

Sustainable for future generations

Sustainable and ethically correct behaviour has been one of the core values of Neue Bank AG (hereinafter called “the Bank”) since its foundation in 1992. The focus is on customer service that is painstakingly tailored to their requirements and focuses on high quality standards in step with the interests of clients, employees, shareholders, the environment and consequently future generations.

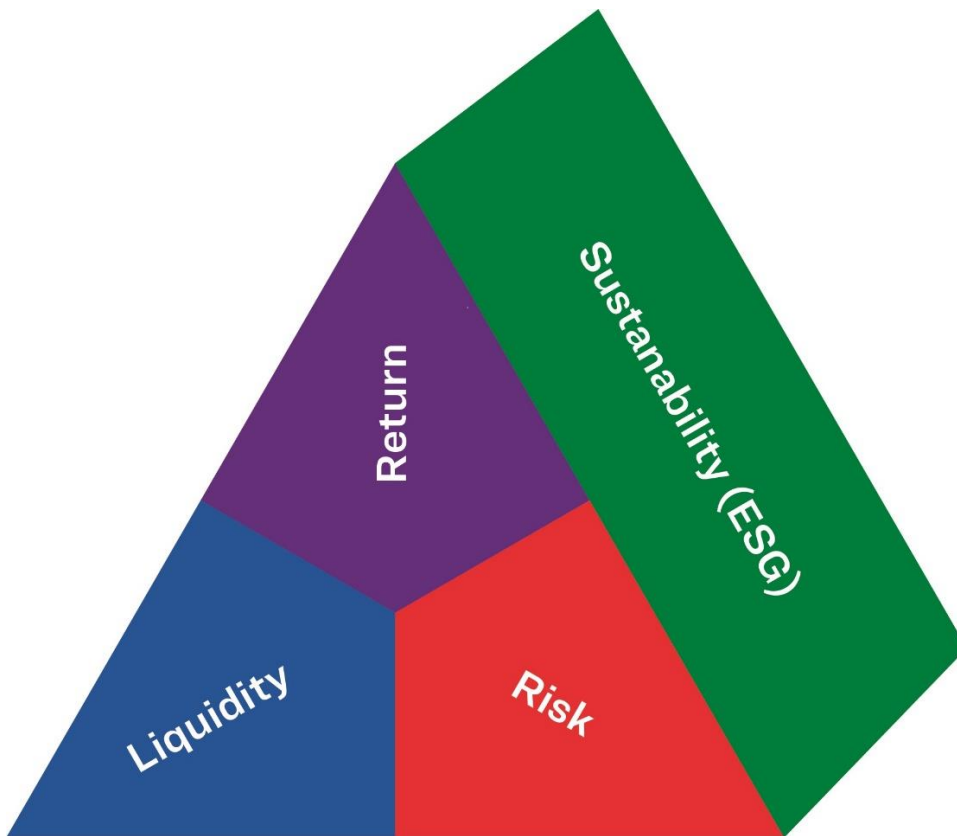
The Bank strives to achieve healthy and consistent long-term growth. Security has been at the heart of the company’s business activities since the outset. We are conscious of our responsibilities – we therefore view responsible corporate governance as an integral part of our success. Our independence and the fact that we do not have in-house investment funds or structured products protect us from conflicts of interest. A Sustainability Committee that was specially created back in 2008 underscores the importance of acting in a socially responsible manner in harmony with our surroundings and the environment. We understand “sustainability” to mean a comprehensive strategic approach that extends far beyond the field of capital investments.

Pioneer for sustainable investments

The beginnings of Socially Responsible Investments (SRI) can be traced back to America in the early 20th century. Even then, certain religious communities excluded investments in tobacco and gambling, as these were incompatible with their philosophy and views. Such socially responsible investments became increasingly popular and in 1994 led to the ESG¹ sustainability concept, which remains relevant to this day and is based on the three pillars of environment, social and governance. An SRI investment therefore needs to fulfil not merely the economic perspective in the form of a financial return, but also to enable the generation of profits to dovetail with ecological, social and cultural perspectives. This means a further component in the form of sustainability is added to the classic capital investment criteria, consisting of liquidity, return and risk. It represents the third dimension necessary for long-term successful, responsible economic activity.

¹ ESG = Environment, Social and Governance

The magic three-dimensional triangle of sustainable capital investment



In the field of sustainable investment, the Bank is one of the pioneers and trailblazers in Liechtenstein. In fact, it has offered sustainable investments since 2009 with the “PRIMUS-ETHICS” asset management solution. This gives it a 12-year track record with results that have actually been generated and are not merely based on back-testing hypotheses.

