Swiss Sustainable Finance

University of Zurich[UZH]

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

SWISS SUSTAINABLE INVESTMENT MARKET STUDY 2019

Cover: SWITZERLAND
CHRISTIAN KAUFMANN (48)
SHEPHERD
GRINDELWALD, SWITZERLAND

The alpine lodge that my grandfather built near a glacier collapsed down the slope three years ago because so much of the ice melted. The glacier has lost at least eighty percent of its volume in the last twenty-five years. That is drastic. When my grandfather opened the lodge in the 1940s, the glacier was on almost the same level. But as it started to retreat, the moraine became unstable and started to collapse, one piece after another. It was frightening. At one point, you could see the cleft at the edge of the house, then everything tumbled down. You can see where the ice was. That should get us thinking that there is something wrong.

CONTENT

PREFACE BY SWISS SUSTAINABLE FINANCE

ZURICH, JUNE 2019

This is the second time that Swiss Sustainable Finance (SSF) has produced the Swiss Sustainable Investment Market Study with the support of the Center for Sustainable Finance and Private Wealth at the University of Zurich. Who would have thought that last year's impressive growth would persist? The 83% increase in sustainably managed assets in Switzerland definitely lies well beyond what we expected for 2018.

The present report provides in-depth insights into both the structure and quality of this impressive market development. Even without digging into the details, one trend is obvious: it is becoming ever more normal to integrate sustainability factors into investment decisions for large shares of assets – a trend described as a "virtuous circle" by Mark Carney, Governor of the Bank of England. Going forward, it will be crucial not just to focus on quantitative growth, but also on the quality of such sustainable investment solutions and the impact they have on the real world.

With a total of 77 respondents answering our questionnaire, we have again managed to expand the coverage of our survey. As many of the large asset managers and asset owners are amongst the respondents, we are confident the study gives a fair overview of the Swiss sustainable investment market as it presents itself today. In two interviews, the managing directors of important asset owner organisations provide their view on the role of sustainability for the investment processes of their members. Climate change is one of the key issues they wish to tackle, be it with the intention of reducing investment risks or contributing to a low-carbon world. The latter is of utmost urgency, as impressively illustrated by the pictures we chose for this report. The Swiss photographers Mathias Braschler and Monika Fischer traveled to sixteen countries around the world, taking photographs of and conducting interviews with people whose existence is threatened by the consequences of climate change.

The chapter on regulatory developments has grown considerably since last year's report. The EU Action Plan on Financing Sustainable Growth is one reason for this, but certainly not the only one. A wide array of self-regulatory initiatives also play an important role in aligning definitions and creating frameworks that help investors establish state-of-the-art processes.

This market study was compiled with the help of an SSF workgroup, which allowed the methodology to be closely aligned to the market. The data analysis was carried out jointly by the Center for Sustainable Finance and Private Wealth, which ensured systematic assessment of the data based on scientific principles. The study was funded by the six main sponsors Credit Suisse, Raiffeisen, RobecoSAM, Swisscanto Invest, UBS and Vontobel, as well as the five supporting sponsors Candriam, Ecofact, Inrate, LGT, and Pictet Group. We would like to take this opportunity to thank all the involved parties for their valuable support.

In his Welcome to this study, the President of the Swiss Confederation Ueli Maurer stresses the importance of a continuing dialogue between market players and authorities. SSF is part of this ongoing discussion and will keep bringing in the perspective of the different market players. With this we aim to help build the right frameworks that allow Switzerland to remain a leading centre in sustainable finance and to contribute its fair share to combatting climate change.

Jean-Daniel Gerber
President SSF

Sabine Döbeli
CEO SSF

PREFACE BY THE UNIVERSITY OF ZURICH

The results of this important report show that the practice of integrating social and environmental sustainability aspects into investment processes is no longer a niche activity, but has moved into the mainstream. This is part of the ongoing surge in momentum experienced in sustainability as a whole over the last year – both in Switzerland and worldwide.

At the Center for Sustainable Finance and Private Wealth (CSP) at the University of Zurich, we are observing this important development from various angles:

In our teaching programmes, we are experiencing strong demand from development finance agencies keen to learn about Blended Finance and Impact Investing, as well as interest from high net worth individuals and family offices from around the globe who are looking to actively develop their competencies to invest their assets in a sustainable manner. On top of that, investment professionals and private bankers are actively building up their capabilities to serve these clients.

Our analysis of the sustainable investing capabilities of private banks reveals their greater awareness of the growing client demand and the ongoing drive to develop innovative investment solutions to fill the corresponding gaps in their product range and client servicing capacities.

In academic research, the focus is moving from merely whether it "pays to be green" to focus on exactly how sustainability aspects can help investors make better investment decisions, how these decision-making processes operate, the role played by behavioural finance, and – perhaps most importantly – the actual impact investors have on the real world.

We are excited about the dynamic momentum, the exciting research and discoveries ahead of us, and the impact we hope to make as we forge ahead. This report, jointly prepared with Swiss Sustainable Finance, is an essential part of this, and we very much hope that the insights it provides are as valuable to you as they are to us.

Dr Falko Paetzold
Initiator and Managing Director

Prof. Dr Timo Busch
Senior Fellow

Given the global challenges ahead, the sector has good reason to continue along this path.

WELCOME FROM THE PRESIDENT OF THE SWISS CONFEDERATION

Switzerland continues to show incredible potential as a centre of excellence in sustainable investment. This is showcased in the current SSF Market Study, which deserves broad attention and shows that our financial services industry is heading in the right direction. Given the global challenges ahead, the sector has good reason to continue along this path and to follow the goal of making sustainable investment the norm.

There has been a continuous increase in the political and social pressure, as well as the willingness of investors, to take environmental, social and governance (ESG) issues into account. From the many discussions I have had with financial market players, I know they are aware of their important role and act accordingly. Sustainability presents a great opportunity – both in its own right and in combination with digitalisation – to ensure that Switzerland continues to be a highly competitive financial centre in the future.

At the beginning of 2016, the Federal Council addressed the issue of sustainability in the financial markets and adopted principles for a consistent Swiss policy. This policy is based on market-economy measures, transparency and consideration of the long-term effects of current decisions. The right framework conditions favour sustainable economic development. This is why we are maintaining such a close dialogue with the financial industry, as it knows best where the opportunities are to be found, but also where the obstacles lie.

Businesses not only need favourable framework conditions in Switzerland, but should also have opportunities for sustainable investment abroad. That is why we contribute to the activities of international bodies. Switzerland is also involved at intergovernmental level, for example through a Memorandum of Understanding (MoU) with China, focusing on finance and the economy as part of the Belt and Road Initiative. The central principles of this MoU signed in April 2019 are sustainability, social and environmental responsibility, and transparency in project finance and investment. This MoU is also aligned to the UN's sustainable development goals (SDGs).

The federal authorities will continue their intensive dialogue with the financial services industry. It is in our national interest to maintain a high level of international commitment as well.

Ueli Maurer
President of the Swiss Confederation

THE HUMAN FACE OF CLIMATE CHANGE

PHOTOS AND TEXT MATHIAS BRASCHLER AND MONIKA FISCHER

Compelling portraits of victims of climate change

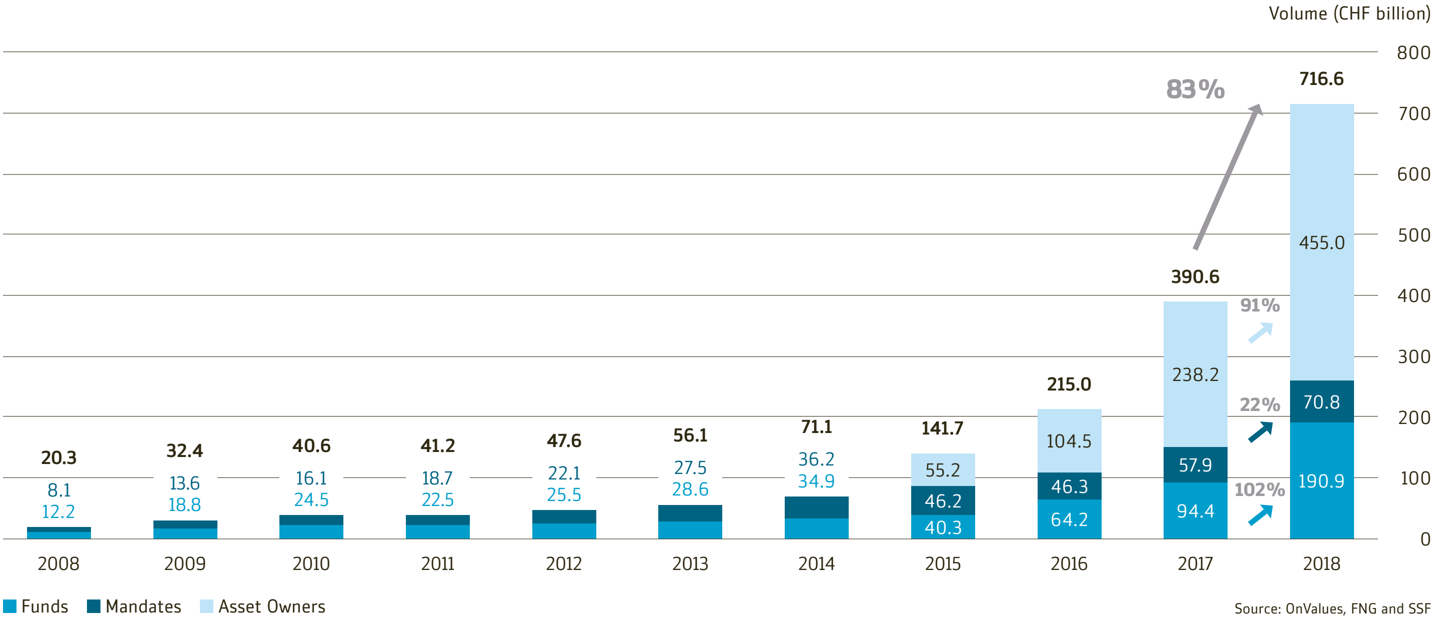
The images we chose for this edition of the Swiss Sustainable Investment Market Study intentionally look beyond Switzerland. They tell us stories of the striking effects of climate change from all regions of the world. In 2009, the Swiss photographers, Mathias Braschler and Monika Fischer travelled to 16 countries to photograph and interview people whose existence is threatened by the consequences of climate change. This project, "The Human Face of Climate Change", impressively illustrates the urgent need to adopt sustainable solutions in every part of our lives, including our investment activities.

PERU
MARIANO GONZALO CONDORI (48)
FARMER
PUCARUMI, PERU

We are losing our glaciers. They are turning into water, and we have fewer snowfalls. If this continues, surely the water will run out and then how are people going to live? This will surely bring a famine, animals will die, and there will not be much agriculture. Potatoes used to grow only at an altitude of 3,200 meters, but now we can cultivate them at 4,200 meters. Perhaps even higher later. When I was young, the soil was very fertile, but now it has become poor. When it used to snow, everything was very white, and Ausangate (Peru's second highest mountain) looked beautiful. Now the snowfalls are disappearing and it has become ugly. Scientists tell us there will only be water for twenty-five years. We do not know what to do. We are very concerned.

