Sustainability Strategy

Principles for taking ESG criteria into account

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Date: 26 May 2021

Version: 1.0

1. Fundamentals

Sustainability is a term originally borrowed from Saxon forestry that has recently come to be applied in many areas of life. Amid the academic discourse of a wide range of disciplines, each claiming scientific evidence for itself, sustainability becomes the sum of numerous definitions that focus on, link or weigh up very different elements against each other. The complexity of the subject mirrors and reflects our social, political and economic life.

In order to maintain a clear position amid this debate, we engage intensively with our present and future responsibility. In doing so, we base our approach on the broadest possible concept of sustainability and pursue a holistic sustainability strategy that equally encompasses ecological, economic and social aspects.

We understand sustainability as a process of development. As a pension scheme, we have the staying power to accompany complex processes of change and to finance them as trustees of the capital entrusted to us. But we ourselves also live change. The long-standing, initially critical and constructive examination of the possibilities and limits of a more sustainable approach at the Sächsische Ärzteversorgung has led to the development of a strategy whose aspects are explained in more detail below.

2. Our approach to sustainability

2.1 ESG criteria as a structural framework for developing the strategy

The strategy of the Sächsische Ärzteversorgung takes into account various aspects of sustainability derived from the internationally recognised ESG criteria. The ESG criteria stand for aspects of environmental (E), social (S) and governance (G) sustainability. While the environmental area is shaped by widely discussed individual topics such as climate, scarcity of resources or biodiversity, social issues relate to sustainability with regard to employees, safety and health or demographic change. Sustainable corporate governance completes the sustainability strategy with guidelines on responsible investment, risk and reputation management and supervisory structures.

2.2 Key features of sustainable action

In line with our understanding of sustainability as a continuous process, we always take decisions with a view to long-term developments. As a pension scheme, our actions have always been guided by the principle of intergenerational fairness. This maxim also concerns the long-term perspective, which is taken into account in decisions relating to sustainable development.

As a capital market participant, many decisions of the Sächsische Ärzteversorgung have an international dimension. Economic assessments often have to be made taking into account international value chains and foreign legal systems. The situation in foreign markets and the perception of sustainability in other societies significantly influence our scope for action.

The three dimensions of sustainability mentioned above often cannot be clearly distinguished from one another. The specific design of operational measures on social cohesion, economic performance and the preservation of natural resources can lead to conflicting objectives, which we constantly keep in view in order to identify and resolve them.

Sustainability requires transparent communication and truthfulness. We therefore expressly distance ourselves from measures that convey the image of a sustainable institution without having dealt with ESG aspects in substance.

The structure of the Sächsische Ärzteversorgung, with its particular nature as a pension scheme, requires a strong culture of communication that ensures integrity across all organisational areas and levels, including with regard to sustainability.

In an interdisciplinary field, openness, continuous exchange and participation are essential. Involving various stakeholders allows their knowledge, values and interests to be incorporated.

In recognition of the high importance that sustainability has for society as a whole, but above all for our medical and veterinary members, ESG principles are becoming an integral part of our public relations work. We use existing communication channels and media to continue the dialogue that has been initiated and to increase the visibility of our activities.

2.3 Sustainable investment

Pursuant to Section 5(1) sentence 1 of the Saxon Insurance Supervision Act (SächsVAG), the assets of the restricted assets of the Sächsische Ärzteversorgung must be invested in such a way that the greatest possible security and profitability is achieved while maintaining liquidity at all times and ensuring an appropriate mix and spread. In our investment strategy, we are therefore committed to a balanced, broadly diversified investment of assets. The existing requirements are being extended to include the consideration of ESG criteria. This mandate derives from the position paper on sustainability at the Sächsische Ärzteversorgung adopted by the Supervisory Committee and the Administrative Committee and from the investment guideline of the Sächsische Ärzteversorgung amended by the Supervisory Committee.

The impact of corporate activity on the environment and society and responsible corporate governance are important parameters of sustainable investment. We want to make investments that are geared towards generating returns sustainably. The sustainability approach is consistent with our mandate to provide pensions. We want to balance our investment and ESG objectives in such a way that return potential is preserved and we can fulfil our pension mandate without compromise.

Within the framework of our investment policy and in investment decisions, our sustainability approach is guided by the following overarching principles:

The **UN Principles for Responsible Investment (UN PRI)** are a global investor initiative in partnership with the UN Environment Programme Finance Initiative (UNEP FI) and the UN Global Compact. Our pension scheme has signed the "Principles for Responsible Investment of the United Nations" (UN PRI). By joining this UN initiative, we commit ourselves to incorporating environmental, social and good governance factors into our analysis and decision-making processes in the investment area.

The **Paris Agreement on limiting global warming** aims to limit global warming to below 2 °C – preferably 1.5 °C – compared with pre-industrial levels. This requires extensive decarbonisation of the global economy. The Sächsische Ärzteversorgung is committed to the Paris Climate Agreement.

We are convinced that investments in companies whose business policy focuses on short-term success and is not oriented towards sustainable goals involve high risks of loss for the investor. Any corporate misconduct can lead to a costly negative event. Loss of reputation, loss of trust among customers and business partners, fines and legal requirements lead to significant losses in company value. However, there is no one-size-fits-all strategy for countering these risks. A **specific concept for each asset class for taking ESG criteria into account** is therefore being developed and implemented. ESG criteria help to make these risks more tangible and contribute to reducing them. They are integrated into both liquid and illiquid asset classes. Where possible and appropriate, we refer to internationally recognised ESG norms and standards. We aim for an approach based on facts and know-how and grounded in scientific findings. As far as possible, the sustainability approach is implemented systematically and on the basis of data.

Sustainable investment is a dynamically developing field. In order to ensure the principle of **resource- and cost-efficient asset management** when implementing the sustainability approach as well, external service providers are used where necessary, or strategies for implementing the relevant ESG criteria are

developed with the affiliated asset management companies. These service providers and companies have the relevant expertise and resources to benefit from the rapid pace of change in sustainable investment, the improvement of data quality and data availability in this still new business area. Using external expertise in this way ensures not only continuous improvement of the ESG-oriented investment policy but also a transfer of know-how to the Sächsische Ärzteversorgung.

To ensure **sustainability expertise among mandated asset managers and investment advisers**, ESG criteria are integrated into the selection process. One indication of the asset managers' qualifications is, among other things, their commitment to implementing the requirements of the Principles for Responsible Investment (PRI) and fulfilling the associated reporting obligations. Such qualifications are particularly relevant in asset classes in which – as with illiquid investments – recognised, robust and widely used standards for defining and assessing the ESG quality of assets are still lacking.

In its capacity as creditor or co-owner, the Sächsische Ärzteversorgung actively influences sustainability aspects at issuers. This is done both directly and via specialised service providers. In addition to dialogue with companies (engagement), active co-determination also takes place through the exercise of voting rights.

Sustainability is understood as a continuous process whose approaches and results for business operations and investments are evaluated regularly. Reports are to be made to those responsible for sustainability – the chairs of the Administrative Committee and the Supervisory Committee – and to both committees.

3. Documentation and further development

The step-by-step implementation of the strategy in the form of operational measures – supported by responsibilities and time horizons – is set out in the sustainability handbook of the Sächsische Ärzteversorgung. Regular evaluation and further development of the measures on the basis of experience gained are planned.

The Administrative Committee and the Supervisory Committee, with their respective chairs, have designated specific persons responsible for overseeing the topic of sustainability. In close cooperation with the full-time administration, the sustainability strategy is being further developed and proposals for guiding principles for the committees are being drawn up.