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EPFIF Swiss Seminar



How Are Swiss Pension Funds Approaching Low Carbon and Net Zero Investing?

PPCmetrics AG

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Zurich, 1 December 2021

Introduction

Carbon Considerations



Investment Strategy

- Considering climate aspects when selecting asset classes and allocation weights



Implementation

- Voting and engaging on climate issues
- Excluding high-emitting sectors from the portfolio (e.g. coal)
- Positive criteria (i.e. integration, best-in-class, impact/thematic)



Reporting

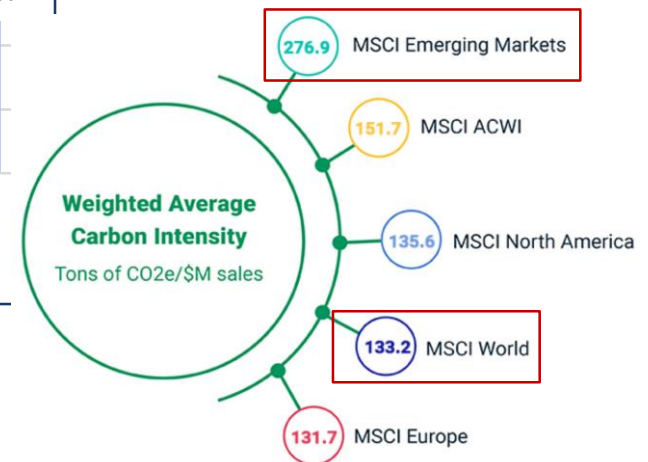
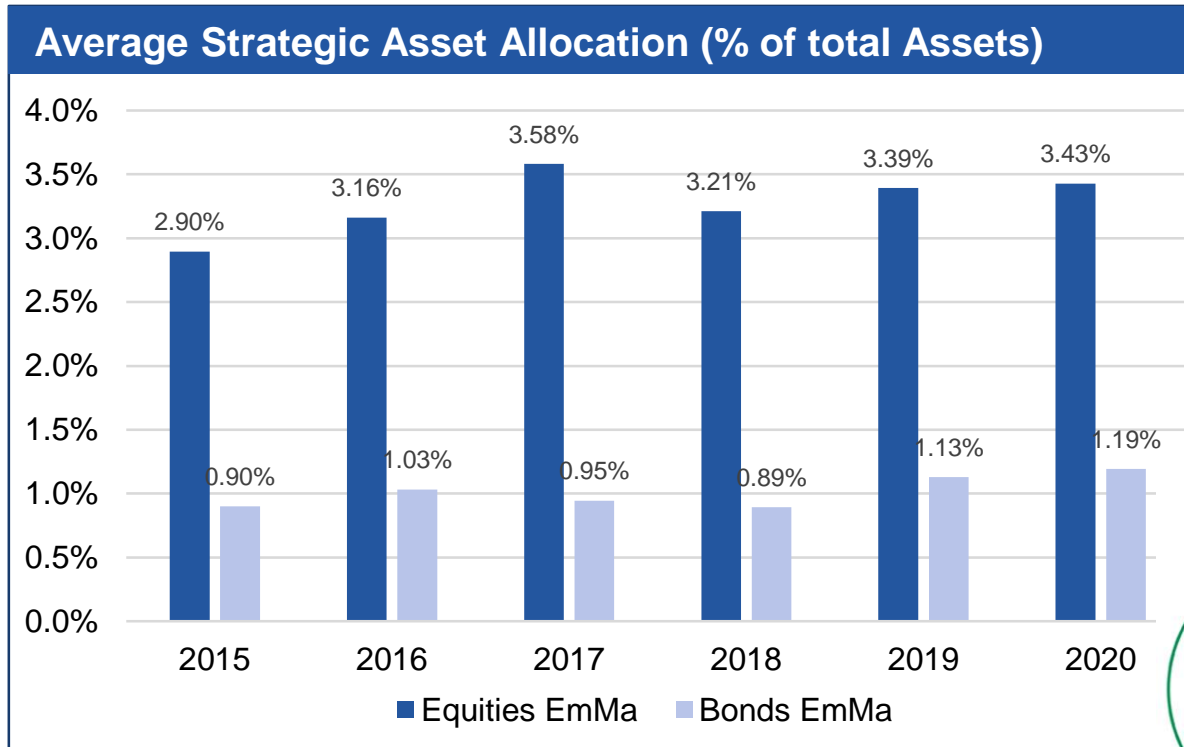
- Transparent and complete reporting on carbon factors



