Sustainable Investment in Switzerland

Excerpt from the Sustainable Investment Market Report 2016

Sponsors

Foreword Forum Nachhaltige Geldanlagen

Dear readers,

We are delighted to be able to present you with this year's Sustainable Investment Market Report for Switzerland. As in previous years, this report was compiled together with those for Germany, Austria and Liechtenstein.

In their strategies and their investment decisions, responsible investors take into account environmental, social, and good corporate governance factors, which have a substantial influence on financial returns. This also gives them the respect and trust (licence to operate) of the major stakeholders. International institutions like the EU, UN and OECD are calling on investors to help solve global problems such as climate change and the fight against poverty, as these can only be solved if everyone is pulling in the same direction.

We have been recording data on the sustainable investment market since 2005. The methodology has been agreed with our European umbrella organisation Eurosif, making it possible for data on the individual national markets to be recorded without any overlap. At two-yearly intervals, the market report data is incorporated into the Europe-wide Eurosif SRI Study, as it is this year.

Since 2015, the market report has focused on a particular theme. This year, the theme selected was "Climate change". Following COP 21 and the heated debate on how to combat climate change, the financial market and the financial market players are faced with deciding on a course of action which will have a pivotal leveraging effect in terms of how the issue is tackled. Two case studies in this report for Switzerland deal with this theme. The overall report for all the countries also includes best-practice examples from Germany and Austria.

Switzerland has enormous global significance as a financial centre. This is founded on values such as excellence and stability. However, it also finds itself in the midst of change, with the mainstreaming of sustainable investment advancing rapidly at the international level. With an impressive 170 per cent growth rate in sustainable investments in 2015, Switzerland as a financial centre has a clear focus and is well on the way toward achieving pole position - even though its total market share of 4.5% could still be significantly expanded.

According to financial players and stakeholders, growth in the market will continue. The surveys in the market report also indicate this. Over the past year, FNG has helped to promote the quality, credibility and transparency of sustainable investments in this environment. The quality label for sustainable mutual funds does not just screen the portfolio concerned; its holistic approach also takes into consideration the intention, strategy and impact of a mutual fund. This has provided valuable guidance for the market.

This year, we have found a partner for the market report – Swiss Sustainable Finance (SSF) – which is providing synergies for both organisations as well as access to additional market information. At this point, we would like to thank SSF for its valuable support.

We are delighted to have secured the following committed sponsors and supporters for this report, without whose help the market report would not have been possible. We would like to express our warmest thanks to: Union Investment, Vescore AG, oekom research AG, Pax Bank, von der Heydt Invest SA, Basellandschaftliche Kantonalbank, KlimaGut Immobilien AG and Metzler Asset Management GmbH.

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Executive Director, Forum Nachhaltige Geldanlagen

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Foreword Swiss Sustainable Finance

Dear readers,

In 2015, the Swiss market for sustainable investments grew by an impressive 170 per cent. This positive trend reflects the fact that various players – from the federal government to institutional investors, banks and asset managers – are increasingly focusing on this issue and that a growing number of investors are investing sustainably. It is also a result of the fact that the survey is now more comprehensive in scope, with asset owners being included for the first time. A number of important developments in the Swiss market are examined in somewhat greater detail below.

At the federal level, a project by the Swiss Federal Office for the Environment (FOEN) has led to increased awareness of the opportunities presented by sustainable investments. As an official partner of the global UNEP Inquiry project, FOEN set up a Swiss working group which drew up a Swiss report for the UNEP project, setting out the current strengths of sustainable finance in Switzerland and the challenges facing it. In spring 2015, the results of this report were presented to the public. FOEN also commissioned a study on the climate intensity of Swiss investment funds and pension funds. This came to the conclusion that the investments of Swiss investment funds and pension funds in foreign companies are responsible for around the same quantity of CO_2 emissions again as that produced in Switzerland, which sparked considerable media coverage and triggered the debate on the role of investors in the run-up to the COP 21 conference in Paris.

Among institutional investors, too, there have been a number of developments regarding sustainable investment over the past year. Seven major public institutional investors (including compenswiss, PUBLICA and suva) joined forces to establish the Swiss Association for Responsible Investments, with the aim of implementing joint engagement activities in future. The market took this as a strong signal that some of Switzerland's major investors are looking to invest more responsibly.

As far as foundations are concerned, the revised Swiss Foundation Code provided an important stimulus for sustainable investment. In the Code, sustainable investments were identified for the first time as a tool for increasing the impact of foundations, whether through preventing investments that run contrary to the purpose of the foundation or through targeted investments in themes pertaining to the funding objectives. This new development was discussed with foundation experts at an event organized jointly by FNG and Swiss Sustainable Finance (SSF).

Sustainable investment has also continued to gain in importance in the areas of retail banking and asset management. Some institutions have switched to incorporating sustainability aspects across their asset management systems by means of structured processes, in order to reduce risks and open up new opportunities. We are convinced that this trend will continue to strengthen in the years to come, as making investments more future-proof is fundamentally consistent with Swiss attributes such as innovation, quality and stability.

The strong development in the area of sustainable investments is also reflected in SSF's growth. By the end of 2015 the organisation already had 84 members and network partners. We are delighted that this year's market study has been the result of a collaboration between FNG and SSF. The combination of FNG's extensive experience in the preparation of market studies and SSF's broad network of contacts in all the regions of the country has made it possible, drawing on these joint strengths, to prepare comprehensive data mapping the impressive growth in the Swiss market. At this point, we would like to thank our sponsor, Basellandschaftliche Kantonalbank, for its help with the production of the report. Finally, secure in the conviction that the 193 billion are just the beginning, we look forward to collaborating again in future in order to make sustainable investment the norm.

