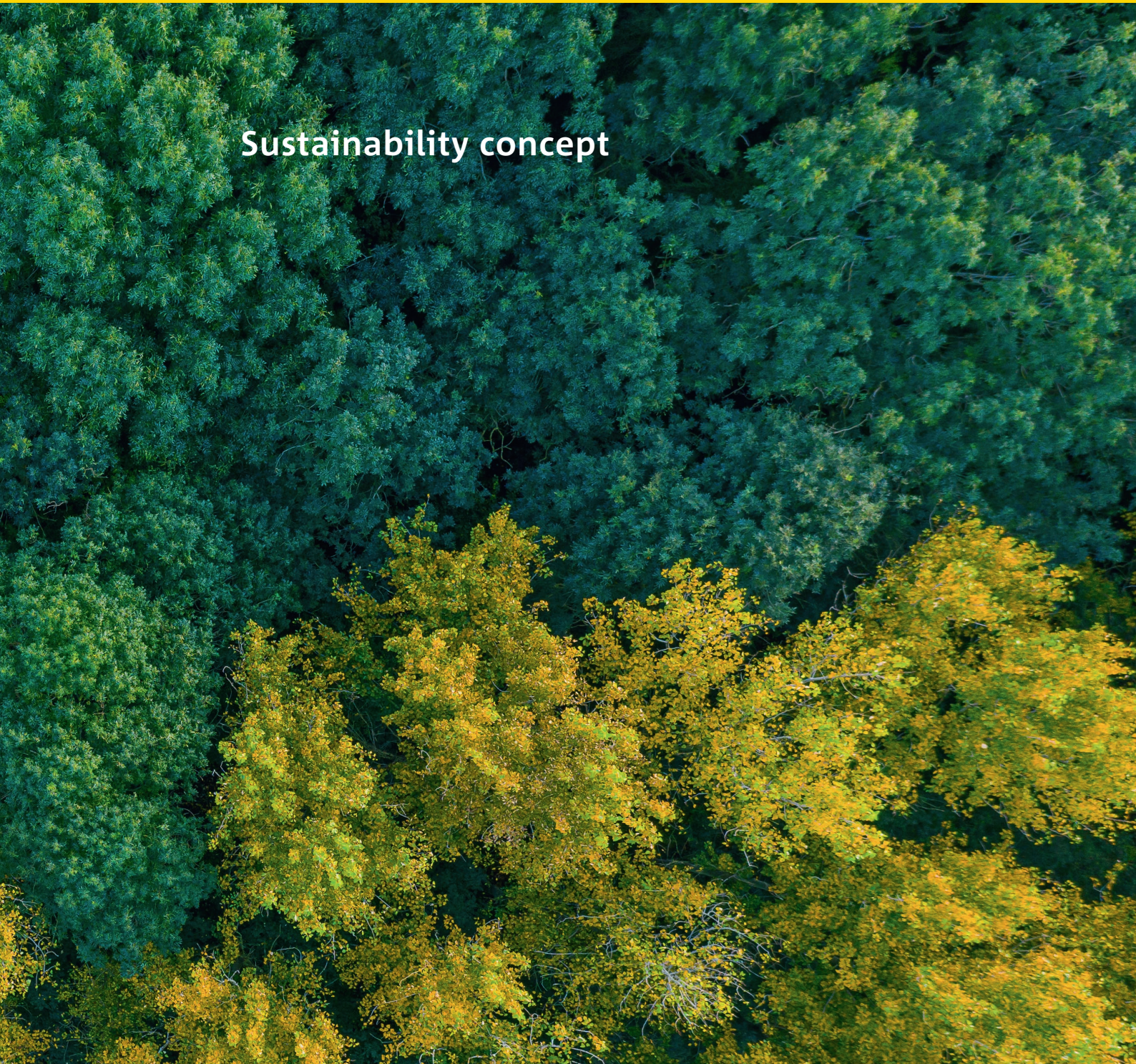


Nest Collective Foundation

## Sustainability concept





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## **1 The main points in a nutshell**

Right from the beginning, when it was founded in 1983, Nest has had a strong sustainability concept. In fact, Nest sees itself as a pioneer in sustainable investments: we have been implementing comprehensive sustainability measures all along and intend to remain a leader in this field.

