose the board of managing partners, responsible for the entire activity of the Group. A key climate-related decision the board took in 2022 was to approve the Climate Action Plan (including three science-based targets), as recommended by the Group Stewardship & Sustainability Board (GSSB), which reports to the board of managing partners. The GSSB meets quarterly and approves initiatives related to our Responsible Vision, oversees cross-business line implementation and adherence to these commitments. Climate issues have been a long-standing priority for the GSSB, which includes representatives across Pictet's business lines: Asset Management, Wealth Management, Asset Services, Alternative Advisors and Corporate Functions.

> Pictet's governance and core business model are well suited to managing the required transition

Reporting into the GSSB are the Group ESG Data Committee, responsible for strategy and development of Pictet's proprietary ESG scorecard and portal and the Corporate Sustainability Advisory Committee, which oversees sustainability initiatives for corporate operations.

Coordinating the GSSB is the Group ESG and Stewardship team with input from the ESG teams of Pictet's individual business lines and the ESG Champions across all relevant business functions.

The Group's various legal entities are responsible for overseeing and coordinating the implementation of the Climate Governance through their respective bodies (boards of directors, executive committees, risk committees, etc.).

As the most senior forum at Pictet, the board of managing partners steers the overall strategy for assessing and managing climate-related risks and opportunities regarding our investing

Each Pictet business line has its own governance structure consisting of committees that are responsible for oversight of progress towards Pictet's climate targets.

activities and our own operations. The Group Head of ESG & Stewardship informs the full board of managing partners on climate-related issues at least annually, with monthly updates to the Chair of the GSSB.

The Group Executive Committee, composed of senior management from across Pictet functions (Managing Partners, Human Resources, Finance, Legal, Risk & Compliance, IT & Operations), is responsible for overseeing the implementation of our Climate Action Plan, including climate-related risk and opportunity management, progress against our science-based targets, validating relevant budgets or investments and endorsing climate-related employee incentives.

BUSINESS-LINE LEVEL GOVERNANCE

In addition to the governing bodies that are common across Pictet, each Pictet business line has its own governance structure consisting of committees that are responsible for oversight of progress towards Pictet's climate targets. These independent governing bodies benefit from considerable overlap in composition, specialisation, periodic reporting and open lines of communication that enable resource allocation, oversight and accountability for the effective delivery of Pictet's Climate Action Plan, as part of the broader approach to responsible investment. They include committees dedicated to investment management, risk, regulation, distribution and product strategy.

Strategy

Our approach to identifying climate-related risks and opportunities is underpinned by four key investment convictions reflected in our Climate Investment Principles:

1. Climate change will have a material impact on asset prices and investment returns.
2. The investment decisions taken today will have a strong bearing on how climate change and its consequences ultimately unfold.
3. No economic system will be immune to the impacts of severe climate change, therefore such a risk cannot be easily diversified or hedged.
4. Our governance and risk management systems must be fit to enable the delivery of this Climate Action Plan

CLIMATE-RELATED RISKS

Pictet has identified four key inherent climate-related risks with the potential to have a substantive financial or strategic impact on our business.

CLIMATE-RELATED RISK	TIME HORIZON	LIKELIHOOD	MAGNITUDE OF IMPACT	PRIMARY DRIVER	PRIMARY POTENTIAL FINANCIAL IMPACT
Transition Physical	0–3 years	More likely than not	Medium	Potential for client attrition due to failure to appropriately account for environmental factors in investment portfolios, resulting in inferior financial returns on an investment (e.g. portfolio exposure to climate-related write-downs).	Loss of revenues due to decreased client demand

DESCRIPTION	ACTION
It is our fiduciary duty to manage the risk/return profile of our clients' investments. If a significant climate transition risk materialises (e.g. policy changes enforced sooner than expected for transition risk or severe flooding for physical risk), leading to a material negative impact on an investment's financial value, it means the risk was inadequately managed. This could result in portfolio underperformance that drives client out-flows, as well as potential negative press for Pictet.	One of Pictet's three strategic ambitions for 2025 is to fully integrate ESG factors across managed investments. This is supported by our Climate Investment Principles, which underpin our investment frameworks and relevant controls. ESG integration is intewnded to identify and mitigate material investment risks that are not otherwise captured (e.g. the future write down of stranded assets in the case of transition risk or damage caused by extreme weather events in the case of physical risk).

