Sustainable investing fact sheet

The purpose of this information sheet is to provide a non-exhaustive and indicative overview of the main sustainability issues in financial investments. The characteristics of the products offered by the Bank as well as the criteria adopted by the Bank in relation to sustainability issues are described in the product information sheets of our investment solutions[1].

What are sustainable investments?
Sustainable, or responsible, investments are investment strategies that aim to achieve positive financial returns over the long term, but which also consider the impacts of the companies invested in on the environment and society.

ESG factors
ESG (short for Environmental, Social and Governance) factors are used to assess the sustainability of a company. They refer to assessments of how companies handle issues related to the environment, social responsibility and corporate governance.
The first two factors indicate the areas on which companies have an impact: the environment, understood both as the use of natural resources and as pollution, and social responsibility, understood both as the community involved in production activities (workers, shareholders, suppliers) and those affected by them (customers, inhabitants of the places where these activities take place). Governance is the key factor ensuring that objectives are pursued ethically and in compliance with regulations.

ESG risks
ESG risks are risks arising from factors related to environmental, social and governance issues, which can have a material impact on a company's profitability, costs, reputation and thus on its value, as well as on the price of financial instruments. Events such as climate change and environmental destruction, as well as the need to move towards a sustainable economy, can therefore cause changes in the real economy that for investors translate into new risk factors. For more information, please refer to the brochure "Risks Involved in Trading Financial Instruments" published by the Swiss Bankers Association (SBA)[1].

Approaches to sustainable investment
There are various approaches to considering and mitigating ESG risks, as well as directing investments towards a more sustainable style of development, e.g.

- Exclusion: consists of directly excluding certain economic activities from the investable universe because they are inconsistent with the sustainability objective or because they are inherently exposed to an unmanageable ESG risk. An example is the exclusion of activities related to pornography, gambling or weapons.
- Integration: this consists of integrating the assessment of sustainability indicators into the investment selection process, which allow us to understand how companies are positioned with regard to ESG factors and to select the 'best in class'. These indicators are often summarised in sustainability ratings, which are produced by specialised companies (e.g. Morningstar Sustainalytics).
- Impact investing: these are investment strategies with the stated objective of pursuing a positive impact on the environment and society, e.g. in line with one or more of the 17 UN Sustainable Development Goals (or SDGs). These strategies can focus on specific sectors, such as renewable energy, clean water, health or education.

Greenwashing
Greenwashing (or green façade) consists of deliberate or unintentional misleading communication about the sustainability properties of financial products and services. In order to protect investors from these practices in the context of an increase in the supply of sustainable products, there has been an international increase in the adoption of regulatory measures to increase transparency on sustainability references.

ESG investment risks
Despite initial scepticism, according to academic research, a sustainable investment does not affect returns[2]. However, it should be noted that an ESG investment strategy can itself expose the portfolio to risks, particularly when overly stringent constraints on investment selection significantly reduce the investable universe.

[1] Documentation available on the website corner.ch/e/finsa
[2] "ESG and financial performance: aggregated evidence from more than 2000 empirical studies", Journal of Sustainable Finance and Investment, Gunnar Friede, Timo Busch, Alexander Bassen, 2015
"ESG and financial performance: uncovering the relationship by aggregating evidence from 1000 plus studies published between 2015-2020", NYU Stern, Tensie Whelan, Ulrich Atz, Tracy Van Holt and Casey Clark, 2021