Swiss Sustainable Finance

University of Zurich[UZH]

Department of Banking and Finance
Center for Sustainable Finance and Private Wealth

SWISS SUSTAINABLE INVESTMENT MARKET STUDY 2018

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CONTENT

Comprehensive market overview of sustainable investments in Switzerland

FOREWORD

ZURICH, MAY 2018

This is the first time Swiss Sustainable Finance (SSF) provides its own comprehensive market overview of sustainable investments in Switzerland. The goal of this study is to highlight the growing importance of sustainability within the Swiss financial community and to shed more light on the background and drivers for this development.

Two international agreements have led to a stronger focus on the role of investors in sustainable development. The United Nations Sustainable Development Goals (SDGs) are supposed to be achieved by all UN member states by 2030. In its sustainability strategy, Switzerland has set out a roadmap to reach these goals and sees this obligation extending to the financial sector as well. In addition, the Paris Climate Agreement, which was ratified by Switzerland in June 2017, explicitly requires financial flows to be made climate-friendly.

In order to measure progress in this area, it is vital that comprehensive and consistent data on Switzerland's sustainable investment market are compiled regularly and systematically. The provision of appropriate data makes it possible to visualise developments in this field and identify the characteristics of the market, along with existing drivers and barriers. Various organisations are currently developing indices for the sustainability of financial centres. Data such as those provided in this study will also play an important role, as they facilitate an informed comparison of the financial markets and their commitment to sustainable investments.

A total of 66 asset managers and institutional investors took part in this year's survey – a significant increase on last year's participation rate. But this is certainly not the only reason for the dynamic growth of 82% in the total volume of sustainable investments compared with last year. An analysis of recent developments in the field of sustainable investments shows that other factors also play a role, as the following examples illustrate.

More and more asset managers are integrating ESG factors into the investment processes of entire product lines, often driven by corresponding demand from their (primarily institutional) clients. Pension funds are sensing the mounting public pressure to address the impact of their investment activity, and they are looking for ever more systematic ways to do so. And finally, we are witnessing a rapid expansion of sustainable investments in Europe, partly driven by regulation. As Switzerland is closely linked to other European financial centres, it is also feeling their effects. In Switzerland, however, the main actors consider voluntary recommendations more feasible than regulatory measures.

This market study was compiled with the help of an SSF workgroup, which allowed the methodology to be closely aligned to the market. For the data analysis, SSF benefitted from the support of the Center for Sustainable Finance and Private Wealth at the University of Zurich, which helped to ensure scientific assessment of the data. This study was funded by the six main sponsors Credit Suisse, Inrate, LGT, Pictet Asset Management, Raiffeisen and Vontobel, as well as the six supporting sponsors Alphamundi, Ecofact, Mirabaud, RAM AI, RobecoSAM and Swisscanto Invest. We would like to take this opportunity to thank all the involved parties for their valuable support.

We are particularly pleased that in the preface to this study, Federal Councillor Ueli Maurer stresses the importance of sustainable investments for the competitiveness of the Swiss financial industry. In light of developments at both European and global levels, we are convinced that a forward-looking strategy in sustainable investments is the right course to follow.

Jean-Daniel Gerber
President SSF

Sabine Döbeli
CEO SSF

In the world
of finance,
a sustainable
approach
is undoubtedly
becoming
increasingly
important.

PREFACE

There are a number of factors that potentially create a long-term competitive advantage for the Swiss financial services industry in the field of sustainable investment: extensive environmental expertise, high quality standards and a vast pool of specialist knowledge. Switzerland needs to fully exploit this advantage to ensure its financial industry stays attractive and maintains its strong reputation as a global leader.

In the world of finance, a sustainable approach is undoubtedly becoming increasingly important. In 2016 the Federal Council already approved a Sustainable Development Strategy for Switzerland, outlining the government's role in creating appropriate conditions to encourage sustainable development and prosperity. Here the special focus is on the impacts of investor and consumer behaviour on the environment. For this reason, the Federal Council's policy for the financial sector also recognises that sustainability provides an opportunity for fostering a highly competitive marketplace in the future.

I am impressed by the financial industry's resolve to respond to the Paris climate accord, ratified by Switzerland, by forging ahead with the integration of sustainability criteria into its finance and investment decisions. In our experience, voluntary initiatives emanating from within the industry tend to be more sustainable and successful, and I hope we will see further progress made in this area. This Market Study showcases these ambitions, and as a comprehensive overview of the sustainably managed assets in Switzerland merits wide attention.

The federal authorities will continue their work, and in particular maintain a close dialogue with the Swiss financial services sector. In addition, we will continue to play an active role in the endeavours of international committees working in this area, including the G20 group of countries, whilst consistently championing Switzerland's interests.

I am convinced that by focusing on sustainability, the Swiss financial community can raise its profile above international rivals, and at the same time make a vital contribution towards achieving international ecological and sustainability goals.

Ueli Maurer

Member of the Swiss Federal Council | Head of the Federal Department of Finance

“PASSBILDER” LANDSCAPES OF SWISS ALPINE PASSES

Crossing the Alps has never been an easy task, and requires immense dedication, endurance and technical expertise. The same is true for making sustainability an inherent element of financial services. The Swiss alpine passes depicted in this report stand for the long journey associated with this target, and also reflect the steep upward trend of developments in sustainable finance.

BERTHOLD STEINHILBER
"I have been photographing the Alps' passes since 2008. Now this body of work has come together in the book Passbilder - Landschaften der Alpenpässe. The history of the Alps is also a history of traffic routes. Without them colonization and development would have been impossible. Man has crossed the Alps for trade, culture, worship and war. In the early days, crossing the Alps happened on basic paths used by horses and pack mules. Then first major roads would serve as mountain passes, followed by multi-lane motorways and today's gigantic tunnel projects."

Cover: Gotthard Pass; **p. 6–7:** Splügen Pass; **p. 14–15:** Furka Pass; **p. 46–47:** Susten Pass; **p. 61:** Furka Pass.

Photo: Berthold Steinhilber | Splügen Pass

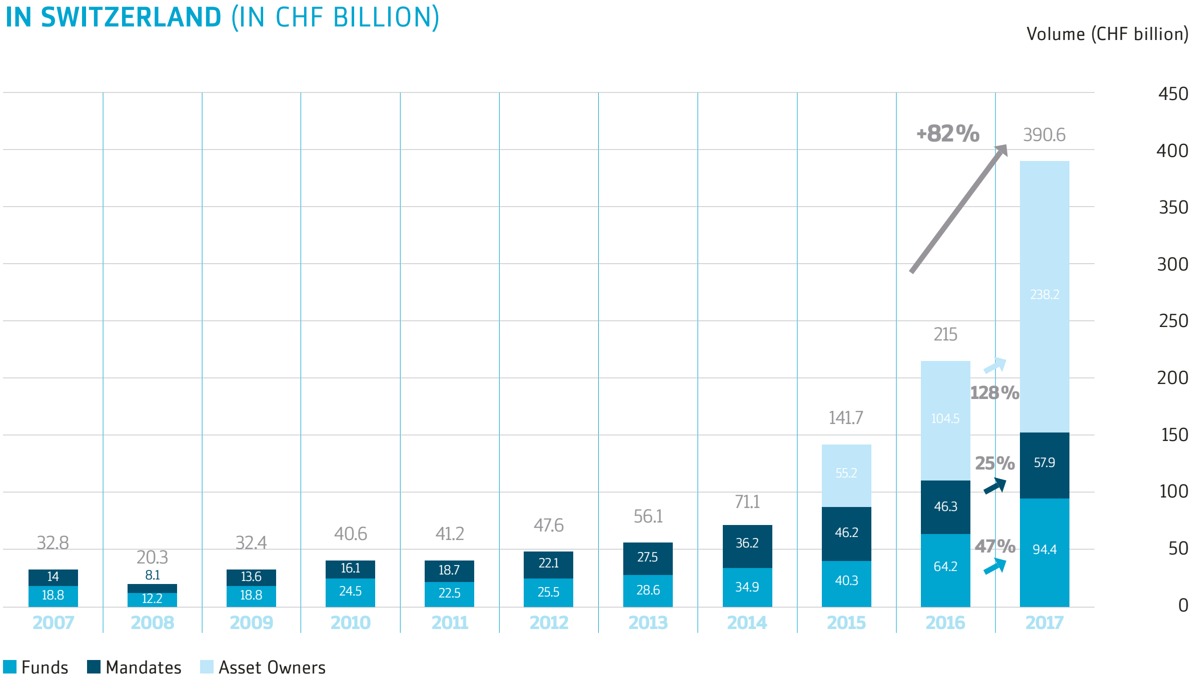
LIST OF FIGURES

LIST OF ABBREVIATIONS

AuM	Assets under management
CHF	Swiss franc
CO_2	Carbon dioxide
COP	Conference of the Parties
ESG	Environmental, social and governance
FNG	Forum Nachhaltige Geldanlagen e.V.
GMO	Genetically modified organism
ILO	International Labour Organization
MNC	Multinational companies
OECD	Organisation for Economic Co-operation and Development
REACH	Registration, Evaluation, Authorisation and Restriction of Chemicals
SDG	Sustainable Development Goal
SFAMA	Swiss Funds & Asset Management Association
SI	Sustainable investments
SSF	Swiss Sustainable Finance
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
WEF	World Economic Forum

EXECUTIVE SUMMARY

DEVELOPMENT OF SUSTAINABLE INVESTMENTS IN SWITZERLAND (IN CHF BILLION)



Strong growth of sustainable investments continues

In 2017, the market for sustainable investments (SI) has continued to grow significantly in Switzerland. Based on the responses to the market survey performed by Swiss Sustainable Finance (SSF), the total volume increased by 82% to reach CHF 390.6 billion. This figure covers all reported sustainable investment funds (47% increase), sustainable mandates (25% increase) and sustainable assets of asset owners (128% increase). This dynamic market growth has been achieved despite a stricter definition of sustainable investments underlying this study.*

Sustainable funds (CHF 94.4 billion) represent 24% and sustainable mandates (CHF 57.9 billion) 15% of the total SI market in Switzerland. The amount of sustainable funds now corresponds to approximately 8.7% of the overall Swiss fund market.

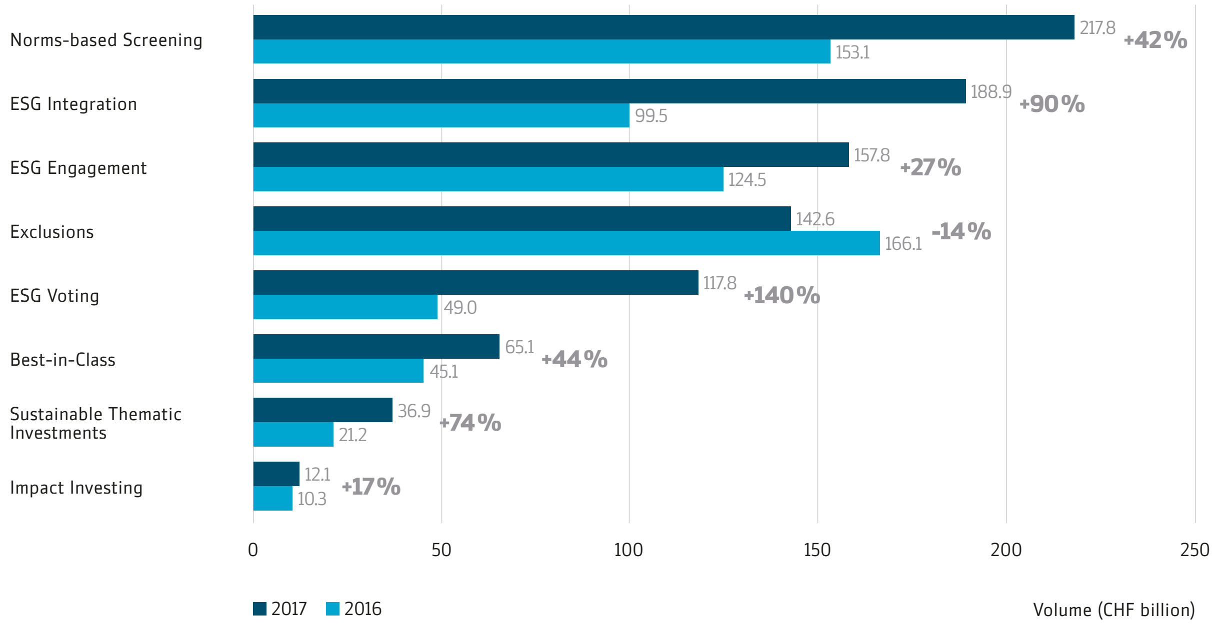
Sharp rise in SI adoption by asset owners

Substantial growth has also been seen in the asset owner segment. The amount of sustainable investments reported by asset owners (CHF 238.2 billion) now accounts for 61% of Switzerland's total SI market. This corresponds to approximately 16% of the overall assets managed by Swiss pension funds and insurance companies.

The strong SI market growth can be ascribed to higher market coverage in this study (66 respondents vs. 41 in the previous year), as well as new sustainable products offered by study participants and first-time adoptions of SI approaches.

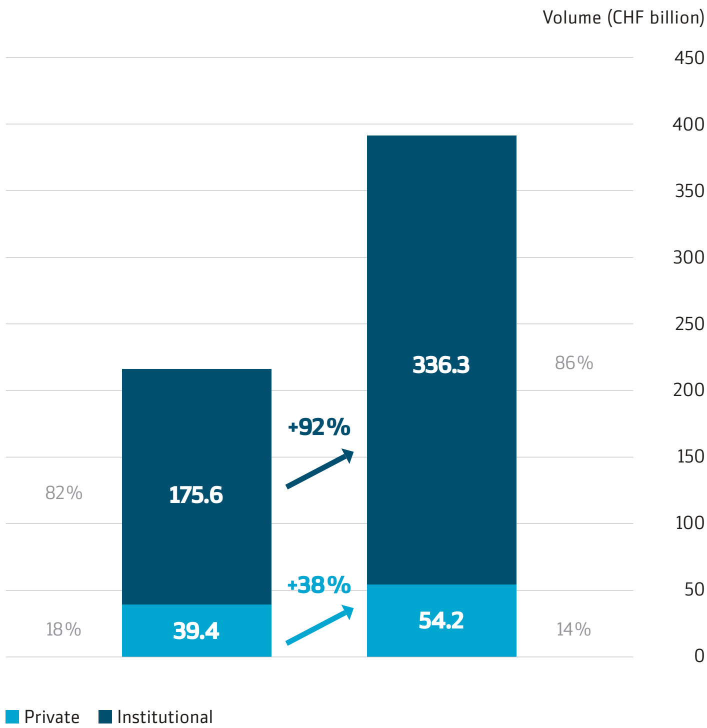
* Due to the narrower scope of the study in 2017 (i.e. only including assets managed out of Switzerland and a recategorisation of SI assets by respondents from core SI to broad SI), past mandate volumes were corrected in order to allow a proper comparison with 2017 data (reduction of CHF 51.3 billion for 2016 and of CHF 50 billion for 2015).

DEVELOPMENT OF SUSTAINABLE INVESTMENT APPROACHES (IN CHF BILLION) (n=57)



Greater interest from both private and institutional investors
In terms of market players, both private and institutional investors increased their SI volumes. However, the 2018 report again illustrates the important role of institutional investors in the SI field, who now make up 86% of all sustainable investments in Switzerland.

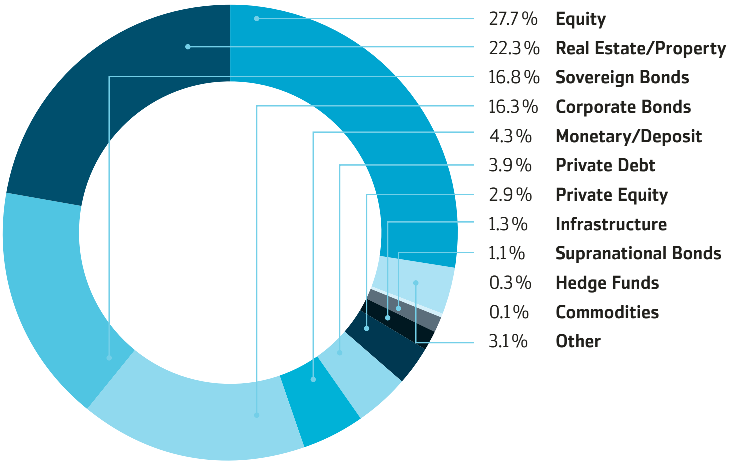
DEVELOPMENT OF INSTITUTIONAL AND PRIVATE SUSTAINABLE INVESTMENTS (IN CHF BILLION) (n=53)



Largest volumes for norms-based screening approach
Almost all SI approaches grew in volume, except for exclusions. Norms-based screening is now in the lead with a total volume of CHF 217.8 billion. ESG voting recorded the highest growth rate of 140%. Also, the ESG integration approach had a striking increase of about 90% compared to the previous year. ESG engagement grew by a relatively moderate 27%, while exclusions showed a decrease mainly due to a stricter definition in this year's report.** The best-in-class approach as well as sustainable thematic investments also grew but remained at modest levels, followed by impact investing with the lowest volume.

** According to the Swiss Federal Act on War Material (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 to no longer count such exclusions as sustainable investments.

ASSET CLASS DISTRIBUTION FOR SUSTAINABLE INVESTMENTS (IN %) (n=48)



Sustainability applied to a large range of asset classes

When considering the asset allocation of sustainable investments, equities remain the most popular category, with a share of 28%. The second largest asset class is real estate/property, with 22%. Sovereign bonds are in third place with 17%. Collectively, sovereign bonds, corporate bonds and supranational bonds account for 34% of all SI.

ESG integration is most common approach in broad SI policies

A detailed analysis of broad SI policies – i.e. SI approaches applied product-independently to a wide range or the entire range of assets – shows that the most common approach is ESG integration at CHF 538.1 billion, followed by ESG engagement at CHF 475.6 billion. The exclusion of controversial business practices or areas ranked third, amounting to CHF 382 billion.

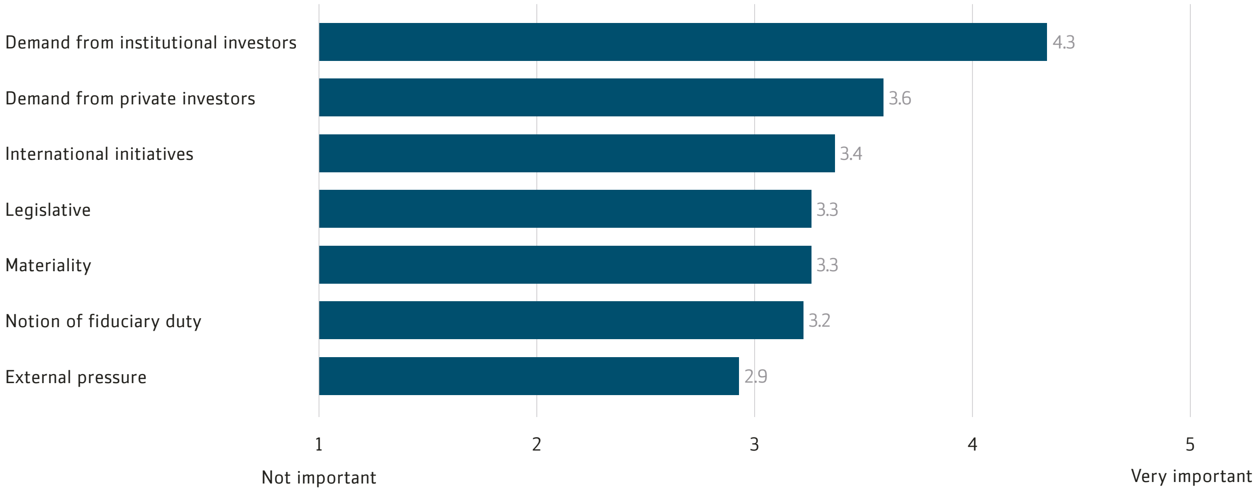
SDGs and climate issues: reflected in new products

The Sustainable Development Goals and the Paris Agreement addressing climate change are two important international policy developments that lead to new requirements for the financial sector. The results of this study illustrate that the Swiss financial sector is increasingly starting to embrace these developments. 38% of asset managers responded that they already have products with a specific reference to the SDGs and that they report on their contribution to specific SDGs. Another 12% indicated that they plan to do so in future. With respect to climate change, investments in climate solutions turned out to be the most important strategy, indicated by 86% of respondents. Measurement of the carbon footprint of portfolios is in second place (81% of respondents).

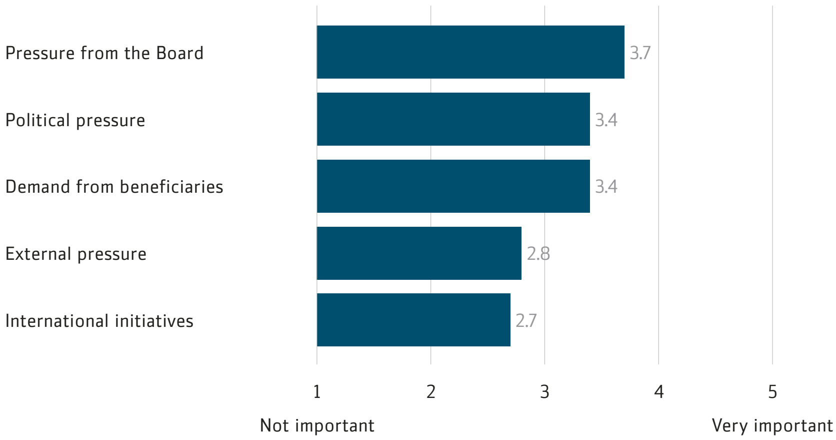
Considerable growth of study participants

Of the total of 66 Swiss players participating in the 2018 survey, 34 were asset managers or banks and 32 asset owners, representing a good balance between the two groups. The increasing number of study participants hints towards a growing relevance of sustainability as a key topic in the Swiss finance sector. This is also illustrated by the fact that most of the surveyed asset managers and asset owners implemented broad SI policies.

KEY DRIVERS FOR SI DEMAND IN THE NEXT 3 YEARS FOR ASSET MANAGERS
(IN AVERAGE LEVEL OF IMPORTANCE) (n=27)



KEY DRIVERS FOR FURTHER ADOPTION OF SI FOR ASSET OWNERS
(IN AVERAGE LEVEL OF IMPORTANCE) (n=30)



Further growth of sustainable investments is expected

It is noteworthy that Swiss asset managers and asset owners are generally optimistic about future growth of the SI market. Investors' demands, as well as pressure from boards, have been identified as the most relevant drivers for this development. At the same time, financial performance concerns represent one of the most critical barriers for fostering SI. Nonetheless, ESG factors have become one of the key aspects shaping asset managers' perception of fiduciary duty.

Swiss financial centre clearly moving forward in sustainable investing

The accelerated implementation of both self-regulatory principles and legislative requirements in the field of sustainable investments reflects the strong dynamic in this market, as discussed in the two interviews with representatives from Swiss federal authorities. Growing demand from institutional clients both on a global level and in Switzerland, as illustrated in the two case studies included in this report (Migros Pension Fund and Geneva Cantonal Pension Fund CPEG), is a strong driver for further growth. Overall, considering the strong market developments in Switzerland highlighted in this report, SSF considers the Swiss financial market to be on the right path. Continuing these efforts will further promote the idea of sustainable finance and position Switzerland as a key player in this increasingly relevant field.

Photo: Berthold Steinhilber | Furka Pass

1 INTRODUCTION

Figure 1
DEFINITIONS OF SUSTAINABLE INVESTMENT (SI) APPROACHES

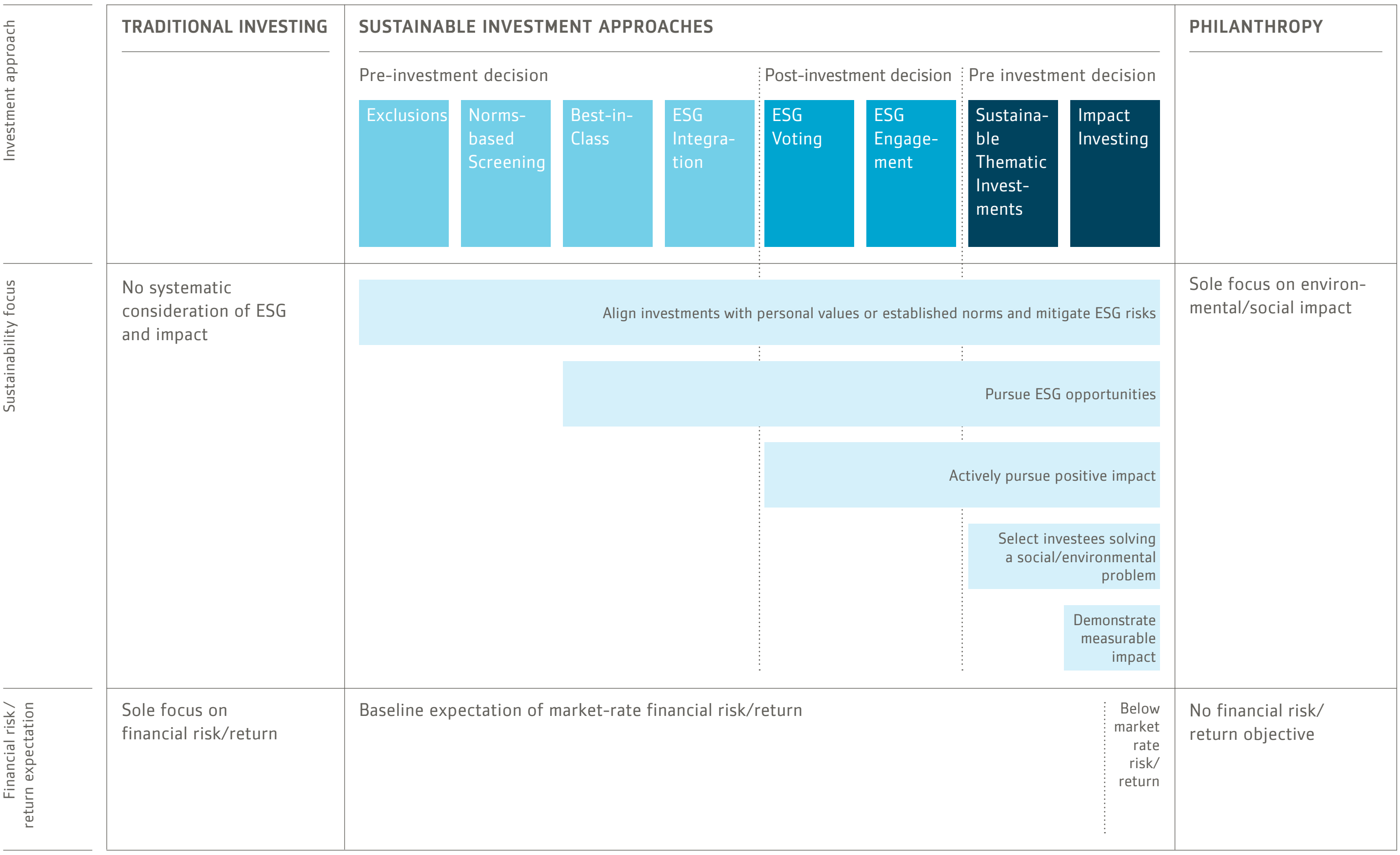
Best-in-Class	Approach in which a company's or issuer's ESG performance is compared with that of its peers based on a sustainability rating. All companies or issuers with a rating above a defined threshold are considered as investable.
ESG Engagement	Activity performed by shareholders with the goal of 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.

