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CONTINUING EDUCATION

SHEDDING LIGHT ON SUSTAINABLE INVESTMENT TERMINOLOGY

By Sabine Döbeli, CEO, Swiss Sustainable Finance

Sabine Döbeli *is the CEO of Swiss Sustainable Finance, an association that was founded in 2014 with the objective of promoting sustainability in Swiss finance. Previously, she was Head of Corporate Sustainability Management at Vontobel. At Zürcher Kantonalbank she built up the sustainability research unit within the financial analysis department and was involved in the launch of various sustainable investment products. Sabine holds a Masters in Environmental Sciences from the Swiss Federal Institute of Technology (ETH) Zurich and a post-graduate degree in business administration from the University of Basel.*

When speaking to institutional asset owners about integrating sustainability factors into their asset management, the following concerns or questions are often raised: How can I get an overview on the many different approaches and their pros and cons? Why are there no standard definitions for sustainable investments? How should I convince my Board that considering ESG factors is actually in line with the fiduciary duty of our organisation?

It is these and other comments that motivated Swiss Sustainable Finance (SSF www.sustainablefinance.ch) to prepare an encompassing Handbook on Sustainable Investments for institutional asset owners, jointly with its related working group. Being the Swiss industry association dedicated to promote sustainable finance, one of SSF's goals is to inform interested

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parties about different methods of sustainable investing and support the various players in adopting strategies that best match their needs. When we discussed the content of such a handbook with Swiss asset owners, it became clear that it should provide an encompassing overview of all major sustainable investment approaches available in the market, demonstrate their application to different asset classes, give insights into regulatory and market developments, address important aspects such as performance, reporting and the role of indices, outline the different steps in implementing a sustainable investment policy, and – last but not least – present practical insights based on asset owner case studies. An ambitious task, to say the least!

As Switzerland is home to many innovative pioneers of sustainable investment solutions, we could fortunately build on the know-how of many specialists from our members base. An editorial team composed of both asset manager and asset owner representatives ensured that the different contributions matched the high quality standards set by SSF and provided a balanced picture of advantages and disadvantages of different approaches.

But what are we referring to, when we talk about sustainable investments? SSF defines the term as follows: Sustainable investments refer to any form of investing that integrates environmental, social and governance (ESG) criteria into the investment decision for the lasting benefit of both clients and society at large. Hence, sustainable investing is an umbrella term referring to many different forms of investments which integrate sustainability factors, and is often considered synonymous to other terms such as socially responsible investing or responsible investing. Over the course of more than 20 years, the advancement of sustainable investments has created a large and diverse offering that includes products and services for virtually every asset class, geographical region and investment strategy (see overview on combinations of sustainable investment approaches with specific asset classes on page 35-36 of the Handbook on Sustainable Investments). These investments have proven themselves to be comparable with conventional investment products in terms of risk and return, while in many cases providing more effective portfolio diversification. At the same time, they actively contribute in bringing the economy onto a more sustainable path.

There are several reasons why institutional investors consider sustainability aspects when making investments. The three main motivations influencing the selection of approaches (see Table 12 on pages 168-169 of the Handbook on Sustainable Investments) are

- complying with generally recognised international and national standards/norms or specific values defined by their own organisation within their investment activity,
- improving the risk/return profile of investments, and
- promoting sustainable development and business practices.

More and more investors who manage wealth for third parties on a fiduciary basis have added sustainability criteria to their investment policy for one or more of the above reasons, in line with the conclusion of the landmark report "Fiduciary Duty in the 21st Century" authored by PRI and other collaborating organisations. In this report, the PRI made the following strong statement: "Failing to consider long-term investment value drivers, which include environmental, social and governance issues, in investment practice is a failure of fiduciary duty."

Recently, new regulations governing sustainability have been introduced in many European countries. The IORP II Directive of the European Union that entered into force in December 2016 obligates pension plans to integrate ESG factors into their risk assessment. In France, the Article 173 of the new climate legislation obliges institutional asset owners and asset managers to inform on the climate risks reflected in their portfolios. These are just two examples of recent regulatory initiatives bringing ESG factors into the awareness of asset owner representatives. Furthermore, pressure from various stakeholders is steadily mounting. These include NGOs, who stress the responsibility of institutional investors, and members of pension funds who wish to see their assets invested in a responsible manner.

After SSF had published the Handbook in German and French, two of the official languages in Switzerland, we received plenty of requests about an English version. It was a fortunate coincidence, that the CFA Society Switzerland hosted an expert roundtable in Zurich on ESG investing in CFA's curriculum in early 2017. At this roundtable the idea to translate and publish the Handbook jointly with CFA Institute Research Foundation was born – an idea that soon materialised after the Research Foundation confirmed their support for the project. Over the course of half a year, SSF collaborated with the authors for an update of all chapters while two additional chapters (one on impact investing and one on the role of sustainability in commodity investing) were added. In the translation and editing stage, we received the full support of CFA Society. The swift cooperation across the ocean is proof of the fact that sustainable investing is now a global concept. We hope the result of the cooperation will contribute to an informed debate about efficient and successful ways of investing sustainably – a trend that is here to stay.

Swiss Sustainable Finance (SSF) *strengthens the position of Switzerland in the global marketplace for sustainable finance by informing, educating and catalysing growth. The association, founded in 2014, has representation in Zurich, Geneva and Lugano. Currently SSF unites around 90 members and network partners from financial service providers, investors, universities and business schools, public sector entities and other interested parties.*

www.sustainablefinance.ch