

## 6.1 INTERVIEW WITH ASIP

# Long-term prospects determine pension funds' investment strategies



INTERVIEW WITH HANSPETER KONRAD | Director of the Swiss Association of Pension Funds (ASIP)

### **ASIP is the Swiss Association of Pension Funds – Why is your organisation interested in the theme of sustainable investments and where did the impulse for this come from?**

If we consider the ultimate goal of pension funds – to ensure the long-term provision of benefits – then sustainable investing is nothing new for Swiss pension funds. They have been dealing with this issue for years, not only to make sure their investments are in tune with the overriding goal of sustainability, or out of a moral and ethical conviction, but above all to integrate important long-term factors (ESG and climate criteria) into their investment strategy.

This principle is also entailed in the ASIP Guidelines, which serves as a strategic basis for asset management activity for our members. The ASIP updated these Guidelines in summer 2018, taking the opportunity to integrate recommendations on sustainable investing. With an eye on future regulatory developments, it is particularly important for pension funds to actively demonstrate they are taking this issue seriously.

### **Where do you see ASIP's primary role regarding sustainable investments by pension funds? What concrete products and services has ASIP developed, or what measures has it implemented?**

The main priority for ASIP is to share knowledge and to raise awareness at the highest level, in other words among the board of trustees, which is responsible for investment policy. By adopting the Guidelines mentioned above, as well as through workshops and training videos, ASIP promotes trustees' awareness and knowledge of how to integrate sustainability into the investment process. In the workshops especially, valuable specialist expertise and practical examples are presented and discussed.

A specific trigger for these activities was not necessary because, as I said, sustainability has always been an important component of pension funds' investment strategies due to their long-term investment horizon. Governance issues, for example, were addressed early on. What may be different today is the clearer alignment and refinement of investment strategies to reflect ESG factors.

### **Different studies conclude that one aspect of the fiduciary duty of pension funds is to integrate sustainability factors into the investment process. Is this opinion shared by you and your members?**

Switzerland's Federal Law on Occupational Old-age, Survivors' and Invalidity Pension Provision (OASI) is key for defining fiduciary duty, and already underlines the principle of sustainability (see Art. 71 OASI in conjunction with Art. 51b OASI). However, this legislation does not stipulate how this principle should be implemented. This is the sole responsibility of the management bodies composed on the basis of social partnership. Nevertheless, one can assume today that the pension foundation bodies have a duty to deal with sustainability factors and to engage in a fundamental discussion of principles. It's important to bear in mind, however, that upholding the duty of care effectively means considering many different aspects. First and foremost, it is important not to overlook the achievement of the pension goal for the insured members.

### **What opportunities do you think are available to pension funds by placing more emphasis on sustainability in their investment processes?**

The inclusion of ESG factors makes it possible to reduce long-term risks and ensure the preservation of the value of investments for the insured members. This does not generally compromise investment performance in any way, as many studies have since shown.

### **What are the biggest hurdles for pension funds in implementing a sustainable investment policy?**

I think the biggest challenge is to develop a collective understanding of sustainability in the pension fund's most senior body. The different values of the trustees must be reconciled, and this requires some time-consuming fundamental discussion. Before a decision can be made, the board of trustees must also obtain detailed information on implementation options, in other words on the different forms of investment and the costs involved. Transparency regarding the impact of the chosen approach and its measurability are also very important.

In this discussion, it is important to focus on ESG and climate factors, otherwise the debate can become too political. The trustees cannot avoid the opinion-forming process on these important issues.

At the regulatory level, I currently see no major hurdles, at least with today's legislation. I do not see the current quotas for various asset classes as hurdles, as they can also be extended. However, the current regulatory framework does require the industry to take responsibility and drive the issue forward proactively.

### **So how could SSF help overcome these hurdles?**

SSF already does valuable educational work, especially through its Handbook on Sustainable Investments and its Swiss Sustainable Investment Market Study, which both clearly highlight the growth of sustainable investments. The workshops organised by SSF for asset owners are also very helpful.

### **What role do pension funds play as big real estate investors and developers when it comes to sustainability in the construction industry?**

It's certainly true that pension funds have an important role to play here, and there are already various commendable standards for green buildings. Amongst other things, the ASIP has consistently drawn members' attention to the Swiss Sustainable Building Standard (SNBS). The board of trustees is responsible for implementing the green building criteria and applying the relevant standards. Many pension funds – especially the bigger ones – are actively taking on this responsibility.

### **The EU has already made the IORP II legislation binding, requiring pension funds to report on how they integrate sustainability factors. It is also working on various regulations governing sustainable investments, some of which also affect pension funds. What are the pros and cons of the lawmaker becoming more proactive?**

I take a rather critical view of these regulatory initiatives, as they impose additional requirements on pension funds regarding reporting. These obligations are not effective, hamper the process of asset management and create considerable extra work.

Increased transparency is very important, but I think such reporting should be voluntary. The responsibility lies with the pension funds themselves – and I admit we need to take action here. The Federal Council has also confirmed this approach to promoting transparency and a voluntary approach with regard to the investment strategy of pension funds, in a report on investments in the venture capital sector published at the end of 2018.

### **Are you engaged in an international dialogue as well – with other pension fund associations, for example – about sustainable investments and appropriate general conditions?**

ASIP is a member of two associations: PensionsEurope and the Europe Association of Public Sector Pension Institutions (EAPSPI). In the two associations, discussions focus on sustainability issues, as well as the scope and consequences of the (forthcoming) regulations. Germany, the Netherlands and even the UK often have a similar approach to Switzerland and tend to favour voluntary measures. France, on the other hand, leans in the other direction and wants tighter regulation. It's interesting to see how the pension fund sector is organised differently in each country. In the Netherlands, for example, associations are very typical.

### **According to a study published by WWF Switzerland, Swiss pension funds are making some headway, but progress is slow. Do you share this opinion?**

The fact is that the WWF study only assessed the 20 biggest pension funds. I can see greater progress being made particularly by the mid-sized pension funds, such as municipal authorities. These were not included in the WWF study. SSF is also increasingly seen as an important promoter of know-how, which also indicates that pension funds are starting to move forward. But of course, the process towards comprehensive integration of sustainability criteria has to be stepped up. Ultimately each board of trustees needs to decide how far it wants to go. At ASIP we are making every effort to encourage this process by providing information on best practice in sustainable investments.