Sustainable investment solutions

Information for customers on investing sustainably

Sustainable financial investments complement the traditional criteria of profitability, liquidity and security with environmental, social and ethical aspects, and can contribute in various ways to improving general environmental, social and societal development. Sustainable investments make room for investment decisions that go beyond pure financial key figures. PostFinance's investment consulting process takes sustainability issues into account, and we provide our customers with sustainable investment solutions.

Contents

1. Overview of sustainability approaches

The composition of sustainable investment options can vary greatly. In the following, we provide an overview of the different approaches and strategies.

1.1. Exclusion

Exclusion (also known as negative selection or standards- or values-based exclusion) is when a conscious decision is made to exclude investments in specific companies, countries or issuers from a portfolio. The exclusion criteria can relate to different aspects, such as product categories, business activities or practices.

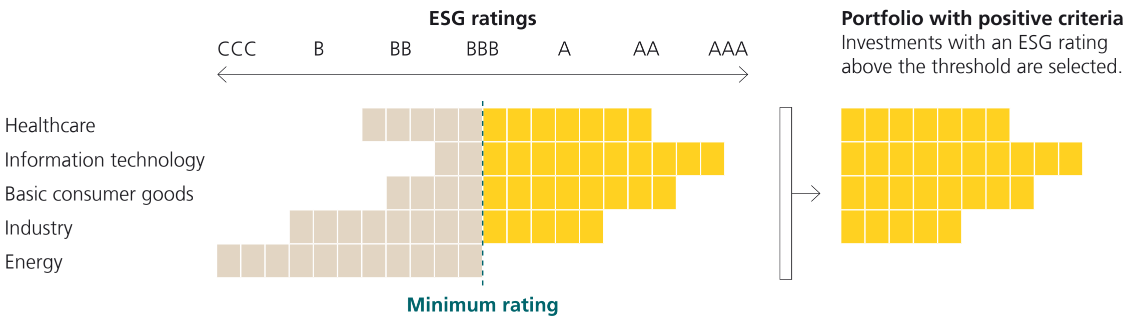
Exclusions can be divided into two main groups:
– **Unconditional exclusions** of products or business activities that conflict with the investor's values (e.g. arms production) – also referred to as values-based exclusions – or that entail excessive ESG risks (e.g. coal mining)
– **Conditional exclusions** of companies based on their negative business practices, such as violations of certain standards, regulations or global ESG standards (e.g. systematic human rights violations) – often referred to as standards-based exclusions

Note:
There are various forms of exclusion criteria, and they can be defined with varying degrees of stringency, depending on an investor's goals and preferences. However, if an activity is prohibited by applicable laws and guidelines, its exclusion cannot credibly be used as an exclusion criterion for an ESG product. For example, the financing of controversial weapons is prohibited in Switzerland by the Federal Act on War Materiel. This means that investments that exclude only controversial weapons manufacturers or companies should not claim use of the "Exclusion" sustainability approach. Nevertheless, it makes sense to inform investors about use of this criterion.

1.2. Positive selection

Positive selection is when investments must meet certain binding minimum sustainability criteria if they are potentially to be considered for investment. Minimum criteria can be defined based on factors such as sustainability ratings or other sustainability indicators.

In the following illustrative example, a minimum ESG rating of BBB is defined for positive selection (on a scale from AAA to CCC). Companies that do not fulfil this criterion are excluded from the investment universe for the fund in question.



