

Investment Regulations for Pensionskasse Alcan Schweiz

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Table of contents

I.	General provisions	4
Art. 1	Scope and purpose	4
Art. 2	Investment aims	4
Art. 3	Minimum necessary yield	4
Art. 4	Investment risks and risk tolerance	5
Art. 5	Target yield	5
II.	Investment strategy	6
Art. 6	Distribution of assets to investment categories	6
Art. 7	Avoidance of risk concentrations (Art 54, 54a and 54b BVV2)	6
Art. 8	Currency hedging	6
Art. 9	Risk/Return budget for the strategy	7
III.	Putting the investment strategy into practice	8
Art. 10	Principles	8
Art. 11	Active and passive asset management	8
Art. 12	Procedure in the event of a deviation from the investment strategy	8
Art. 13	Investments with the employer	9
IV.	The investment organisation	10
Art. 14	Principles	10
Art. 15	Organs	10
Art. 16	Board of Trustees	10
Art. 17	Investment Committee	11
Art. 18	Managing Director	11
Art. 19	Portfolio Manager	11
Art. 20	Global Custody and securities accounts	12
Art. 21	Real estate management and accounts	12
Art. 22	Property valuation	12
Art. 23	Mortgage administration	12
V.	Investment categories	14
Art. 24	Bonds and other face value investments	14
Art. 25	Inflation-linked bonds	14
Art. 26	Swiss mortgages	14
Art. 27	Real estate (currently only indirectly held)	14
Art. 28	Shares	15
Art. 29	Alternative investments	15
Art. 30	Securities lending and repurchase agreements	16

VI. Loyalty and Integrity Regulations	17
Art. 31 General	17
Art. 32 Material benefits	17
Art. 33 Dealings on one own's behalf by people involved in the asset management	18
Art. 34 Conflicts of interest and disclosure	18
Art. 35 Legal arrangements with related parties	18
Art. 36 Confirmation of compliance and monitoring	19
Art. 37 Exercising the shareholders' rights	19
VII. Valuation Principles	21
Art. 38 Principles	21
Art. 39 Valuation of the assets	21
VIII. Strategic distribution of assets and risk profile	22
Art. 40 Pensionskasse Alcan Schweiz (Strategic Two-Way Gliding Path)	22
IX. Final provisions	23
Art. 41 Date of effectiveness	23

I. General provisions

Art. 1 Scope and purpose

- 1 These Investment Regulations apply to Pensionskasse Alcan Schweiz (hereafter called Pensionskasse). The regulations will take effect by resolution of the Board of Trustees.
- 2 The Investment Regulations establish the organisation and execution of asset investments. They therefore have a binding effect on all those organs, persons and external companies entrusted with the organisation, execution and control of the investment activity. They supplement and refine the applicable statutory regulations, the deeds of foundation and the regulations of the foundation.

Art. 2 Investment aims

- 1 The purpose of the investment policy is to ensure that the beneficiary aims are fulfilled, i.e. to ensure that the insured benefit provisions are put into practice at the required time, taking account of the chosen financing plan. This assurance is evaluated with due consideration to all the assets and liabilities of Pensionskasse, subject to the actual financial position and the structure and anticipated changes to the pool of people covered by the insurance. Every attempt must be made to distribute the risk appropriately by spreading the investments between various investment categories, regions and business sectors. The investment risks need to be monitored continuously.
- 2 It must be possible to provide the active insured individuals with the promised benefits in accordance with the regulations in the event of old age, death or disability. In the case of the pension claimants, the focus is on the guarantee of continuing pensions for the benefit in question. An equalisation reserve is to be developed to secure this guarantee.
- 3 The second priority must be to reduce the cost of the benefits or to increase the insured benefits for the benefit of the active insured individuals and the affiliated employers, and to make a regular adjustment to the current pensions for the pension claimants. This would be made possible by surpluses from the returns on capital.
- 4 An asset/liability study will be carried out periodically – i.e. at intervals of three to five years – to monitor the investment strategy. This interval can also be reduced in the event of major changes to the structure of those insured or the benefits regulations.
- 5 The expansion of the investment options pursuant to Art. 50 par. 4 BVV2 is permitted, insofar as due diligence, security and risk distribution pursuant to Art. 50 par 1 to 3 BVV2 are clearly demonstrated in the notes to the financial statements. The scope of the expansion is defined more clearly in Article 40 of these regulations.

Art. 3 Minimum necessary yield

- 1 The average asset performance (direct returns plus the change in value) must be at least high enough so that, when added to the defined contributions, it will be able to guarantee the regulatory benefits.
- 2 A technical interest rate at a current level of 3.0% will be used to define the benefit plan for the active insured individuals.
- 3 The increase in the life expectancy of the insured individuals is putting the price up for the lifelong delivery of current and future pensions. Through the introduction of the so-called generation tables this effect has, however, already been taken into account by Pensionskasse.
- 4 The management costs of administering for the insured individuals are currently financed from the yields on assets – just like the asset administration costs. The total costs of administration are in the order of 0.6% of the assets.
- 5 This produces a required minimum long-term return of 3.6% on the benefits capital of the active insured individuals and of the pension recipients. For the financing of the current

pension obligation regarding the retirees we need a long-term minimum required return of 2.85%, as the valuation of those is based on a technical interest of 2.25%. Taking into account that more than 95% of the pension capital is allocated to the pension recipients and that the portfolio of pensioners is constantly declining, the minimum long-term return for Pensionskasse is currently less than 3.6% at the present coverage ratio. However, the required performance on the assets also depends on coverage ratio in accordance with Art. 44 BVV2 (the Swiss ordinance on occupational benefits for old age, survivors and the disabled) because, technically, only the benefits capital needs to be interest-bearing. Furthermore, Pensionskasse is supported by a Contribution Agreement with Alcan Holdings Switzerland. The support and remediation measures provided by this Agreement act to reduce the minimum required yield at coverage ratios to below 100%. The resulting minimum required yield (or “duty return”) is shown in detail in Article 40.

