

# «Net Zero Real Estate – Perspektiven aus der Sicht eines nachhaltigen Investors»

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Juni 2022



# Bank J. Safra Sarasin's Distinct Positioning in Sustainable Investing



## Sustainability is in the Bank's brand and DNA

The Bank is a **pioneer and thought-leader** with more than 30 years of experience in Sustainable Investing.

The Bank has a large and experienced **team that integrates sustainability into each step of our investment process.**



The Bank's proprietary and registered **Sustainability Matrix®** helps reduce reputational risks and improves the ESG profile of portfolios.

The Bank is **committed to the Paris Climate Accord and to reporting transparency** regarding ESG factors, SDGs<sup>1</sup> and climate change mitigation.

<sup>1</sup> Sustainable Development Goals (SDGs) are a United Nations call for action aiming at ending poverty and protecting the planet while ensuring peace and prosperity for all

# Milestones in 2015 – Global Action is Advancing Sustainable Development

## Paris Agreement

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### What is it?

Global agreement aiming to limit global warming to well below 2 Degrees Celsius (2°C) that was ratified by 193 parties.

In 2018, it was strengthened with a 1.5°C target. Net zero by 2050 or sooner and reduce half of global emissions by 2030.

## Sustainable Development Goals (SDGs)

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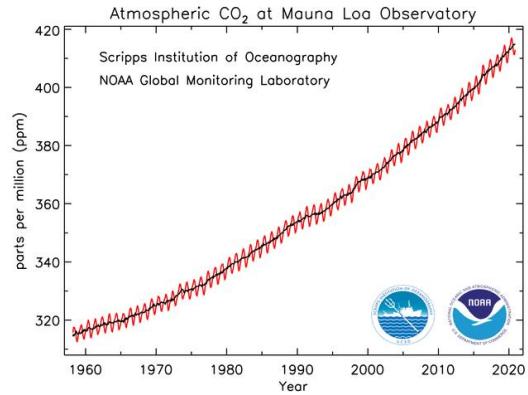
### What is it?

Global agenda to achieve 17 sustainable development goals by 2030 that was ratified by 193 member states.

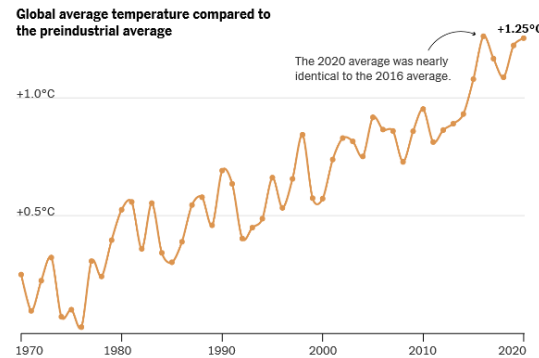
They range from no poverty,, zero hunger to gender equality, affordable and clean energy to climate action.

