Information on the Financial Risks Associated with the Investment Profiles

When choosing one of the investment profiles, the principal acknowledges the different risk profile associated with each. They also note that the instruments, investment categories and markets capable of generating investment income (such as equities) offer greater opportunities for earnings but also involve higher risks.

Likewise, investments with a higher credit risk, derivative or structured products (which are complex by nature) as well as emerging-market investments (which tend to be more volatile than those in mature markets and potentially exposed to liquidity/sale and counterparty risks) present a higher level of risk and thus the possibility of substantial losses.

Investments in a currency other than the reference currency will incur an exchange rate risk and are thus exposed to fluctuations on the relevant market. Thus the Flex Currencies mandate exposes the investor to a high risk of capital loss as it invests primarily in currencies other than the base currency.

Below we describe in more detail some of the major financial risks inherent in the most common financial instruments. The list of risks serves representative purposes only and is not exhaustive. The investment result can also be affected by other risks or by only some of the risks mentioned, depending on the chosen investment profile.

For a more detailed description of the financial risks, the Bank refers to the SBA leaflet *Risks Involved in Trading Financial Instruments*, which can be viewed here: www.swissbanking.ch.

a) High bond risks

The category of bonds that can be purchased by the Bank under the management mandate includes investments in convertible or hybrid bonds, including *Contingent Convertible* or *Additional Tier* 1 bank bonds, Restricted Tier 1 bonds as well as asset-backed securities (ABS).

Convertible bonds give bearers the right to convert them, during a predetermined period and at a predetermined ratio, into an equity instrument of the same issuer – for example, a share. If and when convertible bonds are converted into shares, they are reclassified within the equity category, whereby the specific limits and related risk factors apply.

Hybrid bonds are bonds that contain certain elements similar to equity: for example, a perpetual maturity, the ability to defer or discontinue regular interest payments altogether, or, similar to equity securities, subordination in the event that the issuer goes into liquidation. They therefore exhibit a higher risk than traditional bonds because, under certain conditions, coupon payments can be postponed or cancelled.

Additional Tier 1 bonds are subordinated, have a perpetual maturity and are issued by banks in order to strengthen the equity ratio. Under certain conditions, the payment of interest (coupon) must be suspended and the right to its receipt forfeited. Partial or full cancellation of the credit or conversion into equity instruments (e.g. shares) may occur under certain circumstances.

The risk is therefore even higher than for the bonds described above because, should any conditions arise, in addition to the deferment or non-payment of coupons, the nominal capital can be transformed into equity (shares) or, in extreme cases, the regulator can cancel its value completely, sometimes not only due to issuer-specific conditions but also if general market conditions should require it.

Instruments similar to those listed above, always classified as bonds, and that expose investors to increased risks also include “Restricted Tier 1” insurance bonds or asset-backed securities (ABS).

b) Derivative instruments, structured and leveraged products

Derivative instruments, structured and other leveraged products may also be purchased as part of an asset management mandate, provided that the exposures (using a method known as the Commitment

Approach[1]) assumed through these products remain within the thresholds set in the asset allocation tables of the respective investment profiles.

It should be noted that the risk profiles of such instruments can be “asymmetric” (e.g. limited gain versus possible complete loss) and also lead to the total loss of the invested amount.

Derivative instruments also include foreign exchange forwards, which are used either as hedges or to take a speculative position on a currency.

c) Additional information on “Other Investments” or “Alternative Investments”

The category “Other Investments” or “Alternative Investments” also includes the following instruments:

- hedge funds (UCITS or non-UCITS)
- funds of hedge funds
- funds with a multi-manager strategy
- instruments other than those explicitly mentioned in this mandate but compliant with the regulations of the Swiss Bankers Association
- instruments other than bonds and ordinary shares, such as products structured on hedge funds and hedge fund-like strategies
- instruments that pose an uncommon risk, e.g. private equity or private debt funds, commodities, precious metals, derivatives and real estate
- instruments related to cryptocurrencies and tokens.

The weighting of alternative instruments depends on the investment objective and the market situation. Alternative instruments are used for the purpose of portfolio diversification and performance optimisation.

Instruments such as hedge funds and funds that invest in the other alternative investments (commodities, real estate, private equity, etc.) may be characterised by particular financial riskiness, and the amounts invested could suffer substantial capital losses or become locked in, i.e. cannot be liquidated for a long time).

d) Concentration risks

In the context of managing a financial portfolio, concentration risks occur if a significant part of the financial portfolio consists of a single financial instrument or otherwise a small number of financial instruments, or a single asset class. In bearish market phases, these portfolios may suffer much greater losses than diversified portfolios and suffer more from the overall risk of price fluctuations.

If an investor invests their capital in a single asset or a group of closely related assets, they run the risk of exposing their capital to the performance of that asset or group of assets; in this case, the risk is proportional to the exposure to the asset (or group of assets) and their riskiness.

Concentration risks must also be considered at the issuer level (for example, there is a concentration risk for issuers if a significant portion of the portfolio is invested in one or more financial instruments, whether equities, bonds, structured or other products, with the same issuer, country or economic sector).

In order to limit concentration risk, the Bank implements a diversification strategy (by asset allocation, country, currency, issuer, economic sector, etc.). The more a portfolio contains investments that do not belong to the same asset classes, countries, currencies, issuers and economic sectors, the more its

[1] This is a calculation method that converts the position in financial derivatives into the market value of an equivalent position in the underlying asset of that derivative.

return will not depend on the performance of any one of them and can be considered diversified (thus reducing concentration risks).

Within the discretionary asset management and financial advisory mandate offered by the Bank, portfolio concentrations agreed with the client are not excluded. The Bank draws clients' attention to the type and extent of major risks. Indications of concentration risk that does not align with customary market practice may be: concentrations of 10% or more in securities referring to a single unit (financial instrument) or concentrations of 20% or more in securities with individual issuers.

Concentration risk in relation to collective investment schemes subject to regulatory risk-sharing provisions is excluded.

e) Financial risks in relation to sustainability (ESG risks)

The acronym **ESG** stands for Environmental, Social & Governance. These three factors are key aspects to consider when assessing the sustainability of a company or investment:

- **Environmental**: consumption of natural resources (e.g. energy, water), environmental impact and climate change management.
- **Social**: aspects related to people and society, such as employer attractiveness and supply chain management.
- **Governance**: business management practices, including remuneration policy and internal decision-making processes.

ESG risks arise from events or situations related to these three areas and can adversely affect a company's profitability, costs, reputation and, consequently, the value of a company and the price of financial instruments.

The Bank takes these risks into account in accordance with its Responsible Investment Policy, available at www.bps-suisse.ch. In the context of asset management and investment consultancy, ESG risks and characteristics are assessed and/or pursued through diversified and dynamic ESG approaches, which may have distinct objectives that are not necessarily geared toward achieving a measurable ESG impact.

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