CLIMATE-RELATED RISK	TIME HORIZON	LIKELIHOOD	MAGNITUDE OF IMPACT	PRIMARY DRIVER	PRIMARY POTENTIAL FINANCIAL IMPACT
Reputational	0–3 years	More likely than not	Medium	Increased stakeholder concern or negative stakeholder feedback	Loss of revenues due to reduced demand for products and services

DESCRIPTION	ACTION
Increasing scrutiny around the negative climate impacts of investments by activist non-profit organisations and the media, particularly around fossil fuels and GHG emissions, poses a risk that Pictet clients and prospects negatively perceive the institution, potentially resulting in client outflows.	Pictet is in the process of putting mitigation into place via proactively identifying the highest reputational risk issuers to monitor engagement efforts and take action as required.

CLIMATE-RELATED RISK	TIME HORIZON	LIKELIHOOD	MAGNITUDE OF IMPACT	PRIMARY DRIVER	PRIMARY POTENTIAL FINANCIAL IMPACT
Regulatory	0–3 years	Likely	Medium	Regulation and supervision of climate-related risk in the financial sector	Increased direct costs

DESCRIPTION	ACTION
In light of the growing regulatory requirements (e.g. disclosure), updated resource budgets are required to comply with new requirements. An additional complexity is that Pictet's international presence requires responding to multiple regulations with potential definition inconsistencies.	Pictet mitigates this risk exposure through regular monitoring of incoming regulations across all jurisdictions applicable to Pictet.

CLIMATE-RELATED OPPORTUNITIES

Pictet's key climate-related opportunity with the potential to have a substantive financial or strategic impact on the business regards the products and services space, which the energy transition will have a strong bearing on.

CLIMATE-RELATED RISK	TIME HORIZON	LIKELIHOOD	MAGNITUDE OF IMPACT	PRIMARY DRIVER	PRIMARY POTENTIAL FINANCIAL IMPACT
Products and services	0-10+ years	Very likely	Medium	Increased competitiveness of low-carbon technologies and the efficiencies gained from deployment of these across key industries	Increased portfolio value due to upward revaluation of assets

Description

Pictet has identified three key opportunities to invest in alignment with the transition:

1. Invest in the climate solutions that will enable and accelerate the transition to a low-carbon economy
2. Invest in the companies across sectors with leading transition plans and pathways
3. Engage with the laggards across sectors that can gain from putting a robust climate strategy and plan in place

CLIMATE STRATEGY

As a financial institution, over 99.9% of our greenhouse-gas emissions footprint is attributable to our investments, and therefore outside of our direct control. This is why our strategy centres around how Pictet can support and enable the transition around four focus areas of action:

1. Integrating climate factors into investment and risk processes to create value and drive returns and aiming to reach full integration of material climate-related factors across managed assets by 2025;
2. Growing and launching new investment solutions that foster the low-carbon transition. A pioneer of thematic equities, Pictet launched the Pictet Water strategy over 20 years ago and its first clean energy strategy in 2007, as well as an investment framework based on the planetary boundaries. More recently, we launched environmental strategies in private equity and real estate and our first climate sovereign bond strategy;
3. Practicing active ownership by engaging with the issuers of our investments to set science-based targets;
4. Motivating stakeholders beyond Pictet to join the net-zero transition through our advocacy and partnerships.