# Climate Change is here and Climate Action is not Sufficient and on a Net-Zero Pathway by 2050

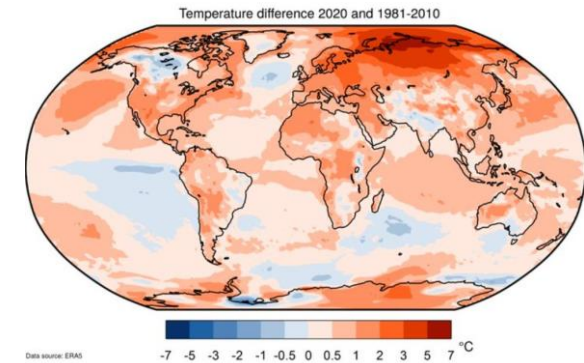
## CO<sub>2</sub> concentration >420ppm



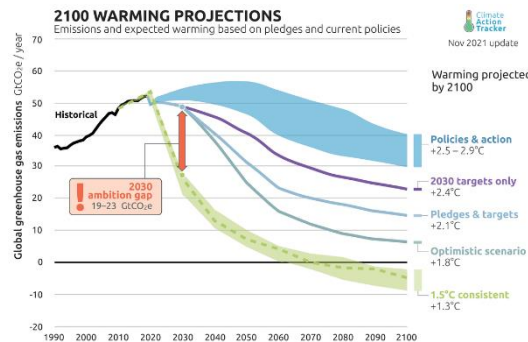
## Global Warming at +1.25°C



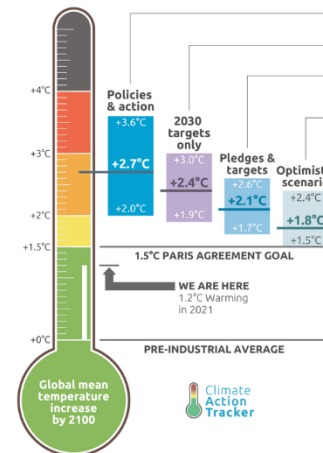
## Continuous heat records



## Ambition gap by 2030



## Outcomes between 2.7-1.8°C

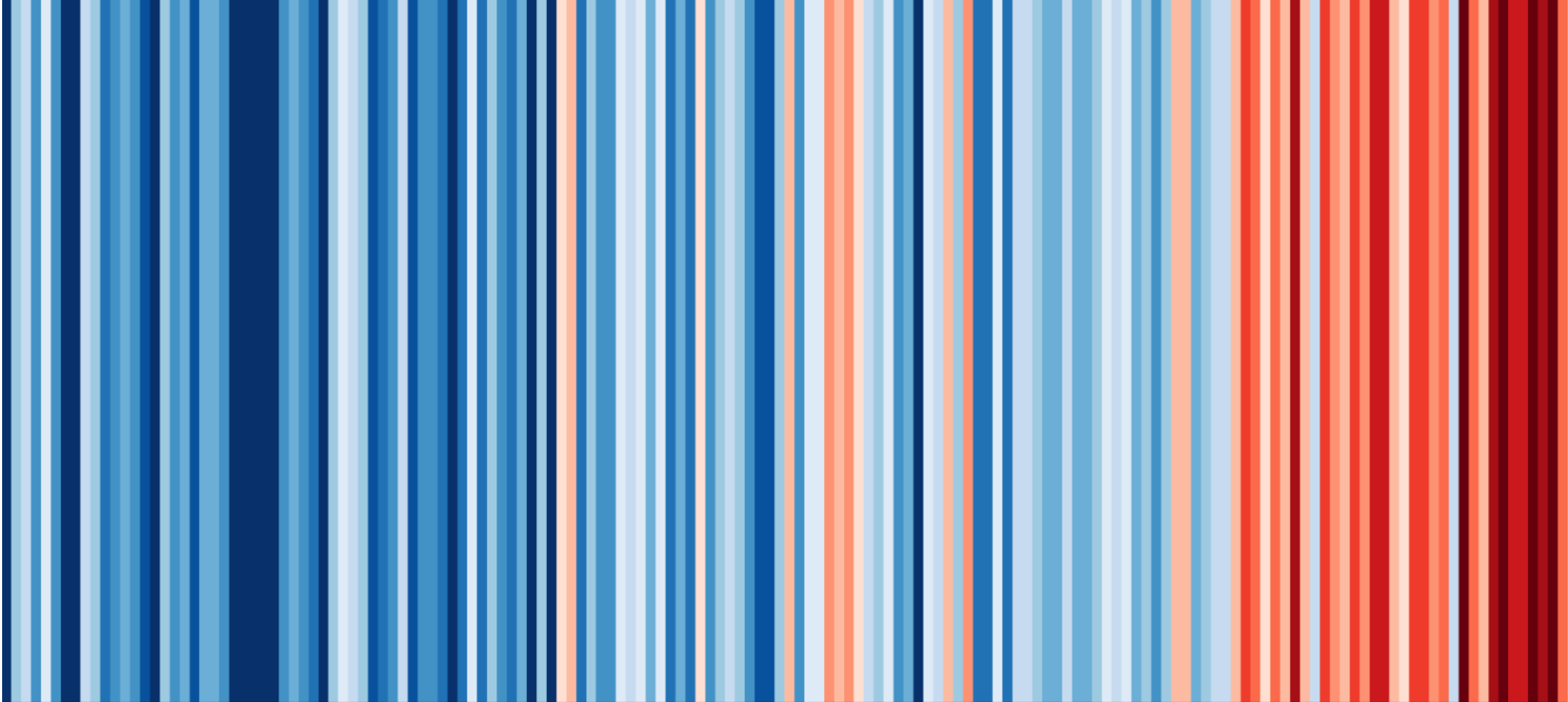


## COP26 did not deliver!



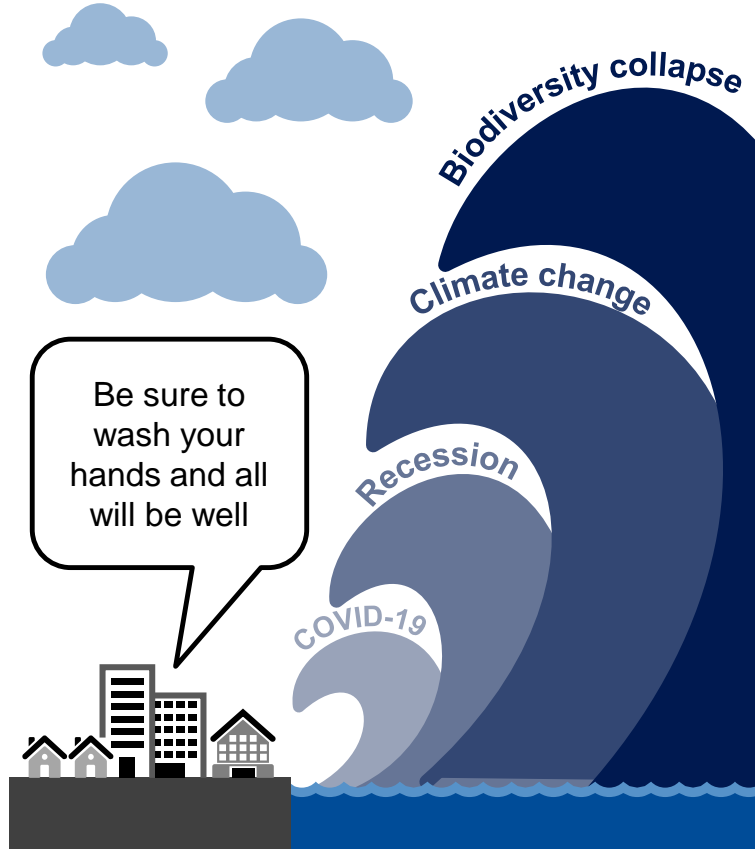
Sources, clockwise: 1) [ESRL/NOAA](#), 2021; 2) [New York Times](#), 2021; 3) [New York Times](#), 2021; 4) & 5) [Climate Action Tracker](#), 2021; 6) [UN Climate Change Conference COP 26](#), 2021. Sources: Bank J. Safra Sarasin Ltd., 2022.