Sustainable finance has certainly gained momentum in recent years. Various initiatives have emerged both nationally and internationally – in the private sector, on a regulatory level, as well as in academia – intended to create more sustainable financial markets that are able to withstand future challenges and benefit from arising opportunities. In addition, achieving international sustainability targets, such as those set in the Paris Agreement or by the Sustainable Development Goals (SDGs), requires the significant development of the sustainable finance market, as well as sustainable investments.

Swiss Sustainable Finance (SSF) provides insights into such market developments in Switzerland by publishing the official Swiss Sustainable Investment Market Study. The aim of this study is to summarise the status quo and provide a deeper understanding of the topic in order to catalyse further growth of the Swiss sustainable investment market.

For the purposes of this study, sustainable investments (SI) are considered synonymous with responsible investments and refer to 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[1]). The general definition, as well as definitions applying to the different approaches, are aligned with those used by Eurosif.[2]

Figure 2
CATEGORISATION OF SUSTAINABLE INVESTMENT APPROACHES



Source: SSF [3]

Figure 2 presents a classification of these approaches. All approaches can be categorised according to their sustainability focus or intended effect, and are considered separate from traditional investing or philanthropy. The framework also highlights that the SI approaches differ with respect to when they are applied during the investment process – either during the pre-investment or post-investment phases. The framework displays the natural progression of the various approaches to include more and more considerations as one looks at the approaches from left to right. While exclusions, for example, are used purely to [1] "align investments with personal values or established norms and mitigate ESG risks", impact investing additionally is seen to [2] "pursue ESG opportunities", [3] "actively pursue positive impact", [4] select investees solving a social/environmental problem" and [5] "demonstrate measurable impact". It is important to mention that different approaches are often combined. For example, norms-based screening is usually applied in combination with ESG engagement and exclusion. In many cases, the investor engages with companies that violate the defined international norms and, if engagement is unsuccessful, excludes companies from the portfolio in a second step.

Figure 3
FORMS OF SUSTAINABLE INVESTMENT

	CORE SI	BROAD SI
Applied to	Sustainable products	Mainstream products or full asset base
Approaches used	Can apply one or a combination of a number of the eight approaches described in Figure 1	Usually apply combinations of the following approaches: exclusions, norms-based screening, ESG integration, ESG voting, ESG engagement

Sustainable investments can also have different forms of application: a more product-specific focus or a focus on a broader range of AuMs (Figure 3).

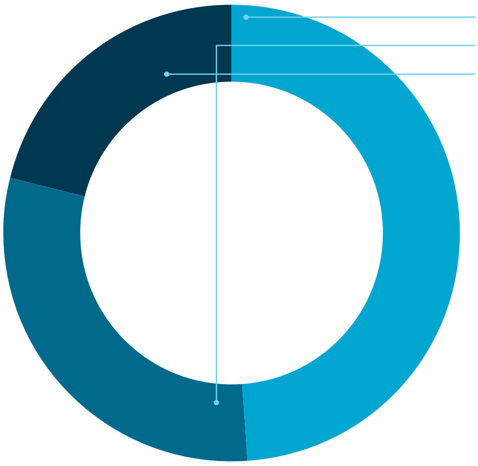
— Specific sustainable investment products (investment funds and discretionary mandates) usually have a written sustainability investment policy as part of the prospectus or contract. Normally, such sustainable investment products apply multiple approaches (e.g. exclusion criteria in combination with a best-in-class approach or an ESG integration approach combined with ESG voting and engagement). Such specific sustainable investment products are considered "core SI" for the purposes of this report.
— On the other hand, sustainability criteria and approaches can be applied to mainstream products or the full asset base of a fund manager or institutional asset owner by integrating them in the investment process. The application of sustainability in these cases relies on a general sustainability policy/approach instead of a product-specific policy referred to in the product prospectus. Usually, such mainstream sustainable investments apply one of the following approaches or a combination thereof: exclusions, norms-based screening, ESG integration, ESG voting, ESG engagement. Such sustainable investments are considered "broad SI" in this report.

For the purposes of this report, the following assets are counted towards the total volume of sustainable investments:

— In most cases, asset owners do not offer specific products. Instead they have self-managed assets or outsource fund management to third parties. In case a sustainability policy is in place, it is applied to the full asset base of specific asset classes. For asset owners, those broad SI volumes are counted as sustainable investments.
— For asset managers, only core SI assets are included in the total volume of sustainable investments. Broad SI assets of asset managers are not added to the total figure because there is still no market consensus of what can and cannot be considered as sustainable investments for these broad approaches.

Broad SI approaches are gaining ground rapidly and are being developed in ever more sophisticated ways. An increasing number of asset managers have started to integrate ESG factors in the evaluation of all investments based on clear processes. The impact of the greater mainstreaming of SI approaches can be very substantial, as they are usually applied to large volumes, which helps to send stronger signals in the market.

Figure 4
SWISS SUSTAINABLE INVESTMENT MARKET STUDY PARTICIPANTS (n=66)



The study's methodology is aligned with the 2017 report published by Forum Nachhaltige Geldanlagen (FNG) and Swiss Sustainable Finance (SSF).[4] From January to April 2018, data collection was conducted by using questionnaires sent out to members of the SSF network and interviews with key market participants. Participants were asked to report data as of 31 December 2017 and to avoid double counting when answering questions on specific funds and mandates, or on broad SI policies. Not every question was answered by all participants; we therefore indicate the sample size (n) for each figure.

A total of 66 Swiss players took part in this year's edition of the Sustainable Investment Market Study.[5] As shown in Figure 4, 30% were asset managers, 21% banks/diversified financials and 49% asset owners. This represents a well-balanced share between asset managers and banks/diversified financials (collectively referred to as asset managers) on the one hand and asset owners on the other hand. 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 as well as assets managed by asset managers on behalf of their organisation. SSF made every effort to fully avoid double counting.

The number of study participants has substantially increased in 2018: 34[6] asset managers (2017: 27) and 32[7] asset owners (2017: 14) answered the questionnaire.

The main part of this report (chapter 2) is a detailed analysis of the results from the market survey. Factors examined in detail include general market characteristics, investor types, sustainable investment approaches and asset allocation. Also included are discussions on special topics, such as the SDGs and climate change. The next section (chapter 3) covers the topic of broad SI policies to gain insights into the integration of sustainability aspects into mainstream assets. The following section on expected market trends by asset managers and asset owners provides a deeper understanding of the possible drivers and barriers for further growth of the Swiss sustainable investment market (chapter 4). Chapter 5 contains two case studies representing innovative sustainable investment practices from Swiss asset owners. They are followed by an examination of the regulatory framework in Switzerland, containing two expert interviews with governing institutions (chapter 6). The report concludes with a summary of the findings and an outlook for future developments and requirements (chapter 7).

1 http://www.sustainablefinance.ch/en/glossary-_content---1--3077.html

2 Eurosif (2016): "European SRI Study 2016", p.9: "Sustainable and Responsible Investment (SRI) is a long-term oriented investment approach, which integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio."

3 Adapted from Paetzold, F., 2017: "Impact Investing", In SSF Handbook on Sustainable Investments. Available at: http://www.sustainablefinance.ch/upload/cms/user/201712_Handbook_on_Sustainable_Investments_CFA.pdf

4 FNG/SSF (2017): "Sustainable Investment in Switzerland – Excerpt from the Sustainable Investment Market Report 2017", Berlin/Zurich, May 2017.

5 A list of study participants who consented to be named is provided on page 72.

6 Three asset managers participated through another company. Thus, the following analysis is based on 31 asset manager data sets.

7 One asset owner participated through another company. Thus, the following analysis is based on 31 asset owner data sets.

2 SWISS SUSTAINABLE INVESTMENT MARKET

2.1 OVERALL MARKET SIZE AND CHARACTERISTICS

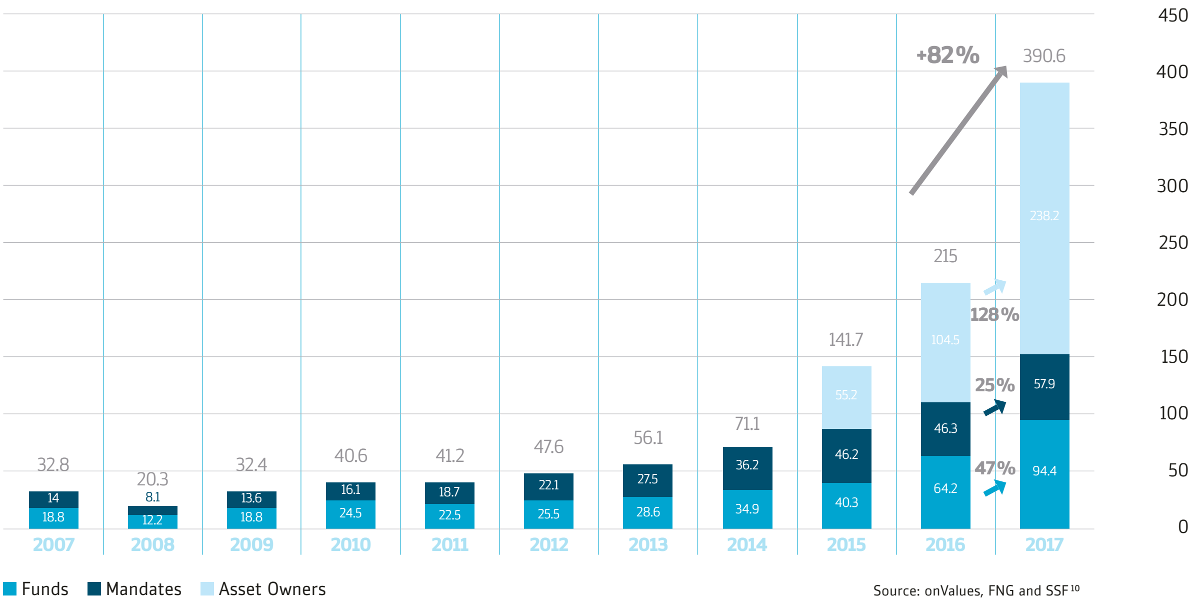
As of 31 December 2017, the total Swiss sustainable investment market was worth CHF 390.6 billion – taking into account sustainable investment funds, sustainable mandates and sustainable assets of asset owners. It represents growth of 82% compared to the previous year. Assets managed by asset owners made the greatest contribution to this, with a growth rate of 128%. Investment funds showed growth of 47%, while mandates recorded an increase of 25%.[8] With a volume of CHF 238.2 billion, sustainable assets managed by the asset owners now account for 61% of the total sustainable investment market in Switzerland.

Figure 5 shows the development of the market volume of sustainable assets in Switzerland from 2007 to 2017. The average annual growth rate for sustainable funds and mandates is around 15%. Asset owners were included for the first time in the market survey in 2015. Over the past three years the average annual growth rate of their assets reached around 63%.

As in previous years, the strong growth in volumes of asset owners can primarily be explained by a combination of newly implemented approaches of first-time respondents, as well as extended market coverage. As shown in Figure 6, newly participating asset owners contribute CHF 126.9 billion to the overall volume. For asset managers, the increase due to new study participants corresponds to CHF 7.3 billion (CHF 4.2 billion in funds, CHF 3.1 billion in mandates). The growth attributed to existing participants is equivalent to approximately 19% of the 82% total growth. The remaining 63% growth stemming from new participants partly represents real growth, as these new respondents have for the first time implemented SI strategies, and in some cases extended market coverage.

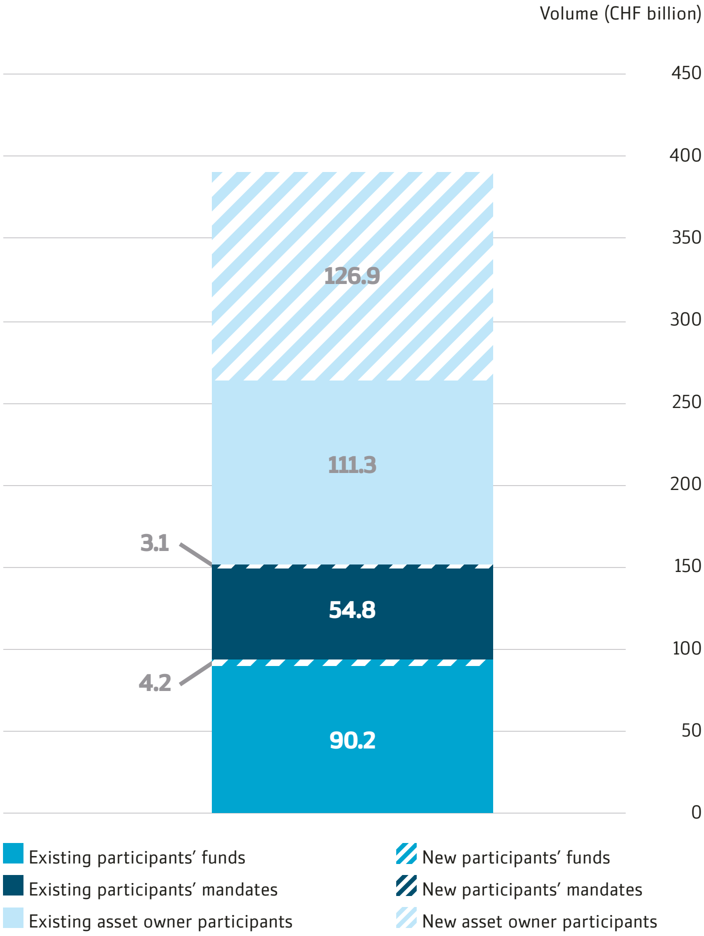
Considering asset managers, Figure 7 takes a closer look into the origins of the growth of sustainable funds and mandates in 2017. It shows that 19% of the growth in total fund volume (CHF 30.2 billion) can be attributed to inflows into funds of existing participants of around CHF 5.7 billion in 2017. Another significant portion is generated by funds of new study participants – accounting for 14% of the growth. For new fund launches (4%), as well as conversions of conventional funds into sustainable funds (3%), only minor volumes were reported. For a large share of the growth (60%) no further information was supplied by respondents. Presuming that sustainable investments grew similar to global indices, it can be estimated that fund growth due to performance was in the region of CHF 6.4 billion[11] (21% of growth in total fund volume). Based on interviews, the remaining unspecified growth can be attributed to further fund conversions that have not been explicitly mentioned in the survey.

Figure 5
DEVELOPMENT OF SUSTAINABLE INVESTMENTS IN SWITZERLAND[9] (IN CHF BILLION)



Source: onValues, FNG and SSF[10]

Figure 6
SUSTAINABLE INVESTMENTS OF EXISTING VS. NEW STUDY PARTICIPANTS (IN CHF BILLION)



For sustainable mandates, the picture looks somewhat different. With a volume of CHF 3.1 billion, asset managers who participated in the survey for the first time generated 25% of the growth in total mandate volume (CHF 12.3 billion). Some 9% can be attributed to conversions of conventional mandates into sustainable mandates, while new mandate launches contributed 6% to the increase in mandate volume. Also in the case of mandates, a large proportion of the growth (60%) was unspecified by respondents. Applying the same growth rate as for funds, an estimated CHF 5.7 billion of unspecified growth can be attributed to performance gains (46% of growth in total mandate volume).[12]

8 Due to the narrower scope of the study in 2017 (i.e. only including assets managed out of Switzerland and a recategorisation of SI assets by respondents from core SI to broad SI), past mandate volumes were corrected in order to allow a proper comparison with 2017 data (reduction of CHF 51.3 billion for 2016 and of CHF 50 billion for 2015).

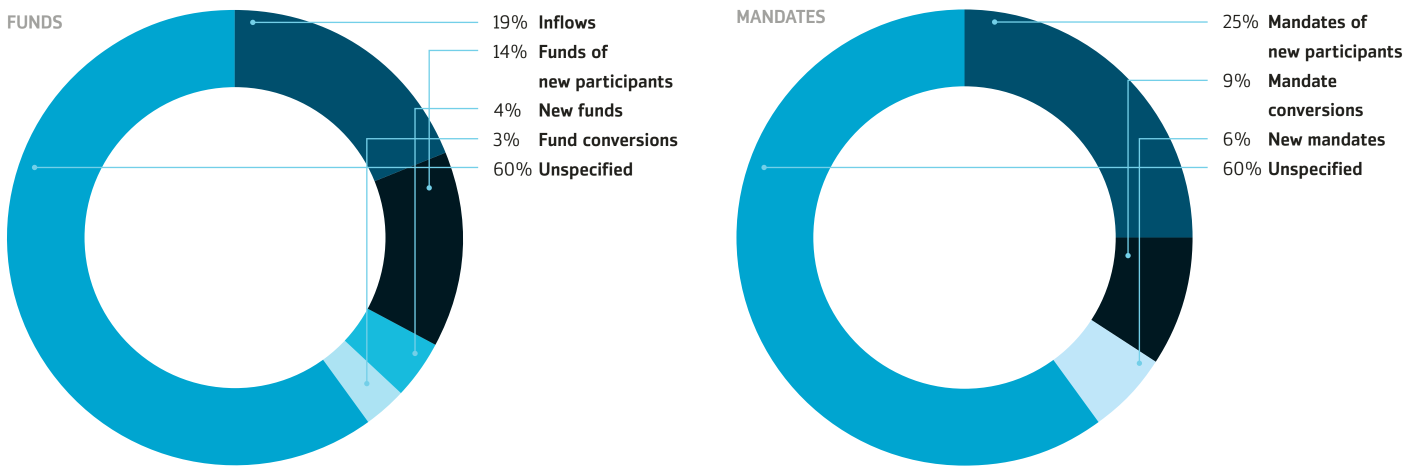
9 Ibid.

10 2007–2009 onValues; 2010–2011 onValues and FNG; 2012–2014 FNG; 2015–2016 FNG and SSF

11 Performance effect calculated on the basis of average asset allocation and performance of respective global indices.

12 Sustainable mandates that already existed in the previous study recorded a decline of around CHF 0.7 billion. Thus, inflows do not appear as a growth factor in the figure.

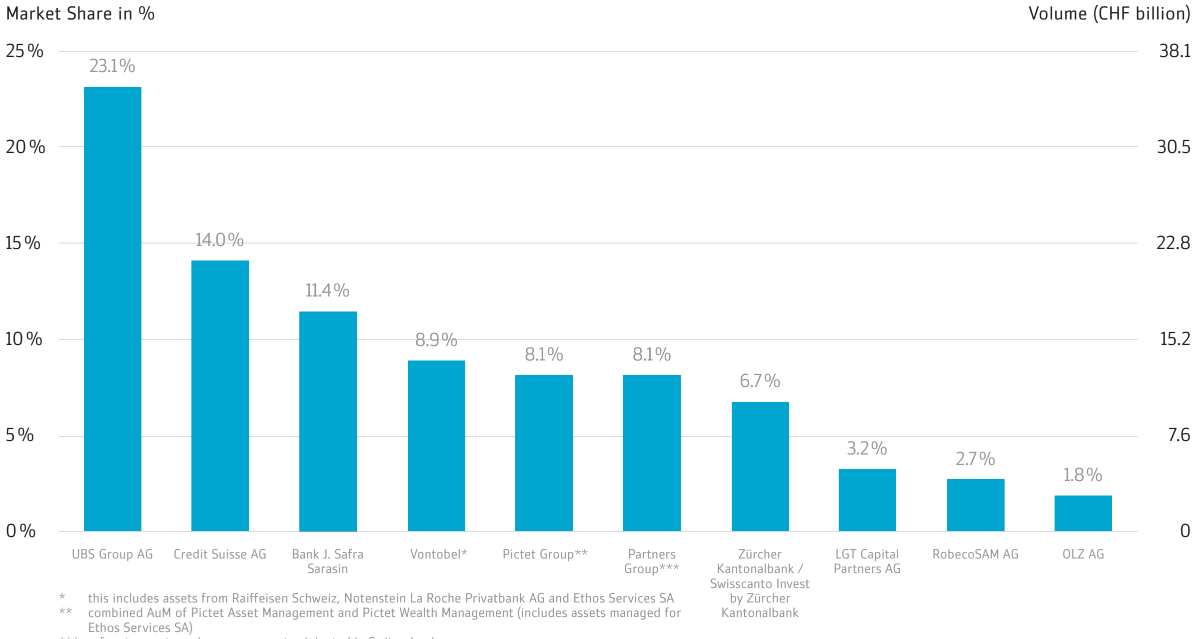
Figure 7
GROWTH FACTORS OF SUSTAINABLE FUNDS AND MANDATES IN 2017 (IN %) (n=26)



Comparisons of the developments in the SI market with the overall financial market in Switzerland reflect the growth dynamics and future potential of sustainable investments. As of December 2017, the overall volume of the Swiss fund market stood at CHF 1,087 billion.[13] This represents growth of 17.7% compared to the previous year. The growth reported for sustainable investment funds (47%) was thus more than twice as much as the general market growth. The amount of sustainable funds (CHF 94.4 billion) now corresponds to around 8.7% of the overall fund market in Switzerland. Next to this, the growth of sustainable mandates was also significant (25%).

Swiss pension funds stood at CHF 878.8 billion in 2017 – an increase of around 12% compared to 2016.[14] The Swiss insurance market achieved a volume of CHF 579.3 billion by the end of 2016, which corresponds to an annual growth rate of around 3%.[15] These numbers are comfortably exceeded for sustainable investments held by asset owners covered in this study – there was remarkable growth of 128%. It must be noted, that this SI growth was influenced by improved market coverage of this survey compared to the previous years. This indicates that market participants are showing more interest in the topic and, based on interviews, some are now implementing sustainability approaches and thus participating for the first time. In general, the amount of sustainable investments reported by asset owners (CHF 238.2 billion) now corresponds to some 16% of the overall market (pension funds and insurance companies).

Figure 8
TOP 10 SWISS MARKET PLAYERS FOR SUSTAINABLE INVESTMENTS BY ASSETS UNDER MANAGEMENT IN SWITZERLAND
(IN % AND CHF BILLION) (n=31)



* this includes assets from Raiffeisen Schweiz, Notenstein La Roche Privatbank AG and Ethos Services SA
** combined AuM of Pictet Asset Management and Pictet Wealth Management (includes assets managed for Ethos Services SA)
*** refers to assets under management originated in Switzerland

Figure 9
RATIO OF SI VOLUME COMPARED TO TOTAL AUM
(IN NUMBER OF RESPONDENTS) (n=29)

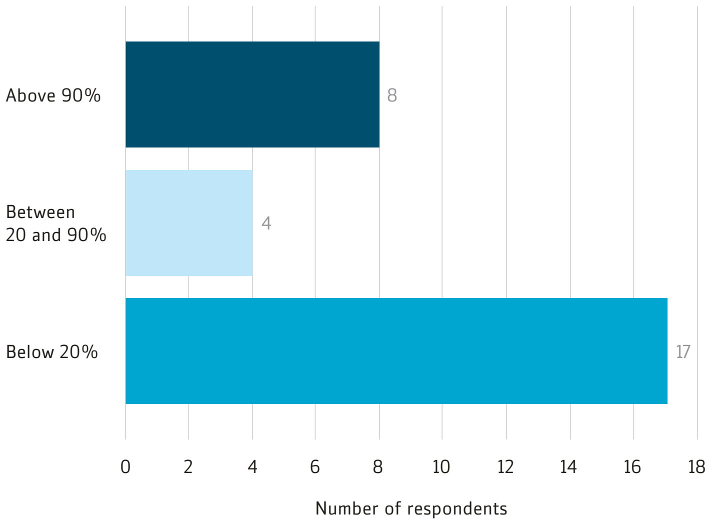


Figure 8 gives an overview of the leading Swiss asset managers in terms of their sustainable investments managed in Switzerland. Collectively, the Top 10 market players manage around CHF 133.3 billion in sustainable funds and mandates, handling 88% of the total amount covered by the SSF survey.

One interesting question is what proportion of sustainable investments is held by asset managers compared to their total assets under management (AuM). Among 29 responding asset managers, eight indicated a share of above 90% of total firm-wide assets could be classified as sustainable assets (Figure 9). This corresponds to almost one third of all participants. The remaining asset managers reported lower shares. Four participants have between 20% and 90%, and 17 of them have below 20% of their total assets devoted to sustainable investments. This shows that both types of firms are well established in Switzerland: specialised companies as well as those offering more traditional products alongside SI.

[13] SFAMA (2018): "Swiss Fund Market Statistics – Month-End Analysis 31.12.2017", available at https://www.swissfunddata.ch/sfdpub/de/market/marketsArchive , accessed 04/20/2018.

[14] Willis Towers Watson (2018): "Global Pension Assets Study 2018", available at https://www.willistowerswatson.com/-/media/WTW/Images/Press/2018/01/Global-Pension-Asset-Study-2018-Japan.pdf, accessed 04/20/2018.

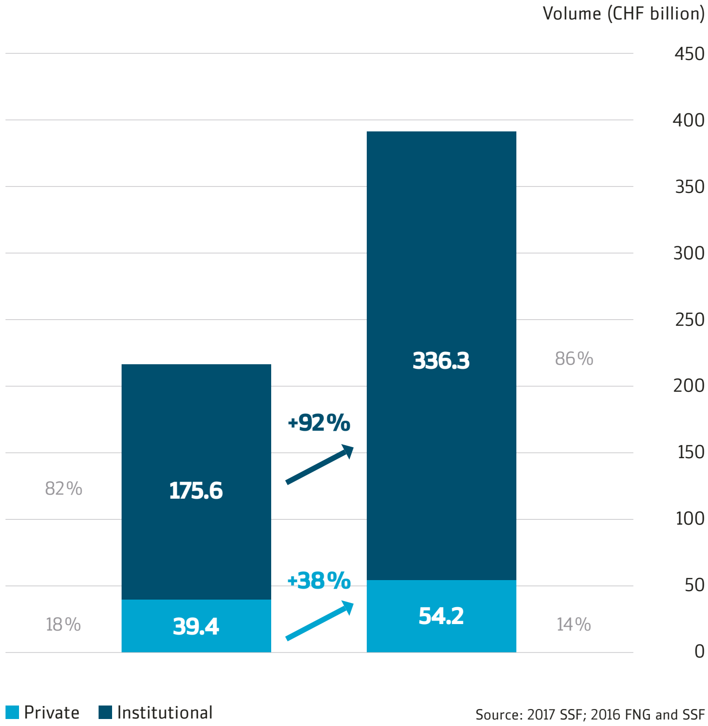
[15] FINMA (2017): "Insurance Market Report 2016", available at https ://www.finma.ch/en/documentation/finma-publications/reports/insurance-reports/, accessed 04/20/2018.