Sabine Döbeli
CEO Swiss Sustainable Finance

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Introduction

This publication is an English excerpt from the chapter on Switzerland in Marktbericht Nachhaltige Geldanlagen 2016 – Deutschland, Österreich und die Schweiz [Sustainable Investment Market Report 2016 – Germany, Austria and Switzerland] and has been prepared jointly by Forum Nachhaltige Geldanlagen (FNG) and Swiss Sustainable Finance (SSF). The Market Report 2016 – Germany, Austria and Switzerland includes a focus on climate change, featuring a special analysis and case studies from each of the three countries. The two Swiss case studies are also included in this translated version.
The data on which this publication is based covers sustainable investments which are managed from Switzerland.

The following asset classes are covered:

- Equity
- Sovereign Bonds
- Corporate Bonds
- Supranational Bonds
- Local or Municipal Bonds
- Monetary/Deposit
- Private Equity/Venture Capital
- Alternative/ Hedge Funds
- Real Estate/Property
- Commodities

The following sustainable investment strategies are included:

- Sustainability-themed investment
- Best-in-class investment selection
- Norms-based screening
- Exclusion of holdings from investment universe
- Integration of ESG factors in financial analysis
- Engagement on sustainability matters
- Voting on sustainability matters
- Impact Investment

Definitions of the various investment strategies can be found in the following table.

***Table 1:** Overview of investment strategies*

Best-in-Class	Approach where leading or best-performing investments within a universe, category, or class are selected or weighted based on ESG criteria.
Engagement and voting	Engagement activities and active ownership through voting of shares and engagement with companies on ESG matters. This is a long-term process, seeking to influence behaviour or increase disclosure.
Exclusions	An approach that excludes specific investments or classes of investment from the investible universe such as companies, sectors, or countries.
Impact Investment	Impact investments are investments made into companies, organizations, and funds with the intention to generate 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 market rate, depending upon the circumstances.
Integration	The explicit inclusion by asset managers of ESG risks and opportunities into traditional financial analysis and investment decisions based on a systematic process and appropriate research sources.
Norms-based screening	Screening of investments according to their compliance with international standards and norms.
Sustainable themes	Investment in themes or assets linked to the promotion of sustainability. Thematic funds focus on specific or multiple issues related to ESG.

Source: Eurosif, European SRI Study 2014, page 67: http://www.eurosif.org/wp-content/uploads/2014/09/Eurosif-SRI-Study-2014.pdf.

The sustainable investment market in Switzerland

The sustainable investment market in Switzerland

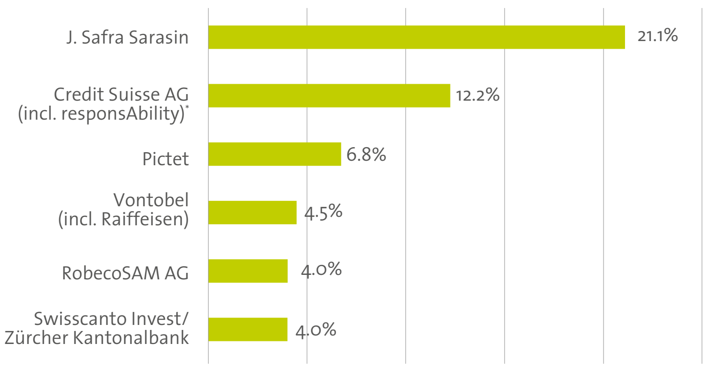
Overview

The sustainable investment market in Switzerland saw massive growth in 2015. The volume of responsible investments (or broad SRI) is put at CHF 2.74 trillion[1] and is thus up by seven per cent on the previous year. Sustainable investments (or core SRI) have reached a value of CHF 191.9 billion, which corresponds to the volume of sustainable funds, mandates and structured products. This segment has grown by 169 per cent from the previous year. The high growth rate is due in part to greater market coverage and to adjustments in the methodology used. For this report, asset owners' self-managed sustainable assets were also taken into account for the first time. However, even ignoring these factors, growth was still significant.

Study participants

27 players took part in this study. For the first time, these included four asset owners who have provided data on their self-managed assets. In 2015, the number of participants was thus increased once again. All the study participants who have given permission for their names to be published are listed on page 19.

***Figure 1:** Market Shares of the leading Swiss Asset Managers (in per cent)*



** Incl. total assets under custody and administration of assets of responsAbility Investments AG.*

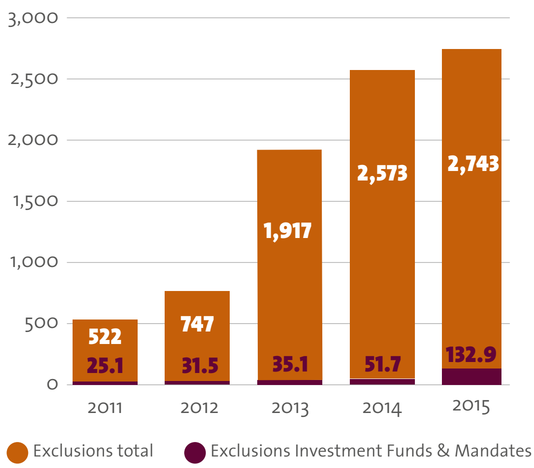
Source: Forum Nachhaltige Geldanlagen/Swiss Sustainable Finance

The following diagram shows the market shares of the largest asset managers in Switzerland as at 31 December 2015. One player did not consent to being listed in this diagram and is therefore not shown.