The investment consultancy also takes account of social and environmental aspects. As an integral part of the standard investor profile survey, the preferences of the client with regard to sustainable investments are ascertained and opportunities are identified through bespoke investment proposals.

Finally, the Bank also takes ESG principles into account when investing its own funds, thus underlining its commitment to these principles.

Continuous further development of the investment process

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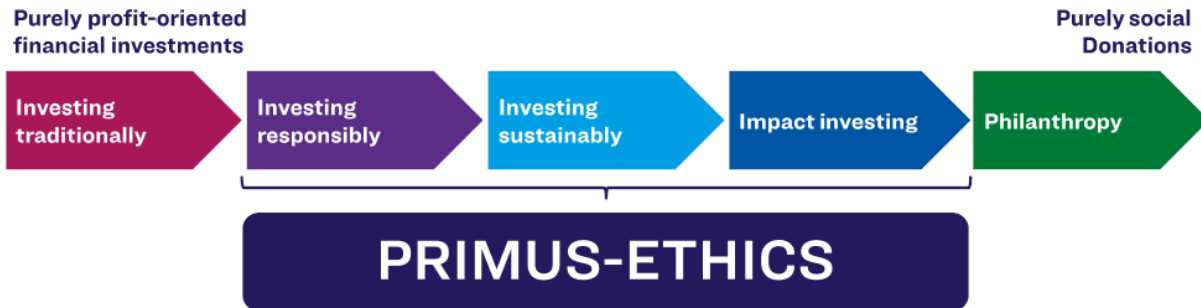
Environmental protection, human rights, labour and ethical standards as well as responsible corporate governance are some of the key components of sustainability for us. These topics are now firmly anchored in our sustainable investment process and we adhere to them with conviction. By sustainable investment, we mean investing only in companies that pay material consideration to the three ESG issues (environmental, social and governance). We are committed to making a valuable contribution as investment consultants and asset managers to actively – that is to say, promoting viable solutions – addressing the challenges currently facing humanity, such as climate change. Our investment proposals and decisions help guide the direction of the sustainable development of the environment, the economy and society.

In order to be able to meet the associated demands, in view of the range and complexity of the issues involved, we work together with a recognised ESG research provider when analysing the investment universe. This provides us with individual as well as aggregated ratings together with the underlying raw data for companies, countries and collective investments. Our ESG research provider is a global leader in the field of sustainability information and company analysis. When it comes to sustainability analysis, its expertise covers a broad spectrum of companies and individual factors. This enables us to screen the entire investment universe very specifically in accordance with the sustainability criteria that are important to us. All relevant topics and issues related to ESG research are regularly discussed and reviewed by the Investment Committee. By this means, we create a platform for a standardised approach and establish a constructive view of sustainable investing. We strive continuously to evolve our investment process to take account of changing values, new regulatory requirements, improved data availability or new technologies.

