Sustainability Report 2023

asga pensionskasse

As a pension fund, we think in generations. The sustainability of our investments and our organisation is not just part of our day-to-day work for us, but also a fundamental pillar of our long-term success – and thus of secure pensions for our insured beneficiaries.

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asga
pensionskasse

Cover image:
Photovoltaic system on
Asga's roof in St. Gallen.

Foreword

Stefan Bodmer,
Chairman of the Board of Directors

Dear reader

I am delighted to present Asga Pensionskasse's third Sustainability Report, which I hope you will find insightful.

A degree of calm has returned to the debate surrounding the sustainability of pension funds. In a 2023 study on occupational benefits institutions, the Institute of Financial Services Zug (IFZ) even stated that the importance of the topic in terms of choice of collective/common pension institution had diminished. Indeed, the exercising of voting rights – a criterion likewise closely associated with the topic of sustainability – is considered "not very important". Within this assessment, however, differences exist depending on the size of the occupational benefits institution. By comparison, large institutions assign significantly greater importance to the sustainability of asset management as well as to the active exercising of voting rights.

How should this assessment be interpreted? Is sustainability being relegated from hype to inconvenient secondary theme?

Of course not! The topic of sustainability is here to stay. At Asga we retain our strong interest in sustainability on behalf of our members, and in particular our newly affiliated companies. However, the study does reveal something very important: Sustainability is complex topic to analyse as well as to implement. It is not possible to treat it as a subsidiary matter. From a pension fund perspective, resources need to be allocated. Asga Pensionskasse currently has around 1.5 full-time equivalents professionally involved in the topic. It is therefore understandable that the implementation of sustainability can be a challenging business for smaller pension funds. There are fears that this topic, too, will lead to a further concentration of providers, and that this will be detrimental to the degree of diversity within the occupational benefits industry over time.

In the interests of simplification and comparability, we therefore welcome every step towards the definition of standards. The key figures contained in this year's Asga Pensionskasse Sustainability Report are also published in accordance with the //ASIP ESG reporting standard.

In 2023, we once again worked systematically on the implementation and further refinement of our sustainability strategy: The specified climate targets in the form of the reduction path were all achieved in 2023. Since the fourth quarter of 2020, this has amounted to -35% and -43% in the case of equities and bonds respectively. We expanded our climate policy to cover emerging-market corporate bonds while also extending the sustainability policy to include the infrastructure investment category.

So what does 2024 have in store for us? We will be pressing ahead with the decarbonisation of the existing portfolios of foreign equities, Swiss franc bonds, foreign-currency corporate bonds and directly owned, self-managed Swiss real estate, as well as extending our sustainability policy to cover the private equity and indirect real estate investment categories.

Finally, we are already looking ahead to 2025. The Board of Directors will be dealing with future objectives, in particular the ongoing CO_2 reduction path.

I hope you will find our Sustainability Report an inspiring read.

Stefan Bodmer,
Chairman of the Board of Directors

Sustainability at Asga: ongoing implementation and extended coverage

> "In 2023, we successfully implemented our sustainability policy and made further progress on its development."

Asga's sustainability policy has been in place since 2020. It was approved by the Board of Directors, is enshrined in Asga's investment rules, and is periodically updated in order to manage the evolution of our sustainability implementation. In 2021, we published the first edition of our Sustainability Report to provide appropriate transparency in relation to our principles and activities.

We now have a standardised proposal for reporting in the form of the //ASIP ESG reporting recommendation. In this year's report we have therefore sought to report on our activities based on the >sustainability policy defined by the Board of Directors, but also to take into account the requirements specified in the //ASIP recommendations.

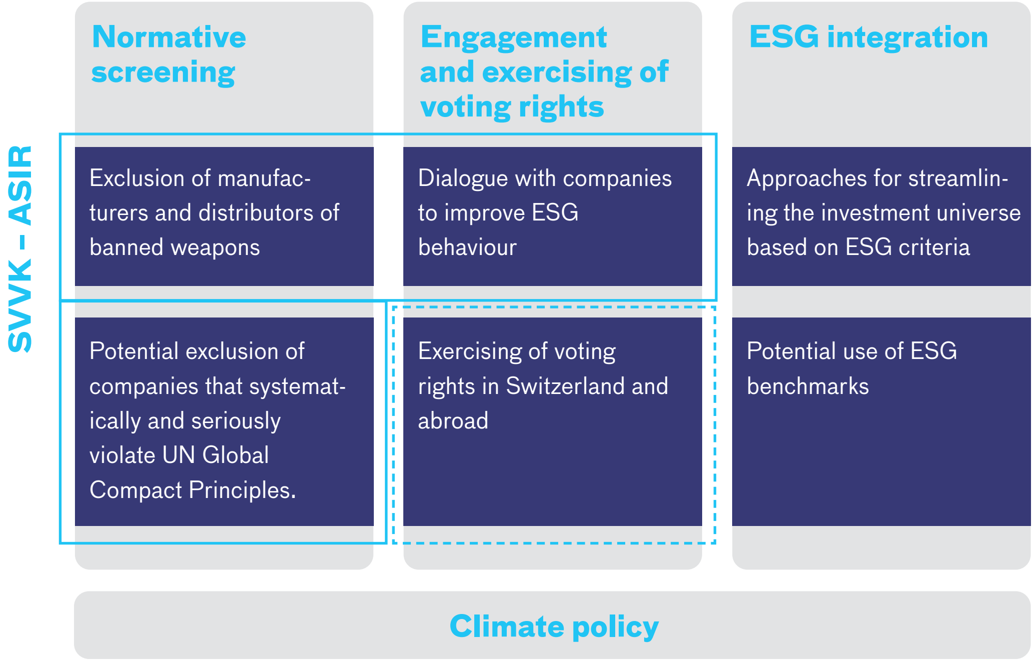
In this Sustainability Report, we show the progress we made in implementing sustainability in the 2023 reporting year, and provide information about the other developments that have been decided.

Asga's sustainability efforts are organised on a thematic basis across various different pillars (see illustration). We are confident that our approach incorporates the sustainability criteria in a positive manner yet makes no compromises with regard to the potential risks and returns associated with our investment strategy over the long term.

