

Allied Irish Banks p.l.c. – Private Banking Wealth Solutions

Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (“SFDR”)

AIB Private Banking Wealth Solutions, as a unit within AIB p.l.c., is obliged to make certain disclosures under the SFDR in relation to sustainability related matters. Regulatory Technical Standards in relation to the SFDR will apply from 1 January 2023 which will require further disclosures in relation to certain products offered by AIB Private Banking Wealth Solutions and which fall within the scope of Article 8 of the SFDR. Please see below for further details in this respect.

AIB Private Banking Wealth Solutions provides an investment service for our clients which includes the creation of multi-asset investment portfolios and advice on investment products. Portfolios are managed on both a discretionary and advisory basis with asset allocations determined with reference to clients’ circumstances and risk appetites. Portfolio management and investment advice is provided in relation to third party pooled funds (UCITS) only. As a result AIB Private Banking Wealth Solutions approach to sustainability risks and sustainability factors is largely driven by the practices adopted by the third party funds (each a “Fund”) and the managers managing such Funds (each a “Manager”) which we choose following a robust selection process.

AIB Private Banking Wealth Solutions provide both mainstream portfolios and portfolios that take Environmental, Social and Governance (ESG) characteristics into consideration. Whilst the underlying Funds selected for both may themselves integrate ESG into their decision making processes, we do not undertake an ESG assessment of the underlying Funds, the instruments to which such Funds take exposure or the Managers managing such Funds within the mainstream portfolios

The integration of sustainability risk into the AIB Wealth Solutions portfolio management and investment advice processes

There are a number of risks associated with investing in markets which we consider when providing portfolio management and investment advice. These include but are not limited to; market risk, liquidity risk, sector specific risk, concentration risk, duration risk and sustainability risk. A sustainability risk is defined as an environmental, social or governance (ESG) event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. In other words, the risk of something taking place which causes a fall in the value of a product we recommend to clients.

ESG factors have varying degrees of relevance in the investment process across the different strategies we offer, which include: (a) non-ESG focused (mainstream) portfolios, which apply an ESG integration approach, but do not apply minimum ESG Standards and (b) ESG-focused portfolios, which apply both ESG integration and minimum ESG standards. (ESG integration is the practice of incorporating material ESG information into investment decisions with the objective of improving the long term financial outcomes of client portfolios, consistent with client objectives).

As outlined above, while AIB Private Banking Wealth Solutions does not undertake an ESG assessment of the Funds which belong to the (a) category, the majority of Funds selected for portfolios that belong to the (a) category apply an ESG integration approach, wherein the Managers of such Funds integrate ESG factors into the research and investment decision making process, complementary to and alongside financial data. It is a holistic approach that aims to ensure ESG factors are identified and assessed to form an investment decision. A key component of applying ESG integration is to uncover hidden risks that might remain undiscovered without the analysis of ESG information and trends.

Moreover, ESG integration can also be used to identify investment opportunities that are likely to outperform competitors as a result of proper ESG management.

Most Funds selected for portfolios that belong to the (b) category apply general ESG integration, as well as minimum ESG standards which can encompass the exclusion of issuers involved in controversial sectors and weapons, violations of the UN Global Compact and/or a best-in-class approach in order to prevent investment in issuers with low/poor ESG and climate performance.

Such Funds will themselves promote an environmental or social characteristic. AIB Private Banking Wealth Solutions considers the external ESG rating or score of each Fund when making a decision to invest in, or advise on, that Fund.

In our view, the integration of ESG factors by third party Managers in their investment process contributes to a better understanding of companies and the respective environment in which they operate. Moreover, it enables the identification of risks and opportunities that a traditional financial analysis could miss or fail to address systematically, with a potentially significant impact on long-term investment performance. Accordingly, the ESG integration approach involves the consideration of ESG information, as well as detailed ESG research, by the investment professionals managing third party Funds chosen by us for our clients.

Information on the ESG related policies and practices adopted by our chosen third party Managers is also available on request.

Consideration of principal adverse impacts on sustainability factors in the AIB advice process

Sustainability factors are defined as environmental, social and employee matters, respect for human rights, anti-corruption and antibribery matters. AIB Private Banking Wealth Solutions does not consider the principal adverse impacts of investment decisions on sustainability factors in its portfolio management and advice processes currently on the basis of the information available from third party Managers.

Remuneration Policies and the integration of sustainability risks

For the vast majority of employees, AIB currently operates a fixed remuneration policy without variable remuneration. It is intended that the introduction of any Group wide future variable remuneration policy in AIB will incorporate policies and practices to stimulate behaviour consistent with AIB's Sustainability Strategy and commitments. For those limited numbers of employees who currently participate in business specific commission schemes, sustainability risk is considered as part of the determination of final award outcomes.

Transparency of the promotion of environmental or social characteristics

Our ESG-focussed portfolios promote, among other characteristics, environmental and social characteristics. These characteristics are met in the portfolios by only considering third party Funds that are determined to be ESG Funds following our assessment of the relevant Fund and the ESG processes of the relevant Manager. Thus a broad range of environmental and social (as well as governance) characteristics are covered through our investment in a variety of asset classes and Funds.

Characteristics considered by the Managers for the Funds within an ESG-focused portfolio include the following:

- Environmental: Climate change, carbon emissions, natural resource depletion and pollution & waste.

- Social: Human capital, external social and megatrends.

These themes are captured by the Managers using three core pillars to incorporate sustainability into investment solutions:

- Exclusions: targeted exclusion of companies / issuers which they believe are most exposed to sustainability risk in the future.
 - Integration: targeted enhancement of Funds to capture greater exposure to companies with better sustainability standards and business models.
 - Active Ownership: targeted use of ownership rights to actively influence and enhance the business practices of the companies in which they invest.

For example, some Managers recognise the importance of acting as a responsible steward of investment through dialogue, using their voting rights as investors to take action where necessary. They are committed to delivering holistic returns and outcomes that consider the impact that investment decisions will have on the wider world.

Others strive for a low environmental impact, as measured by GHG emissions, energy consumption, water use and waste generation, with the aim of realising 20% better levels than the reference index of the relevant Fund. They conduct engagement activities focused on specific themes, such as climate change, aiming to improve an investee company's sustainability profile. Some Funds will not invest in companies exposed to controversial sectors or business practices such as military contracting, controversial weapons, fire arms, UN Global Compact breaches, tobacco, palm oil and thermal coal, according to strict revenue thresholds.

The third-party Managers of the various Funds in the portfolios use different methodologies to integrate ESG factors into their processes but most will involve either an internal or external rating system to determine the level of sustainable risk applicable to each actual and potential underlying investment within their Fund. As outlined above, AIB Private Banking Wealth Solutions considers the external ESG rating or score of each Fund when making a decision to invest in, or advise on, that Fund. We also consider how far ESG issues affect and are integrated with the Manager's investment process and philosophy, financial analysis and the composition of the Fund through time. From 1st January 2022, investors in our ESG-focussed portfolios will receive information on the extent to which environmental and social characteristics are met as part of their periodic reports.

These material ESG factors are integrated into our Fund selection criteria for consideration alongside other investment factors in terms of their impact on risk and return. Other qualitative and quantitative factors considered include Manager experience and turnover, short and medium term performance, financial ratios, Fund volatility, Fund size and Fund costs & charges.

This financial product promotes environmental or social characteristics, but does not have sustainable investment as its objective.

1st January 2023

Allied Irish Banks p.l.c. is regulated by the Central Bank of Ireland

