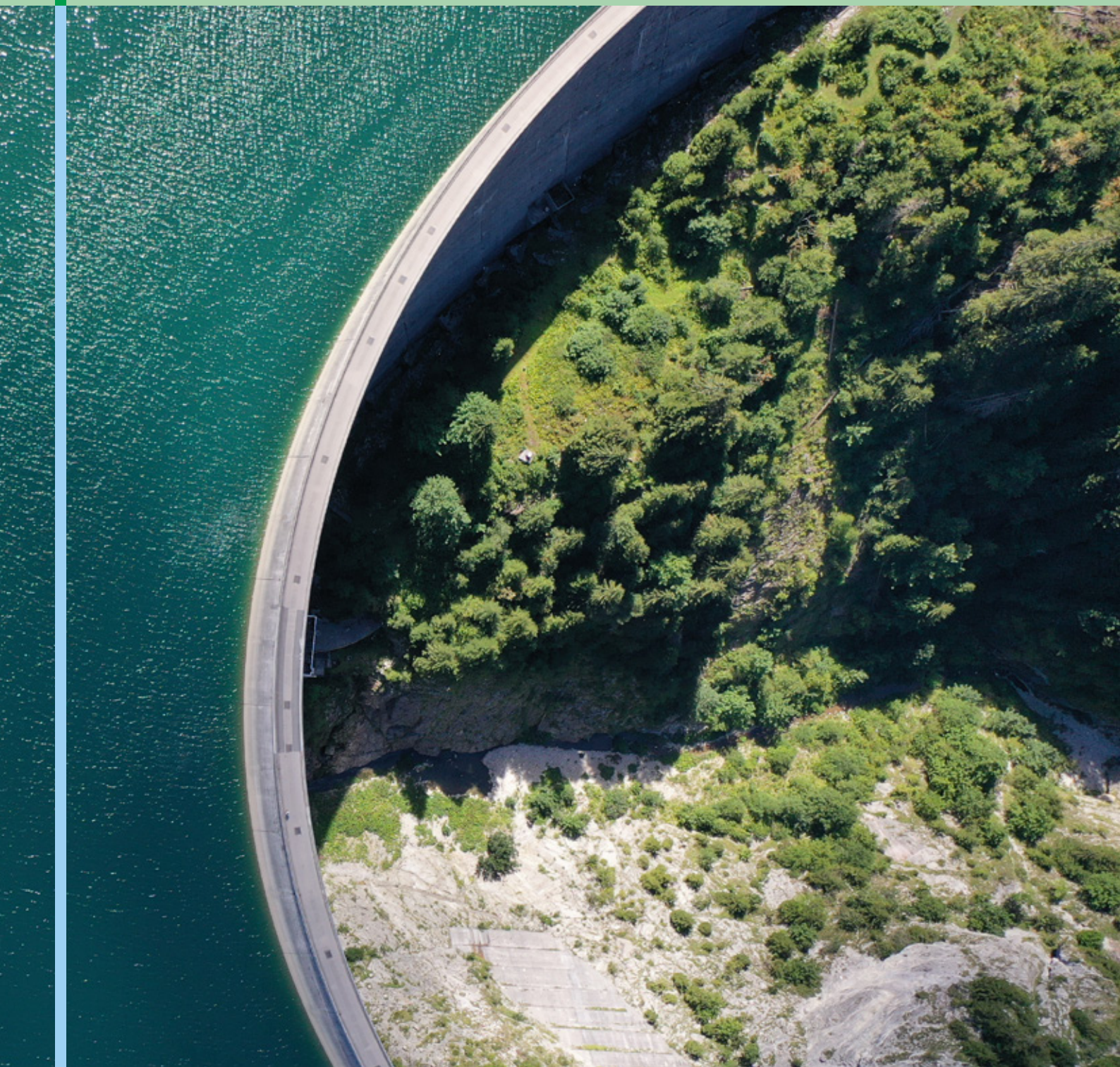


Structured products: SRI approach and methodology



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1. Purpose and scope

This document sets out the criteria used at Banque Cantonale Vaudoise (BCV) to classify structured products based on the degree to which they integrate environmental, social, and governance (ESG) criteria.

Classifying structured products enables us to better evaluate those products when advising investors who have expressed specific ESG-related expectations.

We classify all structured products issued by BCV, regardless of their payoff profile (linear or non-linear), how they are distributed (on an exchange or over the counter), and their target investors (individual, professional, or institutional investors). This policy also applies to all certificates issued by BCV, including those managed by a third party.

The classification scheme was developed in line with BCV's socially responsible investment (SRI¹) policy, which prioritizes the principles of transparency and client education¹. It also incorporates the recommendations of the Swiss Structured Products Association (SSPA), as set out in the SSPA Sustainability Transparency Guidelines².

The legal and regulatory framework for SRI is rapidly evolving, and a number of industry organizations have published or will publish recommendations, standards, or rules for responsible investing. Given the shifting landscape, the guidelines set out in this document may also evolve, in step with legal and regulatory developments and market standards.

¹ BCV, [Socially Responsible Investing \(SRI\) Policy](#)

² SSPA, [SSPA Sustainability Transparency Guidelines](#). The SSPA Sustainability Transparency Guidelines were approved by the body's board and entered into force on 1 June 2023. The guidelines will be binding at the end of a 12-month transitional period following their entry into force.