Asset overlays

Asset overlays are defined as the product-independent application of sustainable investment strategies to all or some of the assets of an asset manager. They thus cover the use of these sustainable investment strategies independently of specific products. Asset overlays are recorded for the exclusion, engagement, integration and voting strategies. By contrast, the volumes for investment strategies applied to sustainable funds and mandates are given product-specifically. When such strategies are applied in the context of specific products, i.e. sustainable funds and mandates, they are classified as sustainable investment strategies (see Figure 4).

***Figure 2:** Exclusions in Switzerland (in billion CHF)*



Source: Forum Nachhaltige Geldanlagen/Swiss Sustainable Finance

[1] The euro values for all the data from the section on the Swiss market can be found at the end of this publication on page 19. CHF-EUR conversions are based on Schweizer Nationalbank's exchange rate on 31.12.15 (1 euro = CHF 1.0817).

The volume of managed assets in Switzerland to which asset overlays are applied amounts to around CHF 2.74 trillion, which is once again higher than the volume for the previous year. The bulk of asset overlays consist in the exclusion of controversial activities. As before, the most common is the exclusion of cluster munitions and anti-personnel mines (CHF 2.74 trillion). In second place, weapons of mass destruction and/or ABC weapons are excluded from investments in assets totalling just under CHF 1.88 trillion. In addition, three players have stated that they exclude speculation involving foodstuffs, which applies to assets of just under CHF 100 billion.

In addition to the exclusion overlays, the integration, voting and engagement strategies have also been recorded as asset overlays.

The "integration" sustainable investment strategy has been recorded for the FNG market report under the following two categories, similar to those differentiated between by Eurosif:

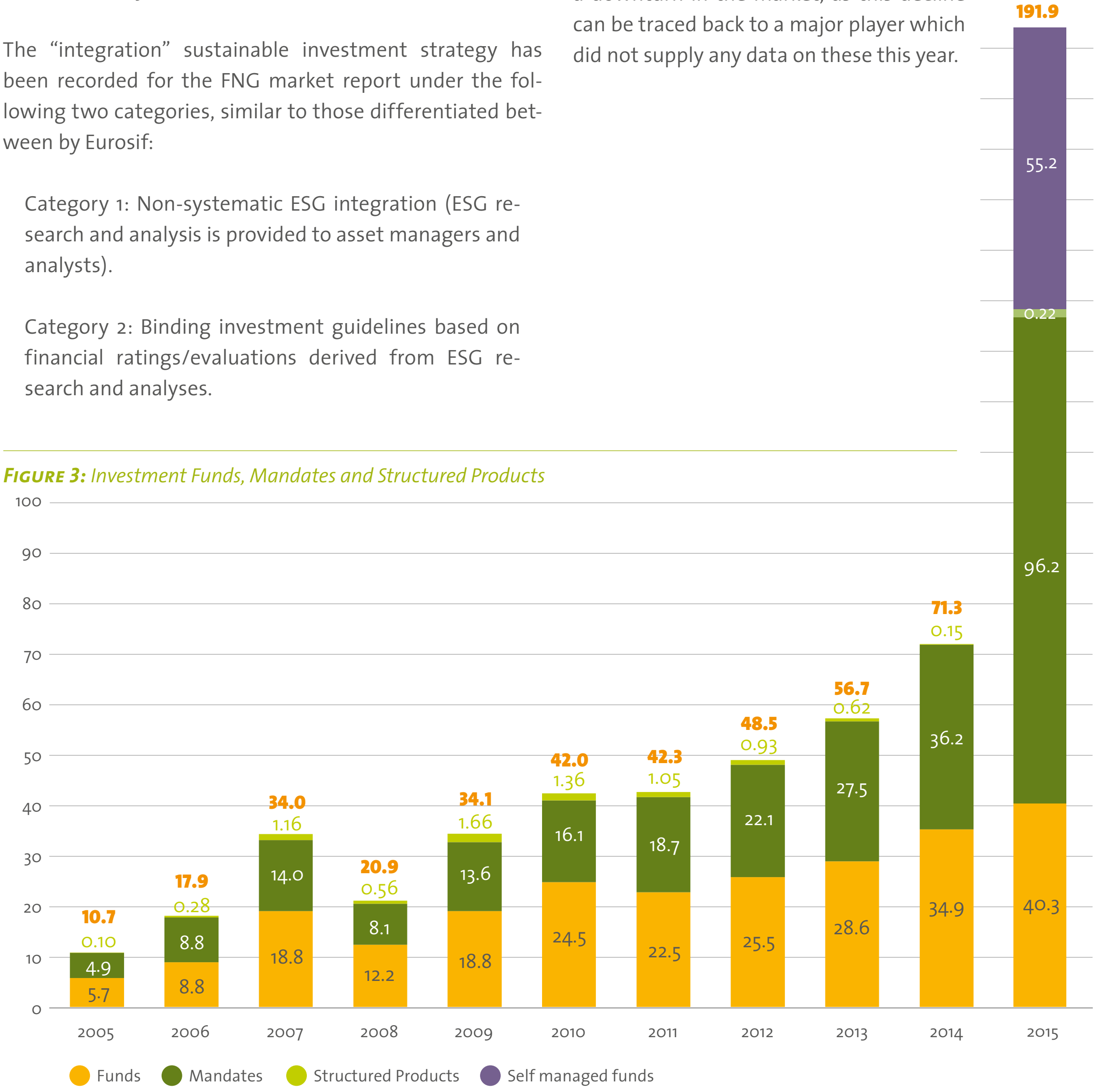
> Category 1: Non-systematic ESG integration (ESG research and analysis is provided to asset managers and analysts).

> Category 2: Binding investment guidelines based on financial ratings/evaluations derived from ESG research and analyses.