EXECUTIVE SUMMARY

DEVELOPMENT OF SUSTAINABLE INVESTMENTS IN SWITZERLAND (IN CHF BILLION)



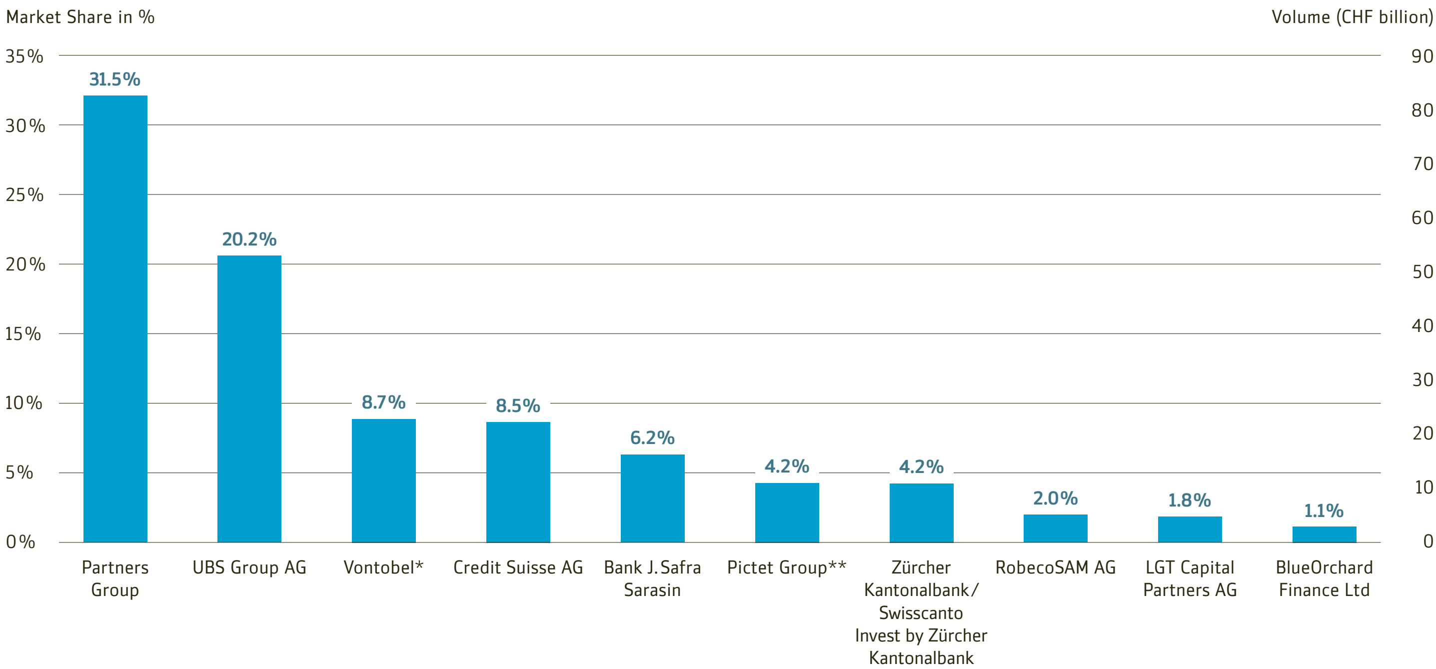
Source: OnValues, FNG and SSF

High double-digit growth of sustainable investments continues
The market for Sustainable Investments (SI) in Switzerland in 2018 once again experienced record-high, double-digit growth. Based on the responses to a market survey performed by Swiss Sustainable Finance (SSF), the total volume increased by 83% to reach CHF 716.6 billion. This figure covers all reported sustainable investment funds (102% increase), sustainable mandates (22% increase) and sustainable assets of asset owners (91% increase). The SI market growth can be ascribed to higher market coverage in this study (77 respondents vs. 66 in the previous year), as well as a wider adoption of SI approaches, particularly ESG integration, by large asset managers across a broad share of their products.

On the level of funds, the doubling of volumes of sustainable funds to CHF 190.9 billion brought this segment to 18.3% of the overall Swiss fund market.

Substantial growth has also been seen in the asset owner segment. The amount of sustainable investments reported by asset owners (CHF 455.01 billion) accounts for two thirds of Switzerland's total SI market, and corresponds to approximately 31% of the total assets managed by Swiss pension funds and insurance companies.

TOP 10 SWISS MARKET PLAYERS FOR SUSTAINABLE INVESTMENTS BY ASSETS UNDER MANAGEMENT IN SWITZERLAND (IN % AND CHF BILLION) (n=39)



* this includes assets from Raiffeisen Schweiz and Ethos Services SA
** combined AuM of Pictet Asset Management and Pictet Wealth Management (includes assets managed for Ethos Services SA)

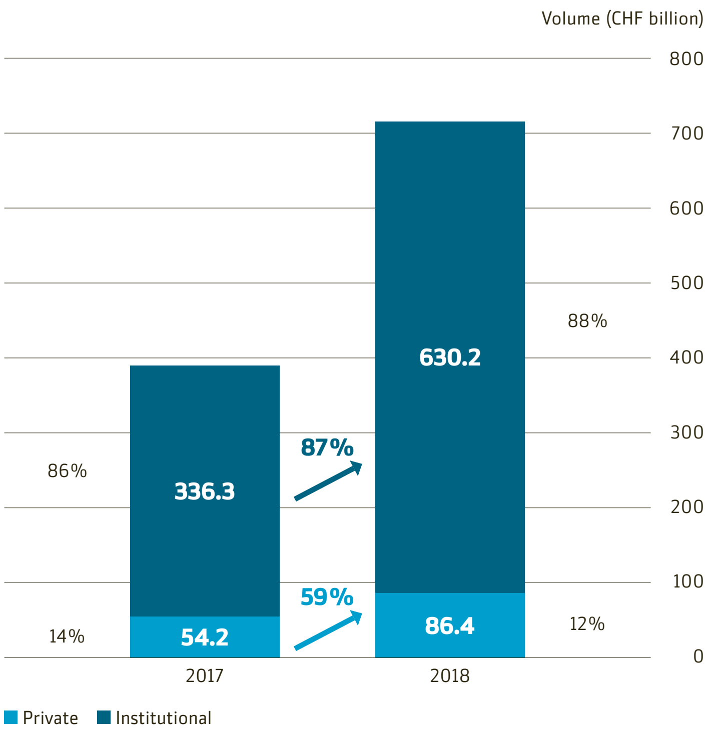
Top 10 players by volume

The top 10 market players manage around CHF 213.7 billion in sustainable funds and mandates, accounting for about 89% of the total SI market of asset managers covered by the SSF survey.

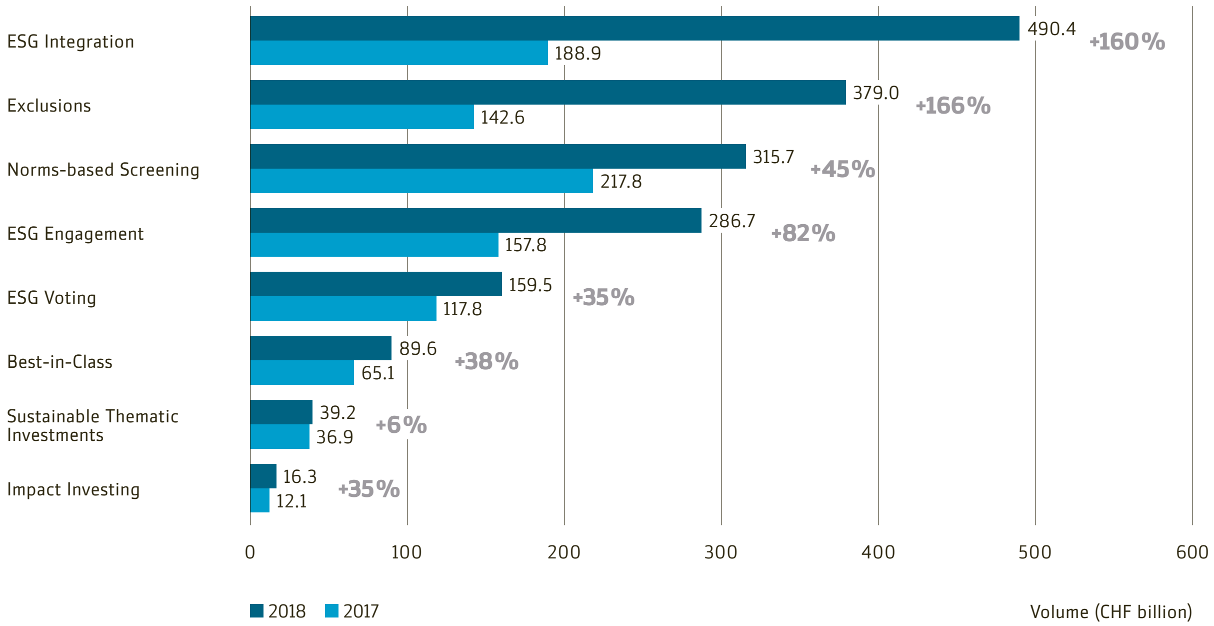
Both private and institutional investors drive growth

In terms of client types, both private and institutional investors increased their SI volumes on an absolute basis. The 2019 report again highlights the dominance of institutional investors in the SI field, who now make up 88% of all sustainable investments in Switzerland, a modest increase of two percentage points compared to the previous year.

DEVELOPMENT OF INSTITUTIONAL AND PRIVATE SUSTAINABLE INVESTMENTS (IN CHF BILLION) (n=61)



DEVELOPMENT OF SI APPROACHES
(IN CHF BILLION) (n=70)



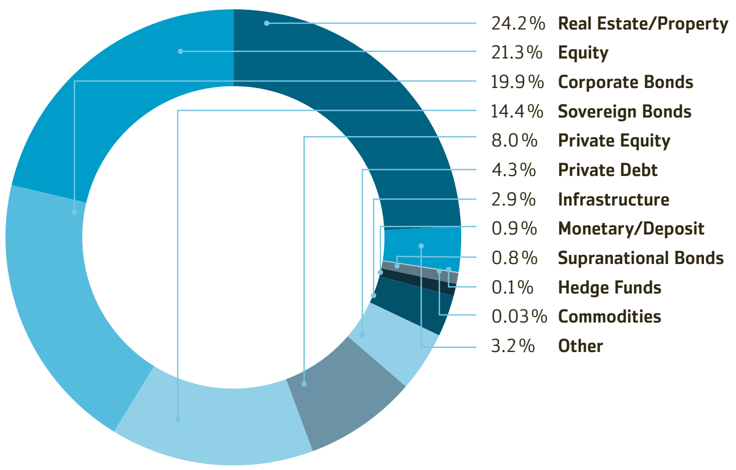
ESG integration approach gains lead position

All of the SI approaches grew in volume. ESG integration is now in the lead, with a total volume of CHF 490.4 billion, followed by exclusions, with a volume of CHF 379 billion. Both approaches experienced their highest growth rates of 160% and 166%, respectively. The norms-based screening approach accounted for CHF 315.7 billion. In addition, the engagement approach had a striking increase of about 82% compared to the previous year. The best-in-class and voting approaches, as well as sustainable thematic investments, also grew, but remained at modest levels, followed by impact investing with the lowest volume.