Our understanding of sustainability is based on the Brundtland Report published by the UN: Sustainable development does not compromise the needs of future generations. Based on this understanding, Nest has derived 15 principles for sustainable behaviour. In addition to sustainable investments, these also cover sustainability within the context of the pension mandate and sustainability within the context of the Foundation's organisation. We are committed to ensuring that our actions and reporting are aligned with the 15 sustainability principles in all areas of our business.

Nest considers sustainability to be an integral part of the investment process and has given high priority to these principles as well as the exclusion criteria when incorporating them into the Investment Regulations. As we are convinced that our understanding of and approach to sustainability will generate long-term financial and immaterial value for members and society, we are working continuously to implement and improve our sustainability approach across all investment categories.

## 2 Basic principles and objectives

***"We are committed to the well-being of both current and future generations"***

Apart from focusing on the legal mandate of an employee benefits institution, Nest is strongly committed to accomplish its sustainability principles in all areas. Nest's understanding of sustainability follows the definition of sustainable development from the Brundtland Report published by the United Nations in 1987:



Gro Harlem Brundtland<sup>1</sup>

***"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."***

Brundtland report "Our common future", 1987

The concept of inter-generational equity outlined by Brundtland is considered the starting point of the worldwide discussion about sustainability and sustainable development. In today's environment, balancing the needs of current and future pension recipients, or inter-generational equity, is one of the most important tasks a pension fund has to fulfil.

Inter-generational equity takes into account the interdependency of economy, society and environment now and in the future. Nest views sustainability from an overall societal perspective and takes it into account not only for its investment decisions, but also with regard to the pension mandate and within the context of the Foundation's organisation (cf. Figure 1). In the following chapters, the aspects of sustainability are described and substantiated in the form of principles for each sector.

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<sup>1</sup> Source: GAD - Eigenes Werk, CC BY-SA 3.0, [commons.wikimedia.org/w/index.php](https://commons.wikimedia.org/w/index.php)



Figure 1 Sustainable development at Nest

### 3 Sustainability within the context of the pension mandate

#### 3.1 Principles

Three principles applicable to the pension mandate can be derived from the definition of sustainability:

<b>Principle no. 1</b> <b>Inter-generational equity</b>	We endeavour to provide reliable pension benefits for current and future generations.
<b>Principle no. 2</b> <b>Participation</b>	Nest supports and encourages affiliate companies in the implementation of sustainability measures and involves them in decision-making processes, following a cooperative approach, i.e. solidarity between the affiliated companies and participation at delegates' assemblies are an essential part of our approach.
<b>Principle no. 3</b> <b>Independence</b>	As an independent collective foundation, we want to use as much of our financial resources as possible for pension provision.

#### 3.2 Substantiation

##### ***Principle no. 1 – Inter-generational equity***

The first principle stipulates that we should pay benefits that cover an appropriate portion of post-employment living expenses for all generations, doing our best to avoid favouring one generation over another.

##### ***Principle no. 2 – Participation***

The second principle involves equal treatment of individual affiliated companies, consulting them on important decisions, and cooperating with them when it comes to implementing sustainability measures. In concrete terms, affiliated companies should be made aware of sustainable development and provided with support. With regard to supporting affiliated companies, particular mention should be made of case management in the event of health-related absences, as cooperation on this issue benefits all parties involved. In some cases, a company may not be accepted for affiliation due to its lack of sustainability. It is primarily at the delegates' assembly where affiliated companies can participate in decision taking.

##### ***Principle no. 3 – Independence***

As Nest is organised as a foundation, it is not too difficult to implement the third principle. Efficiency and cost awareness, both within the Foundation and with regard to investments, should further contribute to the realisation of this principle.

## 4 Sustainability within the context of the organisation

### 4.1 Principles

As a pioneer and role model, Nest applies sustainability principles to social, governance and environmental aspects within the organisation.

