The ethical Nest egg:

Nest Sammelstiftung, the Swiss multi-employer pension fund

Should sceptics still need proof that sustainable investing does not come at the expense of returns, they should consider the example of Nest Sammelstiftung, a Swiss multi-employer pension fund. Founded in 1983 as a socially responsible investor – i.e. one that chiefly relies on exclusion – Nest is impressive both from a performance and stability perspective. In 2012 and 2013, the scheme returned 6.4% and in 2014 as much as 10.2%. Nest's coverage ratio, or the extent to which pension liabilities are fully funded, currently stands at 115%.

Small wonder then that the scheme has seen robust growth, with the number of insured rising 50% in the past five years to total almost 18,000. These insured are employed at around 3,000 small and midsize enterprises (SMEs) in Switzerland. Naturally, many more insured means more assets to look after, and Peter Signer, Nest's Chief Investment Officer, says that in the six years since he joined the fund, the volume of pension assets has more than tripled to CHF2bn. "I can't say if the above-average growth is due to our sustainable mission, our attractive pension plans or even our returns. It's probably a mix of all factors," he says.

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Nest's strong returns in past years have come despite the fact that it has a very consequential exclusion policy. According to Signer, the scheme excludes nuclear power, genetic engineering, weapons and companies that violate human rights by relying on child labour, as well as those guilty of corruption. "We also exclude sectors that are contributing to societal problems – for example tobacco, alcohol and gambling. We don't even have auto companies in the portfolio because of the link between carbon emissions and climate change," said Signer, who was interviewed at the Zurich-based pension fund. In deciding what companies to exclude, Nest relies on a filter provided by Swiss ESG (environmental, social and governance) firm Inrate, in which it also has a shareholding. Citing the example of auto firms, Signer says they were ejected from the portfolio because Inrate's filter, which works on a 'best-in-service' basis (in terms of societal value), preferred public transport firms.

Inrate's filter severely shrinks Nest's universe of investable stocks. As a result, the scheme says that only around 30% of listed Swiss companies qualify for consideration, adding that the same is true of companies on the benchmark MSCI-World Index. When companies are selected, Nest's allocation to them is heavy, with 31% of Nest's assets going to shares. The scheme also has another 36% of assets in bonds – again selected according to Inrate's filter – and 23% in real estate. Of the latter share, half is invested in funds and the other half directly in properties around Switzerland. Rounding out the portfolio is a 7% allocation to private equity funds. Included in the private equity allocation is 2% in infrastructure, that is primarily renewable and energy efficiency projects. Nest also sees to it that the properties it owns rank highly in terms of energy efficiency.

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Signer admits though that as Inrate's sustainable filter does not cover private equity investments or those in emerging markets, Nest cannot say that its entire portfolio is sustainable. "We believe our sustainable approach is unique in the German-speaking lands. But for the sake of diversification, we've had to compromise some," he says. Regarding private ▶

**Peter Signer,
Chief Investment Officer, Nest**

equity investments, however, Signer adds that while Nest used to only focus on the track record, "now we ask hard questions about their sustainability too, and if they are answered to our satisfaction, we invest."

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If Nest is proof that sustainable investing works, why have not more of its peers in Switzerland embraced the principle? Of the more than 2,000 Swiss pension funds, only three, including Nest, have signed up to the Principles for Responsible Investment (PRI), and a handful more non-PRI signatories, above all the CHF1.2bn multi-employer scheme Stiftung Abendrot, are adherents. This is surprising considering that a recent survey from Swiss asset manager RobecoSAM reflects that nearly three-fourths of Swiss pension fund members want their schemes to invest sustainably (see also RobecoSAM interview in this report). In fact, another 60% of those queried said they would be willing to sacrifice some return for the sake of sustainability. Not that they have to.

Signer gives two reasons why sustainability has not really taken root in the Swiss institutional market. The first has to do with the lack of information and the second with the way they are structured. As to the first reason, he says: "Because many in Switzerland are misinformed about what sustainable investing means, they tend to buy the myth that it costs return." To illustrate his point, Signer recounts a roundtable on sustainability in which he took part. During the discussion, the suggestion was made to obligate Swiss pension funds to invest sustainably. Says Signer: "That provoked a reaction from a Swiss parliamentarian who stood up to say: 'But the schemes are obliged to generate returns!' I responded by asking whether he was aware that a representative of Nest was present."

The second reason concerns their structure. Unlike Nest or Stiftung Abendrot, which as multi-employer schemes have to recruit companies and their employees, many Swiss schemes are just tied to single companies. A high degree of sophistication in investing, which is required to integrate ESG, is not really needed. Instead, corporate schemes prefer a passive approach to equity investment, which means that they buy conventional indices that lack sustainable components. That is certainly legitimate from a cost perspective. Says Signer: "It's just a different world than ours. We are in the spotlight, which means for example that if we get hit with reputational risk, we might lose members. That's not the case with corporate schemes. If they get hit, it's less of a problem, for the insured can't leave for lack of an alternative."

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That said, Signer agrees that the so-called Minder initiative, which obliges Swiss pension funds to vote on executive pay at the Swiss investees, is a step forward for sustainability, in that it forces them to consider the "G" in ESG. The caveat is that schemes invested in Swiss companies via funds face no voting requirement. Along with other institutions, Nest is invested in Swiss firms through a stock fund managed by Swiss private bank Vontobel. While this relieves the scheme of its voting duty, leaving it instead to the fund's managers, Signer says Nest is discussing the possibility that the fund follows the voting recommendations of Ethos, the Swiss proxy firm that is a known champion of ethical corporate governance. "From our standpoint though, the E and the S are more important, so the fund's managers are more focussed on the selection of stocks as per our wishes."

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To explain how it's done, that is integrate ESG into the investment process, Signer, on the invitation of Swiss pension fund association ASIP, has even held workshops for ASIP members. When it comes to the virtues of sustainable investing, Nest Sammelstiftung is leading by example. ■