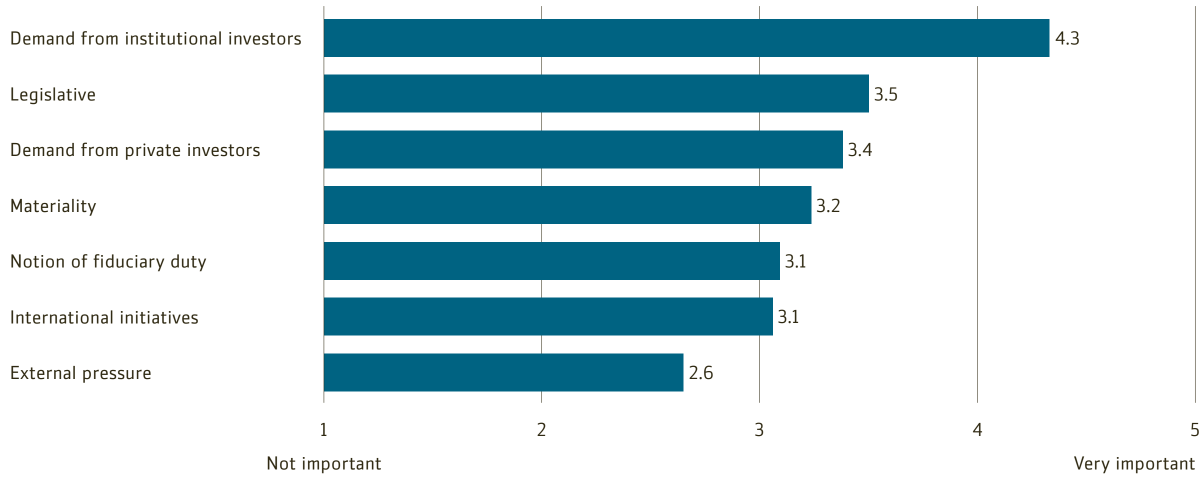
Shifting importance of asset classes

The asset allocation distribution of sustainable investments has experienced some shifts between 2017 and 2018. With a share of 24.2%, real estate/property is the most popular category for SI in Switzerland now. The second largest asset class is equity with 21.3%, followed by corporate bonds with 19.9%. Sovereign bonds are in fourth place with 14.4%. These shifts are definitely driven by the greater interest shown by institutional investors and therefore their asset allocation, which is more focused towards real estate and bonds.

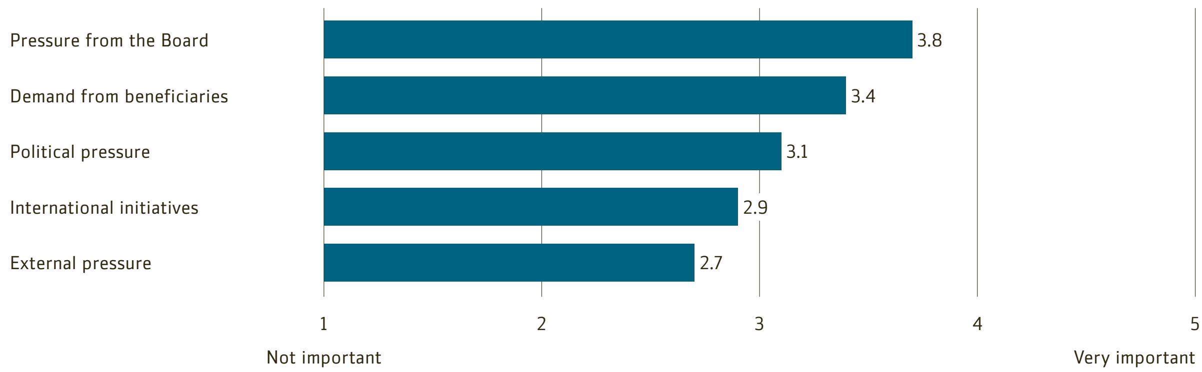
ASSET CLASS DISTRIBUTION FOR SUSTAINABLE INVESTMENTS (IN %) (n=54)



KEY DRIVERS FOR SI DEMAND IN THE NEXT 3 YEARS FOR ASSET MANAGERS
(IN AVERAGE LEVEL OF IMPORTANCE) (n=34)



KEY DRIVERS FOR FURTHER ADOPTION OF SI FOR ASSET OWNERS
(IN AVERAGE LEVEL OF IMPORTANCE) (n=33)



Swiss market optimistic about growth of sustainable investments
Going forward, Swiss asset managers and asset owners remain optimistic about future growth of the SI market. Bottom-up drivers (i.e. investors' demands), as well as top-down pressure (i.e. board-level pressure and legislation), have been identified as the most relevant drivers for this development. At the same time, performance concerns remain a key barrier for asset owners, whereas these concerns have lost in importance for asset managers.

Swiss financial centre lays the groundwork to move forward in sustainable investing
Increasing international voluntary initiatives, the legislative developments at EU level as well as the strong market growth noted in this report are all facets of one clear trend: we see strong dynamics in the sustainable investment market in many parts of the world. As also outlined in this report, Swiss players ranging from federal entities (SIF, FINMA, SNB), industry associations (ASIP, SBA, SFAMA, SIA) all the way to the market players reflected in the survey, are taking steps to improve the understanding and implementation of sustainable finance. SSF considers the recent market developments very encouraging and is convinced they will help position Switzerland as a key player in this increasingly relevant field.

RUSSIA
KOSHUNEVA LUIZA ARKADIEVNA (54)
IN FRONT OF HER HOME PARTIALLY FLOODED BY MELTWATER
SIBERIAN PENSIONER
NAMZI VILLAGE, SAKHA REPUBLIC, RUSSIA

For the last three years the winters have been warmer so the permafrost has melted and the lake has expanded so much that it has reached our home. Now many of our buildings are submerged. The cowshed, the outside shower, and our underground cool room are all flooded. The weather has changed a lot. When we were children, the temperature in winter fell as low as minus sixty-three degrees Celsius, but now it is much warmer. Other people in the village have similar problems. My aunt, who is now eighty-six, also has a home threatened by a lake. Many buildings in her area have been flooded. We will go to our local administration and ask for a new house in a higher area.

AUSTRALIA
KEN BUTCHER (57)
SHEEP FARMER
BOOROORBAN, NEW SOUTH WALES, AUSTRALIA

We're in a situation now where I have virtually no feed. We are virtually out of water as well, so I have to reduce stock. There is no choice. We have just about exhausted most of our excess, which means going into debt. If it stays dry, there is no way of paying it back. There comes a time when you have to walk away.
We seem to be running through longer periods of drier-than-normal conditions. I've got to look at photographs to remind myself of what a normal year can be like. It is depressing to see everything so dry and to see trees that you planted die. Some of my neighbors take the worst option out and commit suicide to get away. I try to maintain a positive outlook that hopefully things will get better.
—
After a severe, thirteen-year drought in southeast Australia, farmers are struggling to make ends meet. Ken Butcher has tried to adapt by switching from Merino to Dorper sheep, which are well adapted to a desert climate. But he has still been forced to reduce his stock from two thousand to six hundred sheep. On the day this portrait was taken, he had just put an ad in the local newspaper to sell another four hundred.

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.

Over the last year, sustainable finance has once again made headlines internationally. With increasing pressure from international organisations such as the IPCC emphasising the urgency to meet climate goals and the UN promoting more financing for the UN Sustainable Development Goals (SDGs), the financial services industry must address how it can be part of the solution.

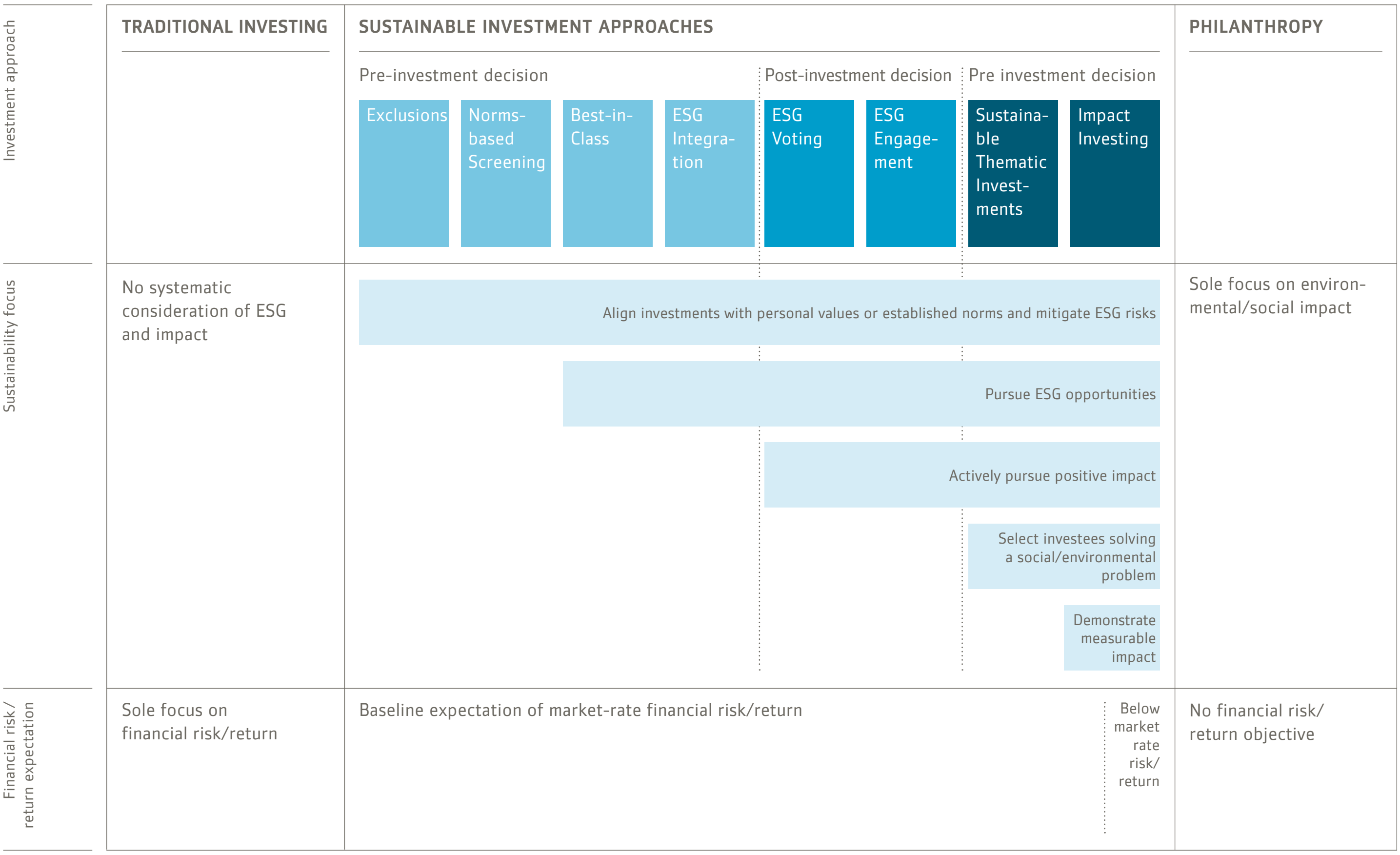
Financial actors can no longer ignore sustainability issues, with climate change claiming its first S&P 500 bankruptcy in 2018.[1] The industry already sees positive signals, with the majority of assessed companies now disclosing information in their reporting in line with one or more of the TCFD recommendations.[2] Additionally, various initiatives aiming to create more sustainable financial markets that are able to withstand future challenges and benefit from arising opportunities have taken big leaps forward in the last year. On the EU level, with the Action Plan on Financing Sustainable Growth, the first package of four measures was adopted[3] and financial centres from all over the world are committing to working together to help spread sustainable finance practices.[4] Within Switzerland, both the city of Zurich and the city of Geneva are active members of the Financial Centres for Sustainability (FC4S), helping to drive forward the agenda for sustainable finance.