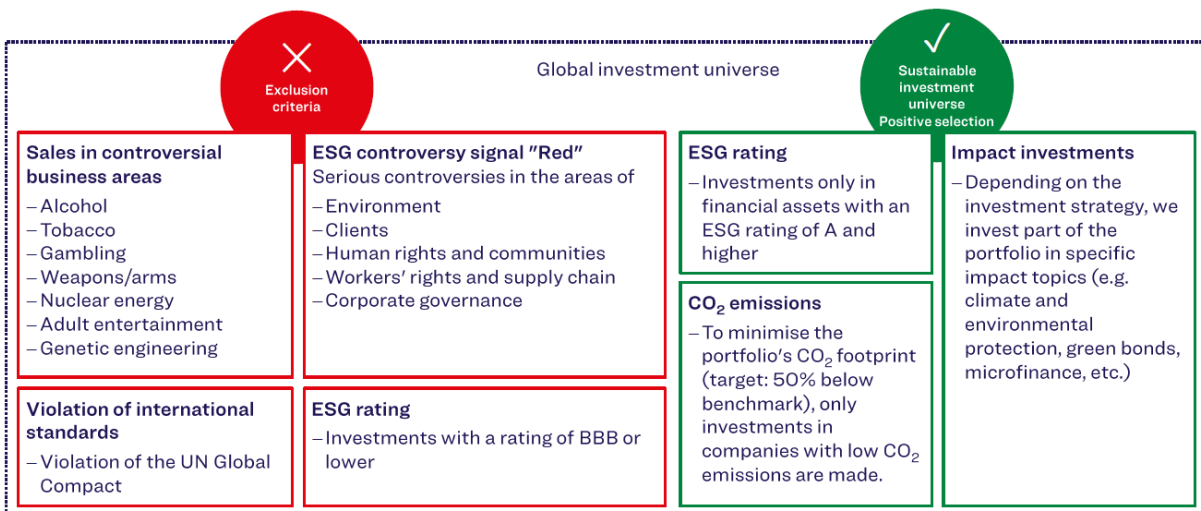
How we invest sustainably

Client demand for sustainable investments are taken into account within the framework of our “PRIMUS-ETHICS” asset management mandate using a hybrid approach. This means our sustainability approach is based on a combination of exclusion and positive selection criteria. We critically question this approach at regular intervals and continuously adapt it to the current state of knowledge and market requirements. Based on academic analyses, we assume in the medium to longer term that broadly-diversified, sustainable investments will achieve comparable or even better returns than classic investments.

PRIMUS-ETHICS – sustainable hybrid approach



We define sustainability comprehensively and understand it to mean responsible investments with high ethical, social and ecological standards. Our approach combines risk considerations, for example through exclusions, with a clear view of sustainable investment opportunities. Changes in corporate governance, labour processes or supply chains constitute such risks. In the sustainability process of the “PRIMUS-ETHICS” asset management mandate, we have opted for a methodologically comprehensive “best-of-all-classes” approach (selection of the best from all sectors pursuant to ESG criteria). We apply this consistently to all asset classes. The sustainable instrument/selection lists for equities and investment funds/ETFs are also based on this approach, whereby we ensure that our criteria are met as fully as possible when selecting investment funds (from third-party product providers). Deployment of collective capital investments (investment funds/ETFs) of third-party providers can lead, in the case of “PRIMUS-ETHICS mandates” to deviations or minor overshoots if their sustainability approach does not match ours.



Exclusion of contentious business fields pursuant to the SRI standard

The first step entails excluding companies that are associated with one or more standard SRI exclusion factors. The percentage of sales in the previous year or the maximum estimated percentage achieved by a company in one of the relevant business fields is applied. Certain business fields are excluded per se, while a threshold is applied to others. A company that only has a small part of its sales in one of the disputed business fields – below the threshold – is not necessarily excluded by this.

Alcohol:

Sales generated by a company with the production of alcoholic products. Threshold value: 5%

Tobacco:

Companies that manufacture tobacco products such as cigars, blunts, cigarettes, beedis, kretek cigarettes, non-smoking tobacco products, snuff, oral tobacco and chewing tobacco. This also includes companies that grow or process raw tobacco or tobacco leaves. Threshold value: none (every company)

Gambling:

Gambling activities: Sales generated by a company from the ownership or operation of gambling facilities, such as casinos, racetracks, bingo halls or other betting facilities, including in the fields of: Horse racing, dog racing or other racing events on which bets may be placed; lotteries; online gambling; parimutuel betting; bingo; pachislot and pachinko machines; slot machines; jai alai; gambling activities via mobile devices; sporting events on which bets may be placed. Threshold value: 5%

Gambling promotion: Sales generated by a company from the provision of products or services that are central to gambling activities, including: Gambling machines, roulette wheels or lottery terminals; gambling technology and support services, such as IT maintenance, software design, security or monitoring systems, lottery ticket printing, services related to gambling activities, such as credit lines, casino management and consulting services. Threshold value: 5%

Weapons/armaments:

Land mines: Manufacturers of land mines, complete systems or components. Threshold value: none (every company)

Cluster munitions: Companies that manufacture cluster munitions, complete weapons systems or components, or provide delivery platforms. Threshold value: none (every company)

Weapons (biochemical): Companies involved in the production of chemical or biological weapons and corresponding systems or components. Threshold value: none (every company)

Weapons (systems & components): Sales generated by a company from the production of weapon systems, components and supporting systems and services. Threshold value: 5%

Weapons (manufacturers of civilian firearms): Companies that manufacture firearms and small arms ammunition for the civilian market. The analysis does not include companies that produce such goods for military, government and official markets. Threshold value: none (every company)

Nuclear energy:

Energy provider: Owners or operators of nuclear power plants. Threshold value: none (every company)

Supplier: Sales generated by a company from the supply or provision of nuclear industry-specific products or services. Threshold value: 15%

