

# Responsible Investment Policy

## Table of contents

1.	Introduction	3
2.	PUBLICA's definition of sustainability	3
3.	Legal framework	4
3.1	Legal mandate	4
3.2	Normative basis	5
4.	How PUBLICA implements responsible investment	5
4.1	PUBLICA exercises its shareholder rights	6
4.1.1	Exercising voting rights	6
4.1.2	Maintaining dialogue	6
4.2	Investing responsibly in securities	7
4.2.1	Negative criteria	7
4.2.2	Strategic risk analysis	7
4.2.3	Positive criteria	9
4.3	Responsible direct real estate investment	9
5.	PUBLICA sets itself targets	9
6.	External partners	10
7.	Further development	11

## 1. Introduction

A globally accepted definition of sustainability has been 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.

What does sustainability mean for PUBLICA's asset management, and what sustainability approaches does PUBLICA implement in its investments? This document answers those questions by describing our sustainability principles and outlining the specific actions that PUBLICA has taken.

## 2. PUBLICA's definition of sustainability

PUBLICA uses the term "responsible investment" rather than referring to "sustainability". We invest responsibly by taking account of environmental, social and governance issues when investing our members' assets. This allows us to improve the risk/return ratio over the long term.

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. The latter is made up of various elements, including the Federal Act on Occupational Old Age, Survivors' and Invalidity Pension Provision (OPA), the minimum interest rate, the conversion rate, and the performance of the financial markets. PUBLICA adheres to the Brundtland definition because it takes a long-term perspective. ESG criteria are therefore integrated into the investment process in order to improve the risk/return ratio over the long term. ESG stands for environmental, social and governance. We factor issues drawn from all three areas into our investment activities. When talking about sustainability, PUBLICA uses the term "responsible investment".

### What are ESG criteria?

ESG stands for environmental, social and governance. The following table gives a few examples of criteria for each dimension.

 <b>Environmental</b>	 <b>Social</b>	 <b>Governance</b>
Greenhouse gas emissions	Working conditions	No corruption or bribery
Biodiversity	Human rights	Shareholder rights
Environmental protection	No forced labour	Compliance with laws
Resources	Ban on child labour	Remuneration guidelines
Renewable energies	Education and health	Transparency and communication

### 3. Legal framework

Responsible investment is part of our fiduciary duty of due diligence. The attention we pay to ESG criteria influences the security and profitability of our investments. The law does not permit us to deliberately forgo a market return.

PUBLICA actively exercises its voting rights as owner in respect of Swiss companies and certain companies based abroad, and maintains dialogue with firms in Switzerland and elsewhere. This goes beyond what the law requires us to do.

The normative basis is used to define ESG criteria for controversial issues such as environmental pollution, respect for human rights, corrupt conduct, etc. It is objective and based on Swiss laws as well as international agreements and conventions.

#### 3.1 Legal mandate

The Swiss Federal Act on Occupational Old Age, Survivors' and Invalidity Pension Provision (OPA) requires pension funds to invest the assets of their active members and pension recipients responsibly and in their interests. They should aim to generate a return that allows active members and pension recipients, using their salary contributions to complement their state pension, to maintain their accustomed lifestyle in an appropriate manner in retirement and in the event of disability or death. Pension funds must take 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 (OPO2) provide the legal basis for PUBLICA's investment activity. Article 71 OPA summarises the fiduciary management of pension fund assets as follows: "Pension plans shall manage their assets with a view to safeguarding the security of their investments, and ensuring a reasonable return, appropriate risk distribution and adequate liquidity to cover their foreseeable requirements."

The Ordinance adds further detail on the duty of due diligence (Arts 49–53 OPO2):

- 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 exert their rights as owners by exercising their voting rights in respect of companies in Switzerland.
- "Reasonable return" means that pension institutions must aim to achieve a return that is in line with 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 active members and pension recipients.
- 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.