These movements are helping to shape the sustainable investment market in Switzerland as well. We already have seen the Swiss market recognised globally as having leading capacities in green finance, with both Zurich and Geneva jumping in the ranking of the Global Green Finance Index.[5] Additionally, through dialogue with our members, we see that Swiss players are also looking more actively into ways to step up their efforts in sustainable investing.

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).[6] The general definition, as well as definitions applying to the different approaches, are aligned with internationally applied definitions.[7]

Figure 2
CATEGORISATION OF SUSTAINABLE INVESTMENT APPROACHES



Source: SSF[8]

Figure 2 presents a classification of these approaches. All approaches can be categorised according to their sustainability focus or intended effect, and lie in between traditional investing on the one hand and philanthropy on the other. 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 "align investments with personal values or established norms and mitigate ESG risks", impact investing additionally is seen to "pursue ESG opportunities", "actively pursue positive impact", "actively select investees solving a social/environmental problem" and "demonstrate measurable impact". It is important to note 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.

1 The Wall Street Journal (2019): "PG&E: The First Climate-Change Bankruptcy, Probably Not the Last", available at: https://www.wsj.com/articles/pg-e-wildfires-and-the-first-climate-change-bankruptcy-11547820006, accessed 02/05/2019.

2 TCFD (2018): "Task Force on Climate-related Financial Disclosures: Status Report", available at: https://www.fsb-tcfd.org/wp-content/uploads/2018/08/FINAL-2018-TCFD-Status-Report-092518.pdf, accessed 02/05/2019.

3 See regulation chapter

4 International Network of Financial Centres for Sustainability: https://www.fc4s.org/

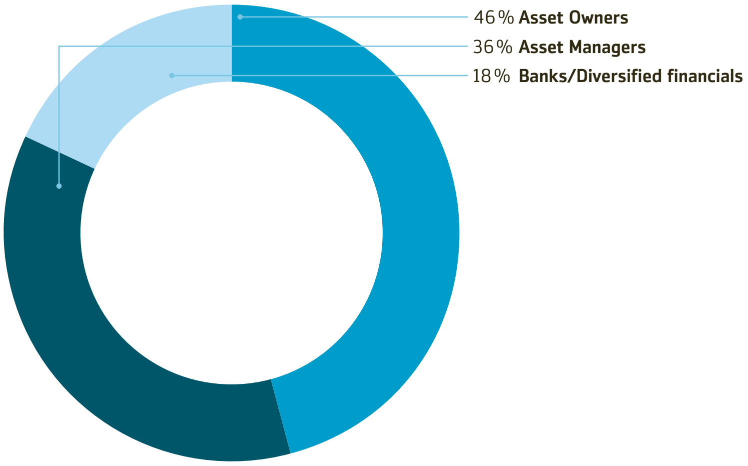
5 Finance Watch and Long Finance (2019): "The Global Green Finance Index 3", available at: https://www.longfinance.net/media/documents/GGFI_3_v1.6.pdf, accessed 02/05/2019.

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

7 E.g. Eurosif (2018): "European SRI Study 2018", p.12: "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. It combines fundamental analysis and engagement with an evaluation of ESG factors in order to better capture long-term returns for investors, and to benefit society by influencing the behaviour of companies." Available at: http://www.eurosif.org/wp-content/uploads/2018/11/European-SRI-2018-Study.pdf

8 Adapted from Paetzold, F., *Impact Investing*, in SSF Handbook on Sustainable Investments, 2018.

Figure 3
SWISS SUSTAINABLE INVESTMENT MARKET STUDY PARTICIPANTS (N=77)



Sustainable investments can also have different forms of application: a more product-specific focus, or a focus on a broader range of AuMs at the institutional level:

- 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).
- On the other hand, sustainability criteria and approaches can be applied to 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 at the institutional level instead of a product-specific policy referred to in the product prospectus. Usually, such broad sustainable investment policies apply one of the following approaches or a combination thereof: exclusions, norms-based screening, ESG integration, ESG voting, ESG integration.

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

- For asset owners, all self-managed assets for which one or more sustainable investment approaches apply are considered under sustainable investment volumes.
- For asset managers, all funds and mandates applying one or more sustainable investment approaches are included in the total volume of sustainable investments. Volumes linked to product-independent SI policies were also collected and are referred to in chapter 3 Broad Sustainable Investment Policies.

Methodology

The Swiss Sustainable Investment Market Study 2019 was prepared on the basis of company data taken from organisations domiciled in or with operations in Switzerland that manage sustainable investments. All available data was collected, reviewed and evaluated by Swiss Sustainable Finance (SSF) and its academic cooperation partner, the University of Zurich. The gathered data is from 31 December 2018 and was provided voluntarily by the study participants. From January to April 2019, data collection was conducted using questionnaires sent out to a total of 215 asset owners and managers in Switzerland.

In order to avoid double counting, SSF provided clear guidance on the data to be reported and participants were encouraged to respect the defined scope of the questionnaire. In alignment with the methodology of the 2018 Eurosif market report, 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 and separately provide information on assets managed by asset managers on behalf of their organisation. Since not every question was answered by all participants, the total quantity (n) of the respective answers is provided for all figures. A list of the participants who agreed to be named can be found on page 72.

Figures in foreign currency (euros and US dollars) were adjusted by means of exchange rates in Swiss francs (CHF). The year-end exchange rates applied for 2018 were CHF 1.1297 for one EUR and CHF 0.9840 for one USD. For one chart, the volumes for institutional and private investors were extrapolated to total reported SI volumes, since a small percentage of SI volumes managed by asset managers were not attributed to institutional or private clients explicitly.

All study participants received a guideline on the underlying definitions and detailed information on how to answer the questionnaire. Erroneous information, such as typing errors, cannot be completely excluded. In order to provide an accurate picture of the Swiss sustainable finance market, all data and information were checked for consistency. In case of any anomalies in the data, the respective participants were contacted and potential issues resolved.

A total of 77 Swiss players (2018: 66) took part in this year's edition of the Sustainable Investment Market Study which reflects a 17% increase in number of participants compared to the previous year.[9] As shown in Figure 3, 36% were asset managers, 18% banks/diversified financials and 46% asset owners. This represents an even balance between asset managers and banks/diversified financials (collectively referred to as asset managers) on the one hand and asset owners on the other hand. In 2019, the number of study participants increased to 42[10] asset managers (2018: 34) and 35[11] asset owners (2018: 32).

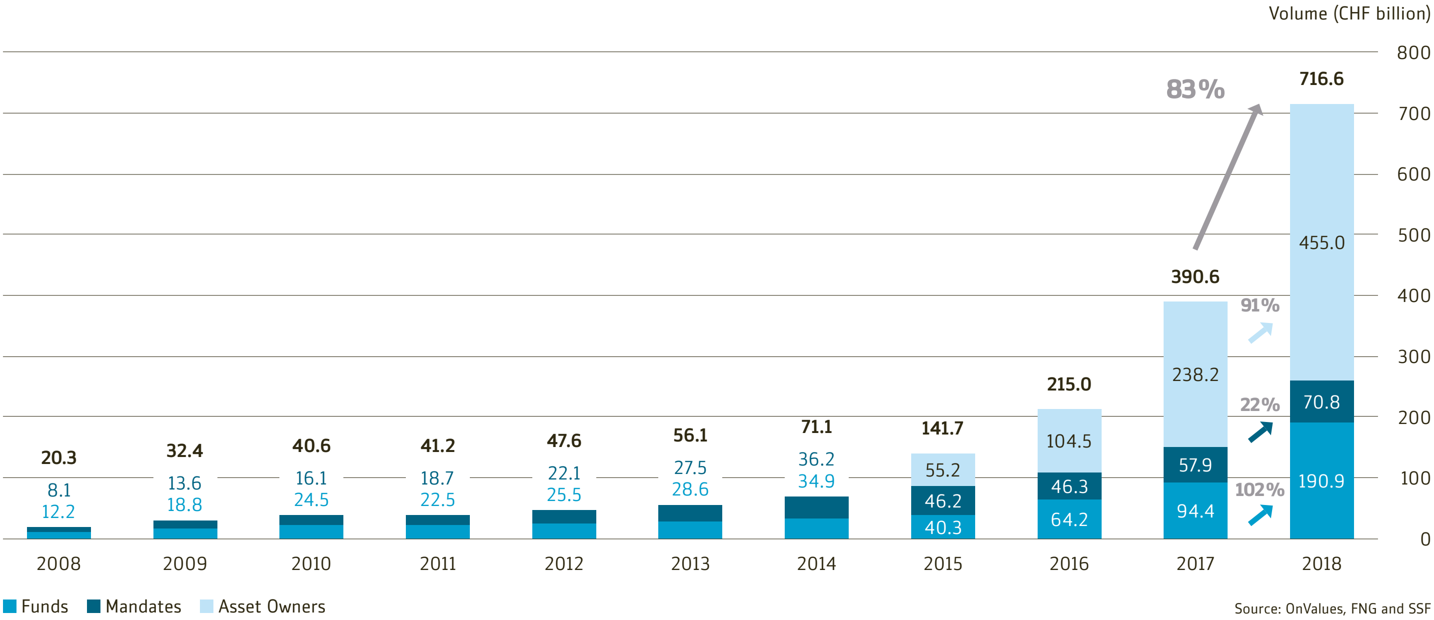
The main part of this report (chapter 2) is a detailed analysis of the results from the market survey. Factors examined in detail include general market characteristics, investor types, sustainable investment approaches and asset allocation. Also included are discussions on special topics, such as the SDGs and climate change. The next section (chapter 3) covers the topic of broad SI policies, in order to gain insights into the integration of sustainability aspects into mainstream assets. The following section on market trends anticipated 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 an examination of the regulatory framework in Switzerland. It is followed by two interviews from industry bodies in Switzerland (chapter 6). The report concludes with a summary of the findings and an outlook (chapter 7).

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

[10] Two asset managers participated through another company. Thus, the following analysis is based on 40 asset manager data sets.

[11] One asset owner participated through another company. Thus, the following analysis is based on 34 asset owner data sets.