Art. 4 Investment risks and risk tolerance

- 1 Pensionskasse is financed in the capital cover process. The level of assets must therefore always be at least as high as the sum of the benefits capital of the active insured individuals, the benefits capital of the pensioners and the technical reserves (known together as the “actuarially necessary benefits capital”).
- 2 The relationship between the available assets and the actuarially necessary benefits capital produces the coverage ratio. If the coverage ratio is above 100%, value fluctuation reserves are available. If the target value of these value fluctuation reserves is exceeded, free funds are also available.
- 3 A statistical relationship exists between the anticipated yield on an investment and the amount by which they fluctuate. A higher yield is only possible if higher fluctuations are also acceptable.
- 4 The short-term investment risk lies in the fact that the fluctuations in the yield on investment may lead to a shortfall, i.e. to a coverage ratio of below 100%. Pensionskasse’s challenging target yield means that fluctuations in the annual returns must be taken into account. In principle, therefore, a shortfall cannot be excluded.
- 5 On the other hand, the long-term investment risk lies in the fact that the shortfall in investment returns makes it impossible to build up the necessary value fluctuation reserves or (therefore) any means of financing the additional benefits or even the promised benefits themselves.
- 6 The target value of the value fluctuation reserves must be defined in such a way that a shortfall can be avoided within the next three years with a probability of 97.5%. The factoring method, which produces a set proportion of reserves for each investment category, should be used for ease of management. These proportions are set out in the separate regulations governing reserves.

Art. 5 Target yield

- 1 Pensionskasse aims to produce a return on assets that, combined with eventually payments by Alcan Holdings Switzerland resulting from the Contribution Agreement and eventually additional contributions made by employers and active employees (corrective measures), is higher than the minimum yield on the investment assets so that over a longer term an adequate value fluctuation reserve can be safeguarded, in addition to the financing required to cover the benefits provisions.
- 2 The target return on the assets changes from year to year, depending on the fund’s coverage ratio, in a similar manner to the minimum necessary performance on the assets. This figure stands currently for Pensionskasse as shown in article 40.

II. Investment strategy

Art. 6 Distribution of assets to investment categories

- 1 In order for Pensionskasse to be able to achieve its target returns within the specified risk tolerance, it distributes its assets between various investment categories. This diversification enables the investment risk to be reduced because the results of the individual categories are partly independent of each other and are subject to different cycles, and therefore compensate to some extent for each other.
- 2 The strategic distribution of the assets is set out in Section VIII. Pensionskasse does not make direct investments in any investment categories that are not listed there.
- 3 Section VIII also lists bandwidths per investment category; they define the permitted deviations from the at any one time valid strategy. If any of these bandwidths are exceeded, there is a strict requirement to undertake an adjustment of the allocation, as described in Art. 12. For some asset categories no bandwidth is defined for practical reasons.
- 4 Investments can also be made by the asset managers in the investment categories mentioned by using derivative financial instruments. Currency hedging is exclusively carried out through derivative instruments. The Investment Committee regulates the use of derivatives in the mandate instructions to the Portfolio Manager, with due regard to the statutory government regulations applicable in Switzerland (Art. 56a BVV2 as well as Art. 93 to 115 FMIA and Art. 76 to 114 FMIO).

The managing director clarifies whether the Pensionskasse has to fulfill the clearing duty, the reporting duty, the risk mitigation duty and the duty of trading via venues according to FMIA and FMIO when the Pensionskasse trades with derivative financial instruments. If necessary, the managing director has to fulfill these duties in accordance with the law.

Art. 7 Avoidance of risk concentrations (Art 54, 54a and 54b BVV2)

- 1 No more than 10% of the total assets may be invested in receivables on a fixed sum of money with an individual debtor. (This includes in particular postal cheque account balances, bank credits, money market investments, medium term bonds, bond issues, Swiss mortgage titles) as well as redemption values from collective insurance contracts pursuant to Art. 53 par. 1 b BVV2.
- 2 No more than 5% of the total assets may be invested in a single business interest pursuant to Art. 53 par. 1 d BVV2 (shares, participation certificates, participation papers or other such securities).
- 3 In principle, no more than 5% of the total assets may be invested in an individual property pursuant to Art. 53 par. 1 c BVV2.
- 4 Direct investments in individual real estate may temporarily be made up to a maximum of 30% of its current market value in exceptional cases. Investments in regulated collective investments in real estate which have an average borrowing amount of a maximum of 50% of their current market value are permitted.
- 5 None of the securities of the affiliated employers may be held in direct mandates. This restriction cannot be enforced in institutional funds.

Art. 8 Currency hedging

- 1 Pensionskasse holds a high proportion of foreign asset investments in order to improve diversification. The resulting currency exposure is to a large extent hedged separately in order to reduce the investment risk, since Pensionskasse does not expect to achieve significant additional yield by taking risks with foreign currencies in the longer term.

- 2 The strategy of hedging is set out in Section VIII.
- 3 If the currency exposure for collective investments is not precisely known, the currency exposure of the corresponding reference investment index (the “benchmark”) can be used as an alternative basis for hedging.
- 4 The nominal currency of the individual titles (shares, bonds, etc.) contained in the mandate, collective investment vehicle or benchmark is assumed with regard to currency exposure.
- 5 Currency hedging is undertaken solely via derivative financial instruments and within the framework of an “overlay strategy”. Information from the central deposit of securities is used to help consolidate the currency exposure across all investment categories, and to arrange the appropriate currency futures transactions (fixed date sales against the Swiss Franc). The required contracts are adjusted as necessary, but at intervals of at least once a quarter.
- 6 Currency hedging is undertaken within the framework of a special asset management contract.

