



# SWISS SUSTAINABLE INVESTMENT MARKET STUDY 2020

MAIN SPONSORS



Cover:

**SCOUTING AND WEEDING ROBOTS  
ECOROBOTIX**

The Swiss green-tech startup ecoRobotix SA based in Yverdon-les-Bains develops, produces and sells innovative farming robots that require low energy and reduce the negative ecological impact of modern agriculture. The autonomous machines, equipped with photovoltaic panels, a GPS antenna and row-tracking cameras, can detect weeds to a centimetre precisely and sprays only a micro-dose of herbicide. This reduces the usage of herbicides by up to 90% and allows for a more ecological and economical weeding of row crops, meadows and intercropping cultures.

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An encouraging  
sign of the path  
to a more  
sustainable world.

# PREFACE BY SWISS SUSTAINABLE FINANCE

ZÜRICH, JUNE 2020

For the third consecutive year, Swiss Sustainable Finance (SSF) and the Center for Sustainable Finance and Private Wealth (CSP) at the University of Zurich have teamed up to shed light on sustainable investment developments in Switzerland. As in previous years, we again observe impressive double-digit growth rates in sustainable investing in 2019, as highlighted by this year's Swiss Sustainable Investment Market Study.

What is driving this development? 2019 has come with escalating environmental challenges, as evidenced by faster-melting glaciers, massive reductions of insect populations and water shortages in many areas of the world. Investors keep a close eye on such developments and increasingly consider them in a systematic way. On the regulatory side, policymakers – particularly the European Commission – have identified the financial sector as instrumental in addressing these challenges. At the same time, global discussions on investor responsibilities have further shifted away from risk-return profiles to focus more on impact generation. Against this backdrop, it comes as no surprise that sustainable investing continues its mainstreaming path.

With a total of 76 respondents, including many of the large asset managers and asset owners, we are confident that the study gives a fair overview of the Swiss sustainable investment market. As a new feature, this year's survey looks at common combinations of sustainable investment approaches prevalent in the market. We consider this particularly valuable, as it is a useful contribution to the growing political debate about the quality and impact of investments. The respective figures explain the relevance and characteristics of the volumes reported. We again include a chapter summarising the latest regulatory developments. While the EU Action Plan on Financing Sustainable Growth takes centre stage, more activities from

other bodies have emerged that aim to make the integration of sustainability factors into financial decisions the "new normal".

This market study was compiled with the help of an SSF workgroup, which allowed the methodology to be closely aligned to market needs and views. The data analysis was carried out jointly by SSF and CSP, which ensured systematic assessment of the data based on scientific principles. The study was funded by the six main sponsors, Basellandschaftliche Kantonalbank, BearingPoint, INOKS Capital, Pictet Asset Management, RobecoSAM and Swisscanto Invest, as well as by the six supporting sponsors Berner Kantonalbank, ECOFACT, Inrate, OLZ, Swiss Life Asset Managers and VERIT Investment Management. We would like to take this opportunity to thank all the parties involved for their valuable support.

This report was finalised during a time when the global focus was on facing the enormous challenges brought on by Covid-19. For this reason, we chose to concentrate on positive aspects by illustrating the report with some innovative solutions brought to the market to address existing global challenges. They are "Made in Switzerland" and are an encouraging sign of the path to a more sustainable world.



Jean-Daniel Gerber  
President SSF



Sabine Döbeli  
CEO SSF

The sustainable  
finance space  
continues to  
develop rapidly.

# PREFACE BY THE UNIVERSITY OF ZURICH

ZURICH, JUNE 2020

The sustainable finance space continues to develop rapidly, both in Switzerland and globally. This is illustrated by the continued growth in assets that are managed and owned in a sustainable way, as outlined in this report, as well as the dynamic political developments in the EU.

It is also remarkable how the thinking about the different sustainable investing approaches is evolving. In the early days of sustainable finance, the focus was on exclusion criteria and the avoidance of unethical behaviour, as well as strict best-in-class approaches – the emergence of a new niche market. This was followed by an era marked by mainstreaming in the market, focused on the use of various ESG data in the form of ESG integration, the interrelation with financial performance, active voting, and the application of these approaches to large pools of assets.

In this report, prepared jointly by Swiss Sustainable Finance (SSF) and the Center for Sustainable Finance and Private Wealth (CSP) at the University of Zurich, we describe how the market is moving towards a new third era. With ESG now broadly integrated into financial markets, a clear shift is observable towards the consideration of actual impact. This third era has a more outcome-oriented focus, combining active voting with ESG engagement, as well as different

forms of impact investment. The numbers in this report clearly demonstrate that these approaches with the highest growth rates are gaining in importance.

Regulators, asset owners and asset managers increasingly ask: Do sustainable investments contribute to a better world? This reorientation towards impact in financial markets is significant. It poses new questions and brings ample opportunities for all stakeholders. It is also at the core of the work of both SSF and CSP, driving thought-leadership and outreach activities to facilitate this important journey of the finance community. We hope that you will enjoy this report. We invite you to join us as we explore the implications and opportunities that lie ahead.



Dr Falko Paetzold  
Initiator and Managing Director



Prof. Dr Timo Busch  
Senior Fellow

## Swiss technologies for the future

Global sustainability challenges have become more demanding than ever, but at the same time we have witnessed fascinating technological progress in many areas in the past decade. This is why this year's Swiss Sustainable Investment Market Study displays pictures of five innovative market solutions developed in Switzerland that tackle very specific sustainability challenges. Not all solutions are at the same market stage, but what they have in common is that they are ambitious and impact-driven projects. Given their potential to foster sustainable solutions in different sectors, they are an encouraging sign of the path to a more sustainable world.

### FRESH SHRIMPS FROM SWITZERLAND SWISSSHRIMP

The company SwissShrimp has been producing eco-friendly salt-water shrimps for stores and restaurants in Switzerland since 2018. The shrimp farm located in Rheinfelden AG uses residual heat from the Swiss Saltworks nearby to produce shrimps without the use of antibiotics. Compared to frozen shrimps imported from abroad, these shrimps reach Swiss consumers with short transportation routes.

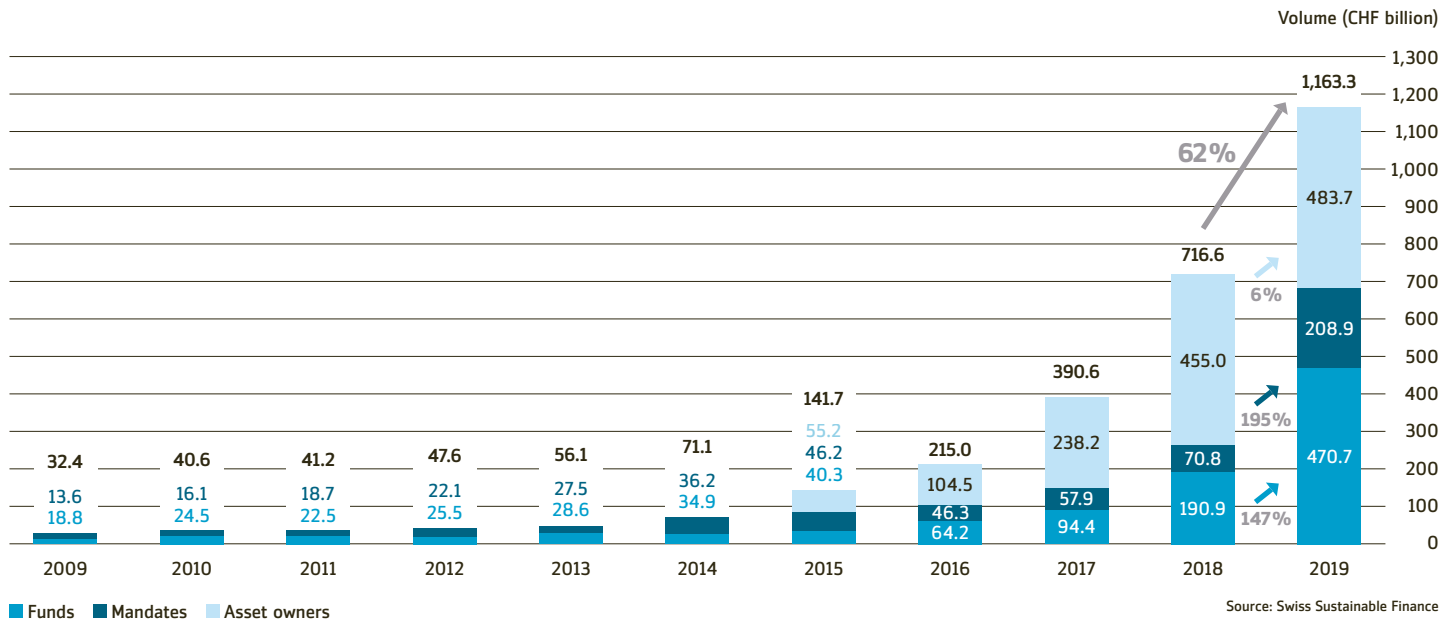






# EXECUTIVE SUMMARY

## DEVELOPMENT OF SUSTAINABLE INVESTMENTS IN SWITZERLAND (IN CHF BILLION)



### The growth story continues: high double-digit growth of sustainable investments

In 2019, the market for sustainable investments (SI) in Switzerland again experienced double-digit growth, as in previous years. Based on the responses to a market survey performed by Swiss Sustainable Finance (SSF), the volume increased by 62% to CHF 1,163.3 billion. This figure covers SI funds (147% increase), sustainable mandates (195% increase) and sustainable assets of asset owners (6% increase<sup>1</sup>). The SI market growth can be ascribed to three main effects: a wider adoption of SI approaches, the positive market performance in 2019 (approximately 18 percentage points of observed growth), and changes in methodology (see Chapter 1). On the level of sustainable funds, the volumes more than doubled to CHF 470.7 billion and now represent 38% of the overall Swiss fund market (as compared to 18% in 2018). The amount of SI reported by asset owners (CHF 483.7 billion) corresponds to approximately 30% of the total assets managed by Swiss pension funds and insurance compa-

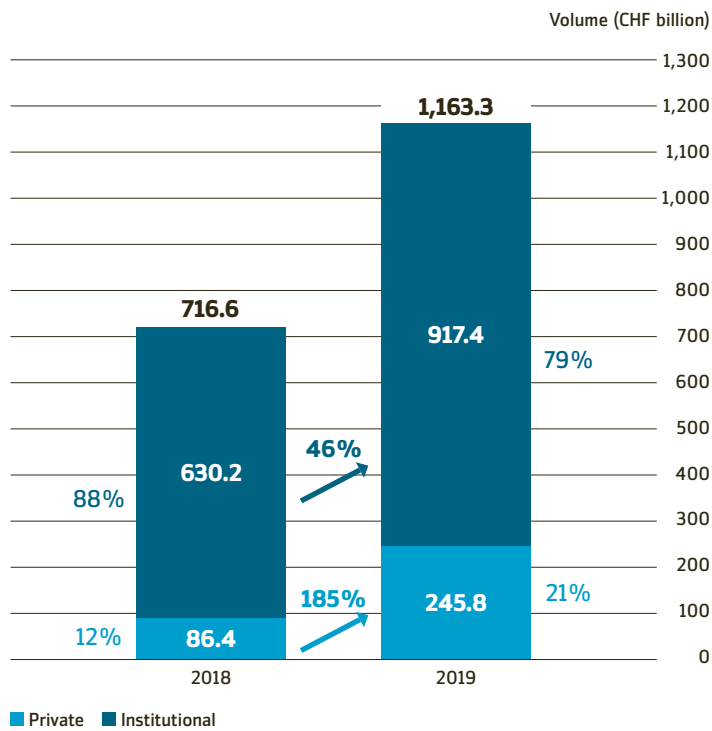
nies. These numbers mirror the mainstreaming effect: while an increasing proportion of products are being marketed as sustainable, a growing number of conventional products are also taking ESG criteria into account.

### Private investors catch up

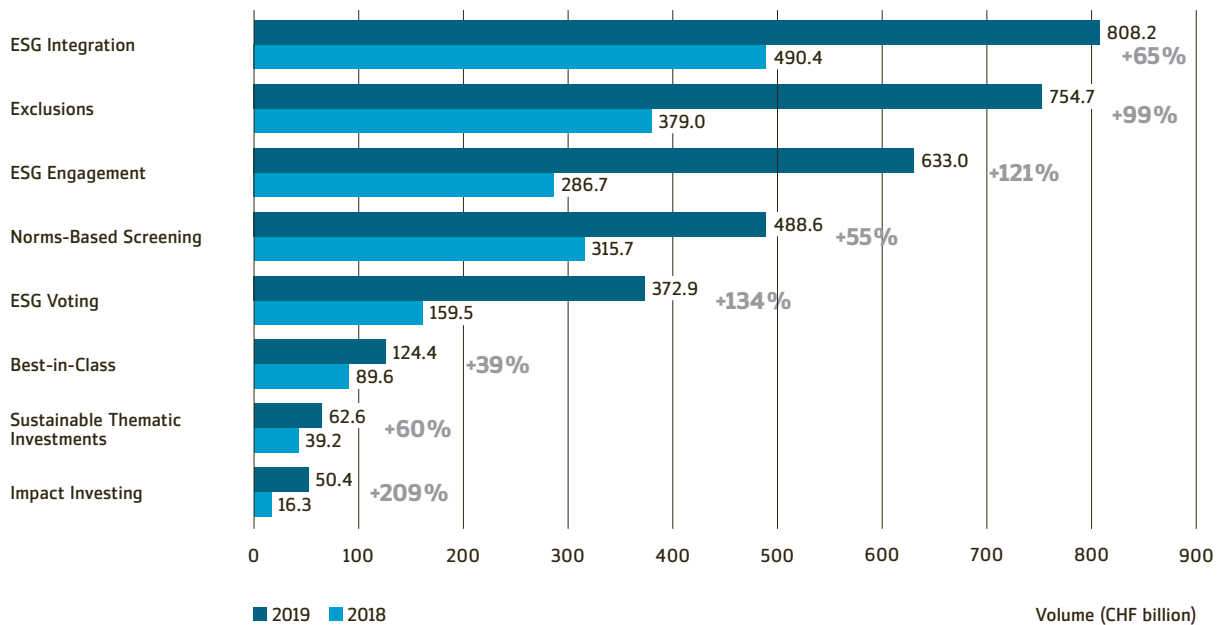
In terms of client types, both private and institutional investors increased their SI volumes in absolute terms. The 2020 report again highlights the dominance of institutional investors in the SI field, who make up 79% of all SI in Switzerland. Compared to the previous year, the catch-up in the private segment is noteworthy: at 185%, last year's growth was impressive. A key driver was that asset managers increasingly reported applying one or more sustainability approaches to retail funds.

<sup>1</sup> Three participants delivered data covering significant corrections compared to the previous years. Without these corrections, the corresponding growth for asset owners would have been about 45%.

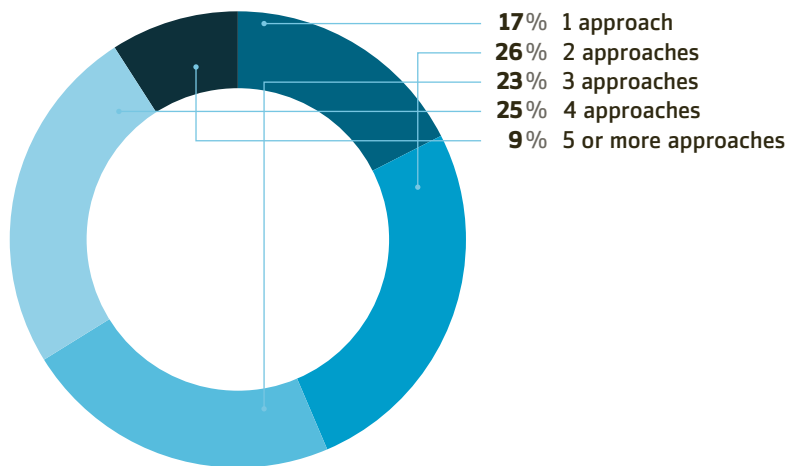
## DEVELOPMENT OF INSTITUTIONAL AND PRIVATE SUSTAINABLE INVESTMENTS (IN CHF BILLION) (n=73)



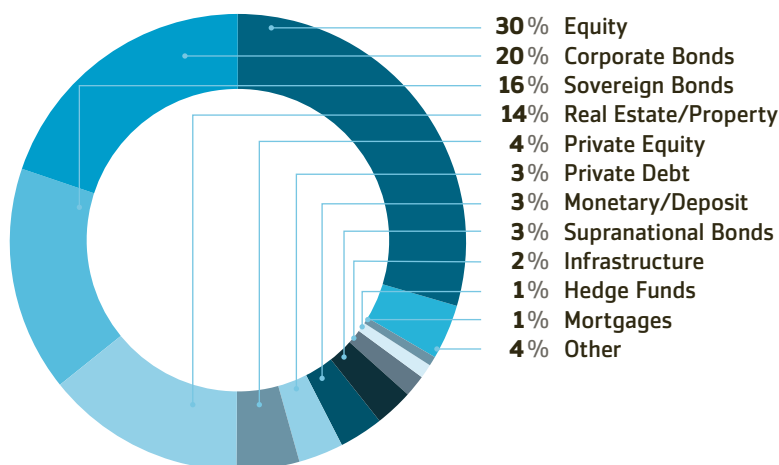
## DEVELOPMENT OF SUSTAINABLE INVESTMENT APPROACHES (IN CHF BILLION) (n=72)



## NUMBER OF APPROACHES APPLIED TO SUSTAINABLE INVESTMENT VOLUMES (IN %) (n=69)



## ASSET CLASS DISTRIBUTION FOR SUSTAINABLE INVESTMENTS (IN %) (n=64)



### ESG engagement and ESG voting gain traction

All of the SI approaches grew in volume in 2019. ESG integration remains in the lead, followed by exclusions. The high growth rates illustrate the mainstreaming process in financial markets: sustainability is not a niche topic any more. ESG engagement now ranks third, indicating that active interaction with investee firms is gaining in importance. It is interesting to note that the growth rates of ESG engagement as well as ESG voting are the strongest – after impact investments – showing a clear shift in focus to a more outcome-oriented SI mindset.

### Combinations as a common practice

For the first time this year, this report looks at common combinations

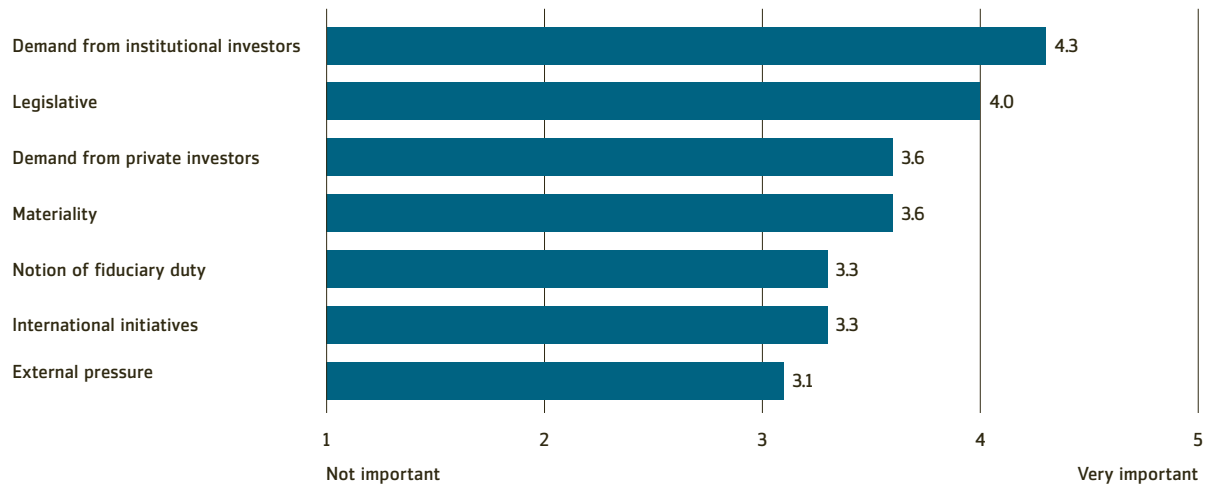
of SI to gain a better picture of the nature and quality of reported volumes. In sum, asset managers and owners utilise two approaches or more for over 80% of all SI volumes, while only 17% of the volumes apply just one approach.

ESG integration is very popular in combination with other SI approaches, but also as a stand-alone approach. This holds for asset managers and owners. ESG engagement – a potentially very effective approach from an impact point of view – is very common in the top combinations of SI approaches, mostly linked with exclusions.

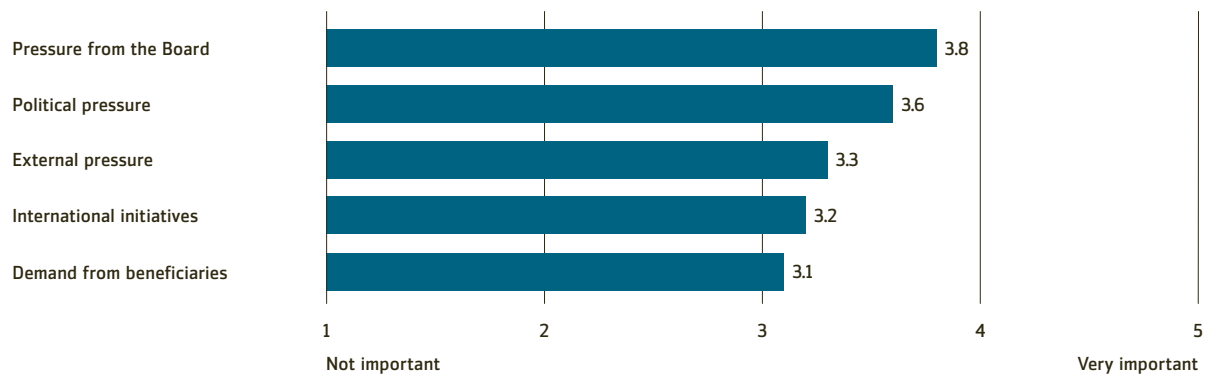
### Shifting importance of asset classes

The asset allocation distribution for SI has experienced some shifts in 2019. The largest shift was that equity now ranks first, followed by

## KEY DRIVERS FOR SUSTAINABLE INVESTMENT DEMAND IN THE NEXT THREE YEARS FOR ASSET MANAGERS (IN AVERAGE LEVEL OF IMPORTANCE) (n=40)



## KEY DRIVERS FOR FURTHER ADOPTION OF SUSTAINABLE INVESTMENT FOR ASSET OWNERS (IN AVERAGE LEVEL OF IMPORTANCE) (n=29)



corporate bonds. This shift can mainly be ascribed to asset managers reporting increased volumes of funds and mandates, most of which have a strong focus on equity and/or corporate bonds.

### The optimism remains: stable growth expectations for the Swiss sustainable investment market

Expectations about the SI market growth, as well as its main drivers and barriers, remain stable: as in previous years, Swiss asset managers and owners are optimistic about the future growth of the SI market, with a majority of them expecting it to lie above 15%. Demand based drivers from the institutional side especially (i.e. investors' demands), as well as top-down pressure (i.e. board-level pressure and legislation), remain the most relevant factors in this develop-

ment. At the same time, the lack of conviction of client advisors is no longer the main barrier for asset managers, but rather a lack of standards. For asset owners, performance remains the major concern, closely interlinked with the notion of fiduciary duty.





**LOAM BUILDING**  
**RICOLA KRÄUTERZENTRUM**

Swiss herb drop manufacturer Ricola built a new herb centre in 2014 using loam and earth sourced from the local Laufen valley, located within 10 kilometres of the building site. These special building materials also help stabilize the temperature and humidity levels inside the building, in which 1,400,000 kilograms of fresh herbs are cleaned, dried, cut, mixed and stored per year, resulting in lower energy consumption.

# 1 INTRODUCTION

For the third year, Swiss Sustainable Finance (SSF) in collaboration with the Center for Sustainable Finance and Private Wealth (CSP) at the University of Zurich is publishing the Swiss Sustainable Investment Market Study. And for the third time we are observing an incredible increase in the amounts of sustainable investments in Switzerland – a trend that has been gathering momentum over the last decade. The purpose of this study is to summarise the status quo, highlight some of the recent interesting market developments and provide a deeper understanding of the topic in order to encourage further growth.

Figure 1  
**DEFINITIONS OF SUSTAINABLE INVESTMENT APPROACHES**

Best-in-Class	Approach in which a company's or issuer's ESG performance is compared with that of its peers based on a sustainability rating. All companies or issuers with a rating above a defined threshold are considered as investable.
ESG Engagement	Activity performed by shareholders with the goal of convincing management to take account of ESG criteria so as to improve ESG performance and reduce risks.
ESG Integration	The explicit inclusion by investors of ESG risks and opportunities into traditional financial analysis and investment decisions based on a systematic process and appropriate research sources.
ESG Voting	This refers to investors addressing concerns of ESG issues by actively exercising their voting rights based on ESG principles or an ESG policy.
Exclusions	An approach excluding companies, countries or other issuers based on activities considered not investable. Exclusion criteria (based on norms and values) can refer to product categories (e.g. weapons, tobacco), activities (e.g. animal testing), or business practices (e.g. severe violation of human rights, corruption).
Impact Investing	Investments intended to generate a measurable, beneficial social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below-market to above-market rates, depending upon the circumstances.
Norms-Based Screening	Screening of investments against minimum standards of business practice based on national or international standards and norms.
Sustainable Thematic Investments	Investment in businesses contributing to sustainable solutions, both in environmental or social topics.



## RESPONDING TO GRAND CHALLENGES

COMMENTARY BY  
TIMO BUSCH AND SABINE DÖBELI

While we see exciting developments in sustainable finance, the world is currently facing an unprecedented crisis. At the time of writing this report, the outbreak of the novel coronavirus (SARS-CoV-2) causing the Covid-19-pandemic has resulted in global gridlock with untold health, economic and social effects. The real economy has been hit hard, the consequences of which cannot yet be gauged, but will certainly influence our society in the long-term. What can we learn from the evolution and reactions to the coronavirus crisis and other grand challenges the world is facing?

First, we need to acknowledge that the pace and severity of a crisis depends on the human reaction to it. In the case of the Covid-19-pandemic, our international interconnectedness has fuelled the quick spread. At the same time, strict adherence to social distancing measures has been an effective measure to reduce infection rates. The same holds for most grand challenges in the ecological and social domain: we can be part of the cause of the problem, but we also have the ability to find the solution.

Second, it is a misconception to assume that (scientific) knowledge about an emerging crisis is enough to trigger an immediate response. Although early-warning signs were there, there was no push to change individual behaviour in the US or EU. Collectively we remained in “business-as-usual” mode until we experienced the consequences first-hand in our own backyard. Climate change poses a similar dilemma, and although it took a long time for a response to take shape, there has been a rapid surge in activity now that we are experiencing concrete effects.

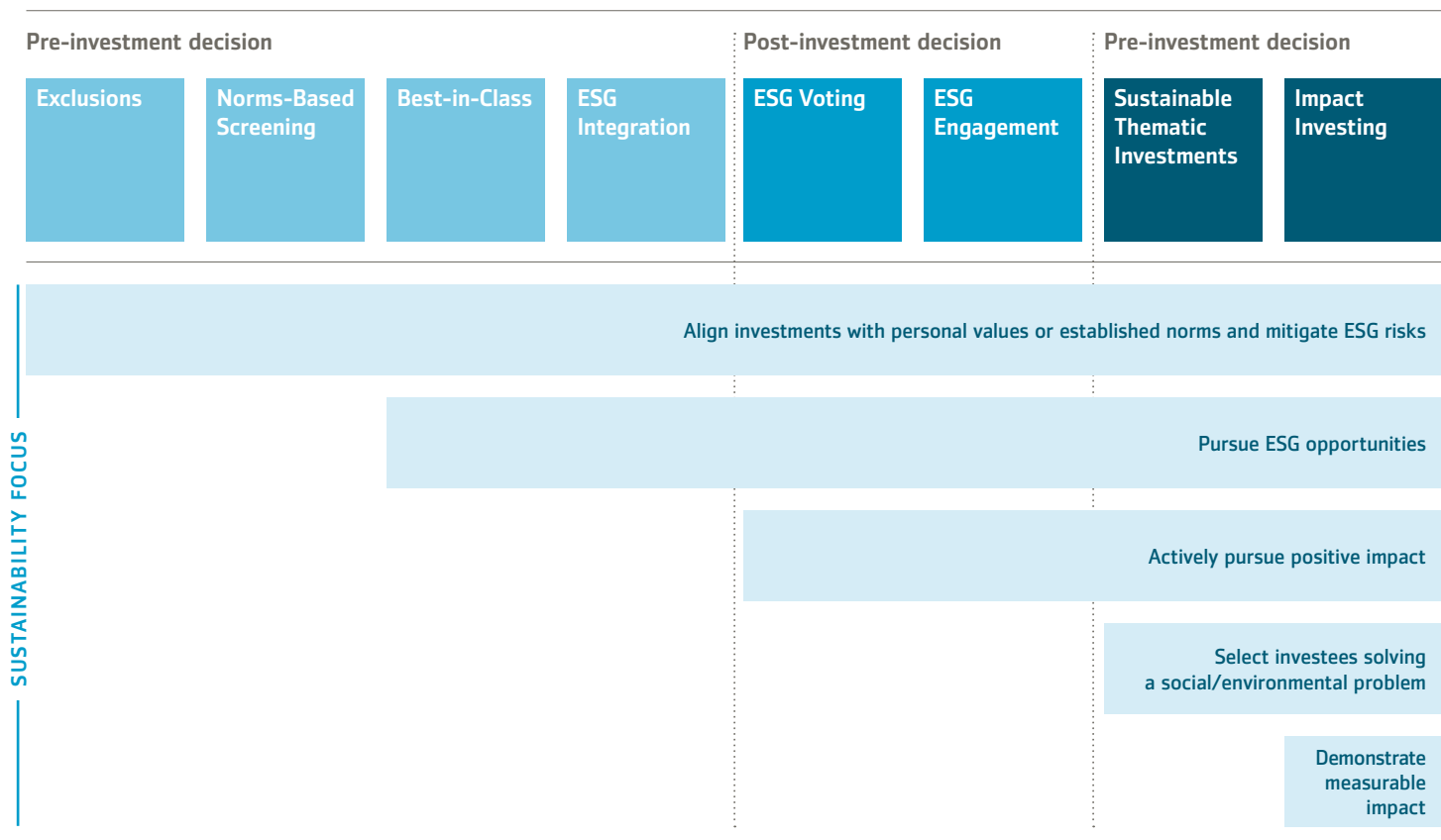
Third, the pandemic has taught us that time is of the essence, demonstrating that radical measures are an effective solution, if implemented quickly. Scientific studies corroborate that we are exceeding the planetary boundaries in many regards and the negative consequences will eventually endanger our livelihoods. While the problems materialise more slowly, responses take longer to be

effective. In the case of ecological challenges, however, it is essential to avoid reaching tipping points, after which a remedy is no longer possible.