Of the CHF 258.9 billion using integration overlays, 5% (i.e. CHF 12.9 billion) fall into the first category. Around 95 per cent (i.e. CHF 246.0 billion) can be assigned to Category 2, where additional, binding investment guidelines apply. The previous year, the volume of investments using the integration approach which were recorded product-independently had stood at 147.5 billion euros. This equates to growth of 76 per cent.

Investments using the engagement and voting strategies which were recorded product-independently were down in 2015 compared to the previous year, with the volume of these investment strategies standing at CHF 71.1 billion (2014: CHF 315.8 billion) and CHF 132.7 billion (2014: CHF 353.6 billion) respectively. However, this does not indicate a downturn in the market, as this decline can be traced back to a major player which did not supply any data on these this year.

***Figure 3:** Investment Funds, Mandates and Structured Products*



Source: Forum Nachhaltige Geldanlagen/Swiss Sustainable Finance

Investment funds and mandates

In 2015, the sustainable investment market in Switzerland grew by 170 per cent, to its current level of CHF 191.9 billion. This huge growth can be attributed to the following three factors:

1. The survey included self-managed investments of major asset owners for the first time.
2. Other asset managers have established sustainable investments or have been persuaded to take part in the study for the first time.
3. Previous participants in the study have experienced market growth of around 30 per cent.

Overall, therefore the sustainable investment market recorded disproportionately high growth in 2015. The average annual growth rate between the start of data recording in 2005 and the end of 2015 thus stands at 34 per cent. Without the extraordinary growth (more asset managers taking part and expansion to include asset owners) the annual growth rate calculated over the long term would come out at 24 per cent.

At the end of 2015, the self-managed sustainable assets of the major asset owners stood at over CHF 55.2 billion. The sustainable mandates add up to a total of more than CHF 96.2 billion, and have thus grown by 165 per cent compared with the previous year. The sustainable investment funds also managed to achieve solid growth of 16 per cent, bringing them to CHF 40.3 billion. The structured products continue to lead a niche existence, at CHF 225 million, although they did again record significant growth, for the first time since 2009, of 53 per cent.

***Table 1:** Sustainable Investments in Switzerland 2014 and 2015 (in billion CHF – EUR)*

Year	2014	2015	Change 2014 – 2015
Funds	34,9	40,3	16%
Mandates	36,2	96,2	165%
Structured Products	0,1	0,2	53%
Self managed Assets	-	55,2	
Total	**71,2**	**191,9**	**169%**

Source: Forum Nachhaltige Geldanlagen/Swiss Sustainable Finance

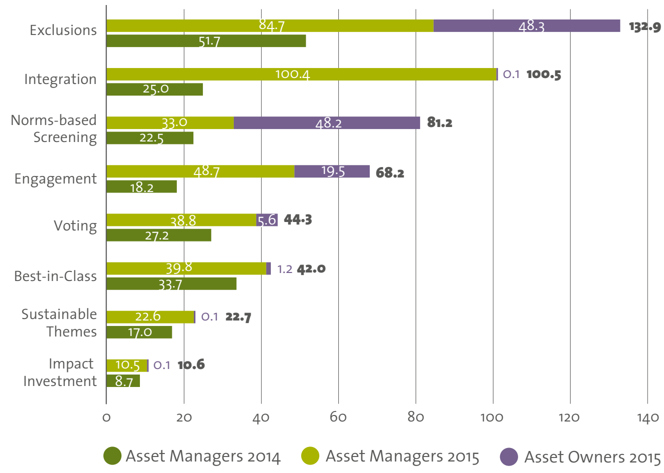
Sustainable investment funds and mandates saw positive net inflows of CHF 5.3 billion. However, the low response rate regarding such funds and mandates means that this figure tells us comparatively little. In 2015, the participants in this study launched twelve new sustainable funds with a volume of just under CHF 360 million. A further six funds with a volume of CHF 2.6 billion have been switched to a sustainability-oriented strategy. 15 new sustainable mandates were registered, with a volume of CHF 3.9 billion. In addition, one major player introduced a sustainability process for existing mandates.

On 31.12.15, the total volume of the fund market in Switzerland stood at CHF 891 billion, which equates to growth of just under two per cent on the previous year.[2] Once again, the sustainable fund market managed to achieve disproportionate gains, with growth of 16%. Sustainable funds' share of the market thus increased by 0.5 percentage points compared with the previous year's level and now stands at 4.5 per cent.

Investment strategies

Figure 4 shows the volumes invested under each of the sustainable investment strategies. As the volumes for asset owners are being included for the first time in this report, they are shown separately. This enables a direct comparison with the previous year's figures.

***Figure 4:** Sustainable Investment Approaches per End of 2014 and 2015 (in billion CHF)*



Source: Forum Nachhaltige Geldanlagen/Swiss Sustainable Finance

[2] Cf. the fund market statistics of the Swiss Funds & Asset Management Association SFAMA and the SIX Swiss Exchange at: http://www.swissfunddata.ch/sfdpub/de/market/show/1050 (access 29.03.2016).

Overall, as in 2014, exclusion criteria once again come out on top, with a volume of CHF 132.9 billion. This represents an increase on the previous year of 64 per cent (incl. asset owners' investments 157%). Significantly higher growth rates were recorded for the integration approach (over 300 per cent growth) and the engagement approach, with growth of 167 per cent (incl. asset owners' investments 274%). The integration approach thus ousted the best-in-class approach (+23% / +26%) from second place. In 2015, even without taking the asset owners' investments into account, all the investment strategies grew in absolute terms.

Sustainable thematic funds increased by 33 per cent and thus saw gains for the second year running. The main themes in 2015 were water, renewable energies and agriculture and forestry. However, multi-thematic funds are also common.