2. Basic principles for ESG classification of structured products

A structured product is an investment product that offers returns in the form of a payoff based on the performance of one or more underlying assets³. Because the payoff primarily targets investors' financial expectations, our classification scheme focuses on the SRI practices applied to the underlying(s). In other words, while the payoff addresses investors' risk-return expectations, the SRI practices applied to the underlying(s) address investors' non-financial expectations.

We believe that only actively managed structured products can ensure appropriate integration of ESG criteria over the life of the product⁴. Without active management of the underlying(s), whose ESG qualities may change, it is impossible to ensure that the product will continue to meet investors' ESG expectations (e.g., in the case of barrier reverse convertibles linked to a static basket). As such, passively managed structured products are not considered to integrate ESG criteria under our classification scheme⁵.

This position reflects our conservative approach to classification; we may reconsider it in light of future changes in the market and legal framework.

We classify actively managed structured products based on the SRI approaches applied to the underlying(s). In keeping with BCV's approach to its other sustainability-related investment products and services, we divide our structured products into three separate product ranges – Classic, ESG, and ESG Ambition – according to their ESG criteria and any sustainability objectives.

2.1 Classic range

For products in the Classic range, the choice of asset(s) in the underlying basket or portfolio is primarily guided by financial considerations (e.g., the assets' valuation, implied volatility, dividends, and correlation). ESG-related constraints are not systematically taken into account. However, ESG criteria may be factored in when it is in the investor's best interest.

³ This includes static baskets of securities and actively managed portfolios (as in the case of actively managed certificates).

⁴ Actively managed structured products are structured products that are actively managed either internally (by BCV's Asset Management or Investment Policy departments) or externally. Structured products linked to indices with systematic rules (e.g., the SPI ESG indices) are also considered to be actively managed.

⁵ Structured products are considered to be passively managed if the composition and weighting of the underlying asset(s) are fixed throughout the life of the product.

2. Basic principles for ESG classification of structured products

2.2 ESG range

For products in the ESG range, the choice of underlying(s) takes into account companies' exposure to ESG-related risks and how those risks are managed. These products boost long-term portfolio resilience by addressing ESG risks and reducing exposure to controversial business activities.

2.3 ESG Ambition range

For products in the ESG Ambition range, we apply the same approach as for the ESG range but go one step further – we allocate part of the assets to investments that will help drive positive change. These include thematic investments in companies that offer solutions to social or environmental challenges in line with one or more of the 17 United Nations Sustainable Development Goals⁶.

⁶ United Nations, *Sustainable Development Goals: 17 Goals to Transform our World*



3. ESG classification of BCV structured products

3.1 Products issued and managed by BCV

Structured products issued and managed by BCV fall into the Classic range if the product documentation (termsheet, factsheet, etc.) does not set out any ESG-related objectives or if those objectives are not sufficient to qualify the products for the ESG range. In that case, the product termsheet will state that the choice of underlying(s) was guided by financial criteria and objectives and that no SRI-related constraints were systematically applied. Structured products issued and managed by BCV that integrate ESG criteria fall into the ESG or ESG Ambition range. The choice of range depends on the product's objectives and the SRI approaches used to manage the underlying basket or portfolio.

BCV's SRI policy sets out the minimum criteria a product must meet to qualify for the ESG or ESG Ambition range⁷.

⁷ BCV, *Socially Responsible Investment (SRI) Policy*



3. ESG classification of BCV structured products

3.2 Products issued by BCV and managed by a third party

Actively managed certificates (AMCs), which are structured products issued by BCV and managed by a third party, are considered to integrate ESG criteria when they meet the standards for ESG integration set out in the third-party manager's SRI guidelines. We review products to ensure that the SRI-related claims made by the third-party manager are borne out in its investment-management practices.

We carry out an initial evaluation of the product based on available documentation, including the strategic objectives set out in the product's termsheet.

If there are no ESG-related objectives, or if those objectives are insufficient, the product falls into the Classic range. In that case, the product termsheet will state that the product has no ESG qualities, and the termsheet and other documentation may not use the terms "ESG," "sustainable," "ecological," "green," "ethical," "good corporate governance," or "impact," or any other terms referring to SRI or sustainability.

If the termsheet does make SRI-related claims, we review those claims against the management approaches in place. Our review is based on the third-party manager's responses to an SRI questionnaire regarding the SRI approaches and ESG criteria used when managing the product.

This review is carried out to reduce the risk of greenwashing. Nevertheless, the third-party manager is solely responsible for claims made to investors regarding the product's ESG qualities and strategy.



3. ESG classification of BCV structured products

3.3 Periodic review of ESG classification for products issued by BCV and managed by a third party

Every year, we ask third parties managing ESG-related products to alert BCV of any changes to their management practices and, in that case, to update their responses to the SRI questionnaire. If there is any change, we carry out another review based on the new information. Even if the third-party manager reports no change, the questionnaire itself may need to be updated in line with legal or regulatory changes or changes to market standards.

3.4 Entry into force

These guidelines entered into force on 1 May 2024 for all structured products issued by BCV.





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