#### *Social aspects*

<b>Principle no. 4</b> <b>Employee development</b>	As an employer, Nest promotes the development of its employees, equality, the protection of personality rights, respectful relationships and personal responsibility.
<b>Principle no. 5</b> <b>Integrity and loyalty</b>	In return, Nest expects initiative, cost awareness, integrity and loyalty from its employees.
<b>Principle no. 6</b> <b>Fairness</b>	Nest sees itself as a fair contractual partner that communicates openly.

#### *Governance*

<b>Principle no. 7</b> <b>Protecting the interests of all stakeholders</b>	We safeguard the interests of members and affiliated companies by means of good governance at the Collective Foundation, rigorous risk management and an open communication policy.
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#### *Environmental aspects*

<b>Principle no. 8</b> <b>Acting with respect for the environment</b>	We promote environmental awareness and the careful use of resources among our stakeholders, i.e. not only among our employees but also among our suppliers and related companies.
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## **4.2 Substantiation**

### ***Principles no. 4 and 5 – Employee development / Integrity and loyalty***

Principles no. 4 and 5 are not only laid down in Nest's Staff Regulations but are also practised and promoted by the members of the Board of Trustees and the management. The management should provide platforms for employees to communicate openly, obtain first-hand information, exchange views and critically reflect on business policies.

### ***Principle no. 6 – Fairness***

Principle no. 6 stipulates, among other things, that communication with all stakeholders should be fair and transparent, and that contracts should be awarded at arm's length conditions.

### ***Principle no. 7 – Protecting the interests of all stakeholders***

Principle no. 7 is realised by separating decision-making, implementation and control, taking efficiency into account. The corresponding stipulations are laid down in detail in our regulations and guidelines, which are reviewed regularly and adjusted if necessary. We have an internal risk management and control system in place, which is constantly adapted to ongoing developments and includes mechanisms for identifying, assessing, managing, monitoring and reporting risks. We practice an open and transparent information policy, both externally and internally.

### ***Principle no. 8 – Acting with respect for the environment***

Principle no. 8 requires Nest to take steps to ensure the sustainable use of resources in its choice of products and services. Local suppliers and producers are taken into account, and public transport is used where possible. It is our goal to keep CO<sub>2</sub> emissions low, minimise waste and recycle where possible.



## 5 Sustainability within the context of investments

### 5.1 Principles

Right from the beginning, when it was founded in 1983, Nest has had a sustainability concept for investments. As a pioneer in sustainable investments, Nest has been implementing comprehensive sustainability measures all along and intends to remain a leader in this field. In the Investment Regulations, Nest has given high priority to the principles of sustainability as well as the exclusion criteria. The present concept also takes into account Nest's general investment principles (investment beliefs). Nest considers sustainability to be an integral part of the investment process, leading to long-term financial and intangible value for members and society. We are convinced that the sustainability approach can be implemented and improved across all investment categories. To achieve these goals, regular reporting and monitoring of the implementation of sustainability measures is necessary.

<b>Principle no. 9</b> <b>Including sustainability</b> <b>in the investment objective</b>	Our objective is to have a return and risk profile that is in line with the market over the long term, with the highest possible sustainability rating in all investment categories. The weighting of return and sustainability is taken into account and integrated into the processes from the very beginning.
<b>Principle no. 10</b> <b>Contribution to development</b> <b>through effective techniques</b>	With targeted investments, we want to contribute to the sustainable development of the economy and society, but also trigger an incentive mechanism.  As a basic principle, we select investments that have a positive impact along the value chain, based on analyses of the direct and indirect impact of business activities on the environment and society.
<b>Principle no. 11</b> <b>Independence</b>	By separating sustainability analysis from investment management, an independent and autonomous approach to sustainability is possible. Conflicts of interest arising from efforts to optimise returns on the one hand and from sustainability requirements on the other hand are thus avoided.
<b>Principle no. 12</b> <b>Overall portfolio 100%</b> <b>sustainable</b>	As Nest is committed to making only sustainable investments, sustainability criteria are taken into account for all investment categories. They are monitored for impact and continuously adjusted where necessary.

