J. SAFRA SARASIN

Sustainable Swiss Private Banking since 1841

Our Climate Pledge

Policy & Implementation

March 2021

Contents

Introduction	**1**
Assumptions and Rationale	**2**
Integrating the Climate Pledge into our sustainable investment tools	**3**
Setting climate objectives for portfolios	**5**
Strategies in scope for climate objectives	**6**
Climate Reporting	**7**
Governance	**8**

Introduction

Bank J. Safra Sarasin is a founding signatory of the Principles for Responsible Banking and the Principles of Responsible Investing and is committed to contribute to achieving society's goals as expressed in the UN Sustainable Development Goals and the Paris Climate Agreement. Climate change will have substantial financial, social and environmental impacts on current and future generations. Mitigating climate change calls for forceful emissions reductions and a global transformation to a low-carbon economy. Investors must be prepared to confront these challenges, but they can also harness the opportunities of new climate-friendly technologies and approaches.

J. Safra Sarasin promotes collaboration within the financial markets in order to mitigate and adapt to the effects of climate change, while also taking part in the public debate on the impacts of climate change at events and through collaborative initiatives. It is involved in developing business and investment strategies that have a positive contribution to tackling climate change. It supports actions to mitigate climate change and make adapting to the change possible.

In May 2020, J. Safra Sarasin Sustainable Asset Management has published its Climate Pledge, aiming for a carbon-neutral outcome by 2035. With regards to its investment products and services, J. Safra Sarasin Sustainable Asset Management has set itself ambitious targets. In the course of 2020–2035, it will further develop its sustainable investment processes towards carbon neutrality by:

- Investing in companies whose solutions enable emission reductions and which take the progression of climate change into account in their operations and strategy.
- Engaging with all financial market participants and fostering collaboration in order to promote climate change mitigation and adaptation.
- Focusing on analysing, mitigating and reporting financial risks of climate change in investment strategies.
- Aiming for a carbon-neutral outcome in assets under management by 2035.

This Climate Policy lays out the strategy on how J. Safra Sarasin Sustainable Asset Management (JSS AM) intends to implement the Climate Pledge across portfolios. In particular, the document details how JSS SAM is addressing the four objectives above.

The Climate Pledge is implemented at different levels of the JSS Sustainable Asset Management and may affect portfolios in different ways:

- All strategies integrate climate considerations through our sustainable investment tools, from exclusions, via ESG screening and ESG integration into financial analysis to active ownership (engagement and voting).
- A number of strategies will be subject to explicit portfolio objectives regarding climate-related variables.
- The business strategy of the entire Asset Management is to favour the development and promotion of products with explicit climate-related objectives over those without climate-related objectives.

Assumptions and Rationale

Climate change has risen to the top of the global political agenda of global summits of EU, G7 and UN. Central banks, finance ministers and regulators are pondering how to create incentives to help the world economy transition to more sustainable activities. Corporate decision makers are compelled to set objectives to decarbonize their businesses and how to deal with the consequences of climate change. Large pension funds and insurance companies are increasingly joining forces (e.g. the Net Zero Asset Owner Initiative) to have an investment portfolio with net zero greenhouse gas emissions by 2050. Private clients are also increasingly concerned and request appropriate investment solutions.

The objective set out in the Paris Climate Accord of 2015 to limit global warming to well below 2°C compared to preindustrial levels is our reference framework. In more concrete terms, the world economy needs to achieve carbon neutrality by 2050. Carbon neutrality after 2050 requires that every ton of greenhouse gases emitted after 2050 must be offset through carbon capturing. More and more governments have put forward plans for their economies to achieve net-zero, among them the European Union, China, Japan and last but not least Switzerland

To achieve the goal of carbon neutrality by 2050, governments will have to pass more sweeping regulations into law, providing incentives and imposing penalties to foster the transition to a low-carbon economy. This means that consumers are likely to radically change their consumption behaviour. Also investors are pledging to increasingly use their capital to encourage activities with a positive environmental impact.

We envisage that the regulatory, consumer and investor pressure will result in the emergence of a net-zero carbon emitting world economy by 2050. By then, the contribution to Gross Domestic Product from carbon-emitting industries will have been dramatically reduced or they will have found means to substitute carbohydrates with renewable inputs. A range of industries catering to carbon-positive activities such as carbon-capturing and carbon storage, forestry and soil-preservation will have emerged in order to compensate the remaining carbon emissions. Many traditional companies will have diversified their businesses to become carbon-neutral or positive themselves.

