

Annual Assembly of Parliamentarians for Nuclear Non-proliferation and Disarmament (PNND)

Exclusion of (nuclear) weapons and fossil fuel industries from Swiss Pension Funds

Rudolf Rechsteiner

President Ethos foundation

Divestment and active ownership

Movement for social responsible investment is growing. **Common subjects:**

- Carbon emissions
- Drugs, opioids, tobacco
- Nuclear, banned weapons or weapons in general
- Gambling, lotteries, pornography
- Norwegian State Fund as a pioneer

Ethos Foundation delivers Analysis and Engagement

Ethos is committed to

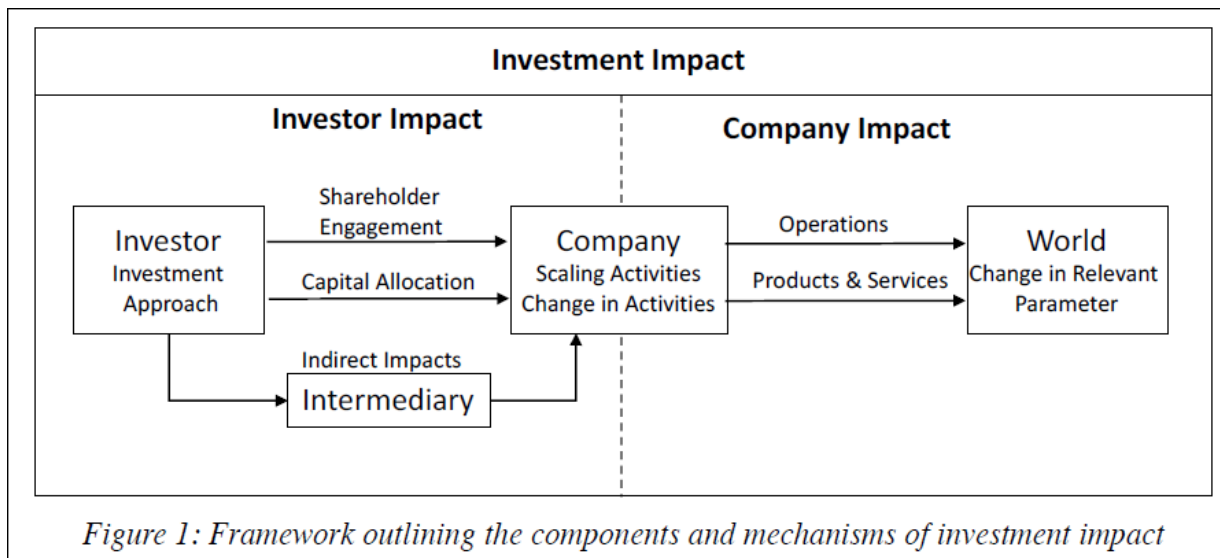
- promotion of sustainable investment activity
- stable economy and institutions that thrive long term

Ethos Services AG supplies

- Screening of listed companies
- Exercise of stock voting rights
- Engaging in dialogue with companies as part of engagement programs
- Demanding accountability and self-regulation from listed companies

Shareholder Impact?

- **Weak impact**
 - Capital allocation impact for big companies, indirect impacts
- **Stronger impact**
 - Talking at general Assemblies about the impact of products
 - Call directors to change products or delivery chain
 - Public dialog on things that newspaper do not report
 - Divestment and Capital cost impact regarding small companies



Capital allocation impact rather weak

General Goal would be:

Higher cost for companies to finance contentious activities

But

– Big Companies do not have a shortage of funding

Therefore

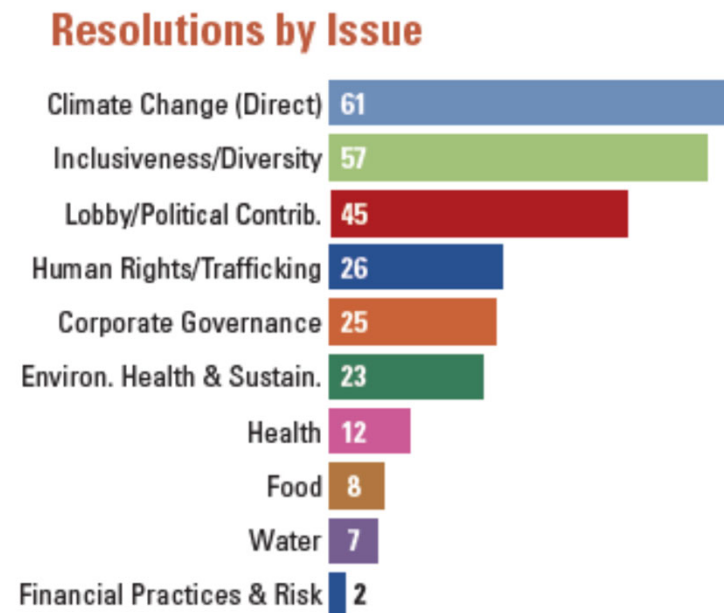
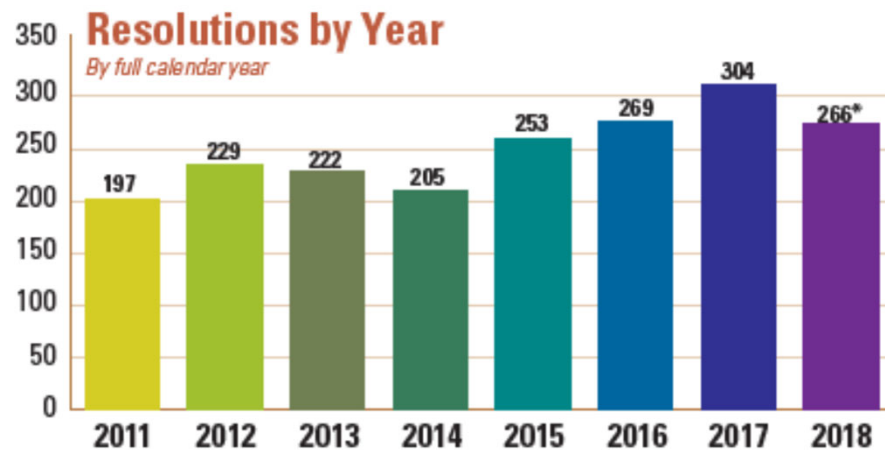
– Divesting can be meaningful