Art. 9 Risk/Return budget for the strategy

- 1 The risk/return profile of the current strategy is described in Section VIII.
- 2 If insufficient equalisation reserves are available, or if a shortfall should even occur in the cover, the risk capacity of Pensionskasse is reduced. In such cases, the Board of Trustees has a duty to examine the investment strategy and where appropriate to adjust it in the light of its risk tolerance. This is in general based on a so-called Asset Liability Management analysis (ALM). Such an analysis was again undertaken in 2017 with the support by c-alm. The Board of Trustees decided based upon request by the Investment Committee to accordingly adjust the so-called “Two-Way Gliding Path”, as a defined mechanism to reduce investment risk with increasing coverage ratio respectively to re-increase risk after reduction in coverage ratio.

III. Putting the investment strategy into practice

Art. 10 Principles

- 1 Pensionskasse invests its assets in accordance with the investment strategy set out in Section VIII. Within the investment strategy, the first concern is for yields that conform to the market, together with low asset management costs.
- 2 Pensionskasse awards at least one management contract for each investment category. The Investment Committee may call external specialist in for support in the evaluation of new portfolio managers.
- 3 Specific implementation principles exist for individual investment categories. These are described in Section V. In general Pensionskasse must not be subject to a reserve liability. Investments pursuant to Art. 53 par. 1 a to d BVV2 may be made in principle as direct investments or via collective investments pursuant to Art. 56 BVV2 or derivative financial instruments pursuant to Art. 56a BVV2. In addition, the Art. 93 to 115 FMIA and Art. 76 to 114 FMIO must be fulfilled when the Pensionskasse trades with derivative financial instruments. Reservations about more restrictive provisions are regulated by Art. 24 to Art. 28. Alternative investments pursuant to Art. 53 par. 1 e and par. 3 BVV2 may only be made via diversified collective investments pursuant to Art. 56 BVV2, diversified certificates or diversified structured products.
- 4 The selection and supervision of the Portfolio Manager is undertaken on the basis of objective criteria.

Art. 11 Active and passive asset management

- 1 Passive asset management means that the reference investment index (benchmark) is emulated as closely as possible. In the case of active asset management, on the other hand, deviations are consciously undertaken from the composition of the benchmark with the aim to achieve an outperformance.
- 2 Passive asset management is preferred as a general principle, as a result of the lower costs.
- 3 Active asset management is used in those areas where there is a high probability that a positive contribution can be anticipated, with due regard for the higher costs, or where a purely passive form of management would not be possible.
- 4 The responsibility for the decision about which areas implement active or passive asset management systems rests with the Investment Committee.

Art. 12 Procedure in the event of a deviation from the investment strategy

- 1 The effective composition of the assets may deviate from the strategic distribution of assets. The possible reasons for this are that:
 - The values, and therefore the ratios, of the various investment categories, change at a different rate;
 - Tactical shifts in weighting may be undertaken on the basis of risk analyses;
 - It may be impossible to enact investments or divestments in illiquid investment segments in the short term.
- 2 If a bandwidth is overshoot or undershot at the end of the month, a rebalancing action is generally undertaken to bring the overshoot or undershot asset class back to its target asset allocation. The Investment Committee is responsible for defining the measures and the Pension Fund Manager for undertaking such rebalancing action. The Pension Fund Manager takes account of the market conditions and the properties of the products that are being used, with the aim of producing a cost-efficient and timely rebalancing process.

- 3 In certain, well-justified cases, the Investment Committee can override the rebalancing regulations. The Investment Committee must then regularly report upon this action to the Board of Trustees.

Art. 13 Investments with the employer

- 1 It is a basic principle that Pensionskasse may not hold any securities in one of its affiliated companies or its subsidiaries. Such securities are only permitted as part of a passive, external asset management mandate or an external collective investment vehicle, as long as the possibility of any influence on buying or selling decisions in the individual titles by responsible individuals at Pensionskasse or the employer can be excluded.
- 2 Any balances held by the employer must be restricted to the minimum necessary for the payment process.
- 3 The statutory provisions pursuant to Art. 57, 58 and 58 a BVV2 must be observed.

IV. The investment organisation

Art. 14 Principles

- 1 The organs of Pensionskasse act independently and with an exclusive focus on the interest of the active insured individuals and the pension claimants when they carry out their functions.
- 2 The fiduciary duty of care is the overriding principle in the handling of benefits funds entrusted to the Pensionskasse.
- 3 Market-based criteria are the only principles upon which the external specialists and companies are selected. The selection procedure is based on the competitive principle. The aim is to find the most suitable provider for the component functions to be assigned.
- 4 The various Pensionskasse stakeholders (e.g. management bodies, insured individuals, pensioners, employers, supervisory authorities, auditors and experts in occupational benefits) must be informed quickly, truthfully, regularly and appropriately to the level in question about the business activities being undertaken in the investment area.
- 5 The “Strategy setting”, “Implementation” and “Monitoring” areas are clearly separated, and are not undertaken by the same person.
- 6 The decision-making processes is structured according to objective criteria, and documented in a way that is open to scrutiny.
- 7 When the investment strategy is being implemented and contracts are being awarded, every effort is made to achieve the best possible relationship between the benefits to Pensionskasse and the costs of fulfilling the contract.

