
Appendix A

Sustainability Risks



Sustainability Risks

Sustainability risk:

Sustainability risk is the risk arising from any environmental, social or governance events or conditions that, were they to occur, could cause a material negative impact on the value of the investment. Specific sustainability risks will vary for each investment, and include but are not limited to the following:

Environmental risk:

The risk posed by the exposure to issuers that may potentially be causing or affected by environmental degradation and/or depletion of natural resources. Environmental risk may result from air pollution, water pollution, waste generation, depletion of freshwater and marine resources, loss of biodiversity or damages to ecosystems. Environmental risks may negatively affect the value of investments by impairing assets, productivity, or revenues, or by increasing liabilities, capital expenditures or operating and financing costs.

Transition risk:

The risk posed by the exposure to issuers that may potentially be negatively affected by the transition to a low carbon economy due to their involvement in exploration, production, processing, trading and sale of fossil fuels, or their dependency upon carbon intensive materials, processes, products and services. Transition risk may result from several factors, including rising costs and/or limitation of greenhouse gas emissions, energy-efficiency requirements, reduction in fossil fuel demand or shift to alternative energy sources, due to policy, regulatory, technological and market demand changes. Transition risks may negatively affect the value of investments by impairing assets or revenues, or by increasing liabilities, capital expenditures or operating and financing costs.

Physical risk:

The risk posed by the exposure to issuers that may potentially be negatively affected by the physical impacts of climate change. Physical risk includes acute risks arising from extreme weather events such as storms, floods, droughts, fires or heatwaves, and chronic risks arising from gradual changes in the climate, such as changing rainfall patterns, rising sea levels, ocean acidification, and biodiversity loss. Physical risks may negatively affect the value of investments by impairing assets, productivity, or revenues, or by increasing liabilities, capital expenditures or operating and financing costs.

Social risk:

The risk posed by the exposure to issuers that may potentially be negatively affected by social factors such as poor labour standards, human rights violations, damages to public health, data privacy breaches, or increased inequalities. Social risks may negatively affect the value of investments by impairing assets, productivity, or revenues, or by increasing liabilities, capital expenditures or operating and financing costs.



Governance risk:

The risk posed by the exposure to issuers that may potentially be negatively affected by weak governance structures. For companies, governance risk may result from malfunctioning boards, inadequate remuneration structures, abuses of minority shareholders or bondholders' rights, deficient controls, aggressive tax planning and accounting practices, or lack of business ethics. For countries, governance risk may include governmental instability, bribery and corruption, privacy breaches and lack of judicial independence. Governance risk may negatively affect the value of investments due to poor strategic decisions, conflicts of interest, reputational damages, increased liabilities, or loss of investor confidence.

Consequent impacts to the occurrence of sustainability risks can be many and varied according to a specific risk, region, or asset class. Generally, when a sustainability risk occurs for an asset, there will be a negative impact and potentially a partial or total loss of its value. However, the integration of sustainability risk analysis should mitigate the impact of such risks on the value of the investments and could help enhance long-term risk adjusted returns for investors.

For more information on risks, please refer to the brochure "General description of risks pertaining to financial instruments".