For investors this means that companies that do not adequately prepare themselves for this future will come under pressure on all fronts: on the sales side, on the funding side and from the state through taxes and possible sanctions. This imposes a need to create future-proof and sustainable portfolios. For mitigating risks and enhancing returns, it is imperative to pick the winners in this climate transition, and to avoid the losers of climate change. The aim of the Climate Pledge is to avoid the expected losses and align portfolios ahead of time, i.e. by 2035, with a net-zero carbon economy.

Integrating the Climate Pledge into our sustainable investment tools

One of the unique features of J. Safra Sarasin Sustainable Asset Management's claims is the objective to integrate sustainability into each step of the investment process. This is done by using the sustainable investment tools wherever they add value and help further the objectives of reducing risks, increasing returns and changing behaviour.

Our Sustainability Toolkit is embedded in each step of our investment Process

Where applicable, climate considerations may be embedded into each of these tools. The following chapter describes how this is done for each tool (from 1 to 8):

1) Exclusions: smart divestment from coal

The Bank's approach, based on companies' exposure to coal and their mitigation strategies, led it to formalise the exclusion of a number of firms from its investable universe. As a starting point, this entails screening the universe and identifying companies with a significant share of revenues and/or activity related to coal. A threshold of 20% has been set considering coal's current share in the global energy mix and its trajectory in a scenario below 2°C. In sectors such as mining, JSS SAM considers companies' sales exposure to coal, while the generation mix provides the best insight for utilities. The second step of our divestment process is a qualitative review of companies crossing the threshold. This involves analysing the importance of coal within a company's overall activity (a company may own a coal plant but it could represent only a small fraction of revenues), their exposure to renewable energies and, most importantly, their strategies to combat climate change.

2) ESG Screening Process

The ESG Screening Process is performed with the help of our proprietary Sustainability Matrix. It consists of two dimensions: the industry rating (x-axis) and the company rating (y-axis). The x-axis measures the sustainability of the industry by taking into account controversies, risk exposures but also positive and negative impacts. The carbon footprint of each industry is an important input in this rating. On the y-axis, companies are compared within their peer group on their ability to reduce their negative climate impact with a best-in-class approach (enhanced strategies). Companies that fare the worst on this metric are excluded from all sustainable investment strategies.

3) SDG-Integration and long-term trends

Climate Change is a long-term consideration. We analyse three dimensions to help portfolio managers get a better understanding of their holdings:

1) Exposure to Taxonomy-aligned "green" activities
2) The temperature path measurement of each issuer
3) Stranded assets

Green activities

An environmentally sustainable economic activity as defined by the EU Taxonomy for Sustainable Activities consists of the following 6 objectives: 1. Climate change mitigation 2. Climate change adaptation 3. Sustainable use and protection of water and marine resources 4. Transition to a circular economy 5. Pollution prevention and control 6. Protection of a healthy ecosystem. We are using a number of data providers to assess the green revenues and are complementing the data after our own proprietary analysis.

Temperature path

The aim of our approach is to estimate a climate trajectory for each company in our universe, measured in degrees Celsius, in order to determine whether the company is in line with the Paris agreement. A forward looking approach

is used to account for specific targets and action undertaken by management. We have set up a system that allows us to assess the positioning of 6000 companies in relation to the Paris Agreement.

Stranded Assets

Stranded assets are defined as “assets on corporate balance sheets that rapidly lose their value as a result of forced writeoffs”. Stranded assets currently mainly refer to utilities and exploration companies, where the traditional activities of finding and generating energy (fossil fuels) have come under pressure as a result of climate protection regulations.

4) ESG-Integration

The companies under coverage which comply with our sustainability criteria are then analysed further and material climate issues are being integrated into the financial analysis and, where applicable, financial modelling.

5 and 6) ESG and Climate Objectives

The net-zero ambition may also be explicitly reflected in the climate objectives for the respective strategies. This can be done by assigning an upper threshold for the carbon footprint of the portfolio. This enables the portfolio managers to reflect climate considerations in the portfolio construction process as well. The process by which climate objectives are assigned is discussed in more detail in the following chapter.