Beyond these core areas, we have activated all ten levers of action identified as part of our broader Responsible Firm strategy towards tackling the climate challenge. In addition to the four outlined above, these include how we invest Pictet's balance sheet, employee engagement, philanthropy, client disclosure, research[1] and our direct environmental impact[2].

FINANCIAL PLANNING

Climate-related risks and opportunities have influenced our financial planning mainly through:

- Indirect costs: anticipated requirements for ESG related activities and commitments, as well as full-time employees to carry them out, are identified and requested
- Capital expenditures: Pictet is building a new, environmentally friendly office building ("Campus Pictet de Rochemont"), which has taken into account for the financial planning
- Capital allocation: stress testing of our capital and liquidity using simultaneous adverse events, including the negative impact on net business that resulting reputational damage could have.

Going forward, we will further evaluate how we can evolve our financial planning to better include climate-related risks.

CLIMATE-RELATED SCENARIO ANALYSIS

Pictet does not believe that the resilience of our businesses is affected by any single factor. Therefore, scenario analysis focusing only on climate is an incomplete input in informing our decisions and we rather consider a range of risk drivers when shaping our overall business strategy.

However, in relation to climate change specifically, we assessed qualitative elements of climate scenarios when constructing our Climate Investment Principles, and conducted a quantitative scenario analysis using three reference scenarios recommended by the Network for Greening the Financial System:

1 Pictet continues to invest in climate research, including the articulation of our Energy Transition Convictions, which builds upon our Climate Investment Principles to form a deeper understanding of how climate change impacts our investments. We also sponsor research with leading academic institutions on environmental topics including climate change, water and biodiversity.

2 Our operations and supply chain strategy for the 2020–2025 time period incorporates initiatives aimed at adapting to and mitigating climate change, including mobility plans to reduce commuting to the office and promotion of mindful travel to reduce business travel.

- Average temperature increase of 1.5°C – Orderly Net Zero by 2050 (early and smooth transition with market pricing-in dynamics in the first four years)
- Average temperature increase of 1.5°C – Disorderly Net Zero by 2050 (sudden divestment in 2026 to align portfolios to the Paris Agreement goals)
- Failed Transition Pathway (the main focus of this pathway is physical risk, average temperature increase of 4.3°C by 2100)

These pathways focus on the interdependent transition and physical climate risk drivers. In addition to the pathways listed above, a baseline pathway is provided which does not consider any transition risks, and only considers physical risk associated with the current greenhouse-gas levels.

For each scenario, returns on global and regional equity markets, exchange rates, government interest rates and corporate credit spreads are provided for 28 countries and 21 currencies. These inputs are then mapped to asset class returns of Pictet's risk engine's global risk factor covariance matrix (inferred as risk factor shocks). A risk report with three selected climate scenarios and baseline, alongside the selected horizon (2026 for short term and 2040 for long term) is used to stress test the managed assets of the Pictet Group.

The results of this quantitative analysis did not have a material impact on how we think about climate change from an investment perspective. This, and the qualitative elements assessed when creating our Climate Investment Principles, confirm that our current approach to climate change, as summarised above and as articulated in our Climate Action Plan, is fit for purpose under different climate scenarios.

Risk management

IDENTIFYING AND ASSESSING CLIMATE RISKS

Our investment process integrates climate criteria based on proprietary and third-party research to evaluate investment risks and opportunities. Investment teams have a set of indicators for each type of climate risk to help identify and monitor climate risk exposure and magnitude. We consider climate risks to be relevant for the majority of asset classes. Risk assessment may be quantitative, qualitative or a combination of both. Once identified, these risks must be assessed at the inherent risk and residual risk levels, in order to account for certain factors that may exist to reduce the impact of materialisation.

MONITORING CLIMATE RISKS

At the business-line level, Investment Risk / Controlling teams (first line of defence, 1st LoD) provide a first level of oversight on investment risks, including climate risks, by monitoring and performing dedicated risk analysis on specific exposures and doing

We consider climate risks to be relevant for the majority of asset classes

ex-post investment controlling (e.g. exclusions). They also provide the portfolio managers with dedicated dashboards on sustainability risks, including climate. A dedicated Group climate change dashboard resource supports risk functions at both the business-line and Group levels in monitoring exposure to climate risks.