2.2 INVESTOR TYPES

Figure 10 shows that volumes of sustainable investments by both groups of investors, institutional as well as private, have significantly increased over the past year. They now stand at CHF 336.3 billion and CHF 54.2 billion, respectively.[16] From 2016 to 2017, the volume of institutional investors has recorded a substantial increase of around CHF 160.8 billion – this corresponds to a growth rate of 92%.[17] In contrast, the growth rate for private investors only stood at 38%, with an increase in volume of CHF 14.8 billion. These numbers illustrate the relevance of institutional investors within the Swiss sustainable investment market: they make up 86% of all SI (a rise from 82% in 2017).

Insurance companies and mutuals were the largest group among SI institutional investors in 2017. At CHF 122.7 billion, they currently encompass around 45% of the total volume (Figure 11).[18] They are followed by public pension funds or reserve funds, which account for around 40%, and by corporate/occupational pension funds – accounting for around 12%. In comparison, other institutional investors such as foundations or public authorities currently do not play significant roles in the overall sustainable investment market in Switzerland.

Figure 10
DEVELOPMENT OF INSTITUTIONAL AND PRIVATE SUSTAINABLE INVESTMENTS (IN CHF BILLION) (n=53)



Source: 2017 SSF; 2016 FNG and SSF

Figure 11
INSTITUTIONAL INVESTOR DISTRIBUTION IN SI (IN %) (n=46)

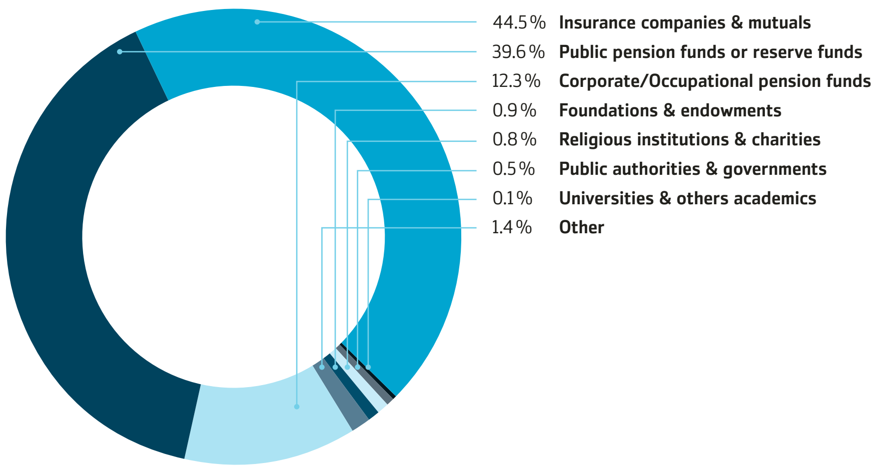
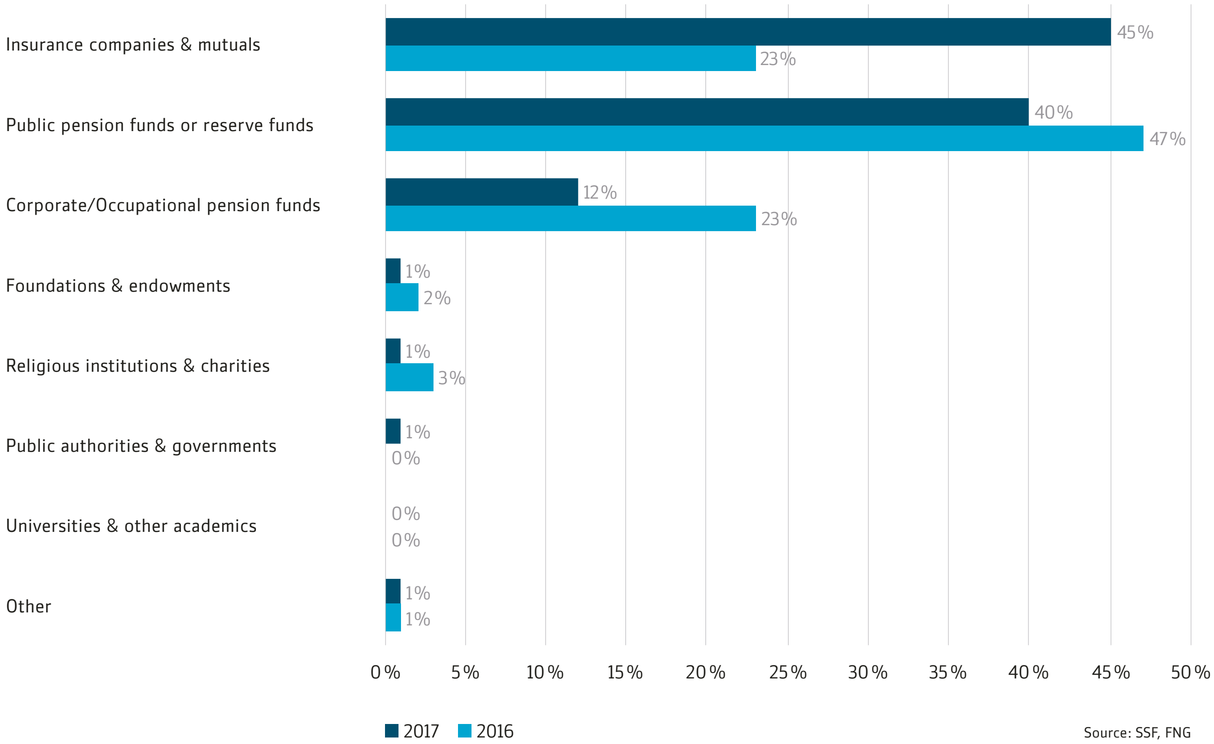


Figure 12
RELATIVE DEVELOPMENTS IN THE SI INSTITUTIONAL INVESTOR MARKET (IN %)



Source: SSF, FNG

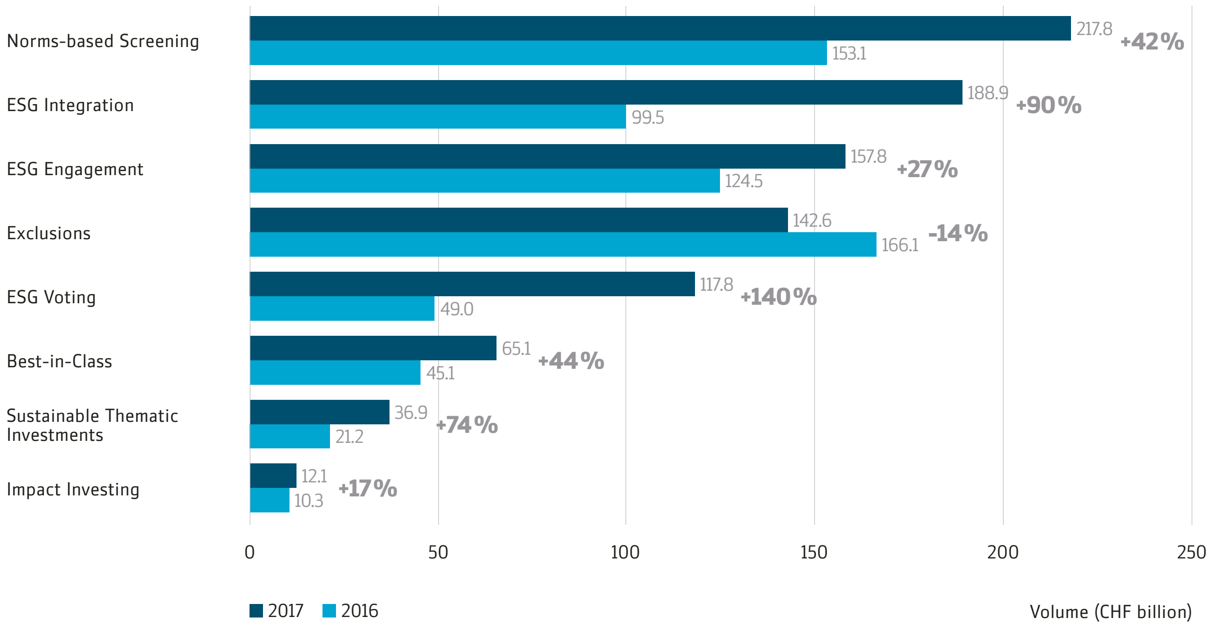
The relevance of the different institutional investor types has changed since 2016 mainly due to the extended market coverage for asset owners. As shown in Figure 12, insurance companies, for example, have seen a substantial rise in absolute volumes, corresponding to an increase in relative terms from 23% to 45%. Public pension funds or reserve funds held almost half of SI volumes in 2016, but have now decreased by seven percentage points to around 40%. Corporate/occupational funds recorded a decline of eleven percentage points, from 23% down to 12%. It should be noted that these are relative terms. Since there has been a significant increase in the overall SI volume of institutional investors, decreasing market shares do not mean a decline in absolute terms.

16 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 (2016: CHF 110.5 billion, 2017: CHF 152.3 billion).

17 This increase can partly be explained by the higher number of asset owners who participated in this survey compared to last year.

18 This data is based on a reported SI volume of CHF 276.2 billion for institutional investors.

Figure 13
DEVELOPMENT OF SI APPROACHES[19]
(IN CHF BILLION) (n=57)



Source: 2017 SSF; 2016 FNG and SSF

2.3 SUSTAINABLE INVESTMENT APPROACHES

This chapter provides a detailed analysis of the different SI approaches in Switzerland. Figure 13 presents the total volumes to which the various approaches were applied in 2016 and 2017, including both asset manager as well as asset owner data. In 2017, norms-based screening is now in the lead with a total volume of CHF 217.8 billion. ESG voting recorded the highest growth rate of 140%. Also, the ESG integration approach had a striking increase of about 90% compared to the previous year. The best-in-class approach as well as sustainable thematic investments also grew, but remained at modest levels, followed by impact investing in last place.

NORMS-BASED SCREENING

At CHF 217.8 billion, norms-based screening now ranks first in Switzerland, having recorded annual growth of 42%. As shown in Figure 14, this approach is used in roughly equal shares by asset managers (46%) and asset owners (54%). Overall, norms-based screening is applied to 56% of all sustainable investments in Switzerland. Much of the growth stems from asset owners who have implemented this approach in recent years and are only now in a position to report on their sustainable investments. This is partly due to the efforts of the Swiss Association for Responsible Investments (SVVK-ASIR), which has had significant influence amongst large asset owners through the development of a norms-based screening approach.

The most important norm against which portfolios are screened is the UN Global Compact (CHF 128.7 billion, see Figure 15). This is followed by the ILO Conventions (CHF 89.4 billion), the OECD Guidelines for Multinational Enterprises (CHF 59.5 billion) and the UN Guiding Principles on Business and Human Rights (CHF 58 billion). The growing relevance of the norms-based screening approach is in line with previous findings on a European level.[20] Besides these international frame-

Figure 14
NORMS-BASED SCREENING (IN CHF BILLION) (n=27)

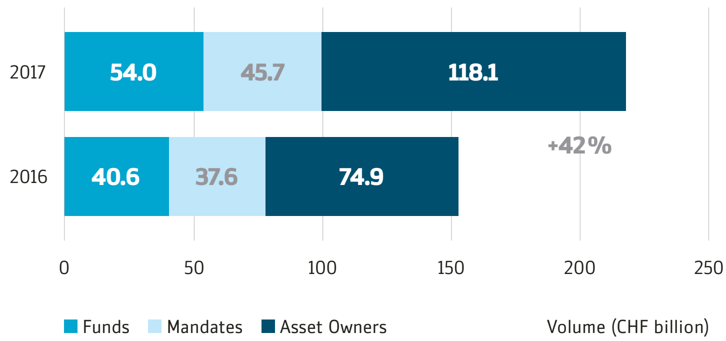
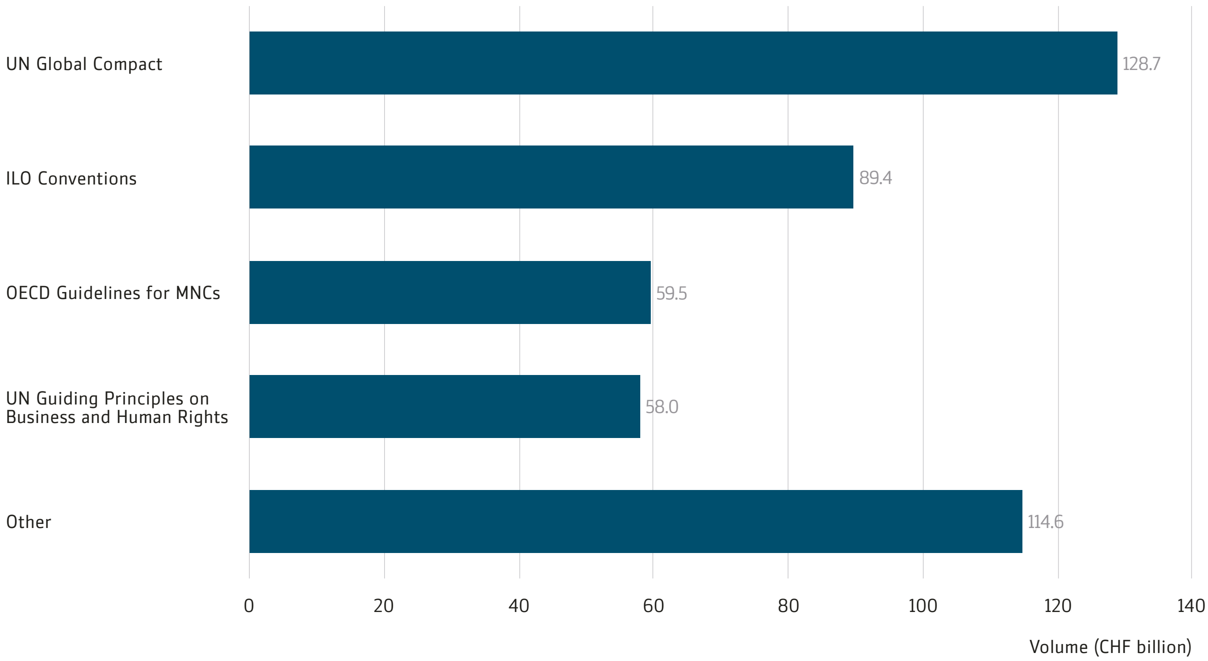


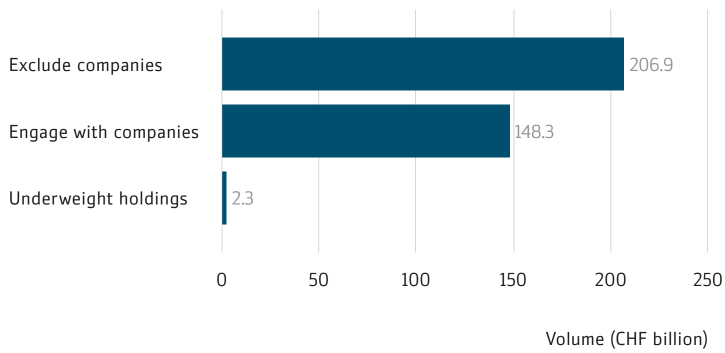
Figure 15
CRITERIA FOR NORMS-BASED SCREENING
(IN CHF BILLION) (n=27)



works, respondents used several other norms as the basis for their screens, such as criteria of SVVK-ASIR, the International Union for Conservation of Nature (IUCN), the REACH regulation of the European Union or the International Corporate Governance Network (ICGN).

Survey respondents were also asked about the actions they take when companies are found to be in breach of one of the applied norms. The responses indicate that asset managers and owners typically take further action (Figure 16). The most common action is to exclude these companies from their investment universe (CHF 206.9 billion). The next most prominent action is to engage with companies (CHF 148.3 billion). An action that plays rather a minor role is to underweight such holdings (CHF 2.3 billion).

Figure 16
INVESTOR ACTIONS FOLLOWING NORMS VIOLATIONS
(IN CHF BILLION) (n=26)

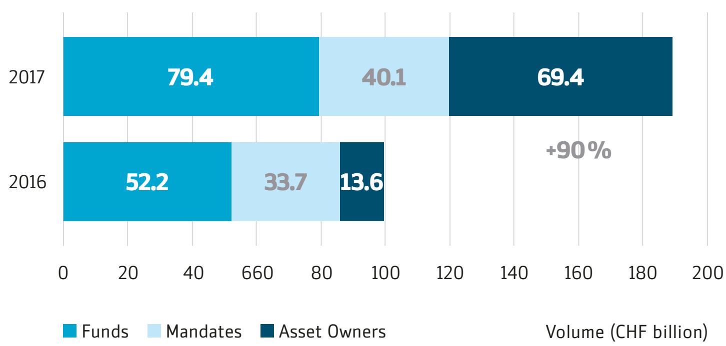


ESG INTEGRATION

Reaching 90%, the ESG integration approach has experienced remarkable growth since 2016 (Figure 17). This can largely be attributed to existing study participants that introduced ESG integration and to a smaller extent to new asset owner participant volumes. To integrate ESG factors, study participants applied different methods. Amongst asset owners, switching to ESG benchmarks was a prominent way to establish ESG integration.

Asset managers still account for the main share of the total volume (63%). At CHF 188.9 billion, ESG integration has become the second most important SI approach in Switzerland, which is applied to 48% of all sustainable assets.

Figure 17
ESG INTEGRATION (IN CHF BILLION) (n=33)



[19] Due to the narrower scope of the study in 2017 (i.e. only including assets managed out of Switzerland and a recategorisation of SI assets by respondents from core to broad), past mandate volumes were corrected in order to allow a proper comparison with 2017 data, which leads to restated 2016 volumes of different SI approaches.

[20] Eurosif (2016): "European SRI Study 2016".

Figure 18
ESG ENGAGEMENT (IN CHF BILLION) (n=25)

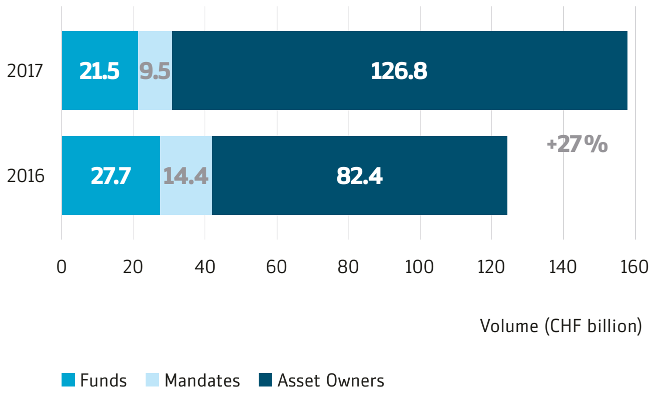
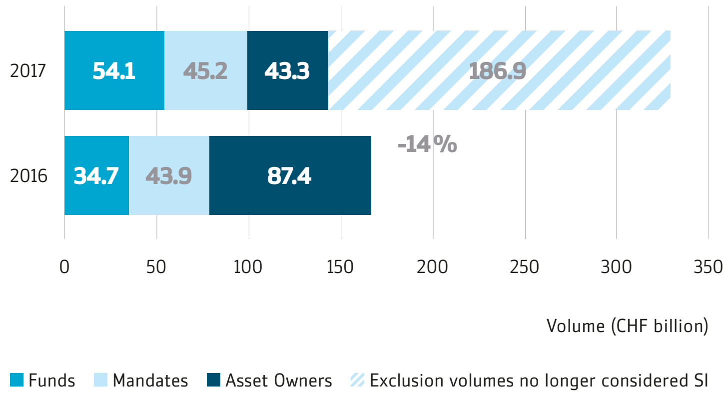


Figure 19
EXCLUSIONS (IN CHF BILLION) (n=34)



ESG ENGAGEMENT

With a total of CHF 157.8 billion, the ESG engagement approach now ranks third and is applied to 40% of all sustainable investments in Switzerland. The 27% increase is mainly due to asset owners, who accounted for a large proportion of 80% at the end of 2017 (Figure 18).

As for funds and mandates, one large asset manager no longer categorises their AuM as following an ESG engagement approach, which results in a decline for both product categories.

EXCLUSIONS

With a total volume of CHF 142.6 billion, the exclusion approach is applied to 37% of all sustainable investments in Switzerland. With a share of 70%, asset managers account for the bulk of the overall volume (Figure 19). Compared to 2016, exclusions have experienced a loss of 14%. On the one hand, this is due to a change in interpretation by some asset owners that resulted in lower reported volumes.[21] On the other hand, volumes that only contemplated the exclusion of cluster munitions, anti-personnel landmines and weapons of mass destruction as defined in the Swiss Federal Act on War Material (WMA)[22] are not considered as part of an explicit exclusion strategy in this year's study.

Investment strategies utilising exclusion criteria reflect investors' values within their investments by avoiding specific companies or sectors. The exclusion criterion for SI assets used most frequently by Swiss asset managers and asset owners was the production and trade of weapons (Figure 20). As of 31 December 2017, this amounted to CHF 102.5 billion (2016: CHF 90 billion). The volume from asset managers is pivotal in this context, accounting for 84% of the total volume. Other top criteria regarding controversial business practices or areas are tobacco (CHF 99.7 billion compared to CHF 80 billion in 2016), nuclear energy (CHF 88.9 billion compared to CHF 61.3 billion in 2016) and the violation of human rights (CHF 86.1 billion compared to CHF 130.2 billion in 2016). Although the latter ranks fourth amongst all exclusions, it represents one of the most widely used exclusions by asset owners, totalling CHF 42.8 billion, with labour issues following closely at CHF 42.7 billion. Furthermore, a variety of criteria were named that fall under the category "Other" in Figure 20. These included, for instance, automobiles, aviation, pesticides, palm oil, drift-net fishing, ozone-depleting substances, hazardous chemicals, and radioactive materials. As mentioned above, mere exclusion of cluster munitions and anti-personnel landmines and weapons of mass destruction is no longer included in the official statistics. However, data was still collected on these two exclusions, which accounted for CHF 186.9 billion and CHF 178.5 billion, respectively.

In 2017, the top exclusion criterion applied to countries by asset managers was the violation of non-proliferation treaties (CHF 6.4 billion, see Figure 21). Corruption and dictatorship reached similar volumes at CHF 6.2 billion and CHF 5.7 billion. Additionally, a range of other criteria was mentioned, such as limited media freedom, whaling, and a low ESG rating by MSCI. Yet only 20% of all sustainable funds and mandates in Switzerland apply exclusion criteria at a country level.

Figure 20
APPLIED EXCLUSION CRITERIA FOR COMPANIES
(IN CHF BILLION) (n=34)

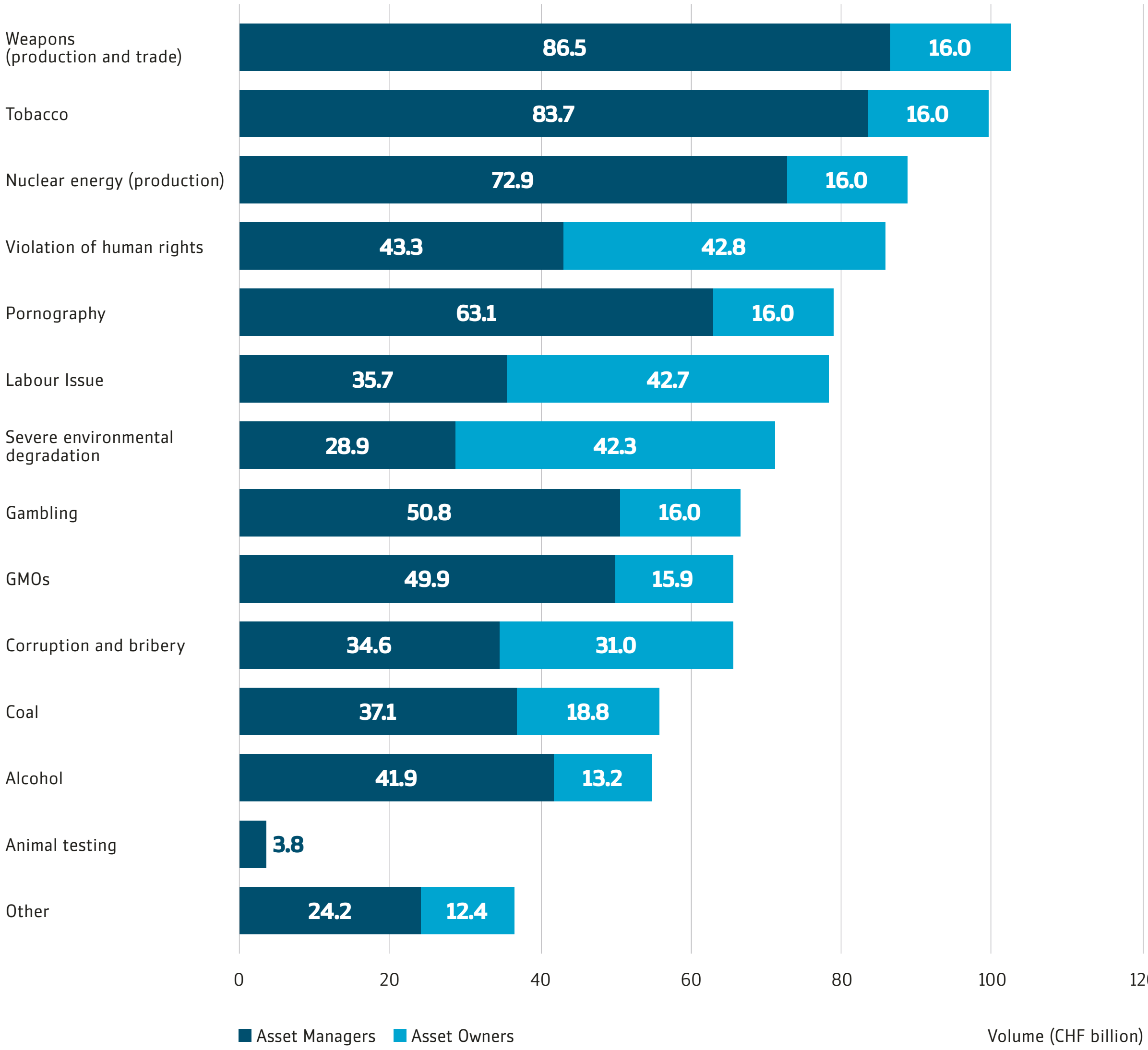


Figure 21
APPLIED EXCLUSION CRITERIA FOR COUNTRIES
(IN CHF BILLION) (n=10)

