

Investment sustainability strategy

Swisscanto Flex Collective Foundation of cantonal banks

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A Introduction

The Swisssanto Flex Collective Foundation (“Swisssanto Flex”) is an occupational pension institution and is subject to the Federal Law on Occupational Retirement, Survivors’ and Disability Pension Plans (BVG). It has the task of paying out pensions over the long term. Pension assets, investment income and contributions are used to finance the pensions.

The generation of long-term, sustainable returns is dependent on stable and well-functioning social, ecological and economic systems. Pension schemes are therefore at their core geared towards sustainability and intergenerational justice. Those responsible must be guided by the fiduciary duty of care, which ultimately also encompasses sustainability aspects. Swisssanto Flex takes the view that all relevant risks must be taken into account, in particular also the long-term development of nonfinancial influencing factors. As an investor, it is aware of its ethical, ecological and social responsibility and takes this into account when making investment decisions.

This document shows how Swisssanto Flex deals with the subject of sustainability.

B Legal framework

The statutory mandate for Swisscanto Flex is to ensure with respect to the insured persons that the promised benefits in the event of disability, death and old age can be paid out on time and at all times. This also places demands on the management of the investments. Pursuant to Art. 51 of the Ordinance on Occupational Retirement, Survivors' and Disability Pension Plans (BVV 2), Swisscanto Flex must "strive for a return in line with the money, capital and real estate markets".

In other words, the law stipulates the achievement of a return in line with the market. With regard to sustainability, the legislator makes the stipulation that pension funds must exercise voting rights at all Swiss companies and report thereon (Art. 95(3) BV). Furthermore, sustainable investments are not specifically mentioned in the current legislation and, like any Swisscanto Flex investment, must achieve a return in line with the market in order to be compatible with the fiduciary duty of care. Based on the legal requirements, the sustainability strategy must be designed in such a way that the riskadjusted return is not reduced in its expected value by the sustainability measures taken. Sustainability risks must be taken into account as part of risk management, provided sustainability risks are relevant investment risks.

In compliance with the legal framework conditions, Swisscanto Flex considers it important to take sustainability aspects into account as part of risk management. At the same time the principles of market conformity, liquidity and diversification are ensured and monitored. Swisscanto Flex delegates asset management to external specialists and selects them carefully.

C **General principles**

The Swisscanto Flex Collective Foundation is committed to the principles of sustainable investment and strives for a balance between economic, social and ecological aspects.

D Sustainability objectives in the area of investments

Swisscanto Flex sets itself the following sustainability objectives for its investments in the sense of normative requirements.

D 1.0. Sustainability objectives at asset manager level

The UN defines responsible investment as an investment approach in which the investor explicitly recognises the relevance of Environmental, Social and Governance factors (ESG criteria) and the longterm stability of the market as a whole. It was in this spirit that the UN launched the Principles for Responsible Investment (PRI) initiative. The initiative has over 3,000 members from more than 60 countries with a combined investment capital of over USD 100 trillion.

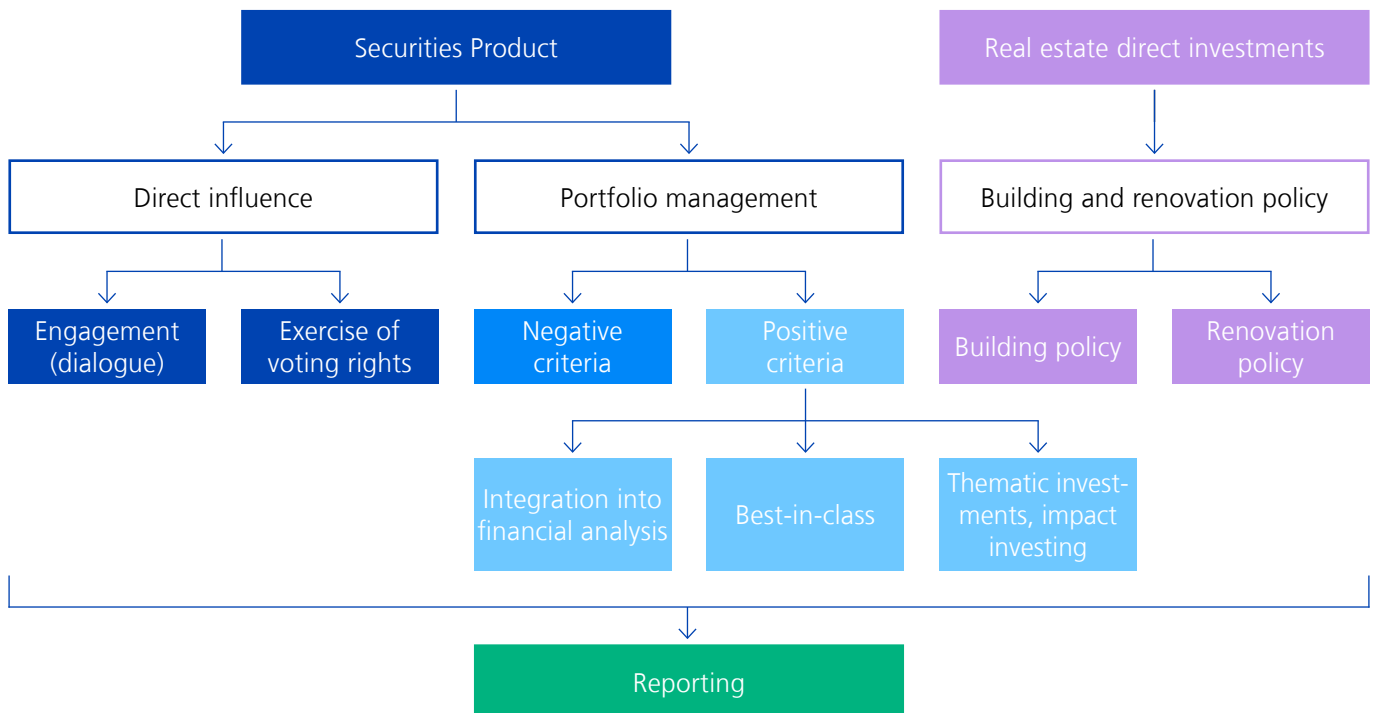
In Switzerland, the Swiss Sustainable Finance (SSF) association promotes the issue of sustainability in asset management. The aim of SSF is to strengthen Switzerland's position as a leading voice and player in the field of sustainable finance and thus contribute to a sustainable economy. In addition, the association brings together various groups such as asset owners and asset managers and represents their interests.

