

Handling of sustainability risks in investment advice

Pursuant to Art. 6 (2) SFDR¹, version: November 2023

Sustainability risks are events or conditions in the areas of the environment, social and governance that could have a negative impact on the company's profitability, costs, reputation and therefore its value and the price of financial instruments, either now or in the future.

- **Environmental risks** are divided into "physical risks" and "transition risks" according to the usual categorisation. "Physical risks" include, for example, damage and costs from climate-related extreme weather events such as storms, floods or heatwaves, which threaten or damage a company's economic activities or its assets. "Transition risks" include regulatory risks, changes in consumer habits or liability and litigation risks.
- **Social risks** arise, for example, from the violation of labour standards, inadequate health or occupational safety, insufficient product safety, poor handling of social issues, grievances in dealing with employees or high employee turnover.
- **Governance risks** arise, for example, from unequal treatment of shareholders, inadequate risk management, a lack of control mechanisms, inappropriate remuneration systems or breaches of rules such as corruption.

Zürcher Kantonalbank integrates ESG criteria into the investment advisory process. This enables the opportunities and risks of investment decisions to be analysed in terms of sustainability aspects. To this end, various methods of analysis can be used as part of the risk management process when selecting investment instruments. For example, when analysing climate-related financial risks, key figures can be used to identify assets particularly affected by climate risks and ESG ratings from MSCI. Risk measurement can also be carried out using stress tests (in the form of factor shocks in the factor model). The stress scenarios can be adjusted, expanded or replaced from time to time.

¹ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector