



Sustainable Investing: A Unique Opportunity for Swiss Private Wealth Management

Detailed Summary of Ten Arguments

Argument 1: Meet growing client interest in sustainability

Core messages

- An increasing amount of clients actively engage in sustainability related decisions, such as buying solar panels and organic food or offsetting emissions from flights. For such clients, it adds value to offer sustainable investment products, as they can align their investments with personal interests.*
- People like to feel that they do more good than harm with their investments. It gives them a so called “warm glow”.**
- Demand for such products is here: 92% of high-net-worth-individuals desire to not only achieve returns with their money but also to have a positive impact.***

Quote

- Client advisor of a sustainability-oriented bank: «Often our prospects in their first meetings say something like “this is so much more interesting and satisfying than the usual investment discussions. I had no idea that this is possible. Why didn’t someone tell me about this earlier?”»

* The psychological condition of “cognitive dissonance” is reduced (Festinger, L. (1957). A theory of cognitive dissonance. Evanston, IL: Row, Peterson.)

** Andreoni, J. (1990). Impure Altruism and Donations to Public Goods: A Theory of Warm-Glow Giving. The Economic Journal, 100(401), 464-477.

*** CapGemini RBC. (2015). World Wealth Report. New York.

Argument 2: Strengthen relationships with clients

Core messages

- Sustainability adds further dimensions to advisory services*:
 - Advisors who discuss clients' personal values engage with their clients on an emotional level.
 - Sustainability topics offer current and interesting themes for client conversations and thus the opportunity to connect on an intellectual level.**
- This can help advisors gain a better understanding of clients and to further build the relationship.

Quote

- Client advisor: «Talking about sustainability allows me to be much more client-centric, as I build a broad and deep consensus with my clients, and helps me provide more tailored solutions.»

* Paetzold, F., Busch, T. & Chesney, M. (2015). More than money: exploring the role of client advisors for sustainable investing. *Annals in Social Responsibility*, 1(1), 194–222.

** Hummels, H. & Timmer, D. (2004). Investors in Need of Social, Ethical, and Environmental Information. *Journal of Business Ethics*, 52(1), 73–84.

Argument 3: Attract and retain the next generation of clients

Core messages

- “Next gens” of high net worth families inherit an unprecedented amount of about USD 41 trillion from retiring generation.*
- Younger generations tend to be more and more interested in sustainability topics:
 - 40 to 60 years-old age bracket: Raised during the environmental movement
 - 20 to 40 years-old age bracket (millennials): Grew up with climate change and an awareness of social injustices
- Sustainable investing can be a way to captivate the interest of these generations. For example, 84% of millennial investors are interested in sustainable investments.**

Quote

- 40 year old fourth generation inheritor: «A bank that combines a financial return with sustainability aspects has a very compelling proposition for me; more so than offering tickets to some fancy events or such. I am looking for ways to engage more in my wealth management and would appreciate more support in exploring such avenues; really on a solution-level close to my interests and values. Not many banks try to combine investment interests with the passion or interest of the client.»

* World Economic Forum. (2013). From the Margins to the Mainstream: Assessment of the Impact Investment sector and Opportunities to Engage Mainstream Investors. Geneva.

** Morgan Stanley Private Wealth Management and Campden Wealth. (2014). Next-Gen Report 2014. New York.

Argument 4: Communicate "impact" to excite clients

Core messages

- Sustainable investment plays an important role in making the economy more sustainable.*
- This leads to interesting stories, such as examples of innovative products and improved production processes, that can be presented to clients.
- Such stories offer interesting discussion points even for clients that are not interested in investment topics. This makes clients feel more connected with their investments, adding value to conversations.

Quote

- Sustainability-oriented client advisor: «The eyes of my clients light up and they lean forward once I start talking about how the management of the firms in the portfolio responded to our questions about aspects such as water risk management. For once, my clients feel a real interest and purpose of their wealth.»

* Brest. P. & Born. K. (2013). Unpacking the Impact in Impact Investing. Stanford Social Innovation Review (August).

Argument 5: Turn client focus toward long-term performance

Core messages

- Especially wealthy investors are typically long-term investors who aim to preserve capital for the next generations.*
- However, the current investment environment is rather dominated by short-term information.
- Many sustainability topics are inherently long-term.
- Research shows that clients that are informed about the sustainability of their portfolio tend to act more long-term – their investments are more sticky.**

Quote

- Client advisor: «The client is reminded what the investment and we as advisors actually stand for, and hence is more committed to stick with that decision in good times and in times of volatility.»

* Eurosif. (2012). HNWI & Sustainable Investment 2012. Brussels.

** Renneboog, L., Ter Horst, J. & Zhang, C. (2011). Is ethical money financially smart? Nonfinancial attributes and money flows of socially responsible investment funds. *Journal of Financial Intermediation*, 20, 562–588.