## 5.2 Substantiation

### ***Principle no. 9 – Including sustainability in the investment objective***

As an employee benefits institution, Nest aims to achieve the legal mandate of a return in line with the market while at the same time giving as much consideration as possible to sustainability. In concrete terms, it is therefore necessary to weigh up the optimisation of the risk/return profile against sustainability. We do this on two levels:

- *Investment strategy level:* not sustainable and intrinsically non-sustainable asset classes are excluded (e.g. hedge funds).
- *Investment category level:*
  - Equity: Exclusion of non-sustainable companies;
  - Infrastructure: Exclusion of certain sectors (portfolio focus on renewable energy sources and energy efficiency).

Sustainability selection (by definition) leads to active investment decisions. Due to that selection, there may be a considerable risk of temporary deviations from conventional market indices, a fact that is taken into account for the risk assessment.

### ***Principle no. 10 – Contribution to development through effective techniques***

Nest uses the following techniques to implement its sustainability criteria: selection and active ownership (cf. 5.3). Both techniques are based on sustainability analyses in which the economic activities of companies and their direct as well as indirect costs and benefits for the environment and society are analysed and evaluated.<sup>2</sup> For the actual implementation, this means that the sustainability analysis uses the following elements:

- Exclusion criteria (cf. Appendix 1)
- Basic environmental and social criteria (cf. Appendix 2)
- Assessment of corporate social responsibility indicators (corporate social governance).
- Assessment of the negative and positive impacts of business activities on the environment and society along the entire value chain (i.e. from procurement to recycling).
- Consideration of controversial sustainability events ("sustainability controversies").

### ***Principle no. 11 – Independence***

At Nest, sustainability analysis is separate and distinct from the investment activity. By conducting an independent analysis upstream, we can make sure that the sustainability goal is being consistently pursued and conflicts of interest that could arise for the investment portfolio manager are avoided. Our approach to sustainability differs notably from the ESG integration

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<sup>2</sup> A typical example of indirect costs is the carbon footprint that results from the production and consumption of a product. The manufacturer does not bear the corresponding costs, i.e. the negative effects resulting from air pollution, but these costs are borne by the general public.

concept practised by asset management companies where sustainability criteria are considered like other economic criteria in the financial analysis, i.e. they are only taken into account if they have a financial impact. For example, shares in an oil refinery might be attractive from a purely financial perspective because of low prices, even if that industry or company does not meet the sustainability criteria. In other words, if the return potential of the shares is higher than the (environmental) risks involved, the investment is valid. At Nest, such a weighting is not possible, as the sustainability analysis carried out upstream excludes such stocks beforehand.

### ***Principle no. 12 – Overall portfolio 100% sustainable***

Nest wants to extend the sustainability criteria to all investment categories. However, the options for implementation depend on the specific categories.

- In principle, the selection is made at company level. However, this approach needs to be adjusted when data availability is insufficient in certain regions or investment categories. For the private equity and infrastructure categories, for example, a meaningful selection on the basis of sustainability criteria at company level is not feasible, as there is not enough data available. For this reason, a selection is made at sub-sector level. Certain industries can be declared generally unsuitable for investment if their social or ecological impact is deemed harmful. In the infrastructure category, for example, renewable energy sources are viable for investments, while motorway operators are not.
- In addition to screening, Nest applies engagement strategies in various investment categories and alternative investments. For example, Nest checks the holdings of investment vehicles in alternative investments for controversies in the area of sustainability. If necessary, such controversies are discussed with asset managers and appropriate measures have to be initiated. Our reporting ensures that the corresponding developments are followed over the course of time.

## **5.3 Application of sustainability criteria in investments**

Screening and active ownership allow sustainability criteria to be applied across all investment categories. From Nest's perspective, these two implementation techniques complement each other perfectly and contribute to achieving our goal of promoting a more sustainable development.

### ***Selection***

The selection process serves to comply with sustainability requirements within an investment portfolio. The selection of investment vehicles is carried out in two steps: negative screening and positive screening.