- For coordinated activities of investors resulting in a high market share of relevant financing
- For small companies with restricted access to capital markets

– For contentious activities with perfect substitutes

- Example: banning coal investments, pushing solar/wind/battery finance

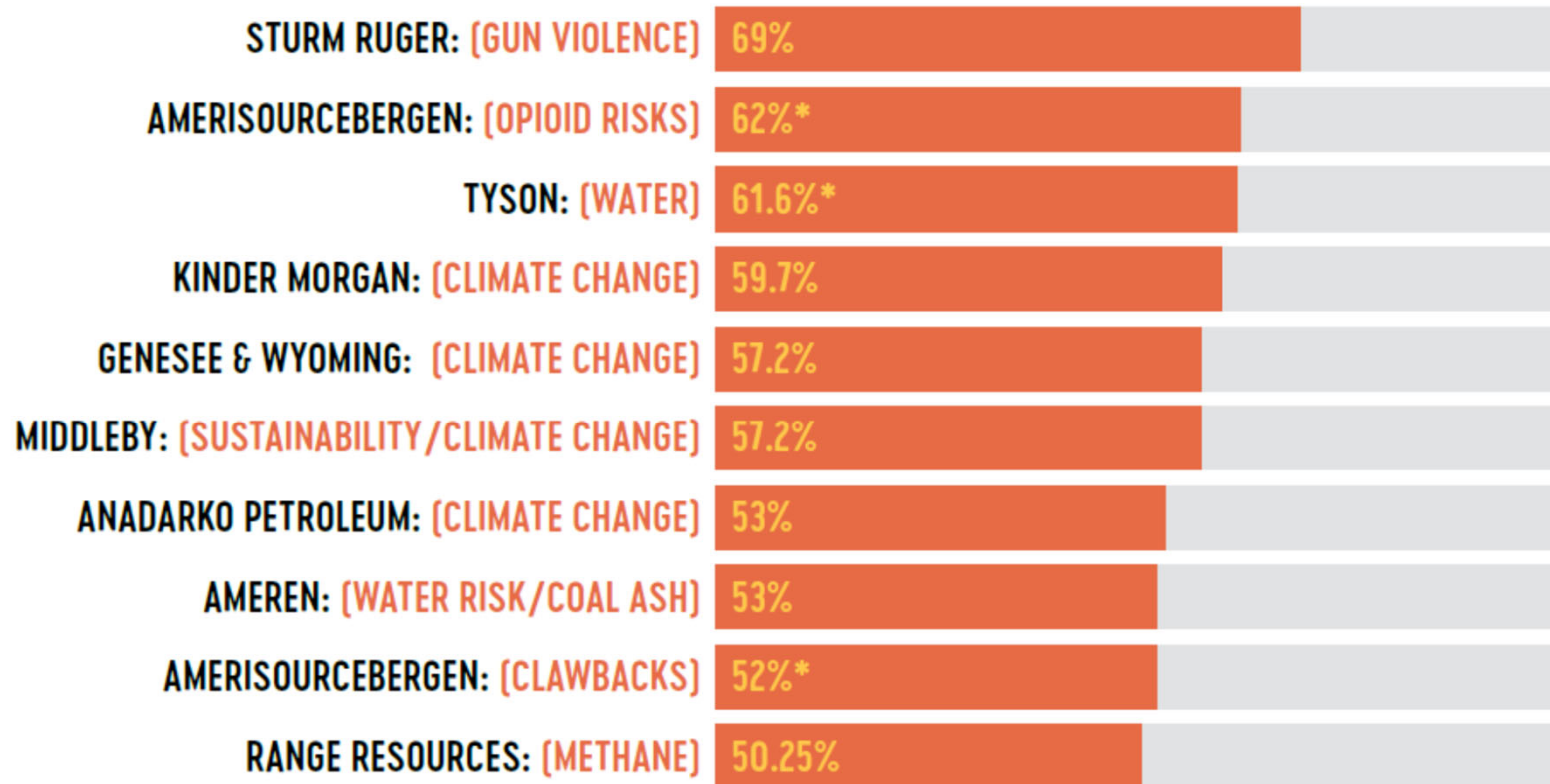
US Stockholder Resolutions 2018



Source : ICCR 2018 Proxy Resolutions and Voting Guide, www.iccr.org

GV Ausland

successful resolutions 2018

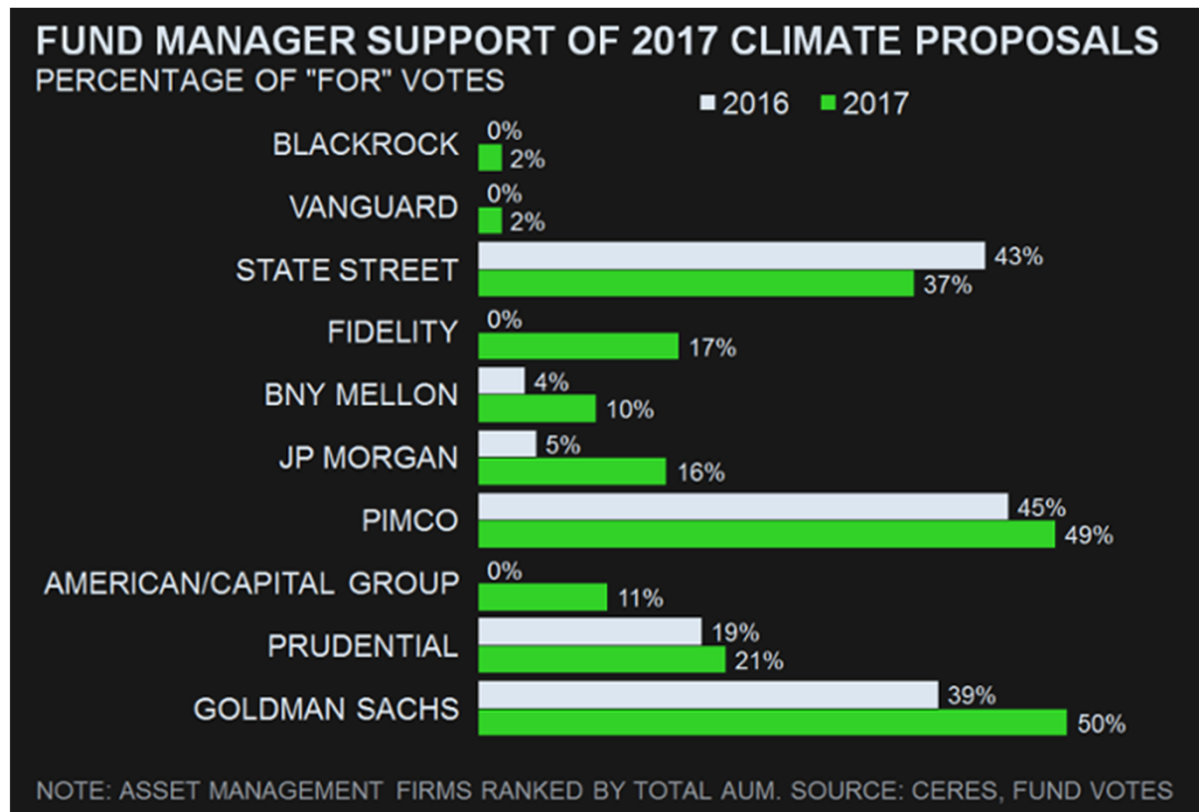


*majority of independent votes

Source : ICCR 2018, www.iccr.org

Engagement of asset managers climate change and weapons mostly not an issue

- Professional Asset managers mostly did not support climate resolutions in 2017



The special case of weapons

- **Problems: Nuclear weapons not a free market product**
 - state companies and military agencies involved
 - Impact of pension funds is rather small
 - Purchase Power of states is goal oriented
- **But: Investment ban of weapons is popular**
 - Divesting can be more powerful for «neighbouring» technologies such as nuclear power plants
 - Divestment from nuclear weapons always should include nuclear power stations

Definition of controversial weapons

Controversial weapons cause disproportionate harm and remain a threat long after a conflict has been resolved.

Different countries and institutions hold varying views based on these characteristics:

- **Indiscrimination**: the weapon is indiscriminate in nature, i.e. it does not distinguish between military and civilian targets;