Norms-based screening now ranks third in Switzerland, with growth of 46 per cent (incl. asset owners' investments 260%) and a volume of CHF 81.2 billion. The most frequently used norms are the UN Global Compact (CHF 62 billion), the ILO's Core Labour Standards (CHF 17 billion) and the OECD Guidelines for Multinational Enterprises (CHF 6 billion).

Supplementary qualitative questions on engagement recorded product-dependently showed that in 2015, the key topics of dialogue with companies were as follows:

Table 2: *The three most common ESG commitment Topics 2015 in Switzerland*

1.	Corporate governance
2.	Climate change (risks, GHG emission disclosure, targets, strategy, measures)
3.	Business ethics

Source: Forum Nachhaltige Geldanlagen/Swiss Sustainable Finance

Exclusion criteria

Table 3: *Top Ten Exclusion Criteria (bn CHF)*

1.	Nuclear Energy	100,0
2.	Violation of Human Rights	93,0
3.	Violation of Labour Rights	65,1
4.	Corruption and Bribery	62,9
5.	Ecological destruction	61,7
6.	Weapons (Production and Trade)	59,7
7.	Tobacco	56,6
8.	Genetic Engineering	49,6
9.	Pornography	46,8
10.	Gambling	21,8

Source: Forum Nachhaltige Geldanlagen/Swiss Sustainable Finance

The main exclusion criterion in Switzerland in 2015, applied to investments of CHF 100 billion, was nuclear energy. In the previous year, weapons production had been the number one taboo sector. However, there was a sharp increase in absolute terms by comparison with 2014 for all the exclusions listed in the top ten.

69 per cent of all funds, mandates and self-managed assets in Switzerland apply exclusion criteria for states. A total of 52 per cent exclude nuclear energy.

Table 4: *Top Five Exclusion Criteria for States (bn CHF)*

1.	Violations of Arms Proliferation Treaties	7,8
2.	Corruption	7,6
3.	Corruption	7,1
4.	Death Penalty	6,8
5.	Non-Ratification of Environmental Conventions	3,3

Source: Forum Nachhaltige Geldanlagen/Swiss Sustainable Finance

Exclusion criteria for states are less commonly used in Switzerland than exclusion criteria for companies. This is probably due in part to the comparatively low rate of investment in government bonds. In Switzerland, violations of arms proliferation treaties constitute a major exclusion criterion for states. This is applied to investments of CHF 7.8 billion.

Impact investment

Of the 27 Swiss participants in the study, eleven offer impact investment products. The volume of these totalled CHF 10.6 billion in 2015. Compared with 2014, this is equivalent to an increase of 21 per cent.

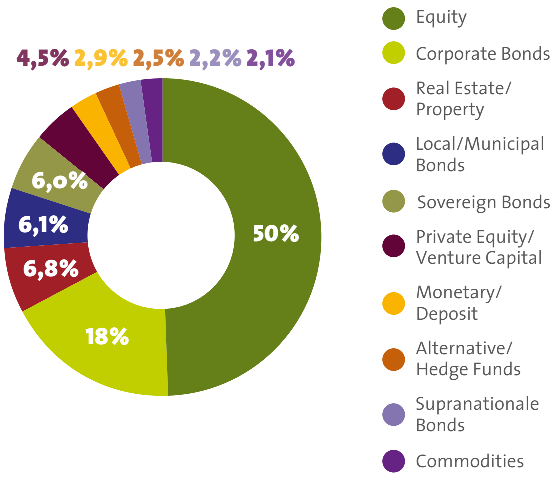
Microfinance products still account for the bulk of impact investments (73 %). Other important areas are agriculture, fair trade, education and the strengthening of local markets.[3]

According to the ten study participants, the principal motive for impact investing is the search for stable and long-term returns. Following some way behind this, in second and third places, are support for sustainable development, and financial opportunities. The main obstacles to engagement in this area cited by the ten players are concerns about risk and performance and a lack of usable products and options. Capacity bottlenecks are seen as being a further obstacle.

Allocation of assets

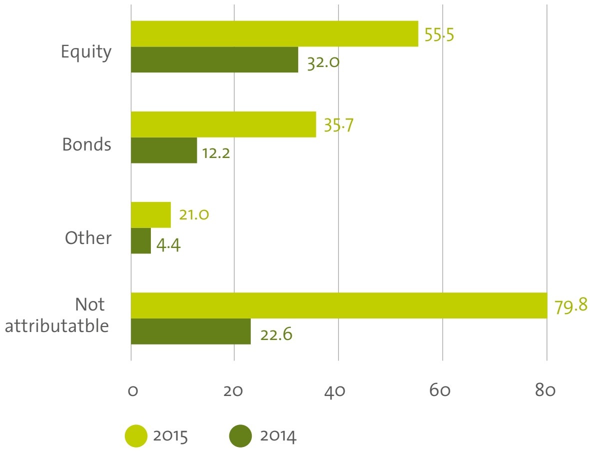
The distribution of assets between the various asset classes is shown here, based on the volumes from page 75. With a share of 50 per cent, equities remain the most popular category: even though this asset class was down by a total of 16 percentage points by comparison with the previous year, strong growth in absolute terms was recorded. In 2015, this was true of all the asset classes surveyed. Relative gains were seen in the real estate/property and local/municipal bonds categories, in particular.