- *Negative screening:* The exclusion criteria (based on value and standard) are incorporated as an important aspect in the Investment Regulations. Investments that, from an ethical and ecological perspective, should not be part of a sustainable economy (see Appendix 1), such as practices that violate human rights (child labour and forced labour), failure to respect basic rules and democratic principles (oppressive regimes) or major environmental and social risks (e.g. military industry) are excluded.
- *Positive screening:* Positive screening analyses the impact of investments on the environment and on society along the value chain according to the “best in service” approach (see Appendix 3). The most important environmental and social criteria (incl. governance) are listed in Appendix 2.

### **Active ownership**

Active ownership aims to improve the overall investment universe and thus also to expand Nest's investment opportunities. There are two possibilities here: engagement and the exercise of voting rights. Engagement is about maintaining an active and informal dialogue with the management of companies in which we have a stake. The exercise of voting rights aims to increase the sustainability at such companies through voting behaviour at general meetings. In this case, the same criteria are taken into account as for the selection process.

- *Exercise of voting and shareholder rights:* The following guidelines form the basis for exercising voting and shareholder rights: Nest appoints an independent expert as voting advisor in the exercise of voting rights. The fundamental attitude is to exercise voting rights in the long-term interests of all stakeholders. The principles of proper corporate governance, taking into account the legal framework, the ongoing revision of company law, regulations, stakeholder interests, as well as a rating system assessing sustainability factors and corporate governance in line with Nest's understanding of sustainability, serve as a framework for orientation.
- *Engagement:* Nest has joined forces with other investors in so-called “engagement pools” to seek active dialogue with companies and is actively engaged through initiatives and cooperation with other interest groups to advance structural change, working together with asset managers and other service providers.

## **5.4 Definition of powers and responsibilities**

The following table sets out the powers and responsibilities for determining, implementing and monitoring sustainability with regard to Nest's investments:



	DV	SR	AK	Bereich
Anlagereglement (Ausschlussliste)	Konsultation	Entscheid	Antrag	Antrag
Nachhaltigkeitskonzept (Grundsätze und Ziele, Nachhaltigkeitsprinzipien, Kompetenzordnung, Konkretisierung Nachhaltigkeitsverständnis)	Konsultation	Entscheid	Konsultation	Antrag
Umsetzungskonzept Nachhaltigkeit (Umsetzung Nachhaltigkeit in den verschiedenen Anlageklassen, Kompetenzen Bereich und externer Dienstleister, Bestimmung Indikatoren und Gewichte, Reporting)		Information	Entscheid	Antrag
Auswahl und Monitoring der Dienstleister für die Umsetzung der Nachhaltigkeit		Information	Entscheid	Antrag

Table 1: Definition of powers and responsibilities

	Delegates' assembly	Board of Trustees	Investment Committee	Sector
Investment Regulations (exclusion list)	Consultation	Decision	Proposal	Proposal
Sustainability approach (principles and objectives, principles of sustainability, definition of powers and responsibilities, substantiation, understanding of sustainability)	Consultation	Decision	Consultation	Proposal
Sustainability implementation concept (application of sustainability criteria to all investment categories, powers and responsibilities of sector/external providers, choice of indicators and weighting, reporting)		Information	Decision	Proposal
Selection and monitoring of service providers for the application of sustainability criteria		Information	Decision	Proposal

## 6 Transparency and reporting

### 6.1 Principles

Nest's sustainability approach also includes regular reporting and review of the implementation of sustainability principles.

<b>Principle no. 13</b> <b>Transparency</b>	Nest is committed to transparency towards its members and expects transparency from its service providers. Members are informed about sustainability through regular reporting and activity reviews.
<b>Principle no. 14</b> <b>Evaluation</b>	The effectiveness and impact of the implementation of sustainability principles is determined by means of systematic reporting (sustainability reporting), which provides Nest with a basis for evaluating the implementation and allows us to react appropriately to violations of the sustainability principles.
<b>Principle no. 15</b> <b>Measures</b>	Apart from the implementation of the sustainability principles within the context of the pension mandate, the organisation and investments, Nest informs its stakeholders about measures initiated to further improve sustainability.