### 3.2 Normative basis

PUBLICA does not define or employ its own politically motivated or moral criteria, and is instead guided by the will of the Swiss electorate. In principle, this also reflects the will of PUBLICA's more than 100,000 active members and pension recipients in their capacity as voters. The Swiss electorate expresses its will in the outcomes of federal votes on mandatory and optional referendums as well as popular initiatives. The political will also manifests itself in the parliamentary procedural requests forwarded by the Federal Assembly. The criteria for PUBLICA's responsible investment activity are dictated in part by the Swiss Federal Constitution and the legislation derived from it, as well as the international conventions ratified by Switzerland, which largely coincide with the 10 principles of the [UN Global Compact](#).

## 4. How PUBLICA implements responsible investment

PUBLICA adopts different approaches to responsible investment for each asset class, in order to take environmental, social and governance issues into account when investing the assets it holds. We exercise our voting rights, maintain dialogue with companies, screen our portfolio in accordance with positive and negative criteria, and integrate ESG issues directly into the financial analysis of securities and direct real estate investments.

PUBLICA defines its responsible investment approaches in line with its legal mandate and the normative basis. They comply with the following principles:

1. They are formulated in a holistic fashion, so that as far as possible all asset classes can be taken into account.
2. They are integrated into and thus form part of the investment process.
3. They are guided by the normative basis.
4. They are transparent and comprehensible.

PUBLICA takes account of the approaches to responsible investment set out in the following diagram:

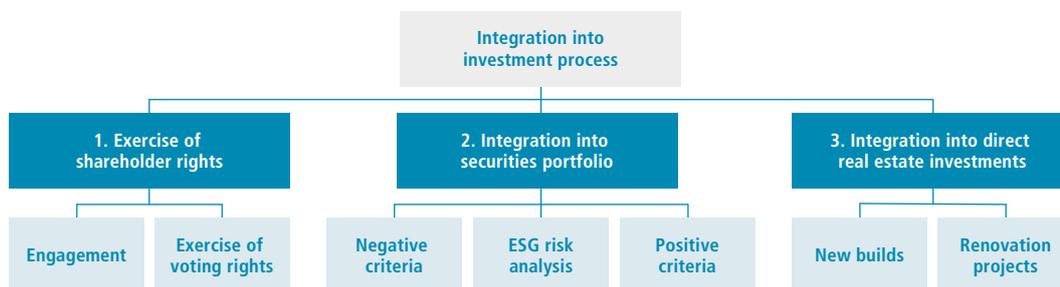


Diagram of PUBLICA's sustainability strategies

## 4.1 PUBLICA exercises its shareholder rights

PUBLICA assumes its responsibilities as owner on two different levels:

- In the case of firms listed in Switzerland and some of those listed abroad, we exercise our **voting rights**.
- In the case of selected companies in Switzerland and abroad, PUBLICA pursues a **dialogue** referred to as “engagement”.

Actively exercising its rights as a shareholder enables PUBLICA to identify dangers at an early stage, and so reduce financial risks while increasing opportunities. Our engagement, in particular, is designed to encourage the companies concerned to move towards more responsible business practices. This often achieves more than simply selling an investment if PUBLICA considers that the company is not acting in a sufficiently responsible manner.

### 4.1.1 Exercising voting rights

PUBLICA actively exercises its voting rights in respect of Swiss companies. As regards firms based abroad, PUBLICA focuses on 150 to 200 whose business activities potentially conflict with the normative basis. PUBLICA's voting behaviour is geared to the long-term interests of the active members and pension recipients, and seeks to ensure that the enterprise value of the company concerned is maximised over the 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 exercise of voting rights in Switzerland and abroad. 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)) which can be viewed at [Inrate](#).