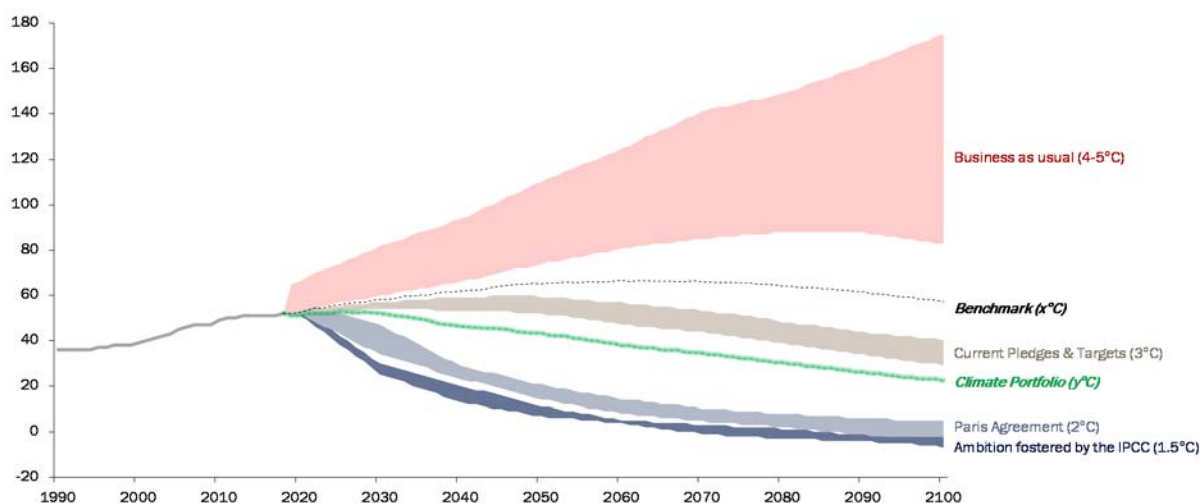
7) ESG Risk Reporting and Monitoring

J. Safra Sarasin Sustainable Asset Management offers an extensive reporting framework. This reporting is also used internally to monitor the ESG and climate performance of portfolios in the regular performance review meetings up to the Asset Management’s Risk and Performance Committee.

8) Active Ownership

JSS Sustainable Asset Management engages with companies on a number of ESG considerations. One of them is to foster companies’ efforts in aligning with a below 2°C world. The Asset Management sees this engagement as a dialogue between investors and companies with the dual objective of impacting how companies operate and enhancing shareholder returns.

Global Greenhous gas emissions GtCO2e/year



Sources: CarbonTracker.org

Setting climate objectives for portfolios

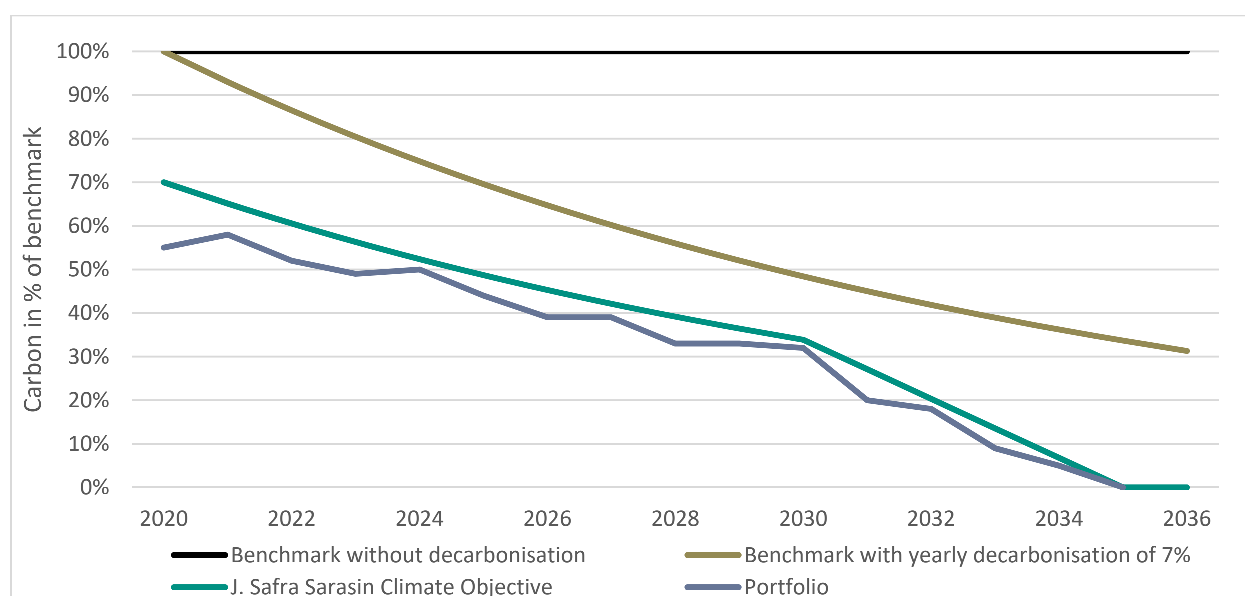
The core of the Climate Pledge is the voluntary commitment to achieve a carbon-neutral outcome in portfolios by 2035. A number of portfolios (in scope) may therefore be subject to the objectives such as to reduce their CO_2 footprint until 2035 to net zero. The CO_2 footprint is the Scope 3 emissions of the asset manager. Thus, each individual fund is being given a carbon footprint objective which for each year which is subsequently decarbonised/reduced each year.

