

## ESG as part of the investment process

BB Biotech AG builds on the long-standing experience of its distinguished Board of Directors and on the fundamental analysis of the experienced Investment Management Team of Bellevue Asset Management AG when making its investment decisions. Bellevue Asset Management AG as an authorized asset manager of collective investments is subject to regulation by the Swiss Financial Market Supervision Authority FINMA and has a robust firm wide ESG policy in place.

BB Biotech AG and Bellevue Asset Management AG are addressing the issue of sustainability not only at the corporate level, but also in its investment practices and solutions. BB Biotech's investment portfolio is systematically reviewed for sustainability risks and breaches of elementary human rights (as defined, for example, by UN Global Compact principles).

Besides upholding strict exclusion criteria – such as serious controversies that violate universal norms regarding the environment, human rights or good corporate governance – environmental, social and governance factors are integrated into the fundamental analysis of every company through an ESG integration process in which the associated financial risks or opportunities are evaluated with respect to future stock market performance. Ratings compiled by global leading ESG research providers are included in this process but taken into account with a degree of caution and assessed individually for each portfolio company.

The Investment Management Team strive to have an active and constructive dialogue with the management or other relevant stakeholders of the portfolio companies regarding environmental, social and governance aspects – and via proxy voting we use our voting rights actively at the general meetings.

The most important consideration of drug development is the potential significant positive social impact. The aspiration for biotech companies will be to develop drugs which address unmet medical needs. The goal is cure of disease but treatment improvements can make substantial and important positive difference to patients and be a relief to healthcare systems more generally. We have seen that products developed by biotech companies can have the ability to radically change the way a disease is treated. Drug development is one of the most heavily regulated industries in the world. In order to become a successful biotech company high governance standards will be key.

In the following, our management of sustainability risks and ESG integration approach are described in detail.

### Transparency

In accordance with European regulation BB Biotech AG and Bellevue Asset Management AG are committed to transparency with respect to:

- policy for managing sustainability risks,
- adverse sustainability impacts at entity level,
- compensation policies in relation to the integration of sustainability risks,
- the integration of sustainability risks,
- adverse sustainability impacts at financial product level,
- the promotion of environmental or social characteristics in pre-contractual disclosures,
- sustainable investments in pre-contractual disclosures,
- the promotion of environmental or social characteristics and of sustainable investments on websites
- the promotion of environmental or social characteristics and of sustainable investments in periodic reports

### Sustainability risks

Bellevue Asset Management AG and its subsidiaries have integrated sustainability risks into the investment decision-making processes with the aim of identifying, assessing and, if possible and appropriate, mitigating such risks. While BB Biotech's investment strategy can be exposed to such sustainability risks to varying degrees, the projected impact of sustainability risks on the returns will vary from case to case.

The results of this integration and evaluation are summarized as follows:

BB Biotech is not promoted as an ESG focused investment company as such and no guarantee is made that every investment by an investment strategy will meet all of the ESG criteria.

### **ESG investment policy**

The ESG investment policy of Bellevue Asset Management encompasses the following key elements:

#### **Exclusion of breaches against global norms**

Bellevue Asset Management is committed to adhering to internationally recognized norms and excludes companies with serious violations of human rights, environment, labor norms and involvement in corruption. No investments will be made in companies that seriously violate environmental standards, human rights and business ethics. This is measured by their compliance with principles and standards of UN Global Compact Compliance, UN Guiding Principles for Business and Human Rights and the International Labor Organisation. Moreover, Bellevue Asset Management excludes investments in companies with activities in the field of controversial weapons.

#### **Value-based exclusions**

In contrast to the exclusion of companies due to violations of global norms, value-based exclusions are based on social, ethical and moral views. Bellevue Asset Management tends to avoid companies with activities in areas that are classified as controversial according to prevailing social views. Areas classified as ethically or morally controversial include:

- Tobacco industry
- Gambling
- Adult entertainment
- Nuclear energy
- Thermal coal / Energy production from thermal coal
- Palm oil
- Conventional weapons
- Fracking & oil sands

Company affiliations with animal experiments, medical genetic engineering and embryonic stem cell research may also fall into this category. As a biotech investment specialist, BB Biotech and Bellevue Asset Management applies a nuanced approach in this respect. Nowhere in the world can medicines be approved without animal studies. Bellevue Asset Management prioritize compliance with humane animal research principles in line with the principle of the 3Rs: Replace, Reduce and Refine.