# Temperature Change in Switzerland since 1864 – Switzerland warmed almost +2°C

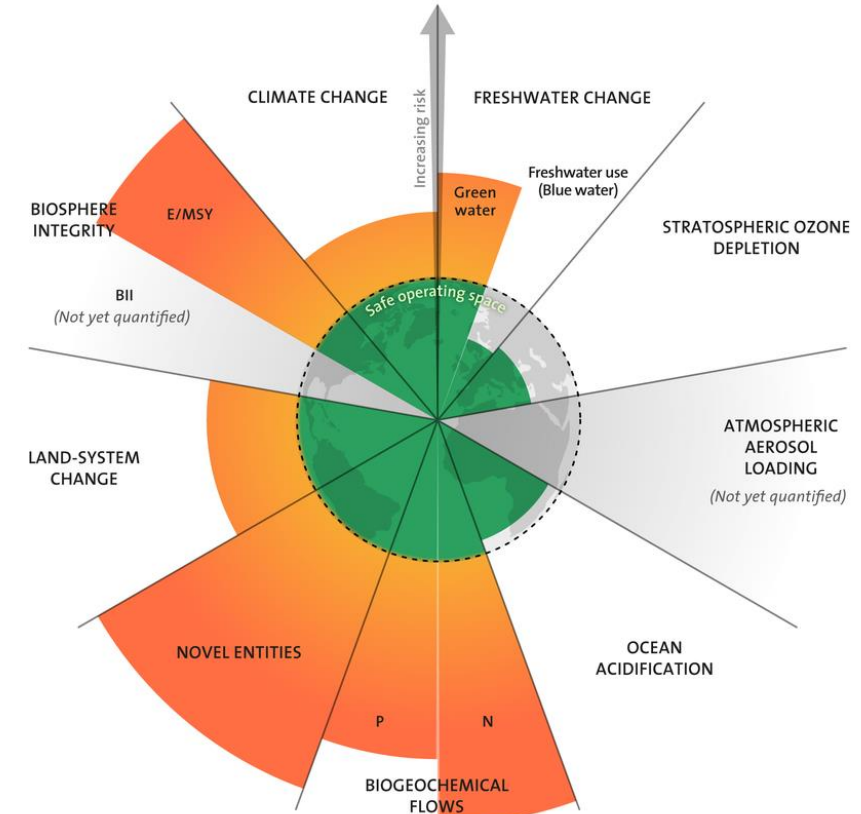


# No Time for a Break – Outside Safe Operating Space of Planetary Boundary

The next Crisis is looming large

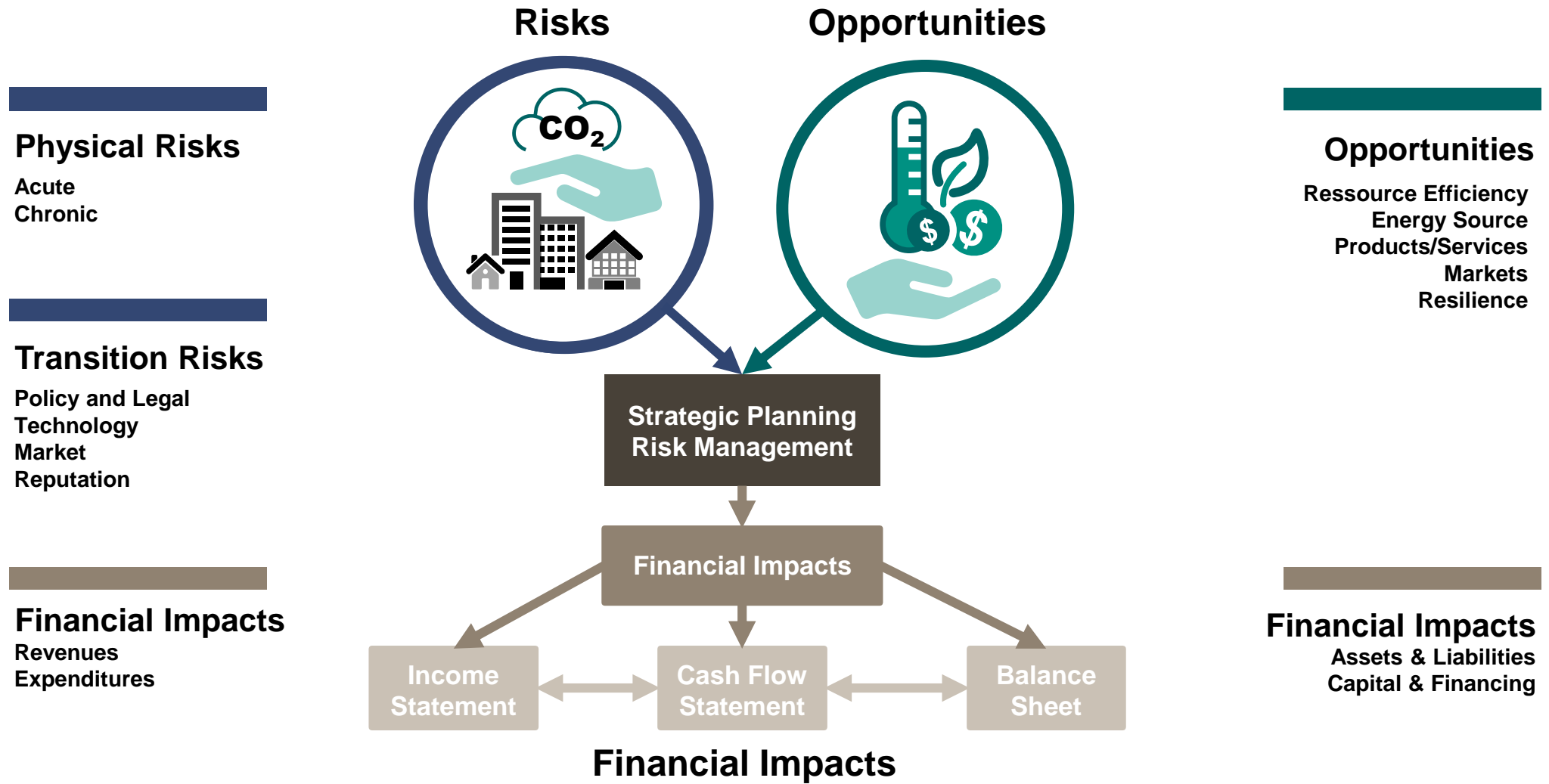


Transgressed planetary boundaries



Source: The visual is based on a cartoon by Graeme MacKay, The Hamilton Spectator 2020. Wikimedia Commons under the Creative Commons License, 2015. Planetary boundaries according Wang-Erlandsson et al. 2022 and Steffen et al 2015 (doi:10.1038/s43017-022-00287-8)

# Climate-related Risks, Opportunities and Potential Financial Impacts



**Physical Risks**  
Acute  
Chronic

**Transition Risks**  
Policy and Legal  
Technology  
Market  
Reputation

**Financial Impacts**  
Revenues  
Expenditures

**Opportunities**  
Resource Efficiency  
Energy Source  
Products/Services  
Markets  
Resilience

**Financial Impacts**  
Assets & Liabilities  
Capital & Financing

**Financial Impacts**

Source: Bank J. Safra Sarasin, 2021; TCFD, 2017.

# UN Climate Change Conference COP 26 and the Glasgow Financial Alliance for Net-zero (GFANZ)



Sources: Bank J. Safra Sarasin, 2021; UNEP FI, 2021; Net Zero Asset Managers Initiative, 2021; Race to Zero, 2021.

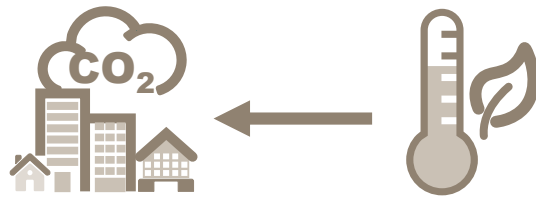
Notes: \*The Net-Zero Asset Owner Alliance (NZAOA), Net-Zero Banking Alliance (NZBA), Net-Zero Insurance Alliance (NZIA) are UN-convened.



# The Double Materiality – Combining the Outside in and Inside Out View

## Financial Materiality

To the extent necessary for an understanding of the company's development, performance and position



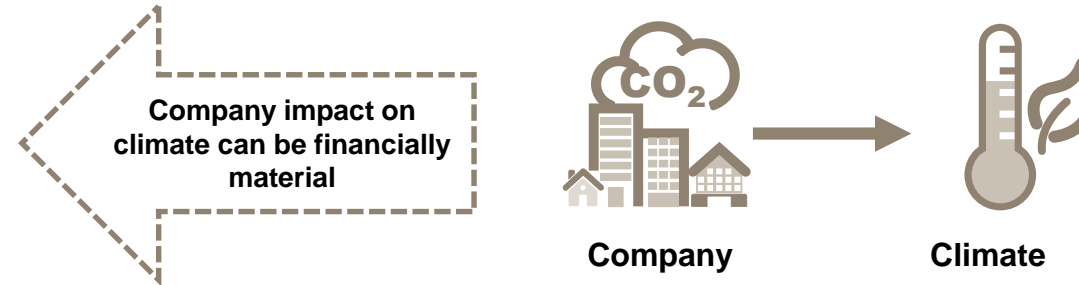
**Company**

**Climate**

Primary audience:  
**Investors**

## Environmental & Social Materiality

...and impact of its activities



**Company**



**Climate**

Primary audience:  
**Consumers, civil society, employees, investors**

Single Materiality

Double Materiality

Source: Bank J. Safra Sarasin Ltd., 2022. Adapted from EU Commission, 2019. Note: Financial materiality is used here in the broad sense of affecting the value of the company, not just in the sense of affecting financial measures recognised in the financial statement.