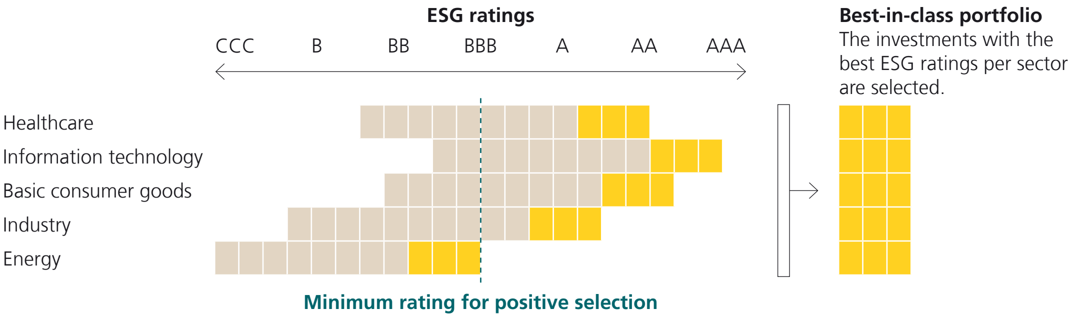
Source: Staub-Bisang/Stüttgen/Mattmann (2022)

1.3. Best-in-class approach

The best-in-class approach considers investments that are rated as particularly sustainable in terms of environmental, social and governance (ESG) performance within their category or industry peer group. All issuers with a rating above a predefined threshold are considered investible. The threshold can be defined in different ways. Sectors in this approach can also include those in which the products or production methods are not considered sustainable, but the leading companies in terms of sustainability within the industry are considered. This is why the portfolios for many sustainability funds include companies in sectors you would not expect to find, such as those in the chemical, petroleum and automotive industries.

The illustration shows an example of how the most sustainable companies are taken into account for each sector.

Unlike with positive selection (section 1.2), energy companies are part of the portfolio in this example of the best-in-class approach.



Source: Staub-Bisang/Stüttgen/Mattmann (2022)

1.4. ESG integration

ESG integration is the direct incorporation of ESG opportunities and risks into traditional financial analysis. ESG criteria are factored into investment decisions by means of a systematic process and appropriate research sources. This means that, in addition to criteria relating to finances, liquidity and business model, an investment must also meet certain sustainability criteria.

1.5. Sustainable thematic approach

Sustainable thematic investments invest in companies or countries that contribute to the implementation of sustainable solutions in both the environmental and social spheres. In the environmental segment, such investments include renewable energy, energy efficiency, clean technologies, low-carbon transport infrastructure, water treatment and resource efficiency. In the social sphere, the focus is on issues such as education, healthcare systems, poverty reduction or solutions for an ageing society.

1.6. Impact investment

In addition to a financial return, impact investments also aim to have a measurable positive impact on environmental and social developments. Their impact must be recorded transparently.

1.7. Active shareholder policy (engagement and exercise of voting rights)

Engagement
Engagement is when investors use their rights as a means of influencing companies, with the goal of persuading companies' management to give due regard to environmental, social and governance criteria. This is a dialogue that includes, for example, communication with companies' Executive Board and Board of Directors and submission of or support for shareholder proposals. Where successful, engagement can lead to changes in a company's strategy and processes aimed at improving ESG performance and reducing ESG risks. Engagement can take the form of direct interactions between an investor and an investee or of cooperative engagement, where several investors come together with a view to conducting a shared dialogue.

Exercise of voting rights
This term refers to the active exercise of voting rights by investors based on ESG principles, with a view to expressing their concerns about environmental, social and governance issues.

NB: The sustainability approaches are based on the descriptions issued by Asset Management Association Switzerland (AMAS).

Note:
The sustainability approaches used for the products offered by PostFinance are explained in section 4.