The methodology for the climate objective is derived from the EU Benchmark Regulation of the EU Action Plan on Financing Sustainable Growth regulations on the Climate Transition Benchmarks. In the base year (defined as 2020), an upper threshold target for the CO_2 footprint is set. In each subsequent year this target is reduced by 7%. This means that the objective "decarbonizes itself" over time. This process is followed until 2030, after which the objective is reduced linearly until it falls to zero in 2035. For benchmark oriented strategies, the starting point is set at 30% below the benchmark. For non-benchmarked strategies, the starting point should be set at a fixed level, corresponding to the respective strategy. E.g. it may be set at 30% below a reference value relevant from a risk management perspective.

The methodology of climate alignment is constantly evolving and data limitations remain a significant obstacle. We ensure to take into account the latest standards. Three areas deserve special mention:

1) Traditionally, the carbon footprint is based on scope 1 and 2 emissions. The ambition is to phase in scope 3 emissions over time.
2) The new EU benchmark regulation acknowledges methodological limitations with regards to government bonds are excludes them from the calculation.
3) The treatment of Green-labelled bonds in the carbon footprint remains a subject of public debate. As we are committed to transparency, we will publish an explanation where applicable.

Self-decarbonising Climate Objective



Sources: J. Safra Sarasin, for illustrative purpose only

Strategies in scope for climate objectives

J. Safra Sarasin Sustainable Asset Management offers predominantly sustainable investment strategies. They are categorised into two approaches: integrated and enhanced. While the sustainability-integrated product range uses a worst-out ESG screening process and aims at integrating sustainability data to harness opportunities and mitigate risks stemming from ESG factors, the sustainability-enhanced product range uses a best-in-class ESG investment universe and has the additional explicit objectives to aim for an above average ESG profile and to set a net-zero emissions target by 2035 (in line with the Climate Pledge).

All in-house managed sustainable investment strategies are in scope of the climate objective setting mechanism.

The strategies which currently have already implemented a climate objective can be found in a separate document on our webpage. For sustainability-enhanced strategies a decarbonisation objective is a must while for sustainability-integrated strategies it is an ambition taking into account the respective asset class, the investment objective and client preferences. In any case, they strive to integrate climate considerations and perform climate risk management as detailed in chapter 2 on the sustainable investing tool-set.

We expect the share of the assets-under-management (AuM) of strategies with an explicit climate target to rise over time as the client demand shifts. We will also actively promote this shift as we share knowledge on the risks and opportunities emanating from the climate transition.

