Sustainable and responsible investment solutions

Information for customers on PostFinance investment solutions

PostFinance

PostFinance distinguishes between three types of investment: conventional, responsible and sustainable. Conventional investments take no sustainability or ESG factors into account. Responsible investments focus on integrating environmental, social and governance factors (known as ESG factors) into the traditional investment process and consider the potential impact on investment performance. Sustainable investments also integrate ESG factors into the investment process, but focus in addition on the sustainability impact of the investments. In other words, investors ensure that the investments made are compatible with one or more sustainability goals, or that they contribute towards achieving these goals.

Contents

1. Sustainability in general and at PostFinance

As the bank for Switzerland, we are committed to sustainable business activities

Sustainability is firmly enshrined in our company and our strategy. Sustainability for us is about taking on responsibility: towards our employees and for our operations, as an investor, for our market services, and as a partner in the Swiss financial center.

In line with Swiss Post's ambitious climate and energy targets, we are working towards internal climate neutrality by 2030 and net zero by 2040. To achieve this, we must reduce our direct and indirect emissions. Emissions resulting from our own investments are particularly significant. Specifically, these are customer deposits that PostFinance invests in the capital market in Switzerland and abroad.

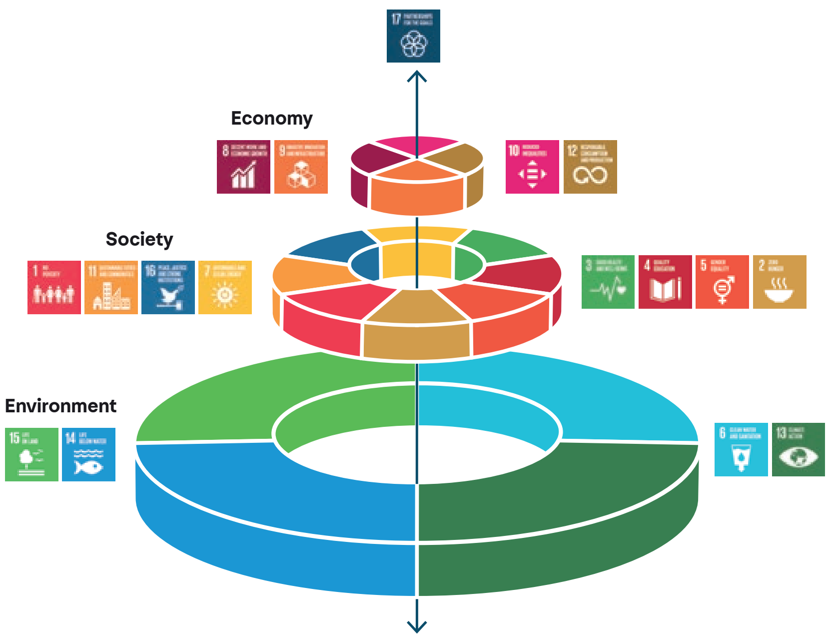
Find more information about sustainability at PostFinance on our website
→ postfinance.ch/sustainability

Sustainability
In 1987, the United Nations defined sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."[1] This definition has been adopted by many countries, including Switzerland. In 2015, the United Nations defined 17 Sustainable Development Goals (SDGs)[2]. These goals focus on improving living conditions for everyone and for future generations, and can be categorized into environmental, social and economic areas.

The goals make it clear that the environment is foundational to human action and the economy. The economy can only flourish if environmental boundaries are respected and social needs such as peace, foodand education are met. If these boundaries are crossed or social needs are not met, this jeopardizes the stability of the economy and consequently banks and other financial service providers as well.