Investment Strategy

Investment Strategy

Emerging Markets



▶ **No trends identified.**

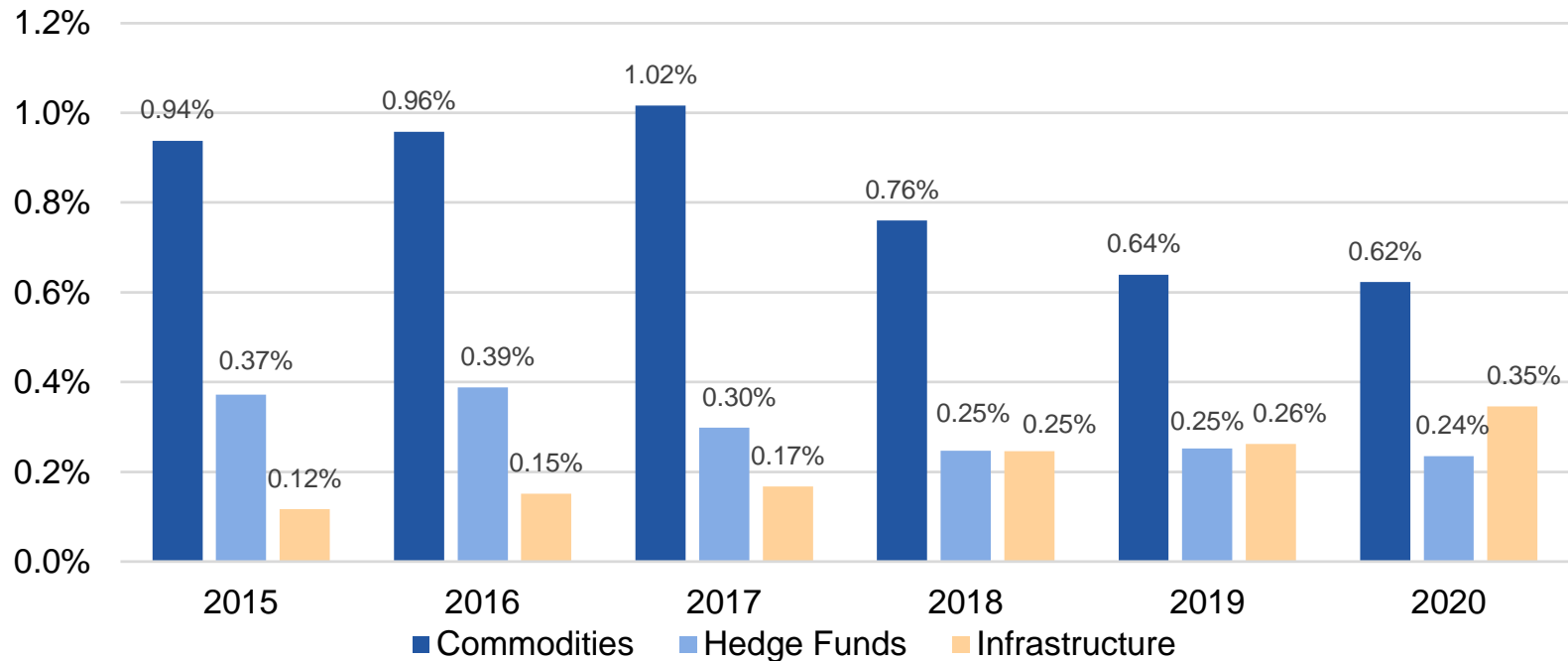
Source: average strategic asset allocation of institutional investors consulted by PPCmetrics, total assets 2020: CHF 437 bn.; <https://www.msci.com/index-carbon-footprint-metrics>, retrieved on 2 November, 2021

Investment Strategy

Alternative Asset Classes



Average Strategic Asset Allocation (% of total Assets)



Trends:

↓ **Commodities** ↓ **Hedge Funds** ↑ **Infrastructure**

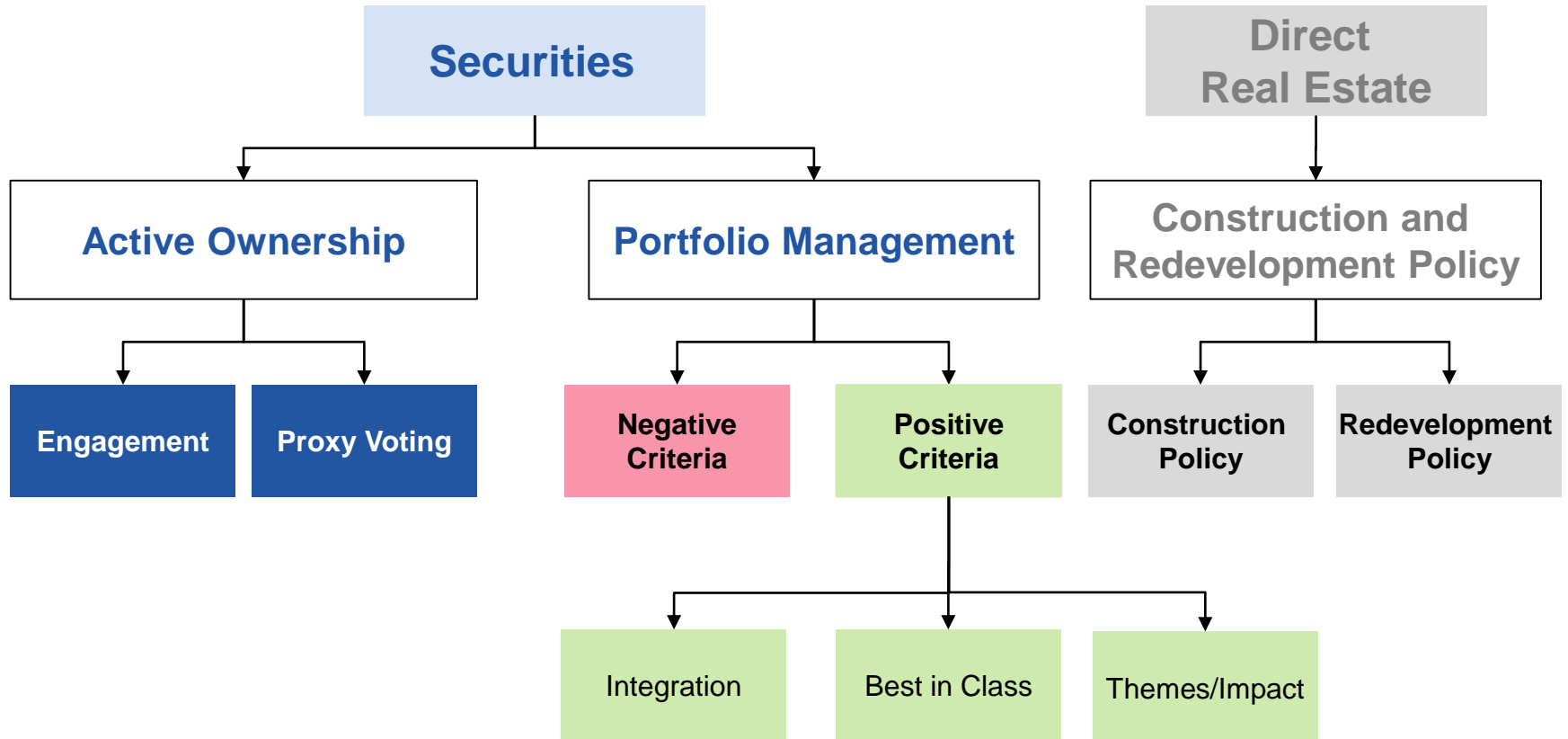
Source: average strategic asset allocation of institutional investors consulted by PPCmetrics, total assets 2020: CHF 437 bn.



Implementation

Implementation

Overview



Source: Own Illustration

Implementation

Active Ownership: Examples



For copyright reasons the image cannot be shown.

Link:

<https://www.nestle.at/klimaschutz>

- ▶ Engagement Pool convinced **Nestlé** to let investors vote on climate strategy.

Sustainable Business

Exxon loses board seats to activist hedge fund in landmark climate vote

- ▶ **Exxon** case shows that proxy voting can have an influence on companies.