- **Proportionality**: the weapon is considered to be excessively harmful, i.e. it causes an inordinate amount of pain and suffering relative to the anticipated military advantage; and/or
- **Illegality**: production and use is prohibited by international legal instruments.
 - i.e. cluster munitions, anti-personnel mines, and nuclear, biological and chemical weapons.
 - not subject to a ban: depleted uranium is also often considered among them.
 - Blinding laser weapons, incendiary weapons (those designed to cause burns), and weapons using non-detectable fragments, are not discussed as often, but are still considered controversial

Main Goal

- Bench mark indexes should be free of companies violating international treaties
 - MSCI World or SMP 500
 - National Indexes such as DAX, SMI, Nasdaq
- Companies producing controversial weapons
 - should not exist
 - Should get no money from the stock market

Initiatives to delist controversial weapons producers from indexes

- SSF Engagement Initiative
 - Open letter to index providers on controversial weapons exclusions
 - 166 asset managers representing **USD 6.8 trillion** in investor funds have demanded Index providers to remove controversial weapons from mainstream indices.
 - Members are heavy weight such as UBS, CS
 - weapons include cluster munitions, anti-personnel mines, biological and chemical weapons, as well as nuclear weapons which are produced for countries that have not signed the Treaty on Non-Proliferation of Nuclear Weapons
 - Weapons may cause indiscriminate or disproportionate harm. Their use is banned or restricted under international conventions.