### 4.1.2 Maintaining dialogue

PUBLICA maintains a dialogue with Swiss companies on issues such as energy efficiency, employee health, the composition of the board of directors and remuneration systems. It has instructed the voting rights consultant for Swiss shares to discuss ESG issues with the companies concerned after consultation with PUBLICA, where they are economically relevant. We call this process “engagement”. Coordinated with and complementing this, PUBLICA pursues dialogue with companies in Switzerland and abroad that breach the normative basis. To that end, PUBLICA screens the equities and corporate bonds twice a year for systematic and serious breaches of the normative basis. The dialogue aims to make the company change the conduct that is regarded as critical. In parallel with this, PUBLICA exercises its voting rights in those companies. This strengthens shareholder rights, as exercising voting rights is an additional way to express PUBLICA's concerns. The dialogue is conducted over a period of two to four years and is not open to the public. The sale of individual investments is considered as a last resort if, despite ongoing 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 Investing responsibly in securities

PUBLICA regularly reviews its investments on the basis of **negative criteria** and excludes companies that do not adhere to the normative basis. It also conducts an annual **strategic risk analysis**, prioritises ESG risks that are difficult to quantify, and analyses them in depth. These include risks that could have a significant financial impact on individual companies or sectors. PUBLICA also takes account of **positive criteria**. This leads to certain investments being preferred or companies being overweighted.

### 4.2.1 Negative criteria

PUBLICA does not invest in companies that, through their conduct or their products, engage in systematic and serious breaches of the normative basis. To ensure that this is the case, it conducts a semi-annual screening to identify companies with undesired products or conduct. 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. PUBLICA excludes from its portfolios:

- manufacturers of controversial weapons (anti-personnel mines, cluster munitions and nuclear weapons),
- companies, on the grounds of conduct-based criteria, if efforts to engage in dialogue are unsuccessful, and
- coal-producing companies.

PUBLICA has so far refrained from excluding other fossil fuel companies, preferring instead to maintain a dialogue aimed at helping those companies move into more responsible areas of business. Companies with higher risks arising out of climate change are also significantly underweighted (see box on the climate-efficient equity index on page 8).

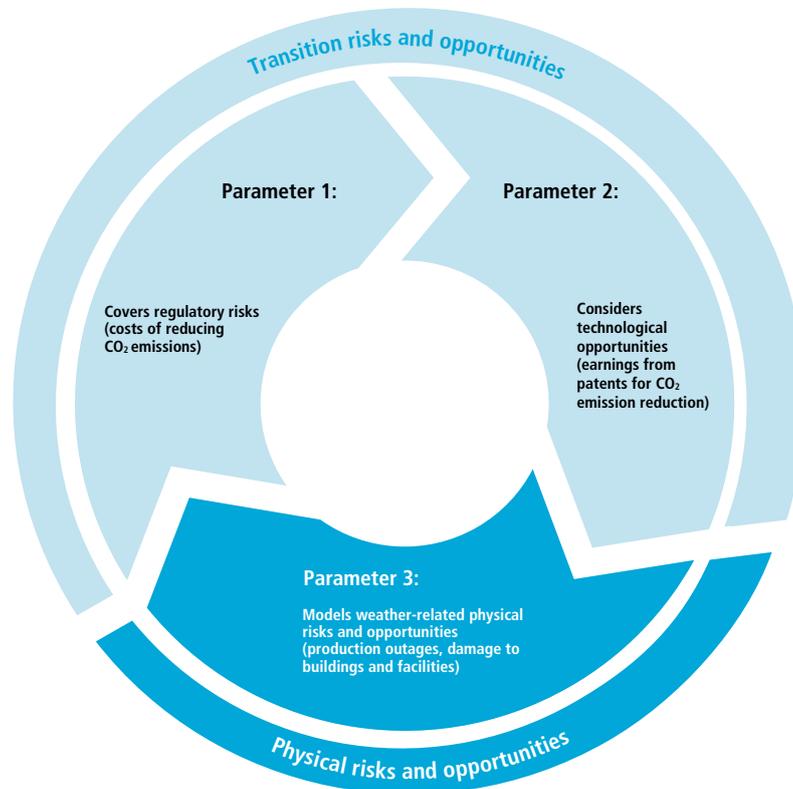
### 4.2.2 Strategic risk analysis

As part of extended risk management, PUBLICA carries out an annual strategic risk analysis according to ESG criteria. Its aim is 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. Based on the results, PUBLICA considers measures to reduce the risks and implements them where necessary. In recent years, PUBLICA has prioritised, analysed in depth and adopted measures to deal with stranded assets (assets which no longer have any value), cyber risks, climate change and the US-China conflict.