Lastly, economic effects are key drivers. After all, it is the fear of economic depression that motivates governments around the world to identify step-by-step plans to ease the lockdown as fast as reasonable and possible. In the case of other challenges, financial effects are also major drivers of change, be it for the adoption of renewable energy or for water-saving technologies. Therefore, creating the right frameworks that lead to pricing signals – which in turn accelerate change – is in the interest of not just the financial sector, but society as a whole.

While the Covid-19-pandemic is still ongoing, other grand challenges have not gone away and still need to be addressed. Even if the pace, severity, and reversibility may be different and still uncertain, we can be sure they will change the way we do business. For investors and insurers it therefore makes sense to look at emerging risks systematically and react to them. But managing risks alone is not enough. Investors also have to be aware that they can create a positive impact, thereby being part of the solution. We have seen such positive examples of innovative investor action to address the coronavirus crisis, e.g. the issuance of Covid-19 response bonds. Sustainable investors are at the forefront when it comes to incorporating solutions to grand challenges. One example is the growth in investments supporting the Sustainable Development Goals (SDGs) (see Chapter 2.5). We are convinced they can play an even bigger role in future by making long-term goals a clear element of all investor action.

Figure 2  
**CATEGORISATION OF SUSTAINABLE INVESTMENT APPROACHES**



Source: Swiss Sustainable Finance<sup>2</sup>

This report refers to the term sustainable investments (SI) as any investment approach integrating environmental, social and governance (ESG) factors into the selection and management of investments. As shown in Figure 1, there are eight different forms of SI, which are all examined in more detail by SSF (for full definitions, see the glossary at the end of this report, or the SSF website<sup>3</sup>). Figure 2 presents a classification of these approaches. All approaches can be categorised according to their sustainability focus or intended effect.

It is important to note that different approaches are often combined. For example, norms-based screening is usually applied in combination with ESG engagement and exclusion. With this year's report we devote a special section (in Chapter 2.3) to the different forms of combination prevalent in the market.

This year's report incorporates an important shift in the methodology for asset managers. In previous years, the studies differentiated between SI assets linked to specific products and SI assets linked to company-wide SI policies. As such, we previously collected data on both specific products (investment funds and discretionary mandates applying sustainability criteria in their investment process) and the full asset base of an asset manager when there was a general sustainability policy/approach at the institutional level. This year, we take a different perspective on these volumes and collect the data

on the level of all funds and mandates that apply one or more of the named SI approaches. This change was made because we acknowledge that the industry is adapting and it is hard to differentiate between assets that are based on a company-wide policy vs. specific assets applying a fund or mandate-level policy. What we see as the critical factor is that volumes counted towards sustainable assets apply one or more of the defined SI approaches. This change may lead to an increase in the reported SI volumes for funds and mandates, as in previous years some of these volumes might have appeared only under Broad SI policies.

A total of 76 Swiss players (2019: 77) took part in this year's edition of the Sustainable Investment Market Study which represents a stable participation rate compared to the previous year, despite the fact that the deadline for submission of the data fell in the phase of the coronavirus lockdown.<sup>4</sup> As shown in Figure 3, 37% were asset managers, 22% banks/diversified financials and 41% asset owners.

<sup>2</sup> Adapted from Paetzold, F., Impact Investing, in SSF Handbook on Sustainable Investments, 2018.

<sup>3</sup> SSF: "Glossary", available at: [https://www.sustainablefinance.ch/en/glossary-\\_content--1--3077.html](https://www.sustainablefinance.ch/en/glossary-_content--1--3077.html).

<sup>4</sup> A list of study participants who consented to be named is provided on page 72.

The Swiss Sustainable Investment Market Study 2020 was prepared on the basis of company data taken from organisations domiciled in, or with operations in, Switzerland that manage sustainable investments. All available data was collected, reviewed and evaluated by Swiss Sustainable Finance (SSF) and its academic cooperation partner, the University of Zurich. The gathered data is from 31 December 2019 and was provided voluntarily by the study participants. From January to April 2020, data collection was conducted using questionnaires sent out to a total of 219 asset owners and managers in Switzerland.

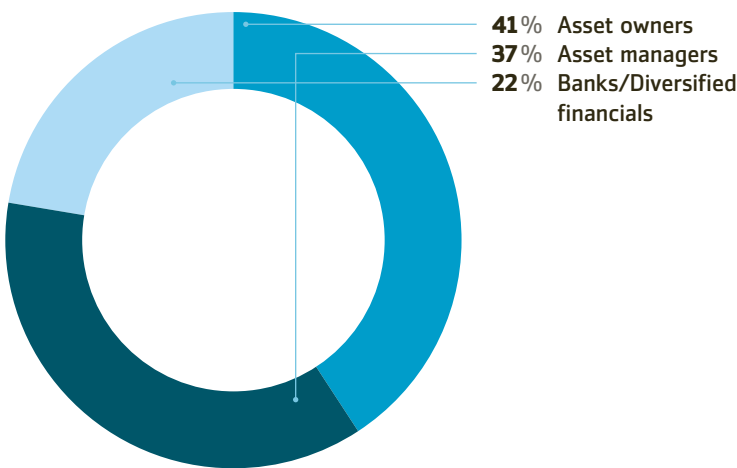
In order to avoid double counting, SSF provided clear guidance on the data to be reported and participants were encouraged to respect the defined scope of the questionnaire. In alignment with the methodology of the Eurosif market reports, asset managers were asked to list all assets managed by their organisation within Switzerland for national and foreign clients. Asset owners were asked to provide details of their self-managed assets and separately provide information on assets managed by asset managers on behalf of their organisation.

Since not every question was answered by all participants, the total quantity (n) of the respective answers is provided for all figures. A list of the participants who agreed to be named can be found on page 72.

Figures in foreign currency (euros and US dollars) were adjusted by means of exchange rates in Swiss francs (CHF). The year-end exchange rates applied for 2019 were CHF 1.0855 for one euro and CHF 0.9675 for one US dollar. For Figure 10, the volumes for institutional and private investors were extrapolated to total reported SI volumes, since a small percentage of SI volumes managed by asset managers were not attributed to institutional or private clients explicitly.

All study participants received guidelines including the underlying definitions and detailed information on how to answer the questionnaire. In order to provide an accurate picture of the Swiss sustainable finance market, all data and information were checked for consistency. In case of any anomalies in the data, the respective participants were contacted and potential issues resolved.

Figure 3  
**SWISS SUSTAINABLE INVESTMENT MARKET STUDY PARTICIPANTS (n=76)**



This represents an even balance between asset managers and banks/diversified financials (collectively referred to as asset managers) on the one hand and asset owners on the other hand. In 2020, the number of study participants were 45<sup>5</sup> asset managers (2019: 42) and 31<sup>6</sup> asset owners (2019: 35).

The main part of this report (Chapter 2) provides a detailed analysis of the results from the market survey. Factors examined in detail include general market characteristics, investor types, SI approaches, combinations thereof and asset allocation. Also included are discussions of special topics, such as the SDGs and climate change. The following section, on market trends anticipated by asset managers and owners, provides a deeper understanding of the possible drivers and barriers for further growth of the Swiss SI market (Chapter 3). Chapter 4 contains an examination of the regulatory framework in Switzerland. The report concludes with a summary of the findings and an outlook (Chapter 5).

<sup>5</sup> Two asset managers participated through another company. Thus, the following analysis is based on 43 asset manager data sets.

<sup>6</sup> One asset owner participated through another company. Thus, the following analysis is based on 30 asset owner data sets.

## 2 SWISS SUSTAINABLE INVESTMENT MARKET

Figure 4  
DEVELOPMENT OF SUSTAINABLE INVESTMENTS  
IN SWITZERLAND (IN CHF BILLION)

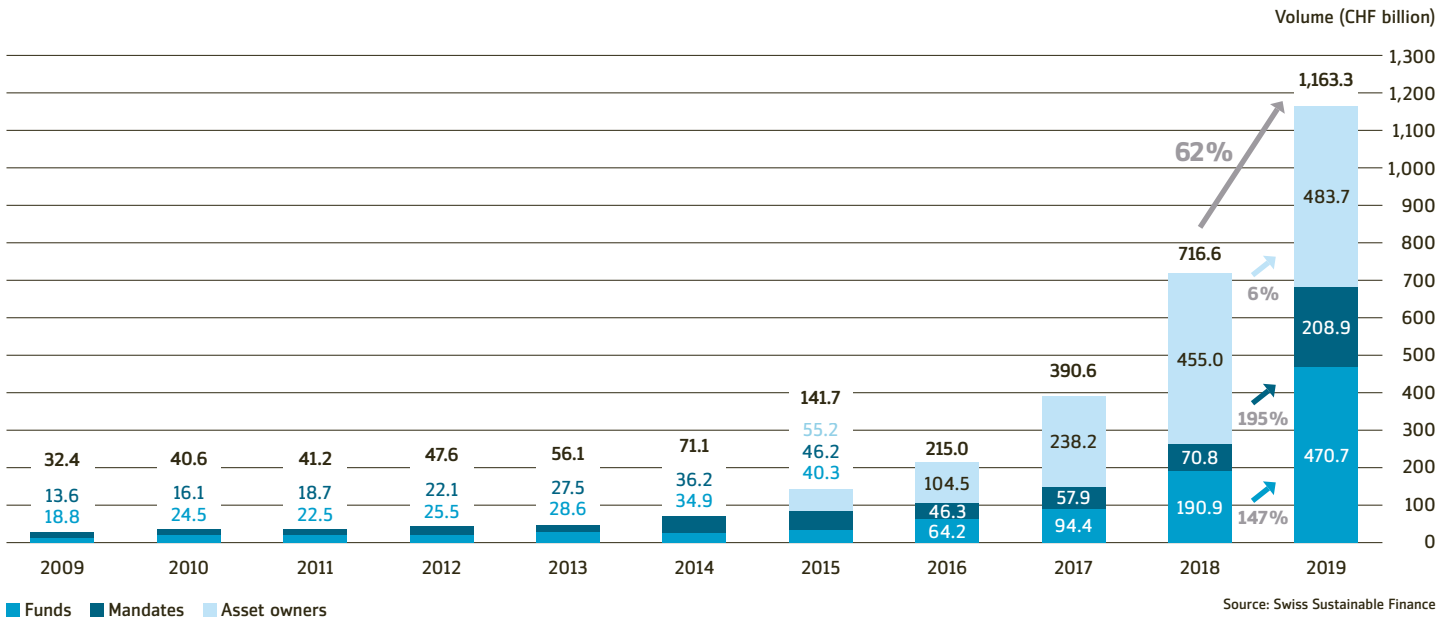
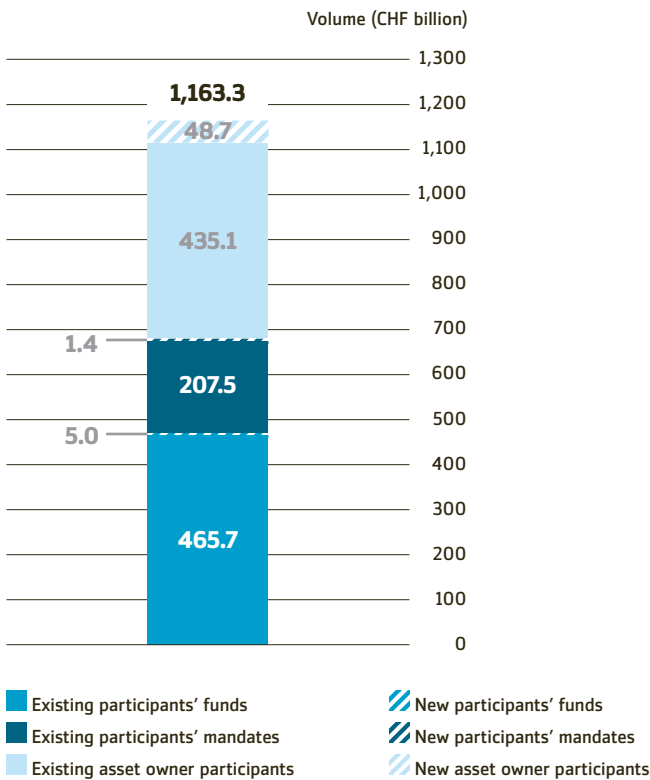


Figure 5  
SUSTAINABLE INVESTMENTS OF EXISTING VS.  
NEW STUDY PARTICIPANTS (IN CHF BILLION)



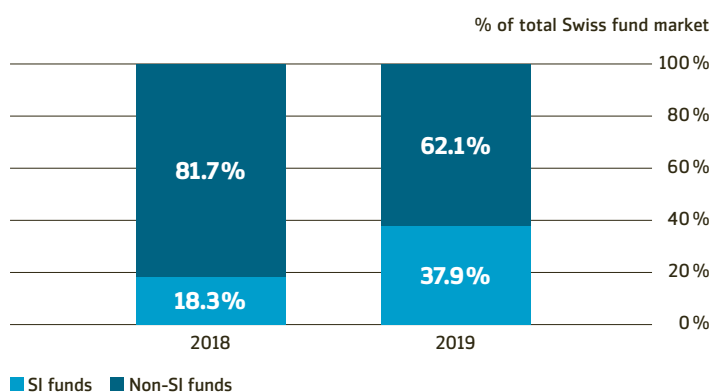
### 2.1 OVERALL MARKET SIZE AND CHARACTERISTICS

Figure 4 shows the development of the market volume of sustainable assets in Switzerland from 2009 to 2019. As of 31 December 2019, the total Swiss SI market was worth CHF 1,163.3 billion – taking into account sustainable funds, sustainable mandates and sustainable assets of asset owners – representing a growth rate of 62% versus the previous year. Mandates showed the highest growth rate with 195%, followed by funds with 147%, and finally asset owners with 6%. The SI market growth can be ascribed to three main effects: a wider adoption of SI approaches, the positive market performance in 2019<sup>7</sup> (approximately 18 percentage points of observed growth), and changes in methodology (see Chapter 1).

For asset managers, the growth mainly arises from existing participants' mandates and funds (Figure 5). The high growth rates observed in 2019 can be attributed to three main factors: a wider adoption of SI approaches, the positive market performance in 2019 (for mandates and funds approximately 23 percentage points), and the methodology changes applied (see Chapter 1).

For asset owners, the growth is mainly coming from new participants, as illustrated in Figure 5. The growth rate of asset owners' sustainable volumes is rather low, at 6%. Three participants deliv-

**Figure 6**  
**PROPORTION OF SUSTAINABLE FUNDS IN THE OVERALL SWISS FUND MARKET (IN % OF TOTAL FUNDS MARKET)**



ered data covering significant corrections compared to the previous years; without these corrections, the corresponding growth would have been 45%.<sup>8</sup> Two thirds of this can be attributed to new participants' volumes and one third to inflows and the performance effect of existing participants (with the performance effect as the major contributor at approximately 16 percentage points).

Since 2009, the compound annual growth rate for sustainable funds and mandates has been around 36%. However, for the period before 2015 it was much lower (18%) than for the period after 2015 (67%). This development highlights the mainstreaming effect: sustainability is not a niche topic any more. This development may be a reflection of the generally greater awareness of climate change in the aftermath of the Paris Agreement in 2015, as well as the prominent launch of the SDGs. Asset owners were included for the first time in the market survey in 2015. Since then, the compound annual growth rate of their assets has been about 72%.

A comparison of the developments in the SI fund market with the overall growth of the asset management market in Switzerland underlines the relatively high growth rate of SI. As of 31 December 2019, the overall volume of the Swiss fund market stood at CHF 1,240

billion.<sup>9</sup> This represents a market increase of about 19% compared to the previous year. The reported sustainable funds amounted to CHF 470.7 billion, which corresponds to a growth rate of 147% compared to the previous year, while the majority of this effect is due to existing funds newly applying SI approaches. Sustainable funds now represent 38% of the overall fund market in Switzerland (Figure 6) compared to 18% last year.

A comparison of asset owners' SI volumes compared to overall Swiss pensions funds' and insurance companies' assets underlines

<sup>7</sup> The performance effect is calculated based on the previous year's volumes of four asset classes. For the performance of equity, corporate bonds, sovereign bonds and real estate investments, the indices MSCI World Index (USD), Bloomberg Barclays Global Aggregate Corporate Bond Index, S&P Global Developed Sovereign Bond Index and MSCI World Real Estate Index (USD) were used, respectively.

<sup>8</sup> With the growing adoption of SI among asset owners, they are becoming more sophisticated in applying and reporting on SI. It is therefore inevitable that such corrections and restatements have to be made.

<sup>9</sup> SFAMA (2020): "Swiss Fund Market Statistics – Month-End Analysis 31.12.2019", available at: <https://www.swissfunddata.ch/sfdpub/fundmarket-statistics>, accessed 30/03/2020.

Figure 7  
**RATIO OF SI VOLUME COMPARED TO TOTAL AUM FOR ASSET MANAGERS**  
 (IN NUMBER OF RESPONDENTS) (n=38)

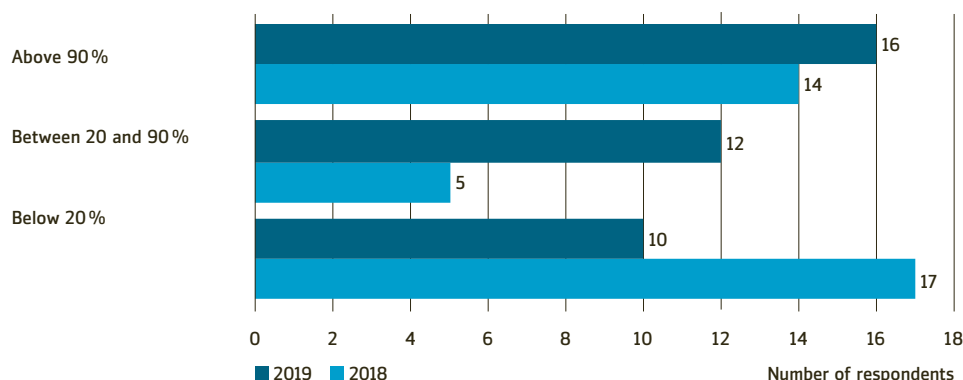


Figure 8  
**MARKETING OF SUSTAINABLE PRODUCTS BY ASSET MANAGERS (IN CHF BILLION)** (n=43)

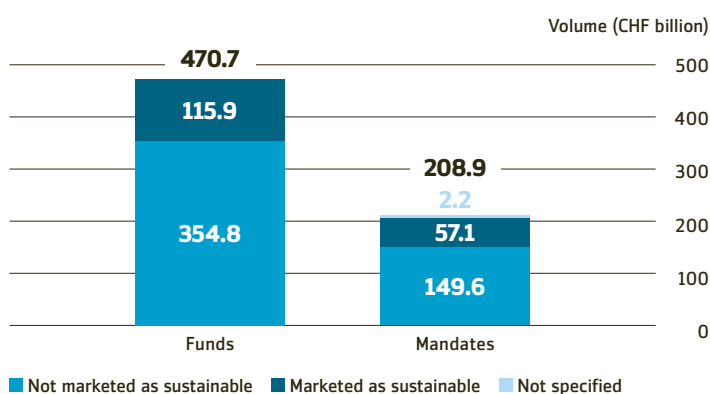
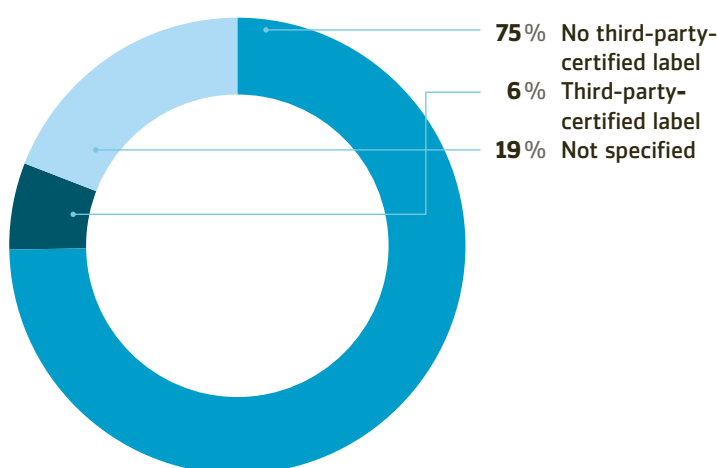


Figure 9  
**LABELLING OF SUSTAINABLE FUNDS BY ASSET MANAGERS (IN %)** (n=38)



the high penetration of SI. Assets of Swiss pension funds and insurance companies are estimated to be in the region of CHF 1,595 billion.<sup>10|11</sup> The reported SI held by asset owners amounted to CHF 483.7 billion which corresponds to roughly 30% of the overall investments of Swiss pension funds and insurance companies. This share is most likely an underestimation of the total share of sustainable assets held by Swiss asset owners, as sustainable mandates outsourced to asset managers were not counted towards asset owners' volumes, because the main scope of this study was about sustainable assets managed in Switzerland.

Figure 7 shows the proportion of SI held by asset managers compared to their total assets under management (AuM). It highlights that both types of firms are well established in Switzerland – specialised SI companies as well as those offering SI in addition to traditional products. However, in 2019 a remarkable development can be observed: many of the non-specialised companies now have more than 20% of their AuM invested sustainably, which also reflects the strong trend to SI becoming mainstream, at least for certain asset classes.

Figure 8 shows that asset managers market about one quarter of their reported SI funds and mandates as sustainable products. This goes hand in hand with the mainstreaming effect: not all products are marketed as sustainable, but an increasing number of products take ESG criteria into account. Figure 9 shows that only a small fraction of the reported SI funds have a third-party-certified label. However, a large number of asset managers apply the European SRI Transparency Code to their various funds.<sup>12</sup>

<sup>10</sup> Willis Towers Watson (2020): "Global Pension Assets Study 2020", available at: <https://www.thinkingaheadinstitute.org/en/Library/Public/Research-and-Ideas/2020/01/Global-Pension-Asset-Study-2020>, accessed 31/03/2020.

<sup>11</sup> FINMA (2019): "Insurance Market Report 2018", available at <https://www.finma.ch/en/documentation/finma-publications/reports/insurance-reports/>, accessed 31/03/2020.

<sup>12</sup> FNG: "Unterzeichner Transparenz Kodex", available at: <https://www.forum-ng.org/de/transparenz/unterzeichner-des-transparenz-kodex.html>, accessed: 22/04/2020.

<sup>13</sup> Since not every asset manager participant answered the questions on this topic, asset managers' volumes for institutional and private investors have been extrapolated to their total reported SI volumes for both years.

## 2.2 INVESTOR TYPES

Figure 10 shows that volumes of SI by both groups of investors, institutional as well as private, contribute to the high overall growth of SI.<sup>13</sup> These numbers illustrate the continued prominence of institutional investors within the Swiss SI market, which make up 79% of all SI. Private investors' participation in SI has risen sharply in 2019. This could be explained by both a demand and a supply effect: more and more private investors seem to be interested in SI. At the same time, there is a trend induced by asset managers, who are now offering a broader range of ESG products, or even fully integrating ESG factors in their fund management.

As already seen in 2018, insurance companies are the largest group of institutional investors. Their volumes amount to 50% of the volume of institutional investors, as indicated in Figure 11. Public as well as corporate pension funds represent a total of 44% of the asset owner volumes, making them key players in Switzerland as well.

Figure 10  
DEVELOPMENT OF INSTITUTIONAL AND PRIVATE SUSTAINABLE INVESTMENTS (IN CHF BILLION) (n=73)

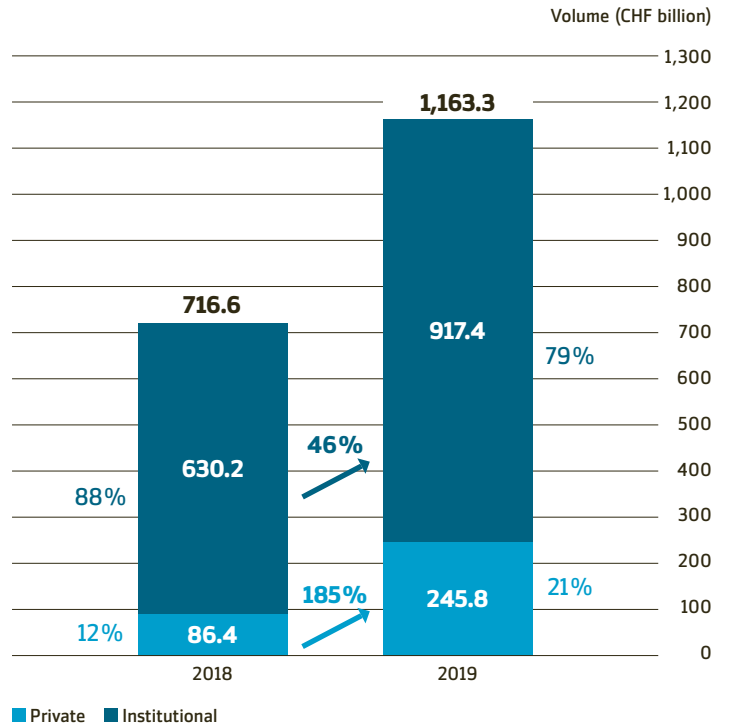


Figure 11  
DEVELOPMENT OF THE INSTITUTIONAL SUSTAINABLE INVESTMENT INVESTOR LANDSCAPE (IN %) (n=38)

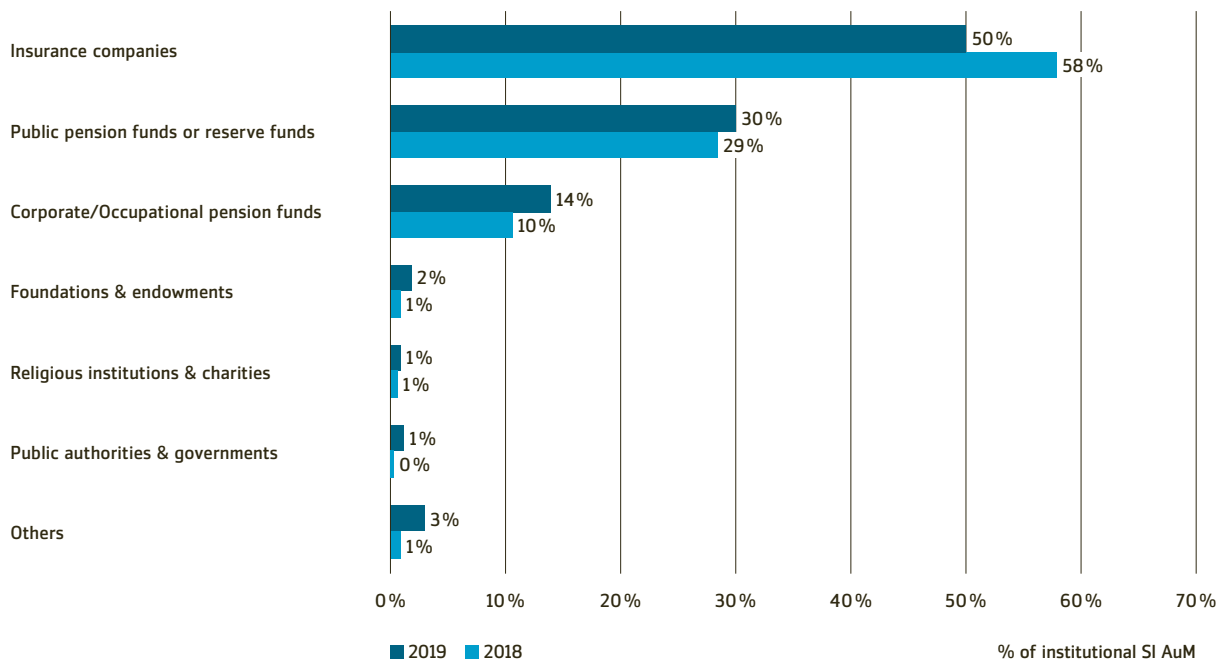


Figure 12  
DEVELOPMENT OF SUSTAINABLE INVESTMENT APPROACHES (IN CHF BILLION) (n=72)

