Swiss Sustainable Finance

SSF Event "Inspiring Investment Partnerships to Achieve Global Goals"

Summaries of breakout sessions

Session A: Private Equity investments in context of SDG's and impact investments

In the breakout session on private equity (PE) investments, **Jean Laville** (Deputy CEO, SSF) moderated the discussion between **Edith Aldewereld** (Partner, Sonnenberg Wealth Management) and **Philipp Cottier** (Head Equity Investment, responsAbility Investments AG). Edith Aldewereld began by emphasizing the importance of purpose for an investment to achieve the SDGs. With 25% of global wealth managed in Switzerland, she mentioned Swiss financial players are crucial in pioneering the shift from traditional to sustainable investing. The question is thus not, whether there is enough capital that can be mobilised for the SDGs, but rather whether the needed change of mindset will take place fast enough. For this, asset managers need to include a sense of purpose into their overarching investment strategy and not merely offer one sustainable solution amongst many other non-sustainable options. A company such as responsAbility, offering products and solutions in this area, plays an intermediary role between the end clients and the investee projects. Philipp Cottier presented the different types of partnerships they have with development finance institutions (DFIs) and private investors. He also emphasized the importance of choosing proper technical assistance projects and partners, with the selection of partners strongly dependent on the sector as well as the geographical location of the investment.

The Internal rate of return (IRR) was a main topic in the subsequent discussion, where again, the aspirations for the IRR depends on the investor. Edith Aldewereld mentioned that clients are not necessarily interested in market return, but rather superior return and low volatility, which can be achieved through a diversified portfolio with PE & Microfinance investments. Yet the appetite for PE in Europe differs. Swedish investors have a larger appetite for PE than Swiss or German investors. The technical assistance linked with those investments aims to reduce investors' risk by providing services to investee companies that is otherwise unaffordable in such markets. These activities build local capacity and provide impact measurement, monitoring, controlling and risk mitigation. Therefore, it is often DFIs providing such services, which are interested in the transparency of the investments due to their public accountability. Another point brought up was that investments need to be large in order to be interesting for PE investors. As the secondary PE market is still comparatively limited, investments under 1 Million USD are rare, making this asset class difficult to access for retail investors.

Session B: Using fixed income to support the growth of SMEs

In this session moderated by **Annette Kraus** (Member of the Board, CSP University Zurich), **Christoffer Dahlberg** (Head of Client Relations, Symbiotics), **Nicole Neghaiwi** (Impact Investment Strategist, UBS) and **Lukas Schneller** (Deputy head of the Private Sector Development Division, State Secretariat for Economic Affairs [SECO]) discussed their partnership set up in the form of an investment fund. The fund aims to support SMEs in developing countries by improving SMEs access to finance (The "SME Finance – Loans for Growth Fund"). The fund provides equity to local financial intermediaries, which in turn provide funding to local SMEs. UBS played the role of originator and promotor, while Symbiotics acts as the fund manager and SECO as the catalyst through their de-risking activities. UBS and SECO together provide first loss protection for up to 10% of the portfolio, which acts as a de-risking mechanism to help crowd-in commercial investors.

The partnership was a success because the respective partners brought in key knowledge and expertise. For example, SECO provides expertise in impact measurement. The unique impact reporting down to the end SMEs of the fund was a key success factor of the partnership, because it improves accountability, builds confidence and generated evidence for the fund's risk-return profile to its investees. Another success factor is the relatively short 4-year closed-end structure of the fund.

In terms of obstacles, selling such a novel product and asset class, particularly among private wealth clients, was challenging at times. Fundraising was reportedly slow but ultimately successful with a fully subscribed fund size of USD 50 million.

Session C: Engaging listed multinationals - How to increase positive impact

In this session, moderated by **Patrick Fankhauser** (Head of Sales & Business Development, Inrate), the three panellists, **Melchior de Muralt** (Managing Partner, De Pury Pictet Turrettini [PPT]), **Thomas Streiff** (Partner, BHP - Brugger and Partners) and **Béatrice Delperdange** (Head of Business Development, KOIS Invest) discussed how to create positive social impact by engaging with the companies held in a listed equity fund. The issue was presented by looking at the interplay between fund manager (PPT), the engagement consulting bureau (BHP), and the social impact investing specialist (KOIS Invest).

PPT was the main driver behind this initiative, through their wish to improve the engagement process for their Cadmos fund and create meaningful partnerships with the investee companies for social impact – thus, multiplying positive outcomes. PPT and engagement specialist BHP reviewed their corporate sustainability assessment methodology, in order to be able to challenge the investee companies and indicate how they could leverage further positive impacts. Digesting the vast amount of information into meaningful insights, establishing a relationship of trust with the investee companies, and depending on the forward-looking mind-set of top management, are the most important challenges to establish a strategic partnership of this nature. These challenges, however, can be alleviated by the extensive experience of the different parties and the established relationships with the investee companies. Partners like KOIS Invest help to implement a partnership between listed companies and social enterprises that provide value for the companies. A big challenge to this model is that it is not easy to streamline the process, as each social impact partnership is tailor-made. A concrete example that came out of this three-party partnership was a social impact bond aiming to provide access to breast cancer treatment in India. Using this as an example, KOIS Invest highlighted several difficulties of such partnerships, emphasizing the importance of finding a common language, establishing a balance between social impact and financial performance and reducing complexity in the governance structure.