Argument 6: Identify well-managed companies based on good ESG credentials

Core messages

- Research establishes that it "pays to be sustainable"* / **.
Sustainable firms...
 - are more profitable than less sustainable ones,
 - have increased customer loyalty and satisfaction,
 - and enjoy less costs of equity financing.
- The underlying drivers for the relevance of sustainability considerations in company management become increasingly important over time; e.g., resource scarcity, climate change.
- This increasing importance is illustrated by the fact that 93% of executives of the world's largest firms consider ESG performance as important for their organization's future success.***

* Flammer, C. (2015). Does corporate social responsibility lead to superior financial performance? A regression discontinuity approach. *Management Science*, 61(11), 2549-2568.

** Friede, G., Busch, T. & Bassen, A. (2015). ESG and financial performance: aggregated evidence from more than 2000 empirical studies. *Journal of Sustainable Finance & Investment*, 5(4), 210-233.

*** UN Global Compact & Accenture. (2013). *The UN Global Compact-Accenture CEO Study on Sustainability – Architects of a Better World*. UN Global Compact Reports (Vol. 5). New York.

Argument 7: Mitigate risks related to company reputation

Core messages

- Intangible value accounts for a large share of company value.
- In an age of increasing transparency and accountability, bad corporate behaviour poses a critical threat for the value of a company.*
- ESG data includes many aspects related to the management of potential risks.
- As such, investing taking ESG factors into account can reduce investment risk arising from poor corporate behavior.**

* Zuckerman, E. W. 1999. The categorical imperative: Securities analysts and the illegitimacy discount. *American Journal of Sociology*, 104(5): 1398–1438.

** Mercer. (2009). *Shedding light on responsible investment: Approaches, returns and impacts*. New York.

Argument 8: Build better client portfolios

Core messages

- Integrating sustainable investments (i.e. Microfinance, low carbon indices) offers opportunities to strengthen the diversification of portfolios.*
- The long-term perspective of clients justifies the inclusion of more long-term asset classes**
- As illustrated by scientific reports, such aspects can improve the risk/return of portfolios which incorporate sustainability.***

Quote

- Client advisor of large mainstream private bank: «If I think of diversification and risk/return, then I must also think about diversification across investment approaches. If I consider all types of approaches, sustainable investing is a natural component of any portfolio for me, especially since I can have “normal” investment solutions that simply consider more data, as well as those that cover strongly performing topics that I would otherwise not have in the portfolio at all, such as microfinance.»

* Symbiotics SA. (2017). From Micro-Credit to Financial Inclusion: 10 Years of Microfinance Funds.

** Barclays. (2015). The Value of Being Human: A Behavioral Framework for Impact Investing and Philanthropy. London.

Note: The large-scale survey-based study showed that investors tend to invest in sustainable investments out of their cash positions, and into long-term investments, such as emerging markets private equity funds, and hence improved their overall portfolio quality.

*** Kleine, J., Krautbauer, M., & Weller, T. (2013). Nachhaltige Investments aus dem Blick der Wissenschaft: Leistungsversprechen und Realität, Analysebericht. Research Center for Financial Services der Steinbeis Hochschule Berlin, Berlin.

Argument 9: Tap into a broad variety of products and solutions

Core messages

- The sustainable investment product landscape is well developed:
 - A broad range of products exists for all major asset classes.
 - Sustainable AuM rose substantially over recent years, reaching 191 bn CHF in Switzerland by the end of 2015.*
 - Most Swiss banks have sustainable investment products in their standard offering.
- Sustainable investing recently gained a lot of attention and momentum is likely to accelerate due to public interest in sustainability themes (i.e. climate change, social injustices).
- The Swiss investment industry has been a global leader and innovative hub for sustainable investment solutions, i.e. for investments for development.**

Quote

- Advisor of a private bank: «Sustainable investing has reached a point in its development where I feel that a broad range of advisors can utilise it to support their client relations, beyond just specialist and frontrunners. I see that many of our managers and clients have come to expect that, implicitly or explicitly.»

* Forum Nachhaltige Geldanlagen and Swiss Sustainable Finance. (2016). Sustainable Investment in Switzerland. Berlin/Zurich

** Swiss Sustainable Finance. (2016). Swiss Investments for a better World. Zurich.

Argument 10: Champion Swiss values

Core messages

- Switzerland and Swissness stand for high quality, stability, innovation and long-term focus.*
- Sustainability is firmly anchored as one of the fundamental aims in the Swiss Constitution (see Article 2).
- Sustainable investing builds on these Swiss values and the country's aim to promote sustainability and therewith is a natural fit to Switzerland.**
- Sustainable investments therewith are an opportunity for a new competitive advantage for Swiss private wealth management.

Quote

- Client advisor of sustainability-focused private bank: «In a way, sustainable investing encapsulates many reasons why private clients think of Switzerland as the private wealth management destination of choice. Once we talk about sustainability, I find that many clients are surprised to hear that not all Swiss advisors take sustainability aspects into account naturally.»

* World Economic Forum. (2016) The Global competitiveness report 2016-2017. Geneva.

** FOEN. (2016). Proposals for a Roadmap towards a Sustainable Financial System in Switzerland. Bern.