Art. 15 Organs

- 1 The management bodies active in the asset investment area comprise the following organs:
 - Board of Trustees
 - Investment Committee
 - Managing Director

Art. 16 Board of Trustees

- 1 The Board of Trustees is the highest decision-making and monitoring organ.
- 2 Its main functions and competences in the asset investment area are as follows:
 - Establishing and periodically checking the fundamental principles of the organisation
 - Establishing and revising the investment strategy
 - Establishing the target results and risk tolerance
 - Designating the Chairman of the Investment Committee, the Members of the Investment Committee and the Managing Director of Pensionskasse
 - Verifying compliance with the loyalty duties (Art. 51b BVG)
 - Issuing directives relating to mortgages
 - Preparing and approving the annual financial statements
 - Choosing the experts for occupational benefits and the auditor
 - Overall monitoring

Art. 17 Investment Committee

- 1 The Investment Committee is elected by the Board of Trustees of Pensionskasse. The period of office of the members of the Investment Committee matches that of the Board of Trustees of Pensionskasse Alcan Schweiz.
- 2 The Investment Committee is made up of internal and external experts in investment matters.
- 3 The tasks of the Investment Committee are as follows:
 - Responsibility for the proper implementation of the investment strategy
 - Competence for the tactical adjustment of weighting within the pre-defined bandwidths
 - Decisions about whether the strategy should be implemented by active or passive asset investments for a defined investment area
 - Selection, instruction and monitoring of external agents for asset investments
 - Instruction and monitoring of the internally-managed asset investments
 - Monitoring the movements in the financial and capital markets with a view to drawing the necessary conclusions for the investment strategy and tactics
 - Formulation of proposals to the Board of Trustees and ongoing provision of information to the Boards of Trustees about the investment activity

Art. 18 Managing Director

- 1 The Managing Director reports directly to the Board of Trustees of Pensionskasse. He is responsible to the Board of Trustees for providing proper fund management, according to the statutory directives, the associated ordinances and the applicable regulations.
- 2 The functions of the Managing Director are as follows:
 - Deciding upon all matters that are not reserved to the Board of Trustees or the Investment Committee
 - Liquidity planning and liquidity monitoring
 - Responsibility for internally-managed asset investments
 - Financial accounting and reporting
 - Trading with derivative financial instruments to hedge foreign currency risks in accordance with Art. 6 Section 4 of the present Investment Regulations
 - Co-ordination with all the service providers and Portfolio Managers
 - Checking adherence to the bandwidths in line with the applicable investment strategy, and awarding contracts for rebalancing according to Art. 12 if necessary, including the provision of advice to the members of the Investment Committee
 - Preparing for meetings of the Board of Trustees and the Investment Committee, including sending out all the necessary decision-making bases in good time (normally at least one week before the meeting)
 - Informing the Investment Committee and the Board of Trustees about the performance of the external and internal asset investments and/or passing on the information from the external Portfolio Managers
 - Advising the Investment Committee, particularly with regard to aspects that are specific to benefits

Art. 19 Portfolio Manager

- 1 The asset management function for the securities is delegated to Portfolio Managers who are competent to carry out this task and organised in such a way that they can ensure adherence to the Pension Fund Governance principles (Section VI).
- 2 The use of collective investment vehicles is also permitted if they offer financial advantages and are provided by able external Portfolio Managers.

- 3 The Portfolio Managers administer the proportion of the assets allocated to them within their management mandate for a specific segment and/or as part of the prospectuses of collective investment vehicles. The following aspects must be contractually controlled:
 - Investment goals and general directives
 - Permissible investment categories and restrictions with regard to the investments and the use of derivatives
 - The benchmark and time frame used to evaluate the performance
 - Anticipated long-term yield and maximum risk tolerance
 - Fee structure and level
 - Reporting
 - Risk control
- 4 The Portfolio Managers report to the Investment Committee via the Managing Director.

Art. 20 Global Custody and securities accounts

- 1 The Pensionskasse has delegated the following functions as part of a contract with the Global Custodian:
 - Centralised custody of securities for all Portfolio Managers, together with their consolidation, including accounts
 - Performance measurement and performance analysis with the appropriate reporting function (at least every quarter)
 - Calculation of the various risk coefficients
 - Depiction of Asset Allocation and comparison with the statutory limitations
 - Reclamation of tax deducted at source and capital gains tax
 - Settlement of stamp duty for mandates or collective investment vehicles that cannot be directly settled by the Portfolio Manager
 - Pensionskasse does not hold any direct securities and therefore undertakes also no securities lending. Some of the investment foundations or pooled funds that Pensionskasse along with other investors invest in are however authorised to lend out their securities in custody. As far as possible, Pensionskasse prefers mandates that renounce securities lending.
 - Over-the-counter derivatives for the execution and management of the currency hedging function
- 2 The Global Custodian reports to the Investment Committee via the Managing Director.

Art. 21 Real estate management and accounts

- 1 Pensionskasse does currently not hold any direct real estate properties.

Art. 22 Property valuation

- 1 Pensionskasse does currently not hold any direct real estate properties.

Art. 23 Mortgage administration

- 1 The mortgage administration and accounts functions are carried out by Avadis as service provider in accordance with the directives issued by the Board of Trustees in relation to mortgage loans.

- 2 The evaluation of the mortgaged assets is undertaken by Avadis as service provider, using evaluation software that is updated at least once a year, or by a professional evaluation assessment.

V. Investment categories

Art. 24 Bonds and other face value investments

- 1 Bonds are face value investments. This category covers bonds in CHF or foreign currencies and short-term cash investments pursuant to Art. 53 par. 1 b BVV2, as well as cash at call held by the employer.
- 2 The risks associated with this investment category lie in the credit risk (the credit-worthiness of the debtor may fall, or the debtor may even become insolvent), in the interest-rate risk (the general level of interest may move upwards or downwards, which would result in temporary accounting losses/profits because of the change in the market value), in the inflation risk and (in the case of foreign currency bonds) in the currency risk.
- 3 In the bonds sector, asset management mandates are awarded to external Portfolio Managers, or collective investment vehicles managed by these external Portfolio Managers are employed. Terms of reference are pre-defined with regard to credit-worthiness, life spans and the investment universe.
- 4 One or more money market funds are used for short-term cash investments in order to reduce the counterparty risk in comparison with a fixed deposit investment or a current account with a bank.