Swiss Sustainable Finance

Session D: Promoting access to climate insurance

In the session on climate insurance, **Kelly Hess** (Senior Project Manager, SSF) moderated the discussion between **Felix Hermes** (Chief Operations Officer, BlueOrchard) and **Heike Allendorf** (Head of Impact Insurance, CelsiusPro). The idea for their partnership is to promote access to climate insurance globally, particularly in developing countries. CelsiusPro and BlueOrchard came together to launch "InsuResilience", an investment fund that provides both debt and equity to insurance distribution networks and insurers directly. The fund is also linked to a technical assistance facility which aids the development and realization of climate insurance solutions.

The different responsible partners and their respective roles are: (a) KfW/BMZ as initiators and providers of first loss capital; (b) BlueOrchard as fund manager responsible for sourcing and managing investments; (c) CelsiusPro as manager of the technical assistance facility; and (d) three leading reinsurers (Swiss Re, Munich Re and Hannover Re) as business partners providing suitable investees and technical expertise. InsuResilience addresses the fact that the world's poor and vulnerable are the ones most exposed to the risks of climate change and extreme weather events. It helps build a market for climate insurance and offers protection to the poor. Linking microfinance institutions (and other distribution networks) with insurers (usually located in cities) to stimulate the development of the market has been a key success factor. InsuResilience also had to address a number of key challenges. First of all, it involved extensive explanations to investors, as selling insurance is difficult due to its technical nature and key markets in developing countries. For insurance linked products, the line between financial sustainability of projects and providing impact to beneficiaries (i.e. paying out) is very fine, particularly since margins are very small. In addition, data availability is often a challenge, since quality historical data on weather events necessary for pricing is usually not robust or available. Lastly, there are fairness issues related to parametric insurance (insurance that agrees to make a payment upon the occurrence of a triggering event) compared to traditional (indemnity) insurance. Among many success factors, conducting a joint due diligence between BlueOrchard and CelsiusPro has proven to be efficient compared to performing two independent due diligence processes. In addition, with many experts involved in the project, TA measures can already be identified early on during the due diligence.

Session E: Emerging Market green bonds to finance the low-carbon economy in developing countries

Amadine Favier (Head of Sustainable Finance, WWF Switzerland) moderated this session, in which **Jean-Jacques Barbéris** (Co- Head of Institutional Client Coverage, Amundi) and **Jean-Marie Masse** (Chief Investment Officer, IFC) shared their innovative partnership for the development of a green bond market in emerging countries to finance a low carbon economy. The emergence of green bonds in developing countries has generated huge interest from both issuers and investors. Green bonds are now recognized as very powerful financing instruments to accelerate investments favoring positive environment projects or low carbon energy infrastructure. IFC has committed to aid in the creation of a green bond market also in emerging markets, where such investments are imperative to reach environmental goals.

The public investor set up an open request for proposals in 2017 to select an asset manager for a green bond fund, with issuers located in emerging markets. Amundi, the French asset manager selected by IFC will be in charge of creating the investment structure, managing the portfolio of green bonds and also attracting private investors into the fund (demand side). IFC is responsible for creating the green bonds with local emerging markets banks (supply side). IFC will fund training for potential emerging markets issuers on practical steps to generate green bonds. The objective is to offer a close to market-return of an investment in a bond issued by financial institutions.

The structure of the fund will encompass several types of debt categories: a junior tranche (USD 125 bn reserved to IFC, with a risk control objective), a mezzanine tranche (USD 75 bn, with a target dividend of 4%) and a senior tranche (USD 1800 bn, target dividend of 4.8%). Both the mezzanine and senior tranches will be open to private investors. The guarantee offered by the junior tranche is meant to make the fund more attractive to risk averse investors, such as institutional investors. At the same time, emerging market debt yields are considerable. This partnership of IFC and a private financial institution has a real potential to generate new investments in green projects in emerging markets while generating market return for private investors.

Session F: Investments into innovations to achieve transformational impact

During this breakout, **Tim Radjy** (Founder and Managing Partner, AlphaMundi Group Ltd) and **Christopher Onajin** (Senior Advisor Loans & Guarantees, Swedish International Development Cooperation Agency [Sida]) discussed their unique partnership. Moderating the session was **Frédéric Berney** (Chief Risk Officer, BlueOrchard), who dug deeper into the issue of why particularly the technology sector needs de-risking of investment capital. Alphamundi had never partnered with a DFI before, while SIDA usually cooperated with larger organisations and not with funds. In this partnership, SIDA provided a risk guarantee of 30% with AAA rating. Due to this guarantee, a higher sense of trust was established thus attracting new investors such as institutional asset owners. At the same time, SIDA is also relying on partners, as it does not have enough liquidity to issue debt securities alone. Both partners emphasize that making mistakes is essential for learning and also indicates a healthy level of risk taking. By way of example, AlphaMundi had invested in 10 different companies in the course of this partnership, one of which failed, providing a case for learning.

Particular challenges on the side of SIDA were connected to its accountability to the public, since AlphaMundi did not have the classical partner profile. This could only be solved through comprehensive and continuous dialogue, to ensure both parties had a similar understanding. On the topic of when to use guarantees and when to give subsidies, SIDA pointed out that they do not want to distort the market and thus work with guarantees wherever possible. Tim Radjy complemented the answer by putting the focus on the different stages of a product lifecycle, where subsides are more helpful in the R&D phase, while guarantees are necessary when companies are going into the market and in need of further funding.