### **ESG integration**

ESG integration refers to the systematic inclusion of environmental, social and governance factors into the fundamental research process and the ensuing assessment of the associated financial risks or opportunities with respect to future stock market performance. This approach gives portfolio managers a holistic picture of an enterprise. While the aggregate ESG scores generally used for this purpose are taken into consideration Bellevue Asset Management interpret them with caution and use critical judgment. Most ESG rating methods are based on a predefined systematic approach that does not always result in an objective or fair assessment of risk. In fact, they tend to systematically disadvantage start-ups and small cap companies relative to their large-cap peers. A lack of manpower and experience in ESG issues may result in a company being underrated. Another contributing factor is the application of a set of criteria dictated by the methodology that cannot be reliably applied to every company in a given sector.

In the biotech industry where BB Biotech invests, less mature companies still in the R&D stage may be systematically underrated because they are not yet generating (much) revenue from the sale of medicines, which naturally puts them at a disadvantage versus established healthcare giants in the highly weighted "access to healthcare" criterion. That is why the portfolio managers take an in-depth look at potential or ostensible ESG laggards and always make a point of talking in person to the ESG specialists of the cooperation partners. Accordingly, Bellevue Asset Management does not apply a minimum rating threshold and it will usually not adopt a best-in-class approach (systematic exclusion of companies that score below a minimum ESG rating) when it comes to making investment decisions.

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disease but treatment improvements can make substantial and important positive difference to patients and be a relief to healthcare systems more generally. We have seen that products developed by biotech companies can have the ability to radically change the way a disease is treated. Drug development is one of the most heavily regulated industries in the world. In order to become a successful biotech company high governance standards will be key.

## ESG stewardship

### A) Engagement

The portfolio managers conduct an active and constructive dialogue with the management or other relevant stakeholders of the invested companies regarding environmental, social and governance aspects. If there are indications of substantial controversies in the area of ESG in the run-up to the company meeting, the portfolio managers are required to introduce these constructively in the company dialogue and to document progress (e.g. strategy and process adjustments, improvement of ESG rating) over time.

Engagement activities can be carried out directly and bilaterally with the respective company or also bundled with other co-investors within the framework of a so-called collaborative engagement process. The UN PRI offers a "Collaborative Platform" where investors can publish initiatives and find allies for their engagement processes.

Engagement will be undertaken taking into account materiality and proportionality considerations. The level of engagement can vary depending on the size of the position held by an investment strategy, the market capitalization of the company, the stage of corporate development an entity is in and other factors. ESG engagement activities are recorded as part of the regular documentation of the company meetings. Sometimes individual case studies are suitable for publication purposes, which can then be made available to a wider audience.

### B) ESG Voting Policy

Bellevue Asset Management also protects the long-term interests of its investors by making active use of its voting rights at the annual general meetings of the companies in its portfolios via proxy voting.

## Climate change factors

Bellevue Asset Management endorses the climate goals of the Paris Agreement adopted in December 2015 and supports measures to mitigate global warming. considerable importance to green investment portfolios that can support progress towards the climate goals of the Paris Agreement is attached. Carbon intensity (ton of carbon emitted per USD 1 million of sales) is measured regularly at portfolio level and scored based on the relevant investment universe or fund benchmark. It is worth pointing out that BB Biotech's investments are in the healthcare sector, which naturally is exposed to comparatively fewer carbon emissions than the industrial sector, commodities or the energy sector.

## Adverse sustainability impact (PAI)

Bellevue Asset Management currently does not take an adverse impact of investment decisions on sustainability factors (so-called principal adverse indicators) into consideration due to the lack of market data required to determine the adverse sustainability impact and the corresponding weightings. Bellevue Asset Management will provide information on whether and how the most important adverse effects of investment decisions on sustainability factors will be taken into account by December 31, 2022 at the latest.