Swisscanto Flex states the following in this respect:

Swisscanto Flex only mandates asset managers who have signed the Principles for Responsible Investment and are members of Swiss Sustainable Finance.

D 2.0. Sustainability objectives in asset management

In asset management, sustainability can be taken into account in various ways:



The various forms of sustainability and the objectives derived from them are detailed below.

D 2.1. Exercise of voting rights and engagement

By exercising voting rights at the annual general meeting, direct influence can be exerted on companies to take sustainability aspects into account. In the case of engagement, active dialogue is sought with the management of companies. Within this framework, companies can, for example, be committed to good corporate governance or made aware of their ecological and social responsibility.

Swisscanto Flex pursues the following approach in this respect:

If the asset manager invests in individual securities of Swiss public limited companies, Swisscanto Flex will exercise its voting and election rights ("shareholder rights") at all general meetings, taking sustainability aspects into account.

If the asset manager implements the portfolio by means of collective investments, he/she is obliged to exercise the shareholder rights for all Swiss public limited companies, taking sustainability aspects into account.

When investing in foreign public limited companies by means of collective investments, the asset manager is required to ensure that shareholder rights are exercised whenever possible and to an economically reasonable extent.

All asset managers mandated by Swisscanto Flex are obliged to engage. This can be done directly with the companies or within the framework of investor groups (e.g. engagement pools, initiatives, etc.).

D 2.2. Negative criteria

Negative criteria essentially involve the targeted exclusion of individual companies. In this context, for example, a norm-based screening (companies that violate international agreements, e.g. producers of outlawed weapons) or a product-specific screening (non-sustainable sectors such as the coal sector) can be applied. The advantages are that controversial companies are avoided and that transparent communication is possible..

Swisscanto Flex states the following:

Swisscanto Flex obliges all mandated asset managers to apply an exclusion list for companies whose business activities violate international conventions or treaties ratified by Switzerland. An example of such an exclusion list is the list recommended for exclusion by the Swiss Association for Responsible Investments (SVVK-ASIR) (in particular nuclear weapons, biological and chemical weapons, cluster munitions and anti-personnel mines).

More far-reaching exclusion lists or criteria (e.g. exclusion of companies that violate the principles of the UN Global Compact, companies involved in coal mining, etc.) can be implemented by the mandated asset managers.

D 2.3. Positive criteria

Positive criteria can take various forms in asset management. When integrated into financial analysis, sustainability criteria – in addition to other financial criteria – are taken into account as part of the security selection process. Best-in-class means that investments are made in companies that have the best sustainability ratings within an industry. Furthermore, there are thematic/impact investments, with which specific sustainability themes are addressed or a measurably positive influence on the environment and/or society is to be achieved. Swisscanto Flex attaches importance to sustainability criteria being taken into account and transparently measured in the asset managers' investment process.

Swisscanto Flex states the following:

Swisscanto Flex encourages all asset managers to apply positive criteria where this is possible and cost-effective. At the level of total assets, it deliberately makes no stipulations as to how positive criteria are to be designed in concrete terms. Various approaches are to be pursued, such as impact investments.

D 2.4. Reporting

Data quality is central to reporting in the area of sustainability. Asset managers on the one hand and pension funds themselves on the other can report on the sustainability of investments. Reporting should be as consistent, complete and transparent as possible.

Swisscanto Flex states the following:

In order to measure the developments of Swisscanto Flex's investments with regard to sustainability, asset managers are to report periodically on sustainability.

Swisscanto Flex measures the sustainability of its investments annually by means of a sustainability report. In addition, the public is informed annually about its overall sustainability efforts within the framework of the annual report.

D 3.0. Dealing with climate risks

Climate risks refer to the risks of possible climatic changes on an investment portfolio. In order to measure the climate compatibility of a portfolio, there are, among other things, different carbon ratios. The Task Force on Climate-Related Financial Disclosures (TCFD) recommends the weighted average carbon intensity (WACI) in this context.

Swisscanto Flex states the following:

Swisscanto Flex periodically measures, where possible, the average weighted carbon intensity (or a comparable ratio) for the equity and bond portfolios.

The mandated asset managers are given the objective of aiming for a lower carbon intensity (or a comparable key figure) for equity and bond portfolios than that of the comparative universe (benchmark).

E Further action

Swisscanto Flex observes developments in the field of sustainable investments with great attention. The normative requirements are embedded in the legal framework conditions, to which the necessary attention is paid at all times.

The periodic sustainability reports indicate whether any action is required with regard to the investments. The results are discussed by the Board of Trustees on an annual basis.