Figure 5: *Share of different Asset Classes (2015 in per cent)*



Source: Forum Nachhaltige Geldanlagen/Swiss Sustainable Finance

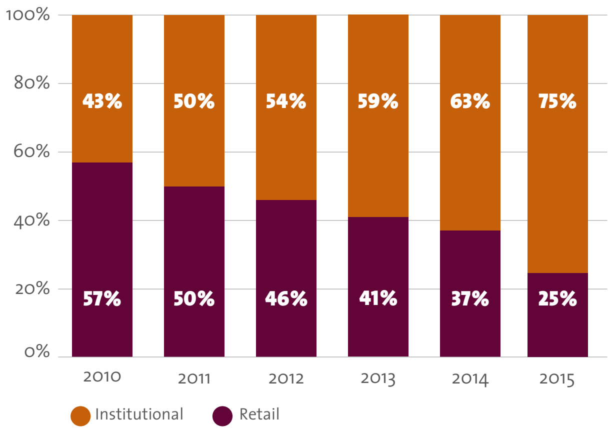
Figure 6: *AuM Share of Different Asset Classes in Switzerland 2014 and 2015 (in billion CHF*



Source: Forum Nachhaltige Geldanlagen/Swiss Sustainable Finance

Investors

Figure 7: *Institutional vs. Retail (in per cent)*



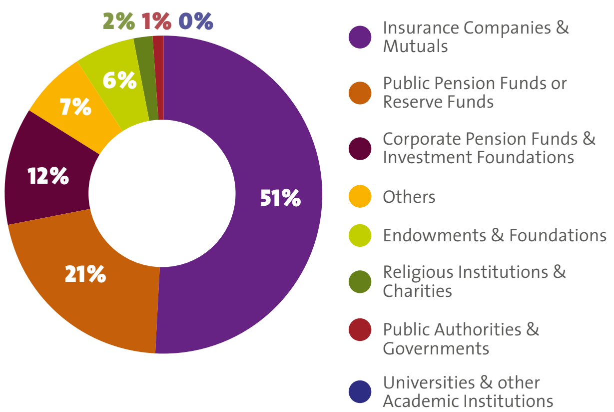
Source: Forum Nachhaltige Geldanlagen/Swiss Sustainable Finance

2015 also saw continued growth for institutional investors. Figure 7 shows that the market share of institutional investors has increased year on year since 2010 to a peak value of 75 per cent in 2015. The basis for the calculations comprises funds, mandates and self-managed assets of asset owners.[4]

Due to the enlargement of the database, there have also been changes in the structure of the various institutional investors in Switzerland. The largest group is now insurance companies, followed by public pension funds and reserve funds and investment foundations and corporate pension funds.[5]

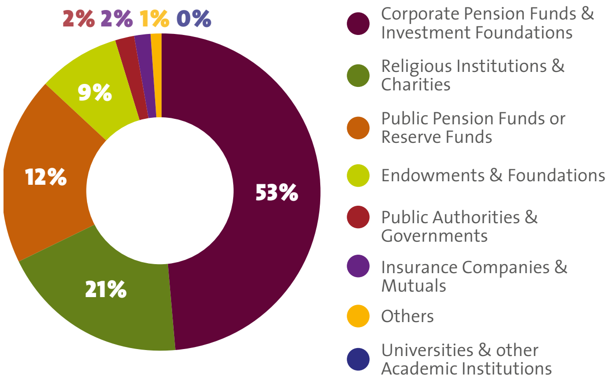
[3] Further information on this market is contained in the study published in April 2016 by *Swiss Sustainable Finance*: "Swiss Investments for a Better World".
[4] This data is based on details for assets with a value of CHF 93.9 billion (no data for 51%).
[5] This data is based on details provided for assets with a value of CHF 61.3 billion.

Figure 8: Typology of SRI institutional Investors in Switzerland 2015 (in percent)



Source: Forum Nachhaltige Geldanlagen/Swiss Sustainable Finance

Figure 9: Typology of SRI institutional Investors in Switzerland 2014 (in percent)



Source: Forum Nachhaltige Geldanlagen/Swiss Sustainable Finance

Qualitative questions on climate strategies, market trends and key factors

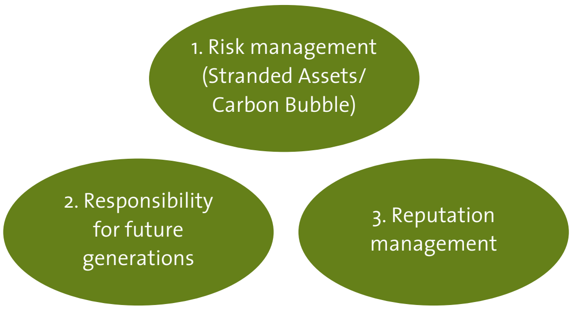
For the FNG market report, qualitative data was also requested on climate strategies, market trends and key factors in the continued development of sustainable investments.

18 out of 27 study participants from Switzerland provided details in response to qualitative questions about their climate strategies. Ten of them focus primarily on the divestment approach. Two other Swiss players indicated that they would be introducing a divestment strategy before the end of the year.

Likewise, ten study participants indicated that they already dealt in detail with climate protection in their engagement dialogues and ten that they took deliberate action to counter climate change by means of green investments. Two players indicated that they would be stepping up their engagement activities in 2016, one in each of the areas of climate and green investment.

Carbon footprint measurement also seems to be becoming an increasingly important issue in Switzerland. Seven participants in the study have already taken steps in this regard, and a further four are planning to do so in 2016.

Figure 10: Key Drivers for the climate protection strategy by financial financial actors in Switzerland



Source: Forum Nachhaltige Geldanlagen/Swiss Sustainable Finance

In the light of the debates on the carbon bubble and stranded assets, the Swiss players see their climate strategies primarily as a contribution toward risk management. But responsibility to future generations is also a key motive, followed in third place by reputation management.

Asked about the main obstacles to measuring and assessing the climate intensity or climate risks of investments, the bulk of players consider the key challenge to be the availability of data. For one thing, such data cannot be obtained for all relevant products and companies, and for another, it is almost impossible to compare various providers. In particular, developing a standard methodology for scope 3 data – a more broadly defined category of CO_2 data which also includes indirect emissions – is seen as a major challenge.