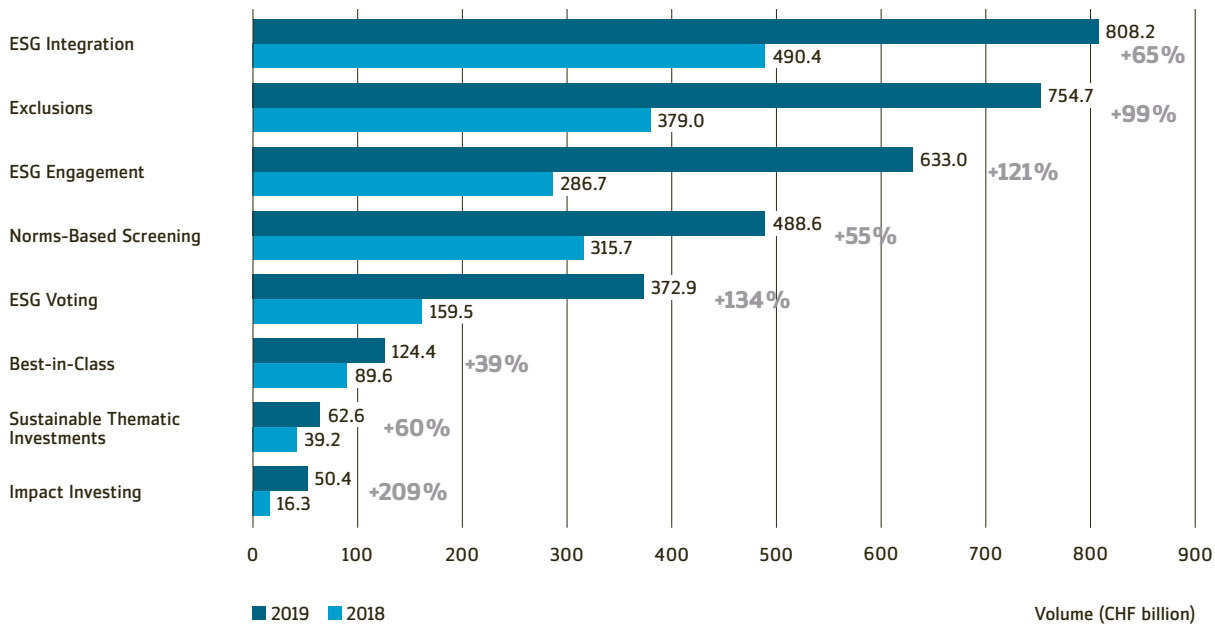
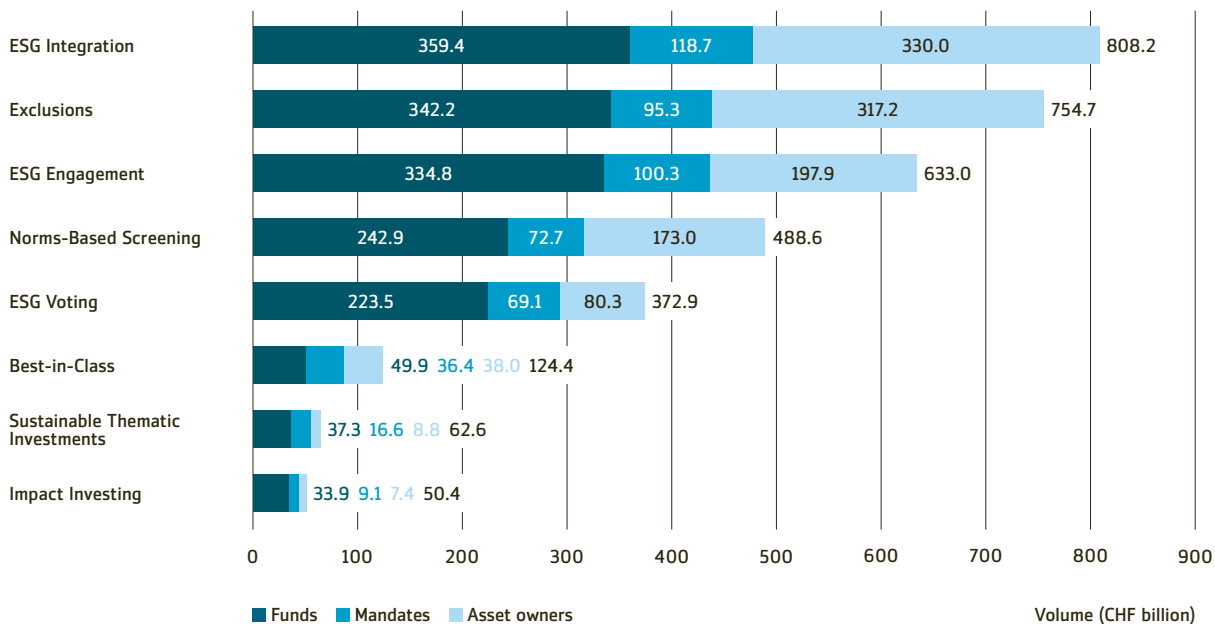


Figure 13  
APPLICATION OF SUSTAINABLE INVESTMENT APPROACHES DIFFERENTIATED BY FUNDS, MANDATES AND ASSET OWNERS (IN CHF BILLION) (n=72)



### 2.3 SUSTAINABLE INVESTMENT APPROACHES

This chapter provides a detailed analysis of the different SI approaches in Switzerland. Figure 12 presents the total volumes to which the various approaches were applied in 2018 and 2019, including asset manager as well as asset owner data. All approaches experienced substantial increases in volumes. As in 2018, ESG integration is still in the lead in 2019. The exclusion approach is once again ranked second in terms of volumes. ESG engagement now ranks third

(from fourth last year), indicating that active interaction with investee firms has gained importance. The growth rate of ESG engagement and ESG voting was significant, with both volumes more than doubling in 2019. Volumes in impact investment more than tripled, recording the highest growth rate of all SI approaches, at 209%.<sup>14</sup> Figure 13 differentiates applied SI approaches by funds, mandates and asset owners. For asset owners, the SI volumes per approach are

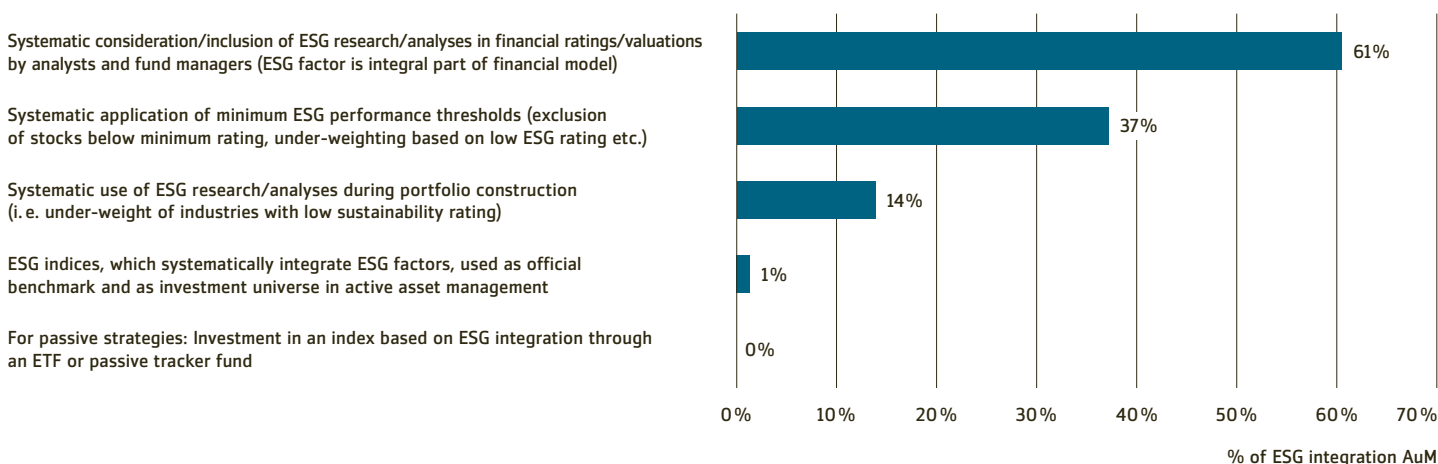


roughly proportional with respect to total SI volumes. An exception are thematic investments and impact investments, for which asset owners only represent approximately 15% of the total volumes. This may suggest that such approaches require more asset manager know-how and are rarely applied by asset owners to their self-managed assets.

### ESG INTEGRATION

ESG integration ranks first in Switzerland and is applied to 69% of all sustainable assets (Figure 12). The growth rate of 65% can largely be attributed to large asset managers who more recently introduced systematic ESG integration across a broad share of funds, and new asset owner participant volumes. Figure 14 shows the popularity of different systematic ESG integration approaches used by respondents as an integral part of their asset management process. By far the most popular approach was the systematic consideration/inclusion of ESG research/analyses in financial ratings/valuations by analysts and fund managers.

**Figure 14**  
**ESG INTEGRATION TYPES APPLIED**  
 (IN %) (n=42)



### EXCLUSIONS

The exclusion approach is applied to 65% of all SI in Switzerland (Figure 12). Assets that exclusively apply an exclusion of cluster munitions, anti-personnel mines and/or weapons of mass destruction, as defined in the Federal Act on War Material (WMA)<sup>15</sup> are not counted as an exclusion strategy. The growth of 99% can mainly be explained by large asset managers who reported exclusions across a broad share of funds and new asset owner participant volumes.

<sup>14</sup> See chapter with detailed explanation and analysis of impact investments.

<sup>15</sup> According to the WMA, the direct financing (and indirect if used to circumvent direct financing) of the development, manufacture or acquisition of prohibited war materials (Article 8b WMA) is prohibited, which is why SSF decided not to count it as exclusions in the sense of a sustainable investment approach.

Figure 15  
**APPLIED EXCLUSION CRITERIA FOR COMPANIES**  
 (IN CHF BILLION) (n=52)

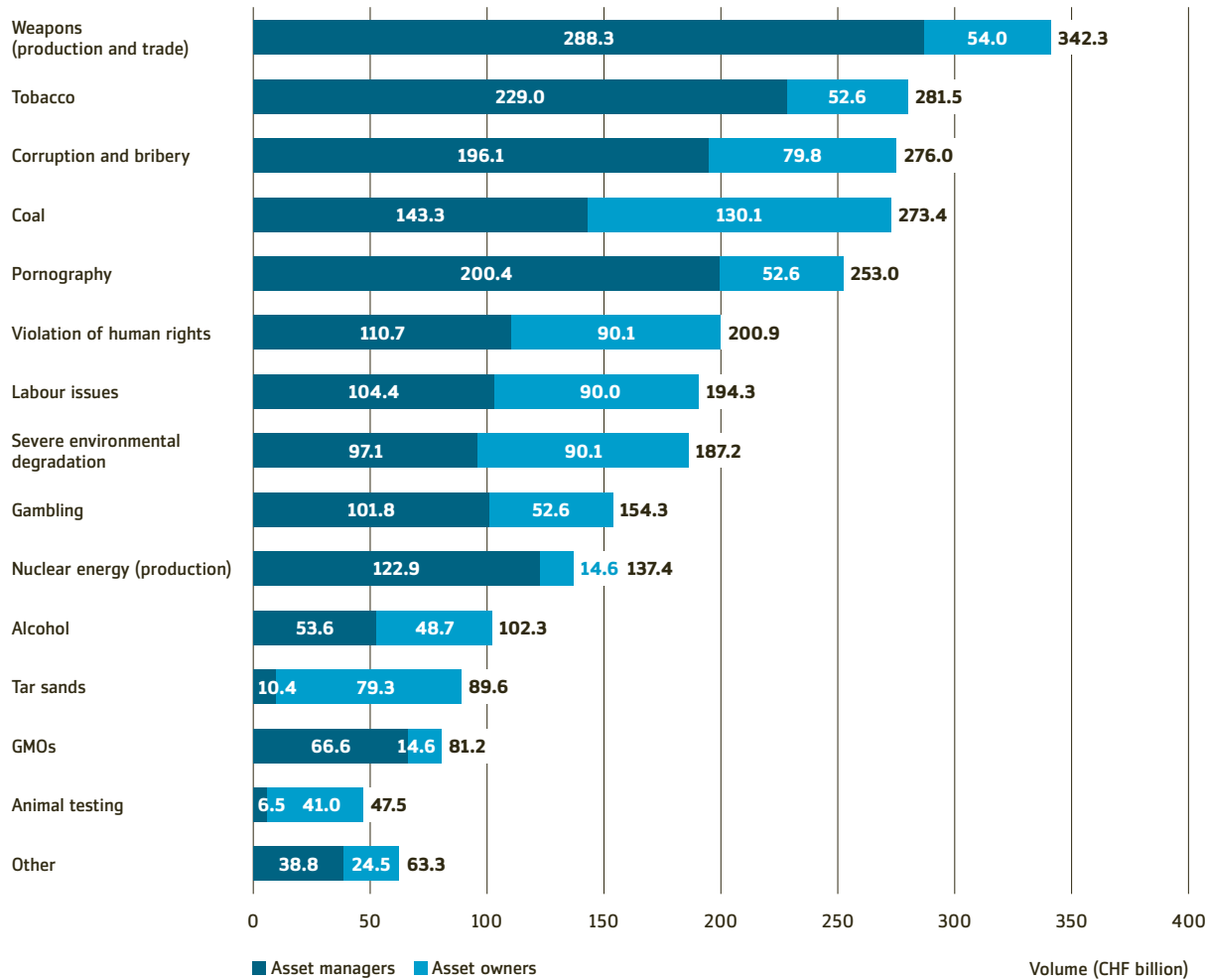


Figure 15 shows that the exclusion criterion for SI assets used most frequently was the production and trade of weapons.<sup>16</sup> Figure 15 further shows that the exclusion of investments related to coal gained traction in 2019, moving from tenth to fourth rank. This development goes hand in hand with the intensified global carbon divestment movement and related requests. For the first time this year, one asset owner reported excluding investments related to tar sands. For the category “others”, respondents reported exclusion criteria such as embryo research, aircraft, agrochemicals and agricultural material. Survey respondents were also asked about applied country exclusions, but only 19 participants covering a small amount of SI volumes responded. A majority of reported volumes were mainly based on international sanctions. According to the UN, sanctions can pursue a variety of goals, but UN sanctions focus on supporting the political settlement of conflicts, nuclear non-proliferation and counter-terrorism.<sup>17</sup> Seeing that international UN sanctions are legally binding, it is our opinion that these cannot be considered as SI.

**ESG ENGAGEMENT**

The ESG engagement approach now ranks third and is applied to 54% of all SI in Switzerland (Figure 12). The 121% increase is mainly due to asset managers. Overall, the amount of funds applying ESG

engagement increased substantially compared to the previous year. This increase can be explained by a few large asset managers expanding this approach to a broader range of their funds.

Figure 16 shows that risk management and reporting related to climate change was a very important subject to engage with. This outcome may be ascribed to the circumstance that climate change related risks in financial markets have become more prominent in public debates, for example through initiatives such as the Task Force on Climate-related Financial Disclosures (TCFD).<sup>18</sup>

If engagement with a firm is unsuccessful, the majority of asset owner respondents say that they exclude the firm from the investable universe. Amongst asset managers there are two main strategies pursued after unsuccessful engagement. One group divests from the firm, the other group steps up the dialogue and re-engages.

Of the 25 asset managers reporting engagement volumes, five organisations representing around 40% of the engagement volumes reported outsourcing engagement activities to third parties.<sup>19</sup> The rest of the participants who engage, representing about 60% of assets, use internal resources to do so.

**NORMS-BASED SCREENING**

Overall, norms-based screening is applied to 42% of all SI in Switzer-

Figure 16  
**MAIN ESG ENGAGEMENT THEMES (IN AVERAGE LEVEL OF IMPORTANCE) (n=45)**

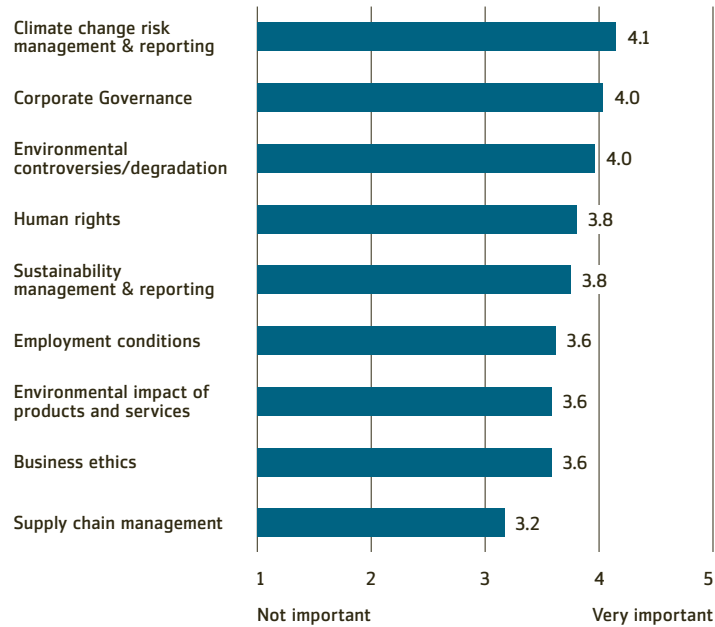
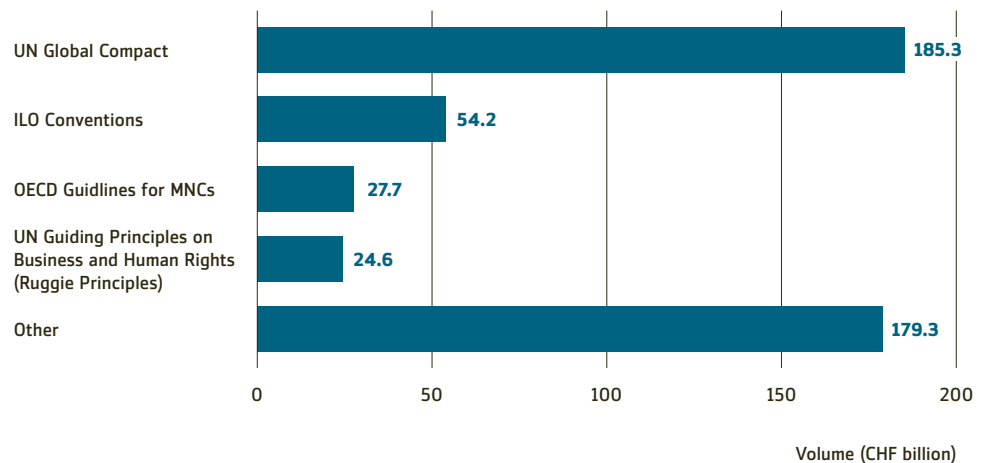


Figure 17  
**CRITERIA FOR NORMS-BASED SCREENING FOR ASSET MANAGERS (IN CHF BILLION) (n=38)**



land (Figure 12). The volumes managed under this approach recorded a 55% volume growth in 2019. This effect can mainly be attributed to newly reported norms-based screening applied to substantial portions of managed funds. Figure 17 shows that the most important norm against which portfolios of asset managers are screened is the UN Global Compact. Besides the international frameworks displayed in Figure 17, asset manager respondents used several other norms as the basis for their screening, for instance following the International Union for Conservation of Nature (IUCN).

Survey respondents were also asked about the actions they take when companies are found to be in breach of one of the applied norms. Figure 18 indicates that asset managers and owners typically take further action. The most common (38 from 40 respondents) is to exclude these companies from the investment universe. A less

<sup>16</sup> The mere exclusion of cluster munitions and anti-personnel landmines and weapons of mass destruction is not included in these numbers.

<sup>17</sup> UN (2020): "United Nations Security Council – Sanctions", available at: <https://www.un.org/securitycouncil/sanctions/information>, accessed 31/03/2020.

<sup>18</sup> TCFD: available at: <https://www.fsb-tcfd.org/>, accessed 27/04/2020.

<sup>19</sup> Service providers mentioned in that context are, for instance, Hermes Equity Ownership Services, Kite Insights, PeaceNexus, Shareholders for Change, and Sustainalytics.

Figure 18  
**INVESTOR ACTIONS FOLLOWING NORMS VIOLATIONS**  
 (IN NUMBER OF RESPONDENTS) (n=40)

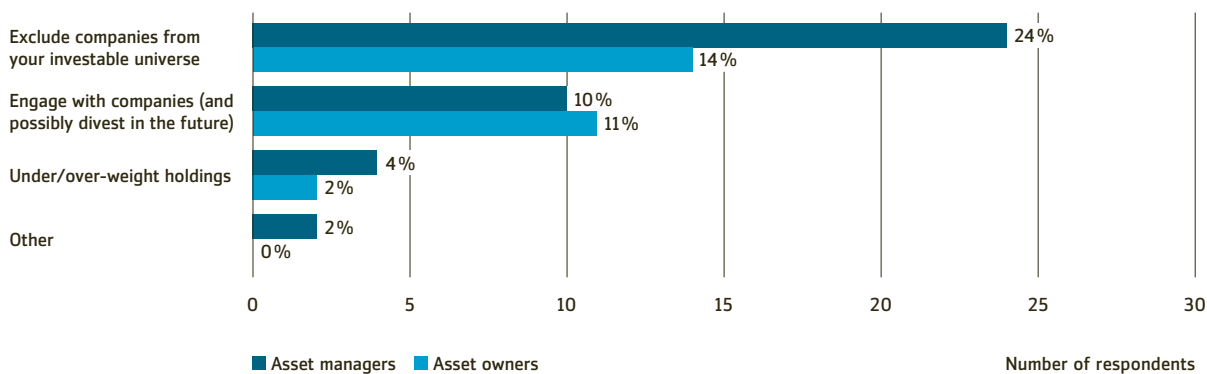
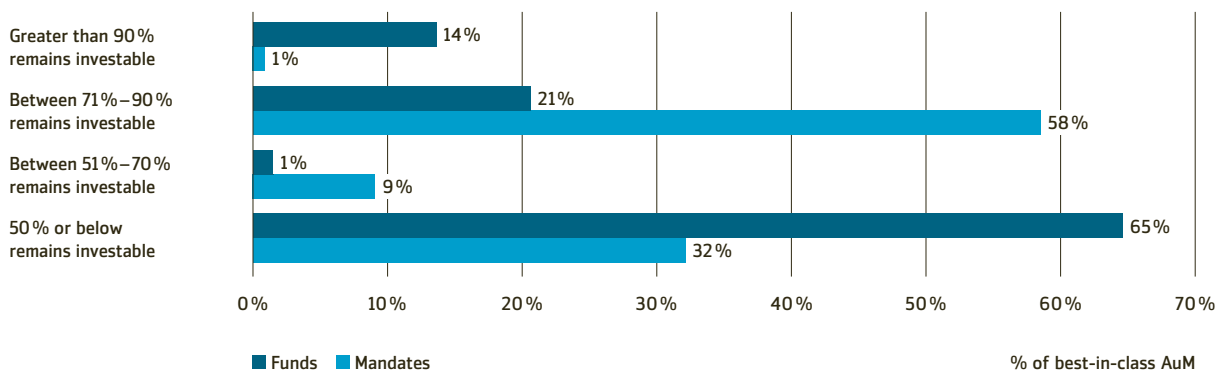


Figure 19  
**INVESTMENT UNIVERSE REDUCTION BASED ON BEST-IN-CLASS APPROACH FOR ASSET MANAGERS**  
 (IN % OF BEST-IN-CLASS AuM) (n=23)



common approach for asset owners and managers was to change their weightings of such holdings in response to violations. Another approach mentioned was to put the company on a watch-list. Investments in companies on the watch-list must then be justified on a quarterly basis.

### ESG VOTING

Active voting experienced substantial growth of 134% in 2019 and is now applied to 32% of all SI assets in Switzerland (Figure 12). Seeing that ESG voting is not relevant for all asset classes, this represents a relatively high share of SI volumes. This development can be ascribed to a few large asset managers expanding this approach to a broader range of their funds. Figure 13 shows that voting as an active SI approach seems to be significant especially for asset managers, which hold 78% of all volumes to which voting is applied.

Unlike ESG engagement, which is often done in-house by asset managers, more than half of the asset manager participants out-source the ESG voting activities. This pattern is noticeable and could be explained by the fact that engagement by definition includes a multitude of communication lines which are not pre-defined, whereas voting is a single interaction with a given set of possible choices, and

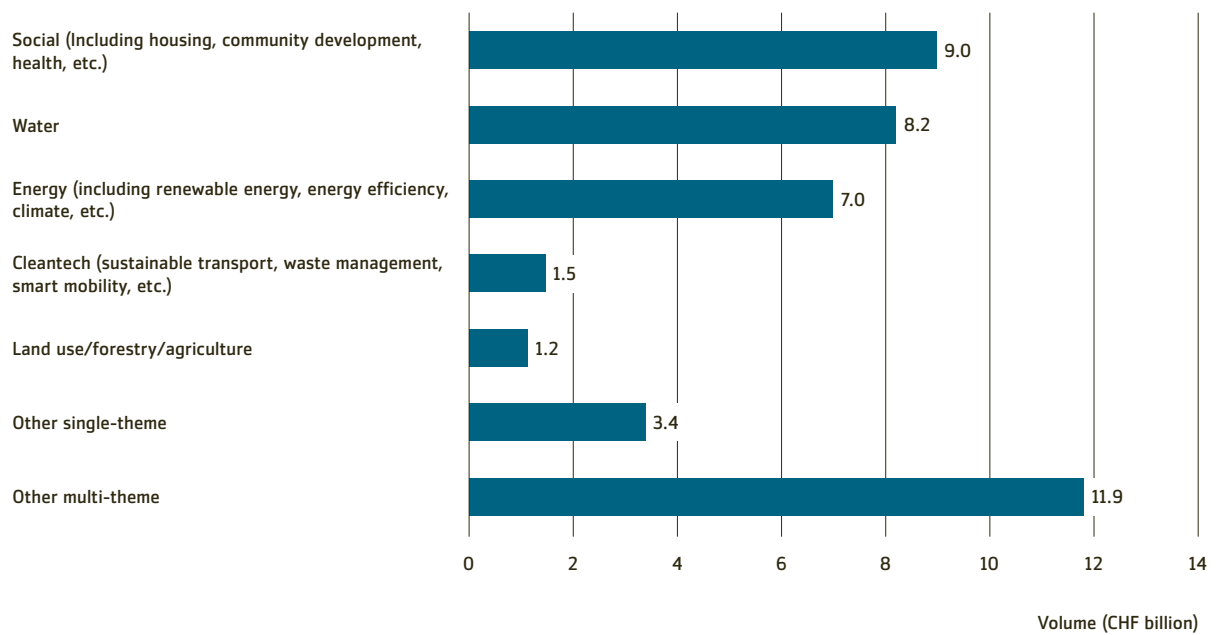
voting services have been available much longer. Service providers mentioned in the context of ESG voting are for example Ethos, Glass Lewis and ISS.

### BEST-IN-CLASS

The best-in-class approach has experienced growth of 39%, at present accounting for 11% of all SI assets in Switzerland (Figure 12). This can mainly be attributed to additional asset managers reporting a substantial rise and several asset owners who applied the best-in-class approach to a larger volume of assets. Additionally, Figure 13 shows that asset managers' volumes account for 69% of all volumes to which this approach is applied.

The asset managers were also asked in more detail about the thresholds of their best-in-class approach. The results show that the majority applies this approach in a rather strict manner for funds (Figure 19). For 65% of the fund volume, applying the best-in-class approach reduces the investment universe by at least 50%; for 14% of the volume a less strict threshold is applied and more than 90% of the universe remain investable. For mandates it is rather a mixed picture. For the majority of mandate volumes, a moderate threshold of between 71–90% remains investable.

Figure 20  
**MAIN SUSTAINABLE THEMATIC INVESTMENT THEMES  
 FOR ASSET MANAGERS (IN CHF BILLION) (n=37)**



### SUSTAINABLE THEMATIC INVESTMENT

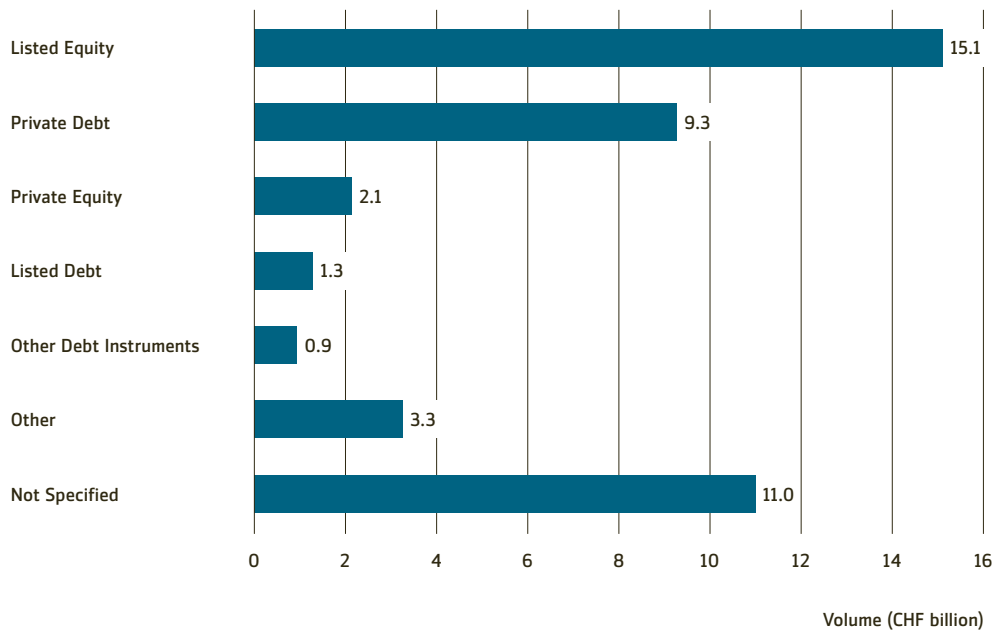
Sustainable thematic investments recorded growth of 60%, amounting to 5% of all SI assets in Switzerland in 2019 (Figure 12). Figure 13 underlines the importance of asset managers by showing that it is an approach mainly applied by asset managers, who contribute 86% to the total volume. Figure 20 shows that in 2019, the top single theme in which asset managers invested belong to social themes, such as community development or health. However, based on volumes, environmental themes covered a majority of thematic volumes, with the themes of water and energy being most prominent. Besides focusing on one specific theme, asset managers also held a number of multi-themed funds and mandates combining a broad range of the themes indicated in Figure 20.