1 1987: Brundtland Report
2 17 Sustainable Development Goals

17 The United Nations' Sustainable Development Goals



Source: www.stockholmresilience.org

2. Sustainability-related investment in general

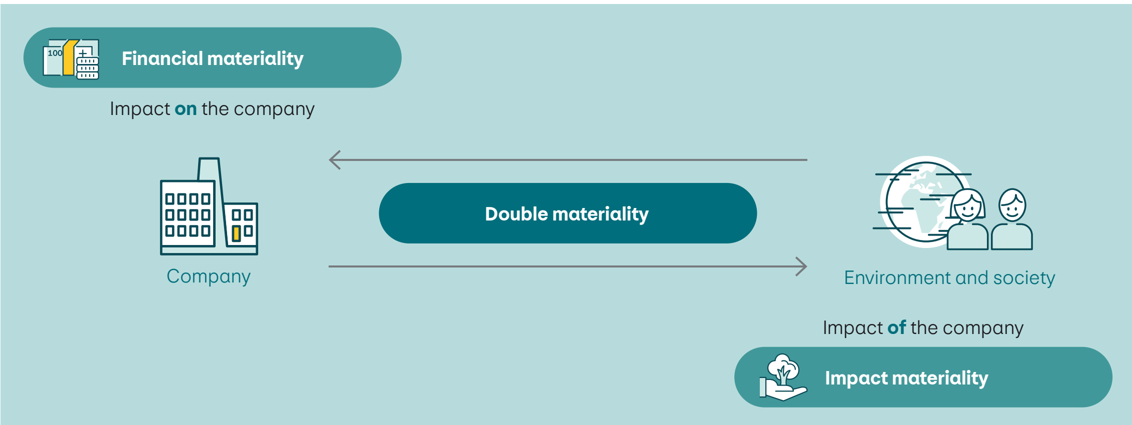
Investments that take sustainability aspects into account have been around for quite some time now. Before the 1990s, it was primarily ethically and morally motivated investors such as churches that decided against investing in certain practices and economic sectors, for instance the arms industry. The impact of investments was addressed as part of the anti-apartheid divestment movement and gained global attention. Over the course of the 1990s, many different approaches to sustainable investment emerged. In addition to exclusions, positive selection, ESG integration and best-in-class, impact investing and theme-based investments also emerged (see annex).

The finalization of the Paris Agreement in 2015 was another milestone for the sustainable investment sector, as an international environmental agreement recognized for the first time that climate targets could only be addressed by redirecting financial flows (Article 2.1 [c])[3]. Following ratification of the agreement, various international and national regulations were drawn up that propelled sustainability-related investment. Discussions originally focused on the environmental and social impacts of investments. The ever-growing focus on the impact of climate change raised awareness of the fact that climate change results in major economic risks, and that it therefore also poses a financial risk to the finance sector. This in turn was acknowledged by financial market supervisory authorities and central banks, who as part of their mandates began to look into how financial market participants address climate and other natural financial risks.

Dynamics in a regulatory context
In recent years, the legal and supervisory requirements for sustainable investments have vastly increased in number, and they will continue to evolve in future. PostFinance is committed to providing its investment customers with sustainability information on financial instruments that is easy to access and transparent in order to give them the ability to make informed decisions.

Building on this, two possible materialities (double materiality) have been identified. An investment either aims to minimize sustainability-related financial risks (financial materiality), or it aims to generate a sustainability impact (impact materiality). Investors focusing on financial materiality invest in companies that adopt measures to reduce material sustainability-related financial risks. An ESG rating is often used here, which evaluates how well prepared these companies are to deal with the risks in the areas of environment (E), social (S) and governance (G), and whether they will attempt to reduce these risks. Investors focusing on impact materiality invest in companies that have a positive impact on the environment and society.

