



Pension Fund of Credit Suisse Group (Switzerland)

# Climate strategy

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# Background

## Legal mandate

As part of the Swiss pension system, the task of our pension fund is to enable our insured, together with the state pension system (AHV/IV), to continue their normal standard of living after retirement. The Board of Trustees, as the highest body, has been appointed in accordance with Art. 51b(2) BVG to protect the interests of the insured as part of its fiduciary duty of due diligence and to ensure that the fulfillment of the purpose of the pension fund is guaranteed in the long term.

## Double materiality of climate

In the discussion on climate in the investment of assets, we distinguish between the two dimensions of climate risks/opportunities and climate impact. This distinction follows the idea of the double materiality of the climate related to our investment of assets, which distinguishes financial and ecological/social materiality:

Financial materiality encompasses the influence of climate on companies and thus the investment of assets of our pension fund. The focus here is on the financial aspect and risk management, so that our pension fund can take appropriate account of the impact of climate on our investments. These climate risks which are relevant for our investments can be classified into physical and transition risks. Physical risks include, for example, heat waves or droughts, while transition risks include, among other things, the increasing regulations of a sustainable real and financial economy. Opportunities may include new services or business processes that contribute to a low-carbon economy and provide a comparative advantage over competitors. We continuously summarize this view in terms of climate risks and opportunities.

The ecological/social materiality describes the influence that we, as a pension fund, have on the environment and society through our investments. Here we look at the indirect effects of our investment on the climate and thus our insured, who are directly affected by climate change. We will refer to this view as climate impact.

In the following, we would like to explain the relevance of both dimensions to our climate strategy as well as the procedure for taking them into account.

## Climate strategy

The present climate strategy has two purposes:

1. **Transparency:** We would like to show our insured and other stakeholders how we deal with climate change. We report transparently on the risks and opportunities of climate change and climate protection for us as a pension fund, as well as on the climate impact of our investment behavior on society and the environment.
2. **Guidelines for measures:** We are laying a foundation for the future with our climate strategy. We show how we are positioned on the subject of climate change and protection. The climate strategy should serve as a basis and guideline for developing measures and implementing them in a timely manner. In doing so, we ensure that the strategy is continuously developed and adapted if necessary. We are planning a step-by-step approach toward a balanced integration of climate risks and climate impact, as far as this is possible taking into account the effects on the return and risk characteristics of the investments. Through this careful and step-by-step introduction, we ensure that all the measures we have planned and implemented have the desired effect. In this regard, both climate impacts and risks have a correspondingly balanced role to play.

# Beliefs and targets

Climate change and its risks affect society, the environment, the economy as well as our pension fund and its investments. Our

pension fund has the following beliefs regarding climate, which form the basis for shaping our climate strategy:

1. As part of its role in the Swiss pension system, the primary objective of our pension fund is to generate sufficient income to finance existing and future benefit commitments.
2. Climate change poses risks for all of humanity, the economy, and the global ecosystem, and accordingly it also affects our insured and their future quality of life.
3. The nature and impact of climate change risks are very diverse and can only be mitigated by the interaction of a variety of measures and by involving all participants in our global ecosystem.
4. The measures necessary to mitigate these risks and impacts will inevitably lead to profound changes in society, the economy, and the corporate landscape, which will in turn shape the future winners and losers of this global transition. And this global transition harbors potential opportunities and risks for our investments.

Our pension fund clearly believes that global climate change is a relevant issue for both our insured and our investments, and that this issue must be actively addressed.

## **Climate risks**

As a pension fund, we see it as our statutory mandate pursuant to Art. 50(43) BVV2 to actively monitor climate risks in the overall portfolio and for each asset class and to incorporate them into investment decisions. Our view is supported by the legal opinion<sup>1</sup> drafted by Eggen and Stengel in 2019. Accordingly, as a requirement for our investments, our investment decisions must adequately take into account the risks and opportunities associated with climate change. In addition, we recognize climate risks as material and explicitly manage them in the investment process. This targeted risk and opportunity management also serves a social purpose and helps steer capital flows in a climate-friendly direction.

## **Climate impact**

Our pension fund is aware that climate change has far-reaching consequences for the entire population and companies worldwide. Our pension fund sees limiting the possible negative effects of global investment behavior on climate change and thus on the future quality of life of our insured as one of the key contributions on the part of the financial sector toward preserving a robust society and environment. We see it as part of the responsibility of investors to change the behavior of companies; this can be done through the investors' influence (engaged shareholding), by promoting investments that support the transition, and at the same time by avoiding climate-damaging investments. These actions will thus steer the activities of the real economy in a more climate-friendly direction.