# Pioneers in Sustainable Investing

## Highlights of Our Journey Of More Than 30 Years



1989

2006

2019

2020

2021

First **sustainable mandates** launched

Founding signatory of the **United Nations Principles for Responsible Investing (PRI)**

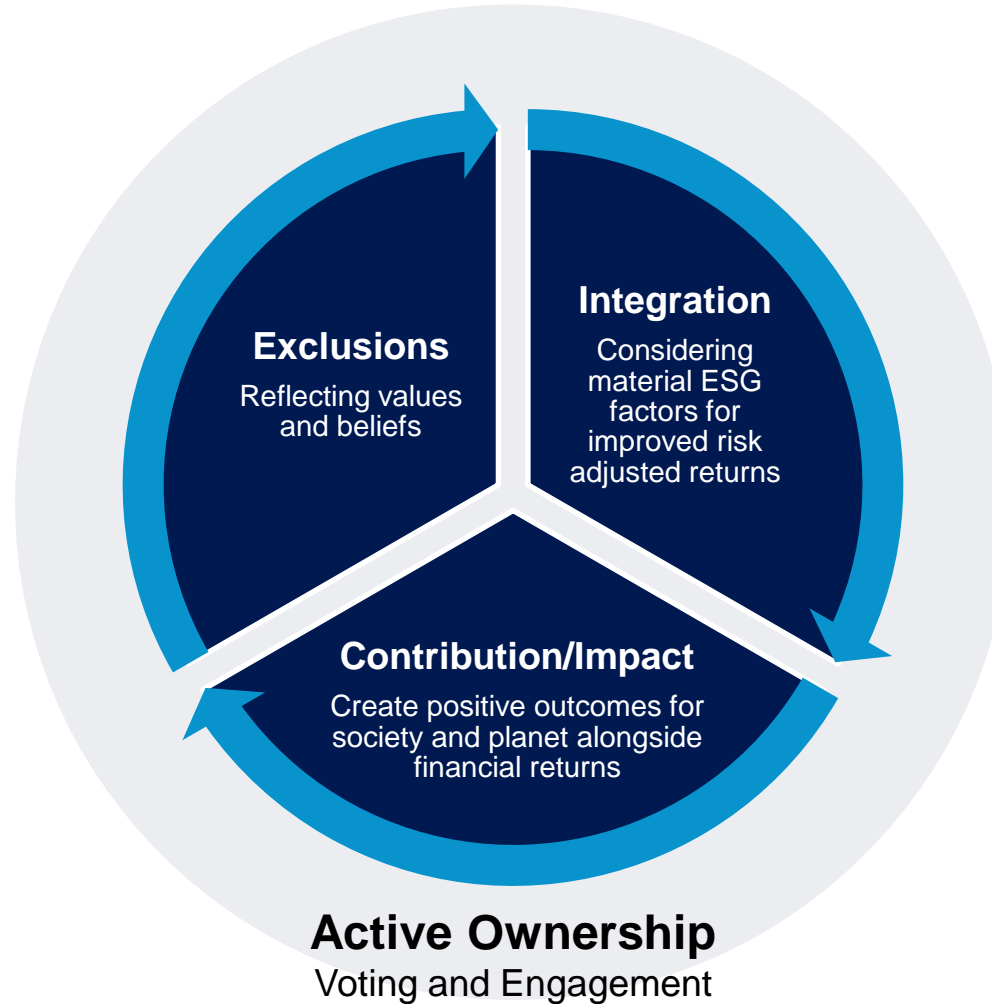
Founding signatory of the **Principles of Responsible Banking (PRB)**

**Climate Pledge 2035** and Founding signatory of the **Finance for Biodiversity Pledge**

Signatory of **Net Zero Asset Manager** and participation in the Glasgow Financial Alliance for Net Zero.



# Current Market Practice in Sustainable Investing Approaches and Client Preferences



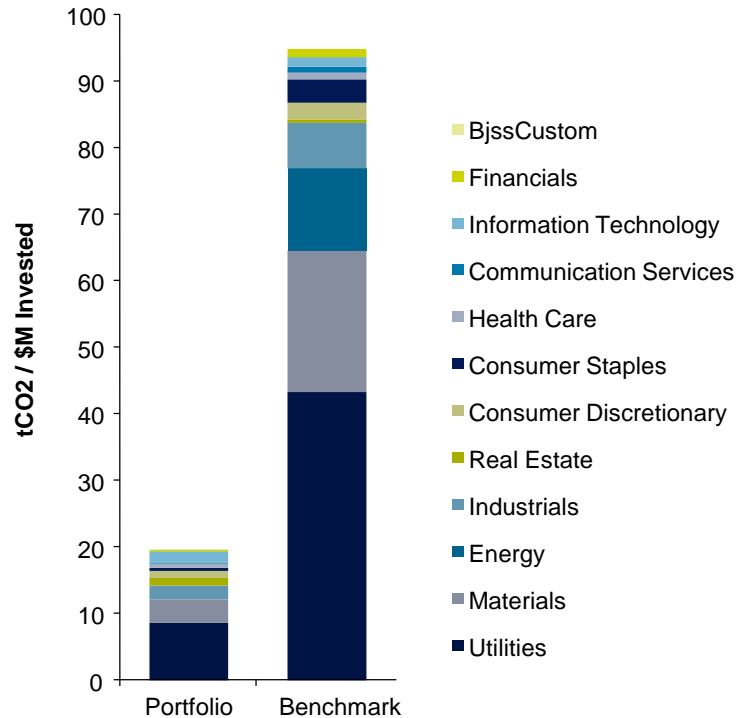
# Bank J. Safra Sarasin – The Sustainable Investment Tools during each Step of the Investment Process



# Enhancing Portfolio Construction by Managing Climate Risks and Setting Climate Objectives

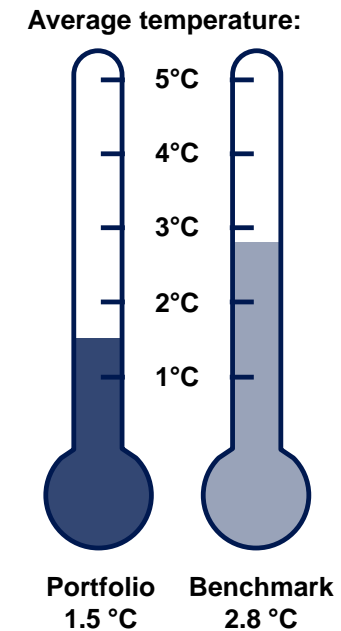
## Carbon Footprint

We aim to build portfolios geared towards a low-carbon future.