Co-Signatories as of 31 January 2019

Aargauische Pensionskasse (APK)	Colonial First State
ABN AMRO Bank N.V.	Conser Invest
Archbishops' Council	Crédit Suisse Asset Management (Schweiz) AG
Argenta Asset Management	de Pury Pictet Turretini & Cie Ltd
ASR Nederland N.V.	DNB Asset Management
Bank J. Safra Sarasin	Domini Impact Investments
Bankhaus Schelhammer & Schattera	DWS Group
Banque Cantonale de Genève (BCGE)	EFG AM
Basellandschaftliche Pensionskasse (BLPK)	Eligo Asset Management AB
Bâtirente	ESG Portfolio Management
Bayerische Versorgungskammer	Etablissement Cantonal d'Assurance (ECA VAUD)
BayernInvest Kapitalverwaltungsgesellschaft mbH	Fairpointe Capital
Bernische Lehrerversicherungskasse	Fondation de la métallurgie vaudoise du bâtiment (FMVB)
BMS World Mission	Fondation de prévoyance Artes & Comoedia
Bond&Devick Wealth Partners	Fondation de prévoyance du Groupe BNP PARIBAS en Suisse
Booster Investment Management Limited	Fondation Ethos
Bordier & Cie	Fondation Leenaards
Brunel Pension Partnership	Fonds de compensation commun au régime général de pension
Caisse de pension des sociétés Hewlett-Packard en Suisse	Forma Futura Invest AG
Caisse de pensions de l'Etat de Vaud (CPEV)	Globalance Bank
Caisse de pensions ECA-RP	Gonet & Cie SA
Caisse de prév. des Fonctionnaires de Police & des Etablissements Pénitentiaires	Greentech Capital Advisors
Caisse de Prévoyance de l'Etat de Genève	Group La Francaise
Caisse de Prévoyance des Interprètes de Conférence (CPIC)	Groupama Asset Management
Caisse de retraite du Groupe Pictet	HCP Hohaus Advisory
Caisse intercommunale de pensions (CIP)	ING Groep N.V.
Caisse paritaire de prévoyance de l'industrie et de la construction (CPPIC)	Ircantec
Caja Ingenieros Gestión	Joseph Rowntree Charitable Trust
Candriam Investors Group	Kaya Capital Management
Cap Prévoyance	Kempen Capital Management
CCAP Caisse Cantonale d'Assurance Populaire	Landolt & Cie SA
CCLA Investment Management	Länsförsäkringar AB
Church Commissioners for England	Legal & General Investment Management
CIEPP - Caisse Inter-Entreprises de Prévoyance Professionnelle	Legato Capital Management, LLC

LGT Capital Partners Ltd.	Profelia Fondation de prévoyance
Lombard Odier	Prosperita Stiftung für die berufliche Vorsorge
Luzerner Pensionskasse	Raiffeisen Switzerland
Man Group plc	RAM Active Investments SA
MAIF	Repsol II, F.P.
MetallRente GmbH	Retraites Populaires - Fonds institutionnel
Migros Bank AG	Rivora Sammelstiftung
Migros-Pensionskasse	Seguros RGA
Miller/Howard Investments, Inc.	Skandia
Mirabaud Asset Management (Suisse) SA	Solothurnische Gebäudeversicherung
Movestic Livförsäkring AB	Sparebanken Vest
MP Pension	Sparinvest S.A.
Nest Sammelstiftung	St. Galler Pensionskasse
NN Investment Partners	Stanhope Capital
NorthStar Asset Management, Inc.	Steyler Ethik Bank
OFI AM	Stiftung Abendrot
OLZ AG	Storebrand Asset Management
Orcadia Asset Management	Sustainable Value Investors
Partners for Sustainability	Swiss Mobilier Asset Management AG
Pension Protection Fund	Terre des hommes Schweiz
Pensions Caixa 30	The Humanitarian Foundation CRS
Pensionskasse Bühler AG Uzwil	The United Reformed Church Wessex Trust
Pensionskasse Caritas	TPT Retirement Solutions
Pensionskasse der Bernischen Kraftwerke	Tribe Impact Capital LLP
Pensionskasse der Stadt Winterthur	Triodos Investment Management
Pensionskasse Georg Fischer	UBS Asset Management AG Switzerland
Pensionskasse SBB	Unigestion
Pensionskasse SRG SSR	Varma Mutual Pension Insurance Company
Pensionskasse Stadt Luzern	Valeur Fiduciaria SA
Pensionskasse Unia	Vandaalen
Pictet Alternative Advisors	VBV Pensionskasse AG
Pictet Asset Management	Verka VK Kirchliche Vorsorge VVaG
Pictet Wealth Management	Vision Super Pty Ltd
PKA A/S	VZ Depotbank AG
Polden-Puckham Charitable Foundation	zCapital
Prévoyance Santé Valais (PRESV)	Zürcher Kantonalbank
prévoyance.ne	

Waht states can do

Swiss federal war material act

- The Swiss Federal Act on War Material (WMA, Feb 2013) includes provisions on financing in the context of war materials prohibited in Switzerland,
 - i.e. nuclear, biological and chemical weapons,
 - anti-personnel mines and cluster munitions.
 - It prohibits the direct financing of the development, manufacture or acquisition of prohibited war materials (Article 8b WMA).
- Direct financing refers to the direct granting of credits, loans, or endowments or comparable financial advantages, in order to pay or advance costs and expenditures that are associated with the development, manufacture or acquisition of prohibited war materials.
 - indirect financing of prohibited war materials is banned only if intended to circumvent the ban on direct financing (Article 8c).
 - This should change!
 - few states' parties have expressed the view, that Convention does not prohibit the financing of cluster munition production and else.