Art. 25 Inflation-linked bonds

- 1 Inflation-linked loans (inflation-linked bonds or ILBs) are also face value investments that are deemed as receivables pursuant to Art. 53 par. 1 b BVV2. In contrast with the bonds mentioned under Art. 24, however, the coupon corresponds to a real portion (which lies below the interest rate for "normal" bonds) and a portion that is linked to inflation. ILBs are especially attractive when inflation lies above the expectations of the market, and less attractive when inflation fails to reach the level anticipated by the market.
- 2 Inflation-linked loans are mainly issued by countries, but not (so far) by Switzerland. The risks associated with this investment category lie in the credit risk, the interest-rate risk and the currency risk.
- 3 An asset management mandate with an external Portfolio Manager or a collective investment vehicle managed by the external Portfolio Managers is employed for the ILB.

Art. 26 Swiss mortgages

- 1 Mortgages are face value investments that are deemed as Swiss mortgage titles pursuant to Art. 53 par. 1 b BVV2. The award of mortgages is made in accordance with directives issued separately by the Board of Trustees. Only properties in Switzerland are used as securities, and only CHF mortgages are offered. According to the directives currently in force, variable mortgages and fixed rate mortgages are granted.
- 2 Mortgages are associated in particular with a credit risk, together with an inflation risk, though this is limited, since the mortgage rate can be adjusted at regular intervals. In addition, fixed-rate mortgages are also associated with an interest-rate risk, together with a somewhat higher inflation risk compared with variable mortgages.
- 3 Avadis as service provider in co-ordination with the Managing Director is responsible for the award and supervision of mortgages. Decisions about the applicable rates of interest are made by the Investment Committee.

Art. 27 Real estate (currently only indirectly held)

- 1 The real estate investments belong to the investments pursuant to Art. 53 par. 1 c BVV2 (material assets category). The performance on real estate investments is made up of net

rental returns and the change in the value of the properties. Real estate provides good protection against inflation in the longer term.

- 2 The results and risks are normally higher in the case of real estate than for bonds, but lower than for shares (with the exception of quoted real estate businesses, which may react in a similar way to shares in the short term). Foreign real estate is associated with an additional foreign currency risk.
- 3 Directly-held real estate in residential, business or industrial use in Switzerland, real estate funds or real estate businesses with Swiss and/or foreign real estate in the portfolio and real estate trusts are all permitted. While indirect investments traded on the stock exchange contribute less to diversification, they are usually easier to administer and to trade.
- 4 The real estate investments should reduce the fluctuation risk of the overall portfolio, without causing a penalty in the target yield. Due regard must be paid to producing the best possible cost/benefit ratio when the strategy is being put into practice.
- 5 Decisions about the use of indirect investment vehicles are made by the Investment Committee.

Art. 28 Shares

- 1 Participations pursuant to Art. 53 par. 1 d BVV2, in particular shares are material asset investments. They provide a means of participating in the real gain in productivity of the economy and offer good protection against inflation.
- 2 Their performance usually lies above that of bonds and real estate, but may be subject to powerful fluctuations. The risk can be reduced by distributing the investments between various sectors, different regions of the world and individual titles. Share investments are therefore enacted world-wide, and not mainly in Switzerland (the SMI index concentrates on a few companies and sectors).
- 3 Securities traded on a public stock exchange are permitted
- 4 Asset management mandates are awarded to external Portfolio Managers, or collective investment vehicles managed by these external Portfolio Managers are employed. Terms of reference are in general pre-defined with regard to the investment universe and the investment style. The external Portfolio Managers are monitored by the Investment Committee.

Art. 29 Alternative investments

- 1 The term “alternative investments” is taken to mean all those investments pursuant to Art. 53 par. 1 e and par. 3 BVV2 that cannot be assigned to any of the previous categories.
- 2 In principle, investments in commodities, hedge funds of funds, private equity and senior secured loans, which are described briefly in the following paragraphs, are all permitted. The investments in the individual sub-categories should be diversified over a broad range.
- 3 **Commodities** are investments in raw materials such as mineral oil, gas, precious and industrial metals, farmed products (coffee, cocoa, wheat) etc. These investments are transacted via instruments traded on the stock markets (futures).
- 4 The long-term yield from commodities is partly produced by the anticipated increase in the price of the raw materials, and partly from the “roll-returns” (where futures deals with a long term have a lower price than those with a short term, known as “backwardation”).
- 5 Investments in commodities are made through an asset management mandate with external Portfolio Managers, or collective investment vehicles managed by these external Portfolio Managers.
- 6 **Hedge funds** (HF) are collective investments that follow a very active strategy. The risk lies in the quality of the individual managers and the major reduction in liquidity compared to all other investments.

- 7 The anticipated yield from hedge funds is essentially dependent on the strategy being used. The Pensionskasse expects the use of these investments to result in an improvement in the risk/result profile of the overall portfolio, as well as an additional degree of diversification. The investment vehicle used in this case should therefore follow a complementary strategy in comparison to the traditional portfolio.
- 8 Investments are only permitted in hedge funds of funds, since it would be impossible for the Investment Committee to monitor individual HFs properly. This also takes better account of the diversification aspect.
- 9 The Investment Committee brings in a qualified and specialised professional consultant to help select the hedge fund of funds.
- 10 **Private equities** (PE) are shares in businesses that are mostly relatively young and are not quoted on the stock markets. They may be located in Switzerland or abroad
- 11 Their anticipated long-term performance lies above that of quoted shares. As well as the usual risks associated with shares, however, Private Equities also demonstrate a marked risk of illiquidity.
- 12 Since PEs, like HFs, also require specialised professional expertise, permission is restricted to investments in collective investment vehicles diversified across several businesses, and a qualified and specialised professional consultant is brought in to choose appropriate investments.
- 13 **Senior secured loans** are loans that are granted to companies (debtors) and as a rule have the following characteristics:
 - They benefit from priority status in the event of the bankruptcy of the debtor (senior)
 - They benefit from the securitisation of the assets by the debtor (secured)
 - They benefit from a variable interest rate (regular adjustment of the interest rate to the interest rate environment)
 - They are issued by debtors in the non-investment grade universe (< BBB-pursuant to Standard & Poor's and/or Baa3 pursuant to Moody's)