Financial and impact materiality



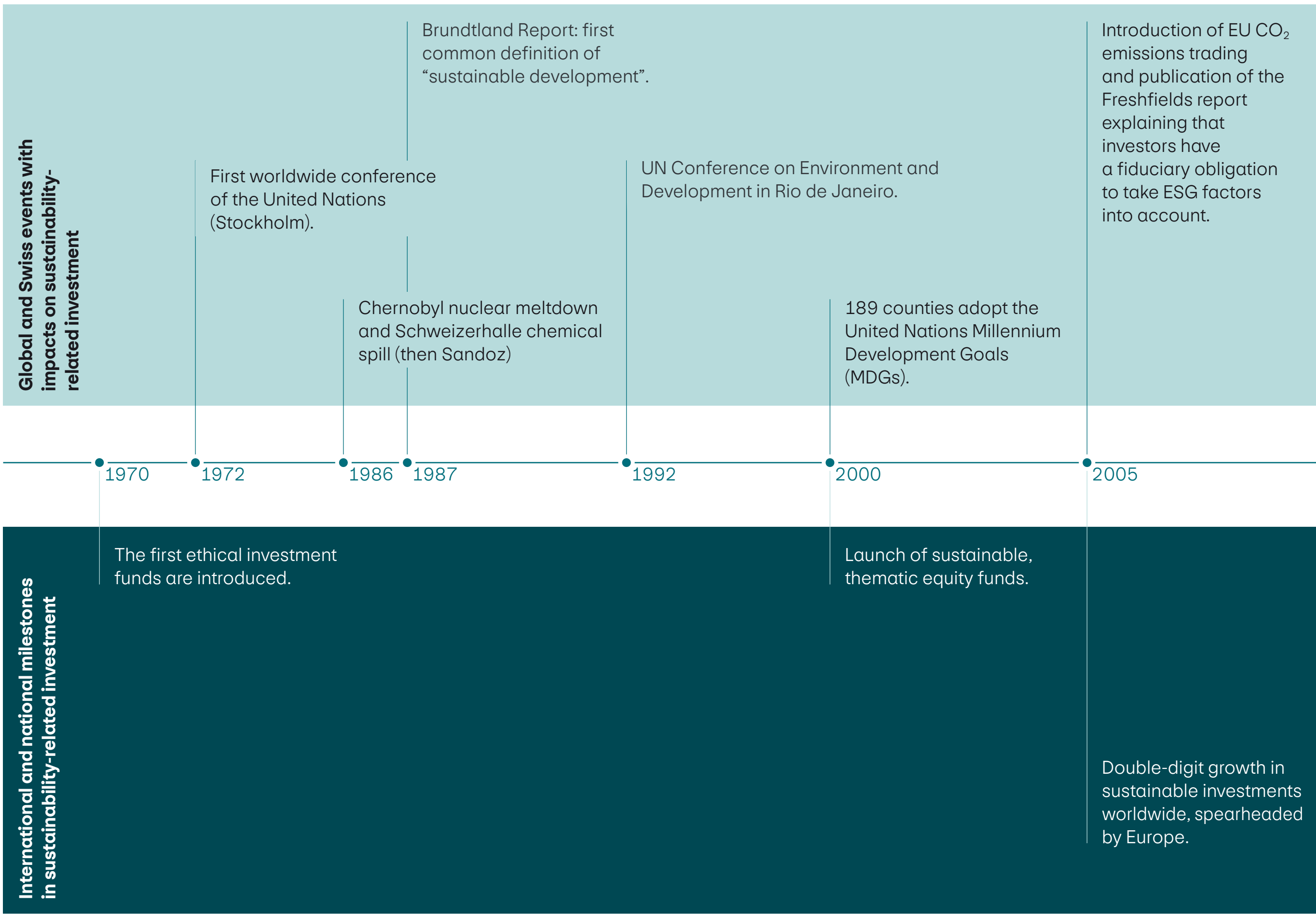
Source: modified by DFGE (https://dfge.de/doppelte-wesentlichkeitsanalyse-ihre-top-10-todos)

[3] https://www.swissbanking.ch/en/news-and-positions/opinions/aligning-finance-flows-directly-with-the-paris-agreement-on-climate-change

ESG and sustainability data

ESG stands for environment, social and (responsible) governance. Most ESG ratings provide insights and information about how well a company handles sustainability-related risks (financial materiality). Rating agencies, such as MSCI, Morningstar Sustainalytics, S&P and ISS, use industry-specific weightings to do this, given that not all sustainability-related risks are equally relevant to different sectors. In the case of a coffee-producing company, for instance, they analyse the extent to which the company assesses and considers the impact of climate change on coffee production. These analyses are designed to persuade investors to favour companies that have a better grip on risks of potential financial relevance, such as climate change. This is because climate change can have a seriously adverse effect on coffee production and, consequently, on the company's profitability. Responsible investments are based on these ESG ratings (e.g. as the basis for a best-in-class approach, an exclusion or positive selection). Sustainable investments also consider other data to determine whether an investment really is compatible with one or more sustainability goals or it contributes towards them. Based on this, an investor will analyse the extent to which a company impacts climate through its coffee production, i.e. whether it exacerbates or mitigates it. Generally speaking, sustainability data pose one of the greatest challenges to financial service providers, as it has to be verified, validated and published in a comprehensible manner. Ratings agencies also use different assessment models, which makes comparing ratings more difficult.