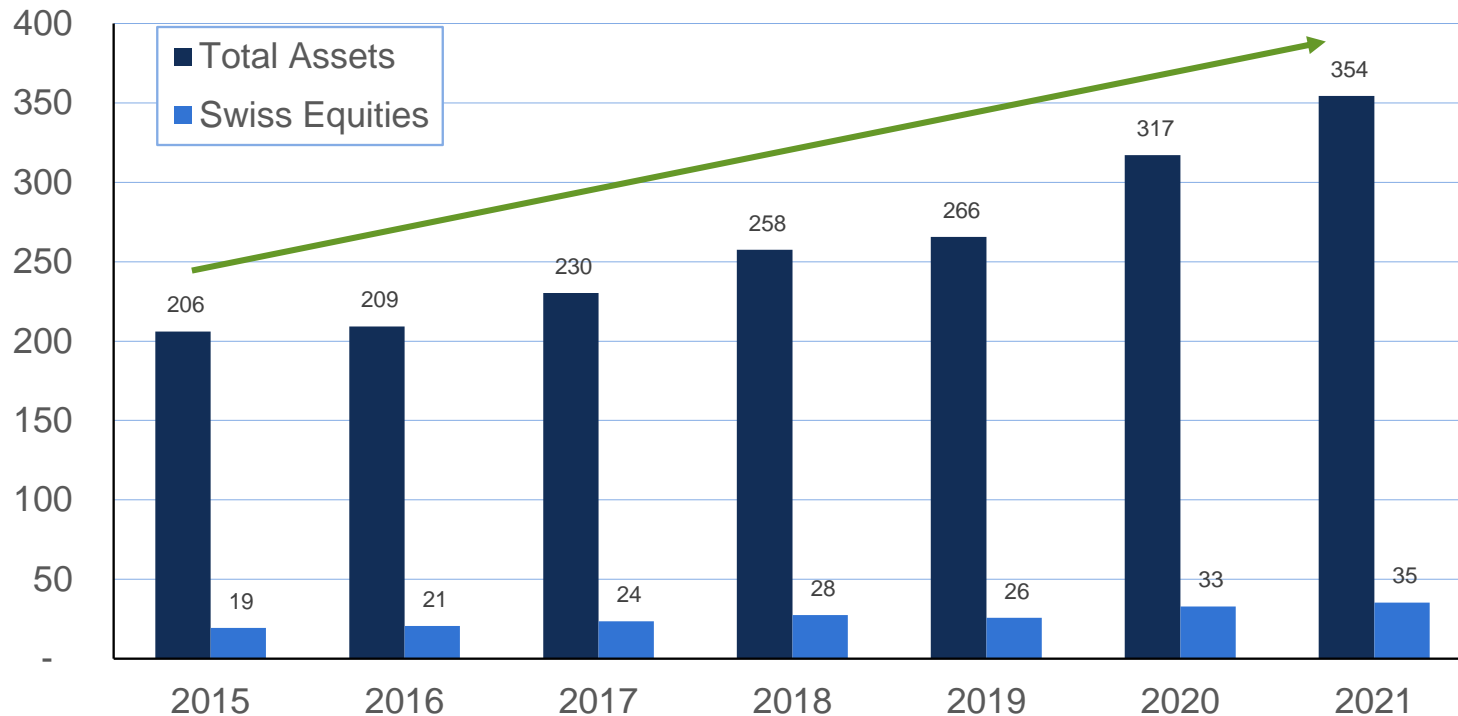
Source: <https://www.nestle.at/klimaschutz>; <https://www.nestle.com/media/mediaeventscalendar/allevnts/agm-2021>;
<https://www.reuters.com/business/sustainable-business/shareholder-activism-reaches-milestone-exxon-board-vote-nears-end-2021-05-26/>,
retrieved 11/2/2021

Implementation

Active Ownership in Switzerland



Total Assets of Members of Swiss Engagement Pools (in CHF bn.)



- ▶ Engagement has become increasingly important for Swiss pension funds.

Source: Own illustration based on Market Screen PPCmetrics 2021 (data of Swiss engagement service providers).

Implementation

Portfolio Management: Exclusions



Negative Criteria

- When it comes to **exclusions**, Swiss pension funds focus on controversial weapons, however ...
 - ... **coal and oil exclusions** are **more and more common**; especially with large pension funds.
 - ... some asset managers also started to **exclude coal** in **traditional indexed products**.