In 2023 we once again successfully implemented our sustainability strategy based on the objectives set and achieved further progress with development, in particular the integration of other implementation themes in the following investment categories:

- **Extension of sustainability policy to cover (corporate) emerging-market bonds:** In the case of the asset class emerging-market bonds, we now exclude coal companies as part of the climate policy for corporate bonds in addition to normative screening. A decarbonisation target is desirable in the long term, but due to the particular challenges involved in obtaining data (low coverage, high proportion of estimates rather than reported key data) it cannot be implemented on a reliable basis at present. In addition, the high proportion of government and quasi-government authorities as issuers makes it difficult to derive traditional decarbonisation targets.

Asga sustainability policy



Normative screening	Engagement and exercising of voting rights	ESG integration
Exclusion of manufacturers and distributors of banned weapons	Dialogue with companies to improve ESG behaviour	Approaches for streamlining the investment universe based on ESG criteria
Potential exclusion of companies that systematically and seriously violate UN Global Compact Principles.	Exercising of voting rights in Switzerland and abroad	Potential use of ESG benchmarks

Climate policy

- **Extension of sustainability policy to private market investments (infrastructure):** In terms of the infrastructure investment category, our emphasis is on a significant broadening of requirements as part of the sustainability policy. Based on the normative screening, the SVVK – ASIR exclusion recommendation for operating companies from countries subject to sanctions is applied. With ESG integration, we now require the signing of the PRI initiative not only at multi-manager level, but also in terms of underlying target fund managers. At the same time, the dialogue with our multi-managers is also being increased, and greater transparency is required with regard to key sustainability figures for the investments. The climate policy involves other factors that also apply to infrastructure investments: First, the exclusion of coal investments (climate risk) and manager dialogue on environmentally related themes (climate dialogue) are required here too. Second, the infrastructure category is a suitable way to implement a holistic sustainability strategy: Infrastructure investments directly allow a focus on energy transition. For that reason, we specify a target allocation for climate-focused investment in future infrastructure investments. This is examined in greater detail in the «Focus area» segment.

While all investment categories are covered by the sustainability policy in principle, not all sustainability themes can be implemented equally successfully. The following overview shows the current status of our sustainability activities:

■ Currently being implemented
▧ Implementation being considered
□ No implementation currently
▒ Implementation not possible

as at 31.12.2023		Sustainability policy				Climate policy	
	Strategic weighting Asset allocation	Norm-based screening (SVVK – ASIR)	Exercising of voting rights (including climate universe)	Engagement (including climate engagement)	ESG integration (PRI)	Climate risk (exclusion of coal)	Climate impact (CO_2 reduction path)
Government bonds CHF / emerging markets	7.2%	■	▒	□	■	□	□
Corporate bonds CHF / developed countries / emerging markets	19.3%	■	▒	■	■	■	■□
Mortgages	2.0%	■	▒	▒	■	▒	□
Swiss/foreign equities	31.5%	■	■	■	■	■	□■
Directly owned, self-managed Swiss real estate	9.0%	▒	▒	▒	□	▒	■
Other real estate categories	15.5%	▒	▒	□	■	▒	▧
Infrastructure	4.0%	■	▒	■	■	■	■
Private equity	2.5%	▧	▒	▧	■	▧	▧
Senior loans, drawdown management portfolio	7.5%	■	▒	□	■▧	□	□

Not shown: Liquidity 1.5%

Sustainable development at Asga – a timeline

2013

Exercising of voting rights on Swiss equities

2019

Development of sustainability policy (implemented 2020)

Sustainability guidelines serve as complement to Asga Code of Conduct

2020

Joined //SVVK-ASIR

Development of voting rights policy, including expanding the exercising of voting rights to international equities (implemented 2021)

2021

Development of climate policy

Implementation of climate policy for foreign equities and Swiss equities (partial)

2022

Development of climate policy for CHF bonds and foreign-currency corporate bonds

Expansion of exclusions list to countries

Expansion of engagement efforts via SVVK – ASIR

Development of operational ecology, including ClimatePartner certification

2023

Development of climate policy for emerging-market bonds (corporate bonds)

Development of sustainability policy for infrastructure

2023 reporting year: continued positive trend

> "As an active shareholder, we seek dialogue on selected companies and exercise our voting rights"

Norm-based exclusions (negative screening)

Our guidelines

Asga does not invest in companies whose business activities comprise the production, storage or distribution of banned or nuclear weapons. Companies which through their business activities systematically and seriously violate the principles of the UN Global Compact and do not show any progress as a result of engagement will not be included in Asga's investment universe. Furthermore, Asga does not hold securities of countries subject to Swiss sanctions as per the //Embargo Act.

When implementing norm-based exclusions, Asga relies on the exclusion recommendations of the //SVVK – ASIR. As an SVVK – ASIR member, Asga is involved in drawing up the exclusions list. The latest >exclusions list is available on the SVVK – ASIR website.

The exclusions recommendations include companies which, due to the nature of their product – prohibited weapons, for example – are not permitted at all, or which, due to their negative behaviour – a systematic violation of human rights, for example – cannot be made to change their business practices through engagement.

Four companies were added to the SVVK – ASIR exclusions list in 2023:

- Bolloré SA, France (media, behaviour-based)
- China Energy Engineering Corp. Ltd., China (construction and engineering, behaviour-based)
- KSB Ltd, India and KSB SE & Co. KGaA, Germany (industrial machinery, product-based)
- The Chemours Co., USA (chemicals, behaviour-based)

Compared with 2022, when two companies were removed from the exclusions list following positive engagement, there were no recommendations for removal in 2023. At present, 28 companies are recommended for exclusion.

By contrast, exclusion recommendations for countries subject to sanctions have remained the same. This has no bearing on Asga, as the countries concerned do not in any way overlap with our investment universe. At present, 12 countries are recommended for exclusion.