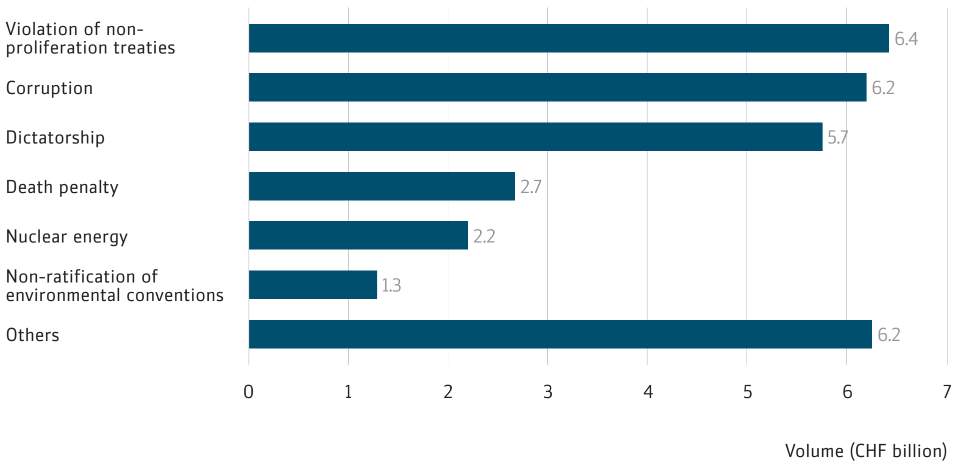


Figure 22
ESG VOTING (IN CHF BILLION) (n=37)

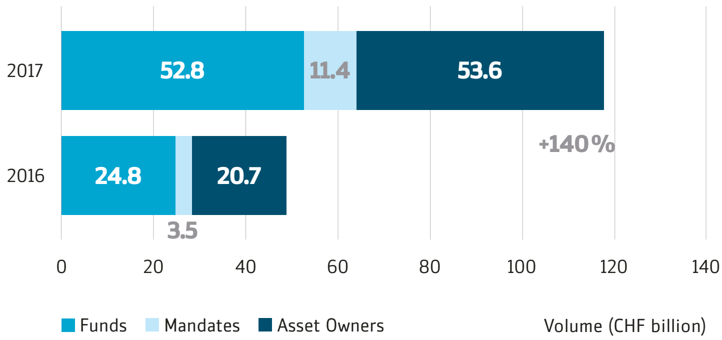


Figure 24
SUSTAINABLE THEMATIC INVESTMENTS
(IN CHF BILLION) (n=19)

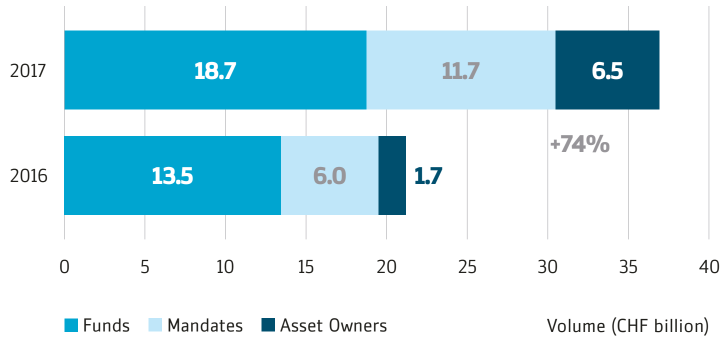
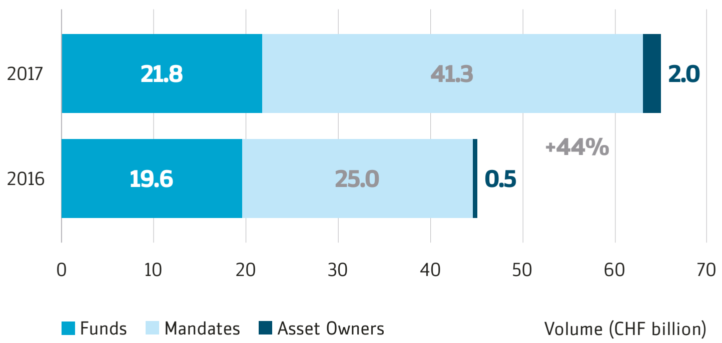


Figure 23
BEST-IN-CLASS (IN CHF BILLION) (n=19)



ESG VOTING

As a highly relevant finding, the ESG voting approach recorded a substantial increase of 140% compared to 2016. Figure 22 illustrates that this development can be ascribed to both the market growth of asset managers' sustainable funds and mandates, as well as higher volumes by asset owners. Voting as an active SI approach seems to be equally important for both asset managers (54% of total volume) and asset owners (46% of total volume). Altogether, the voting approach now accounts for a volume of CHF 117.8 billion and is applied to 30% of all sustainable assets. This might reflect the fact that with the introduction of the Swiss Ordinance against Excessive Compensation in Listed Companies (VegüV), exercising voting rights has become standard practice amongst Swiss pension funds.

BEST-IN-CLASS

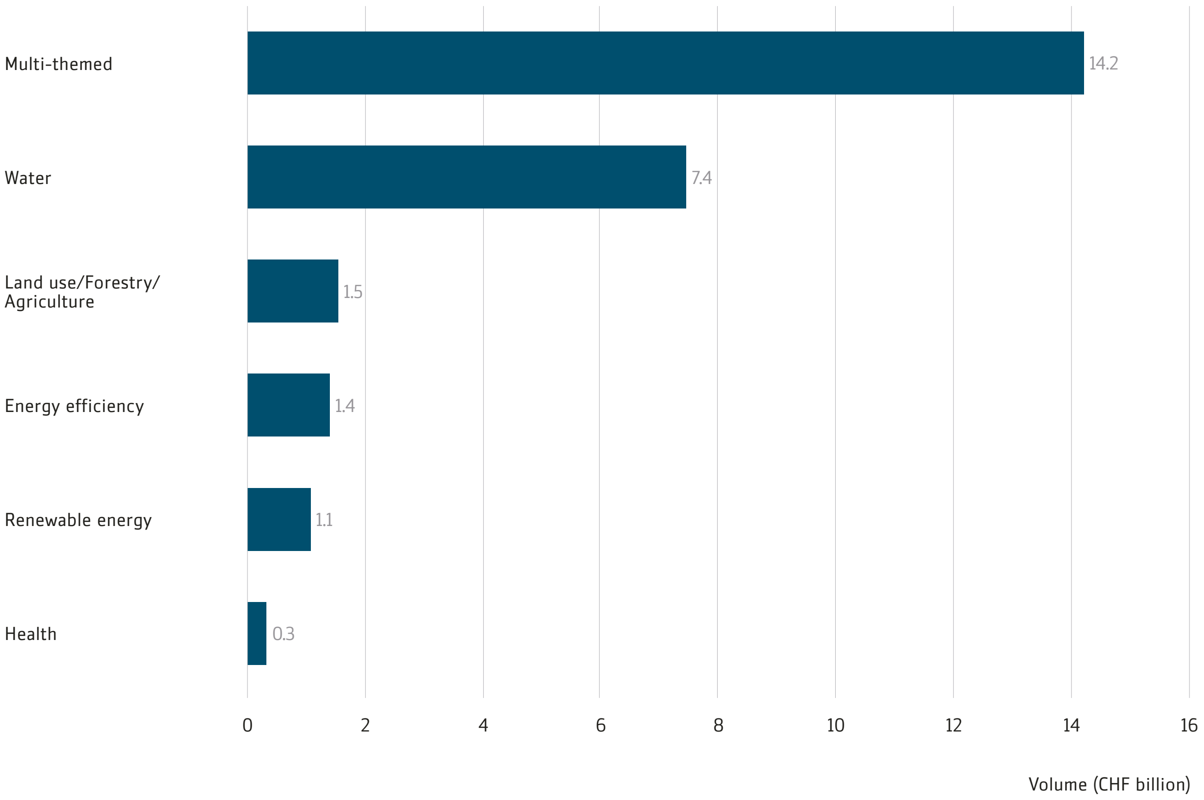
Since last year, this approach has experienced growth of 44%, reaching a volume of CHF 65.1 billion. Figure 23 illustrates that best-in-class is mostly used by asset managers, who account for 97% of the total invested volume. The big increase seen between 2016 and 2017 can be attributed to one large asset manager, who reported a substantial rise in assets applying this approach. At present, 17% of all sustainable assets are subject to this approach.

SUSTAINABLE THEMATIC INVESTMENTS

Sustainable thematic investments recorded growth of 74% in 2017. Coming from a volume of CHF 21.2 billion, they now stand at CHF 36.9 billion and rank seventh among all approaches (Figure 24). It is an approach mainly applied by asset managers who contribute 82% to the total volume. The overall use pertains to 9% of all sustainable assets in Switzerland.

In 2017, the top single theme in which asset managers invested was water, at CHF 7.4 billion (Figure 25). Other relevant themes were land use/forestry/agriculture, energy efficiency, renewable energy, and health. Besides focusing on one specific theme, asset managers also held a number of multi-themed funds and mandates combining a broad range of different areas for investing. Multi-themed funds amounted to CHF 14.2 billion by the end of 2017.

Figure 25
MAIN SUSTAINABLE THEMATIC INVESTMENT THEMES
(IN CHF BILLION) (n=14)

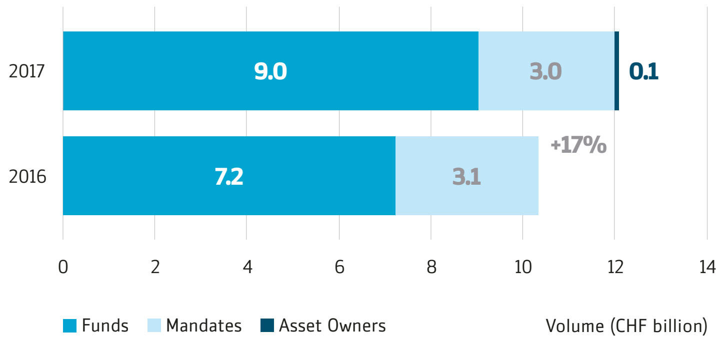


IMPACT INVESTING

With annual growth of 17%, impact investing accounted for CHF 12.1 billion and covered 3% of all sustainable assets in Switzerland (Figure 26). This approach is strongly linked to asset classes such as private debt and equity, which are inherently low in volume, hence it is no surprise that this approach represents the smallest share of all SI assets in Switzerland. It is applied almost exclusively by asset managers, as it requires specialist know-how and extensive resources.

In total, 87 products were defined as impact investments by 16 asset managers. Individual volumes of asset managers ranged from around CHF 10 million to CHF 2.6 billion. Interestingly, three respondents contribute 58% to the overall volume of impact investments, showing that there is a certain level of market concentration when it comes to impact investing in Switzerland. For the majority of impact-related products (93%), asset managers are not willing to accept a financial return lower than the market return in exchange for a positive social and/or environmental impact.[23] This supports the fact that in Switzerland, impact investing is considered an investment approach rather than a form of philanthropy.

Figure 26
IMPACT INVESTING (IN CHF BILLION) (n=20)[24]



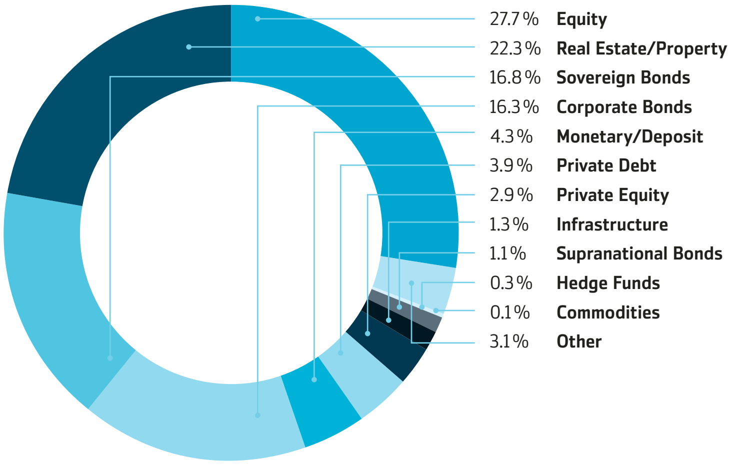
[21] Due to the norms-based screening approach applied by asset managers based on SVVK-ASIR, some large asset owners reclassified what they had previously reported as exclusions to norms-based screening.

[22] According to the Swiss Federal Act on War Material (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 to no longer count such exclusions as sustainable investments.

[23] This data is based on responses linked to 56 funds or mandates.

[24] Due to incorrect interpretation of impact investing by two respondents, fund volumes had to be reduced by around CHF 2.4 billion and mandate volumes had to be reduced by around CHF 2.2 billion for 2016.

Figure 27
ASSET CLASS DISTRIBUTION FOR SUSTAINABLE INVESTMENTS (IN %) (n=48)



2.4 ASSET ALLOCATION

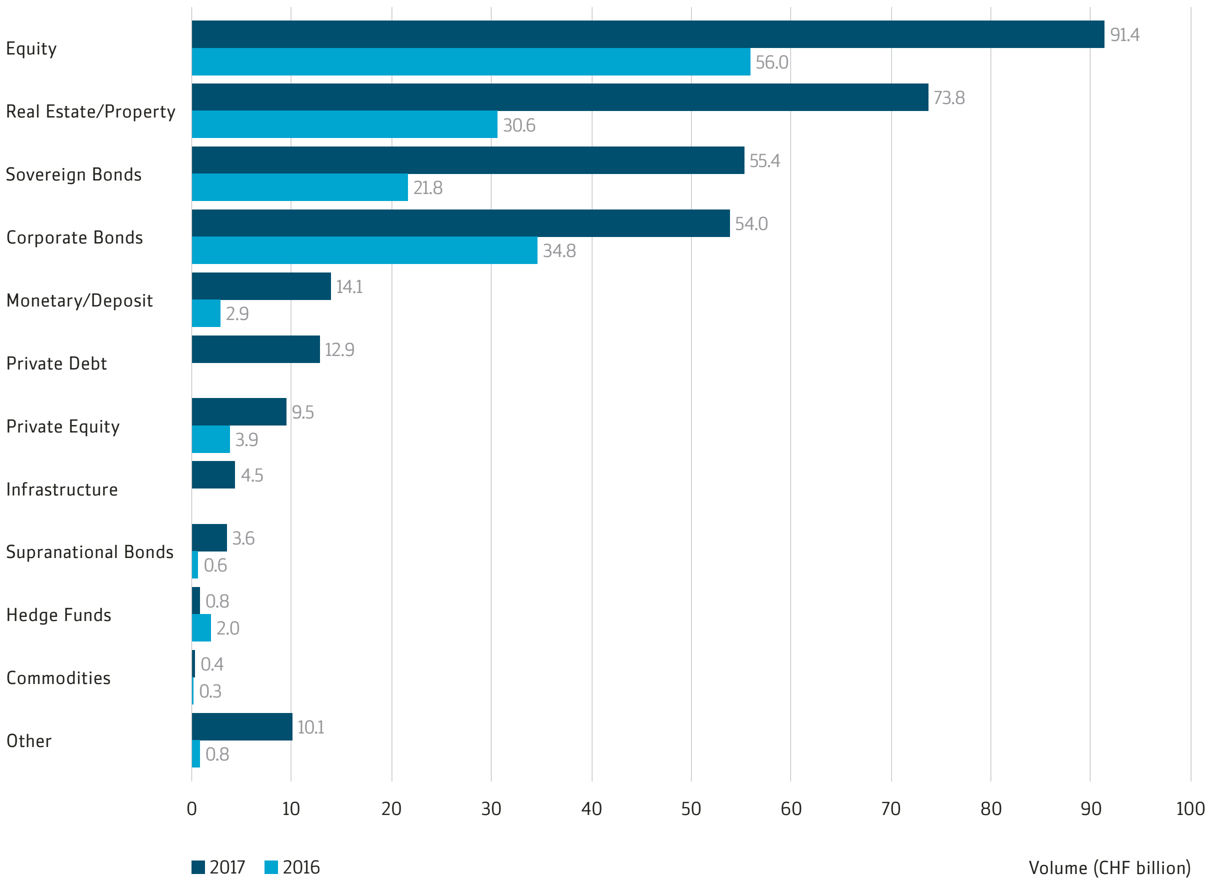
The asset allocation of sustainable investments has experienced some shifts from 2016 to 2017. With a share of 28%, equities remain the most popular category for SI across asset managers and asset owners in Switzerland (Figure 27).[25] Compared to the previous year, though, this asset class has recorded a loss of eight percentage points. Unlike 2016, the second largest asset class is now real estate/property with 22%. Sovereign bonds are in third place with 17%. Corporate bonds also recorded a considerable reduction of seven percentage points, down to 16%. However, when combining sovereign bonds, corporate bonds and supranational bonds, their overall share rises to 34% and exceeds equities. The remaining share of 17% is distributed among various other asset classes with comparatively smaller volumes.

Asset managers and asset owners show major differences in the asset allocation of their sustainable investments. The largest ones exist for equities, where asset managers invest 42% and asset owners 18%, as well as for sovereign bonds, where asset managers invest 5% and asset owners 25%. These differences stem from the fact that both pension funds and insurance companies hold a larger proportion of bonds overall, due to regulatory requirements.

Figure 28 captures the developments of asset allocation in absolute terms. It highlights the significant increase of all four major asset classes. The largest relative increase was recorded for sovereign bonds, which have risen from CHF 21.8 billion to CHF 55.4 billion (154%). This growth is mainly driven by the big increase in asset owner respondents. The real estate/property asset class has also

Figure 28
CHANGE IN ASSET CLASS DISTRIBUTION FOR SUSTAINABLE INVESTMENTS (IN CHF BILLION)

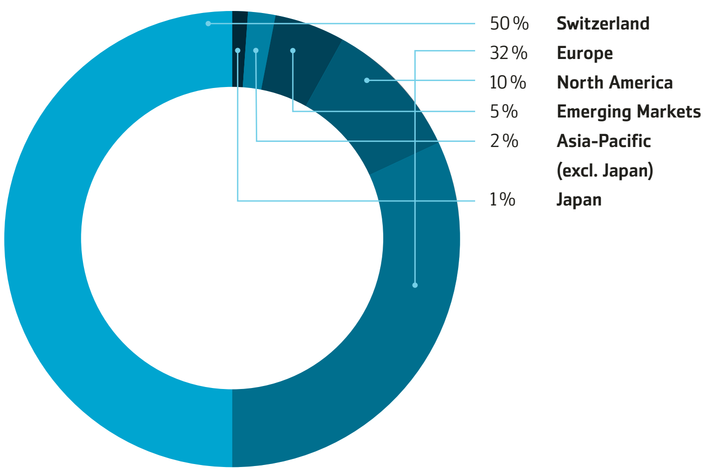
Source: SSF, FNG



experienced substantial growth, expanding from CHF 30.6 billion to CHF 73.8 billion (141%), mainly driven by the application of sustainability approaches to some large real-estate funds. The growth rates for equities and corporate bonds were much smaller, accounting for 63% and 55% respectively.

A breakdown of the regional allocation of SI assets managed by asset owners shows that the bulk (50%) is invested in Switzerland (Figure 29).[26] This home bias is partly driven by regulation and partly by investor preference. Another large proportion of 32% is invested in Europe and 10% is invested in the North-American market. Emerging markets represent 5% of all sustainable investments.

Figure 29
REGIONAL ALLOCATION OF SUSTAINABLE INVESTMENTS (IN %) (n=23)



[25] This data is based on a volume of around CHF 330.6 billion for sustainable funds, mandates and self-managed assets by asset owners. It represents 85% of the total reported volume for SI.

[26] This data is based on a volume of CHF 178.4 billion for SI assets. It represents 75% of the total reported volume by asset owners.

2.5 **SPECIAL TOPICS**

THE ROLE OF SUSTAINABLE DEVELOPMENT GOALS FOR INVESTORS

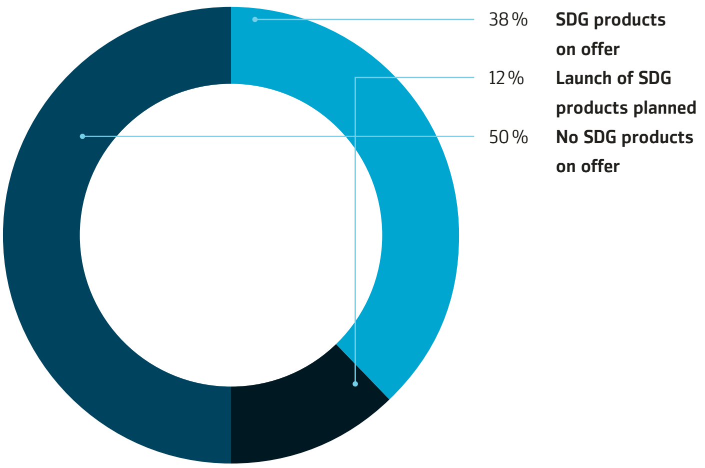
At the UN Sustainable Development Summit in 2015 the UN adopted the 2030 Agenda for Sustainable Development and formulated 17 Sustainable Development Goals (SDGs). Similar to the previous Millennium Goals, the new goals reference a wide array of basic needs and global sustainability challenges, such 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.[27] Seeing the increasing importance of this topic for investors, SSF included some specific questions on how SDGs are considered within the SI approaches of asset managers.

As shown in Figure 30, 38% of asset managers responded that they already have products with a specific reference to the SDGs and that they report on their contribution to specific SDGs. Another 12% indicated that they plan to create SDG-related products in the future.[28] These numbers clearly demonstrate that the SDGs are an important topic that have entered the Swiss finance sector and may prompt further actors to align their products and strategies with the SDGs.

In order to determine an investment product's contribution to the SDGs, several options were named. Most of the asset managers utilise the IRIS metrics of the Global Impact Investing Network (GIIN), such as "water savings from products sold" or "number of individuals who were provided access to improved health care". Eight out of eleven responding asset managers use thematic investments based on specific SDGs; again, eight engage with companies on their contribution to the SDGs. Amongst others, participating in the Align17 initiative was named as another way to implement the goals. Align17 is an independent platform established by WEF Young Global Leaders to address SDG funding gaps through connecting investors with specific investment opportunities.

Figure 31 illustrates that the goal to foster innovation and build resilient infrastructure (SDG 9) is most prominently incorporated, while only two asset managers explicitly reflect on the goal of peace and justice (SDG 16).

Figure 30
OFFERING OF SDG-RELATED PRODUCTS BY ASSET MANAGERS (IN % OF RESPONDENTS) (n=26)



Asset managers are motivated to develop SDG-related products for different reasons. The most prominent one is to use the SDGs as a framework to direct investments towards sustainable solutions (Figure 32). Out of ten respondents, four rated this factor as being 'very important' and three as being 'important'. The next most important driver for SDG-related products is growing client demand. The positive reputation of the company as well as the fulfilment of their fiduciary duty were named as further relevant motivations. Investor initiatives currently play only a minor role for triggering the development of SDG-related products.

[27] UNCTAD (2014): "World Investment Report 2014 – Investing in the SDGs: An Action Plan", United Nations Conference on Trade and Investment, New York and Geneva, 2014.

[28] This data is based on 26 responses.

Figure 31

SPECIFIC SDGS ADDRESSED IN FINANCIAL PRODUCTS
(IN NUMBER OF RESPONSES) (n=9)

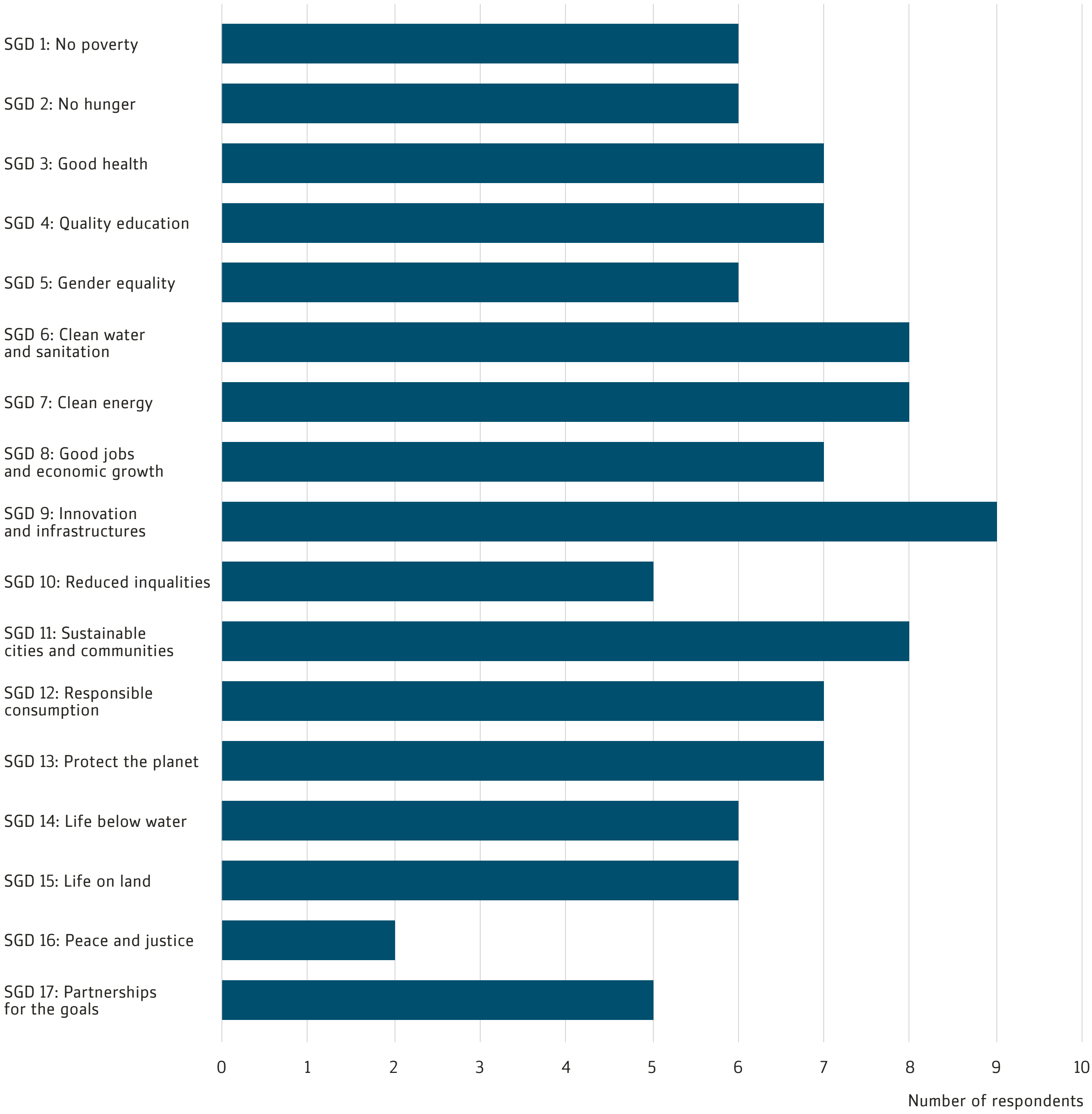


Figure 32

MAIN MOTIVATIONS FOR DEVELOPING SDG-RELATED PRODUCTS (IN AVERAGE LEVEL OF IMPORTANCE) (n=10)

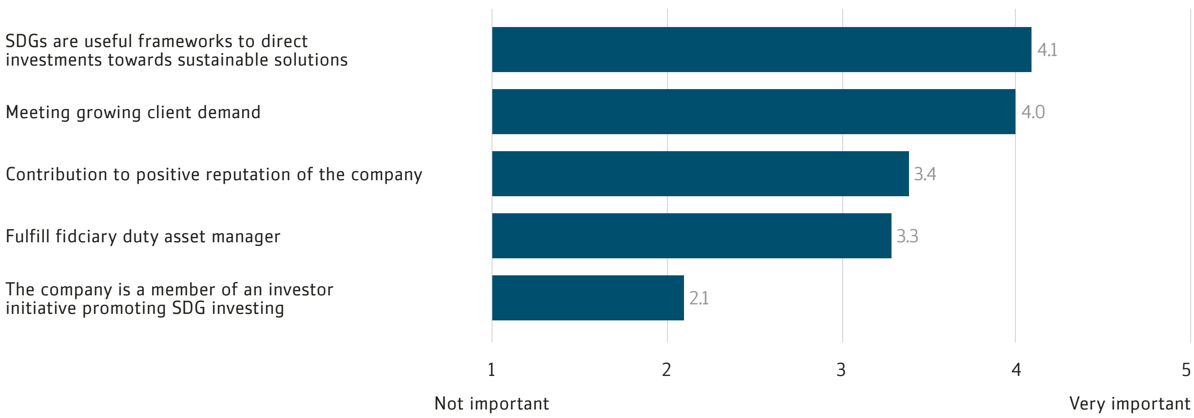
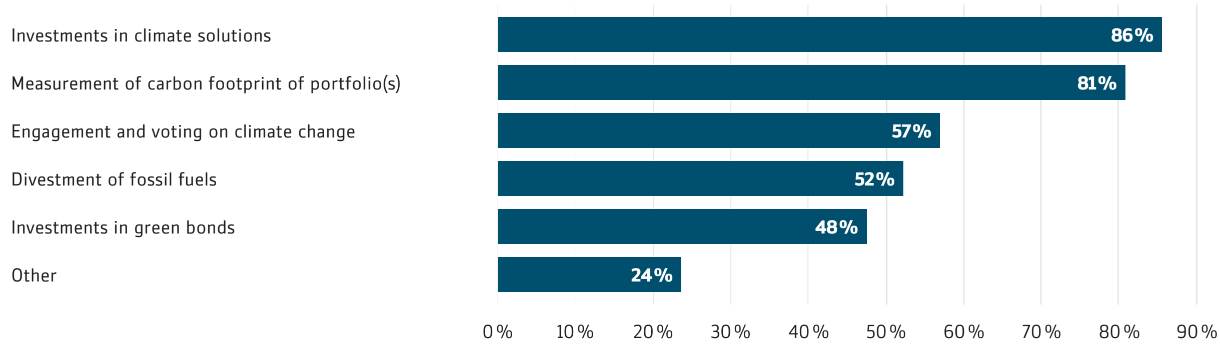


Figure 33
MAIN STRATEGIES REGARDING CLIMATE CHANGE (IN % OF RESPONDENTS) (n=21)



CLIMATE CHANGE

The Paris Agreement, signed at the COP21 by 195 member countries in December 2015, aims "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."[29] This ambitious goal requires economy-wide efforts to mitigate greenhouse gas emissions and to pave the way for new low-carbon technologies. It also generates different risks and opportunities that need to be considered in order to stay competitive in a changing environment – this holds true for firms and financial market players alike.