### IMPACT INVESTING

With annual growth of 209%, impact investing experienced the highest growth rate of all SI approaches in 2019 (Figure 12). One of the reasons why impact investing enjoys extraordinarily high growth rates is that asset classes not traditionally associated with impact investing were also increasingly reported this year. Purely looking at non-listed asset classes results in a growth rate of 71%. Considering the overall amount of SI, this approach was only applied to 4% of all SI in Switzerland. Figure 13 additionally shows that impact investments are mainly applied by asset managers, with asset owners only accounting for 15% of the total volume. However, based on what was reported by asset managers, a substantial amount of impact investment can be attributed to institutional investors. The top five impact investment topics of asset managers are water, microfinance, energy, health and other financial services.

Figure 21 indicates that the impact investment market has a strong focus on listed equity, which was not the case in 2018. These volumes are relatively equally distributed over developed and developing countries, as Figure 22 shows. For this report, we provided a clear definition as to what we meant by impact investing. However, we notice that participants had varied interpretations. We notice

Figure 21  
**ASSET ALLOCATION IN IMPACT INVESTING FOR  
 ASSET MANAGERS (IN CHF BILLION) (n=18)**



that in the market there is more and more evidence and understanding that investments in certain asset classes can have more or less real-world impacts. However, we need to bring further clarification to impact investing, both for private and public markets.

Responses to a further question illustrate that for impact-related products, no asset manager is willing to accept a financial return lower than the market return, making impact investments far from being a philanthropic activity. Additional to financial performance, impact indicators are used to evaluate the impact. Only a small fraction of the asset manager respondents use impact indicators aligned with IRIS of the Global Impact Investing Network (GIIN). For asset managers who use impact indicators developed in house, no commonly and consistently used metrics could be identified. This highlights an overarching problem the industry faces and that should be addressed in the near future to make impact more tangible and comparable for end-investors.

Specific indicators in the impact measurement domain are, for example: the number of female employees and the percentage of female borrowers (reflecting gender factors); the amount of clean energy produced and the CO<sub>2</sub> emission reduction (reflecting climate change mitigation); the hectares of avoided deforestation, the number of smallholder farmers and the percentage of agricultural waste recycled (reflecting the agricultural sector).

#### ROLE OF DIFFERENT COMBINATIONS OF SI APPROACHES

This year's report for the first time focuses on investigating the combinations of SI approaches used. Such considerations are important to better understand and evaluate the sophistication and quality of a specific SI.

Figure 22  
**IMPACT INVESTING IN DEVELOPED VS. DEVELOPING  
 COUNTRIES FOR ASSET MANAGERS (IN %) (n=23)**

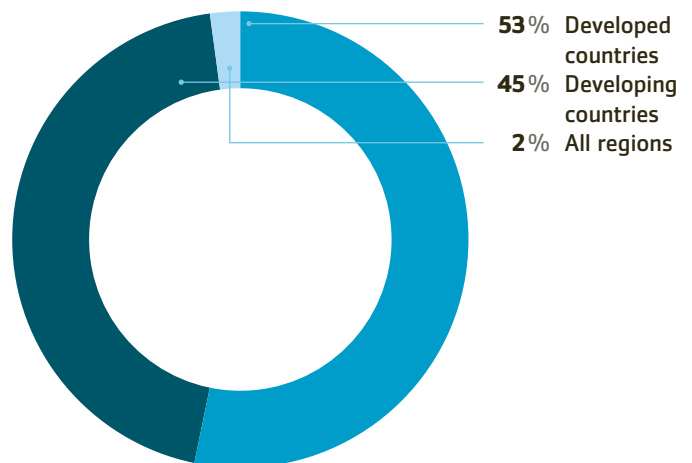


Figure 23 indicates the top five combinations (by volume) of SI approaches used by asset owners and managers. Appearing in four of the five top combinations is ESG integration, showing that it is very popular in combination with other SI approaches but also as a stand-alone approach. Additionally, of the top five combinations,

Figure 23  
**TOP 5 COMBINATIONS OR APPLICATIONS OF SUSTAINABLE INVESTMENT APPROACHES**  
 (IN CHF BILLION) (n=69)

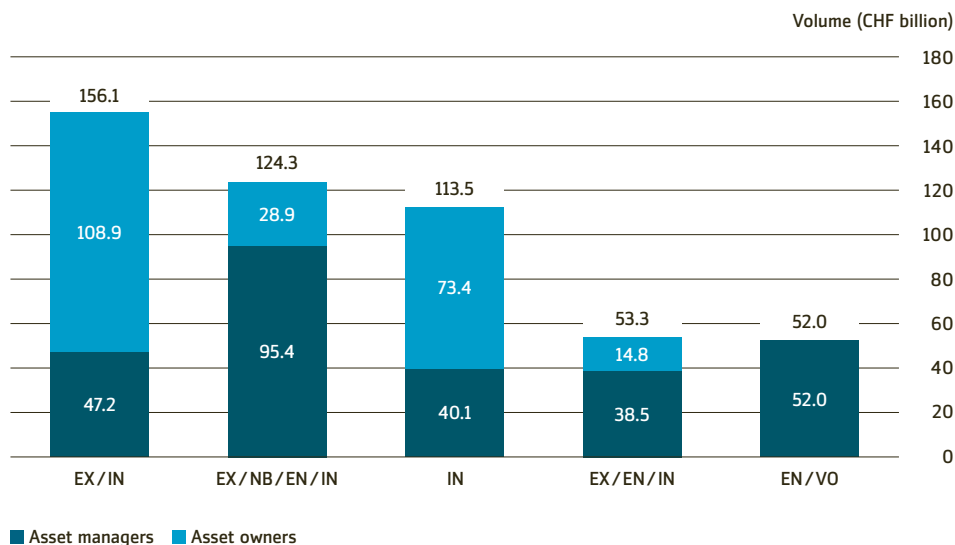


Figure 24  
**TOP 10 COMBINATIONS OR APPLICATIONS OF SUSTAINABLE INVESTMENT APPROACHES FOR ASSET MANAGERS**  
 (IN CHF BILLION) (n=43)

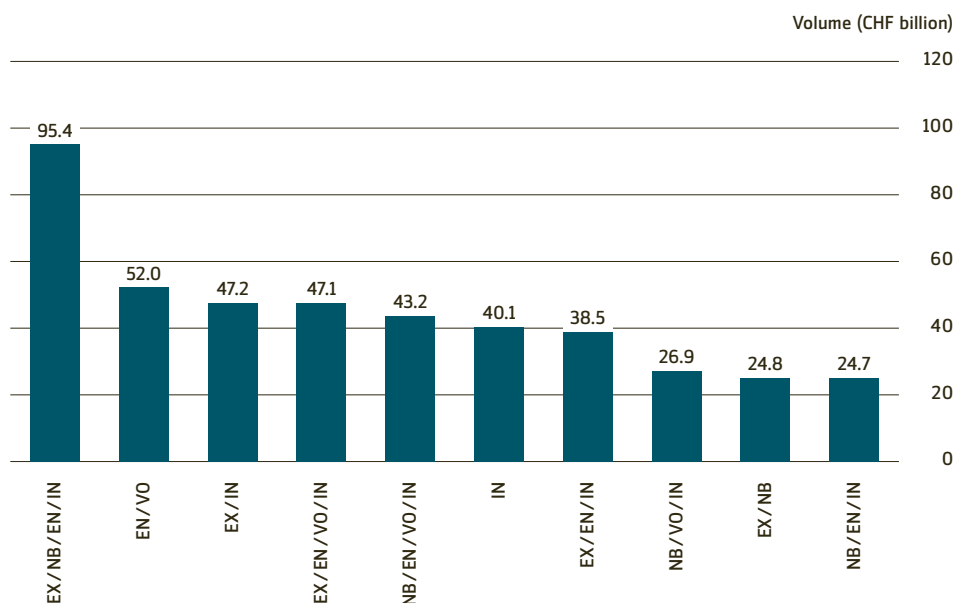
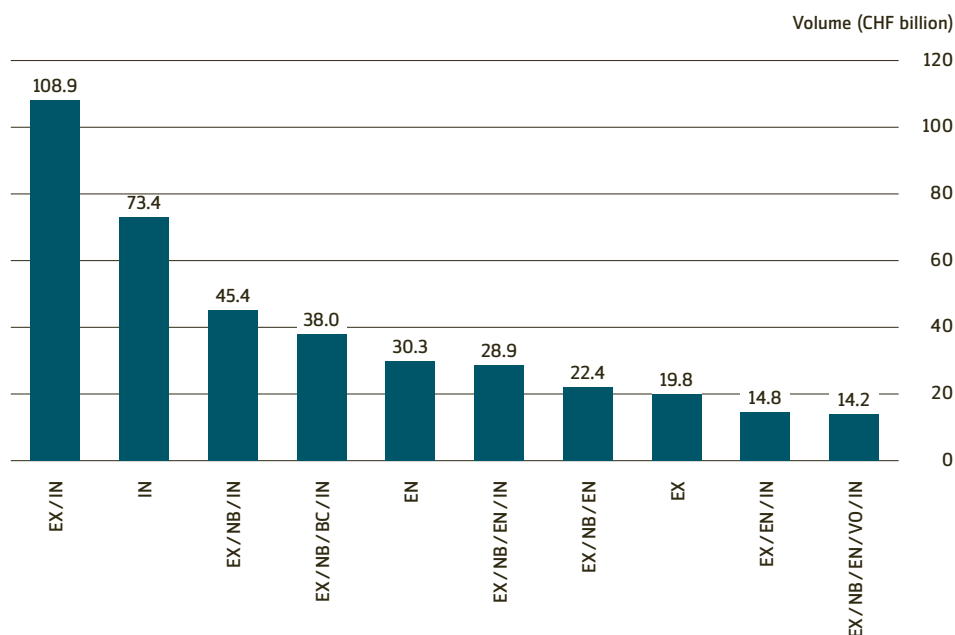


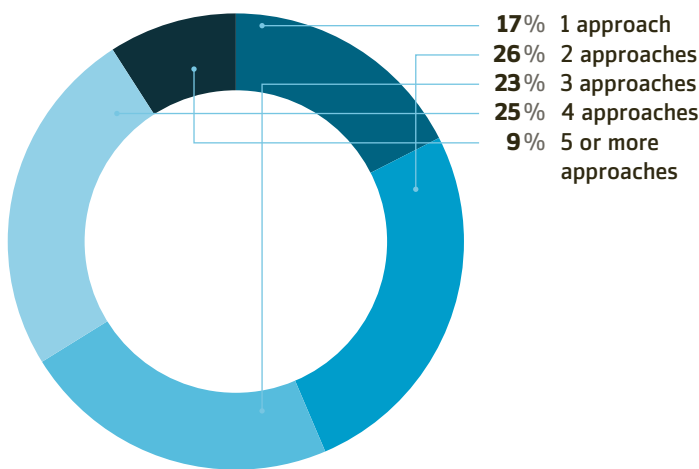
Figure 25  
**TOP 10 COMBINATIONS OR APPLICATIONS OF SUSTAINABLE INVESTMENT APPROACHES FOR ASSET OWNERS**  
 (IN CHF BILLION) (n=26)



Legend to Figures 23, 24 & 25  
 ABBREVIATIONS USED FOR COMBINATIONS

BC	Best-in-class
EN	ESG engagement
EX	Exclusions
II	Impact investing
IN	ESG integration
NB	Norms-based screening
TH	Sustainable thematic investments
VO	ESG voting

Figure 26  
**NUMBER OF APPROACHES APPLIED**  
 (IN %) (n=69)



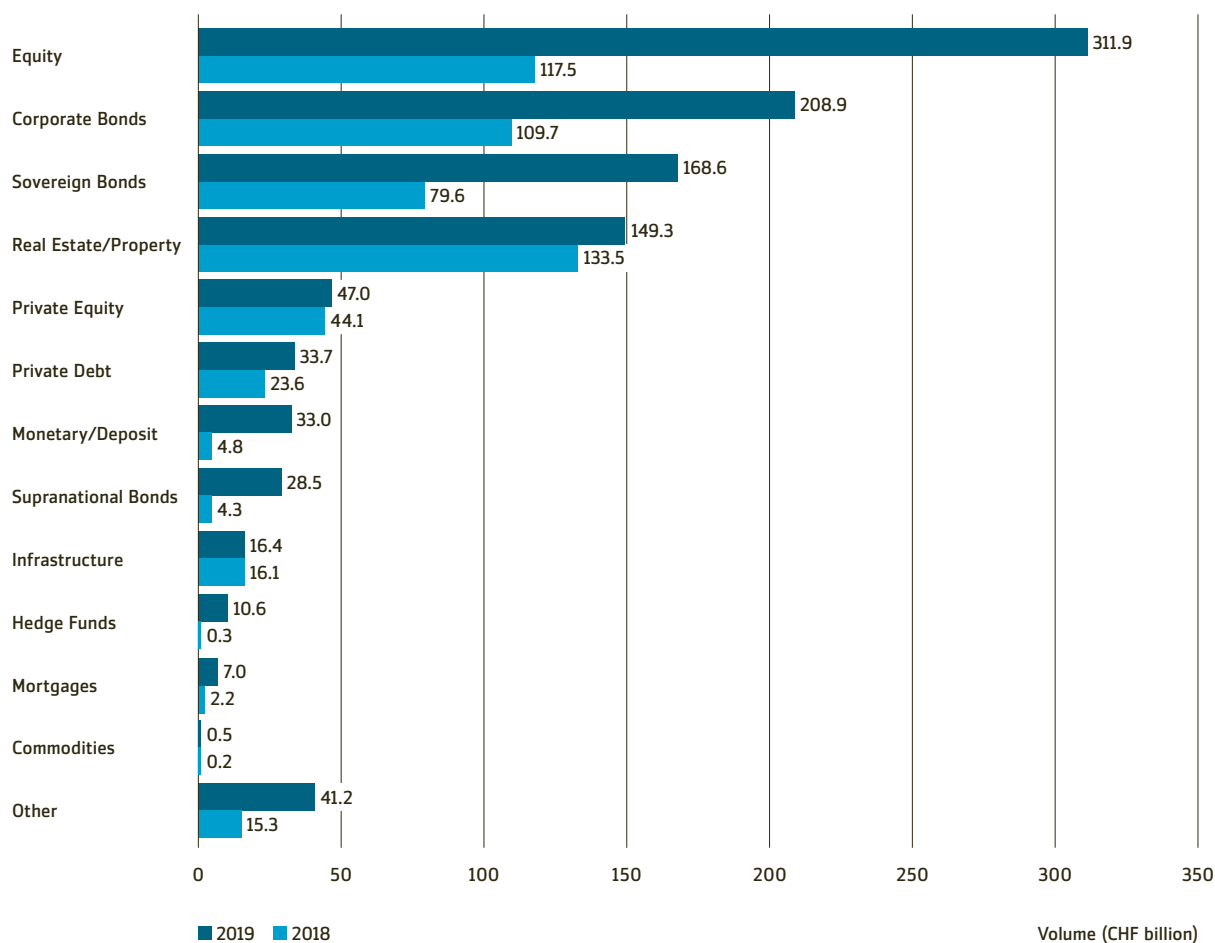
only one consists of a single approach while two apply a combination of two approaches and the other two even a combination of three or more. Figure 23 further shows that ESG engagement – a potentially very effective approach from an impact point of view – features highly in the top five combinations of SI approaches, mostly linked with exclusions.

For asset managers (Figure 24), nine of the top ten positions are all combinations of SI approaches. ESG integration is by far the most prominent approach, as it appears in eight of the top ten combinations. For asset owners (Figure 25), seven of the top ten positions are combinations. Exclusions appear most often in seven out of the ten combinations.

Overall, asset managers and owners utilise two approaches or more for over 80% of all SI volumes, while only 17% of the volumes apply only one approach (Figure 26). This is a very positive sign, as the market seems to favour higher quality solutions that combine multiple approaches.



Figure 27  
**CHANGE IN ASSET CLASS DISTRIBUTION FOR SUSTAINABLE INVESTMENTS**  
 (IN CHF BILLION) (n=64)



## 2.4 ASSET ALLOCATION

Figure 27 captures the development of the SI asset allocation for both asset managers and owners in absolute terms. It highlights the significant increase of all major asset classes. The largest absolute increase was recorded for equity, which has risen by CHF 194.4 billion. This growth is mainly driven by the mainstreaming effect in the form of asset managers increasingly considering ESG factors for funds which have large positions in equity and corporate bonds. Figure 31 underlines this finding by highlighting that asset managers strongly favour equity and corporate bonds. This development translated into the overall asset allocation of SI in Switzerland. Figure 27 shows that real estate is no longer ranked first as it was in 2018. In 2019, equity and corporate bonds are the most popular asset classes for SI in Switzerland. In other words, the asset allocation distribution of SI has experienced some major shifts between 2018 and 2019.

In 2018 real estate was the most popular asset class for SI in Switzerland. Figures 27 and 28 show that in 2019, volumes sustainably invested in real estate grew in absolute terms but fell in relative

importance. However, Figure 29 clearly reflects the importance real estate has in SI for asset owners. Out of the 36 respondents, 29 indicated they had an explicit ESG real estate policy in place. For 22 asset owners and 5 asset managers the content of the policy focuses on renovation of properties. Furthermore, many of the asset owners (17 respondents) and also a few asset managers (5 respondents) apply internal or external standards to monitor the sustainability performance of their real estate investments. Within that context, Minergie for Swiss property (17 respondents), LEED for US property (6 respondents), BREEAM for UK property (6 respondents) and GRESB for property globally (5 respondents) were mentioned as important green labels or benchmarks.

Asset managers and owners show major differences regarding the asset allocation of their SI. These differences can be explained by the fact that both pension funds and insurance companies hold a larger proportion of bonds overall. Figure 30 shows that overall, around 54% of the total SI managed by asset owners is allocated to

Figure 28  
**ASSET CLASS DISTRIBUTION FOR SUSTAINABLE INVESTMENTS (IN %) (n=64)**

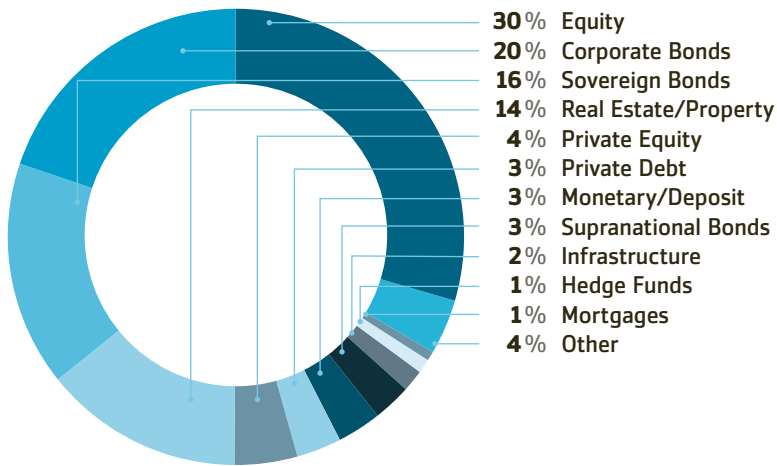


Figure 29  
**ESG REAL-ESTATE POLICY (IN NUMBER OF RESPONDENTS) (n=36)**

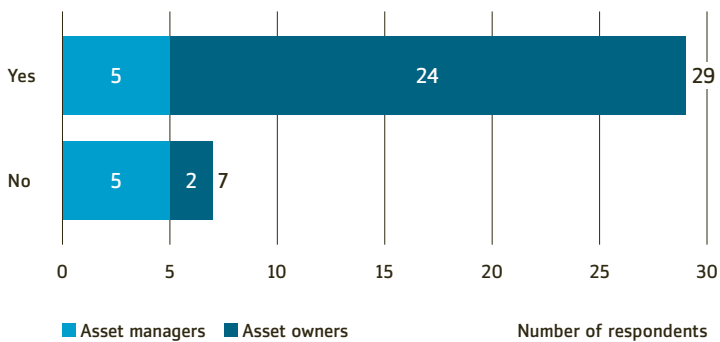
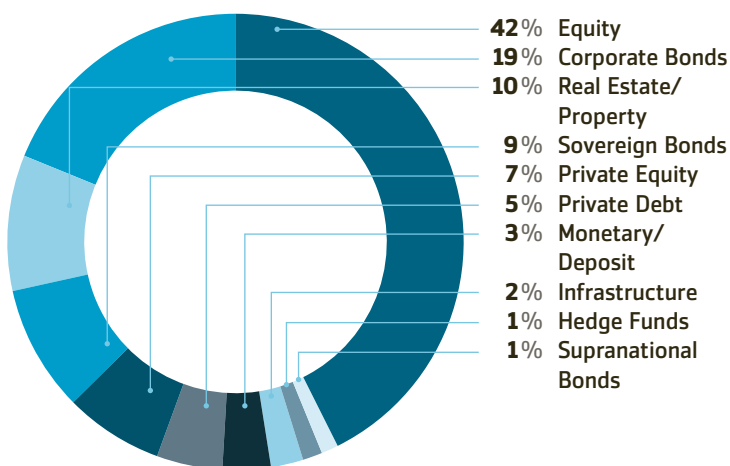


Figure 30

**ASSET CLASS DISTRIBUTION FOR SUSTAINABLE INVESTMENTS FOR ASSET MANAGERS AND ASSET OWNERS**

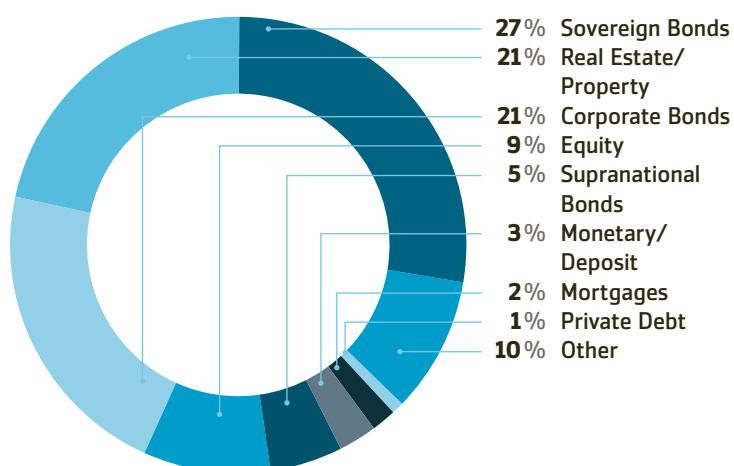
**ASSET MANAGERS**

(IN %) (n=42)



**ASSET OWNERS**

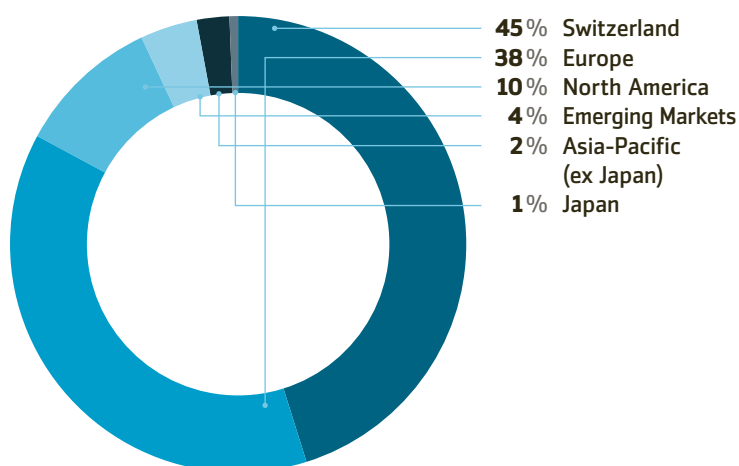
(IN %) (n=22)



bonds. It is not surprising that real estate ranks high for asset owners, as in times of low interest rates and volatile equity markets, real estate may be seen as a reliable opportunity to achieve the minimum interest rate.

A breakdown of the regional allocation of SI assets managed by asset owners shows that the bulk (45%) is invested in Switzerland (Figure 31).<sup>20</sup> This home bias is partly driven by regulation<sup>21</sup> and partly by investor preference. Another large proportion of 38% is invested in Europe, while 10% is invested in the North American market. Emerging markets, Japan and Asia-Pacific (ex-Japan) play a much smaller role in SI for asset owners.<sup>22</sup>

Figure 31  
**REGIONAL ALLOCATION OF SUSTAINABLE INVESTMENTS FOR ASSET OWNERS (IN %) (n=20)**



<sup>20</sup> This data is based on a volume of CHF 323.7 billion of SI assets. It represents about 67% of the total reported volume by asset owners.

<sup>21</sup> Ordinance of 18 April 1984 on Occupational Old Age, Survivors' and Invalidity Pension Provision (BVV 2) (status 1 January 2020), Art. 55e. (Available at: <https://www.admin.ch/opc/de/classified-compilation/19840067/index.html>)

<sup>22</sup> Regional breakdowns are not available for asset managers, as the assignment of the reported SI funds and mandates to a specific region is too difficult to report.

## HOW SWISS ASSET MANAGERS AND ASSET OWNERS INTEGRATE SUSTAINABILITY INTO THEIR POLICIES

The two SI approaches covered in the policies of the majority of asset managers are exclusions and ESG integration (Figure 32). Whereas the number of respondents having a policy covering exclusions in place remained the same compared to 2018, the number of respondents covering ESG integration in their policies increased by 22%. This goes hand in hand with the mainstreaming of sustainability into investment solutions by asset managers.

The majority of the asset owners cover exclusions as well as ESG voting (Figure 32). Both the number of respondents covering

exclusions in their policies and the number of respondents covering ESG voting in their policies increased compared to last year.

Figure 33 shows that asset owners see the main reasons for adopting or incorporating sustainability into investment practices as twofold: (1) fostering a long-term sustainable economy and society and (2) aligning investments with national and/or international norms or company values. In other words, asset owners clearly emphasise the responsibility they bear towards society and the environment.