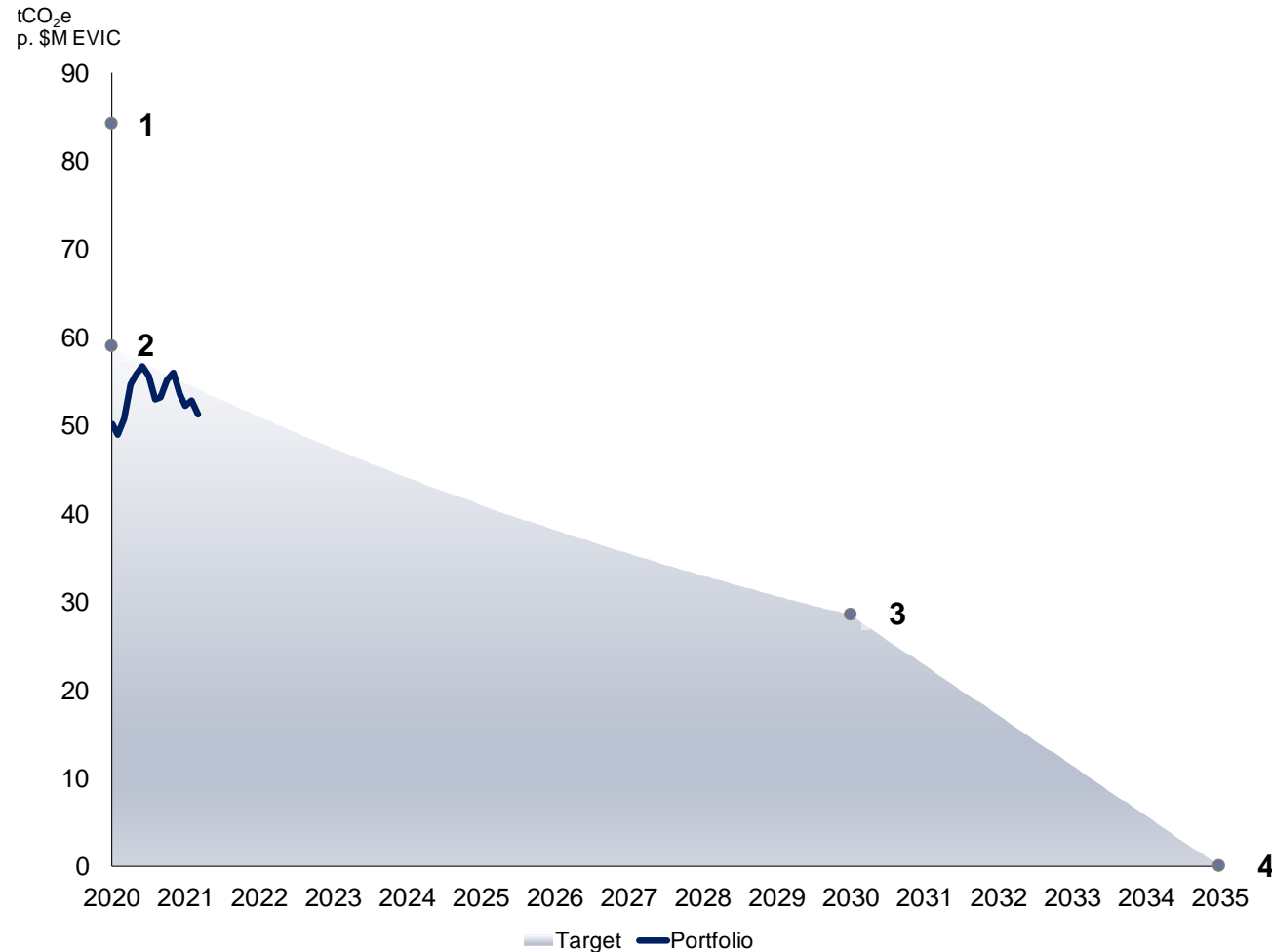
## Portfolio Warming Potential

We have developed capabilities to measure temperature paths at company and portfolio level.



Simplified illustrations and all valuations are exemplary (portfolio and benchmark), provided for illustrative purpose only. Source: Bank J. Safra Sarasin Ltd

# Aiming for Net Zero by 2035 – Portfolio Climate Target & Decarbonisation Pathway



- 1 The initial target is a 30% reduction of the benchmark GHG emissions footprint.
- 2 In each following year this is reduced by 7%. This achieves reduction of 50% by 2030.
- 3 From 2030 onwards the targets reduces linearly.
- 4 Until the GHG emissions footprint reaches 0 in 2035



Sources: Bank J. Safra Sarasin Ltd; Certain information ©2021 MSCI ESG Research LLC. Reproduced by permission  
 Allocations and underlying holdings may change without notice. GHG: Greenhouse gas.  
 Data as of: 2022-02-28. Portfolio: JSS Sustainable Equity – Europe. Benchmark: 100% MSCI Europe NR