In total, 21 asset managers, or two thirds of those surveyed, indicated that they explicitly address climate change. Investments in climate solutions turned out to be the most important strategy regarding climate change, named by 86% of respondents (Figure 33). Measurement of the carbon footprint of portfolios is in second place, indicated by 81% of respondents. Other strategies are engagement and voting on climate change (57%), divestment from fossil fuels (52%) and investments in green bonds (48%). Additionally, committing to initiatives such as the Portfolio Decarbonization Coalition (PDC) or Climate Action 100+ were named.

Only nine respondents indicated that they publish information on their climate change strategy. This outcome highlights an area for improvement, since only through intense reporting and disclosure practices will awareness of this topic improve – in the finance sector as well as for private investors.

ASSETS UNDER LICENSE

In addition to managing clients' assets, some asset managers also provide proprietary data through license agreements to third-parties that manage their assets based on this data. These asset managers enable others to integrate sustainability considerations, who otherwise would not have the capability or means to do so.

Based on two respondents with such offerings, the survey revealed a volume of CHF 9.1 billion that is managed based on sustainability indices, and CHF 1.2 billion that is managed based on sustainability research.[30] Generally, sustainability indices and related products such as ETFs as a tool to manage sustainable assets are of growing importance as illustrated in the Migros Pension Fund case study on page 50.

[29] UNFCCC (2015): "The Paris Agreement", available at http://unfccc.int/paris_agreement/items/9485.php, accessed on 04/20/2018.

[30] This data is based on two respondents.

3 BROAD SUSTAINABLE INVESTMENT POLICIES

Sustainable investment approaches can also be applied product-independently to a wide range or even an entire range of assets – referred to as broad SI. Typically, general SI policies need to be defined and applied in order to implement broad SI approaches. This study reflects on the following approaches as part of broad SI policies: ESG integration, ESG engagement, exclusions, norms-based screening, and ESG voting.

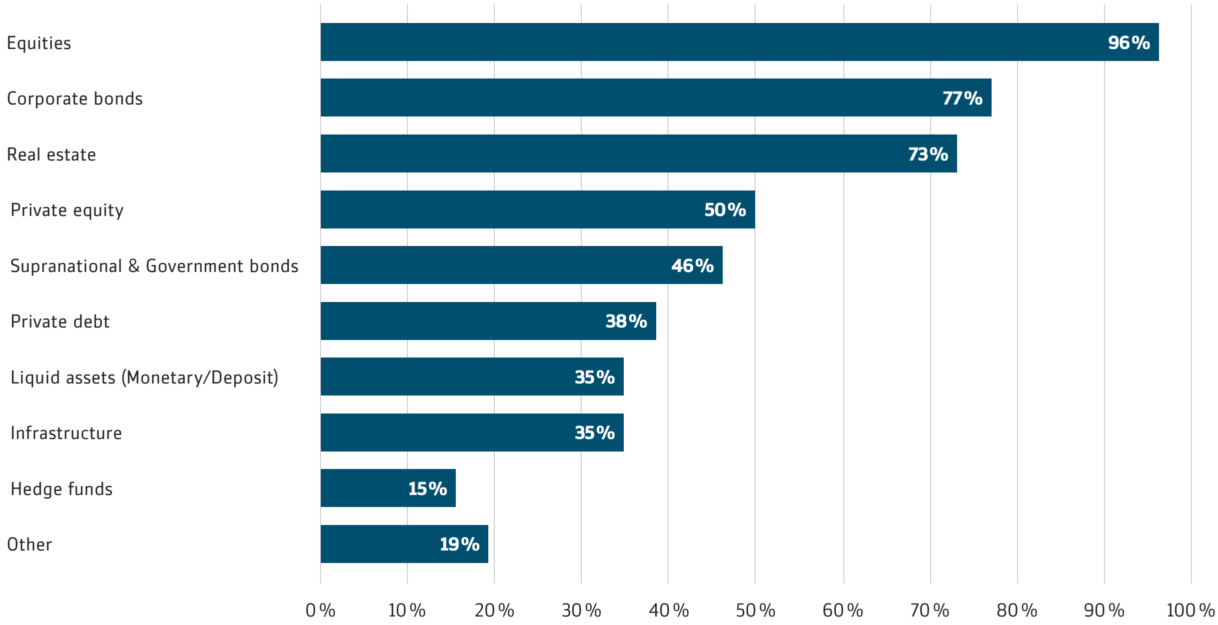
Figure 34 presents the total volumes that are subject to such policies.[31] At CHF 538.1 billion, the most common approach is ESG integration, followed by ESG engagement at CHF 475.6 billion. The exclusion of controversial business practices or areas ranked third, amounting to CHF 382 billion. The original volume reported for exclusions was CHF 1,123.1 billion. However, it included large volumes of investments that merely exclude cluster munitions, anti-personnel landmines and weapons of mass destruction. For the purposes of this study, such assets are no longer considered broad SI as it has become common industry practice in Switzerland, as well as in other European countries, to apply such exclusions (see chapter 2.3). It is European practice to only count assets as sustainable if they go beyond legal requirements. In this case, the volume of exclusions was therefore corrected to CHF 382 billion. Accounting for CHF 374.9 billion and CHF 345.1 billion, norms-based screening and voting are currently used for slightly lower volumes. The distribution shows that if legally binding exclusions are ignored, all approaches are more or less equally relevant in terms of broad SI policies.[32]

Figure 34
APPROACHES ADDRESSED IN BROAD SI POLICIES
(IN CHF BILLION) (n=55)

31 These are individual volumes per approach. Most companies have more than one approach implemented. Thus, adding up the individual volumes to an overall sum would be misleading.

32 Since the scope of this year's study has been restricted exclusively to assets managed in Switzerland, large volumes of asset managers' global assets were disregarded. Thus, a direct comparison to previous years is not useful.

Figure 35
ASSET CLASSES COVERED BY BROAD SI POLICIES
(IN % OF RESPONDENTS) (n=26)



26 asset owners covered by this study already have a broad SI policy in place. A further three plan to define one in the course of this year. As Figure 35 shows, the policies typically apply to equities (96%), corporate bonds (77%) and real estate (73%). For all other asset classes, 50% or less of responding asset owners declared a specific coverage by a broad SI policy. Hedge funds come in last, with a coverage of only about 15%.

The following sub-chapters will provide more details on the specific broad SI approaches applied by asset managers and asset owners.

ESG INTEGRATION

Out of 26 responding asset managers, 21 reported having a formal policy on ESG integration in place, which is applied across the entire range or large shares of AuM of their organisation (Figure 36). 15 out of 22 asset owner respondents reported having a formal policy in this regard. All respondents indicated that they cover all three ESG areas – i.e. environmental, social and governance aspects – within their integration activities.

In order to investigate the quality of different ESG integration approaches in more detail, it helps to distinguish between non-systematic and systematic integration of ESG considerations. The former refers to an approach where ESG research/analysis is made available to mainstream analysts and fund managers. The latter focuses on the explicit inclusion of ESG information within financial ratings or valuations, or the application of minimum ESG-performance thresholds. For the purposes of this study, non-systematic approaches were not considered as sustainable assets. The responses of asset managers revealed that CHF 254.2 billion apply a systematic approach. Well over half of these assets follow an approach in which systematic consideration/inclusion of ESG research/analyses in financial ratings/valuations by analysts and fund managers is applied. For only about 15% of these assets were minimum ESG-performance thresholds applied. We also saw that some respondents apply a combination of both methods.

Figure 36
FORMAL POLICY ON ESG INTEGRATION
(IN NUMBER OF RESPONDENTS) (n=48)

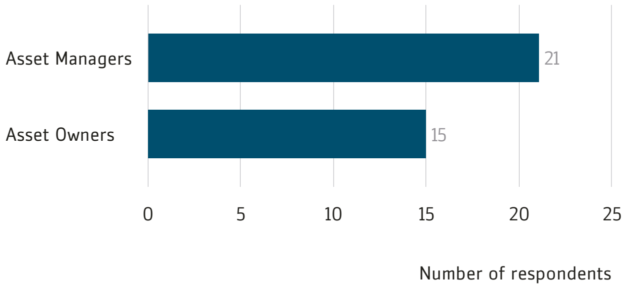
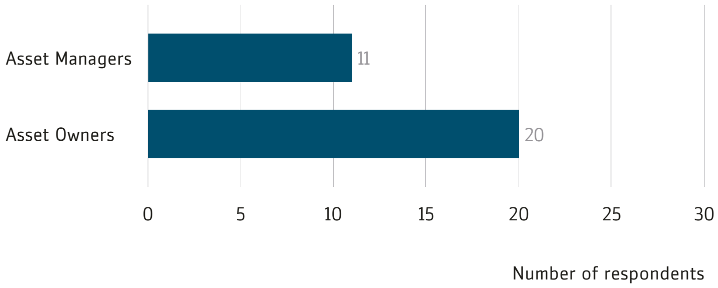


Figure 37
FORMAL POLICY ON ESG ENGAGEMENT
(IN NUMBER OF RESPONDENTS) (n=50)



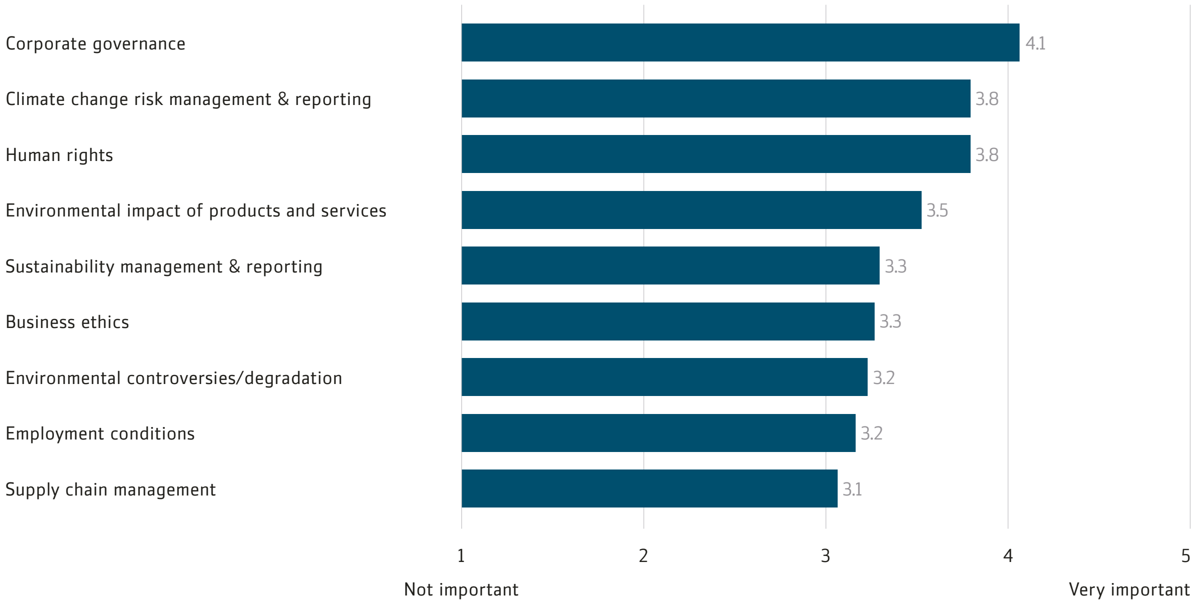
ESG ENGAGEMENT

Out of 21 responding asset managers, over half claimed to have a formal policy on ESG engagement in place (Figure 37). In the case of asset owners, two-thirds of the 29 respondents have such a policy.

Seven asset managers stated that they only used internal resources for their ESG engagement activities. However, shareholder engagement is typically a resource-intensive process, therefore it was no surprise that four asset managers stated that they partially outsource their engagement efforts to a service provider. Pooling investors makes it possible to conduct an effective dialogue with companies on sustainability issues. If this improves company performance, all the involved investors can benefit.[33]

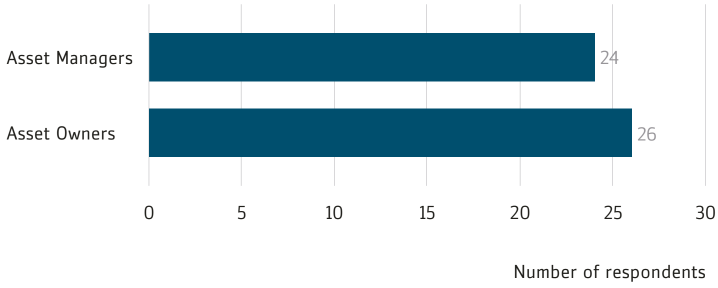
Similar to the 2016 results, the most important ESG engagement themes for Swiss asset managers and asset owners were corporate governance and climate change risk management & reporting (Figure 38). Among the other themes, there have been some changes in relevance. For example, human rights have gained in relative importance, while supply chain management has lost in relative importance.

Figure 38
MAIN ESG ENGAGEMENT THEMES
(IN AVERAGE LEVEL OF IMPORTANCE) (n=30)



[33] SSF (2017): "Handbook on Sustainable Investments – Background Information and Practical Examples for Institutional Asset Owners", Zurich, December 2017.

Figure 39
FORMAL POLICY ON EXCLUSIONS[34]
(IN NUMBER OF RESPONDENTS) (n=55)



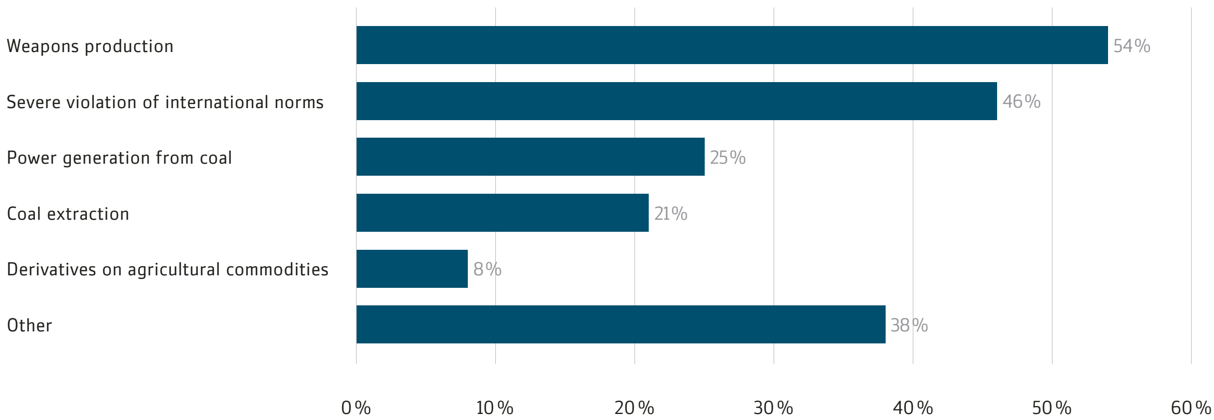
EXCLUSIONS

To gain a better understanding of the consequences of unsuccessful engagement, asset owners were asked about their typical reaction. There are two actions generally taken by asset owners: out of 20 respondents, eleven reported that they excluded companies from their investible universe, and three said they underweighted such holdings. Six respondents indicated that they take other actions, such as divesting from direct investments or simply persisting with their engagement efforts. Additionally, nine asset owners gave information on the time-frame for reacting to unsuccessful engagement. Answers ranged from immediate action to 3 years, with the most popular time frame being 2 years (named by five respondents).

Among 27 responding asset managers, a high proportion (24) confirmed that they have a formal policy on exclusions in place (Figure 39). This number is also very high in the case of asset owners: 26 out of 28 respondents confirmed they apply exclusion criteria across a wide range or the entire range of their assets.

24 asset managers provided information on the exclusion criteria they apply to their investments. As shown in Figure 40, the most frequently used criterion is the production of all kinds of weapons. It is utilised by 54% of respondents. It is closely followed by the severe violation of international norms, accounting for 46% of respondents. Further relevant criteria include power generation from coal and coal extraction, as well as derivatives on agricultural products. Additionally, a variety of other topics was given by individual asset managers, such as alcohol, tobacco, gambling and GMOs.

Figure 40
EXCLUSION CRITERIA APPLIED IN BROAD SI APPROACHES (IN % OF RESPONDENTS) (n=24)



NORMS-BASED SCREENING

Eleven asset managers indicated that they generally screen their investments for severe violations of international norms (Figure 41). Consistent with the findings in chapter 2.3, the most frequently mentioned norms included the UN Global Compact and the ILO Conventions, followed by the OECD Guidelines and several others. Considering asset owners, 18 out of 26 respondents confirmed that they have a norms-based screening approach in place.

ESG VOTING

Out of 20 responding asset managers, 13 stated that they have a formal policy on ESG voting in place (Figure 42). For asset owners, this applies to 21 out of 30 respondents. As in the case of ESG integration and ESG engagement, voting policies of asset managers and asset owners mostly cover a combination of environmental, social and governance aspects.[35]

For 77% of total AuM covered by asset managers' voting policies, respondents stated that they had exercised voting rights in 2017.[36] This comes as no surprise, since exercising voting rights for certain topics is mandatory in Switzerland.[37]

Figure 41
APPLICATION OF NORMS-BASED SCREENING
(IN NUMBER OF RESPONDENTS) (n=43)

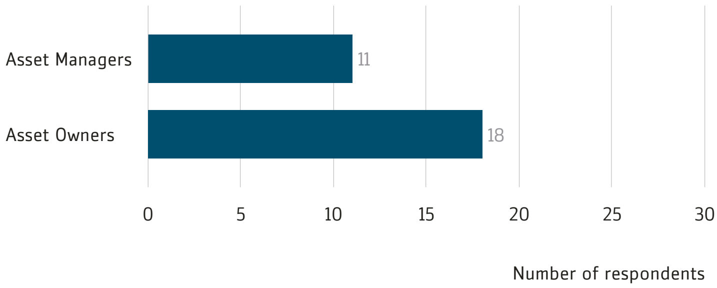
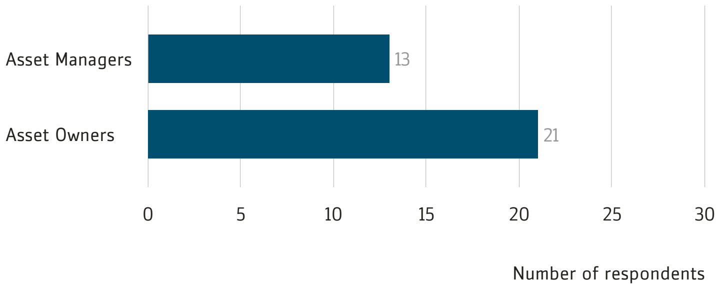


Figure 42
FORMAL POLICY ON ESG VOTING
(IN NUMBER OF RESPONDENTS) (n=50)



[34] The number of asset owners refers to respondents who apply any exclusion criteria on a large share of their assets. These are not necessarily embedded in a formal policy.

[35] This result is based on 13 responses of asset managers and 25 responses of asset owners. Five asset owners did indicate having a voting policy focusing solely on governance issues, which is why they were disregarded in the figure below.

[36] This data is based on a volume of CHF 254.2 billion, which is covered by asset managers' voting policies.

[37] For Swiss pension funds, the Swiss Ordinance against Excessive Compensation in Listed Companies (VegüV) makes it mandatory to actively vote on board compensation and other governance aspects. An active voting strategy limited to this aspect is therefore not counted as sustainable investment.

4 EXPECTED MARKET TRENDS

As the market survey covers two different groups (asset managers and asset owners), the analysis of their opinions is discussed separately in the following section.

4.1 MARKET TRENDS – ASSET MANAGERS

With respect to future market development, there is a widespread consensus among surveyed asset managers that the Swiss market for sustainable investments will continue to grow in 2018. However, different levels of growth are predicted: 14 study participants forecast market growth of up to 15%, eleven forecast growth between 16% and 30% and one even anticipates growth of 31% to 50% (Figure 43). Stagnation or negative developments, as well as growth of above 50%, are not expected.

Figure 43
GROWTH FORECASTS FOR SI IN SWITZERLAND IN 2018 BY ASSET MANAGERS (IN NUMBER OF RESPONDENTS) (n=26)

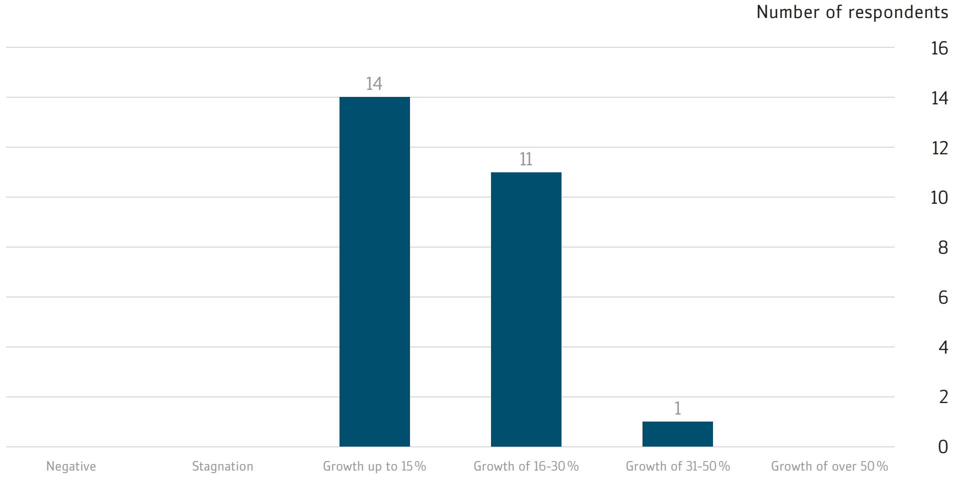
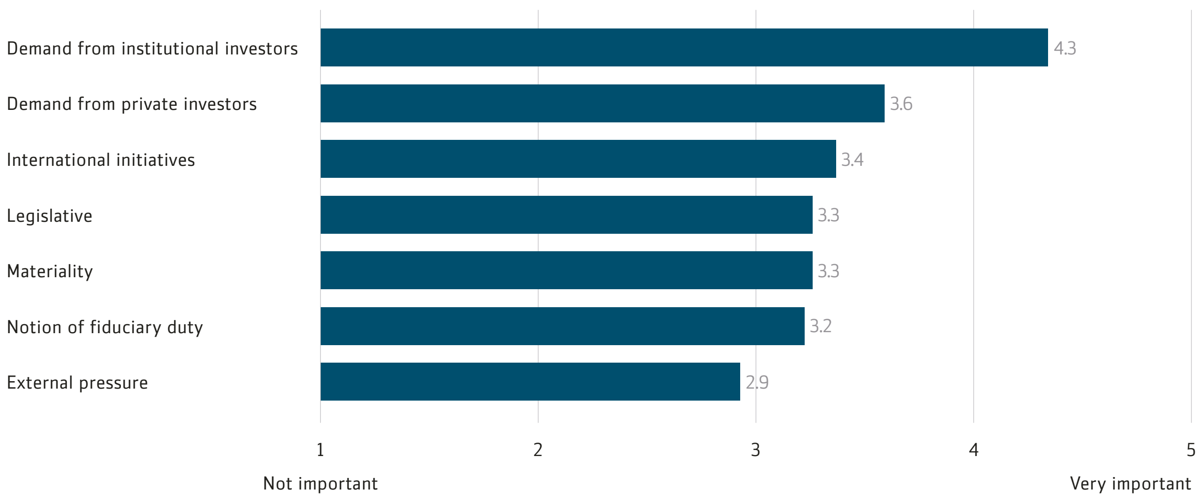


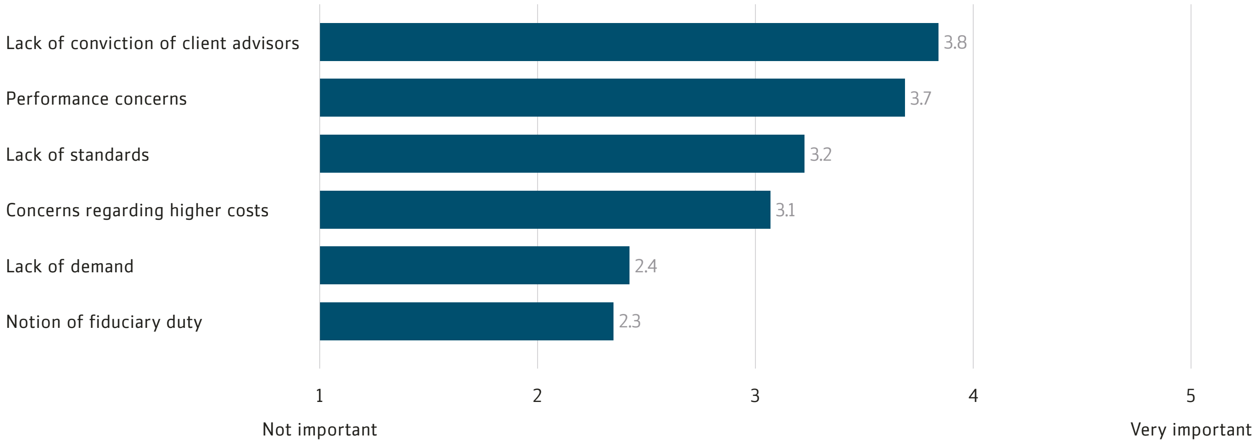
Figure 44
KEY DRIVERS FOR SI DEMAND IN THE NEXT 3 YEARS FOR ASSET MANAGERS
(IN AVERAGE LEVEL OF IMPORTANCE) (n=27)



Increasing demand by institutional investors was listed as a core driver for the SI growth by surveyed asset managers (Figure 44), similar to last year's outcome. 23 asset managers considered the role of institutional investors to be either 'very important' or 'important'. Demand stemming from private investors also ranked highly, being considered by 16 asset managers to be 'very important' or 'important'. Next to these drivers, other aspects are relatively evenly distributed, with a moderate level of importance on average.