Adult entertainment:

Sales generated by a company from the production, direction or publication of adult entertainment material from the following categories: X-rated films, pay-per-view programmes or channels, video games with explicit sexual content, books or magazines with adult content, live adult entertainment, internet content exclusively for adults. Threshold value: 5%

Genetic engineering:

Companies involved in the production of genetically modified organisms of any kind. Threshold value: none (every company)

Exclusion of controversial issues

In a second step, all companies with serious controversies, i.e. with an ESG controversy signal “red” (red flag) are excluded. Controversial issues are defined as individual cases or ongoing situations in which the company or its products have a negative impact on the environment, society and / or corporate governance. Teams of analysts from our ESG research provider continuously identify and assess the severity of controversial corporate issues.

Exclusion in the event of breaches of the UN Global Compact principles

In the third step, companies that violate the principles of the UN Global Compact are excluded. The ten principles of the UN Global Compact² in the fields of human rights, employment standards, environment and the prevention of corruption enjoy universal support.

Exclusion on the basis of the ESG score

In the fourth and final exclusion step, companies with an ESG score below level A are excluded.

Sustainable investment universe – positive selection

For our investment universe, we approve only securities that have an ESG score of A or better. The ESG rating indicates each company's exposure to the most important ESG factors. It is based on the detailed breakdown of business operations, principal products and segments, locations, assets and revenues, as well as other relevant metrics such as production outsourcing, etc.

The rating identifies the key ESG issues ("key issue scores") with particular environmental or social significance for the respective industry, and it also assesses corporate governance in a uniform manner. The following ten ESG topics are taken into account:

Environment	Social	Governance
Climate change	Education	Good corporate governance
Use of natural resources	Product safety	Business behaviour
Waste management	Stakeholder opposition	
Environmental opportunities	Social opportunities	

The final "letter score" is the weighted and aggregated average of the "key-issue scores". After this, a normalised evaluation is carried out at the respective sector level. The final, industry-adjusted score results from a rating between the best (AAA) and the worst (CCC) rating.

² <https://www.unglobalcompact.org/what-is-gc/mission/principles>

Some companies and financial instruments – especially small and mid-cap companies – do not yet have an ESG rating. We strive to invest as little as possible in securities that have not yet been assessed. The ratio differs depending on the particular investment strategy and form of implementation. Liquidity is not taken into account within this context.

CO₂ emissions

Investments are made in those companies and financial instruments that have below-average CO₂ emissions on a sector comparison. We review this within a portfolio context, aiming for lower CO₂ emissions than the benchmark.

Impact investments

We invest part of the assets in securities that, in addition to generating a financial return, also achieve a measurable social and ecological impact. These investments can be made in emerging as well as in developed countries. Possible investments are green bonds, micro-finance, climate and environmental topics. The ratio is dependent on the selected investment strategy.

Sustainability report creates transparency

We provide our clients with a sustainability report that shows the transparency of investment products, measures the different risks of portfolios according to environment, social and governance (ESG) criteria and provides information on greenhouse gas emissions. As part of the assessment and classification of the ESG characteristics of investments, the analysis also reveals hidden ESG risks and thus facilitates better investment decisions. At the same time, the report is not merely an in-house assessment, but instead a recognised, standardised and objective analysis procedure.

The reports are suitable for private clients as well as for intermediaries and institutional investors. The report replicates the individual portfolio of the client. It includes a comprehensive portfolio analysis in accordance with international norms and standards, such as e.g. compliance with the ten principles of the UN Global Compact. Along with the fields of activity of the individual companies, efficient benchmark comparisons are also clearly presented. In addition, the climate footprint of a securities portfolio is analysed holistically and comparisons of the carbon footprint of the client's portfolio against a benchmark portfolio and everyday examples are provided. Our sustainability report creates transparency and enables a dynamic assessment and measurement as well as a comprehensive benchmark analysis of ESG risks and opportunities.

On the one hand, the report shows clients the quality of their investments from a sustainability perspective, and on the other hand details where there is a need for action. It allows clients to react and, if necessary, to rebalance the portfolio accordingly with the support of their investment advisor. The objective is to highlight the advantages of choosing sustainable investments, with the aim of convincing even more clients to invest sustainably. With the sustainability report, the Bank underscores its leading role for this topic within the financial centre, meaning that it already fulfils future regulatory requirements today.