## **6.2 Substantiation**

### ***Principle no. 13 – Transparency***

For a responsible investor like Nest, transparency towards members and the public is of central importance. The implementation of sustainability is therefore not only systematically evaluated internally, but also communicated to members and the public through various reporting channels such as the annual report and specific sustainability reports with activity reviews, benchmarking on sustainability topics (such as CO<sub>2</sub> emissions, UN sustainability goals) on our website and its reporting at the delegates' assembly.

### ***Principle no. 14 – Evaluation***

The aim of our sustainability reporting is to show our investment portfolio's sustainability impact and to be able to react appropriately to any violations of our principles. On this basis, we can decide on measures to further improve our sustainability strategy. The following issues are key:

- Monitoring whether the sustainability criteria are met for individual portfolios.
- Comparison to the conventional market portfolio to determine the degree of sustainability of the investments. Typically, this comparison is based on specific sustainability topics, such as CO<sub>2</sub> emissions or the UN's goals for sustainable development. In this way, the appropriateness of Nest's holistic approach to sustainability with regard to specific topics can be assessed.
- Reviewing the impact of sustainability on performance. Knowing this impact serves as an information base to ensure that a return in line with the market can be achieved over the long term and that the risk/return profile is in line with the strategy.

### ***Principle no. 15 – Measures***

In order to monitor the implementation of its sustainability principles, Nest reports on results and new measures with regard to the pension mandate, organisation and investments on an ongoing basis and in its annual report.

## **7 Appendices**

### **Appendix 1: Exclusion criteria pursuant to Art. 1.5 of the Investment Regulations**

We exclude investments in companies with specific ties to the following areas (the list is not exhaustive):

- Nuclear energy
- Genetic engineering in agriculture
- Controversial medical genetic engineering
- Military industry
- Support for oppressive regimes
- Money laundering
- Corruption
- Violation of fundamental labour and human rights
- Child labour and forced labour
- Insufficient compensation for indigenous peoples / bio-piracy
- Alcohol, tobacco, pornography, gambling

### **Appendix 2: Sustainability criteria for investments (Excerpt from a total of over 180 indicators)**

#### ***Environmental criteria***

Examination of the environmental impact based on the following criteria:

- Carbon intensity of products or services over their entire life cycle incl. recycling (scopes 1–3)
- Other environmental impacts over the entire life cycle
- Eco-friendly product development
- Eco-friendly product characteristics
- Environmental guidelines
- Environmental management system
- Sustainable procurement
- Energy and water consumption
- Emissions into air, soil and water
- Waste and recycling