Besides these drivers, the survey also asked for potential barriers to SI growth. Figure 45 illustrates that according to asset managers, the most critical barrier for the further broadening of sustainable investments is the lack of conviction of client advisors. This is an interesting outcome which is closely reflected by recent academic research and industry reports.[38] However, financial performance concerns seem to be equally relevant as a barrier. This finding contrasts with the latest academic findings which show that sustainable investments are on average at least as profitable as traditional investments in terms of financial performance.[39] Barriers with medium importance are the lack of standards, and concerns regarding higher costs. The lack of demand as well as the notion of fiduciary duty[40] are currently perceived as being of minor importance in terms of hindering the spread of sustainable investments.

Figure 45
KEY BARRIERS FOR SI GROWTH IN THE NEXT 3 YEARS FOR ASSET MANAGERS
(IN AVERAGE LEVEL OF IMPORTANCE) (n=26)



[38] SSF (2017): "Sustainable Investing: A unique opportunity for Swiss private wealth management", Zurich, March 2017.

[39] See Friede, G., Busch, T. & Bassen, A. (2015): "ESG and Financial Performance: Aggregated Evidence from more than 2,000 Empirical Studies." Journal of Sustainable Finance & Investment, 5 (4), 210-233.

[40] Chapter 6 will deal with the concept of fiduciary duty in more detail.

4.2 MARKET TRENDS – ASSET OWNERS

From the perspective of asset owners, the development of sustainable investments will experience slightly lower growth rates compared to the predictions made by asset managers. Counting 18 responses, the majority predicts growth of up to 15% and seven predict a growth of between 16% and 30% (Figure 46). Just one asset owner expects market stagnation.

Asset owners alluded to different motivations for adopting a SI policy. As shown in Figure 47, they perceive the alignment of investments with international or national norms and/or specific values of their organisation to be the most important factor. 13 respondents regarded this aspect even to be 'very important'. It is followed by the vision of fostering a long-term sustainable economy and society in second place. The changing understanding of fiduciary duty and the risk/return profile of investments represent other important, but less relevant, motives for the development of SI policies.

In terms of key drivers to the wider adoption of sustainable investment approaches, asset owners rated the pressure stemming from their organisation's board as the most important (Figure 48).

Figure 46
GROWTH FORECASTS FOR SI IN SWITZERLAND IN 2018 BY ASSET OWNERS
(IN NUMBER OF RESPONDENTS) (n=26)

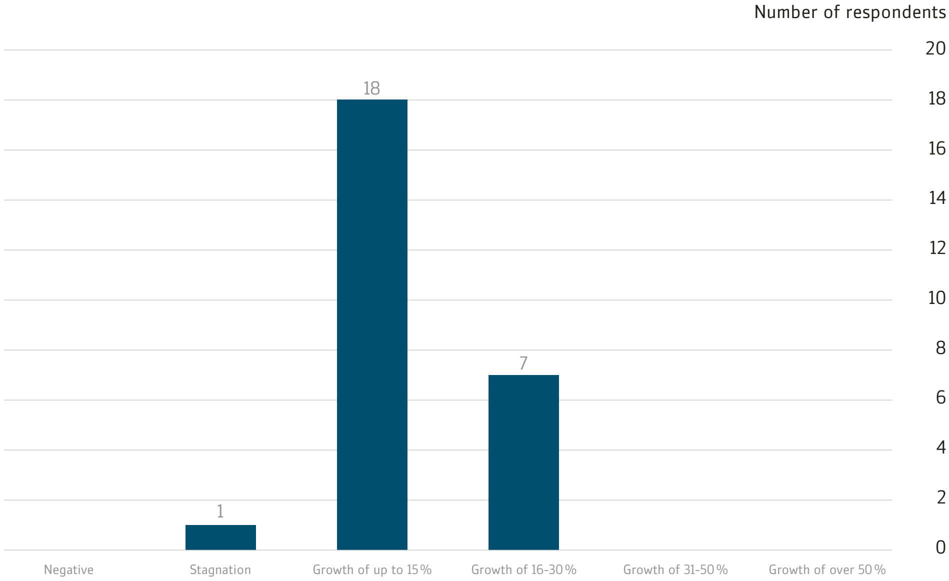


Figure 47
MAIN MOTIVATIONS OF ASSET OWNERS FOR ADOPTING BROAD SI POLICIES
(IN AVERAGE LEVEL OF IMPORTANCE) (n=26)

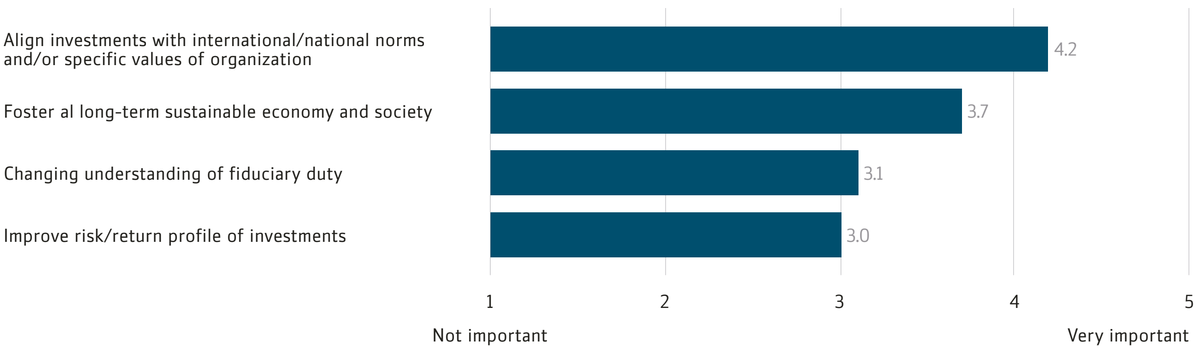
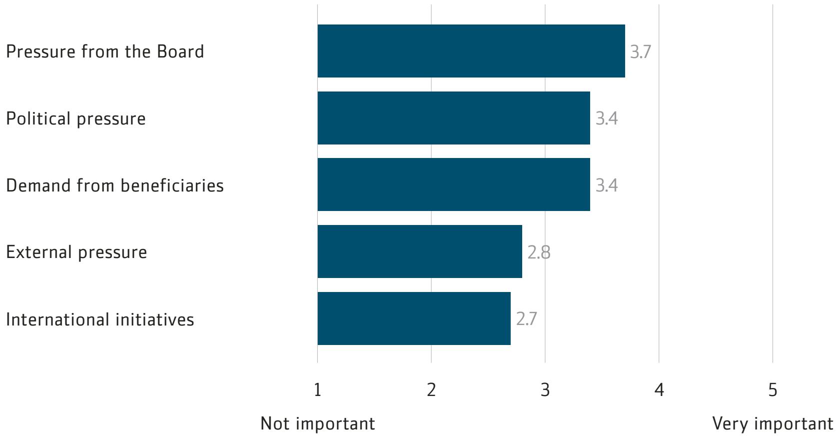


Figure 48
KEY DRIVERS FOR FURTHER ADOPTION OF SI FOR ASSET OWNERS (IN AVERAGE LEVEL OF IMPORTANCE) (n=30)



18 respondents considered this factor as either 'very important' or 'important'. In second and third place, political pressure and demand from beneficiaries were considered as relevant drivers. Interestingly, asset owners perceive international initiatives to be of minor relevance. For asset managers such initiatives were ranked in third place. This difference of opinion can be explained by the fact that Swiss asset owners are likely have much less interaction with international bodies compared to Swiss asset managers, who offer products globally.

Performance concerns are seen as the most critical barrier for the further adoption of sustainable investments by asset owners (Figure 49). 23 respondents mentioned this as either a 'very important' or 'important' barrier. Other important barriers involve concerns regarding higher costs and the lack of standards, in second and third place. The lack of demand from beneficiaries and the traditional understanding of fiduciary duty are of slightly lower importance. Investment consultants and their recommendations are perceived to be the least relevant barrier.

Figure 49
KEY BARRIERS FOR FURTHER ADOPTION OF SI FOR ASSET OWNERS (IN AVERAGE LEVEL OF IMPORTANCE) (n=31)

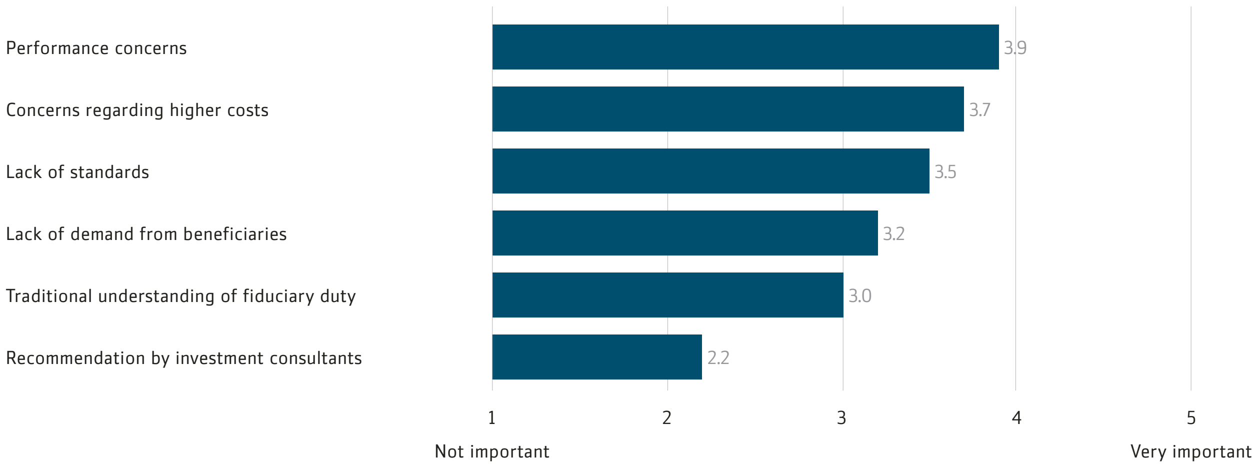


Photo: Berthold Steinhilber | Susten Pass

5 CASE STUDY CPEG

A public pension fund that integrates sustainability aspects in the management of all asset classes

Name of the organisation	Caisse de prévoyance de l'Etat de Genève (CPEG)
Type of organisation	The Caisse de prévoyance de l'État de Genève (Geneva Cantonal Pension Fund, CPEG) is a public pension fund whose insured members include employees of 60 affiliate employers, including Geneva University Hospitals, the University of Geneva and Geneva Airport.
Assets under management (as of 31.12.2017)	CHF 13 billion
Approximate asset allocation (as of 31.12.2017)	

Asset allocation by asset class:

CHF bonds and loans:	5%
Foreign currency bonds:	24%
Swiss equities:	11%
Global equities:	22%
Real estate:	31%
Others:	7%

Asset allocation by region:

Switzerland:	49%
Global:	51%

Who initiated the drafting of a sustainable investment policy?

The law governing the CPEG states that "it shall integrate principles of sustainable development and responsible investment in its operations". This general provision provides a framework for the Board of Trustees (Comité de la Caisse) that must be followed while carrying out their investment management responsibilities.

When the CPEG was founded in 2014, the Board of Trustees drafted a "Responsible Investment Policy" outlining the associated targets and principles. In so doing, it continued the work of its predecessors (the CIA and the CEH), both of which had already followed sustainable investment policies back in the 1990s.

What was the main motivation for this step?

As an institutional investor, the CPEG has a duty to act in its beneficiaries' best interests – achieving the returns it requires to fulfil its mandate while incorporating economic, environmental and social factors into its investment decisions.

The CPEG believes that considering sustainable development as a theme can positively influence the long-term financial performance of investments.

What are the main components/content of the sustainable investment policy?	The CPEG's responsible investment policy is guided by the following principles: — It takes a long-term investment approach commensurate with the time scales over which it insures its members. — It upholds its fiduciary duty to its beneficiaries by achieving the legally required returns, as market conditions permit. — It demonstrates its responsibility to society by considering the wider implications of its investment decisions.
How was the sustainable investment policy implemented?	Wherever possible, the responsible investment policy covers all asset classes, taking into account their specific features and choosing a corresponding management strategy (index-linked or active management). It is CPEG policy not to make equity and fixed income investments in companies in serious breach of ESG standards, irrespective of their sector or industry. Additionally, the CPEG does not invest in companies whose main business is in the following sectors: weapons, nuclear power, gambling, pornography, tobacco, and GMOs (other than for therapeutic purposes). As a shareholder, the CPEG encourages companies to adopt sound ESG practices. It exercises its shareholder voting rights in Switzerland and, wherever possible, abroad. It engages with investee companies on ESG matters, primarily Swiss companies. Although it favours collective solutions, it does not preclude the option of engaging management unilaterally on targeted issues. On the matter of private placements (private equity and infrastructure investments), the CPEG seeks to invest in a way that creates value through operational improvements rather than through leverage, simultaneously paying close attention to employment-related matters. The CPEG does not invest directly in agricultural commodities or in speculative schemes. In the real estate sector, the CPEG chooses to invest in affordable housing projects. The CPEG also invests in seniors' housing, and promotes the development of childcare centres and homes or apartments for the disabled. It additionally supports the use of recyclable materials and reduction of building material waste. Furthermore, innovative solutions to cut energy use and switch to renewables are supported. In recognition of its efforts in this area, the CPEG has been awarded a Watt d'Or, the Swiss federal mark for energy excellence.
What resources have been deployed for this?	Wherever possible, during manager selection, the CPEG assesses potential investment managers based on their methods of incorporating ESG criteria in their investment decisions. We use the expertise of Inrate AG for exclusion criteria assessments. The CPEG works with Ethos Services SA to exercise our voting rights. In the area of engagement, we are a founding member of the Ethos Engagement Pool. Additionally, some of our external investment managers engage directly with management on ESG issues.
What were your experiences with the policy implementation?	Embedding sustainability criteria into asset management has proven the most challenging aspect. The impact of responsible investment measures on performance needs to be assessed to ensure that the CPEG upholds its fiduciary duty to insured members.
What were notable difficulties?	In many cases, the CPEG had to find compromises between constraints regarding financial factors (for instance, lower portfolio diversification or higher real estate management costs) and its resolve to invest as sustainably as possible across all asset classes.
What do you consider to be the main benefits of your sustainable investment policy?	A sustainable investment policy allows an investor to consider additional parameters that can especially improve the management of long-term risks, for example through avoiding investments in companies whose behaviour is not sustainable. A policy of this type helps to safeguard the interests of future generations, conserve natural resources and foster social cohesion by forcing investors to consider long-term challenges and opportunities over short-term profit.

5 CASE STUDY MIGROS PENSION FUND

A private pension fund with extensive integration of sustainability criteria in its investment strategy, reflecting the company's overall commitment to sustainability

Name of the organisation	Migros Pension Fund (MPF)
Type of organisation	Pension fund
Assets under management (as of 31.12.2017)	CHF 23.8 billion
Approximate asset allocation (as of 31.12.2017)	**Asset allocation by asset class:** CHF bonds: 4.4% Foreign currency bonds: 24.8% Swiss equities: 8.1% Global equities: 24.5% Real estate: 30.2% Liquidity/loans: 8.0% **Asset allocation by region:** Switzerland: 47.0% Global: 53.0%

Who initiated the drafting of a sustainable investment policy?

The sustainable investment policy evolved from the interplay between various factors. As a company, Migros pursues a holistic sustainable business strategy, and was keen to see this reflected in its pension fund investments as well. Acting on its own initiative, the MPF management team had already got to grips with sustainability aspects early on, partly through its investments in sustainable real estate. It kept itself continuously informed about the approaches adopted by other pension funds in Switzerland and abroad, and also brought this theme to the attention of the Investment Committee. After discussing sustainable investments for the first time in the summer of 2017, the Investment Committee submitted a proposal to the Board of Trustees in the autumn of 2017 for the implementation of a sustainable investment policy.

What was the main motivation for this step?

The Paris Climate Change Agreement, the climate studies of the Federal Office for the Environment and the WWF sustainability ratings of pension funds were important triggers for the discussions on the implementation of a sustainable investment policy. The MPF wants to make a contribution towards sustainability that goes beyond the legally required minimum and is also convinced that the systematic integration of ESG factors is beneficial for its insured members, the environment, and society as a whole. Amongst other things, the sustainable investment policy should help to improve the risk/reward profile.

What are the main components/content of the sustainable investment policy?	The MPF chose the ESG integration approach for all global equities and corporate bonds. In addition, companies in breach of Swiss legislation or international norms are excluded. On top of that, voting rights are actively exercised in accordance with internal guidelines, both for Swiss companies and for the biggest international shareholdings. Extensive sustainable criteria have already been applied to real estate for some time (MPF invests exclusively in properties that meet the "Minergie" energy standard and supports the sustainable modernisation of its existing property portfolio). All these principles are put into practice within the framework of the current investment policy.
How was the sustainable investment policy implemented?	The MPF manages the bulk of its investments itself. It was therefore important to involve the investment team in drafting the sustainable investment policy. For the integration of ESG criteria in equity investments, MPF chose a sustainability index that excludes around 80 companies worldwide due to existing controversies. The stocks in this index are weighted according to an ESG rating. Since January 2018, MPF has aligned its investments with this new index. The MPF has also joined the SVVK, the Swiss Association for Responsible Investment, which regularly screens its members' portfolios to ensure compliance with current norms, organises shareholder engagement and produces an exclusion list. In addition, the MPF checks external asset managers' competence in ESG integration and incorporates minimum criteria in the respective asset management contracts (including reporting requirements and being a PRI signatory).
What resources have been deployed for this?	Purchasing the sustainability index and SVVK membership incurred extra costs. The sustainable investment policy is being implemented with the existing staff. They received training from the index provider to improve their understanding and to use the index effectively.
What were your experiences with the policy implementation?	The management's commitment was essential for getting the ball rolling. The fact that the policy was supported by the Chairman of the Investment Committee helped the positive decision by the Board of Trustees. In operational terms, the regular dialogue with the index provider contributed to a positive attitude within the investment team, supporting a swift implementation.
What were notable difficulties?	One of the most important aspects for the employee representatives was to safeguard their pensions, so first the Investment Committee and the other members of the management team had to convince them of the policy's merits. It remains to be seen in the coming years whether the additional costs incurred by switching to the new index will pay off in terms of an improved risk/return profile.
What do you consider to be the main benefits of your sustainable investment policy?	A regular exchange of know-how within the SVVK is valuable for the MPF, and the portfolio screening process draws attention to problematic companies. At the same time, the investment approach now matches the overall ethos of Migros and ensures that members' pension assets are invested in a more sustainable manner. The MPF is confident that the integration of ESG criteria does not lead to any compromise in investment performance.

6 REGULATORY FRAMEWORK

Regulatory developments in sustainable investing: between legislation and self-regulation

During the last year, governance frameworks and voluntary industry practices concerning sustainable investment have galvanised into regulations at increasing speed. While most of the regulations are still on a comply-or-explain basis, their scope has clearly widened. Generally, sustainable investment frameworks are divided into three types of instruments: disclosure regulations including a definition of fiduciary duty which encompasses ESG Factors (directed at asset owners), stewardship codes (for both asset owners and investment managers), as well as regulation on corporate disclosure (for investee companies).[41] To obtain an overview of the different mandatory and voluntary disclosures, this article will describe recent regulatory developments in Switzerland and the European Union, as well as global initiatives.

Switzerland

Mandatory laws for asset owners, asset managers and/or companies to disclose their consideration of ESG factors are not yet in place in Switzerland. For corporate reporting by large companies, there are however industry initiatives which offer an opt-in clause on integrated reporting.[42] One is the SIX Exchange Regulation, Directive on Information relating to Corporate Governance,[43] requiring listed companies that opted into sustainability reporting to provide yearly disclosure on ESG metrics according to predetermined standards, such as the Global Reporting Initiative (GRI) framework. Another self-regulatory instrument directed at Swiss listed companies is economiesuisse's recently revised Swiss Code of Best Practice for Corporate Governance,[44] which stresses the positive effects of managing sustainability issues prudently for superior long-term performance. It also includes an additional guideline with five principles for institutional investors on how to exercise their voting rights. Similarly, the Federal Council actively encourages companies to report on their ESG performance and provides support in the form of guidance documents and funding of best practice sharing platforms.[45]

With regards to institutional investors' understanding of fiduciary duty, recent parliamentary interpellations – having increased considerably in number last year – show the Federal Council's interpretation is becoming more inclusive.[46] This implies pension funds in particular would have to consider ESG factors in order to manage risks satisfactorily. In the cantons of Geneva, Fribourg and Vaud, the cantonal pension funds are required by regulation[47] to integrate ESG criteria in their decision-making. Besides those legal duties for specific cantonal pension funds, all Swiss pension funds are obliged to exercise their voting rights concerning their investee companies' board remuneration since the implementation of VegüV[48], as a result of the "Minderinitiative". The only direct regulatory restriction to financing certain assets came into force with the revision of the Swiss Federal Act on War Materials in 2013.[49] It explicitly prohibits the production, trade, and storage of controversial weapons[50] as well as the direct financing of such enterprises, and indirect financing, if used as a substitute for direct financing.[51]

Having ratified the Paris Climate Agreement in autumn 2017, Switzerland has committed to be part of the global efforts against climate change and to keep global warming below 2°C. In Article 2c, the agreement specifically requires countries to redirect their financial flows towards a more climate-resilient economy. Given its economic capability and the polluter-pays principle, Switzerland will have to contribute between USD 450–600 million to the USD 100 billion globally per year.[52] The state aims to allocate the development cooperation budget more strategically to climate change related projects, though direct or indirect mobilisation of private capital is also necessary to achieve a fair contribution.[53]

The state sees its role as a subsidiary actor, leaving ample room for the emergence of market solutions, as outlined in the new financial policy in October 2016: "Swiss financial institutions and investors should play their part in the mitigation and management of global environmental risks and in the transition to a resource-saving economy".[54] This transition could bring opportunities for the Swiss market, particularly in the insurance and investment sector, which have extensive expertise in managing risk. However, those solutions demand transparent information, so financial players are able to value their investments adequately. This is where the public sector can support the private sector in establishing an environment conducive to sustainable finance.[55]

Europe

In the past years, the EU has advanced considerably with issuing new regulation and policies on sustainable finance. Since this year, the non-financial reporting directive 2014/95/EU,[56] directed at investee companies, has come into force in the member countries. The law obliges large listed companies to monitor and publicly report their environmental, social and labour impact regarding human rights, diversity, as well as the fight against corruption on a comply-or-explain basis. While Switzerland does not require companies to publish such a report, the Swiss government plans to provide a draft directive for a legislative consultation process (Vernehmlassung), which is consistent with the EU directive. This will take place as soon as implementation is more advanced in the EU.[57]

To align the financial market with a more sustainable development, the European Commission (EC) appointed a High Level Expert Group (HLEG) on Sustainable Finance in 2016. It consists of 20 thought leaders from civil society, the private sector, academia and international institutions to make recommendations for an EU roadmap for the Capital Markets Union (CMU). The eight recommendations were published in January 2018[58] and taken up by the EC immediately. The EC presented the Action Plan on Sustainable Finance[59] in March

2018, stipulating 10 action points. Most importantly, it foresees a taxonomy around sustainable finance to be concretely defined and finalised by autumn 2019. Based on this new taxonomy, the EU plans to develop ecolabels for sustainable investment products. Furthermore, the document demands rigorous analysis of climate risk exposure and its reflection in capital risk requirements for green investments, as well as a clarification of the definition of fiduciary duty.[60] Switzerland is closely monitoring those developments and is considering adopting the taxonomy to ensure market access for Swiss financial players.

In May 2017, the European Parliament passed legislation to amend the EU Shareholders' Rights Directive[61] with an ESG-driven focus. The directive now requires institutional investors and asset managers to publicly disclose their shareholder engagement and voting policies related to ESG factors, on a comply-or-explain basis. Proxy advisors will have to disclose key information related to the advice they have provided. Approved by the Council of the European Union, member states have another 18 months to implement the directive.