For copyright reasons the image cannot be shown. Link:

<https://pensionstudy.swisscanto.com/21/de/b-kapitalanlage-und-asset-allocation/>



Negative
Criteria

Positive
Criteria

Real Estate

Large pension funds set carbon reduction goals:

- **Swiss pension fund 1:**

- Reduce carbon footprint by 50% until 2030 (compared to 2020)
- Asset classes: equities and corporate bonds

- **Swiss pension fund 2:**

- Reduce carbon footprint by 50% until 2024 (compared to the MSCI All Countries World Index)
- Asset class: equities

- **Swiss pension fund 3:**

- Reduce carbon emissions by 50% until 2030 (compared to the level at the end of 2018) and by 80% by 2050.
- Asset class: real estate (direct investments)

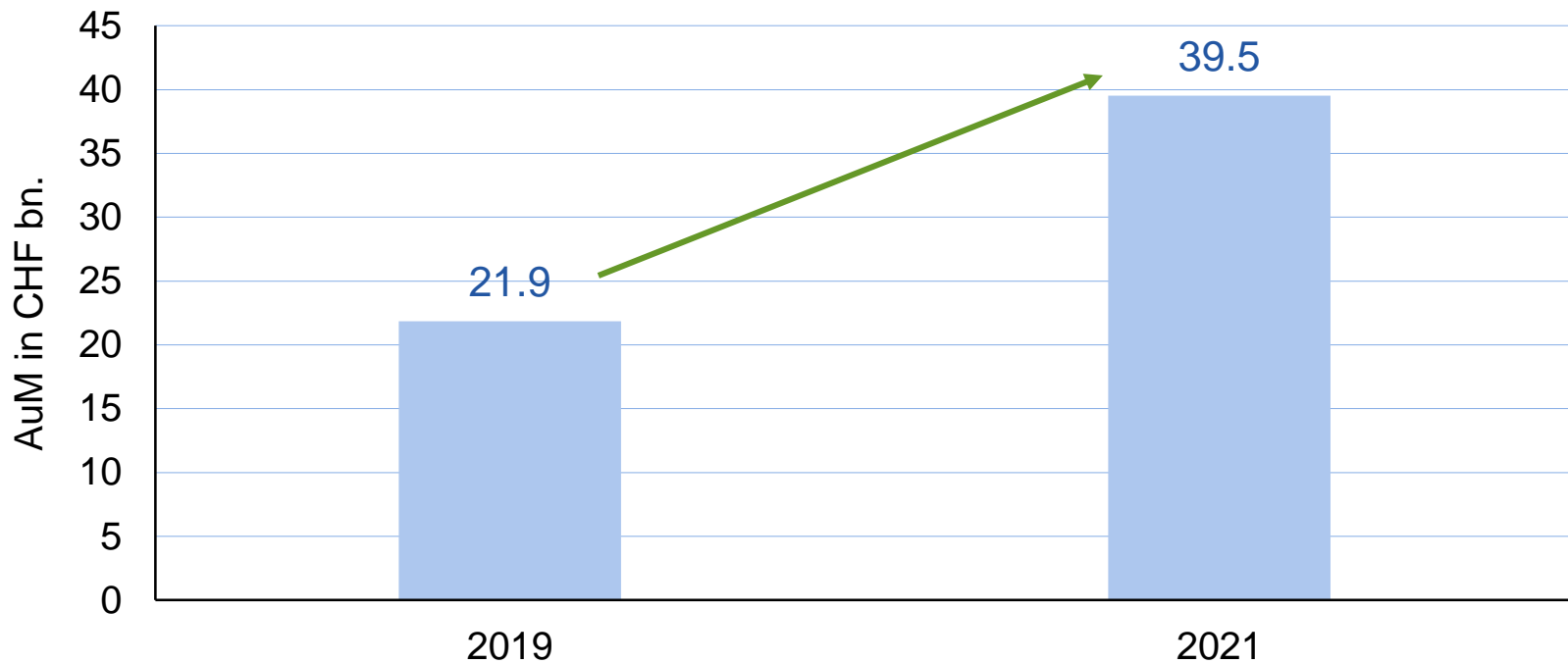
Implementation

Portfolio Management: Thematic/Impact



Positive
Criteria

Market Screen Green Bonds - Total AuM in CHF bn.



- ▶ Assets invested in Green Bonds are increasing.

Source: Market Screen PPCmetrics 2019 and 2021

Conflicting goals

- Investors can protect themselves from certain risks through low carbon investing.
- However, funds with a strong low carbon focus tend to show higher unsystematic risks (lower diversification).