The 2nd LoD oversight teams (either within the business line or at Group level, depending on the legal entity) oversee this framework and ensure independent controls of investment controlling, to ensure adherence to the principles set out in prospectuses and investment risks, to monitor and oversee climate risk indicators. For Group Risk, this includes controlling risks to Group exclusions, including thermal coal extraction and our balance sheet de-fossilisation.

The Group monitors, challenges and reviews the climate risks identified by the business lines. This includes climate risk stress testing, which provides an additional tool to help assess the impact of transition and physical risks on Group AuM and credit book – over both short- and long-term time horizons. To further aid this, a set of high-ESG-risk activities has been determined at the Group level. This includes revenue exposure to thermal coal extraction or power generation, oil & gas production, oil sands extraction, shale energy extraction, offshore Arctic oil & gas exploration and nuclear energy. This list will evolve over time.

MANAGING AND PRIORITISING CLIMATE RISKS

Climate risks are managed consistently with other risks, mainly through hard limits, internal thresholds and escalation protocols. Limits are subject to regular reviews. Residual risks are mapped according to two dimensions: likelihood and impacts. Impacts can be financial or non-financial (reputation, regulatory). Materiality is defined in the same fashion for all categories of risk. In addition, we actively engage with relevant issuers and systematically exercise our voting rights to further mitigate climate risk exposure. At the Group level, decisions to escalate risks are made through Group governance and reported through the Group risk report. Committees involved include, the Business Risk Committee, Investment Risk Committee and the Risk & Compliance Committee. Furthermore, climate risks and topics are discussed at the GSSB on a regular basis.

Climate risks are included in the Group Risk taxonomy under Financial (own) and Investment (fiduciary), split by transition and physical, creating consistency across the Group. This allows all organisational units to map their risks and controls to the appropriate climate risk taxonomy.

Metrics and targets

At Pictet we assess climate-related risks and opportunities through several key indicators and as applicable at the issuer, portfolio and/or entity level:

- **Transition:** Measuring our scope 1, 2 and 3 emissions according to guidelines issued by the Greenhouse Gas Protocol, the share of investments in companies with science-based Targets, exposure to issuers with fossil fuel product involvement
- **Physical:** Determining the severity of physical risk exposure across issuers
- **Green economy:** Measuring our exposure to investee revenue that conduct economic activities which contribute to climate mitigation or climate adaptation

Given the magnitude of our financed emissions through our investments, which account for over 99.9% of our associated greenhouse gas emissions, our key focus in 2022 was on setting science-based targets, including on our managed assets, as part of our Climate Action Plan.

Pictet Group's Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions

SOURCE	INDICATOR	UNIT	VALUES
Scope 1	Accounts for heating, electricity production from backup generators, refrigerants and company cars.	tCO_2e	1,206
Scope 2	Electricity mix, district heating and electric vehicles	tCO_2e	(location based) 5,062 (market based) 1,842
Scope 3 operational emissions	Purchased goods and services	tCO_2e	1,082
	Capital goods	tCO_2e	1,798
	Fuel-and-energy-related activities (not included in Scope 1 or 2)	tCO_2e	729
	Waste generation	tCO_2e	130
	Business travel	tCO_2e	10,252
	Employee commuting	tCO_2e	4,542