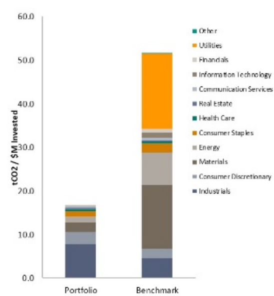
Climate Reporting

J. Safra Sarasin Sustainable Asset Management provides a comprehensive portfolio ESG report summarizing the overall ESG quality of a portfolio, material ESG KPIs for top holdings, comprehensive carbon assessment (incl. carbon footprint, carbon intensity, most exposed companies and their mitigation capabilities as well as stranded assets exposure), controversy screening and positive impact revenue categories.

For illustrative purposes

Portfolio Carbon Footprint

GICS Sectors & Methodology



- We calculate the portfolio's (Scope 1+2) CO_2 footprint based on the investors claim on each company's assets, and allocate the carbon emissions reported from those assets to the invested capital.
- The Utilities, Materials and Energy sectors are typically CO2 intensive. Holdings belonging to these sectors are therefore likely to contribute significantly to the portfolio's overall footprint.
- It is more import to assess how these companies address climate issues, e.g. by analyzing the issuers' engagement and actions to curb emissions, as well as the CO2 intensity of operations. These elements are an integral part of our rating framework.

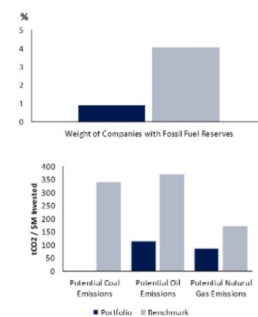
*Scope 1: Direct emissions from company-owned resources.

Scope 2: Indirect emissions from the generation of purchased energy.

Sources: Bank J. Safra Sarasin Ltd, MSCI ESG, 31.01.2021, certain information ©2021 MSCI ESG Research LLC. Reproduced by permission

Fossil Fuel Reserve Exposure

Stranded Asset Risk & Stranded Assets Methodology



- Using our comprehensive carbon emissions and reserves database of over 8,500 issuers we can estimate portfolio exposure to potentially stranded fossil fuel reserves.
- We can also estimate an investor's claim on the volume of reserves, and calculate the future emissions based on emissions per unit of fuel.
- In an environment where world leaders have agreed on carbon emissions limitations in order to address climate change issues, the economy needs to respect a global carbon budget.
- This has a significant impact on CO2 intensive companies, and therefore, investors.

Sources: Bank J. Safra Sarasin Ltd, MSCI ESG, 31.01.2021, certain information ©2021 MSCI ESG Research LLC. Reproduced by permission

Governance

The governance of the Climate Pledge is embedded in the Sustainability Governance of Bank J. Safra Sarasin. To ensure high sustainability standards, including the governance of climate-related risks, J. Safra Sarasin's Group Executive Board (GEB) has set up the internal Corporate Sustainability Board (CSB), which is composed of members of the Group Executive Board, the Executive Committee and selected top managers, to develop its sustainability strategy. The CSB is advised by the external Sustainable Investment Advisory Council, which consists of experienced international experts who assist the Bank and its Asset Management business in all matters relating to sustainability.

While the Climate Pledge is subject to approval by the Corporate Sustainability Board, following the advice from the Sustainable Investment Advisory Council, the Asset Management Board is the administrative body that is responsible for making the proposals about the scope, the timeframe and the concrete implementation of the Climate Pledge. The Asset Management Board is advised by the AM ESG Committee which assesses the objectives and their achievement annually and draws conclusions for any potential review. The Risk and Performance Committee is the administrative body which reviews the achievement of the climate-related objectives for portfolios on an ongoing basis.

Important Information

This publication has been prepared by Bank J. Safra Sarasin Ltd (the "Bank") for information purposes only and the sole use of the recipient. This document constitutes marketing material. If it refers to a financial instrument for which a prospectus and/or a key investor/information document exists, these are available free of charge from Bank J. Safra Sarasin Ltd, Elisabethenstrasse 62, P.O. Box, CH-4002 Basel, Switzerland.

This document does not constitute an offer or recommendation to buy or sell financial instruments or services. It is not a substitute for individual advice. It is not the result of financial research conducted, by the Bank's research department nor of any other detailed due diligence. Therefore the "Directives on the Independence of Financial Research" of the Swiss Bankers Association do not apply to this document. The views contained in this document are those of the Bank's Sustainable Investment Research Department as per date of writing and may be subject to change without notice.