At Asga, the impact of the norm-based exclusions list is confined to three investment categories and remains minimal from an overall perspective:

Investment categories with normative exclusions	% of benchmark index as at 31.12.2023	% category weighting in asset allocation
Foreign-currency corporate bonds	0.14%	6.0%
Emerging-market bonds	0.72%	3.5%
Foreign equities	0.22%	21.5%

Active shareholder (exercising of voting rights and engagement)

Direct implementation of equity investments enables Asga to exercise the voting rights attached to its equity investments in the way it chooses. When exercising voting rights, we take into account the recommendations of an external voting rights advisor. When doing so, Asga is guided by predefined guidelines with a specific sustainability relevance. We apply an additional recommendation from another external voting rights advisor to the companies we engage with.

In 2023, Asga cast its vote on 116 Swiss equity investments at 121 shareholder meetings and on 404 foreign equity investments at 451 shareholder meetings. Additional key statistics on our voting record can be found in the Annex.

In the case of five companies, we cast our vote against the recommendation of the primary voting rights advisor and followed the recommendation of the engagement-oriented voting rights advisor in order to lend weight to the engagement currently under way. In such cases, we seek advice from Asga's Voting Rights Committee on how to proceed.

Engagement with investee companies is coordinated by the SVVK – ASIR. With the shared goal of positively influencing the sustainability aspects of companies, we achieve greater reach and a systematic process thanks to discussions with like-minded investors. This dialogue extends across all areas of ESG, i.e. environment, social and governance.

The engagement undertaken via the SVVK – ASIR was further extended in 2023 to cover 170 cases at 136 companies.

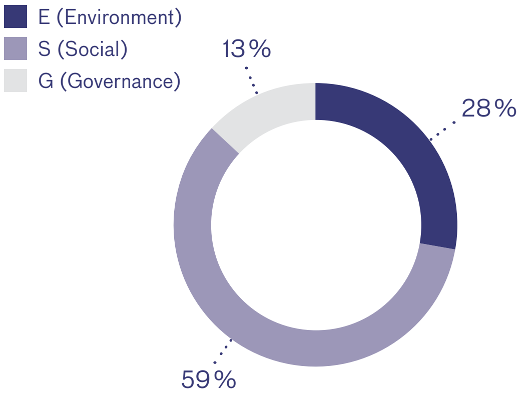
Our guidelines

As a responsible investor, Asga exerts influence by actively engaging with companies on ESG topics and exercising its voting rights. Voting rights are exercised in the long-term interests of our insured members.

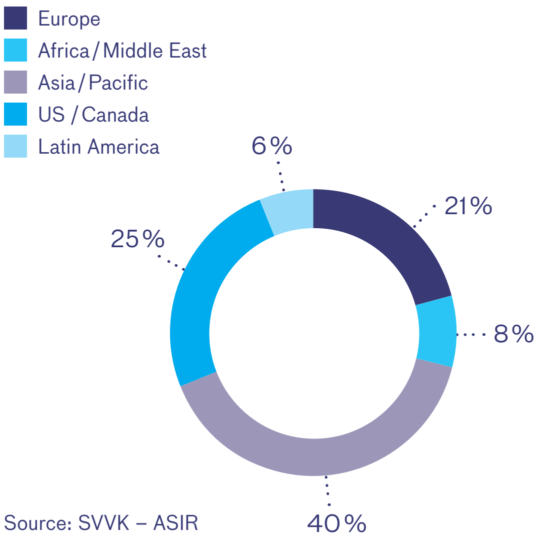
Voting rights are exercised in a legally compliant manner in the case of all Swiss stock corporations. Internationally, we exercise our voting rights at the 300 largest equity investments and the stock corporations with which we engage.

Systematic dialogue with companies where we wish to steer activities in a more sustainable direction is undertaken via discussions with other investors.

Thematic breakdown



Regional breakdown



Source: SVVK – ASIR

Engagement with companies was successfully concluded in nine cases in the 2023 reporting period:

Engagement cases concluded by SVVK – ASIR

3M Co.
Environmentally harmful activities, human relations policy

AMP Ltd.
Consumer interests

Barclays PLC
Business ethics

BRF SA
Consumer interests, human relations policy

JBS SA
Bribery and corruption

Johnson & Johnson
Quality and security

Rio Tinto Ltd
Community relations – indigenous peoples

Stryker Corp.
Quality and security

Toshiba Corp
Accounting and taxes

Via the SVVK – ASIR, Asga is involved in direct dialogue with Swiss eyecare specialist Alcon. A case study on the development of this dialogue can be found in the separate text on p. 21, or on the >SVVK – ASIR website.

Via the SVVK – ASIR, Asga supports multiple initiatives in addition. These initiatives give Asga broader coverage as well as the ability to conduct a systematic, credible dialogue with companies. General information on the stewardship strategy can be found >here.

Indirect initiatives via SVVK – ASIR	Main focus
Climate Action 100+	Climate
Farm Animal Investment Risk & Return (FAIRR)	Biodiversity
Nature Action 100	Biodiversity
PRI Advance	Human rights
Council on Ethics	Human rights at major tech firms

Asga engages with companies across all three ESG areas

Environment

- Contamination and pollution
- Controversial large-scale projects
- Deforestation
- Climate change
- Loss of biodiversity

Social

- Involvement in violations of rights by countries
- Security of products and services
- Violation of rights of local population
- Fundamental labour rights and workplace safety
- Child labour

Governance

- Accounting and taxes
- Bribery and corruption
- Consumer interest
- Governance
- Money laundering

Source: SVVK – ASIR, examples – not an exhaustive list

ESG integration
(sustainability efforts on the part of mandated external asset managers)

Over 80% of Asga's total assets are managed by externally mandated asset managers. Asga requires its external asset managers to be signatories of the Principles for Responsible Investment ("PRI"). The aim of this initiative is to promote the integration of environmental, social and governance (ESG) factors in investment decisions and practices. Asset managers that join the PRI initiative voluntarily commit to incorporating the six principles into their investment practices.

The six Principles for Responsible Investment (PRI)

1 We will incorporate ESG issues into investment analysis and decision-making processes.

2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4 We will promote acceptance and implementation of the Principles within the investment industry.

5 We will work together to enhance our effectiveness in implementing the Principles.

6 We will each report on our activities and progress towards implementing the Principles.

Source: PRI

Our guidelines

ESG criteria are taken into account in Asga's investments. Asga is focused on regular dialogue with its mandated asset managers, and specifies minimum requirements with regard to the choice of external asset managers.