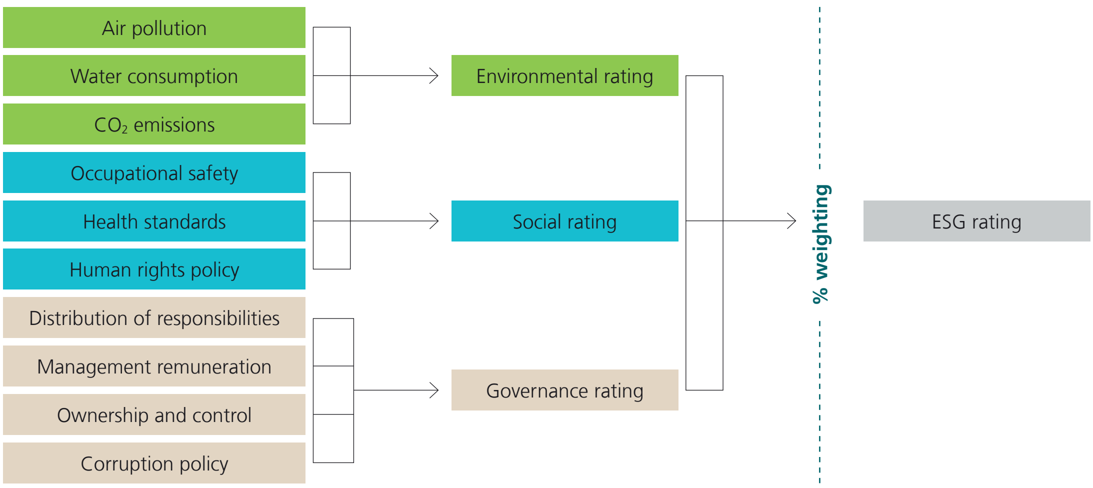
2. Rating systems for sustainability-related investments

2.1. ESG

The best-known and most widely used rating system for sustainability-related investments is the ESG rating. ESG stands for environment, social and governance. ESG factors form the foundation for the various sustainable investment approaches, and ESG ratings constitute an attempt to assess companies' sustainability and express it as a rating. This is done by examining the three areas of sustainable economic activity. The goal of ESG ratings is therefore to determine how seriously a company takes its responsibilities.

Rating agencies assess issuers' sustainability factors based on their own models. There are various providers that compile ESG ratings and make them available to investors. It should be noted that each rating agency uses its own rating criteria and that this can sometimes mean that an issuer is rated differently depending on the agency. Reasons for these differences might be the inclusion of manufactured products (is a product ultimately sustainable or not?), supply chains (inclusion of the entire supply chain or only the actual production process) or differing definitions and weightings for the individual sustainability factors.

The following illustration shows the basic scheme on the basis of which an ESG rating could be established.



Source: Staub-Bisang/Stüttgen/Mattmann (2022)

2.2. Sustainable Development Goals (SDG)

The Sustainable Development Goals are a collection of 17 objectives set by the United Nations, designed to be implemented by 2030 and to act as a catalyst for sustainable development. They cover a wide range of sustainability issues, from ending hunger and fighting climate change to promoting responsible consumption and designing cities more sustainably.

2.3. Paris Agreement

The central aim of the Paris Agreement is to strengthen the global response to the threat of climate change by keeping a global temperature rise this century to well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. For investments in products that seek to match the aspirations of the Paris Agreement, the carbon footprint can be measured and compared with the Agreement's objectives.

2.4. Sustainable Finance Disclosure Regulation (SFDR)

The Sustainable Finance Disclosure Regulation (SFDR) is a European regulation introduced to improve transparency in the market for sustainable investment products, to prevent greenwashing and to increase transparency around sustainability claims made by financial market participants.

There are three different categories:

- **Article 8:** Funds as per Art. 8 SFDR are also referred to informally as "light green" and must give an indication of whether they invest a share in environmental or social issues. In general, the investments should help to support environmental and social criteria.
- **Article 9:** Funds as per Art. 9 SFDR are described informally as "dark green" products with more stringent requirements and should always invest exclusively in "sustainable investments". These products have a sustainable target that is measurable and must be recorded clearly.
- If a fund is not classified under Art. 8 or 9 of SFDR, it is deemed to be under **Art. 6 SFDR.**

The provisions of the SFDR apply to all products subject to EU law. For funds domiciled in Switzerland, these requirements are not mandatory.

2.5. Socially responsible investment (SRI)

In socially responsible investment, the focus in the process for selecting companies is on exclusion criteria. This means that whole sectors are systematically excluded from the investment universe in advance, because they do not meet the defined ethical and environmental standards.