Integration of ESG information is important for us

- It helps us manage risks more effectively. Controversial corporate behaviour can lead to unexpected risks. Actively monitoring rating changes, information about controversies and watch list updates enables us to be constantly up-to-date when it comes to company-specific sustainability issues.
- It enables us to identify earnings potential. In addition to the much-described risk dimension, sustainability analyses also always provide information about possible earnings potential.
- It enables us and our clients to exercise influence. Through our investment decisions as well as through the exercise of original shareholder rights, we are able to motivate and encourage companies to exercise their responsibilities towards society and the environment.

Opportunity and risk parameters in our sustainability approach

ESG factors can influence the long-term risk and return profile of individual investments and entire portfolios – whether in relation to finite natural resources, shifting governance standards or global labour management. ESG research data helps us understand ESG risks and opportunities and integrate the individual factors into the portfolio construction and the ongoing management process.

Our research partner is able to draw upon a global team of experienced analysts and evaluates thousands of data points on key ESG topics. The analysis focuses on an assessment of a company's core business activities and the industry issues that could pose material risks and opportunities for the company. Companies are rated on a scale from AAA to CCC against the standards and performance of relevant industry peers.

In the analysis, the two parameters of risk and opportunity are always linked to the question of materiality. What are material risks? These are all those hazards, from the perspective of the company, that have a high probability of leading to significant costs (e.g. official ban or restriction of wastewater discharges). And what are material opportunities? These are all those (industry) trends and influences that can be exploited profitably by the company (e.g. new technologies in wastewater treatment).

In respect of the three sustainability parameters of environment, social and governance, our ESG research provider has defined groups of topics ranging from climate change to human capital and product responsibility to corporate ethics. These, in turn, are assigned over 35 key ESG issues that map the opportunity and risk potential for each individual company. In order to answer the question of whether a company is addressing key ESG issues appropriately, it is important to understand how a company views this risk or opportunity and what strategies it has developed to do so. Key ESG issues include carbon emissions, product carbon footprint, raw material use and security, waste and toxic emissions, workplace safety and standards, product quality and safety, health issues, board composition, business ethics and transparency issues (this list is not exhaustive). All of these key issues are assessed by us from the perspective of both risk and opportunity and are incorporated into our sustainability approach.

We also take account of the risk issue in our sustainability approach by including controversies. We understand a controversy to mean an individual case or an ongoing situation in which individual products or a company's entire business activities have a potentially negative impact on one or all three ESG parameters (for example, leaks, accidents, regulatory fines, protests, lawsuits and violations of labour standards). Our sustainability research provider reviews controversies that may indicate structural problems for a company. In addition to the potential risks, the assessment also includes management capacities and capabilities as well as transparency. In our approach, a significantly controversial case (red flag) triggers an exclusion of this company. Less controversial issues also flow into the analysis of ESG ratings – especially if they indicate structural difficulties and have the potential to grow into significant corporate risks in the future.

Making sustainability pay – our views based on academic studies

Sustainable investing is based on a broad range of financial instruments and asset classes, which may include cash, fixed interest and alternative investments as well as real estate in addition to equity investments. Like any other investor, sustainable investors seek to strike a competitive financial risk-return balance for their investments. It is safe to assume that sustainable investors are essentially unwilling to pay more to bring their investments into line with social values or to avoid companies with poor environmental, social or governance practices.

An academic study³ commissioned by the Bank in the year 2008 unequivocally confirms the positive link between economic success in the form of higher returns relative to a global equity index and sustainability. The following recent studies and research results from a

³ Master thesis “Socially Responsible Investing”, Patrick Kindle, University of Liechtenstein, Vaduz (not published)

wide range of providers confirm that investors in sustainable capital investments can expect a performance result that is similar to the returns generated by non-explicitly sustainable investments over the medium to long term.

A widely cited meta-analysis of more than 2,000 empirical studies since the 1970s and published in 2015⁴ found that the majority of studies showed positive relationships between ESG and corporate financial performance (CFP). This is one important conclusion drawn by the study: “The results show that the business case for ESG investing is empirically very well founded. Roughly 90% of studies find a non-negative ESG–CFP relation. More importantly, the large majority of studies reports positive findings. We highlight that the positive ESG impact on CFP appears stable over time.”

A further meta study⁵ from the year 2015, based on more than 200 academic sources, concluded that “88 percent of reviewed sources find that companies with robust sustainability practices demonstrate better operational performance, which ultimately translates into cash flows.” And “80 percent of the reviewed studies demonstrate that prudent sustainability practices have a positive influence on investment performance.”

