

# Responsible Investment Policy

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## 1. Introduction

What does sustainability mean for asset management? What sustainability strategies are there, and how does PUBLICA integrate sustainability into its investments? This document provides answers to these questions and shows how PUBLICA implements this key theme.

## 2. Definition of sustainability

A globally accepted definition of sustainability was formulated by the Brundtland Commission. It states that sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

PUBLICA's main task is to protect against or mitigate the economic consequences of old age, disability and death for its insured members, having due regard to the legal and economic environment (Federal Act of 25 June 1982 on Occupational Old Age, Survivors' and Invalidity Pension Provision BVG/OPA, minimum interest rate, conversion rate, performance of the financial markets). Because it adheres to the Brundtland approach to sustainability, PUBLICA integrates ESG<sup>1</sup> criteria into its investment process, meaning that it explicitly takes account of environmental, social and corporate governance risks when implementing its strategic asset allocations. PUBLICA's approach to sustainability within its investment activities falls under what it terms "responsible investment".

### **Statement 1:**

PUBLICA incorporates sustainability into its investment activities through what it terms a "responsible investment" policy. PUBLICA invests responsibly by integrating ESG criteria into its investment process, meaning that it explicitly takes account of environmental, social and corporate governance issues when implementing its strategic asset allocations.

## 3. PUBLICA's legal mandate and normative basis

### 3.1 Legal mandate

The Swiss Federal Act on Occupational Old Age, Survivors' and Invalidity Pension Provision (BVG/OPA) requires pension funds to invest the assets of their active members and pension recipients responsibly and in their sole interest. In so doing, they should strive to generate a return sufficient to protect active members and pension recipients against the economic consequences of old age, disability and death, while taking appropriate measures to limit risks at all times. They must also ensure that the promised benefits can always be paid out in a timely manner.

The Act and the associated Ordinance (BVV2) provide the legal basis for PUBLICA's investment activity. Article 71 of the Act summarises the essential aspects of the fiduciary management of pension fund assets as follows: "Pension plans shall manage their assets with a view to safeguarding the security of

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<sup>1</sup> ESG = environmental, social and (corporate) governance

their investments, and ensuring a reasonable return, appropriate risk distribution and adequate liquidity to cover their foreseeable requirements.”

The Ordinance codifies these issues as follows (Art. 49 – Art. 53 BVV2):

- The pension institution’s supreme governing body is responsible for the management of investments, ensuring that assets are managed transparently and in a way that takes due account of the risks and returns involved.
- Pension institutions are obliged to protect their ownership rights by exercising their voting rights in respect of companies in Switzerland.
- “Adequate return”: pension institutions must strive to obtain a return that is appropriate to the money, capital and real estate markets.

Further details of the legal aspects are set out in PUBLICA’s Investment Guidelines:

- Assets are to be invested in the interests of the beneficiaries.
- Using appropriate risk limitation strategies, the aim is to generate total returns that safeguard benefits in the long term.
- Investment decisions should also address ecological, ethical and social aspects provided these do not impede fulfilment of the pension objectives.
- Voting rights are exercised in the long-term interests of the insured members, and with a view to ensuring that the enterprise value of the company concerned is maximised over the long term.

On the basis of the legal and regulatory framework, the following statements can thus be made about PUBLICA’s responsible investment policy:

**Statement 2:**

Deliberate forgoing of a market return is not permitted.

**Statement 3:**

Sustainability issues must be taken into account in investment activities if they may have a relevant influence on the safety of or return on investments (risk/return profile). Where the risk/return profiles are comparable, additional ESG criteria may also be incorporated into the implementation of the strategic asset allocations.

**Statement 4:**

PUBLICA actively exercises its voting rights as an owner of Swiss companies and goes beyond the legal requirements by involving foreign companies in the dialogue process.

### 3.2 Normative basis

PUBLICA’s approximately 100,000 active members and pension recipients can be regarded as a representative group of the Swiss population, whose will is expressed in the form of political elections, legislative initiatives, referenda and, finally, in the Federal Constitution and other statutory decrees as well as internationally ratified conventions. PUBLICA therefore refrains from defining and employing its own politically motivated or moral criteria. Accordingly, the key documents used to define sustainability criteria in PUBLICA’s investment activity are:

1. The Swiss Federal Constitution and Swiss legislation, as the foundation of the norms and values accepted in Switzerland.
2. The international conventions ratified by Switzerland, which largely match the 10 principles of the UN Global Compact.