The participants in the study would be greatly relieved to see further standardization and unification in the measurement of climate data. Realistic pricing of CO_2 and a strong regulatory framework are also seen as desirable.
In the area of market trends and key factors, 21 participants in the study answered questions on the prime motives for and chief obstacles to their sustainable investment strategies as well as on the key market drivers.
The results are summarized in the tables below.

Table 5: *Key drivers for the SRI strategy*

1.	Looking for stable long-term return
2.	Responsibility to client/Fiduciary duty
3.	Risk management

Source: Forum Nachhaltige Geldanlagen/Swiss Sustainable Finance

Table 6: *Main deterrents for the SRI strategy*

1.	Performance concerns
2.	Lack of viable products/options
3.	Lack of qualified advice/expertise

Source: Forum Nachhaltige Geldanlagen/Swiss Sustainable Finance

According to the study participants, the major sustainable investment strategies from the customer viewpoint are integration, exclusion criteria and best-in-class.

As in previous years, the study participants from Switzerland also see institutional investors as being absolutely key to continued market growth in 2015. The biggest change compared with the previous year is the fall in importance of retail investors from second to fourth place.

***Table 7:** Key Drivers for Demand in SRI*

1.	Demand from institutional investors
2.	Legislative
3.	External pressure (NGOs, media, trade unions)
4.	Demand from retail investors
5.	Notion of fiduciary duty
6.	International initiatives (UN PRI etc.)
7.	Materiality

Source: Forum Nachhaltige Geldanlagen/Swiss Sustainable Finance

Sustainability-oriented specialist banks

Two Swiss banks were included in the category of sustainability-oriented specialist banks. These are Alternative Bank Schweiz and Freie Gemeinschaftsbank. At the end of the year, these two financial institutions were managing a total of CHF 1.7 billion in customer deposits. This is approximately the same as the previous year's figure. The distinguishing feature of sustainability-oriented specialist banks is that sustainability is firmly anchored in their core business.

Conclusion

The sustainable investment market in Switzerland experienced extremely dynamic growth last year. This is attributable in part to the fact that self-managed investments of asset owners were recorded for the first time and in part to the inclusion of new study participants from the asset management field. Notwithstanding these two factors, it can nonetheless be stated that the level of growth was above the market average for 2015: sustainable funds recorded stronger growth than their conventional counterparts. Their share of the overall funds market thus increased to over 4.5 per cent.

First study of carbon risks for Switzerland as a financial centre

In the run-up to the climate negotiations in Paris, the Swiss Federal Office for the Environment (FOEN) published a study on carbon risks for the Swiss finance industry. It contains an analysis of the major Swiss equity funds and pension funds, looking specifically at the risks of investments in fossil energy sources.

The study highlights the possible consequences for investors of climate policy regulation: companies which produce large amounts of greenhouse gases and companies from fossil energy sectors may lose value in future if global emissions are restricted to meet the two-degree target. The study shows clearly the scale of this risk: in most cases, the conventional energy supply, oil & gas and industrial sectors were responsible for significantly above 50 per cent of all financed CO_2 emissions, whereas between them they made up only between 8% and a maximum of 15% of the overall value of portfolios.

The study examined 80 per cent of the entire equity fund market, accounting for a volume of CHF 280 billion, as well as the foreign equity investments of 11 of the 25 largest pension funds. The calculations were based on the concept of financed greenhouse gas emissions, in which the impacts are allocated in proportion to the share in the ownership of a company.

Emissions linked to equity fund market equal to level of emissions produced by Switzerland

The Swiss equity fund market currently finances emissions outside Switzerland totalling 52.2 million tCO_2e . This is approximately equal to Switzerland's emissions in 2013. Examination of pension funds and their foreign equities shows that these are linked to emissions of around 25 million tCO_2e or 6.4 tonnes per person insured.
If, as part of climate protection measures, a standard price forCO_2 emissions is introduced, this may give rise to risks for investors. Depending on the CO_2 price scenario, costs to the Swiss equity market of between one billion and 6.75 billion francs are possible, the higher value equating to over one per cent of Switzerland's GDP.

Recommendations for investors

The study also made specific recommendations for action: for example, investors are advised to measure their investments systematically and subject them to stress tests and to disclose their climate impacts. Taken together, this is equivalent to committing to a voluntary international transparency initiative such as the *Montreal Carbon Pledge*. Under this initiative, over 120 investors have now committed themselves to measuring and publicly disclosing the carbon footprint of their investments annually. The FOEN also recommends that investors incorporate climate improvement strategies in their decisions and set themselves goals. Strategies specifically mentioned here include both divestments and targeted interactions through engagement or the exercise of voting rights in climate-intensive companies. In addition, climate-friendly alternatives such as switching to less CO_2-intensive companies in the same sector or investing in low-carbon indices should be looked into.

Policy measures to raise awareness among investors

The study also refers to measures taken by other countries. France, for example, has already taken initial regulatory steps: in order to implement national climate targets, it has introduced rules on the disclosure of climate-related information for listed companies, banks and large institutional investors. The regulation under article 173 of the "Energy Transition for Green Growth" Act requires investors to be transparent about how they are dealing with climate risks and how they are contributing to international efforts to limit climate change. In future, Swiss asset managers who are managing portfolios for French investors will also have to assist their customers in answering these questions. Faced with this rapidly changing situation and the very clear findings of the FOEN study, Swiss asset managers and investors need to address the issue of measuring and managing CO_2 risks.