At present, 99% of externally managed investments are handled by asset managers that are signatories of the PRI and meet our minimum standards. The external asset managers follow their own sustainability guidelines, based on which client funds such as those of Asga are invested. When selecting asset managers, Asga takes account of these principles and evaluates the underlying processes. We are increasingly extending mandate reporting by external asset managers to ESG criteria and sustainability activities with the aim of obtaining a better understanding at Asga level of how our assets are managed and in order to ensure ESG integration.

Sustainable bonds

Green, social, sustainability and sustainability-linked (GSSS) bonds are increasingly gaining a foothold on global markets. More and more investors are endeavouring to bring their portfolios in line with their financial objectives as well as internationally recognised sustainability principles such as the Paris Agreement and the UN Sustainable Development Goals (SDGs). They are part of the growing sustainable finance space, and are helping to support the transition to a more sustainable economy.

At the end of 2023, Asga's portfolio comprised GSSS bonds amounting to around CHF 450 million (approximately 6.5% of its bond investments.)

Climate policy

Our guidelines

With the >climate policy, climate-related risks are recognised as part of our fiduciary duty. Furthermore, by implementing its climate policy Asga makes an active contribution to the fulfilment of Switzerland's long-term climate target – as required under the //Paris Agreement – of developing a sustainable, CO_2-free economy. The Paris Agreement aims to limit global warming in the period to 2050 to well below 2 degrees, and to make finance flows climate-compatible.

We monitor //transition risks and //physical risks that arise as a result of climate change. To mitigate risk, we exclude coal companies based on various metrics (including >10% of sales). In addition, we measure and mitigate the //CO_2 intensity of international equities and corporate bonds (CHF and foreign currencies) in accordance with the defined reduction path of 5% annually. As for directly owned, self-managed real estate, //CO_2 intensity is likewise being reduced by 4% annually on a step-by-step basis. Monitoring is conducted on the basis of interim targets.

Coal companies are frequently considered to be particularly harmful to the climate due to their high CO_2 emissions and the environmental impacts of coal mining. Asga excludes such companies from its permitted investment universe if their coal revenues exceed a threshold of 10%.

Share and number of excluded coal stocks/issues in the respective category benchmark indices:

	CHF bonds		**Foreign-currency bonds**		**Emerging-market bonds**		**Swiss equities**		**Foreign equities**	
	in % Benchmark index	# Emissions	in % Benchmark index	# Emissions	in % Benchmark index	# Emissions	in % Benchmark index	# Security	in % Benchmark index	# Security
31.12.2021	0.20%	5	3.43%	689	No implementation		–	–	2.75%	103
31.12.2022	0.20%	5	3.23%	697			–	–	3.04%	108
31.12.2023	0.20%	3	3.11%	697	0.77%	110	–	–	2.84%	114

Source: MSCI

In line with the other liquid investment categories, the focus on climate risk is now being implemented in the case of emerging-market corporate bonds too. Application of the same tolerance threshold in the case of emerging-market corporate bonds results in around 5% of companies being excluded from the universe, which in terms of the category as a whole (including government bonds and //quasi-government bonds) equates to a figure of less than 1%. In number terms it involves over 100 securities – mainly from Asia and Latin America.

By excluding coal companies, the Asga portfolio had a marginally positive return effect for 2023 – particularly in the case of the foreign equities investment category.

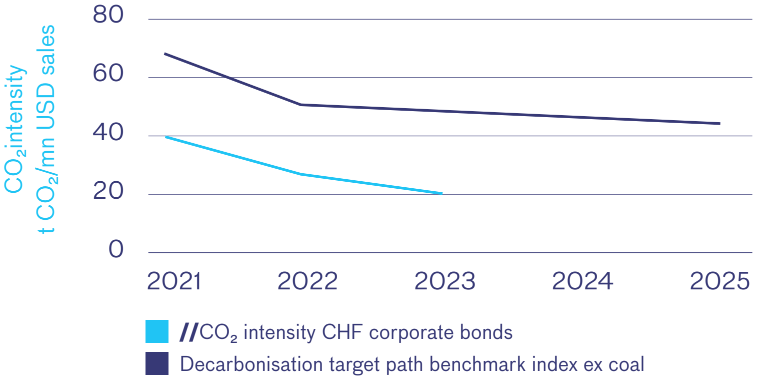
Securities

To decarbonise the portfolio, Asga specifies a //CO_2 intensity reduction path of 5% annually for its external asset managers in the corresponding investment categories. The reduction path for securities investments is currently implemented in the case of foreign equities, foreign-currency corporate bonds and CHF corporate bonds. At the time of inception this was based on the respective //benchmark index; going forward, however, the reduction path will be independent of the benchmark. Asga is accordingly pursuing an absolute decarbonisation target in order to stay focused on the Paris Agreement.

The weighted //CO_2 intensity of the investment categories where we measure emissions and implement a reduction target is continuing to fall every year and in some cases is significantly below the specified path. Asga therefore comfortably achieved the decarbonisation targets in 2023.

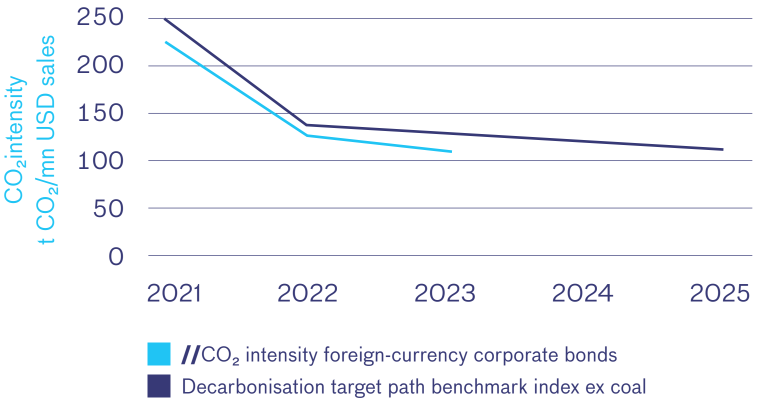
Our five-year sustainability strategy, which runs until 2025, is reviewed on a regular basis. Asga does so on the basis of commonly used frameworks, which is intended to gain access to the required best-practice methods and draw attention to upcoming challenges.