In addition to generating a return that is in line with the market, we therefore define long-term protection against the negative economic, environmental, and social effects of climate change as a further contribution to safeguarding the standard of living of our insured in the future. It is therefore our goal to take into account climate impacts in addition to climate risks when making investment decisions. In addition, and wherever compatible with generating market-compliant returns, we want to make an active contribution to achieving global climate goals. In this context, we regard transparent reporting of the climate impact and active contributions to achieving the global climate goals as a minimum requirement for our stakeholders.

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<sup>1</sup> "Berücksichtigung von Klimarisiken und -wirkungen auf dem Finanzmarkt" (Taking into account climate risks and impacts on the financial market) Eggen & Stengel 2019 on behalf of the Federal Office for the Environment (FOEN)

# Implementation of the climate strategy

Various different measures and strategies, such as the exclusion of certain industries/companies, investments in climate-friendly plants, or investments to support the transition to a more climate-friendly economy, are considered in the investment process for the implementation of the climate strategy. The possible influence on the return and the risk is always taken into account when determining the measures. The investment of assets is carried out with a view to continuously implement the requirements below and integrate them into the investment process.

## Climate risks

Climate risks include all risks that can have a negative impact on the investment and thus jeopardize the objective of generating income. In order to take climate risks into account in our investments, we take an integrative approach so that these factors become part of the regular investment process. To this end, we place the following demands on our investments:

1. Suitable parameters for determining and monitoring climate risks must be defined for each asset class.
2. Processes must be defined for each asset class to ensure that these climate risks can be adequately taken into account and communicated when making internal or external investment decisions.
3. The Board of Trustees is regularly informed, at least once a year, about the climate risks and then decides on the need for further action.
4. As soon as available, the aggregated climate risk at the level of total assets is discussed as part of the ALM process and taken into account in the case of strategy adjustments.
5. Climate risks are regularly reported to the IC in the context of investment reporting and changes are discussed.

The individual procedure for measuring the climate risk per asset class is defined in an asset class-specific appendix. The general handling of investment risks is described in the risk concept of our pension fund.

## Climate impact

When implementing measures to improve the climate impact of our assets, our pension fund is dependent on market developments and the measures taken to achieve climate targets on the part of the public and the private sectors. In order to anchor the evaluation of measures to integrate the climate impact in the investment process, we place the following demands on our investments:

1. For each asset class, methods for measuring the impact of assets on climatic development and communicating them to stakeholders are to be evaluated.
2. For each asset class, the ESG Committee regularly examines ways in which climate impact can be improved and whether these can be reconciled with the mandate to generate a return in line with the market. The ESG Committee presents these to the Board of Trustees after a meeting with the Investment Committee.
3. The Board of Trustees decides on the need for further action and issues the mandate to the EC/IC.

## Paris Climate Agreement

Our pension fund recognizes the goals of the Paris Climate Agreement ratified by Switzerland and intends to use them as a guideline for investments. This means that our pension fund must reduce the CO<sub>2</sub> emissions of its investments. The reduction can take place either through changes on the part of the companies/governments or through step-by-step measures on the part of the pension fund. To measure progress, our pension fund participates in the annual PACTA test (Paris Agreement Capital Transition Assessment) of the Federal Office for the Environment and publishes its results in a transparent communication.

## Commitment to the climate

Together with our engagement partner EOS Federated Hermes, we pursue a structured dialogue with our invested companies on their climate risks as well as the climate impact of their corporate activities. In this way we support the implementation of the necessary measures to meet the Paris climate targets, as well as improved reporting on this issue, so that investors have better access to information.

# Reporting

In our view, it is an exemplary attitude toward our insured that we inform them about the management of climate risks and the climate impact of their investment through our website. Our pension fund is also working on creating an internal climate report. As things stand today, our pension fund has put in place and uses the indicators below to measure the climate aspects of the portfolio. The investments in our pension fund continuously examine other parameters for inclusion in climate reporting and aim to build up the most comprehensive view possible.