Resistance and impediments to weapon divestments

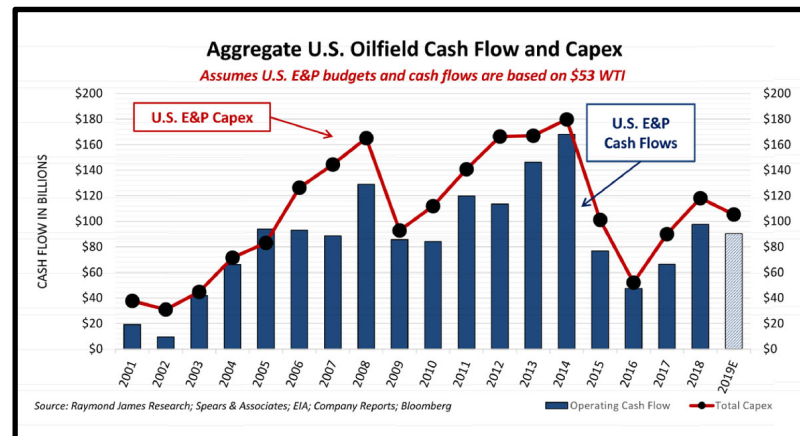
- Divestment from weapons is a value question
 - Some providers of index products don't share these values
 - asset manager fear, performance could drop below bench mark indices
 - Some exclude controversial weapons but restrictions do not carry meaningful impact
 - Only "some" controversial weapons manufacturers (i.e. Pakistan, North Korea etc.)
 - Controversial weapons a too small part of mixed company activity
 - Exclusion of companies from countries only who did not sign the non proliferation treaty
- Exclusion of coal companies and weapon companies from non signature countries of non-proliferation treaty is preferred strategy for some pension funds
- Financial institutions across Europe seem to apply a more extensive approach, whereas US-based companies do not appear to apply restrictions to the defense industry – or at least they do not publicize them.

Conclusion on controversial weapons

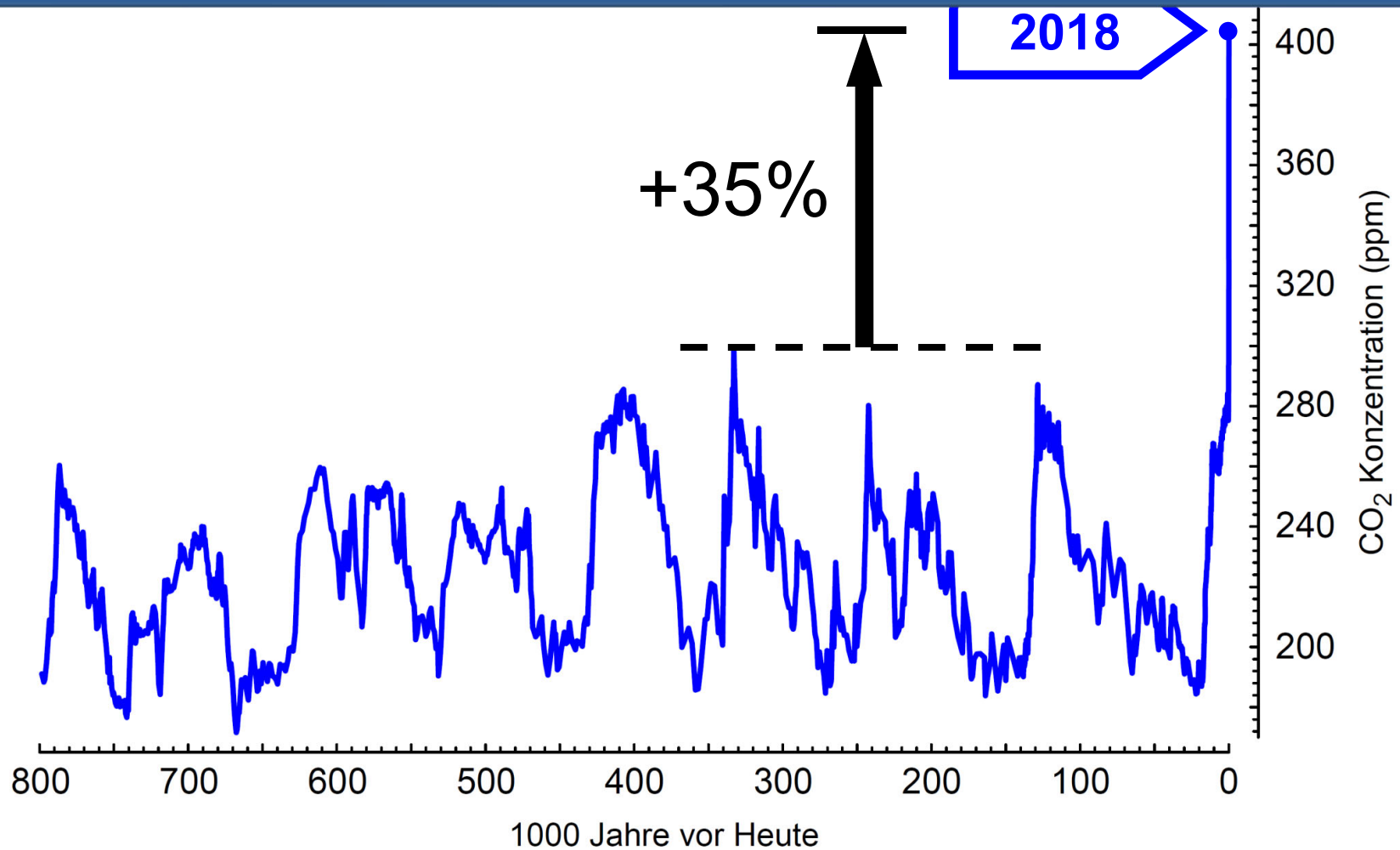
- Biggest impact could be derived from barring contentious weapons companies from main investor indices
- Weapons are a value question for investors
 - Common sense could be to avoid all investment in legally restricted weapons or
 - Avoid weapons that can be acquired by private actors or terrorists
- Weapons is a «state affair»
 - International treaties and state bans have a dominating impact
 - private divestment strategies are complementary