CHF government bonds – decarbonisation target for period to 2025



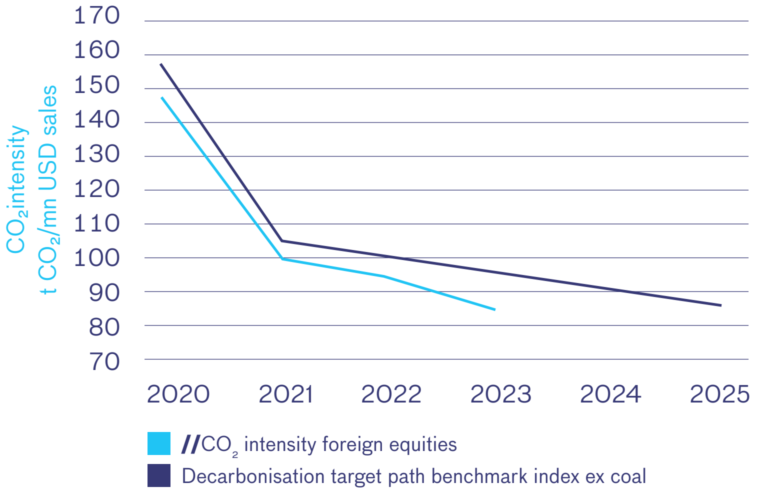
Source: ISS

Foreign-currency corporate bonds decarbonisation target for period to 2025



Source: ISS

Foreign equities – decarbonisation target for period to 2025



Source: MSCI

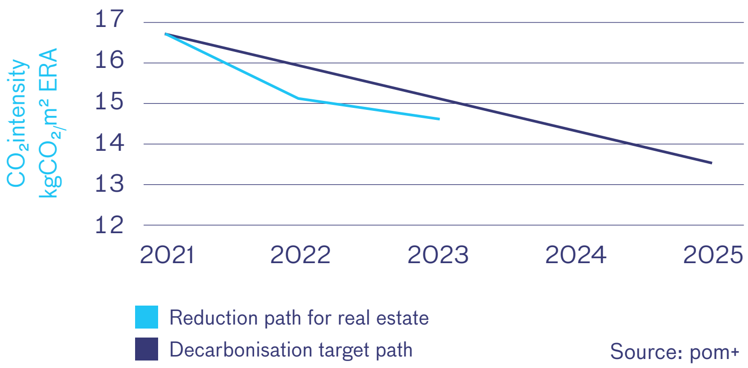
Charts: Decarbonisation path for CHF corporate bonds (top) and foreign-currency corporate bonds (centre), foreign equities (bottom) The kink is explained by the implementation of the decarbonisation-induced coal exclusion, which led to a corresponding one-time reduction in //CO_2 intensity and adjustment of the target path.

Swiss real estate, directly owned (self-managed)

In 2023, specific optimisation measures (addition of three heat pumps and one district heating system), together with the transactions that took place during the year (property purchases and sales), led to a reduction in the intensity of greenhouse gas emissions. This enabled Asga to maintain the trend towards an annual reduction in //CO_2 intensity. With an intensity of 14.6 kg/m^2 //ERA, Asga is close to its target of 13.5 kg/m^2 //energy reference area (ERA) for the end of 2025. Since the target was set at the end of 2021, the //CO_2 intensity of Asga's properties was reduced from 16.7 kg/m^2 to 14.6 kg/m^2 as at the end of 2023, easily meeting the annual 4% reduction target.

Asga simultaneously became a member of REIDA and – based on its self-managed, directly owned Swiss real estate portfolio – participated in the first-time publication of REIDA's CO_2 benchmark.

Directly owned, self-managed real estate – decarbonisation target for period to 2025



Source: pom+

Operational ecology

Together with consultancy firm ClimatePartner, Asga has been calculating its annual corporate carbon footprint (//CCF) since 2021. This represents the total CO_2 emissions that the company has caused in a specified period within the defined system limits. The aim is an annual reduction in the CO_2 footprint in the interests of protecting the climate.

In 2023, the following measures had a positive impact:

- Scope 1: Replacement of cooling system at St. Gallen head office
- Scope 2: Switch to green electricity from mid-2022 (due to accounting periodicity, half of the impact occurs in the 2022 financial year and half in the 2023 financial year)
- Scope 3: No measures were taken: The change is due to renovation work at the St. Gallen head office, with a significantly higher proportion of working from home by employees (November 2023 to March 2024; impact will therefore be felt in 2024 too).

Due to uncertainty in the validity of //climate protection projects in the reforestation and forest protection areas, Asga has decided to continue compensation in other areas. Our //compensation projects for 2023 can be found under our >climate ID.

Asga's corporate carbon footprint:
//Corporate carbon footprint 2023

tCO_2	2022	2023	% change
Scope 1	18.1	8.9	-50.8%
Scope 2	17.9	10.8	-39.7%
Scope 3	240.9	183.7	-23.7%
Total	**276.9**	**203.4**	**-26.5%**

Source: ClimatePartner

Why isn't the "climate-neutral" label used?

ClimatePartner states that: "ClimatePartner has been supporting companies in their climate action for almost 20 years. To that end, ClimatePartner offers a range of solutions, including – in the past – the "climate-neutral" label. The use of qualifying statements in connection with environmental labels, e.g. sustainable, recyclable or climate-neutral, are nevertheless coming under increasing criticism because they lack binding definitions. NGOs and the media are criticising companies for the way in which they communicate on climate protection, resulting in uncertainty. At the same time, companies need to make a contribution to the 1.5 degree target.