Art. 30 Securities lending and repurchase agreements

1. Securities lending is permitted only within collective investments. The provisions of the Swiss Federal Law on Collective Investment Schemes apply analogously (Art. 55 par. 1 a KAG, SR 951.31; Art. 76 KKV, SR 951.311; Art. 1 et seq. KKV-FINMA, SR 951.312). Compliance with the provisions governing securities lending pursuant to Art. 1 et seq. of the Ordinance of the Swiss Financial Market Supervisory Authority on Collective Investment Schemes in the reporting year must be confirmed in the notes to the financial statements of Pensionskasse.
2. Repurchase agreements are permitted only within collective investments. The provisions of the Swiss Federal Law on Collective Investment Schemes apply analogously (Art. 55 par. 1 b KAG, SR 951.31; Art. 76 KKV, SR 951.311; Art. 11 et seq. KKV-FINMA, SR 951.312). Compliance with the provisions governing repurchase agreements pursuant to Art. 11 et seq. of the Ordinance of the Swiss Financial Market Supervisory Authority on Collective Investment Schemes in the reporting year must be confirmed in the notes to the financial statements of Pensionskasse.

VI. Loyalty and Integrity Regulations

Art. 31 General

1. The Loyalty and Integrity Regulations define the fundamental duties in association with the assets of Pensionskasse and regulate the behaviour of subordinated persons related to the acceptance of material benefits, dealings on one's own behalf and the avoidance of conflicts of interest. They are based on the following legal foundations:
 - Bundesgesetz über die berufliche Alters-, Hinterlassenen und Invalidenvorsorge (BVG)
 - Verordnung zum BVG (BVV2)
 - Charta des Schweizerischen Pensionskassenverbandes (ASIP)
2. The Pensionskasse is a member of the Swiss association of pension funds, ASIP, and therefore has a duty to adhere to the ASIP Charter as well as corresponding guidelines as an integral part of the Pension Fund Governance.
3. The ASIP Charter and its associated directives are issued to all the members of the Board of Trustees, to the Investment Committee and to all the employees of the Pensionskasse as well as external mandataries (asset managers, real estate agents, etc.). They must confirm their adherence to the provisions relevant to them in a written annual declaration.
4. The annual confirmations are requested by the Managing Director, if they have not been submitted before by the respective persons. The results of the annual confirmations will be submitted to the Board of Trustees and the Auditor.

Art. 32 Material benefits

- 1 Those responsible for Pensionskasse do not gain any material benefits from the activities they carry out on behalf of Pensionskasse, beyond their ordinary remuneration. Form and manner of the compensation for employed or mandated persons / institutions have to be clearly determinable and recorded in a written contract.
- 2 Small gifts are allowed, as long as they adhere to the following conditions:
 - One-off gift worth no more than CHF 200 per item and CHF 1,000 per year and business partner, up to a maximum of CHF 2,500 in total.
 - Invitations to events where the advantages to Pensionskasse are at the forefront, such as professional seminars. Such events are restricted to a maximum of two days, do not extend to a person accompanying the invitee and must be reachable by car or by public transport.
- 3 Pecuniary advantages in the form of cash benefits (credit notes, emoluments) are not permitted. Neither are kick-backs, retrocessions or other similar payments that are not based on a written agreement with the Board of Trustees, nor invitations with no apparent business purpose, e.g. to concerts, exhibitions, etc.
- 4 In the case of prohibited pecuniary advantages, Pensionskasse has a duty to reclaim the improperly-obtained cash value immediately, and it is entitled to initiate sanctions such as a warning or, in certain cases, the termination of the employment relationship or mandate and filing a charge of misappropriation of assets.
- 5 The responsible persons of Pensionskasse are, in connection with their business activity, not allowed to directly or indirectly offer, promise or grant any unjustified advantages to officials, customers, suppliers or any employee of these parties against services, acts or omissions of any kind.
- 6 They are not allowed, either in favour of themselves or in favour of their relatives, partners, friends or acquaintances or any other third party, to accept a promise of unjustified advantages, to ask for or accept any such advantage. The only exception is small gifts as mentioned in Art 32. Abs. 2.

Art. 33 Dealings on one own's behalf by people involved in the asset management

- 1 This article applies to people who take decisions on behalf of Pensionskasse to buy or sell investment vehicles, or who are informed about such decisions before they are settled.
- 2 These individuals may not use their position to obtain personal pecuniary advantages. "Front running", "Parallel running" and "After Running" are all forbidden. A holding period of 1 day before and after the relevant transaction is made on behalf of Pensionskasse therefore applies to personal transactions involving the same investment vehicles, or those derived from them (other classes of funds, derivatives, other title category (names / owners)).
- 3 Transactions that are executed with 3rd parties in order to circumvent the above regulations are also considered to be dealings on one's own behalf

Art. 34 Conflicts of interest and disclosure

- 1 Any vested interests that could affect independence have to be disclosed to the relevant decision-making committee before election, employment or assignment of a mandate and later repeated on a yearly basis. The same duty of disclosure also applies to any external parties if they are involved in the decision-making processes of Pensionskasse.
- 2 The duty of the initial and yearly disclosure applies to the Managing Director and all persons and institutions that are mandated with the asset management as well as the persons responsible for trading in investment vehicles, or who know about these transactions, all those who take part in the selection of business partners, all those who make decisions about the purchase or sale of real estate, and all those who undertake supervisory activities.
- 3 If any conflicts of interest are notified, the relevant decision-making committee will instigate effective measures. This may lead to the affected person staying out of the relevant transaction or to the exclusion of a business partner from the current quotation process or to the resignation or release of the affected person from his/her function.
- 4 External persons who are mandated with the administration or asset management or economic beneficiaries of companies that are mandated with such tasks cannot be represented on the Board of Trustees.
- 5 Asset management, insurance and administration contracts have to be dissoluble five years after execution at the latest without any disadvantage for Pensionskasse.
- 6 The names of all the mandated experts, investment consultants and external asset managers have to be disclosed in the year-end report of Pensionskasse.