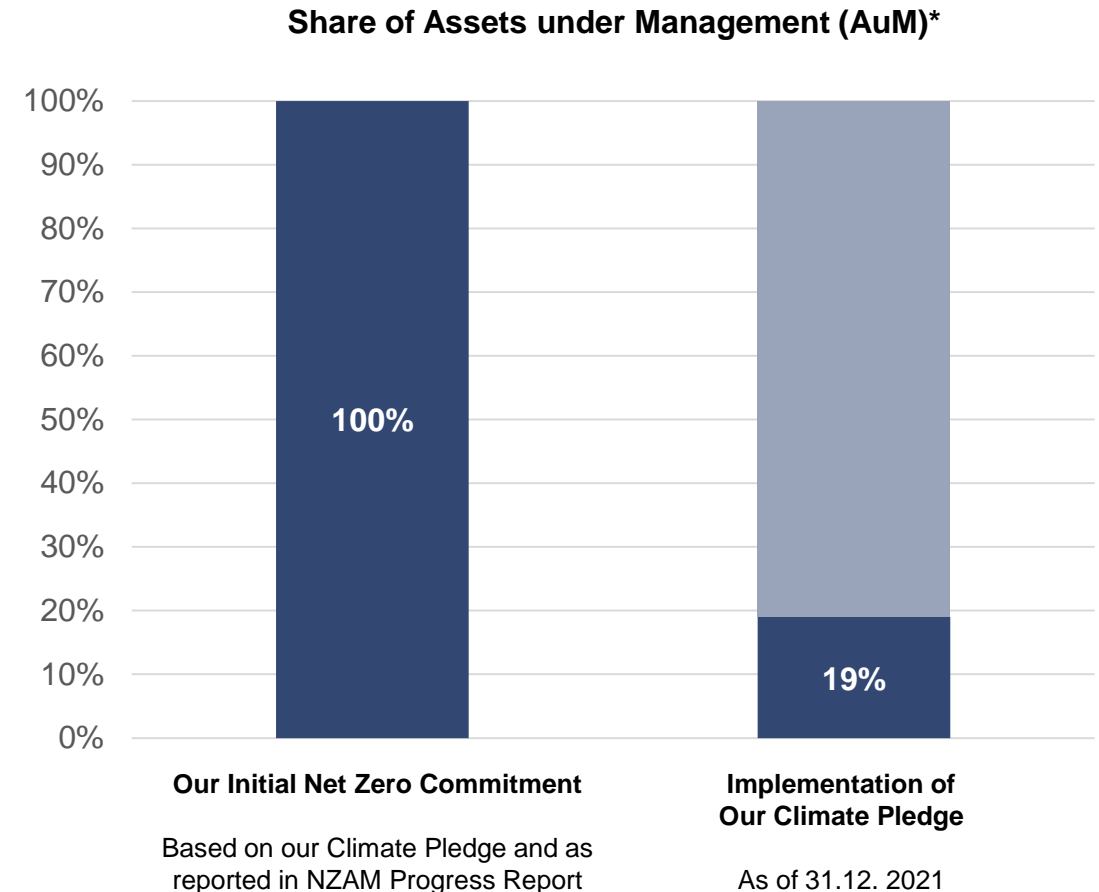
# Net Zero Asset Managers Initiative – “A little less conversation, a little more action please”

## Net Zero Asset Managers Initiative

- The signatories are committed to the goal of **net zero greenhouse gas emissions by 2050 or sooner**, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting **investing aligned with net zero emissions by 2050 or sooner**.
- J. Safra Sarasin Sustainable Asset Management is **signatory of NZAM**.
- 236 signatories and \$ 57.5 Trillion AUM; 43 signatories and **JSS participated in first NZAM progress report during COP26** committing \$ 4.2 Trillion AUM to be managed in line with net zero.



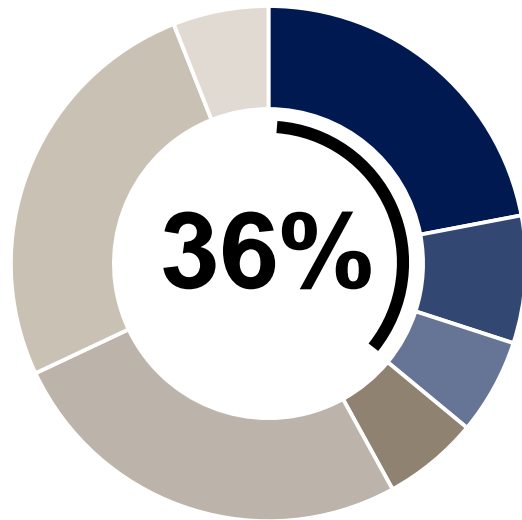
## Our Climate Pledge & Implementation



Source: Bank J. Safra Sarasin, 2022. Net Zero Asset Manager Initiative, Progress Report November 2021.  
Note: Assets under Management does not include Sarasin & Partners.

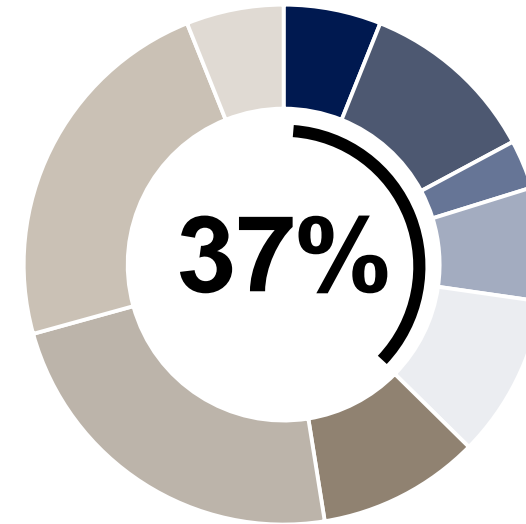
# Buildings and Construction Sector Footprint – Responsible for nearly 40% of Global CO<sub>2</sub> Emissions

## Share of Global Final Energy



- Residential
- Buildings construction industry
- Other industry
- Other
- Non-Residential
- Other construction industry
- Transport