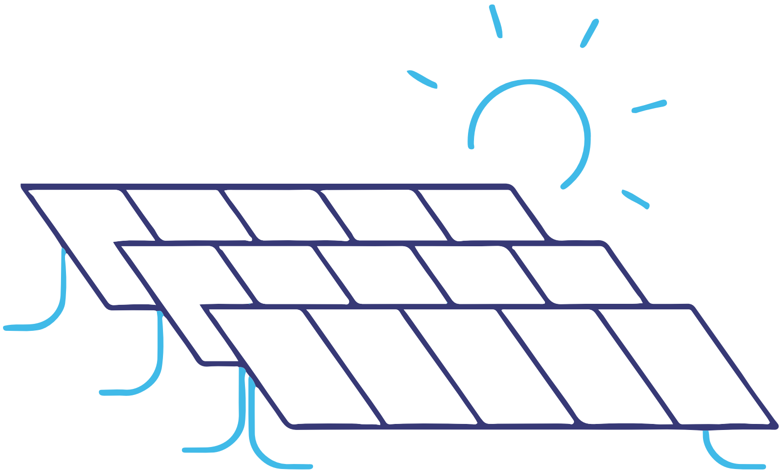
The "ClimatePartner certified" label makes companies' climate protection strategy transparent – from carbon footprint through reduction targets and achieved reduction to financial support for //climate protection projects worldwide. As a result, the process developed by ClimatePartner for achieving the label ensures that companies implement climate protection comprehensively."

Focus area: sustainability of private market investments – infrastructure case study

> "Under the Paris Agreement, signatory countries are required to strengthen their efforts towards achieving a greener energy policy."

The challenge of private markets

For institutional investors that invest in private markets and – like Asga – implement several different mandates, the aggregation of sustainability results is difficult to implement, because the data is not independently available or publicly accessible. This lack of transparency makes it difficult for investors to understand the actual ESG opportunities and risks of their portfolios and to ensure that their investments are in line with long-term sustainability targets. Firstly there is a dependence on the managers for the availability of data, and secondly the key figures are not sufficiently standardised. Often the investor only receives anecdotal sustainability results (highlights) from the managers, which they can then use for their own reporting. At the same time, the investor has to make do with the comprehensive corporate sustainability reports of the fund managers, which in turn illustrate more investments than those of the investor. New initiatives such as the EDCI (ESG Data Convergence Initiative) are aimed at bringing about a more systematic approach and introducing uniform reporting standards. This opens up new opportunities for the end-investor. The EDCI already includes over 300 asset managers. For Asga, the aggregation of standardised ESG indicators across multiple mandates should soon be possible.



Sustainability policy in relation to infrastructure investment category

Asga began extending its sustainability policy into private markets in 2023. The first investment category was infrastructure, which has a strategic weighting of 4.0% of the total assets – equivalent to around CHF 1 billion. In 2024 the conceptual focus will be on private equity.

With an average investment term of 15–20 years, infrastructure investments are among the longest-term investments in our portfolio. Consideration of the risks – including sustainability risks – across this investment horizon is correspondingly important. There are also clear opportunities – in particular taking into account the various political projects: What began with the //Green Deal (2019) in Europe was amplified in the US by the //Infrastructure Investment and Jobs Act (2021) and the //Inflation Reduction Act (2022). But countries such as China, Japan, the UAE and many others have also set up similar government programmes with a total investment of over USD 4,000 billion. Switzerland also has a Climate Act (2023), which primarily focuses on real estate and local industries.

Under the //Paris Agreement (2015), the signatory countries (including Switzerland since 2017) are required to step up their efforts towards achieving a greener energy policy. Since then, it has been clear that the market for infrastructure investments with a focus on renewable energy and other environmentally relevant topics is gradually expanding. The demand for investments in infrastructure from the private sector is huge, especially as the countries can barely afford the required volume of investment on their own.

Deriving sustainability requirements for Asga's infrastructure investments

The infrastructure investment category is incorporated into our sustainability policy. The focus on climate is a logical consequence in this investment category. While in other investment categories we seek to achieve specific decarbonisation reduction paths in order to reduce CO_2 emissions, in the infrastructure investment category we intend to support this positive cycle with the preparation of renewable energy and other climate-relevant investment topics – the aim being to make a contribution to the //Paris Climate Agreement.

We have defined the following principles based on the three pillars of the Asga *sustainability policy*.

Normative screening

As in other investment categories, the //normative basis is used here too. The exclusion regarding production of prohibited weapons is not relevant to infrastructure investments.

As a UN member, Switzerland is committed to implementing the UN sanctions against countries. With the //Embargo Act, an instrument was created that allows rapid implementation of the sanctions by the Federal Council. In line with liquid assets, we exclude infrastructure investments in sanctioned countries for the infrastructure investment category.

Exercising of voting rights / engagement

The exercising of voting rights in this asset class is undertaken by the fund manager. Accordingly, the choice of fund manager is very important to the strategic development of the investee companies. As the end-investor, we can engage in dialogue with the manager. This means we can make them aware of the declaration of sustainable indicators. The focus is on compliance with the UN Global Compact and other OECD guidelines and on addressing violations. As mentioned at the start of this segment, other topics concern the scope and standardisation of ESG client reporting.

ESG integration

Together with its international network of signatories, the PRI initiative is dedicated to the practical implementation of the six Principles for Responsible Investment (see p. 12). The aim is a better understanding of the managers with regard to the impacts of investment activities on environmental, social and governance topics. As a PRI signatory, we need to meet certain minimum standards in the investment process from an ESG viewpoint. Around 84% of the underlying infrastructure fund managers in Asga's infrastructure portfolio are PRI signatories. The aim is to successively increase this figure.

Furthermore, three other topic areas result from the Asga *climate policy*:

Climate risk

In the liquid investment categories, we exclude companies that generate more than 10% of their sales from coal in terms of mining activities and energy production. Direct investments can be made in such assets (e.g. coal-fired power stations) in the infrastructure investment category too. From a risk perspective, we do not think investments in stranded assets make sense in the case of long-term investments, and we therefore exclude them.

Climate impact

The application of a CO_2 reduction path along similar lines to liquid assets and directly owned real estate does not yet seem sufficiently mature in the case of the infrastructure investment category. The available data on this seems too limited and uncertain. At present, the investment category is intended to support the transition to a more sustainable economy.

Confining it to renewable energy is too restrictive, as climate themes can be found in the widest variety of sectors; in addition, it potentially harbours risks given that there is insufficient diversification due to the narrow sector focus. Using our own definition, we therefore break the climate focus down into two different thematic areas: transition and renewable energy.