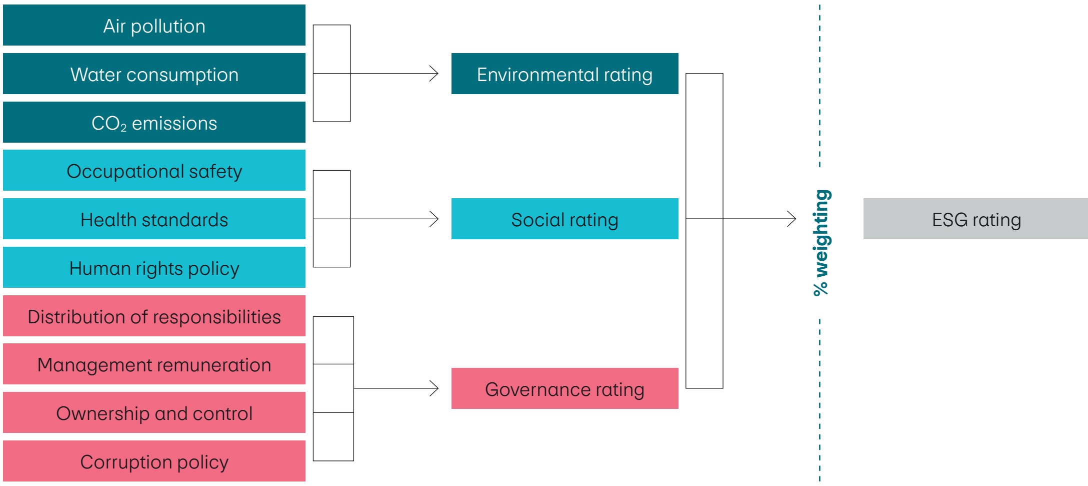
Sustainability-related investment timeline



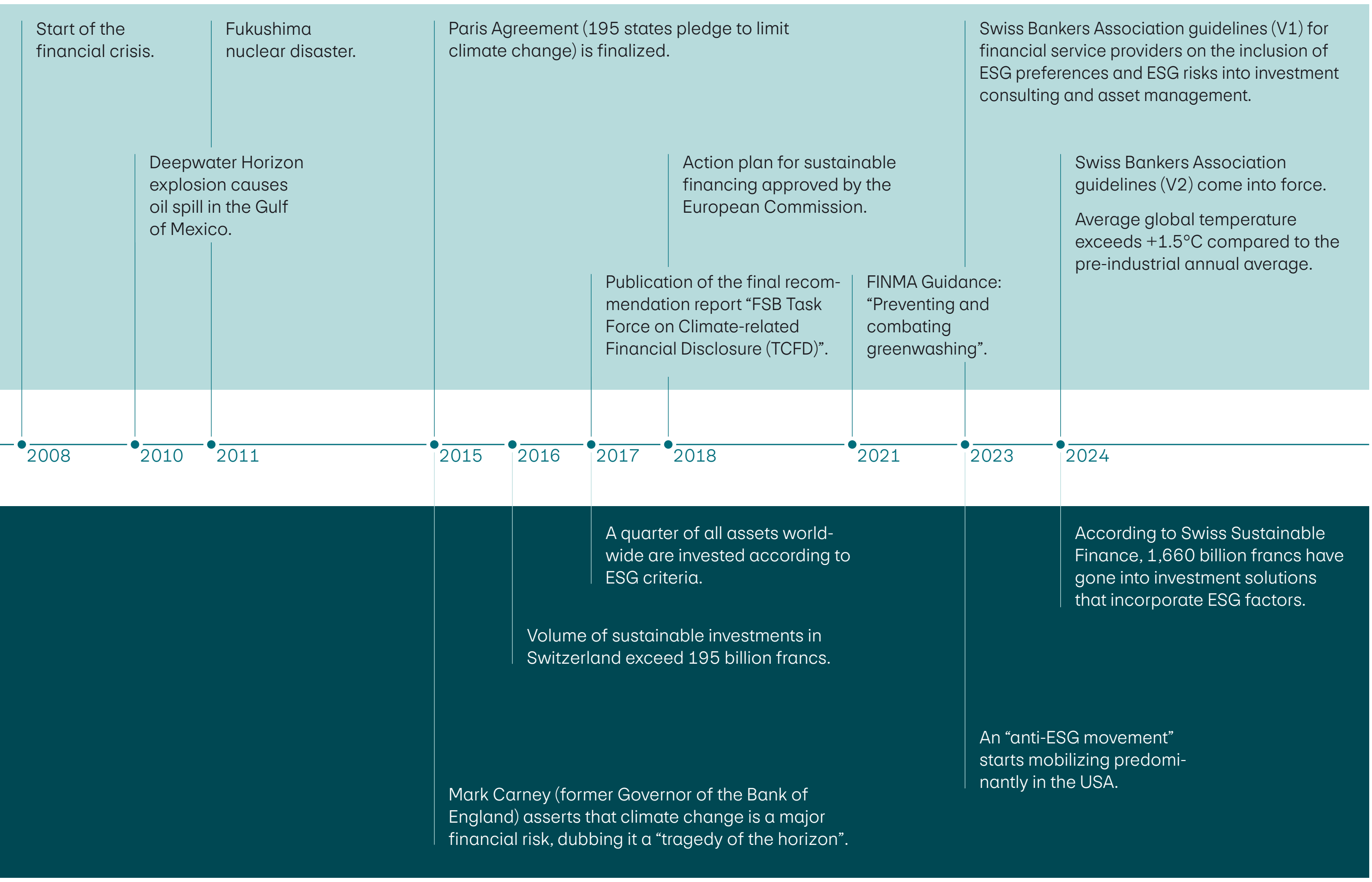
Source: PostFinance – inspired by a timeline previously accessible on the J. Safra Sarasin website.