Figure 32  
**FORMAL SUSTAINABLE INVESTMENT POLICIES**  
(IN NUMBER OF RESPONDENTS) (n=68)

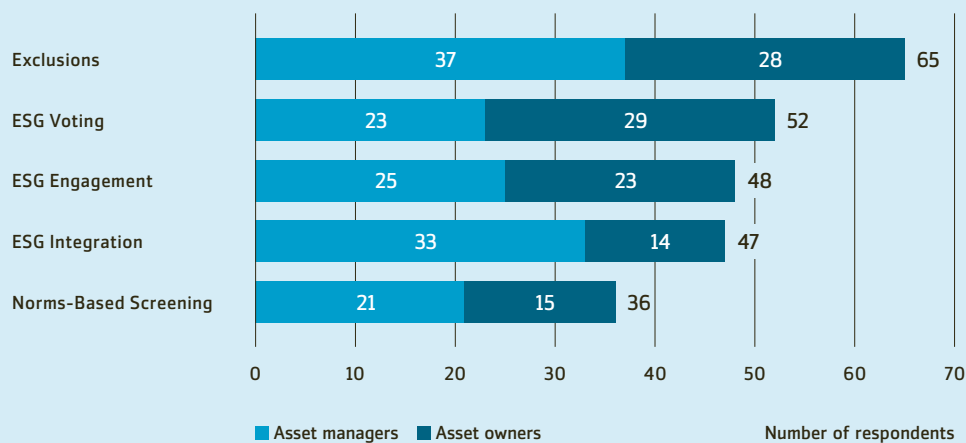


Figure 33  
**MAIN MOTIVATION OF ASSET OWNERS FOR ADOPTING SUSTAINABLE INVESTMENT POLICIES**  
(IN AVERAGE LEVEL OF IMPORTANCE) (n=30)

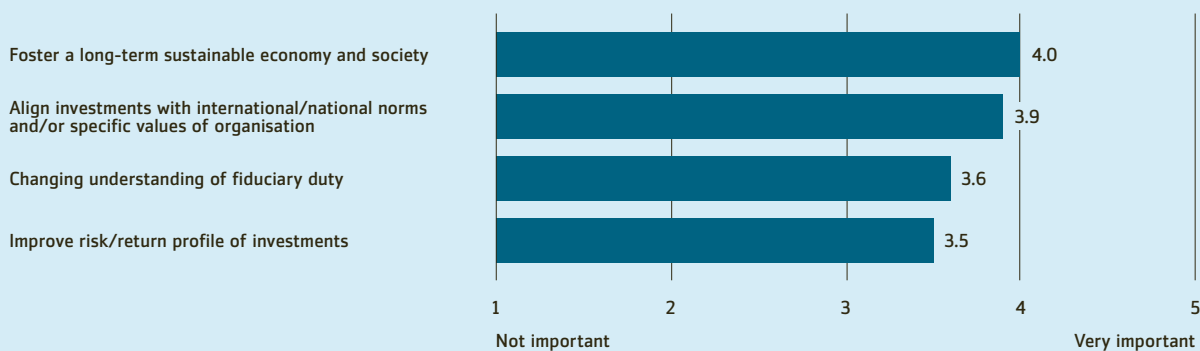
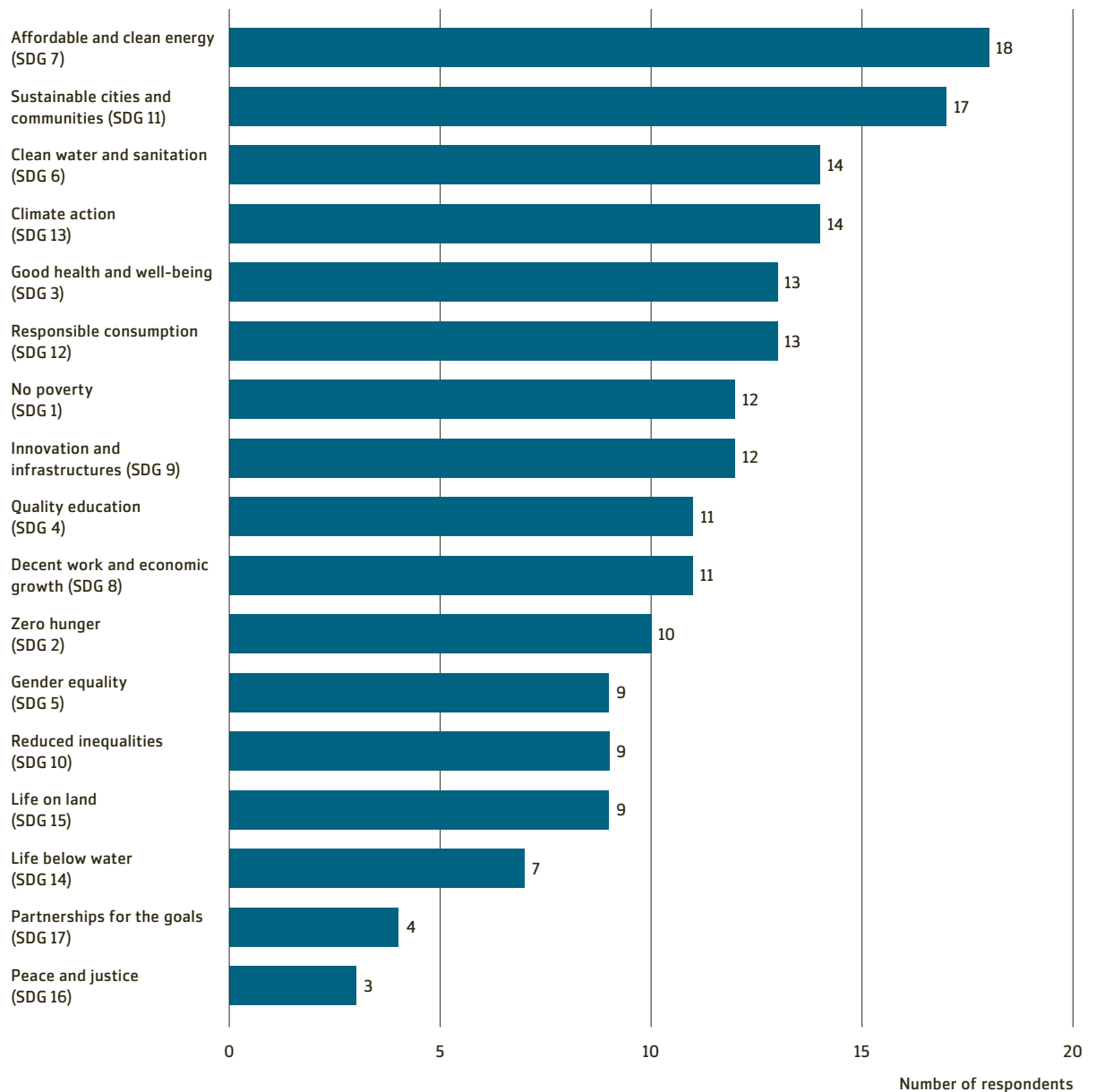


Figure 34  
**SPECIFIC SDGS ADDRESSED IN FINANCIAL PRODUCTS OF ASSET MANAGERS**  
 (IN NUMBER OF RESPONDENTS) (n=22)



## 2.5 SPECIAL TOPICS

### THE ROLE OF THE SDGS FOR INVESTORS

At the UN Sustainable Development Summit in 2015 the UN adopted the 2030 Agenda for Sustainable Development and formulated 17 Sustainable Development Goals (SDGs). The goals reference a wide array of basic needs and global sustainability challenges, such as eradicating hunger and poverty and improving access to education, water or clean energy. Reaching these targets will require additional financial means. For example, the UN estimates that at current levels of investment in SDG-relevant sectors, developing countries face an annual investment gap of USD 2.5 trillion.<sup>23</sup> Seeing the increasing importance of this topic for investors, SSF also included in its third study some specific questions on how SDGs are considered within the SI approaches of asset managers.

Figure 34 illustrates that all SDGs are addressed by the different SDG-related products, whereas some SDGs are more prominently

incorporated (e.g., SDG 7, clean energy) and others less so (e.g., SDG 16, peace and justice).

In order to determine an investment product's specific contribution to the SDGs, several options were named. Only three respondents stated that they use IRIS metrics to determine the SDG contribution of their products. The answers suggest that most asset managers do not use a standardised evaluation scheme but an in-house solution to determine their products' contribution to the SDGs. These individual qualitative and quantitative assessment frameworks make direct comparisons difficult between offered SDG-related products.

<sup>23</sup> UNCTAD (2014): "World Investment Report 2014 – Investing in the SDGs: An Action Plan", United Nations Conference on Trade and Investment, New York and Geneva.

Figure 35  
**MAIN MOTIVATION FOR DEVELOPING SDG-RELATED PRODUCTS FOR ASSET MANAGERS**  
 (IN AVERAGE LEVEL OF IMPORTANCE) (n=21)

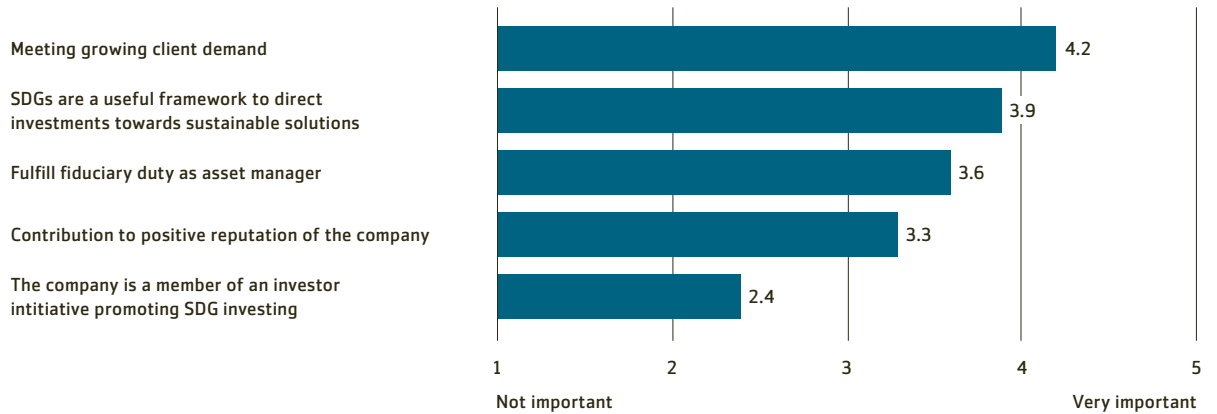
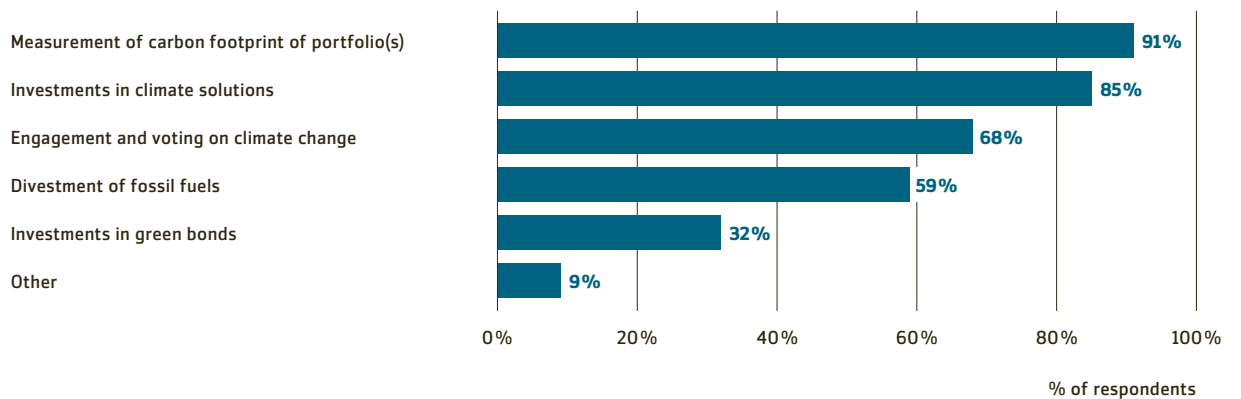


Figure 36  
**MEASURES TO ADDRESS CLIMATE CHANGE WITHIN INVESTMENTS FOR ASSET MANAGERS**  
 (IN % OF RESPONDENTS) (n=34)



Asset managers are motivated to develop SDG-related products for different reasons. From 2018 to 2019 the reasons shifted from the supply side to the demand side. In 2018, the most prominent reason was to use the SDGs as a framework to channel investments towards sustainable solutions. This year however, the creation of SDG-related products is strongly driven by growing client demand (Figure 35).

## CLIMATE CHANGE

The ambitious goal of the Paris Agreement<sup>24</sup> – keeping a global temperature rise well below 2, or ideally below 1.5 degrees Celsius – requires economy-wide efforts to mitigate greenhouse gas (GHG) emissions and to pave the way for new low-carbon technologies. This creates different risks and opportunities for financial markets. In total, the number of asset managers who indicated that they explicitly address climate change rose from 25 to 34. This can be considered a positive development, since the tracking of the contribution to climate in form of the carbon footprint and investments in climate solutions is now applied by most of the respondents (Figure 36). ESG engagement and voting grew in importance for SI in general, as evident in Figure 12. This is true for the climate change strategy of asset

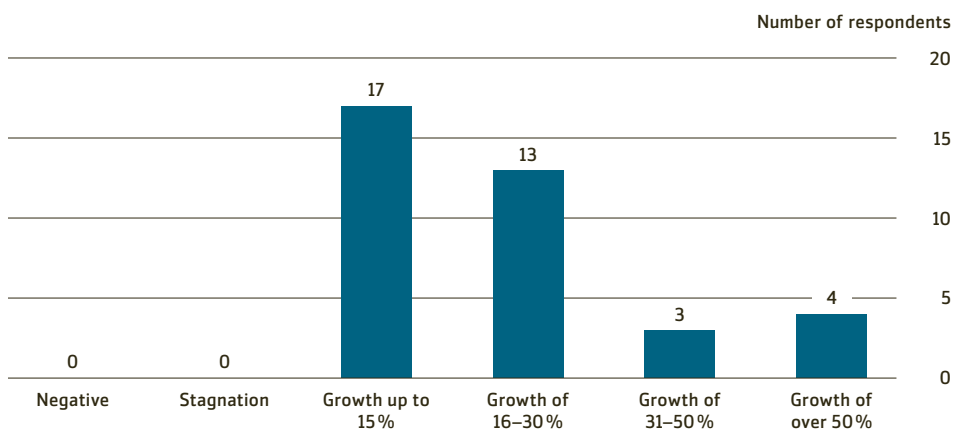
managers as well. Compared to 2018, where 56% of the 25 respondents indicated a move to integrate ESG engagement and voting with regard to climate change into products, in 2019, 68% of the 34 respondents indicated doing so (Figure 36).

Despite the importance and the rise in awareness of climate change and its impact on the economy, only 15 respondents said they publish information on their climate change strategy. Even though there is a steady increase in the number of respondents in this study who indicate that they do publish their climate change strategy, this outcome remains an area for improvement, since only through comprehensive reporting and disclosure practices will the knowledge and the quality of the strategies to tackle climate change improve.

<sup>24</sup> UNFCCC: "The Paris Agreement", available at [http://unfccc.int/paris\\_agreement/items/9485.php](http://unfccc.int/paris_agreement/items/9485.php), accessed on 02/04/2020.

# 3 EXPECTED MARKET TRENDS

Figure 37  
**GROWTH FORECASTS FOR SUSTAINABLE INVESTMENTS IN SWITZERLAND IN 2020 BY ASSET MANAGERS (IN NUMBER OF RESPONDENTS) (n=37)**



The market survey covers both asset managers and owners. An analysis of their opinions is discussed separately in the following section.

### 3.1 MARKET TRENDS – ASSET MANAGERS

The forecasts for further growth in the SI area remain positive for 2020, and stagnation or negative developments are not expected. There is still a widespread consensus among surveyed asset managers that the Swiss market for SI will continue to grow significantly in the future. However, different levels of growth are predicted, as displayed in Figure 37, ranging from slightly positive growth to over 50% growth and concentrating at a rate of up to 15%.

All drivers for SI growth gained in importance in 2019. Legislative drivers registered the highest increase of importance. This might be explained by the broader legislative debate on SI in Switzerland and the implementation of the first delegated acts of the EU Action Plan in 2019 in the EU, which is an important external factor for SI in Switzerland. As already in 2018 and 2017, increasing demand from

institutional investors was listed as a core driver for the SI growth by surveyed asset managers (Figure 38).

In addition to the driving factors, the survey also examined potential barriers to SI growth. Compared to 2018, the lack of conviction on the part of client advisors has lost importance in 2019. This might be the result of increased training of client advisors either in the form of integration of SI into in-house training or in the form of external education programmes (see box on page 39). Now that the importance of the lack of conviction on the part of client advisors is no longer the most critical barrier, attention has switched to a more technical question – the lack of standards (Figure 39).



Figure 38  
**KEY DRIVERS FOR SUSTAINABLE INVESTMENT DEMAND IN THE NEXT THREE YEARS FOR ASSET MANAGERS (IN AVERAGE LEVEL OF IMPORTANCE) (n=40)**

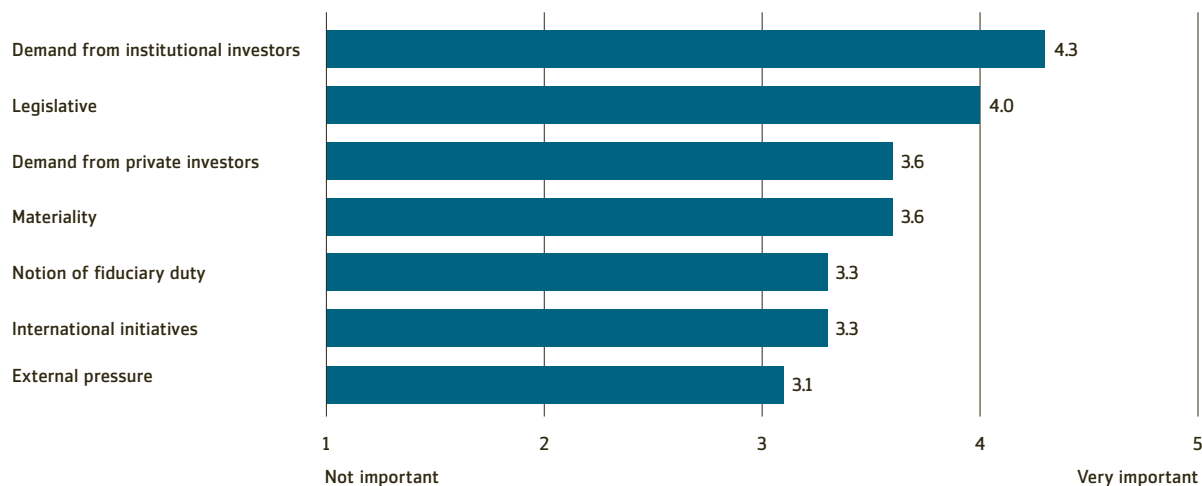
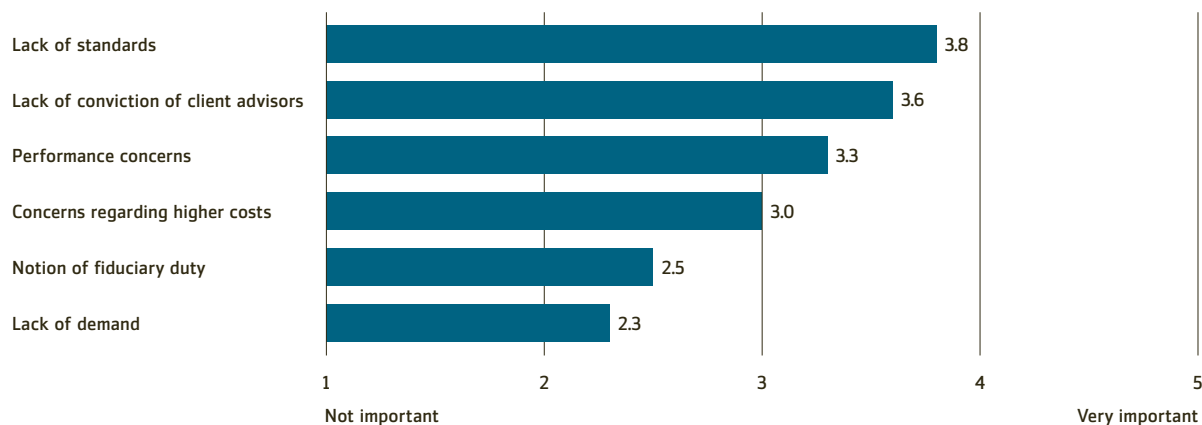


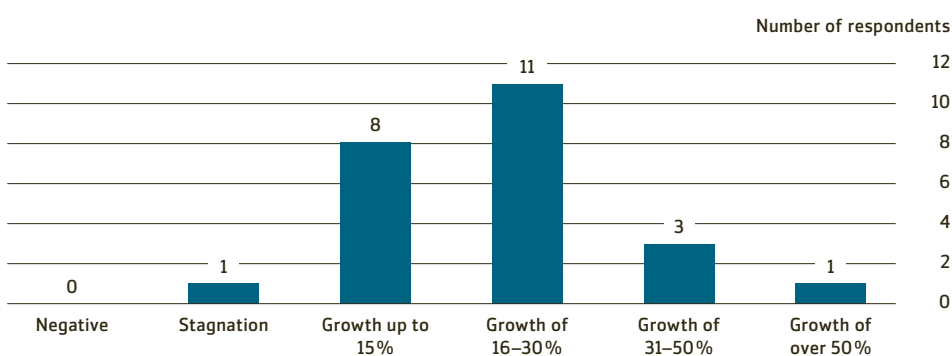
Figure 39  
**KEY BARRIERS FOR SUSTAINABLE INVESTMENT GROWTH IN THE NEXT THREE YEARS FOR ASSET MANAGERS (IN AVERAGE LEVEL OF IMPORTANCE) (n=40)**



## SUSTAINABLE INVESTMENT CAPACITIES OF ASSET MANAGERS

For the first time this year, we looked at SI capacities of asset managers. Out of the 43 participating asset managers, 17 said they require their employees to undergo mandatory training in the area of SI. Furthermore, organisations have varying team sizes with professionals in dedicated SI roles. On average, asset managers employed 18 professionals dedicated to SI. Of the 40 respondents, the number of SI professionals ranged from zero to 146, with only three indicating that they do not have employees with dedicated SI roles.

Figure 40  
**GROWTH FORECASTS FOR SUSTAINABLE INVESTMENTS IN SWITZERLAND  
 IN 2020 BY ASSET OWNERS (IN NUMBER OF RESPONDENTS) (n=24)**



### 3.2 MARKET TRENDS – ASSET OWNERS

From the perspective of asset owners, the development of SI will be positive in 2020. However, different levels of growth are expected, as displayed in Figure 40, ranging from slightly positive growth to over 50% growth and concentrating around a growth rate of 16–30%.

In terms of key drivers for the wider adoption of SI approaches, asset owners rated the pressure stemming from their organisation’s board of directors as most important (Figure 41). This was already the case in 2018. Since the pressure from the board is influenced by political and external pressure, it is not surprising that its importance increased in parallel with political and external pressure. This might be explained by the increased legal debate on SI in Switzerland and the first steps of implementation of the EU Action Plan in 2019 raising the perception of political and external pressure. Interestingly, the demand from beneficiaries slightly lost in importance as a key driver compared to the 2018 survey.

Similar to the 2017 and 2018 results, performance concerns are still the most critical barrier for the further adoption of SI by asset owners (Figure 42).

Figure 41

**KEY DRIVERS FOR FURTHER ADOPTION OF SUSTAINABLE INVESTMENT FOR ASSET OWNERS**  
(IN AVERAGE LEVEL OF IMPORTANCE) (n=29)

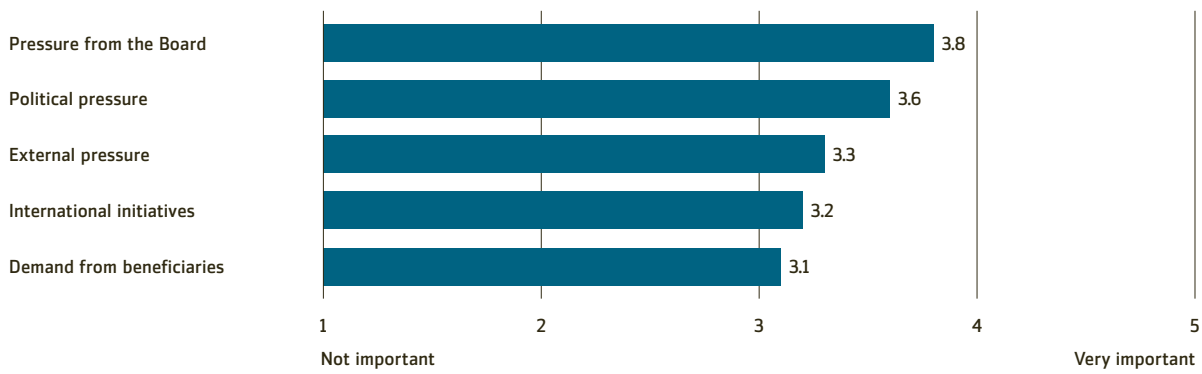
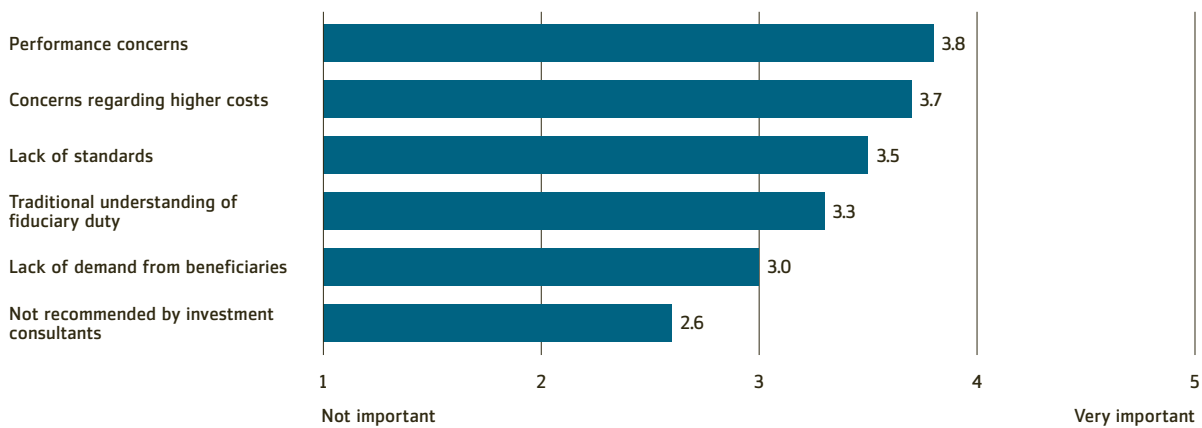


Figure 42

**KEY BARRIERS FOR FURTHER ADOPTION OF SUSTAINABLE INVESTMENT FOR ASSET OWNERS**  
(IN AVERAGE LEVEL OF IMPORTANCE) (n=26)







## CARBON DIOXIDE REMOVAL FILTER CLIMEWORKS

The world's first commercial plant to extract carbon dioxide at industrial scale from the air was opened by the ETH spin-off Climeworks in 2017. The machine sits on top of a waste heat recovery facility in Hinwil ZH, which provides the heat for the process. During the capture process, fans push air through a filter system and CO<sub>2</sub> is chemically deposited on the surface of a filter and is then isolated at a temperature of about 100° C.

The air-captured CO<sub>2</sub> is sold as a raw material to customers in key markets, such as the food and beverage industries, commercial agriculture or the automotive industry and is thus temporarily stored in products like carbonated drinks, carbon-neutral hydrocarbon fuels and materials and in agriculture in fertilizers. Climeworks is also piloting a facility in Iceland that captures CO<sub>2</sub> and permanently stores it into stone underground.

# 4 REGULATORY FRAMEWORK

Over the last decade, governments and politicians alike have increasingly taken a closer look at their ability to leverage financial regulation for sustainability goals. This does not come as a surprise, given that public awareness of the topic has grown considerably and is putting the frameworks of financial systems under scrutiny.<sup>25</sup> The urgency of climate issues in particular has made it inevitable for policymakers to develop comprehensive sustainable finance strategies. With the capital investments required to achieve environmental and social objectives considered too significant to be borne by public budgets alone, sustainable finance has now risen to the top of the regulatory agenda.<sup>26</sup>

In practice, the type of approach taken depends on how policymakers perceive the relationship between sustainability and finance.<sup>27</sup> The six categories in Figure 43 show that there is a variety of instruments available for policymakers to integrate sustainability within financial regulation, both at micro and macro levels, and through soft and hard law.<sup>28</sup> Shifting away from traditional paradigms, more and more policymakers are assessing how financial regulation can be used to achieve macro-policy goals and channel investment into sustainable solutions. However, this stance is still quite controversial

and to date few jurisdictions use financial regulation for an upfront prescription of specific investments (i.e. excluding or promoting certain investments). A more common approach to incorporate sustainability in financial regulation is through a risk approach that assesses the financial system's capacity to ensure long-term market functioning. Therefore, a starting point for regulators is often creating awareness of ESG risks, ensuring consistent and reliable data, enhancing disclosure requirements or restructuring the decision-making process, as described in the first three categories of Figure 43. In the following paragraphs, we will see how these instruments are already being employed across different regions.

<sup>25</sup> PRI (2019). *Taking Stock: Sustainable Finance Policy Engagement and Policy Influence*. Available at: [www.unpri.org/Uploads/c/j/u/pripolicywhitepapertaking-stockfinal\\_335442.pdf](http://www.unpri.org/Uploads/c/j/u/pripolicywhitepapertaking-stockfinal_335442.pdf), p. 6.

<sup>26</sup> *Ibid.*, p. 4.

<sup>27</sup> *Ibid.*, p. 6.

<sup>28</sup> Cardona, M. and Berenguer, M. (June 2020). *What role for financial regulation to help the low-carbon transition?*. I4CE.