One important analysis related to the impact of climate change on assets, which led PUBLICA to define a tailor-made, climate-efficient equity index that it now applies. The CO<sub>2</sub> intensities of the corporate bonds are also being reduced. CO<sub>2</sub> intensity is an indicator of a portfolio's CO<sub>2</sub> footprint and measures how many tonnes of CO<sub>2</sub> or other greenhouse gases a company emits compared with its revenues.

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## PUBLICA's climate-efficient equity index



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PUBLICA uses a tailor-made, climate-efficient equity index licensed by [MSCI](#) to systematically steer climate-related opportunities and risks in its investments, taking account of a range of climate scenarios. The index is based on three parameters:

- **Parameter 1 (transition risks):** The expected costs of taxation of CO<sub>2</sub> emissions over a 30-year period are compared with the company's market capitalisation. This ratio acts as a risk measure for potential regulation to achieve the goals of the Paris Agreement.
- **Parameter 2 (transition opportunities):** This is based on an innovative analysis of almost 100 million patents registered worldwide in more than 400 categories, all of which are aimed at reducing greenhouse gases. The potential earnings over a 30-year period are simulated in relation to the company's market capitalisation. This captures the opportunities that regulation opens up for innovative and adaptable companies.
- **Parameter 3 (physical opportunities and risks):** Changes in climate are increasingly leading to interruptions to business as well as damage to production facilities and office premises. Parameter 3 includes the expected costs consequent on this. Climate-related advantages such as higher crop yields due to milder temperatures are also taken into account. All a company's locations are included when calculating parameter 3.

The three parameters allow investments in companies with negative exposure to be underweighted while overweighting investments in companies that are best prepared for climate risks or have technologies and business models to reduce greenhouse gas emissions. Climate efficiency results from an improvement of up to 50% in each of the three parameters described over the equity portfolio as a whole, without any deterioration in the expected risk/return ratio compared with the original equity index.

Further information on the climate-efficient equity index can be found on [PUBLICA's website](#).

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### 4.2.3 Positive criteria

By taking account of positive criteria, we aim to divert financial flows towards responsible companies and investments while maintaining the same risk/return profile. This strategy is factored into the construction of the climate-efficient equity index, by overweighting companies that have filed patents for processes and products to reduce greenhouse gases, such as renewable energies and energy storage technologies. Fixed-income investments are made in "green bonds". As regards private infrastructure bonds, investments in renewable energies such as wind farms and photovoltaic installations or, in the social category, social housing and medical research centres are preferred.

## 4.3 Responsible direct real estate investment

PUBLICA holds a high-quality portfolio of mostly recently built Swiss real estate. Three quarters of all properties were completed after 2000. PUBLICA also adopts a responsible approach to its direct real estate investments, with a view to improving the risk/return profile of the properties and ensuring that they are as economically efficient as possible. PUBLICA views the real estate asset class from a future-oriented and holistic perspective, as part of risk management that incorporates economic, environmental and social factors. The focus is on the economic and environmental sustainability of projects and existing real estate investments. For example, PUBLICA has defined an ambitious path to reduce CO<sub>2</sub> emissions by replacing heating systems that use fossil fuels such as oil with alternatives such as district heating or heat pumps. Where economically viable and technically feasible, PUBLICA implements further measures such as insulating the building shell or optimising operation. PUBLICA also promotes energy efficiency and renewable energies such as photovoltaic, the planting of native flora, and raising tenants' awareness of natural resource conservation.

## 5. PUBLICA sets itself targets

PUBLICA is committed to constant improvement in terms of responsible investment and has defined climate targets as a first step. The target is to achieve net zero emissions by the end of 2050 at the latest. We continually measure our progress towards the targets and provide reports on it.