Different situation with fossil fuels

- Fossil fuel is a risk position
- Climate challenge, taxes and emission tradings and renewables with performance impact
- Divestment can have an impact for small exploration and production companies of shale oil.



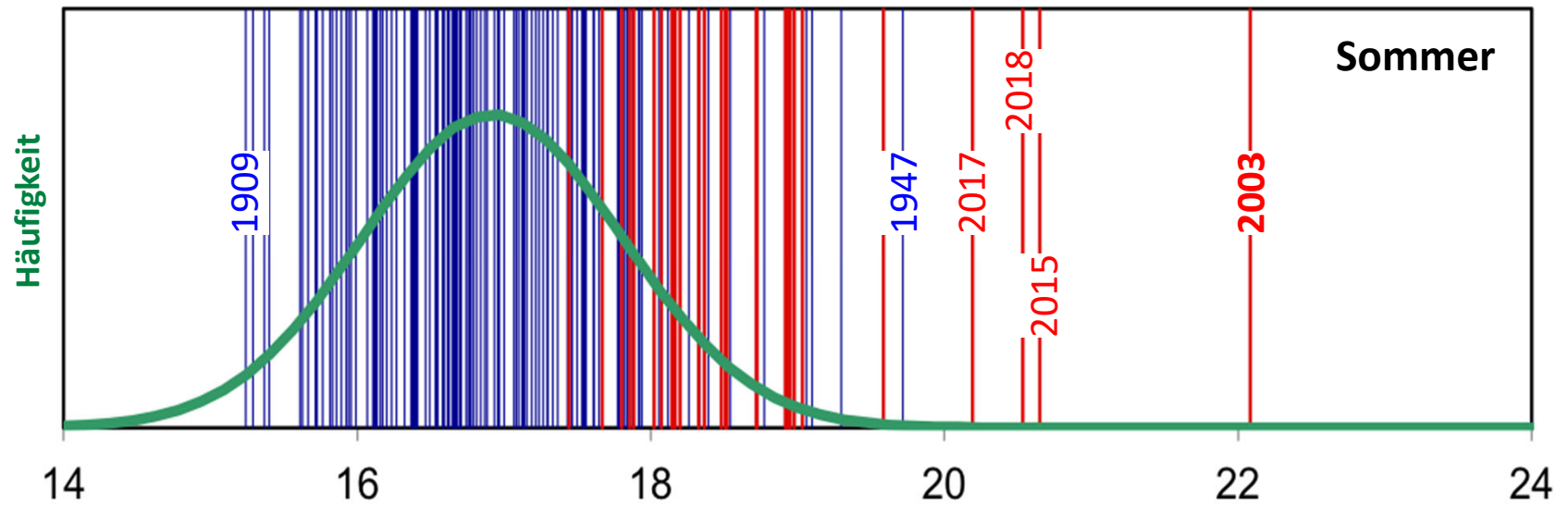
Climate risk: atmospheric carbon concentrations in uncharted territory



(Lüthi et al., 2008, NOAA)

Summer temperatures in Switzerland 1864-1990 and 1991-2018

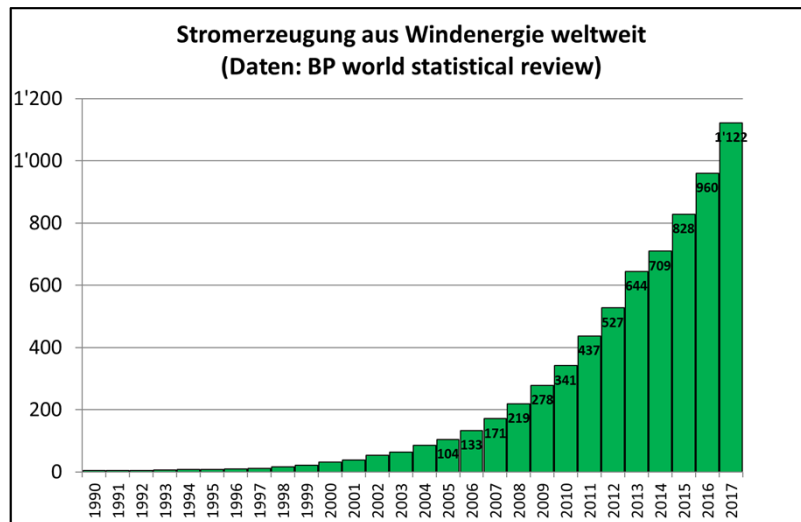
Temperatur Juni-Juli-August 1864-2018 (°C)