Art. 35 Legal arrangements with related parties

- 1 Related parties are spouses, registered partners, life partners and relatives up to the second degree as well as legal entities in which there is an economic interest.
- 2 Legal arrangements of Pensionskasse with members of the Board of Trustees, with affiliated employers, with natural or legal persons that are mandated with the administration or asset management as well as contracts with natural or legal persons that are related parties to the aforementioned persons should rely on arms-length conditions (customary in the particular market) and have to be disclosed to the external auditor in connection with the yearly audit of the accounts.

For important legal arrangements with related parties competitive offers have to be obtained. Amongst others, the following legal arrangements between Pensionskasse and related parties are considered as important arrangements within the meaning of Art. 48i BVV2, for which a competitive offer or an assessment by an independent subject

matter expert has to be asked for prior to execution and which have to be disclosed to the external auditors in connection with the annual audit of the accounts:

- purchase of a real estate property (building, land) by the foundation
 - sale of a real estate property (building, land) by the foundation
 - legal arrangements in connection with a construction project
 - granting of a loan
 - rental contracts
 - administration and asset management contracts
 - other legal arrangements.
- 3 The award of contract has to be fully transparent. The award has to be documented in writing (e.g. minutes or file note).

Art. 36 Confirmation of compliance and monitoring

- 1 The Board of Trustees checks the compliance with the legal regulations regarding personal and professional requirements for the persons that are proposed or mandated for administration or asset management prior to their election or assignment. The persons or institutions that are mandated with the asset management have to fulfil the following criterias;
- to be able to execute the mandate in a professional manner and successfully;
 - subject matter experts with a good reputation;
 - comprehensible investment process;
 - customary management fees in line with the market;
 - as far as asset management is external: persons and institutions in line with Art. 48f par. 4 BVV2 (in force since 1.1.2014)

The external asset managers are assigned in a written contract which particularly defines the form and amount of their compensation.

- 2 Pensionskasse places the actual version of the investment regulations at disposition of all subordinated persons. Internal and external subordinated persons have to certify to Pensionskasse each year in writing their compliance with the loyalty and integrity regulations. The result of these yearly confirmations are submitted to the Board of Trustees and the external auditors.
- 3 The external auditors investigate based on Art. 52c par. 1 c BVG if necessary provisions for safeguarding loyalty and integrity in the asset management have been undertaken and if the compliance with these duties is adequately monitored by the Board of Trustees.
- 4 The external auditor may, in order to examine the compliance with these regulations, ask internal subordinated persons to disclose statements of their individual bank depots and bank accounts, based on random sampling.

Art. 37 Exercising the shareholders' rights

- 1 Pensionskasse exercises its voting rights in Swiss businesses that are listed in Switzerland or abroad in the interests of the insured. This is deemed to be given if the voting behaviour serves to promote the ongoing prospering of Pensionskasse. The interests of Pensionskasse are generally of a financial nature. One further aspect is the long-term prospering and price development of the company affected.
- 2 In exercising the voting rights, the concrete circumstances of the individual case are taken into account. Non-differentiated compliance with rigid principles is avoided. In the case of routine transactions that are not controversial Pensionskasse generally follows the proposals of the Board of Directors.

- 3 Pensionskasse can consult independent consultants on voting rights but it is not obliged to blindly accept their recommendations, in particular in the case of controversial topics. It must ensure appropriate instruction and supervision.
- 4 Pensionskasse uses its voting rights in the case of the following proposals at least: elections, compensation and articles of association. Pensionskasse may not abstain from voting in general, but only insofar as this represents the interests of the insured.
- 5 The duty to exercise a voting right also includes indirectly held shares, insofar as Pensionskasse has been granted a voting right. If Pensionskasse controls collective investments (single investor funds) or other structures (investment foundations, structured products, etc.), it shall exercise its voting right in accordance with the directives issued, for example, insofar as it is authorised hereto by the statutes of the structure.
- 6 If, due to the proposals on the agenda, there is a duty to exercise a voting right, the Investment Committee shall decide, upon the request of the Management Board, on how the voting right is exercised. As a rule the Investment Committee passes its resolutions by circular letter within a reasonable deadline set by the Management Board. If members of the Investment Committee do not respond to the proposal of the Management Board within the deadline, their approval of the proposal will be deemed to have been given. The resolutions of the Investment Committee must be unanimous to be deemed valid. If unanimity cannot be achieved the resolution shall be passed by the Board of Trustees.
- 7 The relevant recommendation of the independent consultant on voting rights must be presented to the Investment Committee and, where appropriate, to the Board of Trustees in advance, insofar as a recommendation was requested.
- 8 The Management Board must compile the necessary information and documentation required in order to exercise the voting right and must distribute it to the requisite bodies of Pensionskasse in good time. In the case of registered shares it must also enter Pensionskasse in the relevant share registers as a shareholder with voting rights. The Management Board is also responsible for the timely return of the completed voting documentation to the relevant bodies.
- 9 Securities lending is permitted only insofar as the option of exercising the voting right is not frustrated by this. If the asset management is delegated to third parties, the voting rights shall remain with Pensionskasse.
- 10 Pensionskasse shall provide the insured with a report of its voting behaviour at least once annually. If it does not follow the proposals of the Board of Directors or if it abstains from voting, it must disclose its voting behaviour in detail in the report.