**Figure 43  
REGULATORY INSTRUMENTS AND THEIR EXPECTED IMPACTS**

INSTRUMENT	EXPECTED IMPACTS
<b>1. Increase awareness</b>	
Signalling	Increase awareness of financial institution's governance
Supervisory Engagement	Initial assessment of climate risk exposures and monitoring by FIs
Research	Initial assessment of sectoral climate risk exposure; financial regulators to contribute to the collective learning curve
<b>2. Enhance disclosure</b>	Help correct market failures and enhance market discipline
<b>3. Integrate climate change into fiduciary responsibility</b>	Lead asset managers and asset owners to integrate climate change into their investment decision
<b>4. Ensure micro financial stability</b>	
Pillar 1: Bank prudential rules	Banks to integrate climate risks into their risk management systems and increase their resilience
Pillar 2: Climate stress tests and supervisory review	Banks to assess their resilience vis-à-vis climate change under stressed scenarios; allow banks' supervisory review to integrate climate change risks; provide forward-looking scenario analysis
<b>5. Ensure macro financial stability</b>	
Macro testing	Assess potential systemic risks resulting from climate change
Capital buffer	Enhance banks' capital to decrease systemic risk and reinforce banks' resilience to systemic risk
<b>6. Channel credit from brown to green activities</b>	Help financial market players to align with the transition to a low-carbon economy: incentivise allocation of capital on green activities

Source: Adapted from Institute for Climate Economics (I4CE)

Figure 44  
**OVERVIEW OF EU ACTION PLAN ON SUSTAINABLE FINANCE**<sup>30</sup>

EU ACTION PLAN ON SUSTAINABLE FINANCE		
<p><b>Reorienting capital flows towards a more sustainable economy</b></p> <ol style="list-style-type: none"> <li><b>1. Establish an EU classification system for environmentally sustainable activities</b> <ul style="list-style-type: none"> <li>– EU Regulation on the Establishment of a Framework to Facilitate Sustainable Investment</li> <li>– TEG Taxonomy Technical Report</li> </ul> </li> <li><b>2. Create standards and labels for green financial products</b> <ul style="list-style-type: none"> <li>– TEG report on Green Bond Standard</li> <li>– Draft technical report on applying EU Ecolabel to financial products</li> </ul> </li> <li><b>3. Foster investment in sustainable projects</b> <ul style="list-style-type: none"> <li>– N/A</li> </ul> </li> <li><b>4. Incorporate sustainability when providing investment advice</b> <ul style="list-style-type: none"> <li>– Proposed delegated acts (MIFID II and IDD)</li> </ul> </li> <li><b>5. Develop sustainability benchmarks</b> <ul style="list-style-type: none"> <li>– EU Regulation on EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability related disclosures for Benchmarks</li> <li>– TEG reports on Benchmarks</li> </ul> </li> </ol>	<p><b>Mainstreaming sustainability into risk management</b></p> <ol style="list-style-type: none"> <li><b>6. Better integration of sustainability in ratings and research</b> <ul style="list-style-type: none"> <li>– ESMA advises on credit rating sustainability issues and sets disclosure requirements</li> </ul> </li> <li><b>7. Clarify institutional investors and asset managers' duties</b> <ul style="list-style-type: none"> <li>– Regulation on Sustainability-Related Disclosures in the Financial Services Sector</li> </ul> </li> <li><b>8. Incorporate sustainability in prudential requirements</b> <ul style="list-style-type: none"> <li>– Regulation 2019/876 amending the Capital Requirements Regulation (CRR) and Directive 2019/878 amending the Capital Requirements Directive (CRD)</li> <li>– EIOPA's Technical Advice Solvency II and IDD</li> </ul> </li> </ol>	<p><b>Fostering transparency and long-termism</b></p> <ol style="list-style-type: none"> <li><b>9. Strengthen sustainability disclosure and accounting rule-making</b> <ul style="list-style-type: none"> <li>– Revision of the guidelines on non-financial information in association with climate-related information</li> <li>– Regulation on Sustainability-Related Disclosures in the Financial Services Sector</li> <li>– European Corporate Reporting Lab established as part of EFRAG</li> <li>– New EFRAG Consultation on Equity Instruments – Research on Measurement</li> </ul> </li> <li><b>10. Foster sustainable corporate governance and attenuating short-termism in capital markets</b> <ul style="list-style-type: none"> <li>– Call for advice to the European Supervisory Authorities (ESAs) to collect evidence of undue short-term pressure from the financial sector on corporations</li> </ul> </li> </ol>

Source: Swiss Sustainable Finance

**The European Union**

The European Union's (EU) 10-point Action Plan on Financing Sustainable Growth published in 2018 has, in a mere two years, led to numerous directives and regulations (Figure 44). Nine legislative and nineteen non-legislative measures were initiated by the EU Commission with the assistance of the Technical Expert Group (TEG).<sup>29</sup> Several of the sustainable finance initiatives proposed are amendments to existing regulatory frameworks, such as the amendments to MIFID II and IDD delegated acts, or a revision of the EU's public corporate reporting guidelines (NFRD). Newly proposed frameworks include Disclosure Requirements for the financial service sector, a regulation for EU Climate Transition and Paris Aligned Benchmarks, a voluntary EU-wide ecolabel for financial retail products based on the taxonomy, and a regulation on the development of an EU taxonomy.

The Commission has been quick to implement many of these frameworks. One of the first sustainable finance legislative initiative to have been formally adopted was the Regulation on Sustainability-Related Disclosures in the Financial Services Sector, which will require institutional investors and asset managers to disclose how they integrate ESG factors into their risk processes by spring 2021.<sup>31</sup>

The Taxonomy Regulation, the centrepiece of the EU Action Plan, is supposed to be adopted in spring 2020 and a first round of Delegated Acts with technical screening criteria, categorising what economic activity is (environmentally) sustainable, is due by the end of 2020. An important aspect that arose during the numerous debates on the taxonomy was the decision to include minimum social safeguards, and a willingness to begin assessing so-called "brown" criteria<sup>32</sup> for activities that undermine the Paris Agreement. The taxonomy forms the basis for other pieces of EU policy, for example for the application of the EU Green Bond Standard (EU GBS) proposed by the TEG. In its final report, the TEG outlined a model EU GBS which

<sup>29</sup> For a comprehensive overview see: SSF Focus on EU Action Plan from December 2019.

<sup>30</sup> Figure 44 does not list all initiatives under the EU Action Plan, but provides an overview of the most important ones.

<sup>31</sup> Regulation (EU) 2019/2088: <https://eur-lex.europa.eu/eli/reg/2019/2088/oj>

<sup>32</sup> In its final report from March 2020, the TEG welcomes the decision to study future so-called "brown" taxonomy criteria.

links use of proceeds to the taxonomy and foresees a verification role for the European Securities and Markets Authority (ESMA).

In light of this progress, EU financial bodies also became more active regarding their role to implement the requirements and address technical questions. ESMA released a sustainable finance strategy in February 2020, stating that it stands ready to accept any new supervisory mandates related to sustainable finance. In a joint consultation, ESMA, the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA) are asking for feedback on technical standards proposed under the Disclosures Regulation.<sup>33</sup>

The first package of measures under the Action Plan is thus almost completed, but this does not mean that the EU's intensified approach will slow down. The next iteration of the Action Plan, the Renewed Strategy as it is currently called, was undergoing public consultation during the writing of this study and is expected to be finalised by the end of summer 2020. In parallel, the EU has also launched an International Platform on Sustainable Finance (IPSF) with the aim of fostering exchange and policy convergence on sustainable finance internationally. Last but not least, the EU Green Deal, announced by the new Commission in December 2019 with the aim to mobilise at least EUR 1 trillion of sustainable investments, is further proof that the EU plans to make use of a wide array of measures to achieve its climate and sustainability targets.<sup>34</sup>

## Switzerland

In Switzerland, the Federal Council set a new and more ambitious climate target last year, announcing a plan to reduce carbon emissions to net zero by 2050.<sup>35</sup> While this does not yet detail specific obligations for the financial industry, Federal Councillor Simonetta Sommaruga emphasised that Swiss investors "must have an investment behaviour [...] that ultimately does not torpedo our measures [to achieve] the Paris Agreement."<sup>36</sup> For the time being, the Swiss government continues to give priority to market solutions within the financial industry, but has become more active and vocal on the subject.

In June 2019, the Federal Council set up an internal workgroup to clarify Switzerland's participation in international sustainable finance initiatives and examine how developments related to the EU Action Plan are likely to affect the Swiss financial centre. More specifically, the Federal Department of Finance (FDF) was instructed to examine the following aspects with regard to their impact, and the climate and environmental risks: (1) A systematic obligation to disclose relevant and comparable information for customers, owners and investors; (2) The strengthening of legal certainty in connection with due diligence requirements; (3) Consideration of climate and environmental risks or their impact in all matters relating to the stability of financial markets.<sup>37</sup> Based on its findings, the FDF is set to publish a report in summer 2020. Furthermore, two external workgroups focused on transparency and fiduciary duty as well risk and

stability have been set up by the State Secretariat for International Financial Matters (SIF), proving that the Swiss government is committed to engaging with market players.

An important initiative already being conducted for the second time is the Federal Office for the Environment's (FOEN) PACTA climate tests to analyse the climate compatibility of financial portfolios. After a first round in 2017, which targeted pension funds and insurances, the PACTA model was expanded in 2020 and now also invites asset managers and banks to screen their portfolios against the 1.5°C goal. While the test is voluntary, this initiative shows that Swiss authorities aim to conduct regular progress measurement in an internationally comparable way.

The FOEN also commissioned a legal opinion on climate risks and Swiss law, which found that material climate risks must already be taken into account on the basis of current law.<sup>38</sup> It also stated that on a voluntary basis, climate impacts resulting from investment and financing decisions can be measured and reported. Thus, the original question of whether existing Swiss laws such as BVG Art. 71 allow for the consideration and disclosure of ESG has evolved to a broader debate on whether an obligation to consider ESG factors exists. In some circumstances, the discussion goes even further on whether the impact of investments can be taken into account.

It is also important to note that in the past year Switzerland has joined three major sustainable finance initiatives. First, both the Swiss National Bank (SNB) and the Swiss Financial Market Supervisory Authority (FINMA) became members of the Network for Greening Financial Systems (NGFS) in April 2019. While the NGFS is not a standard-setting body, it seeks to define best practice for financial market regulators and strengthen the global response to meet the Paris Agreement. A first testimony to increased uptake among Swiss financial market regulators came when FINMA mentioned climate

<sup>33</sup> European Banking Authority (23.04.2020). *ESAs consult on Environmental, Social and Governance Disclosure Rules*. <https://eba.europa.eu/esas-consult-environmental-social-and-governance-disclosure-rules>

<sup>34</sup> EU Commission (n.d.). *Sustainable Finance*. Available at: [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en)

<sup>35</sup> Previously Switzerland aimed for a reduction of 70–85%, see: [www.admin.ch/gov/en/start/documentation/media-releases.msg-id-76206.html](http://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-76206.html)

<sup>36</sup> Swiss Council of States, Autumn Session 2019, 12<sup>th</sup> Meeting, September 25, 2019 – Debate on the total revision of the CO<sub>2</sub> Law. Intervention of Federal Councillor Simonetta Sommaruga. Free translation from the original in German: "Wir müssen in diesem Land auch im Finanzbereich ein Investitionsverhalten haben, dass unsere Massnahmen für das Pariser Abkommen letztlich nicht wieder torpediert."

<sup>37</sup> Federal Council (06.12.2019). *Federal Council highlights opportunities for sustainable Swiss financial centre [Press Release]*. Available at: [www.admin.ch/gov/en/start/documentation/media-releases.msg-id-77424.html](http://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-77424.html)

<sup>38</sup> Eggen, M. & Stengel, C. (October 2019). *Rechtliches Gutachten «Berücksichtigung von Klimarisiken und -wirkungen auf dem Finanzmarkt» (Teil 1: Grundlagen)*. Available at: [www.sustainablefinance.ch/upload/rm/gutachten-eggen-stengel-11-11-2019-1.pdf?\\_id=1574950983000](http://www.sustainablefinance.ch/upload/rm/gutachten-eggen-stengel-11-11-2019-1.pdf?_id=1574950983000)

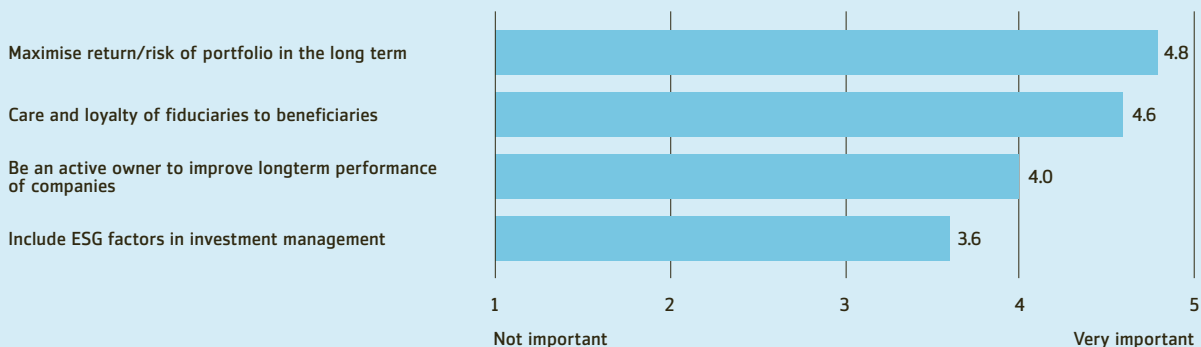


## HOW SWISS ASSET OWNERS PERCEIVE FIDUCIARY DUTY

The responses to the survey illustrate that the concept of fiduciary duty can be a potential driver as well as a barrier for the future development of SI (see Chapter 3.2). Figure 46 displays which aspects asset owners associate with fiduciary duty and their respective level of importance. Compared to 2018, all aspects of fiduciary duty listed in Figure 46 experienced an increase in importance. As already in 2018, the maximisation of a port-

folio's risk/return profile is in the top position. This might be an explanation for why performance concerns repeatedly rank at the top of all barriers. On average, the integration of ESG factors into the investment management process is currently viewed to be of least importance. Nevertheless, it is worth mentioning that on an individual level, 4 respondents considered this to be "very important" and 12 considered it "important".

Figure 46  
**MAIN ASPECTS SHAPING THE CONCEPT OF FIDUCIARY DUTY OF ASSET OWNERS**  
(IN AVERAGE LEVEL OF IMPORTANCE) (n=27)



## THE ROLE OF INTERNATIONAL FRAMEWORKS FOR SWISS ASSET MANAGERS

Only a small fraction of this year's respondents already have TCFD-aligned reporting in place and publish the reporting accordingly (Figure 47). Most of these respondents cover all four categories: governance (such as board oversight), strategy (such as risks and opportunities), risk management (such as risk identification and assessment) as well as metrics and targets (such as climate-related metrics). Figure 47 further shows that a remarkable number of respondents are planning on introducing such reporting within the

next two years. Hence, even though only a few asset manager participants currently follow the TCFD recommendations on the reporting of climate risks, many will follow in the coming years.

This year, we also collected opinions from asset managers on the EU Action Plan. On average, most were in moderate agreement that the EU regulation will have considerable effects on sustainable finance development (Figure 48).

Figure 47  
TCFD ALIGNED REPORTING OF ASSET MANAGERS  
(IN NUMBER OF RESPONDENTS) (n=40)

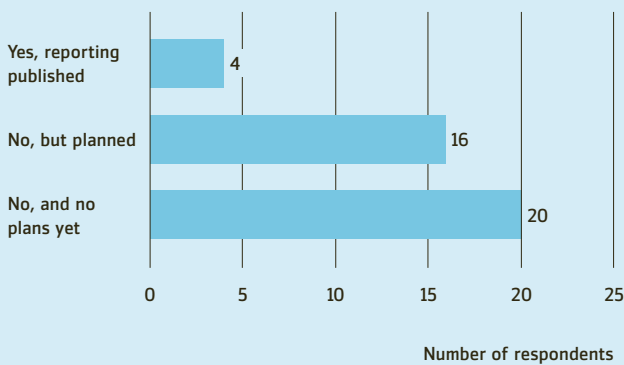
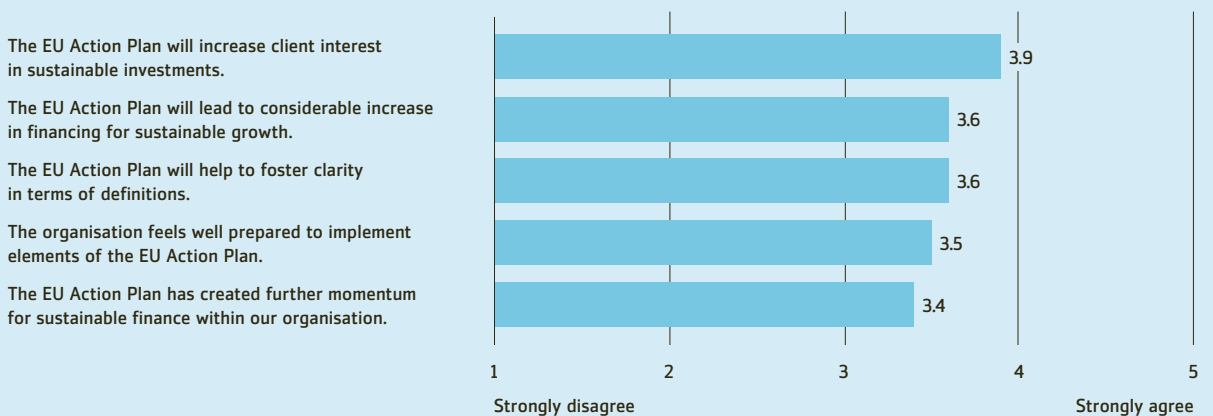


Figure 48  
STATEMENTS ON THE EU ACTION PLAN FOR FINANCING SUSTAINABLE  
GROWTH BY ASSET MANAGERS  
(IN AVERAGE LEVEL OF AGREEMENT) (n=40)



risks in its December 2019 Risk Monitor. Second, the FDF is now a member of the Coalition of Finance Ministers for Climate Change, which supports principles that align fiscal policy and public finances with the objectives of the Paris Agreement.<sup>39</sup> Finally, in March 2020, Switzerland joined the International Platform on Sustainable Finance initiated by the EU, stating that the involvement in this multilateral forum would “facilitate the achievement of Switzerland’s policy goals as regards sustainable finance”.<sup>40</sup> International exchange and coordination is particularly relevant given that regulations approved at EU level already apply to Swiss-based financial institutions serving, or seeking to serve, EU clients.

At the moment, only two hard-law legislative frameworks on a national level (the Executive Pay Provision and the Federal Act on War Materials) and a few cantonal pension regulations directly link to sustainable finance.<sup>41</sup> However, a considerable amount of activity is driven by the Swiss legislator. Even before the new parliament was constituted, the number of parliamentary items of business related to sustainable finance had increased substantially. In total, 28 items were submitted in 2019, originating from almost all major parties. A few items have now acquired the necessary approval required within the parliament’s chambers, and led to first demands for the Swiss government. This includes, for example, the postulate 19.3127 requiring the Federal Council to analyse how the competitiveness of the Swiss financial sector in the field of sustainability can be ensured.<sup>42</sup> Also still on the table is the Responsible Business Initiative as well as the revision of the CO<sub>2</sub> Act, in which the Council of States included two articles (Art.1 and Art. 47a) pertaining to the financial sector and the SNB and FINMA.<sup>43</sup> Although these are of general nature, they are further proof that sustainable finance is a hot topic in parliament.<sup>44</sup>

### Global developments

On a global level, 48 out of the 50 largest economies have some form of policy designed to help investors consider ESG factors.<sup>45</sup> Not all initiatives are binding hard-law, but still reflect proactive initiatives from central regulating bodies. In China, the People’s Bank of China, in collaboration with other government agencies, issued Guidelines for Establishing a Green Financial System (GEGFS) in 2016, which laid the basis for a sustainable financial system in China. Since then, the Chinese Asset Management Association and the China Securities Regulatory Commission (CSRC) have issued voluntary guidelines for green investment and the CSRC has also announced that by 2020 it will require listed companies to disclose key environmental information in their annual or semi-annual reports.<sup>46</sup> Elsewhere in Asia, Japan’s Financial Services Agency updated its Stewardship Code, explicitly adding ESG to its definition of “stewardship responsibilities”.<sup>47</sup> In the UK, a revised stewardship was introduced by the Financial Reporting Council (FRC), enshrining ESG as the new normal for investors. The UK Treasury also released a comprehensive Green Finance strategy in July 2019. In France, Art.173 of the Energy Transition and Green Growth

Law, which stipulates compulsory disclosure for investors on ESG on a comply-or-explain basis, has been extended to include disclosure requirements on biodiversity.<sup>48</sup> In Canada, the Expert Panel on Sustainable Finance released final recommendations in June 2019, advising the government to create a green investment plan, a transition taxonomy, TCFD-aligned disclosure requirements and install an engagement platform.<sup>49</sup> Other markets are witnessing similar developments, with Germany having established an Advisory Committee on Sustainable Finance. The committee released an interim report in March 2020 which lays out 53 draft recommendations addressing the German public sector, the real economy and financial market participants.<sup>50</sup> Even in Australia, where sustainable finance has traditionally had a tougher time establishing itself, the financial market regulatory bodies are working on devising guidance for the industry to assess climate vulnerability.<sup>51</sup>

A willingness to create stringent frameworks for sustainable finance is thus visible in many different jurisdictions around the world. With global financial centres increasingly competing, action taken by regulators to stimulate offerings and ensure transparency and disclosure is even considered a competitive advantage, as noted by the

<sup>39</sup> Federal Council (02.10.2019). *Head of FDF Ueli Maurer joins Coalition of Finance Ministers for Climate Action* [Press Release]. [www.admin.ch/gov/en/start/documentation/media-releases.msg-id-76611.html](http://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-76611.html)

<sup>40</sup> Federal Council (04.03.2020). *Switzerland’s participation in International Platform on Sustainable Finance (IPSF)* [Press Release]. [www.admin.ch/gov/en/start/documentation/media-releases.msg-id-78343.html](http://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-78343.html)

<sup>41</sup> For more detail see Sustainable Investment Market Study 2019, p. 48.

<sup>42</sup> Federal Parliament (18 March 2019). Postulat 19.3127, Adèle Thorens-Goumaz.

<sup>43</sup> Totalrevision des CO<sub>2</sub>-Gesetzes nach 2020 (Geschäft 17.071). Beschluss des Ständerates 25. September 2019: <https://www.parlament.ch/centers/eparl/curia/2017/20170071/S22%20D.pdf>

<sup>44</sup> A further popular initiative that would have a considerable effect on financial industry players is the “Kriegsgeschäfte Initiative”.

<sup>45</sup> PRI (2019). *Taking Stock: Sustainable Finance Policy Engagement and Policy Influence*. p.3.

<sup>46</sup> PRI, UNEP FI, The Generation Foundation & IIGF (2018). *Investor duties and ESG Integration in China*. Available at: [www.unepfi.org/wordpress/wp-content/uploads/2018/03/Investor-Duties-and-ESG-Integration-in-China-English-version.pdf](http://www.unepfi.org/wordpress/wp-content/uploads/2018/03/Investor-Duties-and-ESG-Integration-in-China-English-version.pdf)

<sup>47</sup> PRI (March 2020). *Responsible Investment Policy Briefing*.

<sup>48</sup> Novethic (27.09.2019). Adoption de la loi énergie-climat: ce qu’il faut retenir. Available at: [www.novethic.fr/actualite/environnement/climat/isr-rse/loi-energie-climat-ce-qu-il-faut-retenir-147741.html](http://www.novethic.fr/actualite/environnement/climat/isr-rse/loi-energie-climat-ce-qu-il-faut-retenir-147741.html)

<sup>49</sup> Government of Canada (2019). *Final Report of the Expert Panel on Sustainable Finance*. Available at: <https://www.canada.ca/en/environment-climate-change/services/climate-change/expert-panel-sustainable-finance.html>

<sup>50</sup> PRI (March 2020). *Responsible Investment Policy Briefing*.

<sup>51</sup> Milburn, Ellie (25.02.2020). Australian financial regulator to double down on climate risk with new guidance and stress testing. *Responsible Investor*. [www.responsible-investor.com/articles/australian-financial-regulator-to-double-down-on-climate-risk-with-new-guidance-and-stress-testing](http://www.responsible-investor.com/articles/australian-financial-regulator-to-double-down-on-climate-risk-with-new-guidance-and-stress-testing)

Global Green Finance Index (GGFI). An exception to these developments is the US, where there is no sustainable finance strategy nor expert group in place yet.<sup>52</sup>

In parallel, multilateral bodies such as the International Organisation of Securities Commissions (IOSCO), the International Organisation of Pension Supervisors (IOPS) and also the G7 and G20, have begun to issue ESG guidance or incorporate sustainability into their financial work streams. In 2019, the European Investment Bank (EIB) became the first multilateral lending institution to announce that it will phase out lending to fossil fuel projects by 2021. Other multilateral development banks such as the World Bank have stopped funding new coal power plants, but do not go as far as the EIB in cutting natural gas projects as well.<sup>53</sup>

On an overarching level, negotiations at COP25 in Madrid led to the launch of the Santiago Action Plan, which sets out concrete work streams and deliverables for the members of the Coalition of Finance Ministers for Climate Action. The next COP26 in Glasgow is also expected to set the direction for the finance industry, with a specific agenda for private finance.<sup>54</sup>

### Industry initiatives and self-regulation

In many of the examples of policy developments outlined above, the public authorities create a participatory process and seek to include financial market players and associations in the process. Beyond this, market-driven voluntary standards and self-regulation remain a strong enabling factor for sustainable finance. In Switzerland, the major finance associations (e.g. SwissBanking, Swiss Funds & Asset Management Association, and Swiss Insurance Association) have taken up sustainable finance as a key priority and started to work on different activities. One result is the joint SFAMA/SSF Recommendations on Sustainable Asset Management, which provide clear guidance on the integration of ESG factors into asset management and is due to be published in the first half of 2020. Other relevant self-regulatory instruments are the Swiss Code of Best Practice for Corporate Governance from Economiesuisse and the SIX Directive on Information relating to Corporate Governance, which includes an opt-in clause for sustainability reporting.

On an international level, there are numerous initiatives that set requirements and are now considered standard practice within the industry. First and foremost, the Task Force on Climate-Related Disclosure (TCFD) remains central for guidance on proper disclosure of climate change related issues, which is also the case for Swiss asset managers as shown in Figure 47 in the box on p. 48. The relevance of TCFD was discussed for example by the International Association of Insurance Supervisors (IAIS), which noted that some supervisors are considering making climate-related disclosure mandatory.<sup>55</sup> As of 2020, TCFD-based reporting became mandatory for Principles for Responsible Investment (PRI) signatories, showing how voluntary international initiatives are raising the bar. The PRI, an international

network of investors who follow six responsible investing principles, has grown to represent USD 86.3 trillion AuM.<sup>56</sup> A more recent initiative are the Principles for Responsible Banking (PRB), launched in 2019 and already counting over 170 global signatories.<sup>57</sup> The PRB also consist of six comprehensive principles that banks can apply over all their business areas, and include a specific impact dimension. With the newly formed Net-Zero Asset Owner Alliance, some of the world's largest pension funds and insurers, including Swiss Re and Zurich Insurance Group, have joined forces and committed to transitioning their portfolios to net-zero GHG emissions by 2050.<sup>58</sup> Another well-known initiative is the Financial Centres for Sustainability (FC4S) network, which provides a platform to its 30 financial centres to exchange experience and develop practical collaboration tools. The initiative has its secretariat in Geneva and both the cities of Geneva and Zurich are members.

The world's official standards body, the International Organization for Standardization (ISO), has also become active on the subject. Its Technical Committee 322 on Sustainable Finance was established in October 2018 and kicked off the process for drafting a sustainable finance framework standard in December 2019.

Last but not least, the OECD Guidelines for Multinational Enterprises, and the UN Guiding Principles on Business and Human Rights (commonly known as the "Ruggie Principles") are also relevant for financial players. In the case of the OECD Guidelines, which include a complaint and conciliation mechanism in the form of National Contact Points (NCP), complaints have been submitted against multiple financial institutions. Last October, the OECD also issued a report with advice on due diligence processes for responsible corporate lending and securities underwriting.<sup>59</sup>

<sup>52</sup> PRI (2019). *Taking Stock: Sustainable Finance Policy Engagement and Policy Influence*, p. 9.

<sup>53</sup> Sam Fleming & Leslie Hook (14.11.2019). EIB to phase out lending to fossil fuel projects by 2021. *Financial Times*. Available at: [www.ft.com/content/cc78d838-0720-11ea-a984-fbbacad9e7dd](http://www.ft.com/content/cc78d838-0720-11ea-a984-fbbacad9e7dd)

<sup>54</sup> Rust, Susanna (28.02.2020). Private finance gets its own COP26 agenda. *IPE*. Available at: [www.ipe.com/news/private-finance-gets-its-own-cop26-agenda/10044046.article](http://www.ipe.com/news/private-finance-gets-its-own-cop26-agenda/10044046.article)

<sup>55</sup> IAIS (19.12.2020). *Issues Paper on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures*. IAIS; Basel.

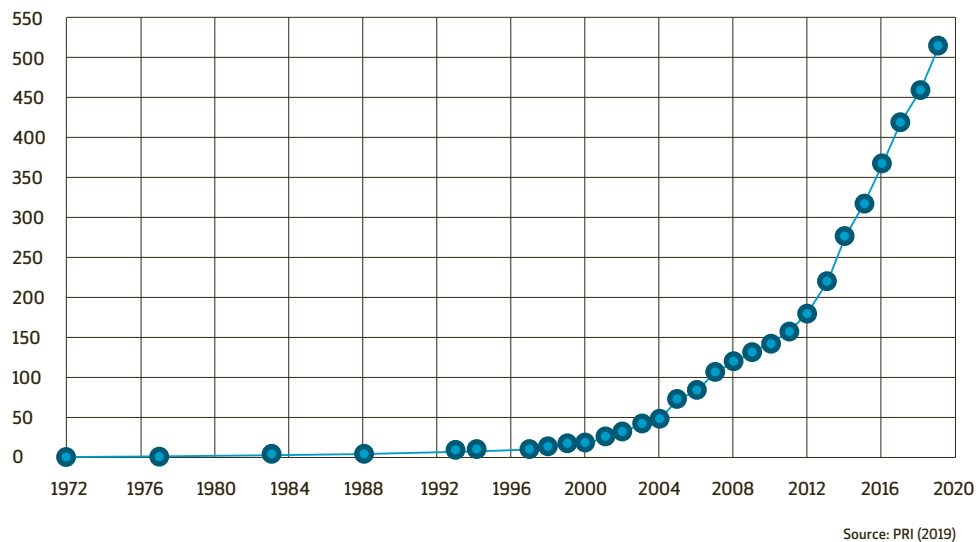
<sup>56</sup> UN PRI (2019). *About the PRI*. Available at: [www.unpri.org/pri/about-the-pri](http://www.unpri.org/pri/about-the-pri), accessed 24/04/2020.