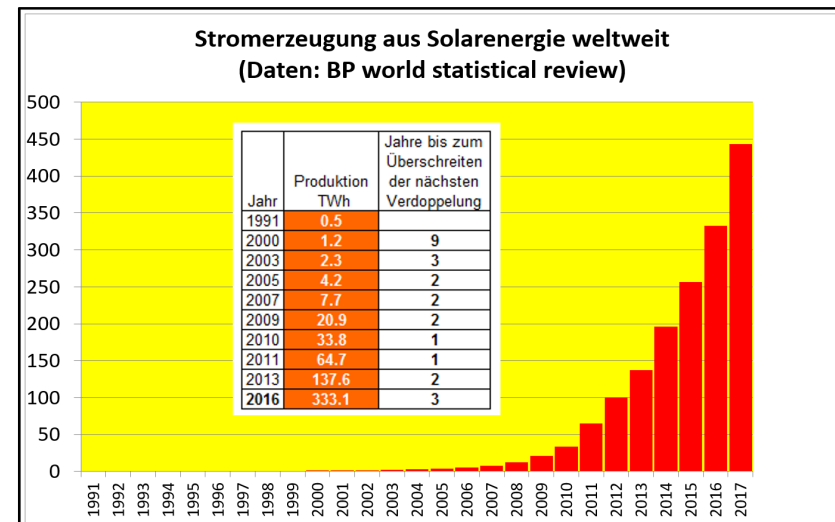
(Figuren von C. Schär ETHZ, Daten Meteo Schweiz)

Wind and Solar power on an exponential path worldwide: a world share of 6% now, 100% by 2050 possible (including hydro)

Global Wind Energie TWh
9 doublings since 1985



Globale Photovoltaic Power (TWh)
10 doublings since 1996

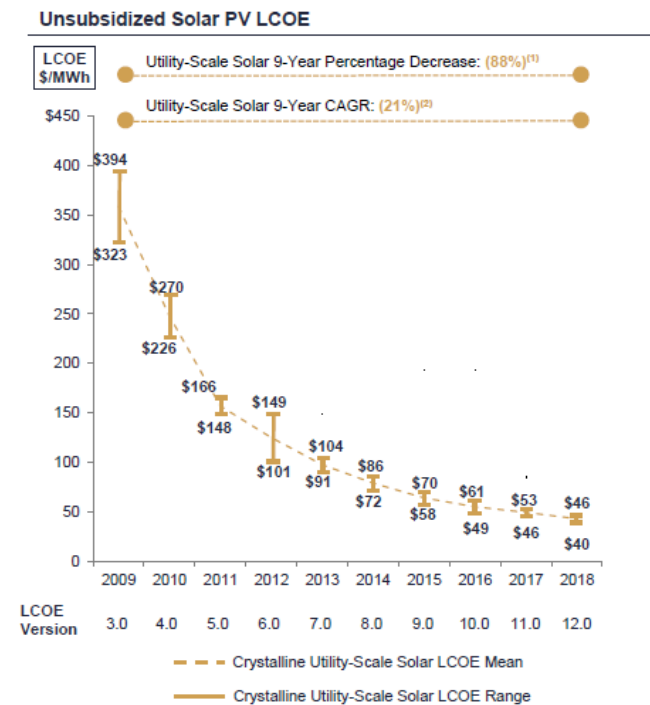
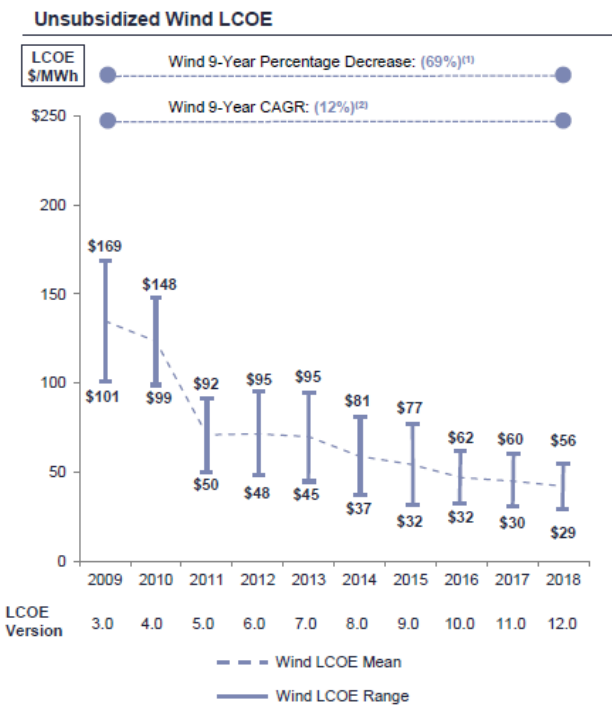