## 4. Implementation of sustainability strategies at PUBLICA

PUBLICA derives its approach to sustainability in its investment activity from its legal mandate and the normative basis (see point 3) and has implemented it since 2015 under the title of “responsible investment”. The integration of ESG criteria into the investment process means that environmental, social and corporate governance issues are explicitly factored into the financial analysis.

The distinguishing features of PUBLICA’s sustainability approach are as follows:

1. It is formulated in a holistic fashion, so that as far as possible all asset classes can be taken into account.
2. It is integrated into and thus forms part of the investment process.
3. It is based on criteria that are as objective as possible.
4. It is transparent and comprehensible.

PUBLICA’s sustainability approach takes account of the sustainability strategies set out in the following diagram:

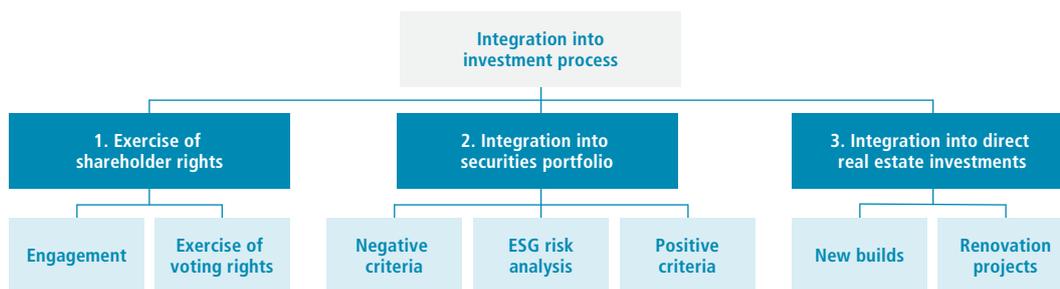


Diagram of PUBLICA’s sustainability strategies

### 4.1 Exercise of shareholder rights

PUBLICA assumes its responsibilities as an owner on two different levels: voting rights in companies listed in Switzerland are exercised, while PUBLICA seeks dialogue (engagement) with selected firms in Switzerland and abroad. By actively exercising its rights as a shareholder, PUBLICA aims in particular to identify dangers at an early stage, so that risks that could result in substantial financial losses to the companies concerned and thus to PUBLICA as co-owner can be avoided.

#### 4.1.1 Exercise of voting rights

PUBLICA actively exercises its voting rights in respect of Swiss companies. PUBLICA’s voting behaviour is geared to the long-term interests of the active members and pension recipients. It is important to ensure that the enterprise value of the company concerned is maximised over the long term. PUBLICA discloses its voting behaviour and publishes it on its website.

A publicly accessible Voting Guideline drawn up by PUBLICA in collaboration with its external voting rights consultant serves as a key reference for the consultant’s recommendations. The Guideline is geared to the principles of correct corporate governance, having regard to the legal basis and a rating system developed by zRating/Inrate ([www.inrate.com](http://www.inrate.com)).

#### **4.1.2 Dialogue**

PUBLICA's voting rights consultant for Swiss shares is also mandated to conduct a dialogue with those companies. Where economically relevant and after consultation with PUBLICA, ESG issues are incorporated by the consultant into the dialogue (engagement) with the companies concerned. Coordinated with and complementing this, PUBLICA seeks dialogue with companies in Switzerland and abroad that are identified as "problematic investments" in the analysis. To this end, a conduct-based screening is carried out on a half-yearly basis in which the shares and corporate bonds held by PUBLICA are reviewed for systematic and serious violations of Swiss law and current international conventions ratified by Switzerland (see point 3.2). The dialogue aims to effect a change in the conduct identified as critical on the part of the companies concerned. The dialogue is conducted over a period of one to three years and is not open to the public. The sale of individual investments is considered as a last resort if, despite repeated dialogue, there is no prospect of a positive change in a company's conduct or if the company is unable, on account of its primary business, to refrain from controversial activities.

#### **4.2 Integration into the securities portfolio**

Integration into the securities portfolio is effected partly by regularly reviewing the investments on the basis of objective criteria and excluding the companies that do not meet the normative requirements (negative criteria, see point 3.2); and partly by annually prioritising risks that are difficult to quantify in the context of ESG criteria and subjecting them to an in-depth analysis ("ESG risk analysis"). This examines risks that could have a significant financial impact on individual companies or sectors. At present, positive criteria are chiefly taken into account directly in the financial analysis, especially where the more illiquid asset classes (such as infrastructure bonds) are concerned. For example, investments in the coal industry are avoided and preference is given to investments in renewables, such as wind farms and photovoltaic installations, where these offer the same risk/return conditions.