Yet, the most pertinent legislative change for pension funds was the new directive (EU) 2016/2341 for institutions for occupational retirement provision (IORPII),[62] which entered into force in 2016. In line with this regulation, from 2019 onwards, all pension funds with more than 100 members will have to publicly address how they evaluate and manage ESG risks in their portfolio, on a comply-or-explain basis. France is an example of a country which has already implemented a similar law, namely Article 173-VI of the Energy Transition Act. To comply, institutional investors have to disclose how ESG factors are taken into account in their voting and investment decisions, and how their portfolio affects the transition to a low carbon economy.[63]

Global

On a global scale, almost 300 financial regulatory and policy measures focusing on sustainability were implemented in more than 60 countries, mostly related to corporate reporting.[64] New measures have proliferated at an annual rate of 20% since 2010.[65] In cooperation with MSCI, the Principles for Responsible Investment (PRI) Initiative intended to ascertain whether regulation in a certain country improves companies' ESG risk management and mitigation. The PRI is a self-regulatory international network of investors who follow six responsible investment principles, and now represents USD 70 trillion in assets.[66] The results of the PRI study show that countries with mandatory ESG reporting requirements outperform their peers with no requirements by 33% in managing ESG risks, while voluntary disclosure provisions showed only an improvement of 11%. The researchers claim that the voluntary path provides a "useful stepping stone" towards more formalised rules and prepares the market for

41 PRI & MSCI. (2016). Global Guide to Responsible Investment Regulation. Available at: https://www.unpri.org/download?ac=325

42 Ibid.

43 SIX Exchange Regulation. (2016). Directive on Information relating to Corporate Governance. Available at: https://www.six-exchange-regulation.com/dam/downloads/regulation/archive/admission-after-01-07-2009/directives/dcg-2016-04-01-en.pdf

44 Economiesuisse. (2014). Swiss Code of Best Practice for Corporate Governance. Available at: https://www.economiesuisse.ch/de/publikationen/swiss-code-best-practice-corporate-governance-english

45 Swiss Federal Council. (2016). Report on the Swiss strategy for the implementation of the UN Guiding Principles on Business and Human Rights. Available at: https://www.newsd.admin.ch/newsd/message/attachments/48579.pdf

46 Parliamentary interpellations: Institutionelle Investoren. Treuhänderische Pflicht und Klimawandel, 17.4315 Comte; Zukunftsorientiertes Investieren, 17.4104 Landolt; Unterstützung verantwortungsvoller Unternehmen, 17.4103 Landolt, Ein Nachhaltigkeitstest für die künftigen Regulierungen der Finanzmärkte?, 17.3946 Thorens Goumaz; Wann kontrolliert die Finma die Klimarisiken?, 17.3915 Jans; Wann wird der Finanzsektor in die Pflicht genommen?, 17.3914 Jans, Pensionskassen und Klimanotfall. Auswirkungen von Investitionen auf das Klima offenlegen, 17.3904 Mazzone

47 Loi sur la Caisse de Pension Etat de Genève, 2013, Art 4 t: 3 Son activité s'inscrit dans la perspective du développement durable et des investissements responsables. Loi sur la Caisse de Pension Etat de Vaud, 2014, Art 17 Compétences CA: 2 Il définit dans un document sa stratégie en matière de développement durable et d'investissements responsables. Règlement sur les placements de la Caisse de prévoyance du personnel de l'Etat de Fribourg, 2014, Art. 5 b): 1 Dans la mesure du possible, la Caisse prend en considération les valeurs de développement durable … pour ses investissements.

48 Schweizerisches Recht. (2013). Verordnung gegen übermässige Vergütungen bei börsenkotierten Aktiengesellschaften (VegüV) Ordinance of 20 November 2013 against Excessive Remuneration in Listed Companies Limited by Shares

49 Bundesgesetz über das Kriegsmaterial vom 13. Dezember 1996 (Status 1 February 2013) (SR 514.51). Federal Act of 13 December 1996 on War Material

50 Cluster bombs — together with atomic, biological, and chemical weapons as well as anti-personnel mines — all fall under the category of controversial weapons according to the Swiss War Material Act.

51 For a more detailed analysis on this topic, consult SSF's Focus: Controversial Weapons Exclusions.

52 Bundesrat. (2017). Internationale Klimafinanzierung. Bericht des Bundesrates in Erfüllung des Postulats der aussenpolitischen Kommission des Nationalrats 15.3798 vom 2. Juli 2015. Available at: https://www.newsd.admin.ch/newsd/message/attachments/48209.pdf

53 Ibid.

54 State Secretariat for International Finance (SIF). (2016). Financial market policy for a competitive Swiss financial centre. Available at: https://www.sif.admin.ch/sif/en/home/dokumentation/publikationen/bericht-finanzmarktpolitik.html

55 Ibid.

56 DIRECTIVE 2014/95/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups. Available at: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095

57 Swiss Federal Council. (2016).

58 High-Level Expert Group on Sustainable Finance (HLEG). (2018). Financing a Sustainable European Economy – Final Report. Available at: https://ec.europa.eu/info/publications/180131-sustainable-finance-report_en

59 European Commission. (2018). Action plan on financing sustainable growth. Available at: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0097

them. Similarly, mandatory stewardship codes and disclosure for pension funds correlate with superior ESG risk management by a magnitude of 13% and 32% respectively.[67]

Looking at the G20 countries, the OECD identified 15 which made climate change reporting schemes mandatory, and required greenhouse gas disclosure, albeit mostly limited to companies' local emissions in the respective country.[68] To streamline this reporting, the Financial Stability Board (FSB) formed a Task Force on Climate-Related Financial Disclosures (TCFD) in 2015, which published its final recommendations report[69] in June 2017. The report provides clear guidance on proper disclosure of climate change related issues, which was integrated into the reporting scheme of the PRI, the final HLEG report as well as the EU action plan.

Besides addressing climate change, the social and environmental dimensions are also covered by the OECD Guidelines for Multinational Enterprises[70] and the UN Guiding Principles on Business and Human Rights.[71] In 2017, the OECD has additionally issued a guiding document on due diligence in responsible business conduct for institutional investors. The UN Guiding Principles are referenced in the OECD Guidelines and can thus be addressed at the National Contact Points of the 45 OECD Guidelines' signatories. Complaints filed against financial corporations can initiate a mediation process, as was the case for the Dutch bank ING.[72] To discuss the accountability of financial players in particular, large banks have founded the Thun Group of Banks, where they evaluate the implications of the UN Guiding Principles for the industry. After a broad stakeholder discussion on the limited scope of accountability defined in the initial working paper, the Thun Group of Banks presented a revised version in December 2017.[73]

On the side of institutional investors, regulation has traditionally not explicitly encouraged ESG integration, but implicitly allowed its consideration and disclosure as part of fiduciary duty.[74] ESG factors are relevant insofar as they supply material information for financial decision-making. Together with the UNEP FI, the United Global Compact and the UNEP Inquiry, PRI published the landmark report "Fiduciary Duty in the 21st Century"[75] which states that "integrating ESG issues into investment … will enable investors to make better investment decisions and improve investment performance consistent with their fiduciary duty". In this regard, the OECD also notes that ESG integration ought to be seen as risk-optimised investing, as opposed to ethical investing, which could imply lower financial returns, and thus does not comply with fiduciary standards.[76] For a Swiss asset owner perspective on fiduciary duty see page 55.

General outlook

The accelerated implementation of both legislative requirements and self-regulatory principles in the field of sustainable investments reflects the strong dynamic in this market. Growing demand both from institutional and private clients creates the need for more transparency and accountability, resulting in action both from regulators and industry associations. It is important that Swiss players join this debate and make their voice heard in a phase where frameworks are being defined that will influence investment practices well beyond single markets.

60 Ibid.

61 DIRECTIVE (EU) 2017/828 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017L0828

62 DIRECTIVE (EU) 2016/2341 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs). Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32016L2341

63 PRI, Mirova, IGCC & IIGCC (2016). French Energy Transition Law – Global Investor Briefing. Available at: https://www.unpri.org/download_report/14573

64 PRI & MSCI. (2016)

65 Ibid.

66 PRI. (2018). About the PRI. Available at: https://www.unpri.org/about

67 PRI & MSCI. (2016)

68 OECD. (2017). Investment governance and the integration of environmental, social and governance factors. Available at: https ://www.oecd.org/finance/Investment-Governance-Integration-ESG-Factors.pdf

69 Taskforce on Climate-related Financial Disclosures (TCFD). (2017). Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures. Available at: https://www.fsb-tcfd.org/publications/final-recommendations-report/

70 OECD. (2011). OECD Guidelines for Multinational Enterprises. Available at: http://www.oecd.org/daf/inv/mne/48004323.pdf

71 OHCHR. (2011). UN Guiding Principles on Business and Human Rights. Available at: http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

72 ING Bank. (2017). ING's response to the admissibility of a complaint to the National Contact Point. Available at: https://www.ing.com/Newsroom/All-news/INGs-response-to-the-admissibility-of-a-complaint-to-the-National-Contact-Point.htm

73 Thun Group of Banks. (2017). PAPER ON THE IMPLICATIONS OF UN GUIDING PRINCIPLES 13b & 17 IN A CORPORATE AND INVESTMENT BANKING CONTEXT. Available at: https://www.business-humanrights.org/sites/default/files/documents/2017_01_Thun%20Group%20discussion%20paper.pdf

74 OECD. (2017)

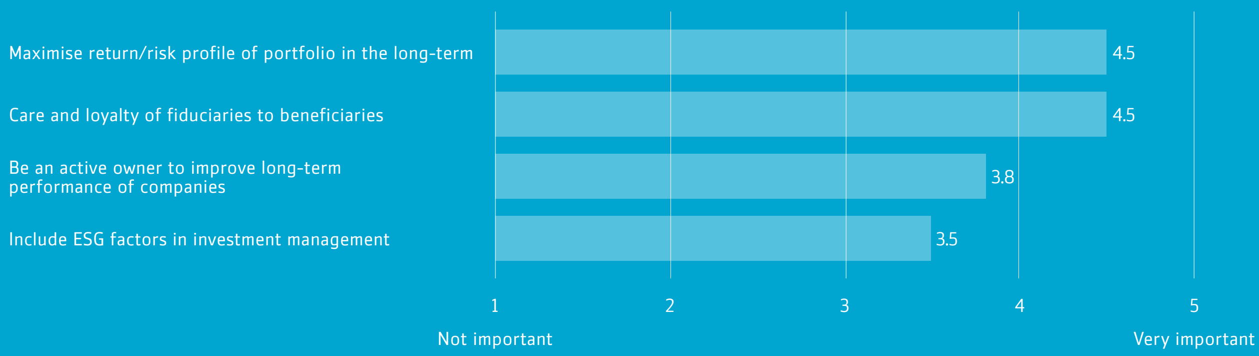
75 United Nations Global Compact, UNEP FI, PRI & UNEP Inquiry (2015). Fiduciary Duty in the 21st Century. Available at: https://www.fiduciaryduty21.org/publications.html

76 OECD. (2017)

The responses of this survey illustrate that the concept of fiduciary duty can be a potential driver as well as a barrier for the future development of sustainable investments.

Figure 50 displays which aspects asset owners associate with fiduciary duty and their respective level of importance. Sharing the top position are two aspects: the maximisation of a portfolio's risk/return profile and the care and loyalty of fiduciaries to beneficiaries. They are followed by the motivation to be an active owner in order to improve the company's long-term performance. On average, the integration of ESG factors in the investment management process is currently viewed to be of relatively minor importance. Nevertheless, it is worth mentioning that on an individual level, six respondents considered this to be 'very important' and nine considered this to be 'important'.

Figure 50
MAIN ASPECTS SHAPING THE CONCEPT OF FIDUCIARY DUTY
(IN AVERAGE LEVEL OF IMPORTANCE) (n=30)



INTERVIEW
International trends in sustainable finance and their effect on Switzerland

INTERVIEW WITH RENÉ WEBER | **Head Policy Coordination and Ambassador, State Secretariat for International Finance (SIF)**

What's your understanding of sustainability in finance?
From my view as an economist, it means true-cost pricing: externalities need to be factored into financial decisions. It also refers to a long-term horizon in business and investment decisions. Both concepts are relevant for a financial authority. It is our duty to anticipate long-term risks resulting from more frequent and more impactful environmental disasters and their effect on companies and financial intermediaries. This is why we maintain a close dialogue with the private sector. We see rising awareness for both risks and opportunities linked to this development.

What was the starting point for SIF to tackle sustainability topics?
Both our involvement in the G20 Green Finance Study Group and the work of the Taskforce on Climate-related Financial Disclosure (TCFD) brought the topic onto our agenda. Based on our observation of recent developments in financial markets, we consider sustainability as relevant from three different perspectives. First, sustainability issues represent a megatrend with a strong influence on the real economy and the financial services industry. As the latter accounts for 10% of Swiss GDP, we have a vital interest to identify potential risks at an early stage. Second, we are convinced that sustainable finance offers great opportunities for the Swiss financial sector going forward, as it is a true growth market. And third, sustainability is increasingly becoming an important factor in the competition among financial centres – and we want to make sure Switzerland does not fall behind.

Where do you see the role of SIF in aligning financial flows with more sustainable development?
For us, it is important to maintain a close dialogue with private-sector representatives and to listen to their needs regarding improved framework conditions. For this purpose, we have established a regular roundtable on sustainable finance held with the main market players. We aim to foster market-based solutions and avoid additional regulation or subsidies. Transparency is an important prerequisite for the successful integration of sustainability factors. There are many international initiatives helping to improve transparency and we are convinced that market actors are in the best position to come up with the right solutions. We would consider mandatory requirements only as a last resort.

How do you cooperate with other federal authorities and international organisations on these issues?
SIF cooperates closely with other departments in this area. We partnered with FOEN to offer portfolio screenings against the 2-degree path for pension funds and insurance companies. The trial resulted in a high participation rate, despite relying on a purely voluntary approach. Internationally, we are in discussion with relevant peers and share our own experience, where relevant.

In the EU, the European Commission presented an action plan based on the recommendations of the High-Level Expert Group on Sustainable Finance. What's your assessment of the different action points?
We certainly agree that a classification system will help bring clarity into the market. Regarding further transparency, we consider this important, but are convinced that it can be achieved on a voluntary basis. In contrast, reducing capital requirements for green investments is questionable and could be perilous in our opinion, unless there is clear evidence for reduced risks.

Do you see any action points where implementation should also be considered for Switzerland?
Generally, we think these activities should be driven bottom up. It is the role of associations like Swiss Sustainable Finance to create positive momentum and convince market players of the advantage of taking action. A voluntary minimum standard for investments could be considered for both pension funds and asset management. After all, Switzerland stands for high quality and reliability. Swiss players can build on strong know-how and high innovation capacity in this area. These are strengths to build on, helping to further increase competitiveness. I see growing awareness for sustainability-related opportunities in the market and am convinced that we will see rapid evolution in the near future.

Do you fear that market barriers for Swiss players will grow if the EU introduces new legislation in sustainable finance?
For the time being, it is difficult to say how the EU action plan will affect Swiss market players, including the question of market access. We expect that Swiss financial firms will be able to address many of the requirements through voluntary measures, but it is important to closely track developments on the European level and even contribute to shaping them by offering our know-how. At SIF, we will definitely monitor these developments closely.

What are the specific attributes in sustainable finance that help to strengthen Switzerland's position as a financial centre?
Switzerland is an important centre for private wealth management. Strengthening sustainability services in this business segment could bolster Switzerland's strong position. But to be successful, some homework needs to be done first. We are discussing with the industry whether a Swiss label could help make such services and the qualities of the Swiss financial centre more visible to clients.

Switzerland is a partner of the Climate Bonds initiative. Do you see opportunities for green bonds to be issued in Switzerland?
So far, there has been little appetite either from corporates or public-sector institutions to issue green bonds. Generally, Switzerland has a very low indebtedness and all sovereign bonds that are issued are immediately absorbed by the market. In this environment, it is difficult to make the case for issuing sovereign green bonds, and the use of the borrowed funds would have to be well defined in advance. The Federal Council would have to make a clear call for this to happen.

6.2 **INTERVIEW**

The financial industry's role in achieving the Paris Climate Agreement

INTERVIEW WITH ANDREA BURKHARDT | Head of Climate Division, Swiss Federal Office for the Environment (FOEN)

The Federal Office for the Environment (FOEN) is not generally involved in financial policy. Why, and since when, have you been active in this field?

The first time this topic came to our attention was the RIO +20 UN Conference in 2012, which looked at sustainable development in a holistic manner. In 2015, FOEN was invited to join the UNEP Inquiry advisory committee, given the importance of Switzerland's financial market, and consequently facilitated the preparation of the Swiss Report for the UNEP Inquiry. With the Paris Climate Agreement putting a clear focus on the role of finance in its Article 2c, the topic became even more relevant to FOEN.

You mention the Paris Agreement as an important trigger for your involvement. In what way does this agreement differ from previous climate agreements?

This is the first truly global agreement that includes nearly all major economies and no longer distinguishes between developed and developing countries. It makes all countries responsible for achieving the three main goals outlined in Article 2: reducing greenhouse gas emissions, making systems more resilient to adverse climate change impacts, and directing financial flows towards achieving the climate goals and increasing climate change resilience. The latter goal was a new focus of the agreement, which was officially ratified by Switzerland in autumn 2017.

Given that Article 2c refers to financial flows, what is the relevance of the Paris Agreement for Swiss financial service providers?

For the time being, there are no guidelines on how to report on the climate target alignment of financial flows. Nevertheless, it is clear that in their role as intermediaries, Swiss financial players have to be part of the solution.

What's your understanding of making financial flows "climate friendly"?

This essentially means that finance flows into climate-friendly technologies are enhanced, and carbon-inefficient technologies are either no longer supported or – by actively engaging in a company's strategy – phased out. To achieve this, the Federal Council primarily aims to provide information on carbon risks and is counting on the rationality of the market to use this information in investment decisions. Currently, different initiatives are working to further standardise data. In the near future, all signatories to the Paris Agreement are expected to report on progress regarding the alignment of financial flows with climate change mitigation. Furthermore, an ISO Standard is currently being developed, including reporting and methodology guidelines. On a European level, the European Commission is planning a taxonomy on sustainable investments, starting with climate-related definitions.

Where do you see the role of FOEN in directing Swiss financial flows in a more sustainable direction?

Since we at FOEN are more specialised in the environmental domain, close cooperation and coordination with SIF is vital. We have recently offered Swiss insurance companies and pension funds anonymous and voluntary screening of their portfolios to evaluate their compatibility with the 2°C target. We used a scenario-based climate-alignment model developed by 2° Investing Initiative, an independent think-tank, which has the advantage of a forward-looking model. Around two thirds of funds of all Swiss insurance companies and pension funds were covered in this pilot test. Based on the test, the method will be refined and made available as an open source tool this year.

Do the results of this pilot indicate that Swiss investors are on target?

The aggregate results showed that Swiss institutional investments on average follow a 4–6°C path. This did not come as a surprise, since many institutional investors use passive investment strategies, mirroring the current trend of the global market, still steering towards a 4–6°C scenario. We provided individual companies with their evaluations and most of them recognised potential for improvement. However, it was not always clear to them what steps they could take to create a more climate-friendly portfolio. We consider this evaluation a first important step to increase awareness amongst investors, but also amongst the public, since the media covered the story quite extensively. Even so, it will be up to the market players to identify the next steps.

Measuring the climate impact of investments is highly complex. What are the different options? And what are their advantages and disadvantages?

Well, a carbon footprint analysis can help to identify stranded assets, but it is mostly looking into the past and cannot account for the future impact of business strategies. A scenario analysis can incorporate changes in strategies and help identify critical hotspots in the portfolio, which is a clear advantage. However, it is very difficult to measure the impact on the real economy accurately. Even a scenario analysis only shows a partial picture of reality, which is also the case with the climate-alignment model used for the pilot tests. It included the fossil fuel, electricity production, automotive, airplane, shipping, cement and steel industries, but excluded other sectors such as real estate or agriculture due to lack of data.

What regulatory or governance mechanisms do other governments use to achieve the goals of Article 2c? Are some of them suitable for Switzerland, and why do others not match the Swiss approach?

France has chosen to introduce legislation for institutional investors that stipulates public disclosure of climate-risk exposure and their portfolio's contribution to a low-carbon economy within the revised energy law. However, the implementation is at a mere 12% of total assets under management, there are no clear consequences in case of non-compliance and there is no uniform methodology in place. Another example is the Netherlands, which already introduced tax exemptions for capital profits from green investment back in 1995. Now that the action plan of the European Commission has been published, it is important to assess the relevance of the planned measures for Switzerland. In particular, the definition of fiduciary duty as well as the incorporation of climate risks in financial advice could be relevant for Swiss actors. Furthermore, the EU directive IORP II mandates all pension funds to publicly disclose the ESG-compatibility of their funds by 2019 on a comply-or-explain basis.

Switzerland will continue to follow a voluntary approach and views regulation as a last resort, which needs to be examined carefully. Meanwhile, the interpretation of fiduciary duty is converging with the European definition, implying the potential consideration of ESG criteria. Furthermore, official agreements with financial actors (instead of regulation), which have the character of a binding dialogue, are a viable option already provided by existing legislation.

You have already published several studies on the climate alignment of investments. What are the next steps?

We definitely want to continue the portfolio screening of institutional asset owners on a regular basis, where we anticipate some progress will be achievable. This will also be important with regards to the reporting on Article 2c. Furthermore, we are currently looking at extending such assessments to other asset classes such as real estate, where we pursue concrete emission reduction goals for the Swiss building sector. We have commissioned the development of a model to measure the climate alignment of Swiss real estate investments to advance this subject.

7 CONCLUSION AND OUTLOOK

Relevance of sustainable investment market will continue to grow
Besides the general growth of the sustainable investment (SI) market in Switzerland in 2017, this study uncovers several interesting findings. All SI approaches grew in volume – only exclusions experienced a decline due to a more restrictive definition of what counts as exclusion criteria. The increasing number of participants in this study clearly underscores the growing relevance of sustainable investments as a key topic in the Swiss finance sector. Furthermore, most of the surveyed asset managers and asset owners implemented broad SI policies. This is good news, since these forms of SI generally affect a wide range of assets and, thus, help to mainstream SI and catalyse the growth of sustainable finance as a whole.

It is encouraging that Swiss asset managers and asset owners are generally optimistic about the further growth of the SI market. Investors' demands, as well as pressure from boards, have been identified as the most relevant drivers for this development. At the same time, financial performance concerns represent one of the most critical barriers for fostering sustainable investments. Nonetheless, ESG factors have become one of the key aspects shaping asset managers' perception of fiduciary duty.

Data collection optimised
Despite these findings, challenges remain when gathering data for such a report with the ambition of covering the entire SI market and seeking to deliver results that allow conclusions about market trends. First of all, different definitions, understandings, and interpretations exist when it comes to the differentiation between core and broad SI, as well as the individual SI approaches. As a consequence, reported volumes had to be corrected for some categories in this study for both this year and the previous two years. Moreover, by applying a stricter definition of SI – especially in the context of exclusion criteria – and only covering assets managed out of Switzerland, the scope of this study has been severely narrowed. This, in turn, makes comparisons with previous years more difficult. Despite this, SSF made every effort to highlight special effects and thus illustrate the actual market growth in the figures presented.

Further action needed to address identified barriers
For the SI market as a whole, SSF views the alignment of definitions and understandings of SI approaches as an important step in order to anchor sustainable finance as an established topic within the financial industry. As reflected in the results of this report, key challenges in the marketplace remain in terms of prevailing barriers. Most importantly, there is the long-standing claim that sustainable investments underperform conventional investments and that they are tied to higher costs. Promoting further research in this realm seems to be essential to bring more clarity to the debate. Additionally, the impact side of SI is still under discussion; establishing standards for the measurement and reporting of social and environmental impacts will be a crucial step in this context. Also, further fostering demand from institutional investors, as well as gaining endorsement from boards and client advisors, are all key actions that will stimulate the further growth of SI.

International developments will also stimulate Swiss SI market
To summarise, in light of these market developments in Switzerland, the regulatory changes in the European Union, as well as the global dynamics in sustainable finance in general, SSF considers the Swiss financial market to be well positioned and on the right path. Continuing these efforts will further promote the concept of sustainable finance, contributing to the creation of a more robust and stable financial system, as well as advancing sustainable development in Switzerland and on a global scale.

Photo: Berthold Steinhilber | Furka Pass

CREDIT SUISSE

Sustainable Investing for Institutional Clients – Generating Returns. Sustainably.

YVONNE SUTER | Head Sustainable Investment, Credit Suisse Ltd. **DANIELA STÜSSI** | Sustainable Investment Advisor, Credit Suisse Ltd.

Sustainable investments have undoubtedly increased in significance for investors. The adoption of environmental, social and governance (ESG) criteria has enabled especially large and institutional asset owners to embrace sustainable investments in a meaningful way. Sustainable investments help such investors protect their reputation, comply with growing international regulation and, very importantly, have the potential to enhance their long-term risk-return profile.

As for every investor, the choice of benchmark should reflect their investment goals (and constraints). This enables institutional investors to include their individual sustainability criteria in a portfolio in a tailored way. Yet market data suggests that many institutional clients have accepted the MSCI World ESG Leaders Index – a capitalization-weighted index that provides exposure to companies with a high ESG performance relative to their sector peers – as a relevant and appropriate benchmark.

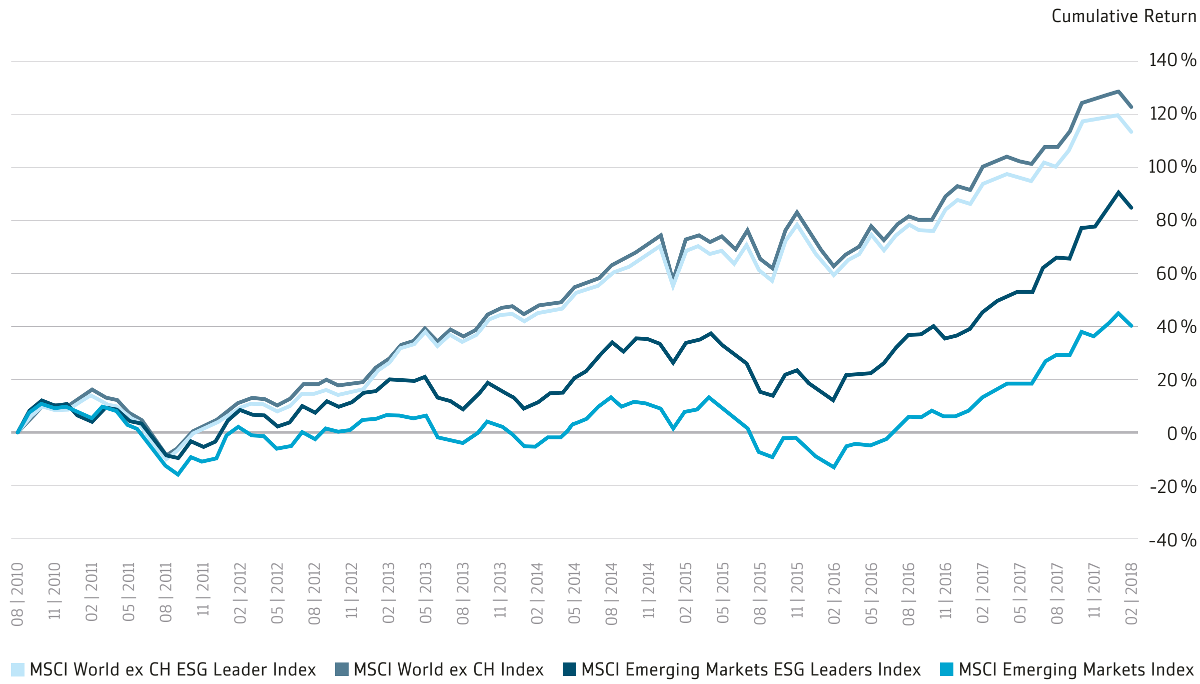
In line with the heightened relevance of sustainable investments, the product range of sustainable solutions has evolved significantly. For instance, for portfolios of industrialized countries with a low risk of return deviation relative to traditional benchmarks, **index funds** that track the MSCI ESG Leaders Index family can improve a portfolio's ESG score by 22% and reduce CO_2 emissions by 21.8%. For emerging market economies, the impact is even bigger: one can increase a portfolio's ESG score by 30% and reduce CO_2 emissions by 36%. As the graph shows, the MSCI World (ex CH) ESG Leaders Index has delivered returns comparable to the standard index both in shorter and longer periods. From August 2010 to February 2018, the MSCI Emerging Markets ESG Leaders Index even outperformed its standard index significantly, achieving an annualized excess return of 3.91%.