Daten GWEC, Wind Power Monthly, BP World Energy Statistics

Wind- and solar cheaper than gas, coal, nuclear

Levelized Cost of Energy Comparison—Historical Alternative Energy LCOE Declines

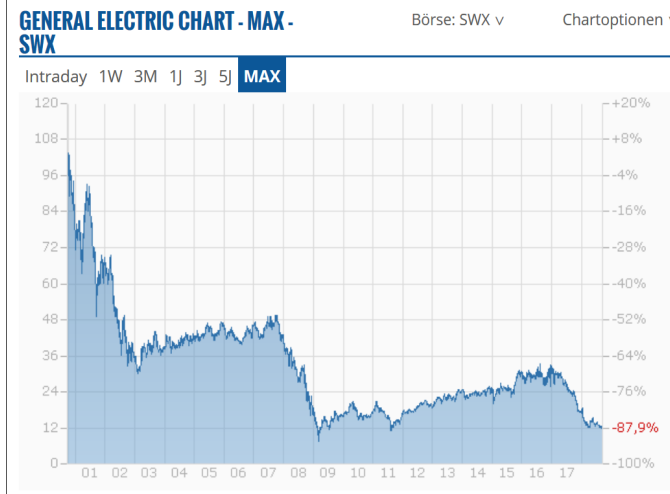
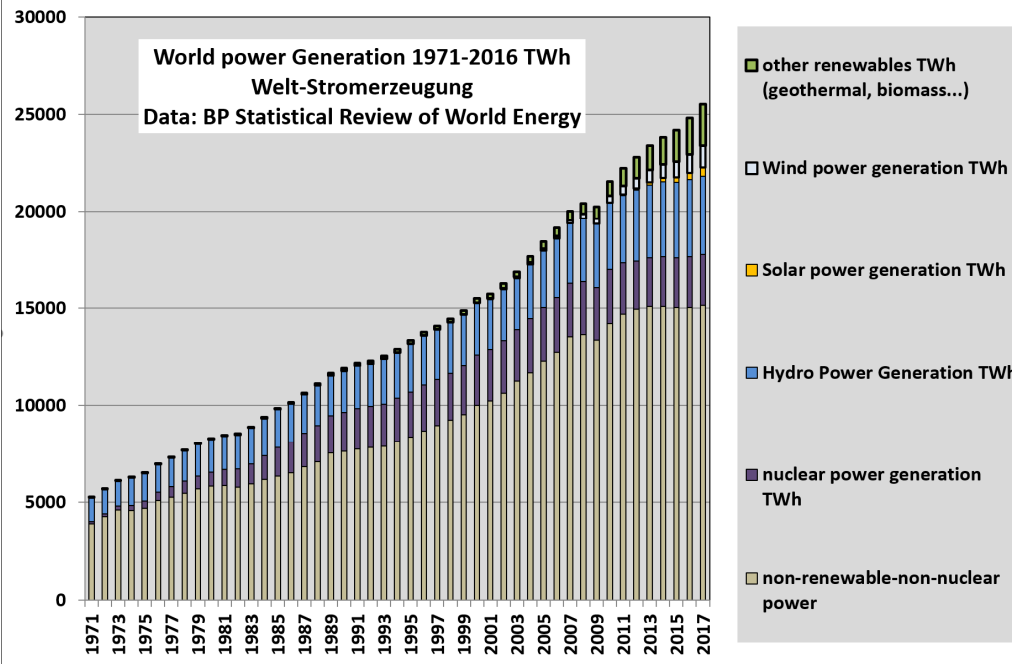
In light of material declines in the pricing of system components (e.g., panels, inverters, turbines, etc.) and improvements in efficiency, among other factors, wind and utility-scale solar PV have seen dramatic historical LCOE declines; however, over the past several years the rate of such LCOE declines have started to flatten



LAZARD
 Copyright 2018 Lazard

Source: Lazard estimates.
 (1) Represents the average percentage decrease of the high end and low end of the LCOE range.
 (2) Represents the average compounded annual rate of decline of the high end and low end of the LCOE range.

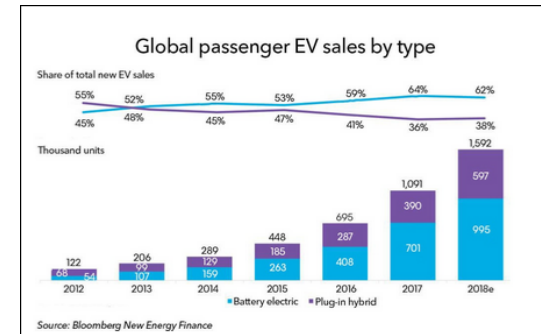
Ahead: A real shake out of fossil and nuclear fueled power generation – a risk for investors



climate destabilisation is not an «environmental» problem

- Goal:
 - Preservation of the foundations of economic activity
 - Biodiversity, agriculture, food security
 - Preservation of settlement areas
 - Maintaining productivity and returns
- Pension security is at risk
 - Weather extremes reduce productivity
 - business losses
 - Damage to products, capital and services, non-amortizable investments
- Real estate losses,
 - rising insurance premiums,
 - Rising prices reduce purchasing power of pensions
 - Economic risks and opportunities
 - Prohibition or price increase of climate-damaging goods
- Growth of new technologies,
 - damage containment
 - New Investment opportunities

Final remarks



- Responsible investment and responsible stock holder engagement
 - creates communications platforms
 - Forces asset managers to take side in questions beyond profit
 - Can move capital toward or away from certain topics
 - Herd behaviour can be a force within investor community
- **Main tasks are political and should be resolved by parliaments and governments**
 - incentives and disincentives, sanctions
 - Pension fund capital can be helpful
 - Development is a revolution, but on an incremental path.