<sup>57</sup> UNEP FI (n. d.). *PRB Signatories*. Available at: [www.unepfi.org/banking/banking-principles/signatories/](http://www.unepfi.org/banking/banking-principles/signatories/)

<sup>58</sup> UNEP FI & PRI (n. d.). *UN-convened Net-Zero Asset Owner Alliance*. Available at: <https://www.unepfi.org/net-zero-alliance/>

<sup>59</sup> OECD (2019). *Due Diligence for Responsible Corporate Lending and Securities Underwriting: Key considerations for banks implementing the OECD Guidelines for Multinational Enterprises*. Available at: <http://mneguidelines.oecd.org/Due-Diligence-for-Responsible-Corporate-Lending-and-Securities-Underwriting.pdf>

Figure 45  
**NUMBER OF RESPONSIBLE INVESTMENT-RELATED POLICY INSTRUMENTS  
 ACROSS THE 50 LARGEST ECONOMIES**



### Outlook

From these different areas, it becomes evident that governments are articulating more clearly the role they expect financial players to play for sustainable economies. This is done through a plurality of approaches, be it hard-law, voluntary guidelines or joint public-private initiatives. The number of measures in total has increased and this uptake is expected to continue, as seen in Figure 45.

Ultimately, the question is therefore not whether governments will act, but what policies they will use once they do so. So far, financial regulators in most countries are not mandated with broad economic or societal responsibilities and thus do not yet set binding sustainability objectives for the financial sector. However, regulatory developments are starting to outline explicit sustainability objectives, and no longer limit themselves to a pure risk approach.

The PRI asserts that more and more, policy measures seem to be reaching maturity, thus removing any “ambiguity around the relationship between sustainability and finance”.<sup>60</sup> In the future, responses are expected to be more forceful and the focus will likely be on technical questions relating to the ultimate implementation of sustainable finance measures and less on general principles. While it is not yet clear what the future outcome of various regulatory instruments are, promoting sustainable real economy outcomes will be decisive for the next decade.

<sup>60</sup> PRI (2019). *Taking Stock: Sustainable Finance Policy Engagement and Policy Influence*, p.11.





**WIND FOR ENERGY**  
**SKYPULL**

The Swiss startup Skypull developed an airborne wind energy production system based on a special drone. The fully autonomous drone flies like a kite in powerful high-altitude winds and is connected to a ground-based generator that generates electricity. This technology requires substantially less material than traditional wind turbines. Skypull aims to bring a technical demonstrator to the market by summer 2020 and launch the product commercially by 2022.

# 5 CONCLUSION AND OUTLOOK

## **Sustainable investments: a continuing growth story**

The SI market in Switzerland once again enjoyed tremendous growth in 2019. All SI approaches grew in volume, ESG integration being the most prominent, followed by exclusions and ESG engagement. While we have described how this growth can be ascribed to inflows as well as performance effects, we also need to acknowledge that the change in the underlying methodology had a certain influence.

Similar to previous reports, Swiss asset managers and owners are generally optimistic about the future growth of the SI market. Comparing the drivers and barriers for fostering sustainable investments, we cannot detect any significant changes compared to previous years. However, one interesting observation is that asset managers perceive the lack of standards as the main barrier for the further growth of the SI market. In the previous year, the lack of conviction of client advisors was the number one barrier, but this is now in second place.

In the near future, the EU Action Plan on Sustainable Finance and related regulations, many of which will become binding in 2021, will further influence the adoption of SI strategies. In this context, it remains to be seen what the role of the far-reaching green taxonomy will be for different SI approaches prevalent in the market.

## **Evolution of the SI market**

We are at the point where we can look back at the evolution of the SI market and identify milestones. Early niche methods focused on exclusion criteria and the avoidance of unethical behaviour, as well as strict best-in-class approaches. This evolved into an era marked by mainstreaming in the market – which focused on the use of various ESG data in the form of ESG integration, the interrelation with financial performance, active voting and the application of these approaches to large pools of assets. We are currently entering a new era. With ESG now considered mainstream, a clear shift is observable towards the consideration of actual impacts. This third era is more outcome-oriented and focuses on combining active voting with ESG engagement, as well as different forms of impact investments.

In this year's report, three interesting developments illustrate the mainstreaming effect in the SI market: first, ESG integration remained the top SI approach and gained another 65% compared to the previous year. This illustrates that for asset owners and managers this approach may be a convenient method to apply ESG criteria to a wide range of their portfolios. Second, the asset allocation experienced a large shift towards equity and corporate bonds. While this can be explained also by the wider use of ESG integration by asset managers, the shift demonstrates that corporate ESG data and corresponding analyses are gaining in importance. Third, the private investor volumes in SI finally showed a significant jump this year. This is, in itself, an interesting outcome; previously one typical claim when looking at SI market data was: *we need to make sure that more private clients get engaged*. These last two developments go hand in hand: asset managers are applying ESG integration to a larger part of their funds, which mainly consist of equity and corporate bonds. As such, the supply is improved and encourages a corresponding demand from private investors.



### Impact-oriented investments on the rise

While this year's report covers any product to which a sustainability screening was applied by asset managers and owners, one question becomes even more relevant: what exactly is the contribution of a respective ESG product to the real economy – e.g. to a specific SDG? This question of the effectiveness (or respectively the impacts) is the major component of the new era of sustainable finance, where we think the market is heading. Looking at the data, it is noteworthy that impact-oriented investments as a whole are on the rise. To start with, the impact investment approach grew by 209% and now stands at more than CHF 50 billion. Compared to the overall sum of SI in Switzerland of CHF 1.16 trillion, this amount still seems negligible. Interestingly, the major asset class of these impact investments is now listed equity. Recent research suggests that achieving impact with equity investments is generally possible, but is not a given.<sup>61</sup> By simply picking stocks with a good ESG performance, no impact (in the sense of additional "real-world" effect) is typically achieved. For future investigations, a better understanding is needed of how equity investments achieve true impact in the real economy. Next to this, other SI approaches with high impact-generating potential also experienced significant growth: the ESG engagement approach grew by 121% and ESG voting by as much as 134%. Thematic funds grew by 60%. This all is very good news, since all these efforts offer a huge opportunity for real-world impacts!

### Next steps and the way ahead

A further alignment of definitions and understandings of SI approaches is an ongoing task. We made a first important step with this report by adapting our methodology this year. The differentiation last year between core (sustainable) and broad (responsible) approaches caused more confusion, rather than helping to generate comparable figures. Now it is essential that (a) other efforts in generating SI market data agree on such an approach and (b) the field of SI moves on and seeks to incorporate impacts of SI as a new determinant of SI effectiveness.

In light of the impressive dynamics in sustainable finance in Europe and on a global level, it is vital that Switzerland continues its path. Building on the strong know-how prevalent in the market will help to sustain these efforts and thus contribute to the creation of a more robust and stable financial system, as well as advancing sustainable development in Switzerland and on a global scale. The world after a turbulent 2020 will be in a different shape and move at a different pace. SI can catalyse this development and contribute to the stability of this new world.

<sup>61</sup> Kölbl, J.F., Heeb, F., Paetzold, F., Busch, T. (2020): Can Sustainable Investing Save the World? Reviewing the mechanisms of investment impact. Organization & Environment. Available at <https://journals.sagepub.com/loi/oe>

# 6 SPONSOR CONTRIBUTIONS

# Protecting the climate with humus: a pioneer project to store CO<sub>2</sub> in the soil

MARILEN DÜRR | Head of Sustainability, BLKB

As a bank, Basellandschaftliche Kantonalbank (BLKB) has a responsibility to combat climate change, but also a responsibility towards the sustainable development of the Basel region.

Together with the Ebenrain Center for Agriculture, Nature and Food, BLKB has therefore started a climate protection project in the region of Basel. The aim of the project is to use the soil in the canton of Baselland and Basel-Stadt as a CO<sub>2</sub> sink.

## What are the challenges of climate change for local farmers?

Climate change brings more weather extremes such as heat, drought, storms, heavy rainfall and – with vegetation starting to grow sooner – the risk of late frost damage. Additionally, the warmer climate means that new pests are migrating to Switzerland. Finally, yet importantly, food production is becoming more risky, more demanding and therefore more expensive.

The region around Basel is particularly vulnerable to the consequences of climate change. The climate is warmer and drier than in other regions of Switzerland and there are hardly any natural water

sources for irrigating agricultural crops. It is therefore all the more important for agriculture to be concerned about climate change and find sustainable solutions. Ultimately, it is also a way of securing future harvests and regional food supply.

## What is the aim of the “climate protection through humus” project?

The project’s goal is to make agricultural soil in our vulnerable region more resilient to drought and thus more resistant to extreme weather conditions. The build-up of humus (soil organic matter) generally increases soil fertility. An optimal humus content in the soils of our region would be 6–9% but it is currently only around 2–4%. Consequently, the overall aim of this project is to remove CO<sub>2</sub> from the atmosphere and thereby contribute to climate change mitigation. Experts at Ebenrain Center and the research institute for organic farming (FiBL) estimate that one ton of carbon dioxide per hectare can be fixed in the soil every year.

Starting from 2021, BLKB wants to offset its 1,000 tons of greenhouse gas emissions with this regional agriculture project. For this, it aims to cover 1,000 hectares of agricultural land. BLKB compensates every ton of CO<sub>2</sub> at CHF 100. The compensation will be based on scientific soil tests that measure the increase of soil organic matter within the next six years. The financial compensation is, however, only part of the benefit for the farmers. The greatest value will be the improvement of the soil, which makes it less vulnerable to degradation and consequently produces a more reliable harvest.

## AGRICULTURE VERSUS CLIMATE CHANGE

ADAPT	PROTECT	EMIT
<p>Agriculture needs to be adapted to climate change effects</p>	<p>Agriculture protects against climate change</p>	<p>Agriculture causes emissions</p>
<ul style="list-style-type: none"> <li>— Storage capacity of soil</li> <li>— Adapted species</li> <li>— Species to be protected and watered</li> <li>— Increase resilience</li> </ul>	<ul style="list-style-type: none"> <li>— Carbon kept in soil</li> <li>— Reduction of climate gases by gentle soil cultivation</li> <li>— Improve resource efficiency</li> <li>— Economical application techniques</li> </ul>	<ul style="list-style-type: none"> <li>— Carbon dioxide from cultivation</li> <li>— Nitrogen oxides from soil</li> <li>— Ammonia from fertilizer</li> <li>— Fuel for machines</li> <li>— Fertilizer from raw oil</li> <li>— Import and logistics</li> </ul>

# In times of climate change risk management needs to evolve

DR. GEORG VON PFÖSTL | Partner, BearingPoint

## Increasing economic and regulatory pressure

Climate-related risks – not least due to events like the recent Australian bushfire – are gaining increased attention from different stakeholders in the financial and non-financial community including banks and (re-)insurance companies, corporations as well as standard-setters, regulatory authorities and politicians.

Over the last 12 months, different authorities articulated their expectations on the management of climate-related, and broader ESG risks impacting the European financial industry. The European Central Bank identified climate-related risks as one of the key risks for the banking sector and has included these risks in its risk map 2020. The European Bank Authority (EBA) published its work plan on sustainable finance requiring among others the incorporation of ESG factors into the risk management and supervision. The inclusion of climate-related risks into the regulatory stress testing exercises is thematized in discussion papers of EBA and Bank of England. In Switzerland FINMA published its first Risk Monitor in December 2019 identifying climate-related risks as risks that could impact the Swiss financial center over the longer term and pointed out that it will refine its analyses of climate-related risks in the balance sheets of financial institutions and develop approaches for improved disclosure. Further various national supervisory authorities, e.g. the PRA in UK, BaFin in Germany or FMA in Austria have recently expressed their expectations and provided guidance to financial institutions for the management of ESG/climate-related risks. The financial risks from climate change are also one of the key priorities for European Securities and Markets Authority, addressed in its strategy on sustainable finance.

## Integrating ESG factors into risk management

Key requirements for financial institutions include:

- Definition of an ESG risk strategy in line with the business strategy and overall risk strategy of the institution and addressing these risks in the risk appetite statement.
- Clear definition of the governance structure including roles and responsibilities for ESG risks.
- Integration of ESG risks into the risk management processes (ICAAP) covering risk identification, measurement, monitoring, steering and reporting.

Despite the clear expectations that ESG/climate-related risks are discussed on board level and managed robustly in every financial institution, our conversations with institutions and preliminary ECB results show that, although the awareness for these risks is increasing, much more needs to be done to meet increasing requirements of regulatory and supervisory authorities.

Further, shifting client expectations towards investments in modern “green” technologies and the divestment of “brown” carbon

intensive industries might change the asset portfolio composition. Risk management needs to consider the resulting new risks and changing risk patterns as well as the impact on balance sheet and P&L.

## What to focus on first?

Before going into detailed technical topics for the modelling of ESG/climate-related risks, it is worth looking at the overall ESG strategy of an institution. A consistent ESG risk management framework should be derived including definitions of key terms (e.g. physical and transition risks or definition of “green” and “brown” assets). An assessment of the institutions’ own portfolio is key to get a holistic view to which extent the institution is exposed to these risks. We observe that institutions either have already conducted or are planning first high-level assessments which need to be detailed in the future. Moreover, governance aspects including the definition of roles and responsibilities, the organizational set-up as well as risk reporting need to be addressed.

The integration of ESG/climate-related risks into the risk management requires the inclusion of these risks into the risk identification process (risk inventory, risk landscape). Furthermore, these risks need to be assessed and measured. In this regard, institutions might start with heat maps or similar analysis as well as scenario analysis with more sophisticated approaches to be developed in the mid-term. An ongoing monitoring needs to be implemented and steering approaches defined (e.g. exclusion criteria and limits, definition “positive” lists, best-in-class approach). In addition, a reporting of ESG/climate-related risks to senior management needs to be implemented.

Increasing the awareness and knowledge of ESG/climate-related risks within the institutions and building up a database including internal and external data are further topics to be addressed.

## Outlook

The need for action to further develop the management of ESG/climate-related risks is undisputed considering economic and regulatory pressure. The impact on a single financial institution and the need for actions, however, depend on the institution’s specific characteristics, such as business model, business and risk strategy, risk appetite, offered products and geographical footprint.

# Fostering Sustainable Commodity Value Chains as an Investor

NABIL MARC ABDUL-MASSIH | CEO, INOKS Capital  
JULIE MONTELS | Impact Analyst, INOKS Capital

Fostering sustainable production, trade and consumption of commodities is a necessity, especially where basic food chains are involved, let alone during a pandemic. Allocation of responsibility among stakeholders within the value chain is essential to ensure a sustainable supply. All actors carry responsibility: not only producers and consumers, but also processors, traders, logistics companies, distributors and ultimately **investors** whose capital can have a positive impact or may lead to adverse effects. Hence, an asset manager focused on responsible impact investment can contribute in two ways to sustainable commodity value chains: through **active engagement** and **active investment**.

## Active engagement

We strongly believe that impact and responsible investing is an approach that goes beyond mere investment screening and selection. In order to be relevant and effective, an investor needs to integrate sustainability in its business activities ('own doorstep' principle). Building on such a foundation, INOKS Capital has developed a proprietary toolset enabling increased engagement with our invested counterparties' practices based on ESG (risks) and Impact (opportunities) considerations.

- In the due diligence phase (both desk and field review), we develop an Environmental and Social Action Plan (ESAP) stipulating improvement measures to increase compliance with international standards, thus strengthening our investees' E&S mitigation capacity.
- To complement our financing solutions, we also offer bespoke assistance which we are currently developing through our internal Technical Assistance Program.

## Active investment

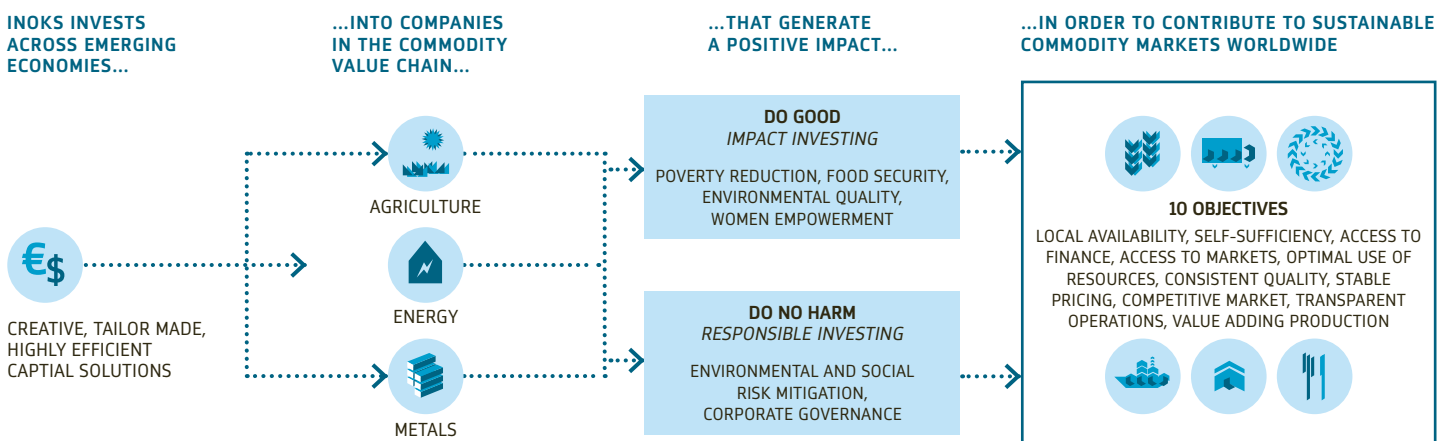
A focus on investments that deliver intentional impact is the second key element for financing sustainable value chains. The INOKS strategy provides financing solutions that target direct investments (alternative credit) in emerging markets to support food companies. Clear ESG & Impact principles, standards and tools have been developed to (i) guide investment selection and monitoring and (ii) ensure efficient impact capital allocation aligned with our Theory of Change (see figure).

Our Impact Strategy focuses on four areas: poverty reduction, food security, environmental quality and women empowerment. As an example, the strategy provided productive capital to 1 out of the 3 cotton producers in Ghana tasked by the government to revamp the cotton industry. This financing contributed to increasing the availability of quality inputs, ensuring timely payment to farmers, boosting the level of cotton lint production and quality, and consequently improved marketability.

On the ESG side, we actively invest in companies that demonstrate resilience and capacity to mitigate their activities' adverse social and environmental effects by adhering to internationally accepted best-practice standards (including IFC Performance Standards). We also prescribe any activities mentioned in our Exclusion List.

By applying this approach, building on the selection of impactful investments and an active engagement with investee companies, investors can create a positive impact in the commodity value chain.

## INOKS CAPITAL'S THEORY OF CHANGE



# A broader view of sustainable investing

STEFAN HAAB | Head of Institutional Clients Switzerland, Pictet Asset Management

**There's a comprehensive way to measure the impact companies have on the global environment – investors should be guided by it and not just focus on CO<sub>2</sub> emissions, a potential fallacy. Let's not forget the bees!**

Unfortunately, there are few agreed-on standards by which to measure sustainability. But investors can be well served by applying a methodology used in the natural sciences to assess the most urgent global hazards threatening the environment.

A decade ago, the Stockholm Resilience Centre developed its Planetary Boundaries Concept (Rockström et al., 2009) to estimate the Earth's ecological limits. The concept defines the safe limits for nine of the Earth's fundamentally important environmental and ecological systems: climate change, ocean acidification, thinning of the ozone layer, bio-geochemical processes, freshwater consumption, deforestation, decline in biodiversity and chemical pollution.

Within the calculated limits called 'safe operating spaces', these systems and thus the global environment remain stable and function normally, which is to say they fulfil their ecological function as they have done since the end of the ice ages, 10,000 years ago. If the limit values are exceeded, the respective systems become unstable, threatening uncontrollable impairments that in turn can throw other environmental areas out of balance.

## The planet's boundaries

These Earth systems have shown a dramatic deterioration since the beginning of the Industrial Revolution. As the graph shows, it is not

only the currently much-cited climate system that is out of balance. Other equally important areas such as biodiversity or the nitrogen cycle are heavily polluted and the corresponding limits have been massively exceeded.

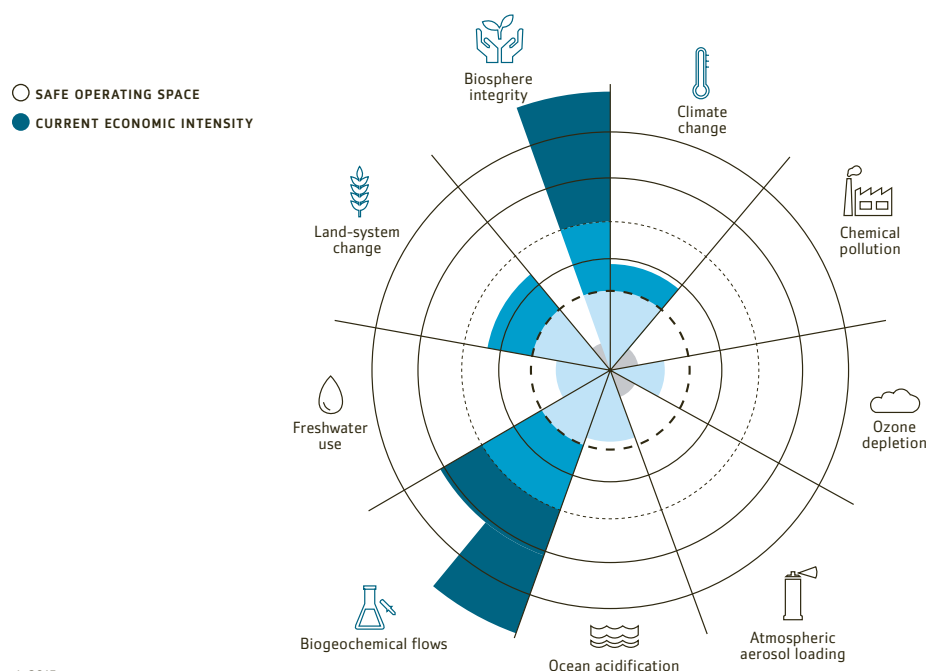
The main advantages of the Planetary Boundary approach are that it measures environmental impact relatively accurately, it compares different economic activities, and is versatile. Which is why the Swiss Federal Office for the Environment has used it to assess the extent to which Switzerland's footprints are compatible with the planet's carrying capacity limits.

## Investing for good

Investors can use the concept to find the companies that operate in a safe and sustainable way and to measure and compare the environmental impact of different portfolios – as Pictet Asset Management does.

And by doing good for the environment, investors do well for themselves. Since its launch in 2014, our investment strategy based on this approach has shown a significantly better investment performance than the global share price average at comparable risk.

We all rely on natural resources. But the lesson is that we can do so in an enlightened way, so that our economic activity doesn't endanger the delicate balance of global environmental systems. And investors who pay attention to these dimensions of corporate performance can be well rewarded.



Source: Stockholm Resilience Centre, J. Lokrantz/Azote based on Steffen et al. 2015

# Building investor confidence one metric at a time

**ROLAND HENGERER** | Senior Analyst Sustainable Investing Research, RobecoSAM

Impact assets are now valued at 502 billion<sup>1</sup> with positive momentum for future growth. However, as interest and demand accelerate, so must the pace of development of the tools needed to measure and report it. Building on previous work in environmental footprinting and SDG reporting, RobecoSAM has developed a methodology to measure, value, and report the impact of sustainable thematic equity products.

Briefly summarized, the method captures the inputs and outputs of relevant impact metrics for portfolio companies individually, then sums and reports them in the aggregate. For each product we developed a set of metrics aligned with the SDGs, the sustainability objectives of the fund's theme and the industries in which it invests.

The analysis focuses on 'activity impact' – the output of what a company does, 'net company impact' – how it operates overall, and 'portfolio impact'. From these categories, total impact is then calculated by aggregating the figures across all contributing companies within a portfolio. To avoid cherry picking, both positive and negative impact are considered. The balancing of positive with negative impact and consistency in addressing the entire value chain of the respective theme strengthens the reliability of results.

The following example demonstrates how the approach is applied to a product focusing on energy investments. The figures in the graph represent the aggregated impact for the product's relevant

impact metrics: (1) renewable sources – related to targets of SDG 7 and (2) avoided emissions and clean infrastructure – related to targets of SDG 9, applied across the various investment areas of the fund.

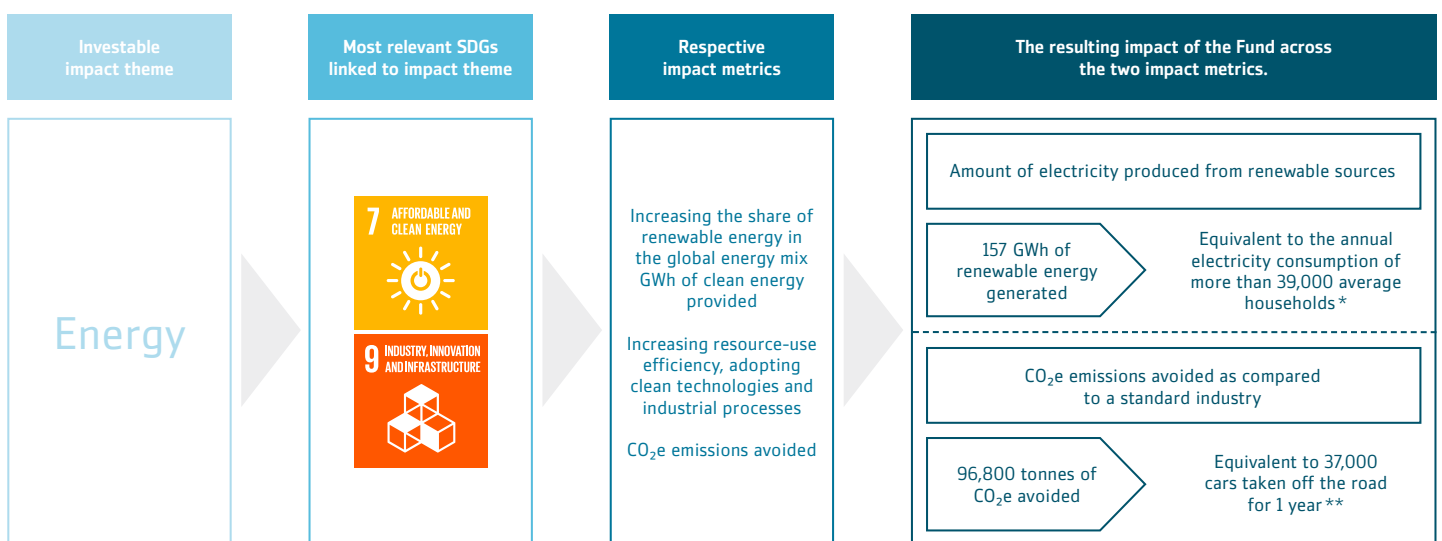
Measuring impact is still early stage and imprecise. Data availability as well as reliability is an issue; impact quantification is not possible for all portfolio companies. Moreover, in the absence of clear standards, many asset managers may be tempted to overstate impact for investment products.

Strengthening data transparency standards is essential to move forward, especially given regulators are progressing quickly. Already, as part of its European Green Deal, the European Commission has issued an action plan on sustainable finance that includes reporting requirements for investors.

Given these drivers, global standards will emerge to differentiate true impact from mere "impact washing." Despite data challenges, we are confident that our results provide valuable insights that inform investment, divestment, and/or engagement decisions.

<sup>1</sup> Global Impact Investing Network (GIIN), 2019 Impact Investing Report

## THE IMPACT METRICS OF A PUBLIC EQUITY FUND CONSIDERED WITH RESPECT TO THE MOST RELEVANT SDGs



Note: The impact of 47% of companies in the portfolio representing 31% of the portfolio's market value has been aggregated.

\* average electricity consumption per household and year; in MWh (source: www.ec.europa.eu/eurostat)

\*\* average carbon dioxide emissions from new passenger cars per year; in t CO<sub>2</sub>-eq (source: www.eea.europa.eu). The graphic displays the resulting impact of the Energy Fund across the 2 impact metrics.

The total investment is associated with the following ownership-adjusted impact over a 1-year period. Holdings as of June 30, 2019, assuming that stable proportion of the companies are held.

Market value of the holding is normalized by the company's enterprise value. Based on production numbers from the latest reporting (FY 2018).

Source: RobecoSAM

Source: Swisscanto Invest

# Incorporating the Paris Climate Agreement into Real Estate Investments

CHRISTOPH KÖNIG | Sustainability Manager Real Estate, Swisscanto Invest by Zürcher Kantonalbank

**To achieve the goals of the Paris Climate Agreement, we are all called upon to act. As such we strive to continuously improve the energy efficiency of our real estate portfolio and to reduce CO<sub>2</sub> emissions.**

The Paris Climate Agreement, which was ratified by Switzerland in 2017, aims to limit the global average temperature rise in this century to below two degrees Celsius. Since sustainability represents a core value of Swisscanto Invest, the company has committed to implement the greenhouse gas reduction target set by the Paris Climate Agreement in all its actively-managed products, as the first Swiss asset manager. For Swiss real estate investors, the SIA Energy Efficiency Path (SIA 2040), which is compatible with the two-degree target, provides guidance to achieve this goal.

