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ESG criteria

This document contains information on ESG characteristics in the investment business. It informs you about possible opportunities and risks. These basics can help you with your investment decisions. For further information and if you have any questions, please contact your client advisor.

General information on ESG
ESG is now an established term in the investment business. In this context **E** stands for Environmental, **S** for Social and **G** for Governance. The ESG criteria relate to the following topics, among others:

Environment

E refers to environmental issues, such as the promotion of renewable energy, energy and water consumption, energy and material efficiency or even CO_2 emissions.

Social

S relates to social issues, such as health and safety, working conditions, employer attractiveness, supply chain management, human rights and the promotion of education and equality, among other issues.

Governance

G looks at corporate governance including, for example, regulations relating to transparency, audit systems, diversity at executive levels, remuneration policy or shareholder rights.

Investing with ESG criteria in mind means taking into account opportunities and risks in the three areas mentioned when making investment decisions. It is important for clients to understand that ESG investment approaches can have different objectives and that not all of them are designed to achieve a measurable positive impact on ESG factors, such as a reduction in environmental impact.

ESG risks
ESG risks are current or future environmental, social and governance events or conditions. These can have a negative impact on profitability and reputation and, as a result, on the value of a company, as well as the value of the investment or asset. These risks can affect individual asset classes and/or companies, as well as entire industries or regions. Furthermore, greenwashing can be understood to be a risk if the expectations of a client are not in line with the effective ESG characteristics of the investment. Some examples of ESG risks are shown below:

Environment: In the context of climate change, a distinction is made between physical risks and transition risks. Physical risks include climate-related extreme weather events, such as storms, heavy rainfall, flooding and forest fires, but also permanent impacts, such as rising sea levels or prolonged periods of heat. Transition risks result, among other things, from changes in the economy when certain business models are no longer viable, because consumer behaviour changes or new technologies displace old ones.

Social: In the social sphere, risks could arise, for example, from non-compliance with labour law standards, non-compliance with health protection or even, generally speaking, from the disregard of human rights.

Governance: Examples in this area include unequal treatment of shareholders, the risks of corruption or non-compliance with tax honesty in companies and data protection risks.

ESG risks do not represent a separate type of risk, but should be understood as risk drivers (in the sense of being the cause of a risk) that have an effect on existing types of risk (for example operational risk, credit risk or market risk). Further information specific to ESG risks, as well as general and specific risks, can be found in the brochure "Risks Involved in Trading Financial Instruments" published by the Swiss Bankers Association (SBA).

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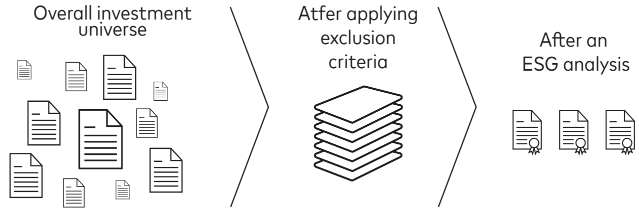
Why invest with the ESG investment approach of Bank Cler?
Social changes driven by sustainability developments (climate change, demographic development, etc.) and the change in economic structures can be addressed and mapped by taking ESG criteria into account. As a result, the strategic integration of environmental, social and governance criteria can increase the competitiveness of companies, favour the development of new business models and reduce the risk of corporate missteps (liability or reputational risks). Accordingly, environmentally friendly business practices and the perception of social and corporate responsibility open up opportunities in the investment business. With the ESG investment approach of Bank Cler, investments can be made in companies that pursue economic goals, while environmental, social and ethical aspects are taken into account at the same time. In this way, we aim not only to reduce investment risks, but also to identify investment opportunities.

The ESG investment approach at Bank Cler



In the first step of our ESG investment process, we apply exclusion criteria to integrate our standards and values into the investment universe. Specifically, this means that we exclude companies that have demonstrably been guilty of misconduct or violations in the areas of corruption, the UN Convention on Human Rights and fundamental labour rights and have, in doing so, violated generally accepted standards. As part of our value-based approach, we also exclude sectors and companies that generate more than five per cent of their revenue in particularly controversial business areas (pornography, armaments, alcohol and tobacco industries, etc.) or pursue controversial business practices.

Using an ESG analysis, the business models of the companies open for investment are examined systematically with regards to their environmental and social commitment, as well as their governance. From this, we create sector-specific rankings. This enables us to identify those companies that operate more energy and resource-efficiently compared to their competitors, for example. It is expected that these companies will not only reduce their risks, but also position themselves better on the labour market, for example.

When selecting individual equities, we rely on MSCI's ESG ratings. When selecting third-party funds, it is important for us that the analysis of ESG risks is transparent and credible. We make sure that third-party funds – in the same way that we do – use a best-in-class approach or an equivalent ESG integration approach.

You can find further information on the ESG investment approach at Bank Cler on our website.

MSCI ESG rating
Global financial services provider MSCI Inc. has made a name for itself with its equity indices, and portfolio and risk analyses, as well as research and ratings. MSCI ESG ratings aim to measure a company's management of financially relevant ESG risks and opportunities. It does so using a rules-based methodology to identify industry leaders and laggards based on their exposure to ESG risks. The ESG ratings range from leading (AAA, AA) to average (A, BBB, BB) to lagging (B, CCC). ESG risks and opportunities can vary by industry and company.

AAA	AA	A	BBB	BB	B	CCC
Sector leader		Average			Laggard	

ESG preferences
The purpose of identifying client ESG preferences is to ensure that investment decisions are made in line with the client's ESG preferences and are reflected in their investments. We distinguish between two preference expressions: "neutral" and "interested". With the preference "neutral", the client is neutral towards ESG aspects and issues, so that these have no influence on investment recommendations. The ESG preference "interested" indicates a client to whom ESG aspects and issues are important. In line with this preference, financial instruments that comply with the Bank's ESG investment approach and have an MSCI ESG rating of at least "A" are recommended to the client. The client is also notified if the average rating of their portfolio falls below the MSCI ESG rating of "A".

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