A meta analysis⁶ conducted in 2021 of more than 100 academic studies showed that involving ESG data in the investment analysis correlates with superior risk-adjusted returns at the securities level, and that while sustainability approaches that focus on exclusion criteria exhibit less potential for over-performance, they do not generate below-average performances.

Similar findings were also corroborated by major investment studies dating from the years 2019⁷ and 2017: The 2019 study compared the risk-return characteristics of ESG-oriented funds with those of traditional funds from 2004 to 2018. The conclusion: “No financial trade-off in the returns of sustainable funds compared to traditional funds.” However, the returns were achieved with a lower risk. Moreover, during a period of extreme volatility, the study found “strong statistical evidence that sustainable funds are more stable.”

⁴ “ESG and Financial Performance: Aggregated Evidence From More Than 2,000 Empirical Studies”, Deutsche Asset & Wealth Management and Hamburg University

⁵ “From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance”, Oxford University and Arabesque Partners

⁶ “Sustainable Investing: Establishing Long-Term Value and Performance”, DB Climate Change Advisors

⁷ “Sustainable Reality: Analyzing Risk and Returns of Sustainable Funds”, Morgan Stanley Institute for Sustainable Investing

According to a longer-term assessment of the leading social responsible equity indices (SRI indices), the study from the year 2017⁸ found “no statistical difference in returns compared to broad market benchmarks, suggesting the absence of any systematic performance penalty. Moreover, incorporating environmental, social and governance criteria in security selection did not entail additional risk.” In addition, this study noted that SRI indices have a similar risk profile to their broad market counterparts based on Sharpe ratios and standard deviation measures.

This means we enable our investors ...

- ... to invest with a well-balanced integrated sustainability approach,
- ... to implement ethical values in their investments without sacrificing returns,
- ... to continue investing globally and broadly, and
- ... to base their decisions on our expertise.

Our sustainability decisions always leave clients the option of incorporating and implementing preferences of their own choosing.

Sustainability in the lending business

Lending and loan management are based on qualitative as well as quantitative factors, which also include sustainability risks. The credit assessment focuses on the client on the one hand and the object that is to be financed or the collateral that is to be deposited on the other. In the case of real estate finance, for example, aspects such as the energy efficiency, heating system, insulation standard, etc. of the building are included in the assessment. In addition, we also take account of standard SRI exclusion criteria – just like in the investment process. This means that companies operating in one of the excluded sectors will not receive funding from us.

Within this context, the question of whether this involves a mortgage, Lombard or corporate loan is irrelevant for the assessment. What they all have in common is that our financing is carried out in accordance with ethically sound and sustainable criteria.

⁸ “Responsible Investing: Delivering Competitive Performance”, Nuveen TIAA Investments

Remuneration policy

As part of the consistent implementation of a risk-averse business strategy, the Bank attaches particular importance to the fact that neither employees nor the management have a legal entitlement to variable remuneration components. Furthermore, the variable salary components are in no way dependent on the success of risk positions that have been entered into, and are only granted on the condition of a positive business result of the Bank, at the discretion of line managers and in the interest of recognition for the individual performance. This means risk positions are managed exclusively in the best interest of the clients or, in the case of the Bank's in-house transactions, within the legally and internally prescribed constraints. The Board of Directors determines the total amount of profit-sharing each year, and regularly reviews compliance with the principles of the remuneration policy.

The remuneration policy is thus designed in a manner that takes account of and promotes sound and effective risk management in relation to the handling of sustainability risks. In particular, the remuneration structure does not favour excessive risk-taking with regard to sustainability risks. This is safeguarded, inter alia, by taking adequate risk assumption into account when pursuing sustainability aspects as well as business performance.

Responsible corporate governance / goals of the Paris Agreement

The Executive Board of the Bank always strives to integrate sustainability into our business operations in line with the Paris Climate Agreement and to present the strategic integration of sustainability to all internal and external stakeholders in the most transparent manner possible. As part of its control function, the Board of Directors regularly assesses the risks of the Bank and reviews the development of the strategy, including defined goals, on the basis of key figures. In addition, our Sustainability Committee ensures that new market topics and trends are monitored and brought to the attention of the relevant committees. In order to raise awareness of sustainability among all of the employees of the Bank, these receive ongoing information on current progress through various channels. External stakeholders also have the opportunity to view our annual report with the integrated sustainability report on our website. All relevant topics concerning the sustainability of the Bank are set out in these documents.