## Ambitious reduction targets for the building park

At Swisscanto Invest Real Estate, we have been pursuing the development towards renewable and more CO<sub>2</sub>-efficient energy sources for several years now. The figure below illustrates the primary energy consumption and greenhouse gas emissions by energy reference area of all Swisscanto Invest properties in 2018. The radius of the circles reflects the size of a property. The yellow and orange dot represent the average footprint of the properties in 2014 and 2018, respectively. The blue area outlines the target window of the 2035 milestone according to SIA 2040. The comparison from 2018 to 2014 shows that substantial progress regarding the SIA 2040 targets was achieved in this period. Both the average non-renewable primary energy consumption and the greenhouse gas emissions per energy

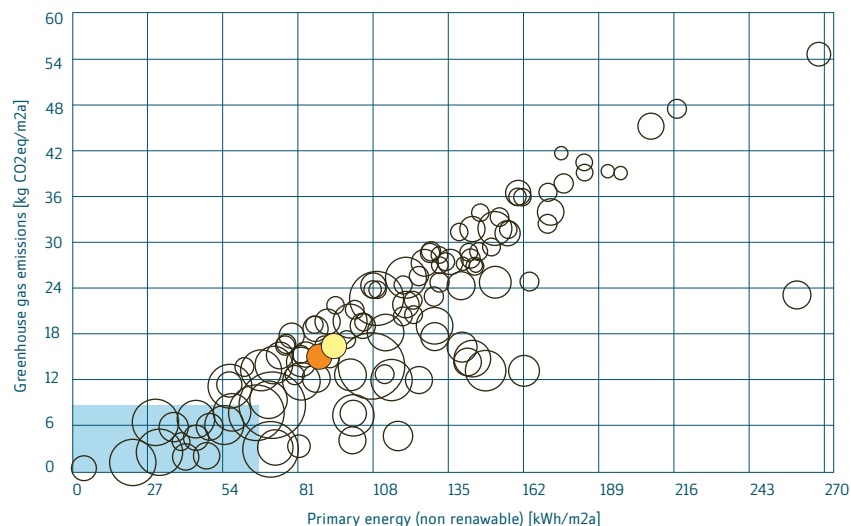
reference area have been noticeably reduced over the four-year period. Nevertheless, there still is a lot of work to be done in the coming years in order to move closer to the 2035 milestone.

## Wide range of measures implemented

For existing properties, the ECBO ("Energy Controlling/Optimisation of Operations") project was launched in 2016. The project's objective includes a portfolio-wide CO<sub>2</sub> reduction target of 2 percent per year until 2022, corresponding to a 10-percent reduction over the five-year period. This is to be achieved by a variety of measures, including the comprehensive optimization of the energy control systems. The general source for operating a property should be changed to green electricity in all buildings. Regarding heat generation, a consistent switch from fossil fuels such as oil and gas to environmentally friendly technologies or renewable energy sources like pellet heating systems, heat pumps or district heating will be sought in the event of replacement. Furthermore, we are conducting a portfolio-wide potential analysis of solar panels for self-consumption. For construction projects, high requirements are in place for energy efficiency standards as well as building materials. These range from the preferential use of recycled concrete and wood materials from sustainable production to the avoidance of formaldehyde, solvents and assembly and filling foams.

Real estate investors can contribute their fair share to achieving the climate goals if they measure the GHG emissions of their portfolio and define a clear reduction path.

FIGURE: ENERGY AND CO<sub>2</sub> FOOTPRINT OF SWISSCANTO INVEST'S PROPERTY PORTFOLIO IN 2018



Source: Swisscanto Invest



# Aligning Investment Strategies with Climate Goals

CLAUDIA LANKER | Portfolio Manager, Berner Kantonalbank AG

Limiting global warming implies a radical change of the global economy and climate change risks in financial portfolios will inevitably emerge. A study carried out by FOEN showed that Swiss asset owner's portfolios currently support a global warming of +4–6°C, which indicates a significant mismatch between investment and climate strategies as well as insufficiently managed risks. Mispriced and ultimately stranded assets should thus be a major concern for market participants.

Addressing climate change should also be given the utmost priority because of its broader interdependence with other ESG factors. The most critical ESG issues will become even more important if the threat of climate change is not averted. The poorest countries would be those most badly affected, the already observable loss of biodiversity would accelerate, and extreme weather events would cause unprecedented levels of migration – with severe consequences such as political and social instabilities.

As part of a bank's fiduciary duty, addressing climate-related risks should thus be a logical priority. However, aligning investment portfolios with binding climate goals should no longer be a question of whether a product is classified as sustainable or not, but must be an imperative for all products. BEKB is thus committed to align all its actively managed funds and discretionary mandates with the Paris Agreement. Consequently, producers as well as service providers of fossil fuels will be divested, and issuers with particularly high emissions lacking effective climate strategies will be underweighted or avoided. A focus will be on issuers whose revenues will be positively influenced by long-term sustainable trends.

It is important to recognize, however, that integrating climate factors into investment strategies does not automatically lead to an impact on the real economy. Influence on investee companies' behaviour must also be exercised by urging issuers, through engagement and voting, to adopt and implement climate targets aligned with the Paris Agreement.

## ECO:FACT

# How to Keep Up With New European Regulations

OLIVIER JAEGGI | Managing Director, ECOFACT AG  
 DR. GABRIEL WEBBER ZIERO | LL.M., ECOFACT AG

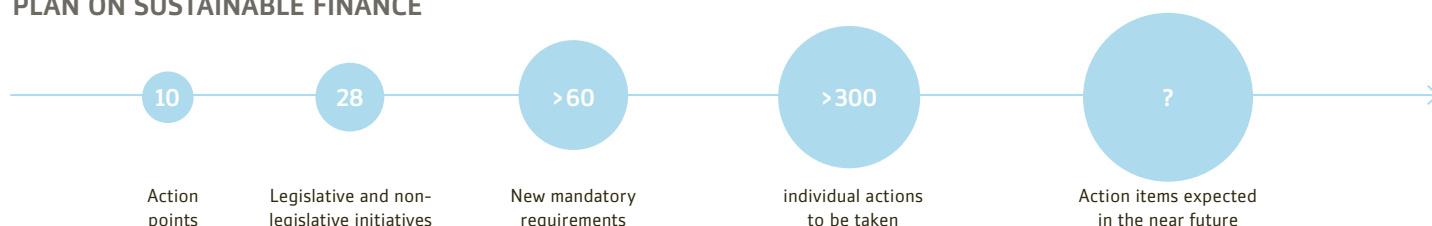
Financial institutions with business ties to the EU need to adapt their policies, disclosure and management processes, and marketing materials by the spring of 2021. Complying with these new binding sustainable finance regulations will be the baseline for market access.

To keep up with these new EU regulations, institutions should first conduct a regulatory impact assessment to understand how their operations, corporate structure, and product offerings are exposed. They will then need a roadmap that informs them about what must be done to meet requirements on time. Furthermore, they

will need to find, among other things, pragmatic and cost-efficient ways to classify products, measure sustainability risks, and report on the adverse impacts of investment decisions.

It is important to note that these rules are just the beginning of a major regulatory process. The EU action plan on sustainable finance is just one of many regulatory developments that are changing the rules of finance. You need to understand them, in Switzerland and across your global markets.

### THE EVER-INCREASING COMPLEXITY OF THE EU ACTION PLAN ON SUSTAINABLE FINANCE



# Expanded scope for ESG Impact Ratings

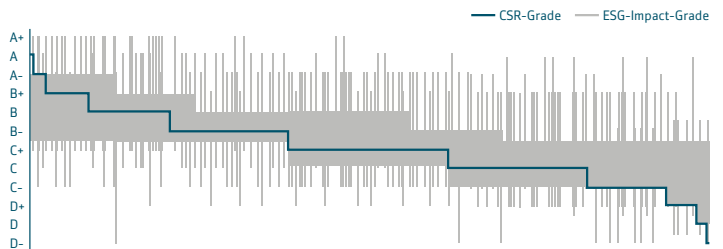
DR. REGINA SCHWEGLER | Head of Research, Inrate AG

Current sustainability analyses of companies are mainly based on traditional ESG assessments, i.e. the assessments of CSR management. However, since most companies only cover parts of value chains, such analyses are not sufficient. An overarching ESG impact assessment for corporate investments requires the consideration of the entire value chain. This includes the impact evaluation of procurement, production, use and disposal of products and services. Such an assessment is based on the identification of economic activities that the company is engaged in, weighted by the respective shares of turnover generated therewith.

Companies operating in industries with high negative impacts are more likely to have highly professional CSR management systems. Accordingly, the impact of companies often deviates considerably from the quality of CSR management (see graph).

Recognizing the environmental and social impact along entire value chains allows investors to effectively contribute to sustainable development. It is also necessary to identify and manage transition-related technical, economic and legal risks and opportunities associated with these impacts.

## ESG IMPACT VS. CSR ASSESSMENT: ASSESSED COMPANIES, SORTED BY ESG IMPACT GRADES FROM A+ TO D-.



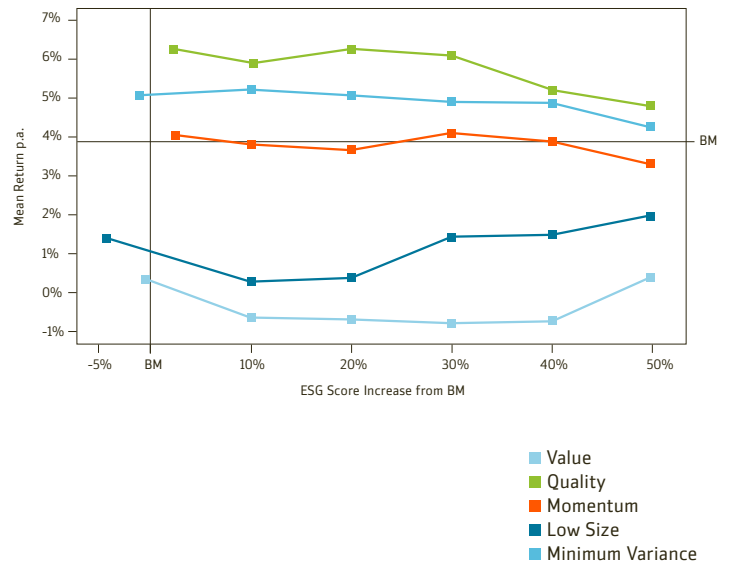
Source: Inrate 2019

# ESG Impact on the performance of Factor Portfolios

CARMINE ORLACCHIO | CIO and Partner, OLZ AG  
ANTONELLO CIRULLI | Senior Research Analyst, OLZ AG

Most meta-studies conclude that ESG improves performance. However, we think that ESG represents a value per se and not necessarily a way to improve return. The value added goes beyond risk/return considerations. There are other more effective ways to improve performance compared to the benchmark.

We investigated several factor portfolios (Value, Quality, Momentum, Low Size, Minimum Variance) for the MSCI World Index over the period 02.2008–03.2020. We computed six versions: one without ESG restrictions and five with an ESG score 10%, 20%, 30%, 40% and 50% larger than the benchmark (BM). It is not possible to observe a systematic improvement in performance with ESG restrictions for the factor portfolios. For ESG score increases of up to 30%, the portfolios are barely affected (except for Size and Value). For a larger increase, we notice a convergence (lower dispersion) due to a strong contraction in degrees of freedom. Independent of ESG considerations, some factor strategies (Quality, Minimum Variance) are able to systematically improve return compared to the benchmark.



# How to implement green investing across asset classes

**NELUFER ANSARI** | Head ESG, Swiss Life Asset Managers  
**DOMINIK PFOSTER** | Head Responsible Investment, Swiss Life Asset Managers

With climate change looming and tightening regulatory as well as market requirements ahead, the impacts of a fundamental sustainability wave are clearly perceivable today. Swiss Life Asset Managers' sustainable investment approach goes hand in hand with a foresighted consideration and anticipation of general changes in business environment, society as well as market conditions. We thus identified three action fields for a large insurance investor with a portfolio diversified across all major asset classes.

## Active reduction of investment risks in the proprietary bond portfolio

CO<sub>2</sub> emissions generated from burning thermal coal are one of the major contributors to climate change and businesses as well as sectors with major exposure to thermal coal are threatened to become stranded assets. Therefore, following a thermal coal phase-out strategy, we do not undertake new bond investments in companies that derive more than 10% of revenues from the mining, extraction or selling of thermal coal. Furthermore, we closely monitor the carbon intensity of the proprietary investment portfolio.

## Continued optimization of standing assets in real estate

Sustainability measures in property management, for example extensive renovation, specific optimisation measures, efficient in-house utilities and maintenance work can reduce energy consumption by up to 50%. A shift to renewable energy sources (e.g. solar power, geothermal energy, use of river and sea water, or pellets) may lead to another 10% reduction of energy use and CO<sub>2</sub> emissions. Additionally, tenants' awareness can be raised through information leaflets on saving energy.

## Identify and seize new opportunities with infrastructure investments and green bonds

Swiss Life Asset Managers also targets dedicated green investments in order to extend its positive environmental impacts and seize new opportunities by investing in future business models, such as sustainable energy production. In 2019, we thus acquired Fontavis, a renewable energy infrastructure investment manager: Their Heizwerk Gotthard for example, supplies a heating network with power generated from renewable and locally produced wood. Furthermore, the proprietary portfolio aims to invest CHF 2 bn in green bonds by 2023.



# Sustainable Real Estate Investments

**MICHAEL KIRSCHNER** | Head of Investment Management, VERIT Investment Management AG

Real estate is an important asset class in Switzerland and covers a high percentage of private and institutional asset allocation. The Swiss government has set CO<sub>2</sub> reduction goals for 2050. In order to reach these goals, Swiss real estate portfolios need to cut CO<sub>2</sub> emissions by 60–70% by 2050. Good measurement tools regarding sustainability are therefore required.

Today a wide range of sustainability benchmarks exists. The establishment of a universal benchmark would however facilitate the comparison of different portfolios. Examples of global benchmark standards are GRESB, LEED and BREEAM. In Switzerland SGS has launched the SSREI, a sustainability benchmark based on the SNBS, which is a standard that covers all relevant sustainability dimensions.

In the past, lacking a widely recognized benchmark, several real estate funds and portfolio owners have defined their own tailor-made sustainability benchmark. This was the case for a sustainable real estate fund managed by VERIT Investment Management AG, which implemented a two-tier system to ensure the sustainability of its portfolio. First, a property will not be added to the portfolio if it has

insufficient resource efficiency, risks of natural hazards, insufficient connection to the public transport system, if there are high immissions (e.g. noise) or if it is located in an area with too few inhabitants. Second, a property must achieve a minimum rating, based on 33 criteria, in order to be eligible for the portfolio. The minimum rating is set significantly higher than the average of comparable Swiss properties. The criteria cover the location quality, living or working quality and the resource efficiency of the building. The evaluation and rating is performed by an external agency, Inrate AG, in order to ensure neutrality and independence. The portfolio management team also uses these ratings as guidance for the ongoing improvement of the sustainability of the buildings.

Over time "private" benchmarks will probably become less significant due to the increased demand from investors for transparency and comparability of the sustainability between different funds.

# 7 APPENDIX GLOSSARY<sup>62</sup>

<b>Best-in-Class</b>	Approach in which a company's or issuer's ESG performance is compared with the ESG performance of its peers (i.e. of the same sector or category) based on a sustainability rating. All companies or issuers with a rating above a defined threshold are considered as investable.
<b>Environmental Factors (E of ESG)</b>	Environmental factors within ESG criteria in the context of investing include – but are not limited to – the environmental footprint of a company or country (i.e. energy consumption, water consumption), environmental governance (i.e. environmental management system based on ISO 14 001) and environmental product stewardship (i.e. vehicles with low fuel consumption).
<b>ESG – Environment, Social and Governance</b>	ESG stands for Environment (e.g. energy consumption, water usage), Social (e.g. talent attraction, supply chain management) and Governance (e.g. remuneration policies, board governance). ESG factors form the basis for the different SI approaches.
<b>ESG Engagement</b>	Engagement is an activity performed by shareholders with the goal of convincing management to take account of ESG criteria. This dialogue includes communicating with senior management and/or boards of companies and filing or co-filing shareholder proposals. Successful engagement can lead to changes in a company's strategy and processes so as to improve ESG performance and reduce risks.
<b>ESG Integration</b>	The explicit inclusion by investors of ESG risks and opportunities into traditional financial analysis and investment decisions based on a systematic process and appropriate research sources.
<b>ESG Voting</b>	This refers to investors addressing concerns of ESG issues by actively exercising their voting rights based on ESG principles or an ESG policy.
<b>European SRI Transparency Code</b>	In May 2008, the European SRI Transparency Code was created to foster transparency of sustainable investment products. It builds on five pillars: (1) secure quality through transparency (2) investors know what they invest in (3) sustain the spectrum of sustainable investment (4) no prescription of ethical standards (5) no prescription for the portfolio composition.
<b>Eurosif</b>	Eurosif is the European association whose mission is to promote sustainability through European financial markets. It works as a partnership of several Europe-based national Sustainable Investment Forums (SIFs). Eurosif engages in a range of promotional activities such as public events or discussion forums, both with the industry and policy-makers. <a href="http://www.eurosif.org">www.eurosif.org</a>

<sup>62</sup> Sources: bnp paribas, FNG, GIIN, pwc, Responsible Investment Association (RIA), RI, SSF, World Bank, OECD, your SRI, KPMG, WCED.

<b>Exclusions</b>	An approach excluding companies, countries or other issuers based on activities considered not investable. Exclusion criteria (based on norms and values) can refer to product categories (e.g. weapons, tobacco), activities (e.g. animal testing) or business practices (e.g. severe violation of human rights, corruption).
<b>Fiduciary Duty</b>	In the institutional investment context, trustees of pension funds have a fiduciary duty to beneficiaries to exercise reasonable care, skill and caution in pursuing an overall investment strategy suitable to the purpose of the trust and to act prudently and for a proper purpose. The explicit legal nature of fiduciary duty varies depending on the country of origin. While most institutional investment funds strive to create financial benefits for their beneficiaries, it is also possible for trust deeds explicitly to require trustees to consider ESG factors in investments. Given the increasing evidence supporting the materiality of ESG issues, some legal experts conclude that it is part of the fiduciary duty of a trustee to consider such opportunities and risks in investment processes.
<b>Governance Factors (G of ESG)</b>	Governance factors within ESG criteria in the context of investing refer to the system of policies and practices by which a company is directed and controlled. They include, but are not limited to, transparency on board compensation, independence of boards and shareholder rights.
<b>ILO Conventions</b>	ILO conventions encompass international labour standards which are integrated into legally binding international treaties, setting out basic principles and rights at work. Those legal instruments are ratified in all participating countries. The eight fundamental conventions cover the topics freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation. They are frequently used as the basis for exclusion and engagement approaches.
<b>Impact Investing</b>	Investments intended to generate a measurable, beneficial social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below-market to above-market rates, depending upon the circumstances. SSF considers impact investments as those having three main characteristics: intentionality, management and measurability.
<b>IRIS</b>	IRIS is a catalogue of generally accepted performance metrics that impact investors use to measure social, environmental and financial success, to evaluate deals as well as to improve the credibility of the impact investing industry. The catalogue is prepared by the Global Impact Investing Network (GIIN), a non-profit organisation dedicated to increasing the scale and effectiveness of impact investing. <a href="https://iris.thegiin.org/">https://iris.thegiin.org/</a>

<b>Norms-Based Screening</b>	Screening of investments against minimum standards of business practice based on national or international standards and norms such as the ILO declarations, the OECD Guidelines for Multinational Enterprises, the UN Global Compact or the UN Guiding Principles on Business and Human Rights.
<b>OECD Guidelines for Multinational Enterprises</b>	This is a comprehensive set of government-backed recommendations on responsible business. The governments who aim to adhere to the guidelines intend to encourage and maximise the positive impact multinational enterprises can make to sustainable development and enduring social progress. <a href="http://www.oecd.org/corporate/mne">www.oecd.org/corporate/mne</a>
<b>Paris Agreement</b>	Agreed at COP21 in Paris in 2015, the Paris Agreement's central aim is to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius.
<b>Social Factors (S of ESG)</b>	Social factors within ESG criteria in the context of investing include, but are not limited to, worker rights, safety, diversity, education, labour relations, supply chain standards, community relations and human rights.
<b>Sustainable Investment (SI)</b>	Sustainable investment (analogous to responsible investment) refers to any investment approach integrating ESG factors into the selection and management of investments. There are many different approaches of sustainable investing, including best-in-class, ESG integration, exclusions and impact investing.
<b>Sustainable Thematic Investments</b>	Investment in businesses contributing to sustainable solutions, in the environmental or social domain. In the environmental segment, this includes investments in renewable energy, energy efficiency, clean technology, low-carbon transportation infrastructure, water treatment and resource efficiency. In the social segment, this includes investments in education, health systems, poverty reduction and solutions for an ageing society.
<b>Sustainable Development Goals (SDG)</b>	The SDGs are 17 goals set by the UN in 2017 aiming to catalyse sustainable development. They include goals such as no poverty, gender equality, decent work, sustainable consumption, climate action and reduced inequalities. The goals were created to replace the Millennium Development Goals (MDGs) which ended in 2015. Unlike the MDGs, the SDG framework does not distinguish between developed and developing nations.

<b>Sustainable Finance</b>	Sustainable finance refers to any form of financial service integrating ESG criteria into the business or investment decisions for the lasting benefit of both clients and society at large. Activities that fall under the heading of sustainable finance include, but are not limited to, the integration of ESG criteria in asset management, sustainable thematic investments, active ownership, impact investing, green bonds, lending with ESG risk assessment and development of the whole financial system in a more sustainable way.
<b>Swiss Federal Act on War Material (WMA)</b>	The WMA is a piece of Swiss legislation in force since 1998. This act focuses on the fulfilment of Switzerland's international obligations and the respect of its foreign policy principles by means of controlling the manufacture and transfer of war material and related technology. At the same time, it aims at maintaining Swiss industrial capacity adapted to the requirements of its national defence. The WMA was amended in 2013 to include the prohibition of the production, as well as the direct financing, of controversial weapons, encompassing cluster munition, anti-personnel mines, as well as biological, chemical and nuclear weapons. Switzerland is one of 13 countries regulating the financing of controversial weapons.
<b>United Nations Global Compact (UNGC)</b>	This UN initiative aims to encourage businesses worldwide to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. Companies signing the UNGC commit to regularly reporting on progress on the ten principles. <a href="http://www.unglobalcompact.org">www.unglobalcompact.org</a>
<b>UN Guiding Principles on Business and Human Rights</b>	The Guiding Principles for Business and Human Rights are meant to support the implementation of the United Nations "Protect, Respect and Remedy" Framework. This set of guidelines seeks to provide a global standard for preventing and addressing the risk of adverse human rights impacts linked to business activity. They were proposed by the UN Special Representative for Business and Human Rights, John Ruggie, and endorsed by the UN Human Rights Council in June 2011. As they cover all areas of business, they are also applicable to the financial sector.

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# LIST OF ABBREVIATIONS

<b>AuM</b>	Assets under management
<b>BREEAM</b>	Building Research Establishment Environmental Assessment Methodology
<b>BVG</b>	Federal Law on Occupational Old-Age, Survivors' and Invalidity Pension Provision
<b>CHF</b>	Swiss franc
<b>CO<sub>2</sub></b>	Carbon dioxide
<b>COP</b>	Conference of the Parties
<b>CSP</b>	Center for Sustainable Finance and Private Wealth
<b>ESG</b>	Environmental, social and governance
<b>ESMA</b>	European Securities and Markets Authority
<b>EU</b>	European Union
<b>EUR</b>	Euro
<b>FC4S</b>	Financial Centres for Sustainability
<b>FINMA</b>	Swiss Financial Market Supervisory Authority
<b>FNG</b>	Forum Nachhaltige Geldanlagen e.V.
<b>FOEN</b>	Federal Office for the Environment
<b>G7</b>	Group of Seven (Canada, France, Germany, Italy, Japan, UK, US, EU)
<b>G20</b>	Group of Twenty (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, UK, US, EU)
<b>GBS</b>	Green Bond Standard
<b>GIIN</b>	Global Impact Investing Network
<b>GRESB</b>	Global Real Estate Sustainability Benchmark
<b>IDD</b>	Insurance Distribution Directive
<b>ILO</b>	International Labour Organization
<b>IRIS</b>	Impact Reporting and Investment Standards
<b>LEED</b>	Leadership in Energy and Environmental Design
<b>MIFID II</b>	Markets in Financial Instruments Directive
<b>MNC</b>	Multinational companies
<b>NGFS</b>	Network for Greening the Financial System
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PRI</b>	Principles for Responsible Investment
<b>SDG</b>	Sustainable Development Goal
<b>SFAMA</b>	Swiss Funds & Asset Management Association
<b>SI</b>	Sustainable investment
<b>SRI</b>	Socially Responsible Investment
<b>SSF</b>	Swiss Sustainable Finance
<b>TCFD</b>	Task Force on Climate-Related Financial Disclosures
<b>TEG</b>	Technical Expert Group
<b>UN</b>	United Nations
<b>UNFCCC</b>	United Nations Framework Convention on Climate Change
<b>USD</b>	US Dollar
<b>WMA</b>	Swiss Federal Act on War Material

# STUDY PARTICIPANTS

Aargauische Pensionskasse
Allianz Suisse
Alternative Bank Schweiz AG
AXA Versicherungen AG
Baloise Versicherung
Bank J. Safra Sarasin Ltd
Bank Julius Baer & Co. Ltd
Banque Cantonale Neuchâteloise (BCN)
Basellandschaftliche Kantonalbank
BCGE Asset Management
Berner Kantonalbank AG
Bernische Lehrerversicherungskasse
Bernische Pensionskasse (BPK)
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CAP Prévoyance
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Suva
Swiss Investment Fund for Emerging Markets (SIFEM)
Swiss Life Asset Managers
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Velux Stiftung
Vontobel Holding AG
zCapital
Zürcher Kantonalbank/Swisscanto Invest by Zürcher Kantonalbank
Zurich Insurance Group Ltd

# OVERVIEW TABLE: SWISS SUSTAINABLE INVESTMENT MARKET

CHF/EUROS (MILLIONS)

	2019		2018	
<b>SUSTAINABLE INVESTMENT MARKET</b>				
Funds	470,663 CHF	433,591 €	190,851 CHF	168,939 €
Mandates	208,869 CHF	192,417 €	70,762 CHF	62,638 €
Asset Owners	483,734 CHF	445,632 €	455,013 CHF	402,773 €
<b>Total</b>	<b>1,163,266 CHF</b>	<b>1,071,640 €</b>	<b>716,626 CHF</b>	<b>634,351 €</b>
<b>SUSTAINABLE INVESTMENT APPROACHES</b>				
ESG Integration	808,157 CHF	744,502 €	490,393 CHF	434,091 €
Exclusions	754,709 CHF	695,263 €	379,000 CHF	335,488 €
ESG Engagement	633,020 CHF	583,160 €	286,740 CHF	253,819 €
Norms-Based Screening	488,557 CHF	450,076 €	315,696 CHF	279,451 €
ESG Voting	372,853 CHF	343,485 €	159,506 CHF	141,194 €
Best-in-Class	124,365 CHF	114,569 €	89,595 CHF	79,309 €
Sustainable Thematic Investments	62,633 CHF	57,700 €	39,186 CHF	34,687 €
Impact Investing	50,369 CHF	46,402 €	16,288 CHF	14,418 €
<b>ASSET CLASSES</b>				
Equity	311,905 CHF	287,338 €	117,536 CHF	104,042 €
Corporate Bonds	208,863 CHF	192,412 €	109,705 CHF	97,110 €
Sovereign Bonds	168,598 CHF	155,318 €	79,560 CHF	70,426 €
Real Estate/Property	149,318 CHF	137,556 €	133,512 CHF	118,184 €
Private Equity	47,045 CHF	43,340 €	44,062 CHF	39,004 €
Private Debt	33,657 CHF	31,006 €	23,560 CHF	20,855 €
Monetary/Deposit	33,022 CHF	30,421 €	4,792 CHF	4,242 €
Supranational Bonds	28,508 CHF	26,262 €	4,282 CHF	3,791 €
Infrastructure	16,418 CHF	15,124 €	16,070 CHF	14,225 €
Hedge Funds	10,613 CHF	9,777 €	290 CHF	257 €
Mortgages	7,018 CHF	6,465 €	2,191 CHF	1,939 €
Commodities	489 CHF	451 €	173 CHF	153 €
Other	41,193 CHF	37,948 €	15,320 CHF	13,561 €
Not specified	106,620 CHF	98,222 €	165,573 CHF	146,563 €
<b>INVESTOR TYPES</b>				
Institutional	917,444 CHF	845,181 €	630,234 CHF	557,877 €
Private	245,821 CHF	226,459 €	86,392 CHF	76,473 €

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## **Acknowledgements:**

Swiss Sustainable Finance would like to thank first and foremost the SSF Market Study Workgroup. During the course of the project, the Workgroup provided valuable input to help shape the survey and motivate participation amongst Swiss actors, as well as contribute ideas for the report content and structure. A big thank you goes to all the organisations that participated in the survey and devoted their time to filling in the questionnaire. We would also like to thank all the sponsors to the report, without whose generous contribution this project would not have been possible.

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Zurich, June 2020

Proofreading:	Graeme High Language Consultants Ltd.
Design:	frei – büro für gestaltung, Zurich   <a href="https://freigestaltung.ch">freigestaltung.ch</a>
Photo Director:	Ute Noll   <a href="https://utenoll.com">utenoll.com</a>
Photo captions:	Cover: © ecorobotixSA; p. 6–7, © Simon von Gunten/Swissshrimp; p. 12–13, Markus Bühler; p. 42–43, Micha Steinmann für powernewz.ch – Das Magazin für eine nachhaltige (Energie-) Zukunft/ <a href="https://climeworks.com">climeworks.com</a> ; p. 52–53, © Skypull SA
Paper:	Lessebo 1.3 Rough White (FSC®-certified)
Printing:	Abächerli Media AG, Sarnen



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# MARKET OVERVIEW OF SUSTAINABLE INVESTMENTS IN SWITZERLAND.

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