The following illustration shows an example of the basic scheme that can be used to establish an ESG rating.

Example of an ESG rating



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



3. PostFinance and sustainability-related investments

In the following sections, we explain our typology for sustainability-related financial investments, preference assessment for customers and preference matching with the relevant PostFinance services.

3.1 PostFinance categories of financial investments

PostFinance distinguishes between conventional, responsible and sustainable investments.

1. **Conventional investments:** The fundamental investment process focuses exclusively on financial key figures like profitability, liquidity and security. ESG factors are not taken account in the investment process, and the investments do not aim to have a sustainability impact.
2. **Responsible investments:** In addition to the financial analysis, ESG factors with an impact on investment performance are also incorporated into the investment decision. The focus here is on "financial materiality": sustainability indicators are taken into account to reduce financial risks, such as market or liquidity risks.
3. **Sustainable investments:** These investments aim to have a positive environmental or social impact. In addition to sustainability-related financial risks (financial materiality), the outlook in terms of impact (impact materiality) is also taken into account. Where both dimensions are applied, this is known as "double materiality". In addition to a better risk-return profile, investors also want to have an impact on the environment and/or society. Investors try to have a sustainability impact by making targeted investments in companies, projects or financial products that are compatible with one or more sustainability goals, or that make a measurable contribution towards one or more sustainability goals – for instance reducing CO_2 emissions or advancing social justice.

PostFinance investment categories

Source: PostFinance Ltd

3.2 PostFinance requirements for responsible and sustainable investments

For an investment to be defined as responsible or sustainable, it must cumulatively meet various criteria. These criteria all relate to the financial instrument.

Responsible financial investment

- The prospectus for the financial instrument clearly refers to the goal of reducing sustainability-related financial risks.
- Over the course of the investment process, at least two other sustainable investment approaches are used, in addition to exclusions. The annex contains descriptions of these sustainable investment approaches: ESG integration, best-in-class, thematic investments, engagement and voting.
- ESG factors are taken into account for at least 70% of the invested assets of the financial instrument, and all three sustainable investment approaches are used.

Sustainable investment

- The prospectus for the financial instrument clearly refers to the goal of the sustainability impact.
- Over the course of the investment process, at least three other sustainable investment processes are used, in addition to exclusions. The annex contains descriptions of these sustainable investment approaches: ESG integration, best-in-class, thematic investments, engagement and voting.
- At least 80% of the invested assets of the financial instrument are compatible with one or more sustainability goals, or they contribute towards reaching these goals.

PostFinance checks the classification of all financial instruments offered on a yearly basis.

3.3. Transparency

Sustainability is a broad term and understanding of it varies significantly. At the same time, customer expectations are constantly evolving. As a result, PostFinance is committed to providing its investment customers with ESG and sustainability information on financial instruments that is easy to access and understand in order to give them the ability to make informed decisions.

In the ESG and Swiss Climate Score reports, PostFinance regularly publishes information on sustainability-related financial risks and climate impacts for all PostFinance Fonds and PostFinance retirement funds, as well as all e-asset management and investment consulting plus mandates.

3.4 ESG preference assessment

As per the self-regulation[1] of the Swiss Bankers Association (SBA), PostFinance asks customers that use investment consulting for their preferences, and in so doing determines to what extent they are interested in sustainability issues. All these customers undergo a profiling process. The relevant profile is then derived based on their ESG preferences. There are a total of four ESG profiles, which are presented below.