MSCI ACWI		MSCI Global Environment	
Apple	3.59%	Tesla	37.70%
Microsoft	3.07%	Nio	2.88%
Amazon	2.27%	Digital Reality Trust	2.42%
Facebook	1.24%	Vestas Wind Systems	2.41%
Alphabet A	1.22%	Samsung SDI	1.98%
Alphabet C	1.18%	Alexandria Real Estate	1.59%
Tesla	0.96%	Orsted	1.49%
Nvidia	0.78%	BYD	1.46%
Taiwan Semiconductor	0.78%	Central Japan Railway	1.37%
JPMorgan Chase	0.75%	East Japan Railway	1.26%
Total	15.84%	Total	54.56%



Source: Ceccarelli, Marco and Ramelli, Stefano and Wagner, Alexander F., Low-carbon Mutual Funds (February 11, 2021). Swiss Finance Institute Research Paper No. 19-13, European Corporate Governance Institute – Finance Working Paper No. 659/2020; MSCI factsheet as of 9/30/2021.



Reporting

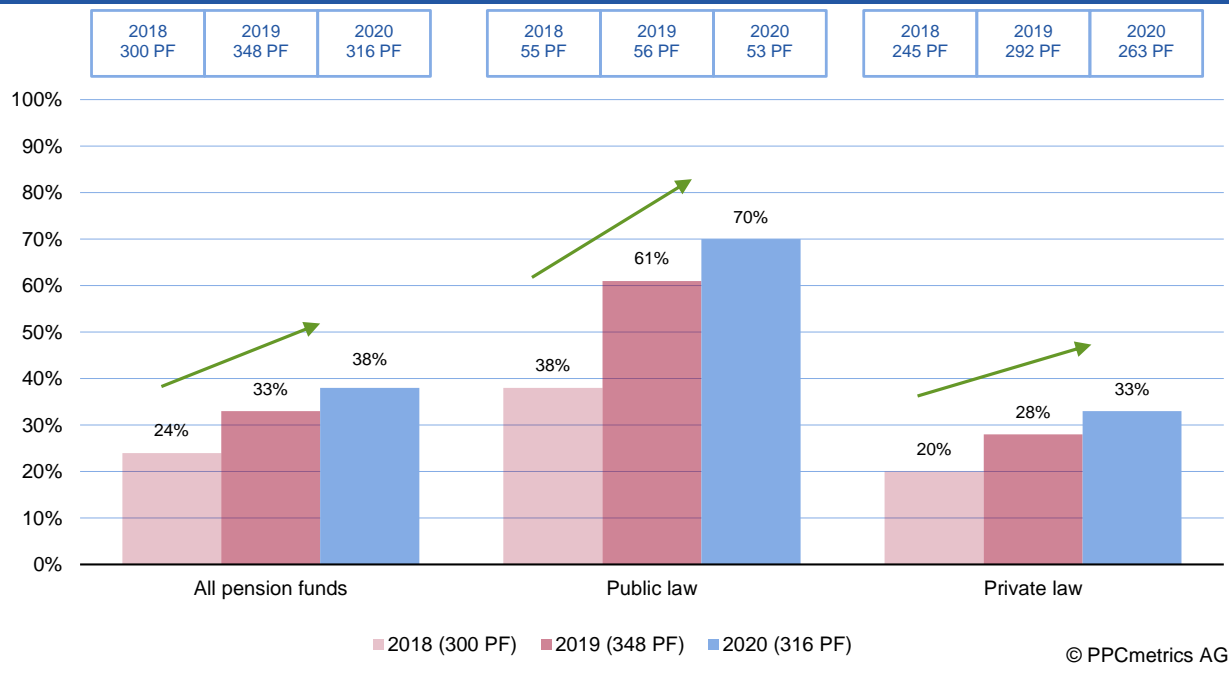
Reporting

Swiss Pension Funds



Reporting on sustainability efforts 01.01.2018 - 31.12.2020

All pension funds (2020: 316 PF)



- Important to monitor and report on implemented strategies.

Source: Own evaluation based statements in annual reports and websites of Swiss Pension Funds (PF).

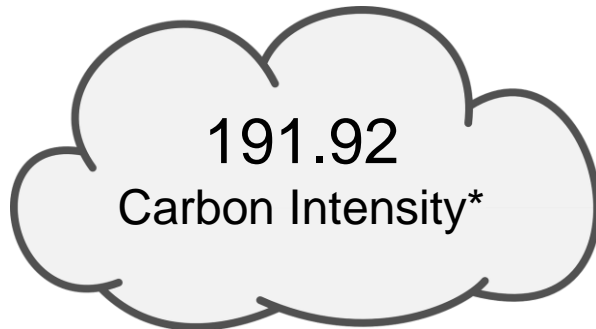
Reporting

A Higher Carbon Intensity Is Not Always Worse...