Figure 4
DEVELOPMENT OF SUSTAINABLE INVESTMENTS IN SWITZERLAND (IN CHF BILLION)



Source: OnValues, FNG and SSF

2.1 OVERALL MARKET SIZE AND CHARACTERISTICS

As of 31 December 2018, the total Swiss sustainable investment market was worth CHF 716.6 billion – taking into account sustainable investment funds, sustainable mandates and sustainable assets of asset owners. This represents growth of 83% compared to the previous year.[12] Assets managed by asset owners made the greatest contribution to this, with a growth rate of 91%. With a volume of CHF 455 billion, sustainable assets managed by asset owners now account for 63% of the total sustainable investment market in Switzerland. Investment funds represented CHF 190.9 billion and showed a remarkable growth rate of 102%, while mandates stood at CHF 70.8 billion and recorded an increase of 22%.

Figure 4 shows the development of the market volume of sustainable assets in Switzerland from 2008 to 2018. Since 2008, the compound annual growth rate for sustainable funds and mandates has been around 26%. Asset owners were included for the first time in the market survey in 2015. Over the past four years, the compound annual growth rate of their assets has been about 69%.

Figure 5
SUSTAINABLE INVESTMENTS OF EXISTING VS. NEW STUDY PARTICIPANTS (IN CHF BILLION)

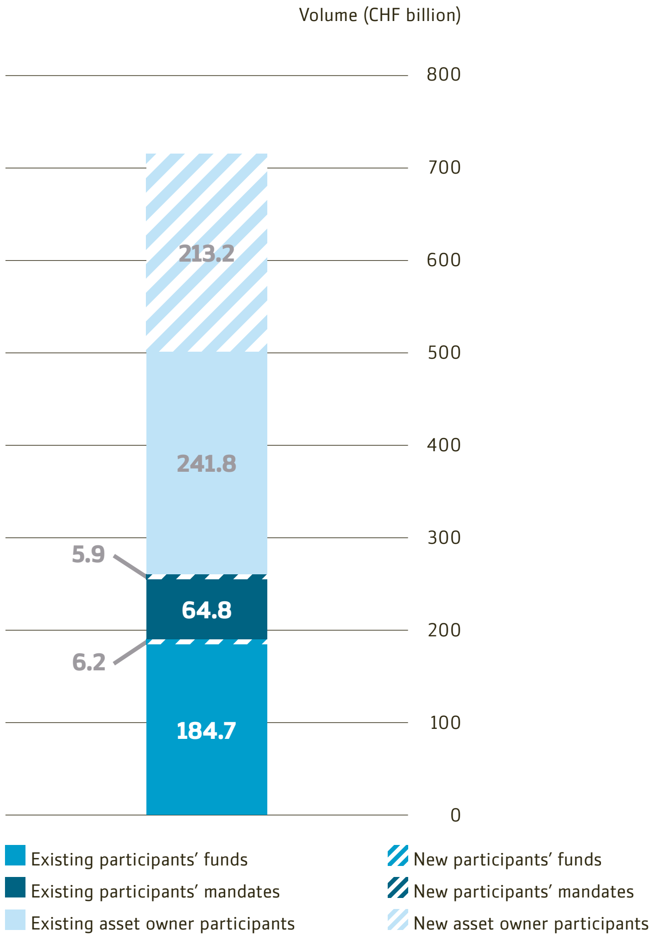
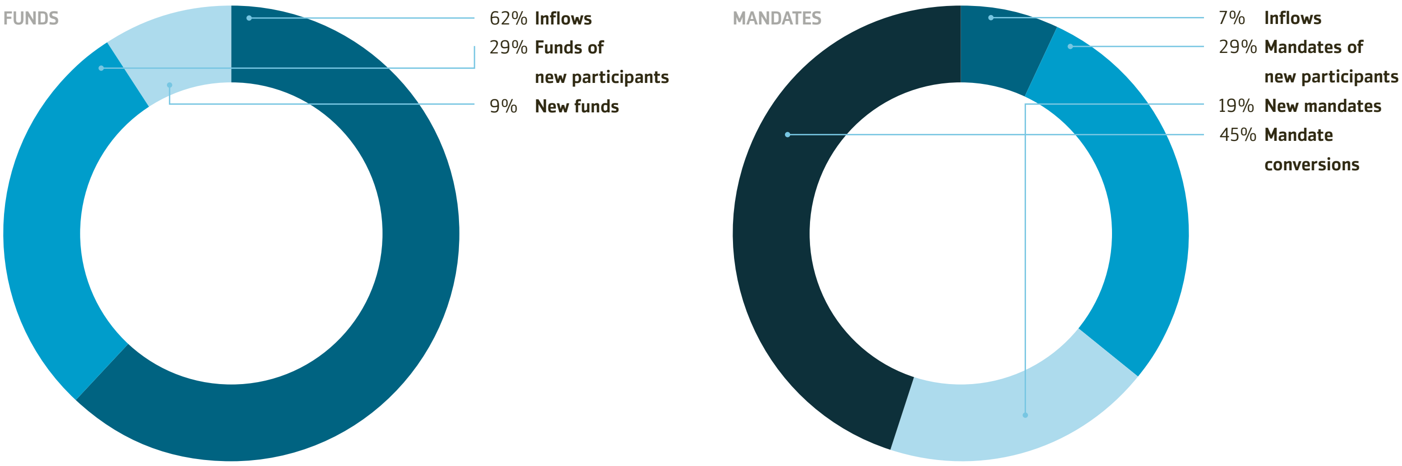


Figure 6
GROWTH FACTORS OF SUSTAINABLE FUNDS AND MANDATES IN 2018 (IN %) (n=32)[13]



As in previous years, the strong growth in volumes of asset owners can primarily be explained by a combination of new volumes from first-time respondents as well as higher sustainable investment volumes reported by existing participants. As shown in Figure 5, newly participating asset owners contributed CHF 213.2 billion to the overall volume. For asset managers, the increase due to new study participants was low, corresponding to CHF 12.1 billion (CHF 6.2 billion in funds, CHF 5.9 billion in mandates). In sum, the majority (two thirds) of the total growth can be attributed to new participants, while existing participants contributed the remaining third of the 83% total growth.

Figure 6 takes a closer look into the origins of the growth of sustainable funds and mandates in 2018. Based on the data available (for approximately one quarter of the total fund volume growth, the source of growth was specified), 62% of the specified growth can be attributed to inflows into the funds of existing participants. Another significant portion is generated by funds of new study participants – accounting for 29% of the specified growth and for new fund launches (9%). For the remaining three quarters of unspecified growth, based on available data, a considerable share can be attributed to conversion of existing funds. In view of the negative market performance in 2018, it could have been expected that growth rates would have been much lower; however, it seems as though inflows, new fund launches and fund conversions more than outweigh this negative market performance.

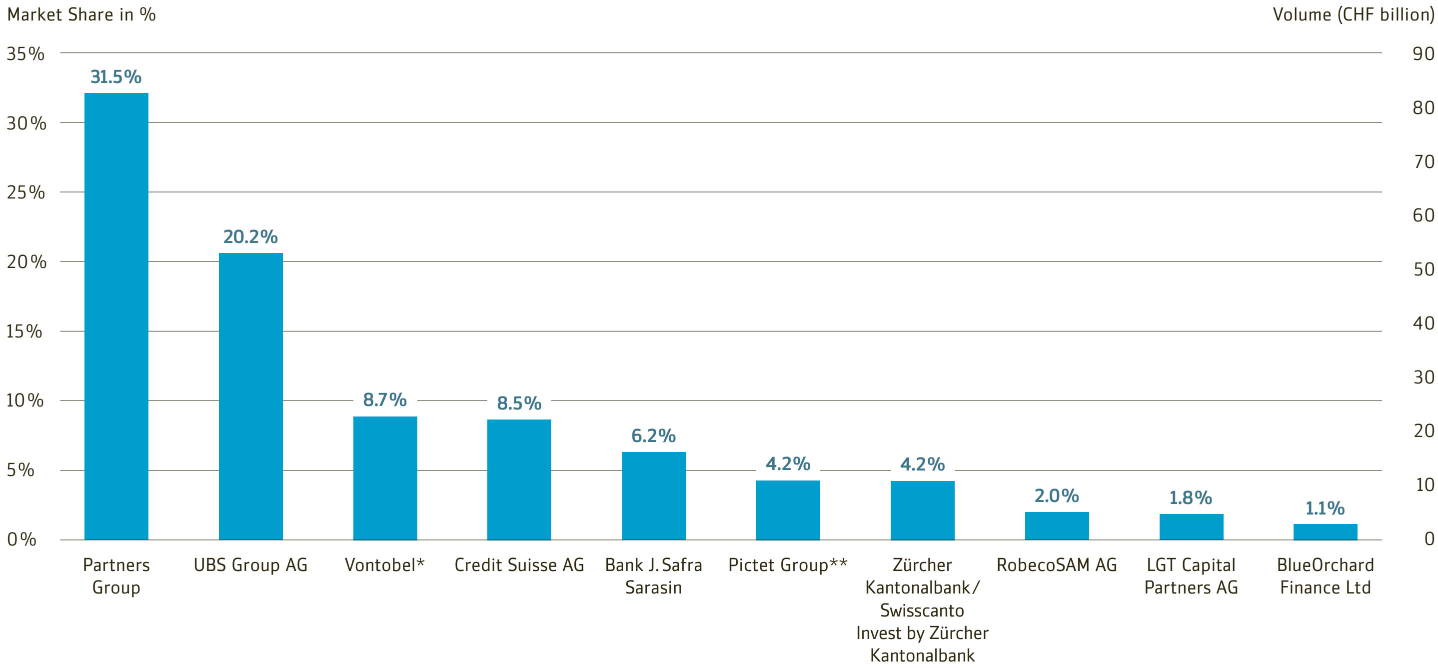
Sustainable mandates increased by about 22% (CHF 13 billion) compared to 2017. Based on available data, asset managers who participated in the survey for the first time generated 29% of the growth in total mandate volume. The biggest proportion of the mandate growth (45%) can be attributed to conversions of conventional mandates into sustainable mandates. New mandate launches contributed 19% to the increase in mandate volume and inflows were about 7%. Here again, since most major markets (except sovereign bonds) experienced performance losses in 2018, sustainable mandates likely have new activities exceeding the total increase of CHF 13 billion.

Funds have been growing stronger than mandates over the past three years, which seems to be developing into a long-term trend.

[12] Based on the SSF 2018 report, CHF 390.6 billion for the end of 2017.

[13] The source of growth was only specified for approximately one quarter of the total fund volume growth. For the mandates, the source of growth was specified for the majority of the assets.