## Share of Energy-related CO<sub>2</sub> Emissions

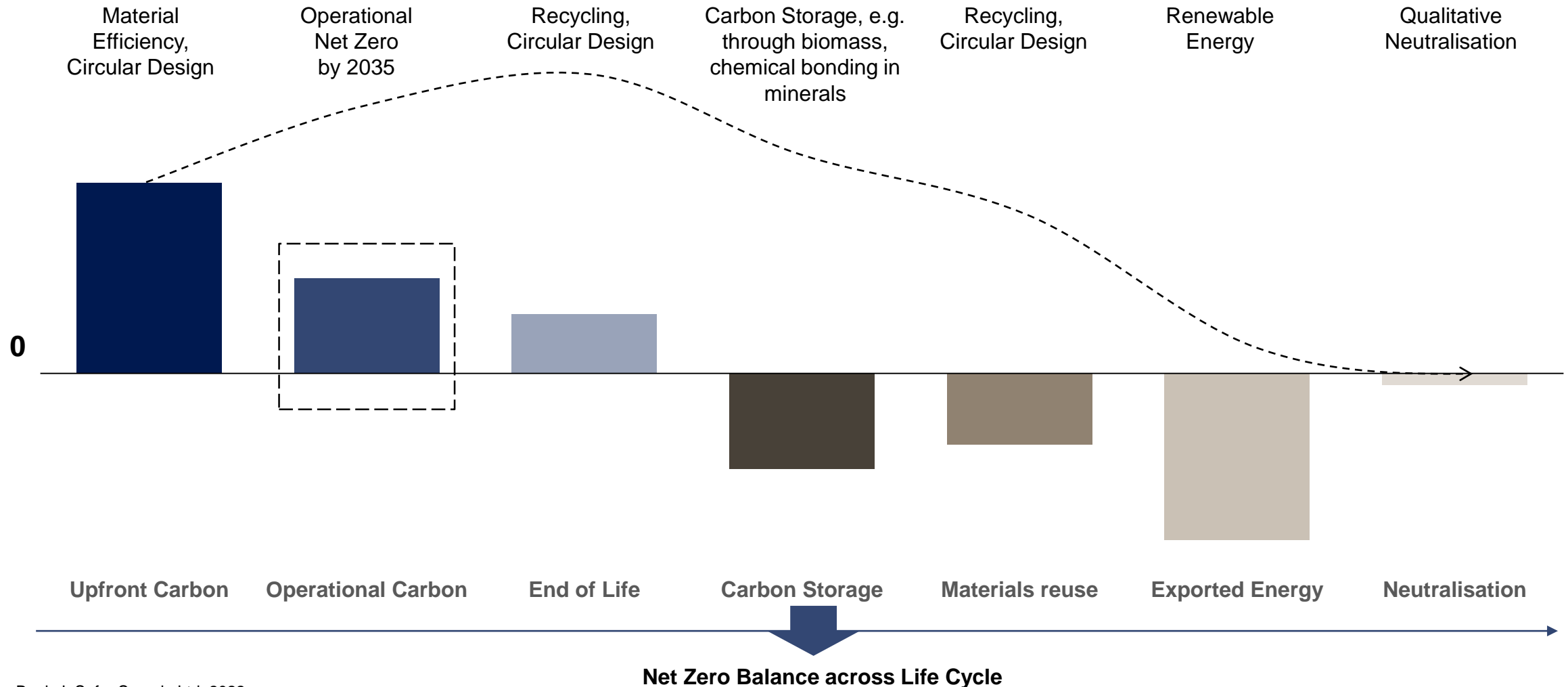


- Residential (direct)
- Non-residential (direct)
- Buildings construction industry
- Other industry
- Other
- Residential (indirect)
- Non-residential (indirect)
- Other construction industry
- Transport

Source: Bank J. Safra Sarasin Ltd, 2022, Global ABC, 2021, IEA 2021a, adapted from "Tracking Clean Energy Progress".

