

PUBLICA's Investment Beliefs

1. Mandate

We invest in the interest of our active members and pension recipients. While appropriately limiting risks, we 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.¹ We ensure that the promised benefits can always be paid out in a timely manner.

2. Defining the strategic asset allocations

Strategic asset allocations

The most important decision we take is defining the strategic asset allocations, which prescribe the distribution of assets across the various asset classes, such as equities, government bonds, corporate bonds, commodities and real estate. This accounts for at least 90% of investment performance. The strategic asset allocations are based on PUBLICA's long-term investment policy and are derived from an asset and liability management (ALM) process that takes account of the liabilities and prescribed risk budget of the pension plans within PUBLICA.

Risk budget

We set the risk budget for each strategic asset allocation when conducting our review of PUBLICA's long-term investment policy. This sub-process takes account of the pension plans' financial and structural risk capacity, the benefit objectives, the perennity of the employers, and the risk tolerance of the risk-bearing entities. When defining the risk budget, we currently use the Conditional Value at Risk (average of the 5% worst scenarios) and the target return.

Investment horizon

Our liabilities are long-term, since the expected liquidity requirement in the event of a partial liquidation is low. This enables us to exploit the benefits of a long-term horizon (for example tolerating short-term fluctuations in value and capturing illiquidity premiums), especially where the open pension plans are concerned. In the ALM process we employ a strategic horizon of 10 years. Since risk premiums are cyclical, we review the key assumptions of the ALM process (in particular the risk/return assumptions for each asset class and the development of the funded ratio) annually. If this reveals that material assumptions have changed substantially compared with the previous ALM study, the entire review of the strategic asset allocations is started afresh.

Diversification

We capture a range of risk premiums that are as independent of each other as possible, limiting our selection to systematic risk premiums that can be captured over the relevant investment horizon. This diversification allows us to optimise the risk/return profile of the portfolio as a whole.

Portfolio construction

A portfolio is more than the sum of its parts, because the various asset classes behave differently. For that reason, we examine each asset class and portfolio component not just in isolation but also, and in particular, in terms of its contribution to overall risk and return.

¹ Swiss Federal Constitution Art. 113 para. 2 let. a "the occupational pension scheme, together with the Old-age, Survivors' and Invalidity Insurance, enables the insured person to maintain his or her previous lifestyle in an appropriate manner".

Investment decisions

We base our investment decisions on sound data and recognised scientific principles. In the ALM process we use realistic, well-founded risk/return assumptions for the individual asset classes.

Responsible investment

We invest responsibly by integrating ESG criteria into the investment process, meaning that environmental (E), social (S) and governance (G) issues are explicitly taken into account when implementing the strategic asset allocations. Factoring in those criteria in addition to traditional financial indicators can potentially have a positive impact on investment returns over the long term and also improve risk management. Responsible investment is a constantly evolving process. PUBLICA's current sustainability approach is published at [publica.ch > Investments > Responsible investment](https://publica.ch/Investments/Responsible-investment) and has the following characteristics:

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.

3. Implementing the strategic asset allocations

Transparency

We aim to construct a portfolio that is cost-efficient and transparent. We do not make investments in non-transparent products. This means we have a detailed overview of all the assets in the strategic asset allocations at all times.

Benchmark

To enable us to assess the performance of the internal and external asset managers objectively, we define a benchmark for each asset class that provides the most efficient representation of the desired risk/return profile from the perspective of the strategic asset allocations.

Investment style

We believe that identifying asset managers who, after costs are taken into account, systematically outperform an efficient and liquid benchmark by means of active investment decisions carries little prospect of success. For this reason, our internal and external asset managers make investments in liquid asset classes in line with or close to an index. In the case of more illiquid asset classes (e.g. private markets) we pursue a "buy and maintain" approach, whereby investments are geared to long-term investment objectives and managed accordingly.

Selection of asset managers and form of implementation

The same stringent requirements apply to both internal and external asset managers. PUBLICA selects the most capable partners for each asset class on the basis of a clearly structured process. Where possible, a fallback solution is put in place for each asset class. This approach means that another asset manager can step in promptly if required.

Tactical asset allocation and disciplined rebalancing

We make tactical decisions, i.e. temporarily overweighting and underweighting relative to the strategy, with a view to generating added value (a higher net return or lower risk) over the medium term.

4. Monitoring the strategic asset allocations

Risk management

We identify, measure, monitor and manage risks and returns for the assets of each strategic asset allocation as a whole. Internal and external parties ensure that invested assets are managed in accordance with the specifications. We minimise risks that are not compensated by a premium.

Management information strategy

We ensure that those responsible are provided with meaningful information relevant to the performance of their management tasks.

5. Best governance

Governance

We separate advice, decision-making and controlling in order to avoid conflicts of interest wherever possible. We apply the four-eyes principle. Clear and transparent management and decision-making processes generate added value. The Board of Directors bears overall responsibility for asset management. It issues the Investment Guidelines and strategic asset allocations. Its detailed remit is set out in the [Investment Guidelines](#).

People

Our investments are managed by experts who meet stringent professional requirements and demonstrate respect, integrity and loyalty. A willingness to learn, diversity and constructive collaboration within and between teams are essential to success in changing circumstances.

Transparent communication

Active members and pension recipients can obtain information at any time. Our website and member portal offer transparent and easy-to-understand information about our investment policy.