

Institutional Investor Dialogues

Christine Chardonens: Welcome to this edition of MSCI Investor Dialogues. My name is Christine Chardonens, I work in ESG Index Product at MSCI. My guest today is Patrick Uelfeti. Hi, and welcome, Patrick.

Patrick Uelfeti: Hello, Christine.

Christine Chardonens: Patrick, you are Deputy CIO of PUBLICA, the Pension Fund of the Swiss Government, and you're responsible for portfolio management as well as the development and implementation of the investment strategy. You also are Board Member of the Swiss Association for Responsible Investment, SVVK ASIR. Patrick, PUBLICA announced last year a very comprehensive climate strategy for its equity allocation, which clearly makes you a leader in terms of tackling climate in the investment process. What were the main challenges in terms of getting that strategy agreed internally, but also in terms of implementing with your managers? And how did you overcome all of those difficulties?

Patrick Uelfeti: Yes. Well, first of all it was a really pleasure to do this project with MSCI, I must say. And I think internally, the challenges we had until we got there was basically to discuss with the investment committee why we thought that not everything was priced into the market in terms of climate risks and opportunities. And that was a very challenging discussion we had. We had to answer, why should we be smarter than the market basically. And also internally, finally the challenge was then also how we would implement in our portfolios in a consistent way.

Christine Chardonens: And if we step back for a second, when did PUBLICA actually start to look at climate related risks? And what were the main factors driving the decision to implement climate in the investment process last year?

Patrick Uelfeti: We launched a process that we call ESG Risk Analysis to prioritize ESG risks back in 2015. And then we started with looking at stranded assets, which led to the exclusion of coal producers in 2016 from our portfolio. And then from there on, every year when we did the process again, climate was one of the top priorities, so we kept on looking at ways of how

to cover climate related risks and opportunities, but in a much broader sense. Not only by sectors or companies, but for the whole portfolio on a more global scale.

Christine Chardonens: And what would you say are the main benefits of using indices in the context of implementing such a strategy?

Patrick Uelfeti: Well, for PUBLICA-- so we are basically a so-called passive investor. We are replicating indices benchmarks, and therefore we were looking for a solution that could be applied to such a passive strategy, and I think the main advantages that we see is that it's very scalable, so we have over 6,000 securities in our portfolio. It is rule-based, objective and very systematic. That was exactly what we were looking for.

Christine Chardonens: We've talked about climate, but are there any other dimension of sustainability to PUBLICA's strategy and what are they? And how often do you review progress with your board? And when did you look at that? What indicators are they looking out for?

Patrick Uelfeti: Yes, you are correct. So climate is one subset basically of the responsible investment strategy. We screen our portfolio on a semi-annual basis for all kinds of violations against the UN Global Compact. So it's a non-based screening basically, where we do engage with companies and if not successful, we might also disengage with companies. So that's done on a semi-annual basis. And the board, we have regular discussions in the investment committee, and then also from time to time, we do revise our strategy for responsible investment with the board.

Christine Chardonens: Is PUBLICA looking to expand its sustainability strategy including climate to other asset classes aside from equity? Is there a roadmap?

Patrick Uelfeti: Yes, we are currently looking at how we can do that for our corporate bond portfolio. It's slightly different compared to our equity portfolio, because in the corporate bond space we have semi-active managers, which means that we are talking to our managers on how they can implement climate strategies in their portfolios. And then we will monitor that, but I think that's just the first step. We would like them to extend it to sovereign bonds as well and in the future also cover more climate risk on a broader sense. So not only the so-called transitions risks, but also more specifically the physical risks, which we already do in the equity space.

Christine Chardonens: Thank you, Patrick, and for being with us today.

Patrick Uelfeti: Thank you very much, Christine.

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