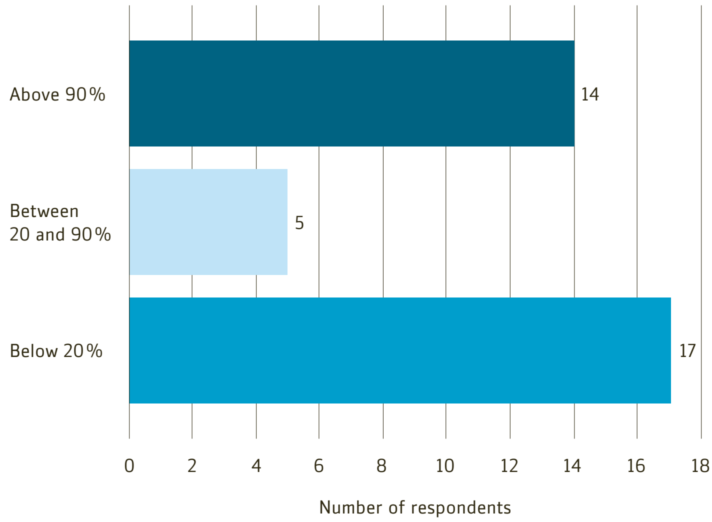
Figure 7
TOP 10 SWISS MARKET PLAYERS FOR SUSTAINABLE INVESTMENTS BY ASSETS UNDER MANAGEMENT IN SWITZERLAND
(IN % AND CHF BILLION) (n=39)



* this includes assets from Raiffeisen Schweiz and Ethos Services SA
** combined AuM of Pictet Asset Management and Pictet Wealth Management (includes assets managed for Ethos Services SA)

A comparison of the developments in the SI market with the overall growth of the asset management market in Switzerland reveals the particularly dynamic growth of sustainable investments. As of December 2018, the overall volume of the Swiss fund market stood at CHF 1,041 billion.[14] This represents a market decline of about -4.2% compared to the previous year. In contrast to the general market trend, the substantial growth of the reported sustainable funds (102%) is a very positive outcome. The amount of sustainable funds (CHF 190.9 billion) now corresponds to 18.3% of the overall fund market in Switzerland.

Figure 8
RATIO OF SI VOLUME COMPARED TO TOTAL AUM
(IN NUMBER OF RESPONDENTS) (n=36)



Assets of Swiss pension funds stood relatively stable compared to 2017, at CHF 878.7 billion in 2018.[15] The investments of Swiss insurance companies achieved a volume of CHF 587 billion by the end of 2017, which corresponds to a growth rate of 1.3%.[16] The growth rate of 91% for sustainable investments held by asset owners covered in this study is hence way above the growth rate of the overall assets. This SI growth was mainly determined by new study participants. Nevertheless, the outcome underlines the growing interest and relevance of sustainable investments for asset owners. Based on interviews, we can confirm that a number of asset owners have implemented sustainability approaches for the first time in the course of the past year. In general, the amount of SI reported by asset owners (CHF 455.01 billion) now corresponds to 31% of the overall investments of pension funds and insurance companies. This share is most likely an underestimation of the total share of sustainable assets held by Swiss asset owners, as sustainable mandates outsourced to asset managers were not counted towards asset owner volumes, because the main scope of this study was about sustainable assets managed in Switzerland.

Figure 7 provides 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 213.7 billion in sustainable funds and mandates, handling about 89% 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 36 responding asset managers, 14 indicated that a share of above 90% of total firm-wide assets could be classified as sustainable assets (Figure 8). This corresponds to 38% of all participating asset managers, a much higher share than last year, when only 28% of asset managers reported a share of above 90%. The remaining asset managers reported lower shares. Five participants have between 20% and 90%, and 17 of them have less than 20% of their total assets devoted to sustainable investments. This shows that both types of firms are well established in Switzerland: specialised SI companies as well as those offering SI, while the main focus is on traditional products.

[14] SFAMA (2019): "Swiss Fund Market Statistics – Month-End Analysis 31.12.2018", available at: https://www.swissfunddata.ch/sfdpub/fundmarket-statistics, accessed 11/04/2019.

[15] Willis Towers Watson (2019): "Global Pension Assets Study 2019", available at https://www.thinkingaheadinstitute.org/en/Library/Public/Research-and-Ideas/2019/02/Global-Pension-Asset-Survey-2019, accessed 11/04/2019.

[16] FINMA (2018): "Insurance Market Report 2017", available at https://www.finma.ch/en/documentation/finma-publications/reports/insurance-reports/, accessed 12/04/2019.

2.2 **INVESTOR TYPES**

Figure 9 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 630.2 billion and CHF 86.4 billion, respectively.[17] From 2017 to 2018, the volume held by institutional investors has recorded a substantial increase of around CHF 293.9 billion – this corresponds to a growth rate of 87%.[18] The growth rate for private investors stood at 59%, with an increase in volume of CHF 32.2 billion. These numbers illustrate the continued strong relevance of institutional investors within the Swiss sustainable investment market, which make up 88% of all SI (a marginal rise from 86% in 2017).

With about 58% of the total volume, insurance companies were the largest group among SI institutional investors in 2018 (Figure 10). They are followed by public pension funds or reserve funds, which account for around 29%, and by corporate/occupational pension funds – accounting for around 11%. In comparison, institutional investors such as foundations or public authorities currently do not play significant roles in the overall sustainable investment market in Switzerland.

Figure 9
DEVELOPMENT OF INSTITUTIONAL AND PRIVATE SUSTAINABLE INVESTMENTS (IN CHF BILLION) (n=61)

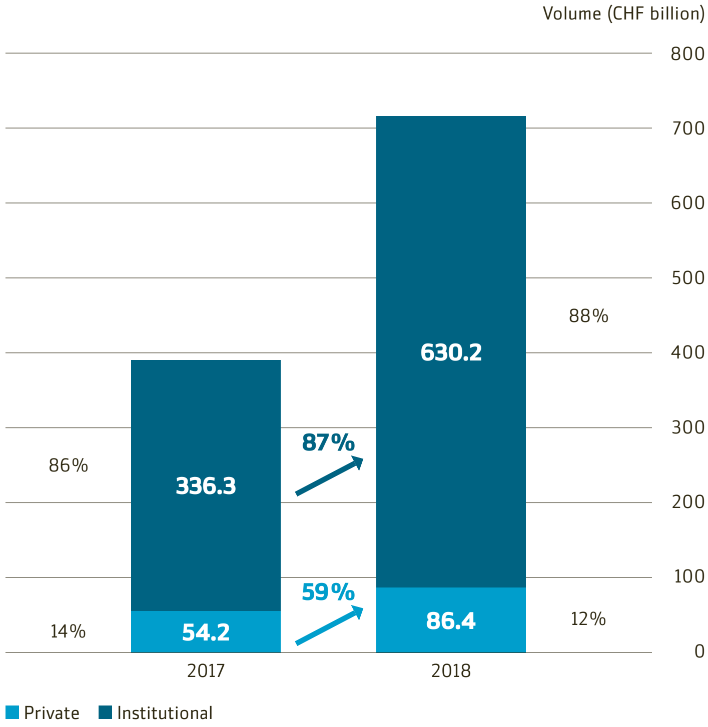


Figure 10
INSTITUTIONAL INVESTOR DISTRIBUTION IN SI
(IN %) (n=57)

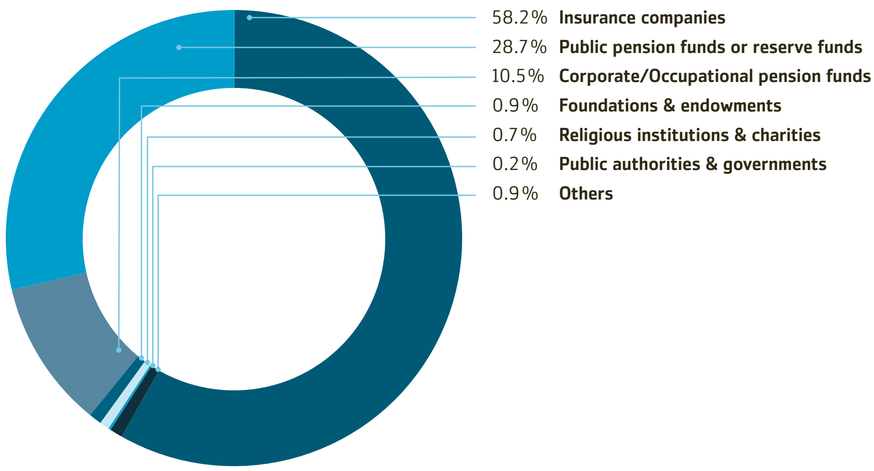
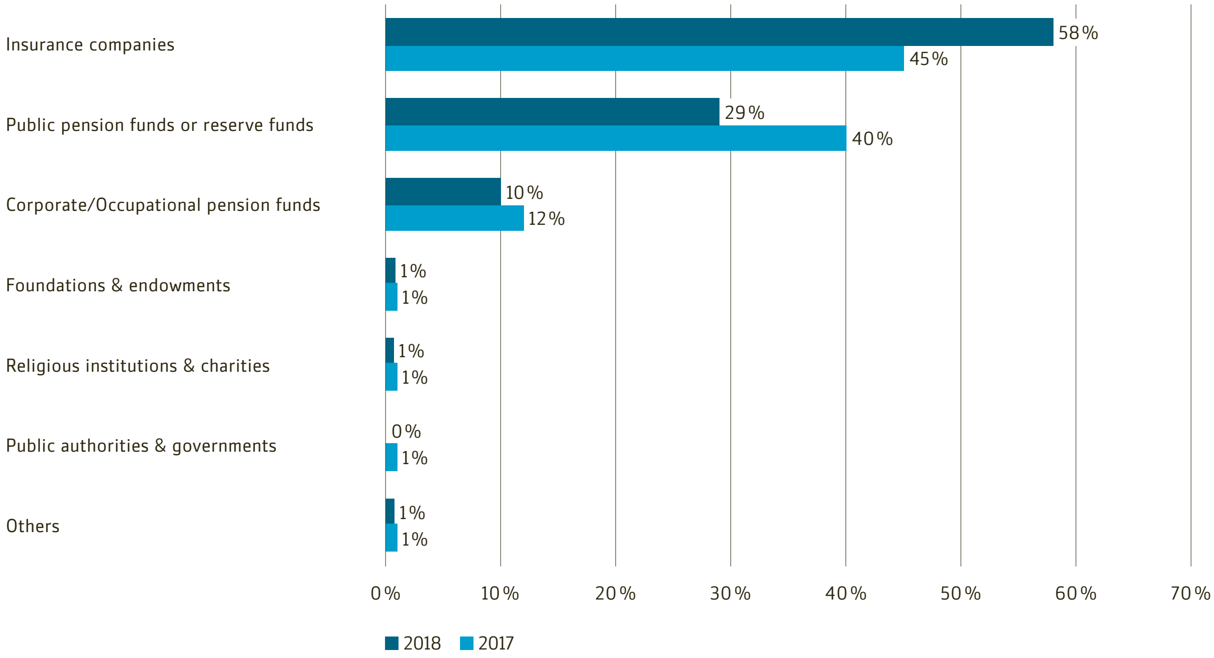


Figure 11
DEVELOPMENT OF THE INSTITUTIONAL SI INVESTOR LANDSCAPE (IN %) (n=57)