Sustainable	Your ESG profile shows that you value sustainable investments. This means that you want your investments to have a measurable impact on one or more of the United Nations' Sustainable Development Goals (through compatibility or contribution).
Responsible with ESG preference	Your ESG profile indicates that you want to consider the potential impacts of environmental, social and governance factors (ESG) on investment performance.
Responsible	Your ESG profile shows that you want to make allowances for ESG/sustainability aspects and their potential impact on investment performance in your investments, but do not have a specific ESG preference.
Neutral	Your ESG profile shows that you have a neutral attitude towards sustainable and responsible investments. This means you are open to your investment being conventional, responsible or sustainable.

[1] Guidelines for financial service providers on the inclusion of ESG preferences and ESG risks and the prevention of greenwashing in investment advice and asset management

3.5 Matching preferences to PostFinance products

Based on the ESG profile, the following PostFinance investment/retirement planning solutions and focuses are suitable:

Investing

ESG profile	E-asset management Investment consulting plus	Fund consulting basic
Sustainable	"Responsible" focus	PF strategy fund
Responsible with ESG preference	"Responsible" focus	PF strategy fund
Responsible	"Responsible" focus	PF strategy fund
Neutral	No focus recommendation	PF strategy fund

Retirement planning

ESG profile	Vested benefits account Retirement savings account	SmartFlex pension plan
Sustainable	PF ESG retirement fund	Investment theme: Climate
Responsible with ESG preference	PF ESG retirement fund	Investment theme: Climate
Responsible	PF ESG retirement fund	Investment theme: Climate
Neutral	PF ESG retirement fund	No investment theme recommendation

4. Sustainable and responsible investment solutions at PostFinance

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

4.1 PostFinance Fonds

PostFinance ESG funds are put together in such a way that they invest in target funds (a so-called fund-of-funds model)[1]. Most of these target funds allow for sustainability-related financial risks in the investment process. The following sustainable investment approaches (or a combination of them) can be used:

- ESG-Integration
- ESG integration
- Exclusion criteria
- Positive selection/best-in-class approach (e-tilting/ESG-tilting is a part of this)
- Engagement (company dialogue) is carried out by UBS Asset Management Switzerland AG when it comes to PostFinance Fonds
- Voting is exercised by the fund management company of UBS Fund Management (Switzerland) AG
- Climate orientation

PostFinance strategy and investment fund – category: responsible

The five strategy funds and two investment funds take account of sustainability-related financial risks (ESG factors). Based on the fund-of-funds model, target funds and strategies can be deployed that use a combination of the sustainable investment approaches below. Care is taken to ensure that at least two sustainable investing approaches and exclusions are applied to 70 percent of the invested assets.

Sustainable investment approaches

	Exclusions	ESG integration	ESG best-in-class/positive screening[2]	Stewardship: Engagement	Stewardship: Voting
Strategy funds					
PF - ESG Yield	✓	✓	✓		✓
PF - ESG Income	✓	✓	✓		✓
PF - ESG Balanced	✓	✓	✓		✓
PF - ESG Growth	✓	✓	✓	✓	✓
PF - ESG Capital Gain Fund	✓	✓	✓	✓	✓
Investment Funds					
PF - ESG Bond Fund	✓	✓	✓		
PF - ESG Swiss Equity	✓	✓	✓	✓	✓

1 Exception: The PF - ESG Swiss Equity Fund puts money towards direct investments
2 ESG best-in-class/positive screening includes: e-tilting, e-best-in-class and ESG best-in-class

PostFinance retirement fund – category: responsible

Sustainability-related financial risks are taken into account with the four retirement funds. Based on the fund-of-funds model, target funds and strategies can be deployed that use the following sustainable investment approaches, or a combination of them. Care is taken to ensure that at least two sustainable investment approaches and exclusions are applied to 70 percent of the invested assets.

Sustainable investment approaches

	Exclusions	ESG integration	ESG best-in-class/positive screening[1]	Stewardship: Engagement	Stewardship: Voting
Retirement fund					
PF Pension - ESG 25	✓	✓	✓		✓
PF Pension - ESG 50	✓	✓	✓		✓
PF Pension - ESG 75	✓	✓	✓	✓	✓
PF Pension - ESG 100	✓	✓	✓	✓	✓

Compared with the traditional, not explicitly responsible benchmark index, the four retirement funds aim to achieve a better MSCI ESG score and lower CO_2 emissions, as well as a lower CO_2 intensity. Compared with the traditional, not explicitly responsible reference index, the two investment funds attempt to improve the sustainability-related financial risk profile.

For sustainability reasons, PostFinance has excluded the asset class of gold from asset allocation and retirement funds.