- **Transition "Acceleration of transition to net zero":** This refers to investments where a strategy for improving the CO_2 footprint has been defined and communicated (net zero by 2050 or at least specific interim targets). However, investments for CO_2 removal or to promote environmental sustainability (e.g. smart metering) can be found here.
- **Renewable energy "Providing new capacity to support the transition":** Investments that contribute to the generation and storage of sustainable energy, and therefore to tackling climate change, are part of the theme. This includes wind, solar, and hydropower, but also the surrounding ecosystem, such as maintenance and service, which also falls under this definition.

Asga's portfolio consists of mandates with various start dates. It is clear that newer mandates comprise a significantly higher proportion of climate-relevant assets, which is understandable given the general trend towards sustainable infrastructure investments.

Climate focus Investments in infrastructure	**Transition**	**Renewable energy**	**Total**
Mandate 1 (2015)	10.0%	21.0%	31.0%
Mandate 2 (2016)	2.5%	7.5%	10.0%
Mandate 3 (2020)	20.0%	20.0%	40.0%
Mandate 4 (2020)	25.0%	18.0%	43.0%
Total climate focus in Asga's portfolio			**29.0%**

Source: Figures provided by mandate managers

In total, nearly 30% (around CHF 300 million) of our infrastructure portfolio currently consists of investments with a climate focus. As with other investment categories, the climate goal is defined as a target figure of 50% by 2030; this is in line with the interim targets for the liquid investments. The long-term goal will be to steadily increase this share.

Special focus: natural gas and nuclear energy

In some cases, natural gas and nuclear power stations are considered green energy by the European Commission. Excluding gas-fired power stations and in particular excluding nuclear energy, it becomes significantly more difficult to achieve net zero emissions worldwide and on a cost-efficient basis. Nuclear power already contributes a third of low-carbon electricity production globally and offers a steady, reliable supply of energy – energy security, in other words. Ultimately it should also be kept in mind that not only is the transition to renewable energy imminent, but also that the world's growing population (above all in developing countries) is dependent on low-CO_2 energy sources. We obviously focus on renewable energy but do not exclude natural gas and nuclear energy from the universe.

Case study Alcon

Via directly held equity positions, Asga participates in dialogue with various companies in an indirect way. The SVVK – ASIR is the organiser of these dialogues with companies. From time to time there are opportunities to participate more actively in such dialogues. The time invested in this enables Asga to gain a direct insight into the processes and developments from the perspective of an investee company. In 2022, Asga decided to participate in a two-year dialogue being led by asset manager Columbia Threadneedle with Swiss firm Alcon. Our conclusion on this is extremely positive:

Although at first glance the eyecare specialist does not belong to the problematic sectors, this ignores the fact that every large company exerts a major leverage effect in terms of its investment and purchasing decisions. Compared with its peer group – the biggest companies on the Swiss Exchange – Alcon initially performed poorly in this respect, i.e. every Swiss franc earned was comparatively CO_2 intensive. At the same time there were no reduction targets, while there was very little confidence in the published CO_2 data. The dialogue focused on two target areas:

1. **Transparency:** publication of Scope 3 emissions
2. **Strategy:** CO_2 and energy targets.

In 2021 it was clear that the company's climate transition was still in its infancy. Its first Head of Sustainability only started work at the beginning of 2022. By the end of 2023, via a third-party provider, Alcon was able to publish its Scope 3 emissions as well as set its Scope 1 and 2 targets for the period to 2030. In addition, the firm reduced its GHG emissions (Scope 1 and 2) significantly (by around 20 % from 2021 to 2022).
The dialogue with the company sent an important signal from an investor perspective at the right time, firstly in terms of the awareness of large companies that themselves also operate as purchasers (Scope 3) and secondly in playing a pioneering role within an industry. From a climate risk perspective, every well-managed company needs to be able to present a coherent climate plan to its shareholders. This is increasingly becoming a regulatory requirement too.

Further details on Alcon and other examples can be found on the >SVVK – ASIR website.

//ASIP Reporting 2023

Stewardship (active ownership)

Exercising of voting rights

Percentage of companies in which votes were cast, in each case in terms of invested capital	
Switzerland	100.0%
Abroad	61.9%

Percentage of cases in which votes were cast in line with proposals of board of directors	
Switzerland	83.0%
Abroad	92.1%

Percentage of agenda items voted upon (in terms of total number of agenda items)	
Switzerland	97.8%
Abroad	98.8%

Vote cast (100%), of which	
In favour	86.5%
Against	12.4%
Abstained	1.1%

Percentage of supported votes on climate matters	58.1%

Engagement (credible dialogue)

Is PF a member of one or more engagement pools and/or engagement initiatives?	Indirect initiatives via SVVK – ASIR membership: – ClimateAction100+ – PRI Advance – NatureAction100 – FAIRR – Council on Ethics (Big Tech and Human Rights Investor Collaboration)
Is a credible stewardship strategy in place at the companies to tackle climate change (e.g. existence of remuneration systems, science-based targets)?[1]	Yes
Percentage of portfolio companies subject to an active engagement strategy:	6.0%
Number of firms in Switzerland and abroad with which engagement is generally conducted:	377

[1] Link to Stewardship Report (https://svvk-asir.ch/en/news-and-downloads)

Source: Own calculations based on ISS Proxy Voting and SVVK – ASIR

Exclusions / best-in-class / positive screening approach (ESG rating-based approaches) / ESG integration / thematic investments / impact investing / climate focus

equities, corporate bonds and convertible bonds (listed)	Metric	Coverage
Scope 1+2 greenhouse gas emissions		
Intensity: tCO_2e per mn CHF sales for Scope 1+2 (weighted average carbon intensity)	88.8	96.6%
Footprint: tCO_2e per mn CHF invested capital for Scope 1+2	44.2	80.0%
Scope 3 greenhouse gas emissions		
Intensity: tCO_2e per mn CHF sales for Scope 3 (weighted average carbon intensity)	968.8	96.6%
Footprint: tCO_2e per mn CHF invested capital for Scope 3	322.4	80.0%
Exposure to fossil fuels		
Share of investment in companies with activities (more than 5% of their sales from such business activities) in		
coal	0.01%	
other fossil fuels	4.89%	
Share of investments in companies with verified commitments to net zero and credible interim targets:	52.44%	31.2%
Global warming potential in °C[2]	3.24	80%
Government bonds		
Greenhouse gas emissions (intensity): tCO_2e per mn CHF GDP	171.4	100.0%
Swiss real estate (listed and unlisted): Scope 1+2 energy consumption (excludes tenant electricity)[3]		
//Energy intensity (kWh per m^2 energy reference area)	94.75	93.16%
//CO2 intensity[4] (kg CO_2 per m^2 energy reference area)	15.58	93.16%
Energy source mix (renewable energy share)	29.27%	
Foreign real estate (listed and unlisted): Scope 1+2[5]		
//Energy intensity (kWh per m^2 energy reference area)	124.66	75%
//CO2 intensity (kg CO_2 per m^2 energy reference area)	37.71	75%