## Compensation policy

The following basic compensation principles apply throughout BB Biotech and Bellevue Asset Management:

- The methods used to determine compensation for the Board of Directors and for all Company employees are transparent, understandable, fair and reasonable.
- All pay packages are well balanced and take into consideration the operational and strategic responsibilities of each individual role as well as individual performance levels and the demands placed on each individual.
- Compensation is commensurate with the position held and should reflect individual achievement of specific quantitative as well as qualitative goals as well as the operating results of BB Biotech and Bellevue Asset Management.
- Pay packages should be appropriate and competitive compared to the compensation offered by companies operating in the same field and labor market, and they must be sound and sustainable irrespective of the current course of business.
- Variable compensation will be reduced or forfeited in the event of serious violations of internal or external rules, regulations or the law (incl. ESG/sustainability).

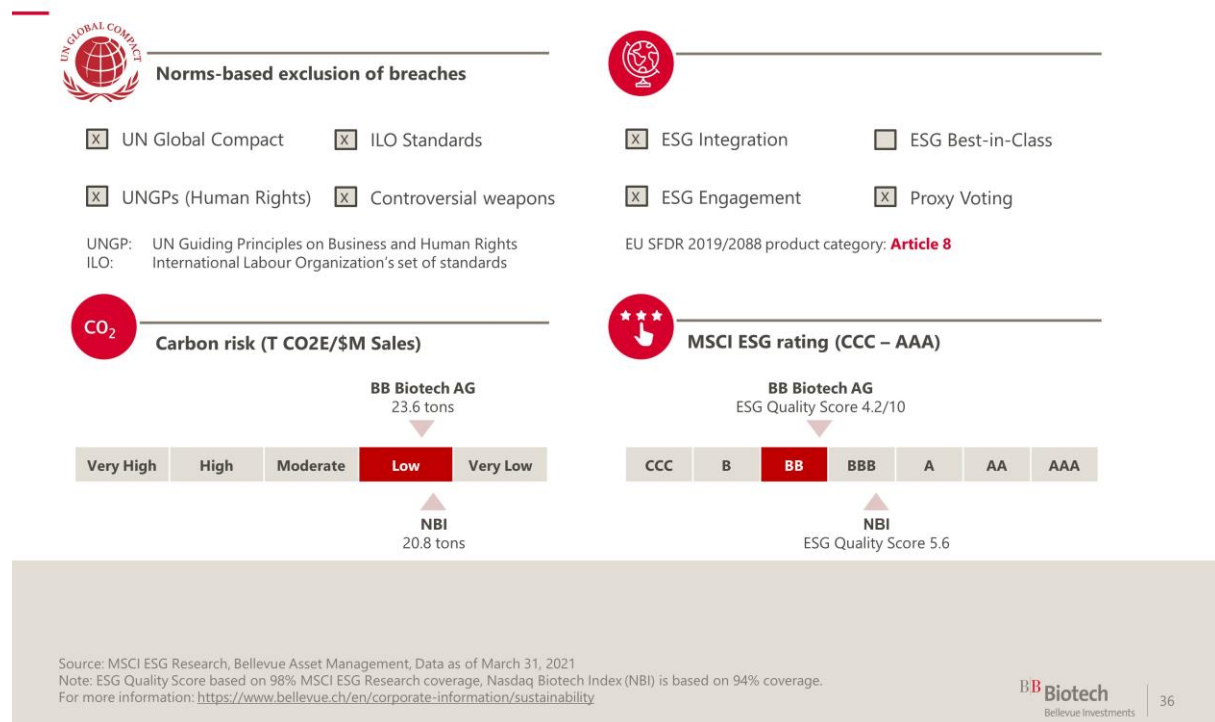
All governing bodies and individuals around BB Biotech and Bellevue Asset Management with the authority to make decisions concerning compensation policies and payouts must abide by and uphold these basic compensation principles. The latest BB Biotech AG compensation report can be found here.

## Signatory of UN PRI

Our commitment to sustainability is reflected in Bellevue Asset Management AG's status as a signatory of the UN Principles for Responsible Investment (UN PRI). As a responsible institutional investor, we have always been bound to act in the best interests of our stakeholders over the long run. In our role as a fiduciary, we recognize that environmental, social and corporate governance (ESG) topics will have even more of an impact on the risk/return profiles of investment portfolios and on performance. We acknowledge that applying these principles will lead to a better alignment of investor interests with the broader aims and interests of society.

## BB Biotech's sustainability profile based on MSCI ESG Research

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