To implement asset allocation and retirement funds, we use the SPI ESG Index® and the MSCI selection indexes as a benchmark for equity, as well as the SBI ESG Index®, the Bloomberg Barclays MSCI Global Aggregate Sustainability Index, JESG EMBI Global Diversified and JESG CEMBI Broad Diversified as a benchmark for fixed income. As there is no responsible benchmark for the asset class "Swiss real estate", we use the SXI Real Estate Funds Total Return Index.

PF - Global Climate Equity Fund
This fund seeks to invest more heavily in companies that reduce their relative CO_2 intensity and/or contribute to the energy transition. The fund aims to cut the carbon footprint on a yearly basis. The following sustainable investment approaches (or a combination of them) can be used:

Sustainable investment approaches

	Exclusions	ESG integration	ESG best-in-class/positive screening[1]	Stewardship: Engagement	Stewardship: Voting	Climate orientation	Thematic investment
PF - Global Climate Equity	✓	✓	✓	✓	✓	✓	✓

4.2 Third-party funds

PostFinance provides a variety of 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. The criteria outlined in section 3.2 must be met and are verified each year.

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 factor social and/or environmental characteristics and good corporate governance into the investment decision, classifications are taken into account in accordance with Article 8 Sustainable Finance Disclosure Regulation (or equivalent).

[1] ESG best-in-class/positive screening includes: e-tilting, e-best-in-class and ESG best-in-class

4.3 “Responsible” investment focus in e-asset management and investment consulting plus

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

You can find more detailed information on the ESG factors in the ESG report. You can find more information on the “responsible” investment focus in the factsheet “‘Responsible’ focus in e-asset management and investment consulting plus”.

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 “Climate” investment theme, in which the PF - Global Climate Equity Fund I is used. According to PostFinance typology, it is a responsible investment. The sub-fund invests in securities from companies that meet important environmental, social and governance (ESG) criteria.

5. Risks of responsible and sustainable investments

As with conventional investments, responsible and sustainable investments also come with risks to bear in mind. These can be found in the brochure “Risks Involved in Trading Financial Instruments”, issued by the Swiss Bankers Association. There are no risks that exclusively apply to sustainable and responsible investments. The same applies to every financial product: past performance of an investment cannot be used to draw conclusions about future development. Empirical studies[1] show that sustainable and responsible investments do not tend to have either better or poorer prospects of a return. When it comes to sustainable investments in particular (with the promise of an impact), it comes down very specifically to the structure of the financial instrument.

For example, a guarantee of broad sectoral and regional diversification should be checked. In the ESG and Swiss Climate Score reports, PostFinance looks at the specific sustainability-related risks and impacts for each financial instrument in detail. Here, for instance, we refer to the MSCI ESG rating, the carbon footprint and the proportion of invested companies that pursue a science-based CO_2 reduction path. For the investment consulting plus and fund consulting basic investment solutions, individual modifications can be made to the model portfolio. These modifications may mean that the investment made is no longer the amount originally recommended in accordance with sustainability-related principles.

[1] See, for instance, Souza Cunha et al. (2019) “Can sustainable investments outperform traditional benchmarks? Evidence from global stock markets”. https://onlinelibrary.wiley.com/doi/abs/10.1002/bse.2397

6. Annex

Sustainable investing approaches:

→ Overview

The composition of responsible and sustainable investment opportunities can vary substantially. Below, we provide an overview of the different sustainable investment strategies.

6.1 Exclusions

Exclusions (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

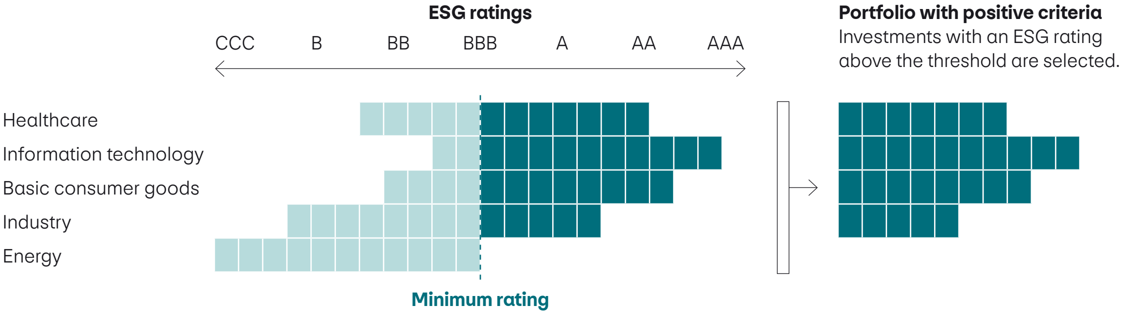
Please note:
There are various forms of exclusion criteria, and they can be defined with varying degrees of stringency, depending on investment goals and preferences. However, if an activity is prohibited by applicable laws and guidelines, its exclusion cannot credibly be used as an exclusion criterion for a responsible and/or sustainable investment. 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. However, it is advisable for investors to learn more about the application this criterion.