### **Social criteria**

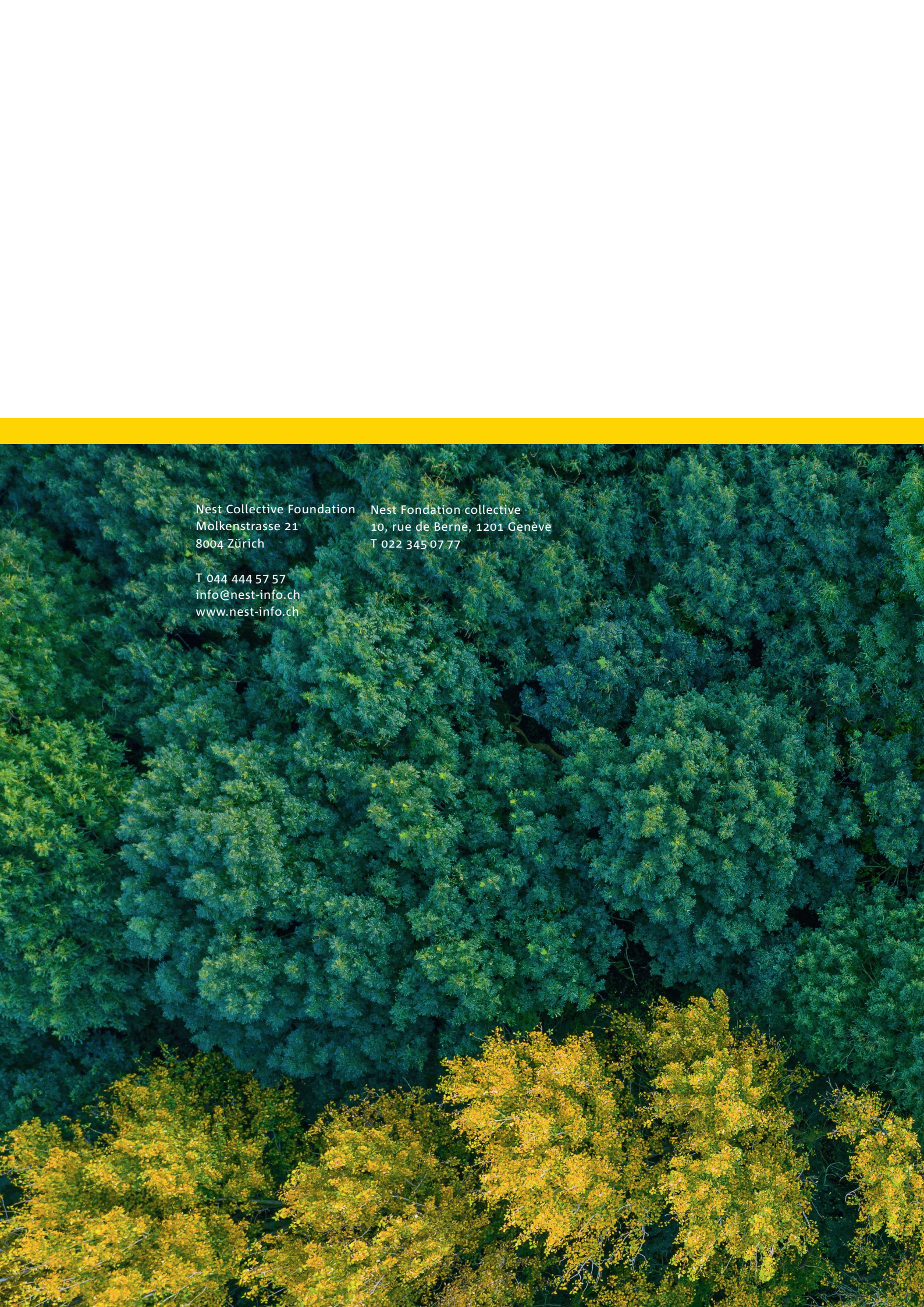
Review of the relationship with relevant stakeholder groups based on the following criteria:

- Working conditions, for example:
  - Human resources policy
  - Health and safety
  - Initial and further training
  - Freedom of organisation and co-determination
  - Equal opportunity
  - Social standards in procurement
- Governance, for example:
  - Transparency in relation to sustainability reporting
  - Composition of the Board of Directors
  - Transparency with regard to the remuneration of the Board of Directors and the general management
  - Risk management
- Society, for example:
  - Guidelines and measures with regard to human rights
  - Impact of products on consumers and third parties
  - Donations and charitable activities
  - Ethical code of conduct
  - Data protection

### **Appendix 3: “Selection” sustainability approach in equity investments**

With its “best in service” concept, Nest pursues an independent sustainability approach according to which companies that fulfil the same basic needs of society are assigned to specific service sectors and compared with each other. This broader grouping of companies allows for a more comprehensive analysis. In the transport service sector, for example, car manufacturers are compared to airlines, public transport, etc. The analysis assesses which products and services can satisfy the basic needs of society in the most eco-friendly and socially efficient way, i.e. the most sustainable way. This concept is focused on the impact of business activities on the environment and society and serves to identify sustainable investment opportunities with regard to environmental and social aspects (incl. governance). In order to qualify, investment opportunities must be above average in both aspects. This approach allows for a high degree of selectivity with regard to sustainability.



An aerial photograph of a dense forest. The majority of the trees have vibrant green foliage, while a section in the bottom right corner shows trees with bright yellow leaves, suggesting an autumn scene. The canopy is thick and textured.

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