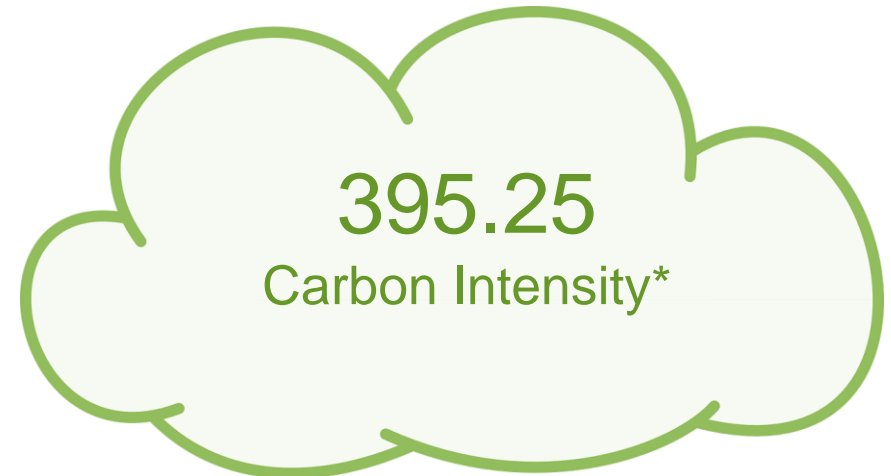


- Challenge lies in the detail...

Worldwide
Bond Market



Worldwide Green
Bond Market



- ▶ Problems with the allocation of CO₂ to individual projects.

*Weighted Average Carbon Intensity (Scope1&2; in tons of CO₂-equivalents per USD M sales)

Source: www.ishares.com/ch/institutional/en/products/316313/ishares-green-bond-index-fund-ie; www.ishares.com/ch/institutional/en/products/291773/

Reporting

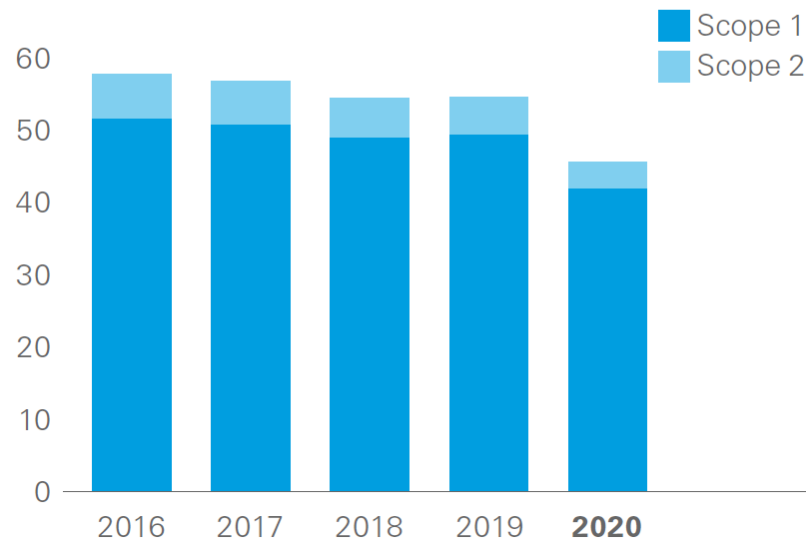
Challenge of Illiquid Asset Classes



- In 2020, bp reduced its carbon emissions substantially.
- That is great news, isn't it...?

Scope 1 (direct) and Scope 2 (indirect) GHG emissions (operational control boundary)^a

(MteCO₂e)



- ▶ Need for more transparency in private market investments.

Source: bp sustainability report 2020, retrieved on 14 October, 2021.

Summary

Summary

- We see the following trends in how Swiss pension funds consider carbon throughout the investment process:

Investment Strategy

- Allocation to more carbon-friendly alternative asset classes

Implementation

- More attention to proxy voting and engagement
- Exclusions of high-emitting sectors (e.g. coal sector) are becoming more common
- Large pension funds setting reduction targets

Reporting

- Increasing reporting and transparency efforts

- ▶ Courage to go own way.

Contact



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