6.2 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, for instance, be defined based on ESG 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 fail to meet this criteria are excluded from the investment universe of the fund in question. Positive selection is used for PostFinance Fonds and retirement funds as the MSCI ESG Scores are not adjusted by industry, meaning they calculate absolute ESG values. Moreover, positive selection is not only used for ESG ratings, but also for other sustainability indicators such as carbon intensity.

Positive selection



6.3 Best-in-class approach

The best-in-class approach is used to consider investments classified as better 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 following illustration gives an example of how the most sustainable companies are considered for each sector.

Unlike with positive selection, energy companies are part of the portfolio in this example of the best-in-class approach. The best-in-class approach is used for PostFinance Fonds and retirement funds as the MSCI ESG Scores are not adjusted by industry, meaning they calculate absolute ESG values. Moreover, the best-in-class approach is not only used for ESG ratings, but also for other sustainability indicators such as carbon intensity.

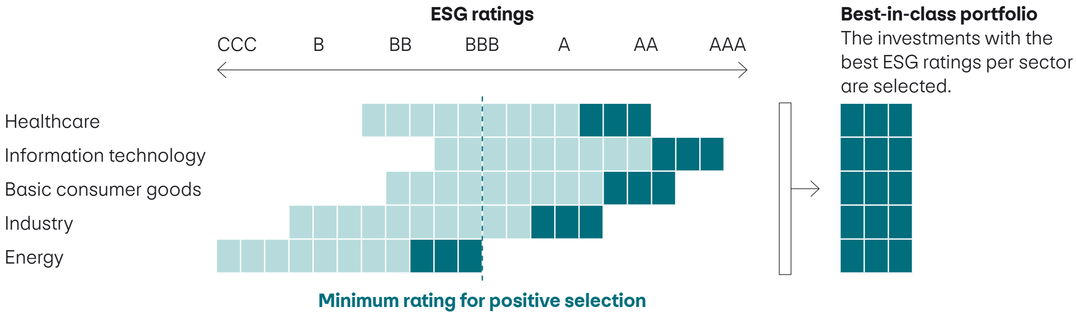
6.4 E-tilting/ESG tilting

E-tilting or ESG tilting forms part of the best-in-class approach. The "tilting" approach relates to modifications in the weightings of portfolio components based on the portfolio's sustainability goals, for instance the environmental (E) or ESG profile (environment, social and governance). This means the weightings of the individual components in the portfolio are adjusted according to their environmental profile or ESG profile to reach the portfolio's sustainability goals.

6.5 ESG integration

ESG integration is the incorporation of ESG opportunities and risks into traditional financial analysis. It involves including ESG factors in investment decisions using a systematic process and suitable research sources. In additional to meeting finance, liquidity and business model criteria, an investment must also fulfil certain sustainability factors.

Best-in-class approach



6.6 Climate orientation

The climate orientation of a portfolio relates to the long-term reduction in the environmental footprint by cutting greenhouse gas emissions. Greenhouse gas emissions should be in line with the definition of the Greenhouse Gas (GHG) Protocol and cover at least Scope 1 and Scope 2, and ideally also Scope 3 as well in sectors where Scope 3 emissions constitute a material proportion of total emissions. The climate orientation should frame a long-term goal that is supplemented by intermediate goals. The methodology applied should be based on internationally recognized standards such as the PAII Net Zero Investment Framework, the UN Asset Owner Alliance Target-Setting Protocol or theScience Based Targets Initiative for Financial Institutions.

6.7 Stewardship (company dialogue and voting)

Company dialogue (engagement)
Engagement is when investors rely on using their rights as shareholders to influence companies, with the goal of persuading companies' management to give due regard to environment, social and governance factors. This is a dialogue that includes both 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 coopera-tive engagement, where several investors come together with a view to conducting a shared dialogue.

Voting
This term refers to investors actively exercising voting rights on the basis of ESG principles in order to voice their concerns regarding environmental, social and governance issues.

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

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

Investment business and sustainability

More information can be found at postfinance.ch → Investment → Investment business and sustainability

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