##### **4.2.1 Exclusion through "negative" screening**

Screening is designed to ensure that the companies in which PUBLICA invests do not develop, produce, distribute or store products that violate current international conventions ratified by Switzerland or Swiss law (see point 3.2). To this end, a product-based screening is carried out semi-annually to identify companies with undesirable products. PUBLICA attaches importance to the most precise possible interpretation of these "negative criteria" and is guided by the practice of comparable institutional investors in Switzerland and abroad.

##### **4.2.2 ESG risk analysis**

As part of extended risk management, PUBLICA carries out an annual risk analysis according to environmental, social and corporate governance (ESG) criteria to prioritise and then analyse in depth risks that are difficult to quantify and could result in tangible financial losses to the assets managed by PUBLICA. Following the analyses of the prioritised risks, risk-reduction measures are assessed and implemented. On the basis of a climate change analysis, PUBLICA has excluded coal producers from its global equity and corporate portfolios since 2016. In 2017, cyber risks were prioritised and analysed in depth, resulting in operational measures being adopted to further enhance IT security. In 2018 the Investment Committee decided that the in-depth analysis in 2019 should focus on the risks of countries and companies failing to adjust responsibly to climate change, with a view to highlighting their importance to PUBLICA's portfolio. The analysis is to follow on from previous investigations into coal producers and suppliers and will be extended to cover the oil/gas, cement and transport sectors.

### 4.3 Integration into direct real estate investments

Real estate is responsible for around 33% of all CO<sub>2</sub> emissions and around 40% of energy consumption worldwide. PUBLICA's Swiss real estate portfolio is made up of high-quality, mostly recently built properties (three-quarters were constructed after 2000). For direct real estate investments in Switzerland, PUBLICA implements an integrated sustainability strategy. It aims to improve the quality of the portfolio/property in terms of its risk/return profile and ensure optimum economic viability; and, as part of risk management, to apply a forward-looking and holistic view of a property that takes account of economics, ecology and society. The focus is on the economic and environmental sustainability of projects and existing real estate investments. Where economically viable and technically feasible, measures are taken to reduce CO<sub>2</sub> emissions by using energy-efficient heating systems, insulating the building shell or installing alternative energy supply systems. Other aspects, such as power-efficient lighting systems, the use of native flora and raising tenants' awareness of natural resource conservation, are also taken into account.

## 5. External partners

PUBLICA works with external partners to implement its various sustainability strategies.

### 5.1 Inrate

The independent sustainability rating agency Inrate ([www.inrate.com](http://www.inrate.com)) assists PUBLICA in exercising voting rights in respect of companies based in Switzerland. Inrate employs the principles on the exercise of voting rights drawn up by Corporate Governance Agency Switzerland<sup>2</sup> in association with PUBLICA. Inrate engages in regular dialogue with Swiss companies on issues such as energy efficiency, employee health, the composition of the board of directors and remuneration systems.

### 5.2 Swiss Association for Responsible Investments, SVVK-ASIR

The Swiss Association for Responsible Investments, SVVK-ASIR ([www.svkk-asir.ch](http://www.svkk-asir.ch)), aims to assist its members in implementing their sustainability strategies. The Association, which was founded in December 2015 by PUBLICA and six other major investors, has since been joined by a further three large investors.

SVVK-ASIR assists PUBLICA with conduct- and product-based screening and pursues dialogue with global companies on PUBLICA's behalf. In so doing, SVVK-ASIR is guided by the normative basis of PUBLICA's investment activities (see point 3.2).

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<sup>2</sup> Corporate Governance Agency Switzerland (CGAS) was an independent shareholder consultant that was taken over by Inrate in 2017.

## 6. Further development

PUBLICA's "responsible investment" (sustainability) policy and its implementation are continually being refined. PUBLICA aims to use the experience gained and findings obtained to advance all its sustainability strategies. PUBLICA will constantly strive to improve transparency and increase standardisation of data, processes and analytical methods in order that ESG criteria can be better assessed in future and incorporated into the implementation of the strategic asset allocations.

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