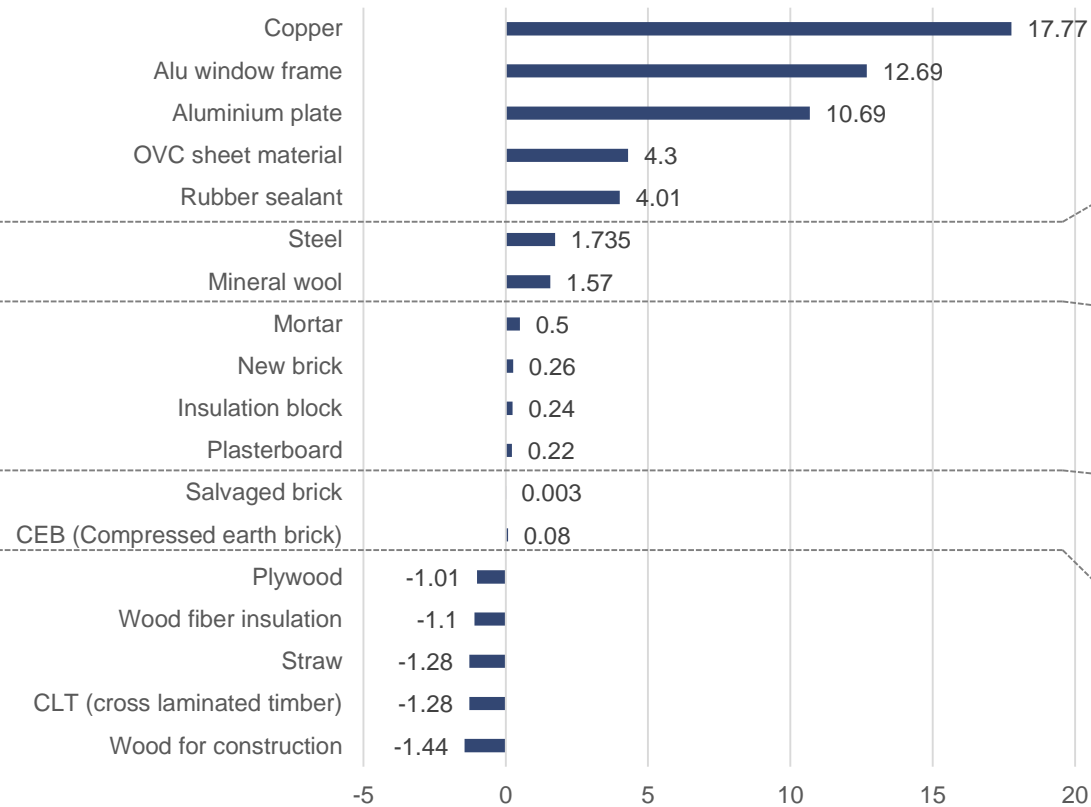


# Aiming for Net Zero by 2035 – Expanding the Climate Target & Decarbonisation across Life Cycle

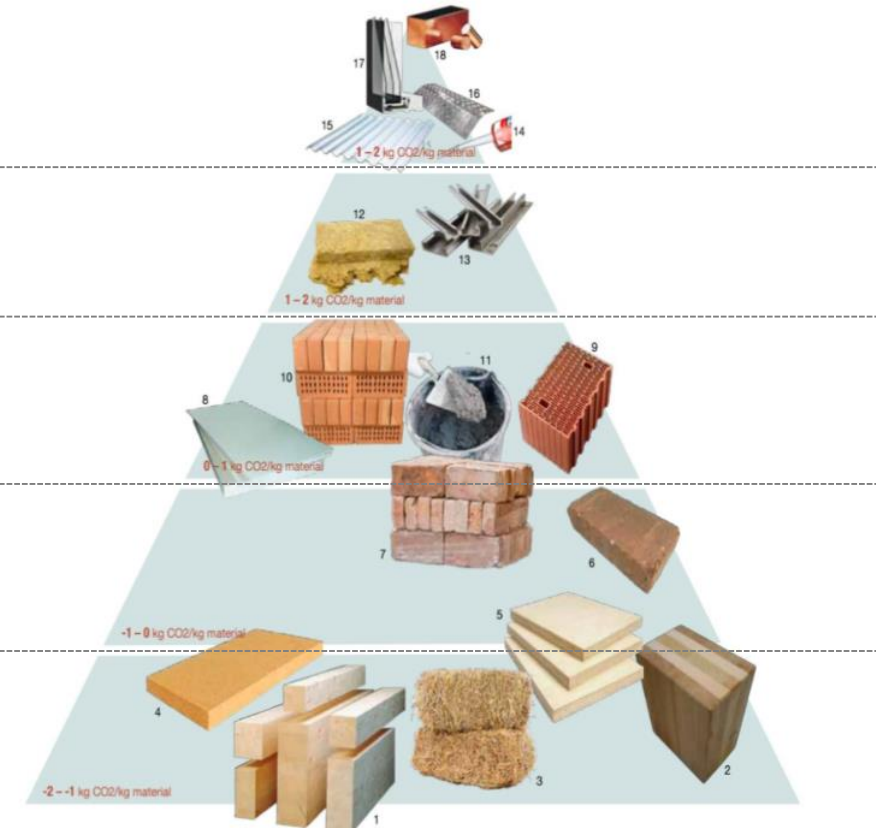


# Buildings and Construction Sector Footprint – Responsible for nearly 40% of Global CO<sub>2</sub> Emissions

## Construction materials [kg-CO<sub>2</sub>-eq]



## The construction material pyramid



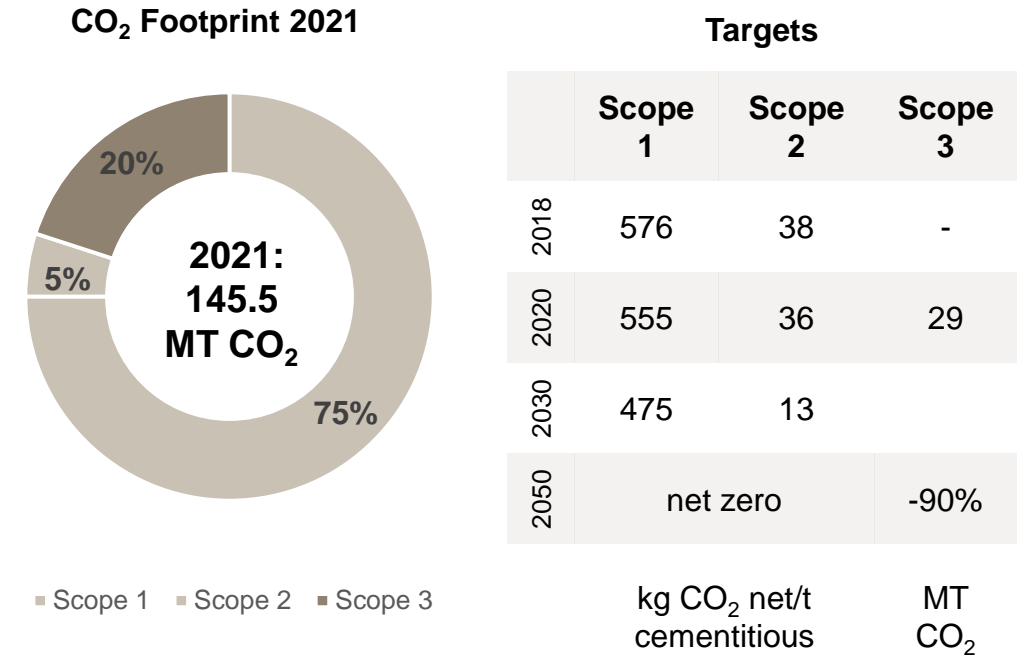
Source: Bank J. Safra Sarasin Ltd, 2022, Global ABC, 2021, IEA 2021a, adapted from “Tracking Clean Energy Progress”.

# Shades of Grey have to turn Green – Engagement with Holcim on Climate Targets

## Holcim Ltd. – Summary of engagement

-  **Trigger** Industry leader in building materials with significant carbon footprint adopted net zero pledge
-  **Approach:** Discussion with Chief Sustainability Officer and team on decarbonisation measures, intermediary targets, climate risk and integrated financial reporting.
-  **Findings:** Company outlined carbon reduction plans and alignment with corporate strategy, governance changes and decision-making process and further commitment to integrate climate-related risks into financial statements.

## CO<sub>2</sub> Footprint and net zero targets



**Relevance:** The global cement production is the second largest industrial CO<sub>2</sub> emitter and accounts for 7% of global CO<sub>2</sub> emissions. Holcim is the world's largest cement producer, based in Switzerland, and announced ambitious climate targets.

**Outcomes:** Holcim only partially meets disclosure CA100+ criteria and long term reduction targets are not yet aligned with the goal of limiting global warming to 1.5°C.

# Asset Management Association Switzerland – Environmental Key Figures for Real Estate Funds



## AMAS introduces environmentally relevant key figures for Swiss real estate funds

Swiss real estate funds are increasing transparency for investors by publishing environmentally relevant key figures. With this new best practice standard, AMAS is taking a further step towards its goal of establishing Switzerland as a leading hub for sustainable finance.

## Environmental indicators for real estate funds

- **Purpose:** The environmental indicators are intended to create a new standard of increased transparency for investors. The disclosure of information on environmentally relevant factors meets a growing need on the part of investors.
- **Content:** Disclosing the indicators allows conclusions to be drawn at the real estate portfolio level with regard to the coverage ratio, energy mix, energy consumption, energy intensity, greenhouse gas emissions, and intensity of greenhouse gas emissions.
- The indicators also provide a basis for further sustainability efforts by fund institutions, e.g. defining climate targets or assessing climate risks.
- **Indicators include:** Energy mix, energy consumption, greenhouse gas emissions

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The displayed time series are backtested for a specific historical period based on daily data. The assumptions taken in the calculations are explained below. The performance of the adaptive and static allocation portfolios rely on total return series obtained from Bloomberg. The composition of the portfolios are rebalanced on a monthly basis to the corresponding target weights. In the case of the adaptive allocation portfolio, the target weights in a given period are determined by our proprietary market cycles model, for the static allocation portfolio, the target weights throughout the backtest period remain fixed, regardless of the model output. Our proprietary market cycles model relies on aggregated company fundamentals, valuation spreads, market prices and yields as inputs, which we term descriptors. During each point in the simulation, each data series is transformed and normalised to indicate their direction and level relative to their own history. At each point in time, their direction and level are compared to a schema specifying an expected behaviour for each descriptor during each of the four cycle stages (early, mid, late and contraction). The model outputs the probability of being in each of the four stages, based on the behaviour of each descriptor, we then take the most probable stage as dictating the prevailing environment. For both the static and the dynamic allocation portfolios, we assume transaction costs of 0.1% on all buy and sell transactions, which is subtracted from the NAV following the rebalancing. Historical and backtested performance calculations are for illustrative purpose only to demonstrate the investment solution, there is no guarantee that the investment objectives of this investment solution are met. The adaptive, static portfolio and the associated market cycles model are based on specific assumptions which may not hold in the future.

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