VII. Valuation Principles

Art. 38 Principles

Art. 1 The investments must be valued at market value and/or current value on the balance sheet date. The provisions of Art. 48 BVV2 and/or Swiss GAAP FER 26 must be observed.

Art. 39 Valuation of the assets

- 1 The valuation of the liquid assets, bonds and equity instruments is carried out at market value, including any accrued interest
- 2 In the case of mortgages the effective amount due including accrued interest must be recorded. Any value adjustments necessary are carried out and disclosed in the notes to the financial statements.
- 3 Directly held real estate is recorded at market value. The valuation of a property is carried out where there is a clear requirement for a correction, but at least every three years.
- 4 Alternative investments are recorded at market value. Where appropriate the net asset value calculated in accordance with recognised sector specific principles is used.
- 5 Collective investments are recorded at market value. Where appropriate the net asset value calculated in accordance with recognised sector specific principles is used.
- 6 Derivative instruments are recorded at market value.

VIII. Strategic distribution of assets and risk profile

Art. 40 Pensionskasse Alcan Schweiz (Strategic Two-Way Gliding Path)

As noted in Article 3 and Article 5, the minimum required yield on the assets varies according to the coverage ratio. As the coverage ratio changes, the minimum required yield (or “duty return”) also changes. The investment strategy is therefore adjusted as the coverage ratio increases or decreases, but always with the aim of ensuring that the expected return exceeds the duty return. The table below shows the target asset allocation at various levels of coverage ratio, the expected return and the anticipated volatility for each target asset allocation, and also the duty return for the coverage ratio at the mid-point of each range:¹

Dynamic asset allocation in the case of increasing or decreasing coverage ratios

Asset Classes	Bandwith	-85%	85%+	90%+	95%+	100%+	105%+	110%+	115%+	120%+	125%+
Liquidity	-5%/+10%	4%	4%	4%	4%	4%	4%	4%	5%	6%	8%
Bonds - CHF		10%	12%	14%	14%	15%	16%	19%	28%	37%	46%
ILB - hedged		0%	0%	1%	2%	3%	4%	5%	3%	1%	0%
Senior Secured Loans - hedged		0%	0%	1%	2%	3%	4%	5%	3%	2%	0%
Bonds Gov. FC - hedged		0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Bonds Corp. FC		0%	0%	0%	0%	1%	1%	2%	1%	0%	0%
Bonds Corp. FC - hedged		17%	17%	17%	17%	17%	17%	16%	19%	22%	21%
Bonds EM		4%	4%	3%	3%	2%	2%	2%	1%	0%	0%
Bonds EM - part. hedged		4%	4%	3%	3%	2%	2%	2%	1%	0%	0%
Mortgages	-10%/+10%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Indirect Real Estate	-5%/+5%	26%	26%	25%	25%	25%	24%	24%	24%	23%	22%
Swiss Equities		10%	9%	9%	8%	7%	7%	6%	4%	2%	0%
Equities DM - unhedged		19%	18%	18%	17%	16%	16%	12%	8%	4%	0%
Equities DM - hedged		0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Equities EM	-8%/+8%	3%	3%	2%	2%	2%	0%	0%	0%	0%	0%
Expected Return		2.7%	2.7%	2.5%	2.4%	2.2%	2.1%	1.8%	1.6%	1.2%	0.9%
Expected Volatility		8.0%	7.7%	7.4%	7.2%	6.9%	6.7%	6.2%	5.3%	4.8%	4.5%
Duty Return		4.6%	3.8%	3.1%	2.5%	2.0%	1.5%	1.0%	0.6%	0.2%	-0.1%

The Strategic Glidepath above is a “two-way” glidepath. This means that as the coverage ratio increases the asset allocation is adjusted in accordance with the table above, reducing thereby the expected return and risk. If the coverage ratio decreases, the asset allocation is also adjusted which increases the expected risk and return. If, however, the coverage ratio falls below 95%, the Board of Trustees has to decide if the reduced risk capacity still allows for such an increase in expected risk.

In order to reduce the foreign currency risk, the nominal currencies of bonds, other nominal asset classes and equities are predominantly hedged into CHF. The intended currency exposure depends on the coverage ratio as indicated in the “Gliding Path”. It is generally adjusted on a monthly basis. An exception is made for Emerging Market Bonds that are not denominated in the major currencies (USD, EUR, GBP, CAD, AUD) (reasons: diversification and performance).

By means of the above investment strategy the upper limits pursuant to Art. 55 BVV2 are observed. Since the other relevant investment provisions – Art. 53 to 57 BVV2 – must also be observed, these investment regulations are not deemed to have been expanded.

¹ The coverage ratio as well as the current strategic two-way-glidepath is based on an effective technical interest rate of 2.25% and BVG 2015 (generation tables) for the liabilities of the retirees. For the active insured, the technical interest rate remains at 3%. In the case of a shortfall the coverage ratio is financed on the one hand by higher income from the investments and on the other hand by additional payments (restructuring contributions and contributions from the Contribution Agreement).

IX. Final provisions

Art. 41 Date of effectiveness

- 1 These Investment Regulations supersede the previous Investment Regulations.
- 2 These Investment Regulations come into effect on the 1st of January 2018, in accordance with the resolution of the Board of Trustees of Pensionskasse Alcan Schweiz dated 21nd November 2017.
- 3 These regulations can be amended within the parameters of the statutory directives at any time by the Board of Trustees.
- 4 For non-German speaking employees this translation of the Investment Regulations for Pensionskasse Alcan Schweiz in English language is available. However, the German version of the regulations shall be binding.