[2] Climate scenario: transition risk: //NGFS, 1.5° C, orderly / physical risk: average with company targets

[3] No real estate equities

[4] Only Scope 1 figures are available for approximately 1.8% of the portfolio

[5] Only total building emissions are available for approximately 38% of the portfolio

Source: Own calculations based on MSCI, EDGAR; various manager data in addition

//Glossary

ASIP	Headquartered in Zurich, the Swiss Association of Pension Funds (ASIP) is the umbrella organisation for over 900 pension funds. ASIP aims to sustain and promote the employer/employee-led occupational pensions system on a voluntary and decentralised basis. It is committed to the three-pillar concept, with balanced weightings.
CCF	Scope 1, 2 and 3 emissions are documented to obtain a company's corporate carbon footprint (CCF). The calculation of the corporate carbon footprint shows where and to what extent emissions arise within the company, and constitutes the basis for reductions.
CO_2 intensity (real estate)	The intensity of greenhouse gas (GHG) emissions is defined as GHG emissions as a proportion of the reference area (m^2 ERA) according to the degree of coverage. GHG emissions are all emissions (CO_2 and other GHG) resulting from energy consumption according to the definition of the degree of coverage, expressed as kilograms of CO_2 equivalent (kg CO_2-eq). GHG emissions are calculated by multiplying energy consumption by energy-specific emission factors.
Embargo Act	Since 1 January 2003, the Federal Act on the Application of International Sanctions (Embargo Act) has constituted the legal basis for the imposition of sanctions by Switzerland.
Energy reference area (ERA)	The energy reference area is equal to the total gross floor area of all above-ground and below-ground spaces that lie within the thermal envelope of the building and require heating or air-conditioning for their use.
Energy intensity (real estate)	Energy consumption is measured at property level, i.e. for completed buildings whose consumption is measured or calculated. Energy intensity is defined as energy consumption as a proportion of the reference area according to the degree of coverage. The energy consumption of completed buildings for heating/cooling purposes and general electricity for building systems, calculated or measured in kilowatt hours (kWh), is the determining factor. Energy consumption is adjusted based on heating degree days and vacancies.
Green Deal	The European Green Deal is a package of political initiatives aimed at putting the EU on track to completing a green transition and to ultimately achieve its objective of becoming climate-neutral by 2050.
Inflation Reduction Act	The Inflation Reduction Act of 2022 (IRA) is a US federal act that was signed into law by President Joe Biden on 16 August 2022. Its centrepiece is the systematic promotion of the domestic production of battery technology for e-mobility and the building of hydrogen structures within the US.
Infrastructure Investment and Jobs Act (IIJA)	The Infrastructure Investment and Jobs Act (IIJA) was signed into law by US President Joe Biden on 15 November 2021. The Act grants the sum of USD 1.2 trillion for transportation and infrastructure spending, USD 500 billion of which is earmarked for "new" investments and programmes.

Climate protection / compensation projects	Climate protection projects mitigate, avoid or bind greenhouse gases from the atmosphere. This is possible, for example, through the expansion of renewable energy, forest protection and reforestation, social impact projects such as cleaner cooking stoves or drinking water, as well as other technologies. The effect is verifiable and is calculated in tonnes of CO_2.
NGFS scenarios	The Network for Greening the Financial System (NGFS). The NGFS climate scenarios provide an insight into various plausible future scenarios. The organisation worked with a group of experts comprising climate scientists and economists. Since 2020 it has helped central banks and supervisory authorities with examining potential impacts on the economy and on the financial system.
Normative basis	Investments are examined using minimum standards for business practices based on national or international standards and norms. In the case of Switzerland, the Federal Constitution constitutes the normative basis. This is followed by the sustainability-related international conventions ratified and implemented by Switzerland. Lastly, the laws and ordinances enacted by the Federal Council and Parliament in the context of sustainability are also complied with.
Paris Agreement	The 2015 Paris Climate Conference culminated in the ratification of a new agreement for the post-2020 period which for the first time required all countries to reduce greenhouse gas emissions. Switzerland ratified the Paris Agreement on 6 October 2017, thereby committing itself to a 50% reduction by 2030 versus the level in 1990. Furthermore, Switzerland announced that it would lower greenhouse gas emissions to net zero by 2050.
Physical risks	Physical risk drivers are changes in the weather and climate that affect the business. They can refer to extreme weather events, for example, but also to gradual changes in climate. These physical risks can cause floods, for example, and thus disrupt production.
Quasi-government bonds	Quasi-government bonds are debt instruments issued or guaranteed by an institution that is wholly owned or controlled by the state. However, some investors also extend this definition to debt instruments that are quasi-guaranteed by the state.
Benchmark index	A benchmark index is a comparator that is designed to enable the investor to evaluate individual performance. It constitutes a universe that is as similar as possible to potential investments.
SVVK – ASIR	The Swiss Association for Responsible Investments (SVVK – ASIR) is an alliance of major Swiss pension and social security funds. Together, they fulfil their responsibilities as investors and drive positive change towards an environmentally, socially and financially sustainable economy.
Transition risks	Transition risks refer to the switch to a low-carbon economy. These are primarily driven by changes in policy, technology, market environment and customer preferences. Legal risks due to improper conduct by companies as well as resulting reputation risks are also conceivable.
United Nations Global Compact	Corporate sustainability begins with a company's value system. The UN has defined ten principles designed not only to enable companies to meet their fundamental responsibility towards people and the planet, but also to create the conditions for long-term success.

More terms in relation to the field of sustainability can be found **>here**.

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