SOURCE	INDICATOR	UNIT	VALUES	
Scope 3 financed emissions	Greenhouse Gas (GHG) Emissions Scope 1 and 2	tCO_2e	***Value***	***15,126,425***
			Covered assets	*92%*
			Eligible assets	*84%*
	Carbon Footprint Scope 1 and 2	tCO_2e/ CHF mn invested	***Value***	***85.8***
			Covered assets	*92%*
			Eligible assets	*84%*
	Weighted Average Carbon Intensity (WACI) Scope 1 and 2	tCO_2e/ CHF mn revenue	***Value***	***239.5***
			Covered assets	*92%*
			Eligible assets	*84%*
	Greenhouse Gas (GHG) Emissions Scope 3	tCO_2e	***Value***	***51,495,988***
			Covered assets	*92%*
			Eligible assets	*84%*
	Carbon Footprint Scope 3	tCO_2e/ CHF mn invested	***Value***	***292.1***
			Covered assets	*92%*
			Eligible assets	*84%*
	Green Bonds Exposure	% weight	*Exposure*	*0.83%*
	Sovereign Bonds Productions (WACI)	tCO_2e/CHF mn GDP	***Value***	***0.39***
			Covered assets	*100%*
			Eligible assets	*11%*
	Investments with validated 1.5° science-based targets (SBTi)	% AUM	*Exposure*	*25.6%*
			Eligible assets	*84%*

As at 31 December 2022
Source: Pictet Group, Sustainalytics, SBTi, Maplecroft, Bloomberg, June 2023

Notes on the computations

Scope: Managed single line equity and fixed income (corporate and sovereign) assets of Pictet Asset Management and Pictet Wealth Management Discretionary Portfolio Management (total of CHF228bn in 2022).

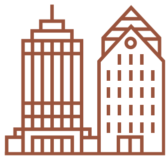
For Corporates: Our portfolio emissions reflect the GHG emissions of our long managed single-line equity and corporate fixed income investments (CHF189bn in 2022). The relevant data is sourced from Sustainalytics, a third-party data provider, and used to calculate financed emissions using enterprise value including cash (EVIC).

For Sovereigns: Our portfolio emissions reflect total sovereign GHG emissions of our single-line sovereign bond investments (CHF25bn in 2022). The relevant data is provided by Maplecroft, a third-party data provider, and used to calculate the emissions intensity using GDP figures provided by World Bank.

For Green Bonds: Our exposure reflects total single-line investments into Green Bonds as a share of total single-line investments (CHF228bn in 2022). The relevant data is provided by Bloomberg, a third-party data provider.

In 2022, Pictet established clear, science-based, SBTi-approved targets to reduce the organisation's green-house-gas emissions.

First Swiss financial institution to externally validate climate targets for 2030



Investments in corporates

60%

of AUM with targets in line with climate science

Investments in real estate

-67%

reduction in emissions per square meter

Our operations

-55%

reduction in absolute scope 1 and 2 emissions

PROGRESS AGAINST OUR TARGETS

- **Listed and Corporate Fixed Income:** At the end of 2021, our baseline year, 20% of our investments in corporates had set science-based targets. This rose to 26% as at end of 2022, the year we set our targets, and is currently on track to meet our first interim target of 40% by 2025.
- **Real Estate:** At the end of 2022, emissions intensity of our real estate investments was down -13% from 2021 (estimated using energy consumption and other emission factors based on square meters). Notably, we re-calculated our 2021 emissions baseline to better reflect the emissions of the portfolio, but this does not change the ambition of our target.
- **Operations:** In 2022, Pictet reduced its Scope 1 & 2 emissions by -40% (3,048 tCO_2 emitted) compared to 2019 level (5,071 tCO_2). This put us well on track to meet our -55% emissions reduction target by 2030.

THE WAY FORWARD

There is no silver bullet to address climate change. It will require a systems approach, new partnerships and relentless focus on those areas where we are exposed to the most material risks and can have the most positive impact. This will mean collectively pursuing a shared ambition of limiting warming to 1.5°C through deliberate planning, shifting capital and increasing transparency throughout the system.

Mitigating the risks of climate change, while identifying and pursuing the inherent opportunities for our clients, are not only key strategic priorities for us, but also our fiduciary duty.

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