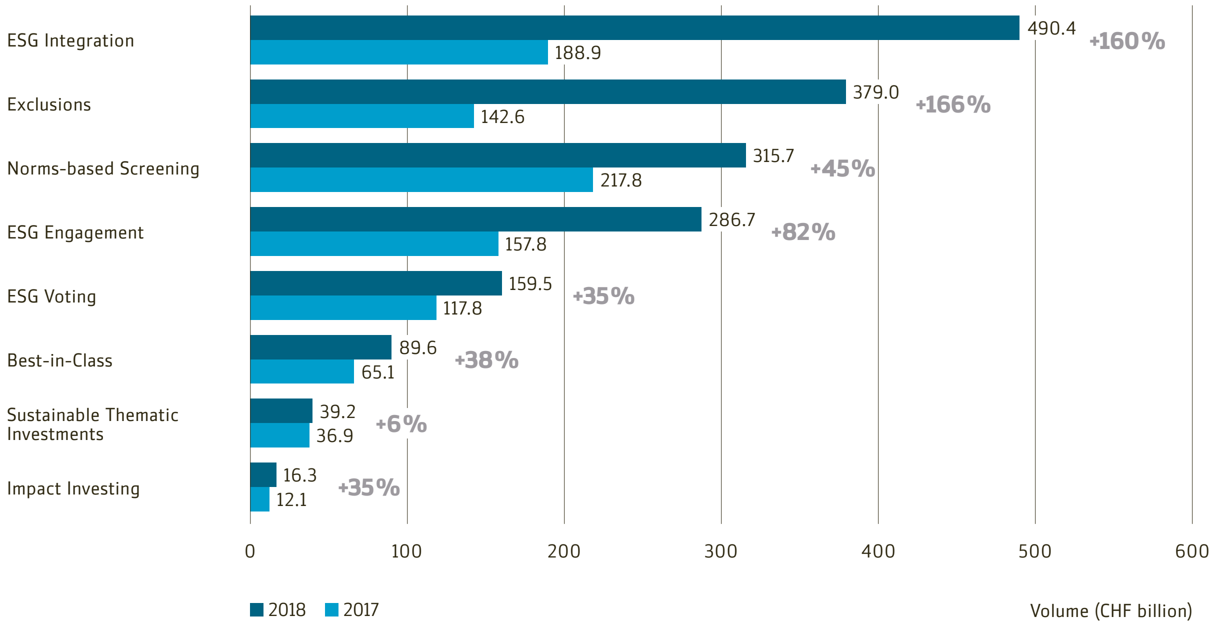


The relative importance of the various institutional investor types has changed since 2017 primarily due to the expanded market coverage for asset owners. Some trends already reported in the 2017 report continued in 2018. As illustrated in Figure 11, insurance companies, for example, continued to record a significant increase in absolute volume, which corresponds to a relative increase of 13 percentage points. In the meantime, public pension funds or reserve funds have fallen by eleven percentage points to about 29%. Corporate and professional funds recorded only a slight reduction of two percentage points from 12% to 10% this year. Nevertheless, it should be noted that these numbers are relative figures. Since the total SI volume of institutional investors has increased significantly, a shrinking relative market share does not imply an absolute volume reduction.

[17] 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.

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

Figure 12
DEVELOPMENT OF SI APPROACHES
(IN CHF BILLION) (n=70)



2.3 **SUSTAINABLE INVESTMENT APPROACHES**

This chapter provides a detailed analysis of the different SI approaches in Switzerland. Figure 12 presents the total volumes to which the various approaches were applied in 2017 and 2018, including both asset manager as well as asset owner data. In 2018, ESG integration is now in the lead with a total volume of CHF 490.4 billion. Exclusions recorded the highest growth rate of 166%. Also, the engagement approach showed a striking increase of about 82% compared to the previous year. Active ownership via voting stood at CHF 160 billion and experienced 35% growth. The best-in-class approach as well as sustainable thematic investments also grew, but remained at modest levels, followed by impact investing.

ESG INTEGRATION

Echoing the findings of the latest Eurosif report[19], ESG integration has gained massively in importance for Swiss asset managers and owners. At CHF 490.4 billion, ESG integration now ranks first in Switzerland and is applied to 68% of all sustainable assets. With about 160% growth, the ESG integration approach has experienced remarkable growth since 2017 (Figure 13). This can largely be attributed to new asset owner participant volumes and additionally to existing study participants who have introduced a more systematic ESG integration process to a larger share of their assets.

Figure 13
ESG INTEGRATION (IN CHF BILLION) (n=40)

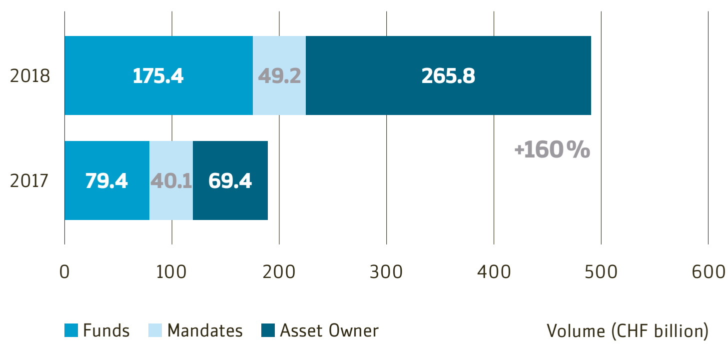


Figure 14
EXCLUSIONS (IN CHF BILLION) (n=45)

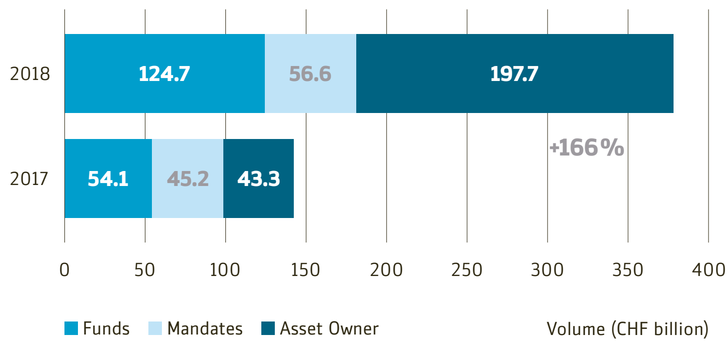
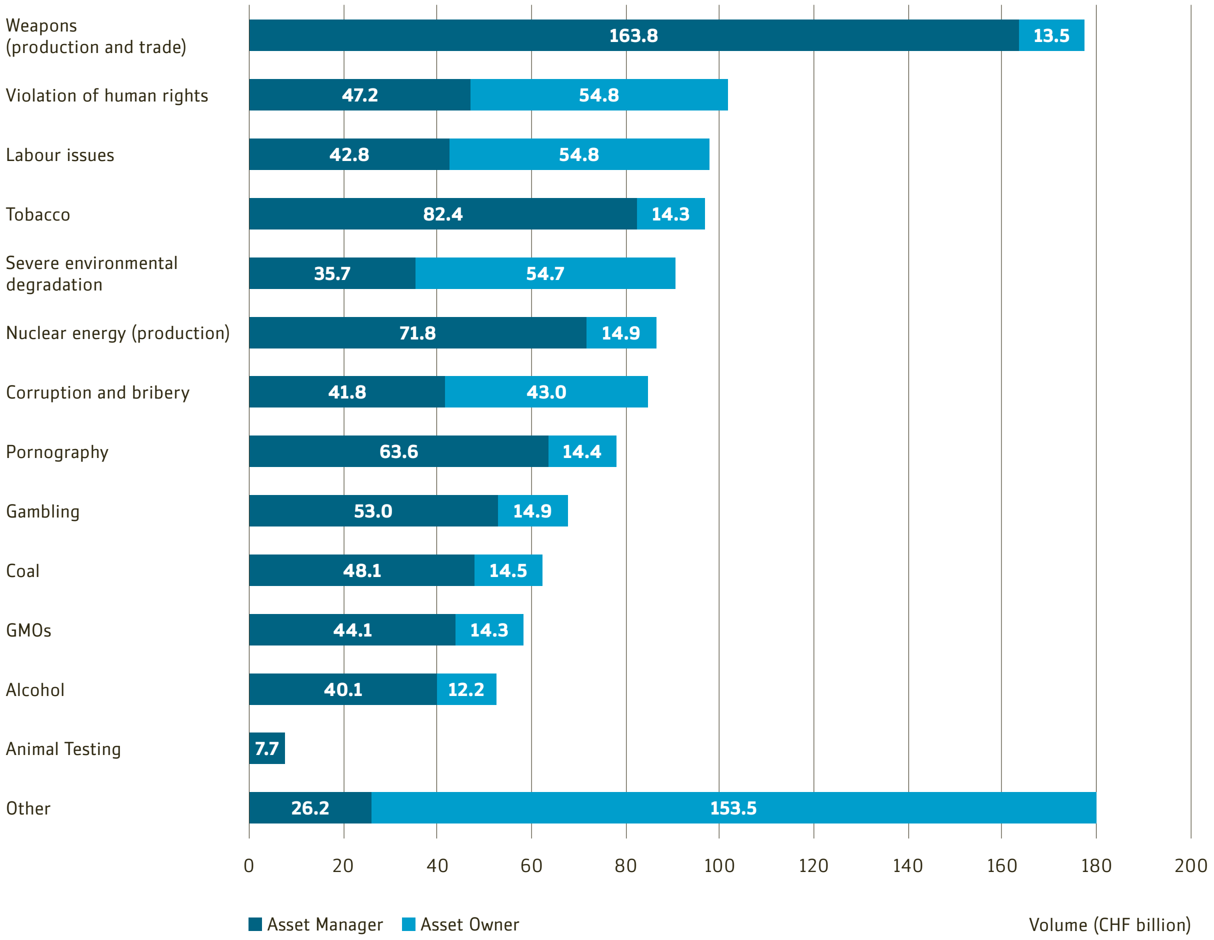


Figure 15
APPLIED EXCLUSION CRITERIA FOR COMPANIES
(IN CHF BILLION) (n=43)



EXCLUSIONS

With an increase of 166%, the exclusion approach achieved the highest growth rate this year, resulting in total volumes of CHF 379 billion. The exclusion approach is applied to 53% of all sustainable investments in Switzerland. With a share of 52%, asset owners account for about half of the overall volume (Figure 14). Assets that exclusively apply an exclusion of cluster munitions, anti-personnel mines and/or weapons of mass destruction, as defined in the Federal Act on War Material (WMA)[20] are not counted towards the exclusion strategies.

The exclusion criterion for SI assets used most frequently was the production and trade of weapons (Figure 15).[21] As of 31 December 2018, these assets amounted to CHF 177.3 billion (2017: CHF 102.5 billion). The volume from asset managers is pivotal in this context, accounting for 92% of the total volume. Other top criteria regarding controversial business practices or areas are violation of human rights, covering CHF 102 billion (2017: CHF 99.7 billion), labour issues with CHF 97 billion (2017: CHF 88.9 billion) and tobacco with CHF 96.7 billion (2017: CHF 86.1 billion).