Climate-relevant development investments

Climate change is a phenomenon that affects different parts of the world to different extents. To date, developing and emerging countries have contributed less to global greenhouse gas emissions than the industrialised countries. However, they are likely to be the ones most severely affected by climate change. It therefore follows that climate issues will play an increasingly important role in investments in developing and emerging economies.

This is true firstly at the level of investments in listed companies. The analysis processes of emerging markets funds normally also take climate issues into account. For example, they will look at whether a company records CO_2 emissions and sets reduction targets. Climate risks are also taken into account in the case of country-specific sustainability funds, e.g. a sustainable fund, managed by a Swiss company, that invests in Vietnamese companies. The fund managers concerned maintain an active dialogue with the companies, as part of which they also discuss climate risks.

It is also important to increase the amount of direct investment made in projects and companies from developing and emerging economies. This will help not only to reduce climate-changing emissions, but also to increase the ability of the recipient countries to adapt to climate change. A study recently published by Swiss Sustainable Finance on Swiss development investments sheds some light on the detailed structure of these. The study showed that, now as before, the bulk of development investment continues to flow into the microfinance sector. The second-most-important sector, with 6.1 per cent of investment, is the energy industry. While this sector is playing an increasingly important role in broadly-diversified products, there are also development investments that are based exclusively on this issue, as the following two examples illustrate.

The first example is a climate fund that was launched by the German Federal Office for the Environment and KfW Development Bank and co-sponsored by numerous other development banks. The fund primarily refinances local financial institutions, which in turn invest in projects in the area of renewable energies and energy efficiency which achieve reductions in CO_2 emissions of more than 20 per cent. However, the fund also invests directly in such projects. Investment decisions must therefore aim to achieve both a significant reduction in CO_2 emissions and fair market returns. The fund is managed by a Swiss specialist in development investment and its investors include a German pension fund, making it a good example of a successful public-private partnership.

The second example, aimed more at improving adaptation, is another KfW Development Bank fund which promotes climate risk insurance in developing countries. Climate risk insurance provides protection, primarily for small farmers and small companies, from the consequences of extreme weather events. The product is managed by a Swiss development investment manager and functions according to the following principle: it invests in institutions and initiatives which promote the take-up of climate risk insurance. These include local insurance companies, microfinance institutions which serve as distribution channels and mobile phone companies which offer this type of insurance, as well as other service providers in the value chain. A special feature of the fund is the establishment of a facility for technical assistance, i.e. a special body that helps loan recipients to set up suitable products and to establish the necessary processes and institutions.

The promises made by the industrialised countries at the climate summit in Paris to invest USD 100 billion annually in climate protection measures in the South will bring marked growth in the area of climate investment. Public-private partnerships – close partnerships between state development banks, private service providers and institutional investors – will play a key role here.

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Swiss Sustainable Investment Market

million CHF / Euro	2014		2015	
Funds	34,893 CHF	29,016 €	40,325 CHF	37,279 €
Mandates	36,244 CHF	30,140 €	96,154 CHF	88,892 €
Structured Products	147 CHF	122 €	225 CHF	208 €
Own Funds	–	–	55,236 CHF	51,064 €
Total	71,284 CHF	59,278 €	191,940 CHF	177,443 €
Customer Deposits of Sustainable Banks	1,709 CHF	1,421 €	1,712 CHF	1,583 €
Asset Overlays				
Exclusions	2,572,951 CHF	2,139,615 €	2,743,206 CHF	2,536,014 €
Integration	177,367 CHF	147,495 €	258,892 CHF	239,338 €
Engagement	315,825 CHF	262,634 €	71,092 CHF	65,722 €
Voting	353,587 CHF	294,036 €	132,665 CHF	122,645 €
Investment Approaches Funds and Mandates				
Exclusions	51,656 CHF	42,956 €	132,949 CHF	122,907 €
Best-in-Class	33,686 CHF	28,013 €	42,041 CHF	38,866 €
Integration	24,995 CHF	20,785 €	100,464 CHF	92,876 €
Norms-based Screening	22,547 CHF	18,750 €	81,183 CHF	75,051 €
Voting	27,153 CHF	22,580 €	44,342 CHF	40,993 €
Engagement	18,246 CHF	15,173 €	68,158 CHF	63,010 €
Sustainable Themenfonds	17,017 CHF	14,151 €	22,734 CHF	21,017 €
Impact Investment	8,729 CHF	7,259 €	10,620 CHF	9,818 €
Asset Classes				
Equity	32,037 CHF	26,641 €	55,529 CHF	51,335 €
Corporate Bonds	8,636 CHF	7,182 €	19,702 CHF	18,214 €
Sovereign Bonds	3,337 CHF	2,775 €	6,693 CHF	6,187 €
Venture Capital/Private Equity	2,406 CHF	2,001 €	5,039 CHF	4,658 €
Real Estate/Property	804 CHF	669 €	7,610 CHF	7,035 €
Monetary/Deposit	733 CHF	610 €	3,205 CHF	2,963 €
Alternative/Hedge Funds	463 CHF	385 €	2,355 CHF	2,177 €
Local or Municipal Bonds	141 CHF	117 €	2,481 CHF	2,294 €
Supranational Bonds	130 CHF	108 €	2,749 CHF	2,541 €
Commodities	21 CHF	17 €	6,798 CHF	6,285 €
Total	48,708 CHF	40,505 €	112,161 CHF	103,689 €
Not specified	22,576 CHF	18,773 €	79,779 CHF	73,753 €
Investor Types		*in per cent*		*in per cent*
Institutional	36,449 CHF	63%	69,978 CHF	75%
Retail	21,868 CHF	37%	23,345 CHF	25%
Total	58,317 CHF	100%	93,323 CHF	100%
Not specified	12,967 CHF	18%	98,617 CHF	51%