Environmental Indicators and Strategies in Asset Management

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Leading asset manager for sustainable investments

<table>
<thead>
<tr>
<th>Bank J. Safra Sarasin expertise</th>
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<tr>
<td>A pioneer – with more than 25 years of experience in sustainable research and asset management</td>
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<td>Swiss market leader in sustainable investments and one of the largest providers in continental Europe</td>
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<td>Expertise of 15 analysts fully dedicated to sustainable investment research</td>
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<td>We are able to customise individual mandates to reflect the client’s view of sustainability</td>
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<td>We are an active member of various sustainability organisations*</td>
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*Forum for Sustainable Investment Funds, Eurosif, SSF – Swiss Sustainable Finance and more
Our sustainable investment philosophy

**Sustainable investing**

- A lasting, sustainable return can only be realised if the livelihood of future generations is preserved.
- This, however, requires dramatic ecological, social and regulatory changes to which sustainable investors can contribute through their actions.
- A rising risks can only be addresses if these developments are recognised early enough and integrated into the investment process.
- Issuers of securities need to be analysed in a broader context.
- Among financial factors, such analysis should comprise ecological, social and governance factors (ESG).
- As such, integrating ESG issues is the fiduciary duty of long-term thinking asset managers and pension funds.
### Integrating Water Stress into Corporate Bond Credit Analysis

- Total green bond universe approx. USD 72 bn *
- Investable green bond universe approx. USD 47 bn
- Only few bonds directly related to water stress solutions
- Universe diversity required for product development (currency, issuer, maturity, liquidity)
- Only EUR (19) or USD (13) green bond universe offer variety in liquid issuers
- Standardisation evolving (UNPRI principles, ICMA green bond principles)
- Further developments needed (SRI definition, use-of-proceeds/supervision/audit transparency)
- Best solution for “real” water-stress exclusion in bond portfolios:
  - Use the *Corporate Bond Water Credit Risk Tool* to explore water stress risk on issuer level
  - Exclude or reduce holdings to issuers identified (risk-adjustment)

* as of 24.09.2015
We integrate sustainability and traditional analysis

ESG factors

**Environment**
- Climate change
- Natural capital
- Pollution and waste
- Environmental opportunities

**Social**
- Human capital
- Product liability
- Active influence of stakeholders
- Social opportunities

**Governance**
- Ownership
- Directorate
- Board structure
- Management compensation

ESG: Environmental, Social and Governance
Industry Analysis

**Rating in best-of-classes**

- **Energy**
- **Materials**
- **Consumer Staples**
- **Utilities**
- **Industrials**
- **Financials**
- **Healthcare**
- **Consumer Discretionary**
- **Technology**
- **Telecom**

**Analysis criteria**

- Sustainability Industry Analysis identifies and analyses material ESG risks and opportunities of one industry.
- Analysis along the value chain with direct and indirect industry impact.
- Analysis of industry ratings performed on lowest possible level (industry groups) to analyse homogenous set of companies.
- The Sustainability Industry Rating compares one industry with others.
- High-exposure industries (e.g. Oil & Gas) have a low industry rating score and low-exposure industries carry a high score (e.g. Telecom).
Bank J. Safra Sarasin Sustainability Matrix®

Best-of-classes (x-axis)
- **ESG Key Issues**: Identification & weighting of key issues / weighting of environmental, social and governance dimensions
- **ESG Analysis**: Assessment of ESG risks and opportunities and management quality
- **ESG Rating**: Quality of ESG performance and positioning of the company in comparison to peers / calculation ratings – score of 0 (low) to 5 (high)

Best-in-classes (y-axis)
- **ESG Industry Intensity Analysis**: Analysis of direct and indirect negative externalities along the value chain
- **Risk Analysis**: Analysis of environmental, social and governance risks compared to other sectors
- **Sector Rating**: Determination of ratings for comparison, Score 0 (low) to 5 (high)

Companies with the following activities are excluded from the investment universe:
- Nuclear Energy
- Genetically modified organism (GMO) – Agriculture
- Genetically modified organism (GMO) – Medicine
- Defense & Armaments
- Tobacco
- Adult Entertainment
- Human Rights Violations

Investable area

Source: Bank J. Safra Sarasin Ltd
Sustainability Analysis – Countries

198 analysed countries – using more than 90 underlying data points consolidated into 8 key themes*

**Availability of resources (x-axis)**
- Describes the net availability of (natural) resources, which form the basis the development of a country
- Natural resources and their efficient use are pre-requisites for a country’s development and performance
- Water, Land, Energy, External Environmental Cost

**Resource efficiency (y-axis)**
- How well a country is organised and able to build a framework for value creation through enablers
- The necessary “development culture” is based on an effective government, judicial and a modern education system
- Human Capital, Economic Parameters, Financial Governance, Political Governance

* Water, Land, Energy, External environmental costs, Human capital, Overall economic conditions, Financial governance, Political governance,
Sustainable Beta Portfolio – Creating and extracting the sustainability factor

**Objective**
- Measuring the impact of sustainability
- Eliminating unwanted tilts in the sustainable universe
- Benchmarking manager performances
- Separating Sustainable Beta from Sustainable Alpha

**Creation**
- Reducing the investment universe with the help of the Sustainability Matrix
- Complying with client restrictions such as liquidity, maximum single exposure
- Rebuilding the official benchmark with a higher sustainability rating
Positioning of BJSS investment solutions – Alpha sources and investment strategies

Quantitative Models

Sustainability Analysis (Sustainable Beta)

Sustainable Investment Analysis (Sustainable Alpha)

Thematic Analysis (Thematic Alpha)

Single and Multi-theme Strategies

Sustainable Strategies

Responsible Strategies

Sustainable Indexing

Sustainable Quant Strategies
Multiple award winner – Bank J. Safra Sarasin Sustainable Investments
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