Asset class	Indicator	Focus	Contents
Equities and corporate bonds	CO2 emissions	Climate impact	<ul style="list-style-type: none"> <li>- CO2 emissions in absolute metric tons</li> <li>- CO2 intensity in relation to sales/assets</li> <li>- Measuring the contribution of individual securities at the level of total assets and individual portfolios</li> </ul>
	Stranded assets	Climate risk	Measuring our exposure to climate-related sectors such as oil and gas, which could develop into stranded assets.
Government bonds	PACTA study	Climate impact and climate risk	Measurement of asset development alignment with the Paris climate targets, based on different development paths.
	CO2 emissions	Climate impact	<ul style="list-style-type: none"> <li>- CO2 emissions in metric tons</li> <li>- CO2 intensity in relation to population/GDP</li> </ul>
Real estate	PACTA study	Climate impact	Measurement of CO2 emissions per square meter and analysis of future development based on planned remediation and maintenance measures

# Governance – structure

The ESG Committee (EC) of our pension fund is responsible for the elaboration and further development of the climate strategy with regard to the investment of assets and reports to the Board of Trustees. The EC advises the Board of Trustees on defining the climate strategy and makes recommendations. The Board of Trustees adopts the climate strategy and, in the case of proposals for new elements of the climate strategy, the Board of Trustees decides on the procedure and competencies for operational implementation and maintenance (e.g. maintenance of the exclusion list). The EC carries out the implementation on behalf of the Board of Trustees and is responsible for monitoring implementation, progress, and the following tasks:

Development of ESG strategy specifications	<ul style="list-style-type: none"> <li>Preparation of strategy documents on the sustainability of the investment of assets for the attention of the Board of Trustees</li> <li>Periodic review of the overall sustainability strategy and its implementation</li> </ul>
Exclusion list	<ul style="list-style-type: none"> <li>Preparation of the exclusion list in consultation with the Investment Committee</li> <li>Application to the Board of Trustees for the investments to be excluded from the investment universe</li> <li>Monitoring of implementation</li> </ul>
Exercise of voting rights	<ul style="list-style-type: none"> <li>Definition of the requirements for the exercise of voting rights in the interest of the insured</li> <li>Application for the same to the Board of Trustees</li> <li>Monitoring of the exercise of rights as member and owner</li> </ul>
Engagement	<ul style="list-style-type: none"> <li>Preparation of the engagement strategy for the attention of the Board of Trustees</li> <li>Monitoring of implementation of the engagement strategy</li> </ul>
Collaboration	<ul style="list-style-type: none"> <li>Recommendation on the membership of the pension fund in working groups, associations, and initiatives in the field of sustainable investment for the attention of the Board of Trustees</li> </ul>
Reporting	<ul style="list-style-type: none"> <li>Level-appropriate information to the Board of Trustees and insured (internal and external communication) about the sustainability strategy</li> </ul>

## Cooperation with the other committees

The EC works closely with the Investment Committee (IC), which is represented on the EC by its Chair, to develop the content of the climate strategy. The table below provides an overview of the different roles involved in the development and implementation of the sustainability strategy:

	EC	IC	BoT	CIO
<b>Definition of climate strategy:</b> On behalf of the Board of Trustees, the EC develops the strategic guidelines for the sustainability of investments. When developing the climate strategy, the EC takes the IC's recommendation and includes it in the proposal for implementation to the Board of Trustees. Changes to strategic benchmarks are to be dealt with as part of the ALM process.	Development of strategy	Consultation by EC	Approval	-
<b>Definition of implementation in the asset classes:</b> Together with the IC, the EC is responsible for defining the specific measures to implement the climate strategy within the individual asset classes as well as the procedure for implementation. The EC is responsible for assessing the measures with regard to their suitability for implementing the climate strategy, while the IC checks the measures for their compatibility with the existing investment objectives. In the event of disagreement on implementation, measures affecting the strategic orientation of the investment, or conflicts of objectives with the existing investment mandate, a decision is made by the Board of Trustees.	Decision on implementation if existing investment requirements are met		Decision on new investment requirements	Information
<b>Operational implementation in asset classes:</b> The CIO is responsible for the operational implementation of the agreed measures and defines the competencies for implementation. Where necessary, the EC and IC are informed. The EC is ultimately responsible for reviewing the implementation progress.	Review of implementation	Information	Information	Implementation

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**Reporting**

Internal and external reporting on climate strategy to stakeholders

Preparation

Information

Approval.

Implementation

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# Next steps

As explained in detail above, our pension fund sees both climate risks and climate impact as important and relevant dimensions for the investments of our insured, which we intend to actively take into account when investing.

Our pension fund is working on implementing the current climate concept into the investment of assets and is examining for each asset class which measures are possible in order to deal with climate risks and opportunities as well as to improve the climate impact of our portfolio and which are sensible for the investments of our insured. This review always takes place on the premise that additional measures to improve the climate impact must yield a return in line with the market. This includes, for example, the examination of further exclusions from the investment universe due to risk considerations or the evaluation of new metrics for measuring and controlling climate targets. The ESG Committee will carry out an analysis for each asset class and, together with the Investment Committee, draw up proposals for the Board of Trustees. We will also inform our insured about the progress of this implementation.