On the fixed income side, **green bonds** offer an attractive opportunity for issuers to link their finance needs with direct contributions to environmental and climate protection. Investors in green bonds have access to a broad and diverse fixed income universe. For a bond to be classified as a green bond, the capital raised through the issue must be used to finance or refinance a "green" project and the issuer must offer a minimum level of transparency and regularly report on the use of capital. The green bond market is a dynamic and rapidly growing investment area.

Investing in **sustainable real estate** is a way for investors to address climate change, one of the major challenges of our time. Given that approximately one third of global CO_2 emissions stem from the real estate sector, a sustainable approach can make a tangible difference.

At Credit Suisse we offer products and services that cover a broad range of asset classes and various risk-return profiles. In addition, we provide strategic investment advice, portfolio health checks and bespoke sustainability portfolio reports to help our clients implement their sustainable investment ambitions.

COMPARISONS MSCI WORLD EX CH ESG LEADERS INDEX VS MSCI WORLD EX CH INDEX (BOTH TR GROSS IN CHF) AND MSCI EMERGING MARKETS ESG LEADERS INDEX VS MSCI EMERGING MARKETS INDEX (BOTH TR GROSS IN CHF)



Source: Credit Suisse Ltd. Last data point : 28/02/2018

Inrate

Why we need more Impact Measurement

PATRICK FANKHAUSER | Head Business Development & Sales, Inrate AG

Every investment has an impact
Companies affect both the environment and society through their business activities. Understanding these impacts allows investors to optimise the risk and return, as well as the environmental and social footprint of their investments.

A sustainability assessment therefore needs to systematically measure the impacts of a company's activities on the environment and society. These include indirect impacts from its supply chain and the usage of its product and services. Such impacts, especially non-financial positive and negative external effects, materialise in the medium to long term through stricter regulations and changes in the behaviour of stakeholders. Typical examples of non-financial effects are carbon emissions, or the health impacts of products and services.

ESG assessments need to better reflect the impact of investments
Traditional ESG Ratings focus on the Corporate Social Responsibility (CSR) of companies, which helps to identify sustainability leaders based on their capabilities and willingness to change. On the other hand, CSR does not measure the impact that a company's products and services have on the environment and society.

In industries that have severe negative impacts on the environment, including automobiles or oil & gas, companies tend to have sophisticated CSR management systems. However, the impact of their products and services are inherently unsustainable. Similarly, the tobacco industry offers exemplary CSR reporting, while at the same time manufacturing products that have negative social impacts with regard to health. By contrast, companies in the telecommunications or medical technology and devices industry not only have positive CSR management systems in place, but also have a positive impact on the environment and society.

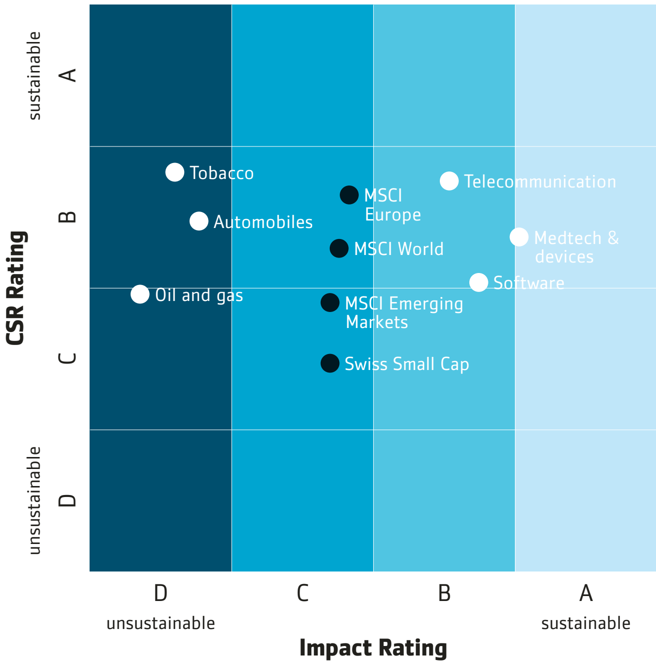
The above chart illustrates the tendency of Swiss small cap companies to have less sophisticated CSR management systems. Nevertheless, their impact on society and the environment is similar to the impact of large corporates in the MSCI World index. As far as European companies are concerned, their CSR management and systems tend to be more elaborate, while the impact of their activities is slightly above the global average.

Rapidly growing trend of impact measurements
Investors are already beginning to measure the impact of their investments. The most common proxy for measuring environmental impact is greenhouse gas emissions.This helps to assess the risks of investments in a world that needs to decarbonise.

To systematically assess the impact of companies, ESG Impact Ratings need to consider a large range of aspects and resolve trade-offs between conflicting aspects. Additionally, the indirect impacts of the supply chain and the usage of products and services must be taken into account.

Inrate has many years of experience in developing ESG Impact Ratings that go beyond measuring the CSR performance of companies by focusing first and foremost on the impact a company's products and services have on the environment and society. Such ratings enable investors to optimise the risk-return characteristics of their portfolios. Furthermore, they are a useful tool to increase the positive impact on the environment and society per investment.

ESG IMPACT RATINGS VERSUS TRADITIONAL CSR RATINGS



CSR Rating: Assesses a company's communication on its management capabilities. This includes sustainability policies, objectives, processes, measures, etc.

Impact Rating: Measures the overall impact of a company on the environment and society, including direct impacts (manufacturing and service provision) and indirect impacts from suppliers and product or service use.

Source: Inrate

Transparency in matters of sustainability – from good intentions to implementation

ANDREA FERCH | Head Fund Research at LGT Bank (Switzerland) Ltd.

A growing number of investors want to know which companies, countries and projects their capital is being allocated to and if their investments are in line with their values. But the path from good intentions to concrete implementation is not easy – one reason for this is a lack of information. Financial institutions must create transparency when it comes to the sustainability of investments – for example by means of a rating.

Investors increasingly want to avoid unethical and unsustainable investments with the same ease as they ensure they consume responsibly – for example by looking out for organic and eco labels. However, according to the SRI Study by Eurosif (2016), private investors account for only three percent of sustainable investments in all of Europe. According to a study conducted by the Swiss Institute for Financial Education at the Kalaidos University of Applied Sciences (2012), 70 percent of private investors surveyed indicated that better information about sustainable investments would influence their investment strategy.

Lack of transparency for private investors

Information about sustainability is available for listed companies, for example in annual reports or sustainability reports. This information is compiled by specialized providers and the data are sold to institutional investors for analysis purposes. Private investors, however, have very limited access to this information or lack the ability to evaluate it. This makes it difficult for them to determine whether their investments are sustainable. It is the duty of financial institutions to create transparency and clarity for their clients.

Transparency with the help of sustainability ratings

One possibility to this end is to consolidate the many key sustainability figures into a rating. For example, LGT last year introduced the LGT Sustainability Rating for equities, bonds, funds and ETFs for its clients. For equities, the rating is assigned based on an assessment of the sustainability of the company in question, while for bonds the sustainability of the issuer is evaluated. Companies are assessed on the basis of 21 different ESG criteria – including, for example, greenhouse gas emissions and labor conditions. Countries are evaluated based on 22 different factors from the categories environmental capital, social and human capital, as well as institutional framework conditions including criteria such as energy consumption, quality of life and health standards, education levels and the observance of human rights.

An ESG score is established for every equity and bond based on the assessment of the various criteria. This comprises five classes of ratings ranging from one star (poor) to five stars (excellent). In the case of funds and ETFs, the sustainability quality of the overall portfolio is determined.

An added dimension when making investment decisions

The consolidation of sustainability information into a rating means that the expertise in conducting sustainability analyses that had formerly been accessible primarily to institutional clients is now also available to private investors. This provides them with a clear assessment of the sustainability quality of their investments and enables them to take sustainability factors into account when making investment decisions.

PICTET 1805

Embracing the future

LAURENT RAMSEY | Managing Partner of the Pictet Group & CEO of Pictet Asset Management

The world faces major governance, social and environmental challenges. By identifying the structural forces at play, investors can contribute to a more sustainable future, while at the same time achieving strong and diversified returns over the long-term.

The 2018 SSF Market Study, which we are proud to support, reflects investors' greater focus on sustainable themes.

We believe this interest is being fuelled by a number of factors:

— Environmental problems – such as water scarcity or global warming – pose a growing challenge and are consequently attracting more attention;
— Renewables are becoming cost-competitive compared with fossil fuels, and similar economic shifts are on the cards in other sectors;
— Consumer preferences are shifting in favour of cleaner and healthier products such as electric cars or organic food;
— Governments are taking a more active approach in the regulation of areas such as public health and environmental protetion.

One way for investors to access the relevant opportunities is by targeting a thematic universe of companies that specialise in providing specific solutions to environmental or social challenges. Investable themes include water, clean energy, nutrition and urbanisation, among others.

This thematic approach first proved popular among individual investors, but is now also gaining traction among institutions such as pension funds, sovereign wealth managers and insurers.

The key is to identify companies that not only do the right thing by developing products and services directly addressing global challenges, but which also do things right. That's to say, these companies seek to improve the environmental and social impact across their operations and beyond – from the way they source raw materials to how they recycle obsolete products.

Over more than two decades, thematic equity investment has proven its potential to deliver attractive risk-adjusted returns, and to offer diversification benefits. But fixed-income strategies are also starting to embrace social and environmental themes. Other investment routes include green bonds and micro finance.

Of course, thematic investment comes with its own risks and challenges. Not all potential products complete the journey from the drawing board to commercial success. Investing in smaller companies can be subject to liquidity constraints, and certain sub-sectors can face heightened short-term volatility. That said, we believe many investment pitfalls can be avoided through appropriate diversification and a long-term approach.

As the world changes, investors' portfolios need to change too. Investing in themes experiencing secular growth is one way to future-proof returns, deliver long-term performance and achieve diversification.

We are proud to be part of that shift, and to contribute to a vibrant ecosystem in Switzerland, with its recognised track record of developing investment solutions that have a positive impact on society and the environment.

SELECTION OF SUSTAINABLE THEMATIC STRATEGIES DEVELOPED OVER THE LAST TWO DECADES

THEME	ISSUES ADDRESSED
WATER	address the global water scarcity and quality crisis
SECURITY	ensure safety and security in our daily lives
NUTRITION	invest in the transition to a healthier and more sustainable food system
TIMBER	invest in sustainably managed forests and the wood fibre value chain
CLEAN ENERGY	accelerate the energy transition to a low-carbon economy
BIOTECH	invest in companies that develop cures for rare diseases

It’s the retail investor!

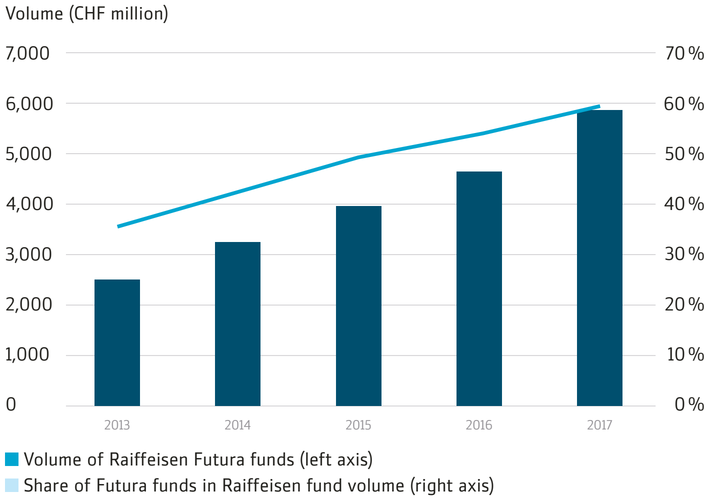
ROLAND ALTWEGG | Head of Products & Cooperations, Raiffeisen Switzerland Cooperative

Private investors contribute "only" 14 percent to the Swiss sustainable investment market and their share is continuously declining. Does this indicate that Swiss retail investors are not interested in sustainable investments and that banks and asset managers should focus their marketing and distribution efforts on institutional investors only? No, quite the opposite is true. In absolute terms, both private and institutional sustainable assets are growing. Institutional investors are – economically speaking – agents acting on behalf of and in the best interest of their principals. These principals are beneficiaries and retail investors at the same time, because they also invest their wealth individually. Thus, the growing awareness amongst retail investors of the benefits of sustainable investing has started to increase the pressure on institutional investors. This mechanism explains the following two observations: the continuous trend towards sustainability investments in general, as well as the decreasing share of private investors.

Given the crucial role retail investors play, what are Swiss banks supposed to do if they actually want to transform their business into a genuinely sustainable one? Widening the focus and taking a closer look at other industries might be instructive. One obvious comparison is with the retail sector, whose underlying business concept is similar to banks: selling standardised products to individuals. At Raiffeisen, we are convinced that retail banking is currently in a situation comparable to the food retail sector 15 to 20 years ago: increased pressure on margins due to technological developments, higher price sensitivity as well as declining customer loyalty. The first response by many players was to try and cut costs, which only deferred the problem into the future. The key to success was to take advantage of the fact that customers were willing to pay more for a higher perceived value. One example of added value is sustainable products (e.g. organic and fair-trade), which were traditionally offered as niche products in the less frequented areas of shops. Making these products visually more attractive and moving them to the front of the shop window was successful, as the example of Naturaplan shows: in 1993, Coop achieved sales of CHF 10 million – 23 years later it was CHF 1049 million. What is the lesson for today’s financial industry, especially for the retail banking business? Taking action and joining forces to move towards stable and long-term sustainable investments is a winning tactic for everyone. Clients not only benefit from products with a better risk-return-perspective, but such products also reflect their personal values. Banks, in turn, position themselves in a field with high credibility and have the advantage of strong customer loyalty and stable margins due to their differentiation strategy.

Looking at the experiences of the food retail sector, what should be the next step for retail banks? Simply ask the client. That’s what we do at Raiffeisen: every customer who opens a securities account is asked by default whether and to what extent sustainability should be taken into account. As you can see from the chart, the result is impressive.

AND THE INTEREST IN RAIFFEISEN FUTURA FUNDS KEEPS GROWING AND GROWING …



LED it be – how changing light bulbs can benefit your portfolio

MATTHIAS FAWER, PhD | Senior ESG & Impact Analyst, Vontobel Asset Management

When asked about the future of the light bulb, Paul McCartney reportedly answered "LED it be". Sir Paul might well have said that because he has always been a strong proponent of climate change mitigation and hence a supporter of emissions avoidance.

If you're new to the concept of avoided emissions, you're not alone. After familiarising ourselves with the concept of carbon footprint, do we really need another method of measuring greenhouse gases? The short answer is yes, because carbon footprints do not tell the whole story.

What we call "Potential Avoided Emissions" (PAE) is a measure of the gap between the CO_2 emissions of an innovative product and the higher emissions of a comparable "conventional" product. This may sound similar to carbon footprint, but it's not. The latter normally only measures the carbon emissions during the manufacturing phase of a product. By contrast, the more holistic PAE concept focuses on the product's operating life and the avoided emissions throughout its application – as the use of a product often causes significantly more greenhouse gases than its production. Companies that help to "save" carbon dioxide can be found in areas such as renewable energy generation and infrastructure, as well as building services and transport. Sometimes, products not immediately recognisable as "environmentally friendly" can make a big difference, e.g. low-temperature detergents, fuel-saving tyres or teleconferencing services.

Light bulb beats LED on carbon footprint, but …

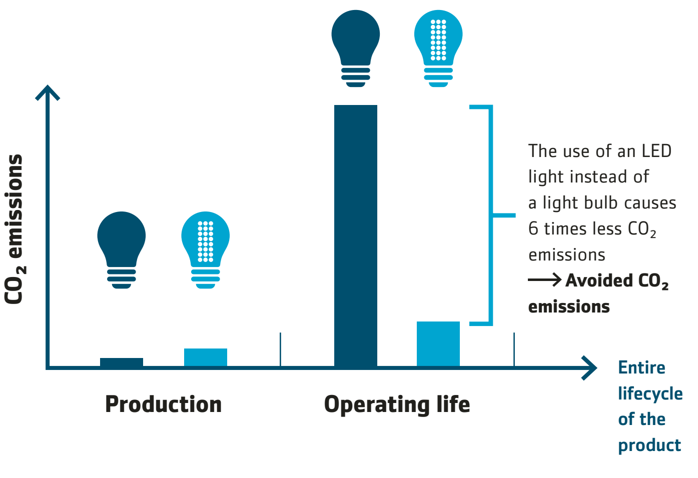
The reason why we make such a fuss about PAE is that we are doing pioneering research in the area together with the climate experts at ISS-Ethix Climate Solutions. True, the PAE method does have teething problems, such as data availability and standardisation. However, favourable reactions by customers and recent activities by some of our peers show that we are on the right path.

Our chart illustrates the difference between carbon footprint and PAE. Somewhat counter-intuitively, the light bulb performs better when looking at the production processes alone. However, during the lifetime of the two products, the LED more than makes up for its initial deficit. Its CO_2 avoidance over its entire life cycle is significantly higher.

Through our PAE research, we also aim to encourage companies to collect and publish climate-positive data. Managers have become aware that such evaluations reflect a progressive corporate culture and can be useful to promote a positive reputation. In addition, the demand for energy-efficient and climate-friendly products is growing at an above-average rate. All these factors can boost share prices.

We regularly conduct surveys on avoided emissions, and in 2017, the response rate of companies that two of our thematic funds invest in improved to 65 percent. This is an increase of 10 percentage points compared with the previous year. After doing the maths, we were able to show that the CO_2 savings of the companies in the two portfolios were 1.12 million and 1.66 million tons, respectively. According to our calculation, an investment of just 10,000 euros saves carbon emissions of 53 tons and 68 tons, respectively. In terms of car mileage, this would take you 7.4 or even 9.5 times around the globe. Paul McCartney would have liked that, surely.

… LED LIGHT EXCELS IN TERMS OF AVOIDED EMISSIONS



Base assumptions: light bulb 60 Watt; low emission technology: LED 10 Watt.

Source: Vontobel

GLOSSARY[77]

Broad SI	Sustainability criteria and approaches can be applied to mainstream products or the full asset base of a fund manager or institutional asset owner by integrating them in the investment process. The application of sustainability in these cases relies on a general sustainability policy/approach instead of a product-specific policy referred to in the product prospectus. Usually, such mainstream sustainable investments apply one of the following approaches or a combination thereof: exclusions, norms-based screening, ESG integration, ESG voting, ESG engagement.
Best-in-Class	Approach in which a company's or issuer's environmental, social and governance (ESG) performance is compared with the ESG performance of its peers (e.g. 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. The threshold can be set at different levels (e.g. 30% best performing companies or all companies that reach a minimum ESG score).
Core SI	Sustainable investment products (investment funds and discretionary mandates) with a written sustainability investment policy as part of the prospectus or contract are considered Core SI. Usually, such sustainable investment products apply multiple approaches (e.g. exclusion criteria in combination with a best-in-class approach or an ESG integration approach in combination with ESG voting and engagement).
Environmental Factors (E of ESG)	Environmental factors within ESG criteria in the context of investing include but are not limited to the environmental footprint of a company or country (e.g. energy consumption, water consumption), environmental governance (e.g. environmental management system based on ISO 14 001) and environmental product stewardship (e.g. cars with low fuel consumption).
ESG – Environment, Social and Governance	ESG stands for Environmental (i.e. energy consumption, water usage), Social (i.e. talent attraction, supply chain management) and Governance (i.e. remuneration policies, board governance). ESG factors form the basis for the different SI approaches.
ESG Engagement	Engagement is an activity performed by shareholders with the goal of convincing management to take account of environmental, social and governance 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.
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 environmental, social and governance (ESG) issues by actively exercising their voting rights based on ESG principles or an ESG policy.

Eurosif	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 fora, both with the industry and policy-makers. www.eurosif.org
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).
Fiduciary Duty	In the institutional investment context, trustees of pension funds owe fiduciary duties 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. Against the backdrop that there is 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.
Governance Factors (G of ESG)	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.
ILO Conventions	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.
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.
IRIS	IRIS is a catalogue of generally accepted performance metrics that impact investors use to measure social, environmental, and financial success, evaluate deals, and 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. www.iris.thegiin.org

Norms-based Screening	Screening of investments against minimum standards of business practice based on national or international standards and norms such as the ILO conventions, the OECD Guidelines for Multinational Enterprises, the UN Global Compact or the UN Guiding Principles on Business and Human Rights.
OECD Guidelines for Multinational Enterprises	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. www.oecd.org/corporate/mne
Social Factors (S of ESG)	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.
Sustainable Development Goals (SDG)	The SDGs are 17 goals aiming to catalyse sustainable development set by the UN in 2017. They include goals such as no poverty, gender equality, decent work, sustainable consumption, climate action and reduced inequalities. The goals were developed 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.
Sustainable Finance	Sustainable finance refers to any form of financial service integrating environmental, social and governance (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.
Sustainable Investment (SI)	Sustainable investment (analogous to responsible investment) refers to any investment approach integrating environmental, social and governance factors (ESG) 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.
Sustainable Thematic Investments	Investment in businesses contributing to sustainable solutions, both in environmental or social topics. 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.

SVVK-ASIR	The Swiss Association for Responsible Investments (SVVK – ASIR) is an association of large pension funds aiming to provide services to its members that enable them to invest responsibly. This entails the inclusion of ESG criteria in their investment decisions, where the association supports its members through norms-based and product-based portfolio screening and engagement. The normative standards applied are the Swiss constitution and Swiss law, ILO conventions and the Global Compact. The association was founded in December 2015 and has nine members as of 2018.
Swiss Federal Act on War Material (WMA)	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-personal mines, as well as biological, chemical and nuclear weapons. Switzerland is one of the 13 countries regulating the financing of controversial weapons.
United Nations Global Compact (UNGC)	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. www.unglobalcompact.org
UN Guiding Principles on Business and Human Rights	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.

[77] Sources: bnp paribas, FNG, GIIN, pwc, Responsible Investment Association (RIA), RI, SSF, Worldbank, OECD, your SRI, KPMG, WCED.

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- Bank J. Safra Sarasin
- Bank Julius Baer & Co. Ltd
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- Basellandschaftliche Kantonalbank
- Basellandschaftliche Pensionskasse
- Berner Kantonalbank (BEKB|BCBE)
- BlueOrchard Finance Ltd
- BVK
- CAP Prévoyance
- CONINCO Explorers in finance SA
- CP Fédération internationale des sociétés de la Croix Rouge et du Croissant Rouge
- CPEG
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- Obviam AG
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- Retraites Populaires
- RobecoSAM AG
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- Stiftung Abendrot
- Suva
- Swiss Investment Fund for Emerging Markets (SIFEM)
- Symbiotics SA
- UBS Group AG
- Van Daalen & Cie S.A.
- Vontobel
- Zürcher Kantonalbank / Swisscanto Invest by Zürcher Kantonalbank
- Zurich Insurance Group Ltd

OVERVIEW TABLE: SWISS SUSTAINABLE INVESTMENT MARKET

CHF/EUROS (MILLIONS)	2017		2016	
SUSTAINABLE INVESTMENT MARKET				
Funds	94,388 CHF	80,745 €	64,166 CHF	59,762 €
Mandates	57,926 CHF	49,553 €	46,284 CHF	43,108 €
Asset Owners	238,243 CHF	203,807 €	104,499 CHF	97,327 €
Total	390,557 CHF	334,106 €	214,949 CHF	200,196 €
SUSTAINABLE INVESTMENT APPROACHES				
Norms-based Screening	217,797 CHF	186,317 €	153,087 CHF	142,580 €
ESG Integration	188,877 CHF	161,576 €	99,519 CHF	92,688 €
ESG Engagement	157,813 CHF	135,003 €	124,497 CHF	115,952 €
Exclusions	142,638 CHF	122,021 €	166,115 CHF	154,714 €
ESG Voting	117,845 CHF	100,811 €	49,022 CHF	45,657 €
Best-in-Class	65,094 CHF	55,686 €	45,113 CHF	42,017 €
Sustainable Thematic Investments	36,907 CHF	31,572 €	21,161 CHF	19,709 €
Impact Investing	12,074 CHF	10,329 €	10,313 CHF	9,605 €
BROAD SI APPROACHES				
ESG Integration	538,059 CHF	460,288 €	391,643 CHF	364,763 €
ESG Engagement	475,623 CHF	406,876 €	1,018,337 CHF	948,444 €
Exclusions	381,965 CHF	326,756 €	Not available	Not available
Norms-based Screening	374,888 CHF	320,702 €	Not available	Not available
ESG Voting	345,078 CHF	295,201 €	506,147 CHF	471,408 €
ASSET CLASSES				
Equity	91,435 CHF	78,219 €	55,956 CHF	52,115 €
Real Estate/Property	73,833 CHF	63,161 €	30,648 CHF	28,544 €
Sovereign Bonds	55,371 CHF	47,368 €	21,757 CHF	20,264 €
Corporate Bonds	54,030 CHF	46,220 €	34,778 CHF	32,391 €
Monetary/Deposit	14,095 CHF	12,058 €	2,942 CHF	2,740 €
Private Debt	12,898 CHF	11,034 €	-	-
Private Equity	9,493 CHF	8,120 €	3,851 CHF	3,586 €
Infrastructure	4,455 CHF	3,811 €	-	-
Supranational Bonds	3,605 CHF	3,084 €	638 CHF	594 €
Hedge Funds	835 CHF	714 €	1,958 CHF	1,824 €
Commodities	428 CHF	366 €	282 CHF	262 €
Not specified	70,079 CHF	59,950 €	62,140 CHF	57,875 €
INVESTOR TYPES				
Institutional	336,334 CHF	287,720 €	175,565 CHF	163,515 €
Private	54,223 CHF	46,386 €	39,420 CHF	36,714 €

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