3. ESG risks

ESG risks are potential negative impacts on companies and investments that are associated with ESG factors. They can relate to issues such as environmental pollution, working conditions, corruption or management structures. Companies that fail to adequately address these risks face regulatory sanctions, economic losses or reputational damage. Investors should take these risks into account in their investment decisions and, if necessary, take measures to minimize them.

Past performance of an investment cannot be used to draw conclusions about future development. Empirical studies show, however, that no significant differences in terms of return opportunities could be found in the performance of sustainable versus traditional investments.

You can find more information on ESG risks in the brochure “Risks Involved in Trading Financial Instruments”.

4. Sustainable investment at PostFinance

We show below how we implement sustainability-related investments at PostFinance.

4.1. PostFinance ESG Fonds

PostFinance ESG Fonds are put together in such a way that they invest in specific target funds (a so-called fund of funds model). Most of these target funds explicitly pursue a sustainable investment strategy. With regard to sustainable investments, the following sustainability approaches (or a combination thereof) can be used for the target funds:

- ESG integration
- Exclusion criteria
- Best-in-class approach
- Active shareholder policy: for PostFinance Fonds, engagement is handled by UBS AG's UBS Asset Management and voting rights are exercised by the fund management company UBS Fund Management (Switzerland) AG
- Sustainable thematic approach

PostFinance asset allocation funds and retirement funds
Each of the five asset allocation funds and four retirement funds incorporate ESG (environment, social and governance) sustainability aspects. The best-in-class approach is applied to the target funds. In this approach, the investment universe is made up of issuers that deliver the best sustainability performance within their industry. Compared to the traditional benchmark index, which is not explicitly sustainable, our funds aim to provide a better ESG value and a lower carbon footprint.

For sustainability reasons, we have excluded the *gold* asset class from our asset allocation and retirement funds.

To implement asset allocation and retirement funds, we use the *SPI ESG Index®* and the *MSCI ESG Leader Indexes* as a benchmark for shares, as well as the *SBI ESG Index®*, the *Bloomberg MSCI Sustainability Index* and the *J.P. Morgan ESG Index* as the benchmark.

PF - Bond Fund
This fund pursues its investment objective primarily by using approaches to sustainability (in particular exclusions and best-in-class approach in the target funds) that aim to improve its environmental and social sustainability profile compared to a traditional benchmark index that is not explicitly sustainable.

PF - Swiss Equity Fund
This fund passively simulates the SPI ESG benchmark index. The benchmark index measures the development of Swiss shares, taking into account environmental and social factors and responsible corporate governance.

4.2. Third-party funds

PostFinance provides over 30 third-party funds that take account of sustainability aspects. They are categorized into funds that explicitly pursue a sustainability goal and those that take account of social and/or environmental factors and good governance in investment decision-making.

For funds that explicitly pursue a sustainability goal, classifications are taken into account in accordance with the European duties of disclosure as per Article 9 Sustainable Finance Disclosure Regulation (SFDR). For funds that take social and/or environmental factors and good corporate governance into account in the investment decision, classifications are taken into account in accordance with Article 8 Sustainable Finance Disclosure Regulation (or equivalent).

4.3. Sustainability focus in e-asset management and investment consulting plus

For e-asset management and investment consulting plus, we offer the "Sustainability" investment focus. Investment is made in companies, states and government institutions that meet ESG investment criteria – i.e. criteria relating to the environment, society and responsible corporate governance.

Detailed information about the ESG criteria can be found in the ESG report. In the "Sustainability focus in e-asset management and investment consulting plus" factsheet, you will find more information on the sustainable investment focus.

4.4. SmartFlex pension plan

With the SmartFlex pension plan (pillar 3a/3b), the life insurance savings that we market in cooperation with AXA, PostFinance offers the "Sustainability" investment theme, in which the equity fund *AXA WF Sustainable Equity QI* is used. The sub-fund invests in securities from companies that meet important environmental, social and governance (ESG) criteria.

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