This document contains certain statements relating to the future, for example the provision of information using the words «believe», «assume», «anticipate», «expect», or similar formulations. Such statements relating to the future are subject to both known and unknown risks, uncertainties and other factors which may produce a situation where the actual developments, performance, behavior etc. of countries, in political circumstances, certain (group of) companies, results, financial situation, trend or performance of the financial product or underlying assets diverge substantially from those explicitly or implicitly assumed by these statements. Against the backdrop of these uncertainties, the reader should not rely upon statements of this type concerning the future. Neither the Bank nor its shareholders and employees shall be liable for the views, opinions, estimations and (investment) strategies contained in this document. There is no obligation on the part of Bank or any other person to update the content of this document.

The Bank shall not be held liable in respect of the exercise or partial exercise of voting rights due to delays, negligence or errors in relation to the publication or dispatch of the information of documents required for voting.

The entire content of this publication is protected by copyright law (all rights reserved). The use, modification or duplication in whole or part of this document is only permitted with the prior written permission by the Bank. The same applies to the circulation of this publication.

Data sources

The Sustainable Investment Research Department uses a variety of data sources which are publicly available (e.g. company reports, press, internet search) and data/information provided by service providers which are collecting financial, environmental, social, governance and reputational risk data on behalf of the Sustainable Investment Research Department. While the Bank makes every effort to use reliable and comprehensive information, it cannot make any representation that it is actually accurate or complete. Possible errors or incompleteness of the information do not trigger liability, neither with regard to direct, indirect nor consequential damages. Past developments, performance, behavior etc. of countries, in political circumstances, certain (group of) companies, products or underlying assets is no indication of current or future developments, trends, performance, behavior etc. Neither the Bank nor its shareholders and employees shall be liable for the views contained in this document. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data provided and shall have no liability for any damages of any kind relating to such data and shall have no liability for any damages of any kind relating to such data.

Source MSCI ESG: This report contains certain information (the "Information ") sourced from the bank's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties ") and may have been used to calculate scores, ratings or other indicators. The Information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for, or a component of, any financial instruments or products or indices. Although they obtain information from sources they consider reliable, none of the ESG Parties

warrants or guarantees the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. None of the Information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such, nor should it be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data or Information herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Sustainability Rating Methodology

The environmental, social and governance (ESG) analysis of companies is based on a proprietary assessment methodology developed by the Sustainable Investment Research Department of the Bank. All ratings are conducted by in-house sustainability analysts. The sustainability rating incorporates two dimensions which are combined in the Sarasin Sustainability-Matrix®:

- Sector Rating: Comparative assessment of industries based upon their impacts on environment and society.
- Company Rating: Comparative assessment of companies within their industry based upon their performance to manage their environmental, social and governance risks and opportunities.

Investment Universe: Only companies with a sufficiently high Company Rating (shaded area) qualify for Bank J. Safra Sarasin sustainability funds.

Key issues

When doing a sustainability rating, the analysts in the Sustainable Investment Research Department assess how well companies manage their main stakeholders' expectations (e.g. employees, suppliers, customers) and how well they manage related general and industry-specific environmental, social and governance risks and opportunities. The company's management quality with respect to ESG risks and opportunities is compared with its industry peers.

Controversial activities (exclusions)

Certain business activities which are not deemed to be compatible with sustainable development (e.g. armaments, nuclear power, tobacco, pornography) can lead to the exclusion of companies from the Bank J. Safra Sarasin sustainable investment universe.

This document may only be distributed in countries where its distribution is legally permitted. This information is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) such offering is prohibited. Consequently, services mentioned in this document may not be available in all countries. Interested parties should contact the local J. Safra Sarasin Group-representative to be informed about the services and products available in their country of residence.

Telephone calls may be recorded.

© Copyright Bank J. Safra Sarasin Ltd. All rights reserved.

Bank J. Safra Sarasin Ltd
Elisabethenstrasse 62
P.O. Box
CH - 4002 Basel
Tel + 41 (0)58 317 44 44
Fax + 41 (0)58 317 44 00

Bank J. Safra Sarasin Ltd

Elisabethenstrasse 62
4002 Basel, Schweiz
T: + 41 (0) 58 317 44 44
F: + 41 (0) 58 317 44 00
www.jsafrasarasin.ch