For PUBLICA, responsible investment means constantly improving in terms of ESG criteria. That requires a good data basis against which progress can be measured. As a first step, PUBLICA has defined the climate targets set out in the following table. We aim to achieve net zero emissions by 2050 at the latest. Net zero means that all greenhouse gas emissions caused by human beings must be removed from the atmosphere again through reduction measures.

## Quantitative objectives by asset class

2020

	Objective	Proportion of overall portfolio <sup>1</sup>	Status
Equities Switzerland Equities Japan	1. Reduce transition risks by 30% compared with the benchmark 2. Increase transition opportunities by 30% compared with the benchmark 3. Reduce physical risks by 30% compared with the benchmark	5%	Implementation completed in 2021
Equities North America Equities Europe Equities Pacific ex. Japan Equities emerging markets	1. Reduce transition risks by 50% compared with the benchmark 2. Increase transition opportunities by 50% compared with the benchmark 3. Reduce physical risks by 50% compared with the benchmark	22%	Implementation completed in 2021
Corporate bonds US and Europe	Reduce CO <sub>2</sub> intensity by at least 40% compared with the benchmark	9%	Implementation completed in 2021
Real estate Switzerland	Reduce CO <sub>2</sub> emissions by 50% to 4.2kg/m <sup>2</sup> ERA	7%	Implementation by 2035
<b>Total</b>		<b>43%</b>	

<sup>1</sup> As per 2018 Strategic Asset Allocation for the open pension plans

PUBLICA measures its progress towards achieving the targets regularly and provides reports on it. The reporting scheme is revised every year and expanded when needed. The latest reports on the management of climate-related opportunities and risks can be found on [PUBLICA's website](#). SVVK-ASIR's engagement report is available on its [website](#).

## 6. External partners

PUBLICA works with external specialists to implement the various responsible investment approaches.

### Inrate (exercise of voting rights in Switzerland and engagement in Switzerland)

The independent sustainability rating agency [Inrate](#) 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 in association with PUBLICA, which are regularly reviewed and adapted as necessary. Corporate Governance Agency Switzerland (CGAS) was an independent shareholder consultant that was taken over by Inrate at the end of 2017. Inrate discusses a range of ESG issues with Swiss companies on a regular basis.

### [Minerva Analytics \(exercise of voting rights outside Switzerland\)](#)

[Minerva Analytics](#) is a UK-based independent proxy voting agency that operated under the name Manifest Voting Agency prior to 2018 and has been active in the field since 1995. Minerva supports PUBLICA in the exercise of its voting rights in the 150 to 200 companies whose business activities potentially conflict with the normative basis. The Voting Guideline developed together with Inrate is applied.

### [Swiss Association for Responsible Investments \(SVVK-ASIR\) \(negative criteria and engagement in Switzerland and abroad\)](#)

The [Swiss Association for Responsible Investments \(SVVK-ASIR\)](#) 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 further large investors. SVVK-ASIR assists PUBLICA with conduct- and product-based screening and engages in dialogue with global companies on PUBLICA's behalf.

### [MSCI and Carbon Delta \(climate-efficient equity index\)](#)

[MSCI](#) is a US financial service company and a leading provider of indices. Carbon Delta is a Zurich-based fintech company offering climate and financial analyses that was taken over by MSCI in 2019. PUBLICA worked with MSCI and Carbon Delta to develop the climate-efficient equity index, which is licensed by MSCI.

### [Memberships for knowledge sharing and networking](#)

PUBLICA is a signatory to the [Principles for Responsible Investment](#) (PRI) and a member of the [Institutional Investors Group on Climate Change](#) (IIGCC) and [Climate Action 100+](#), and has signed the [Montréal Carbon Pledge](#). These memberships enhance access to expertise and knowledge sharing with other institutional investors.

## 7. Further development

PUBLICA's responsible investment policy and its implementation are continually being refined. Experience and findings will be used to achieve improvements in all areas. PUBLICA will constantly strive to improve transparency and increase standardisation of data, processes and analytical methods in order that ESG issues can be better assessed in future and incorporated into the implementation of the strategic asset allocations.

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