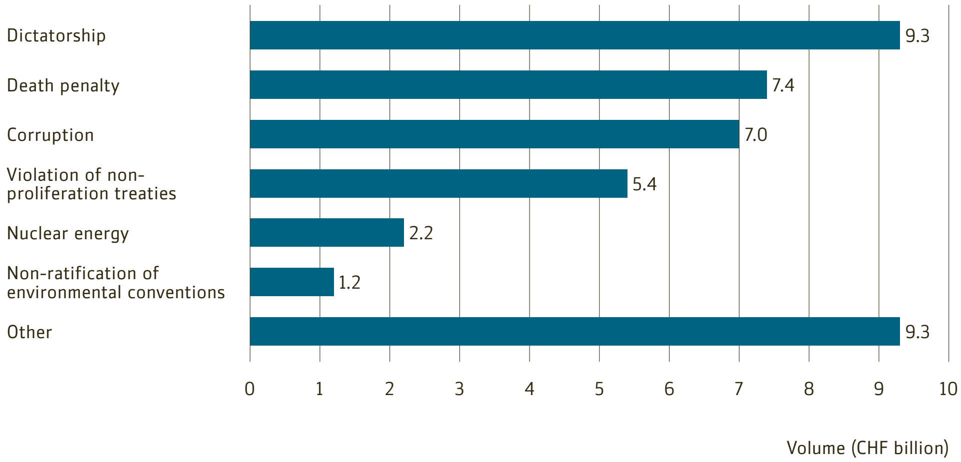
Figure 15 further shows that the choice of exclusion criteria differs considerably between asset managers and asset owners. Asset owners tend to apply criteria such as violation of human rights and labour issues (both CHF 54.8 billion), severe environmental degradation (CHF 54.7 billion) or corruption and bribery (CHF 43 billion). The strong growth in the category "other" can be mainly explained by a large new participant who implements their own exclusions based on poor ESG performance and severe controversies.

[19] Eurosif (2018): "European SRI Study 2018" available at: http://www.eurosif.org/2018sristudylaunch/, accessed 17/04/2019.

[20] 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, if used exclusively, as sustainable investments.

[21] The mere exclusion of cluster munitions and anti-personnel landmines and weapons of mass destruction is not included in these numbers.

Figure 16
APPLIED EXCLUSION CRITERIA FOR COUNTRIES (IN CHF BILLION) (n=20)



In 2018, the top exclusion criterion applied to countries by asset managers was dictatorship (CHF 9.3 billion, see Figure 16). Exclusions based on death penalty reached a slightly lower volume at CHF 7.4 billion, followed by corruption with CHF 7.0 billion. Additionally, a range of other criteria were mentioned, such as a very high military budget or violation of human rights, and a low ESG rating by MSCI.

NORMS-BASED SCREENING

At CHF 315.7 billion, norms-based screening now ranks third in Switzerland, having recorded an annual growth rate of 45%. As shown in Figure 17, this approach is used by slightly more asset managers (62%) than asset owners (38%). Overall, norms-based screening is applied to 44% of all sustainable investments in Switzerland. The funds managed under this approach recorded a 173% volume growth in 2018 compared to 2017. This effect can mainly be attributed to a few large institutions which implemented norms-based screening for substantial portions of their managed assets.

The most important norm against which portfolios are screened is the UN Global Compact (CHF 151.9 billion, see Figure 18). This is followed by the OECD Guidelines for MNCs (CHF 108.7 billion), the ILO Conventions (CHF 83.9 billion) and the UN Guiding Principles on Business and Human Rights (CHF 55.8 billion). Besides these international frameworks, respondents used several other norms as the basis for their screens, such as the International Union for Conservation of Nature (IUCN), or they indicated they based their screen on SVVK-ASIR criteria.

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 19). The most common action for asset managers (20 from 22 respondents) is to exclude these companies from their investment universe. Asset owners initially favour active interaction with companies before withdrawing their investment (16 from 18 respondents). A less common approach for asset owners and managers was to change their weightings of such holdings in response to violations.

Figure 17
NORMS-BASED SCREENING (IN CHF BILLION) (n=34)

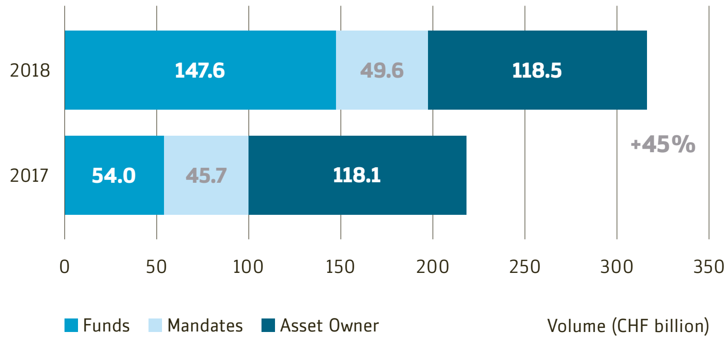


Figure 18
CRITERIA FOR NORMS-BASED SCREENING
(IN CHF BILLION) (n=29)

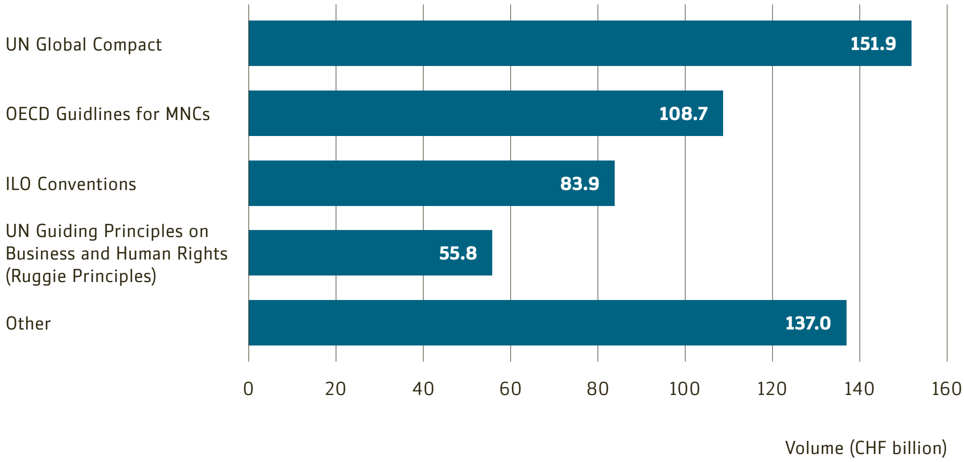
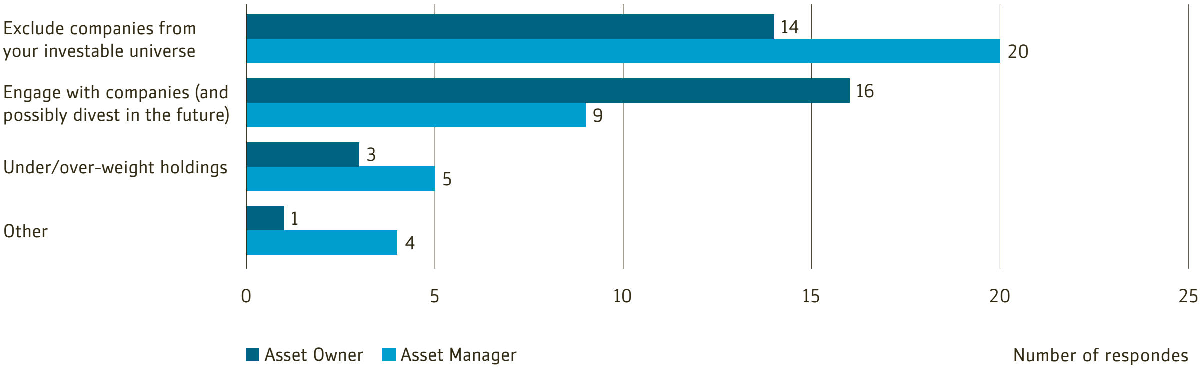


Figure 19
INVESTOR ACTIONS FOLLOWING NORMS VIOLATIONS
(IN NUMBER OF RESPONDENTS) (n=40)



ESG ENGAGEMENT

With a total of CHF 286.7 billion, the ESG engagement approach now ranks fourth and is applied to 40% of all sustainable investments in Switzerland. The 82% increase is mainly due to asset managers, who accounted for more than half of the total volume at the end of 2018 (Figure 20). Overall, the amount of funds applying ESG engagement increased substantially compared to the previous year. This increase can be explained by a few asset managers expanding this approach to new assets, but also new participants answering the survey for the first time.

ESG VOTING

Compared to the substantial growth in 2017 (+140%), the voting approach saw a smaller increase of 35% this year, which resulted in an absolute volume increase of CHF 41.7 billion.

Figure 21 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 significant for both asset managers (50% of total voting volume) and asset owners (50% of total voting volume). Altogether, the voting approach now accounts for a volume of CHF 159.5 billion and is applied to 22% of all sustainable assets.

BEST-IN-CLASS

Since last year, this approach has experienced growth of 38%, reaching a volume of CHF 89.6 billion. Figure 22 illustrates that best-in-class is primarily used by asset managers, who account for 83% of the total invested volume. The relatively big increase between 2017 and 2018 for asset owners can mainly be attributed to one large asset owner, who reported a substantial rise in assets applying this approach. At present, 13% of all sustainable assets are subject to this approach.

Figure 20
ESG ENGAGEMENT (IN CHF BILLION) (n=31)

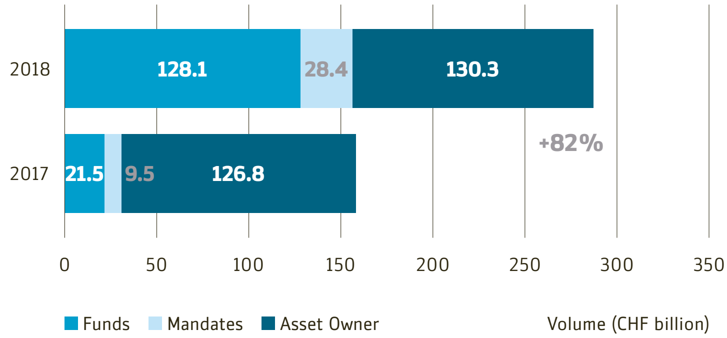


Figure 21
ESG VOTING (IN CHF BILLION) (n=50)

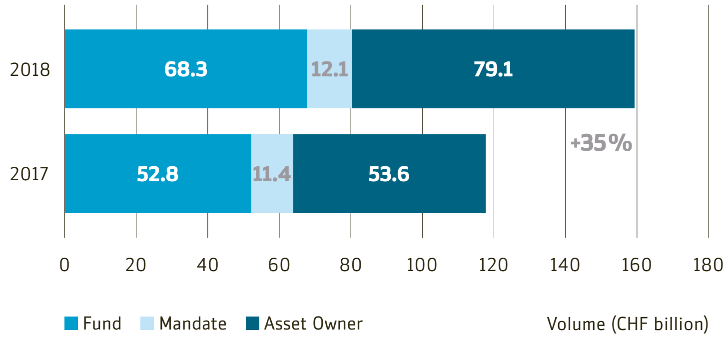


Figure 22
BEST-IN-CLASS (IN CHF BILLION) (n=25)

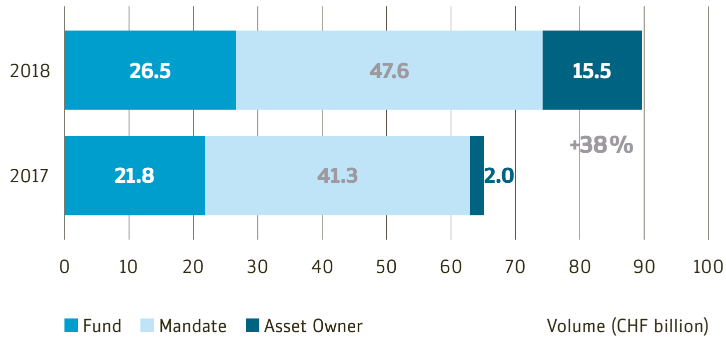
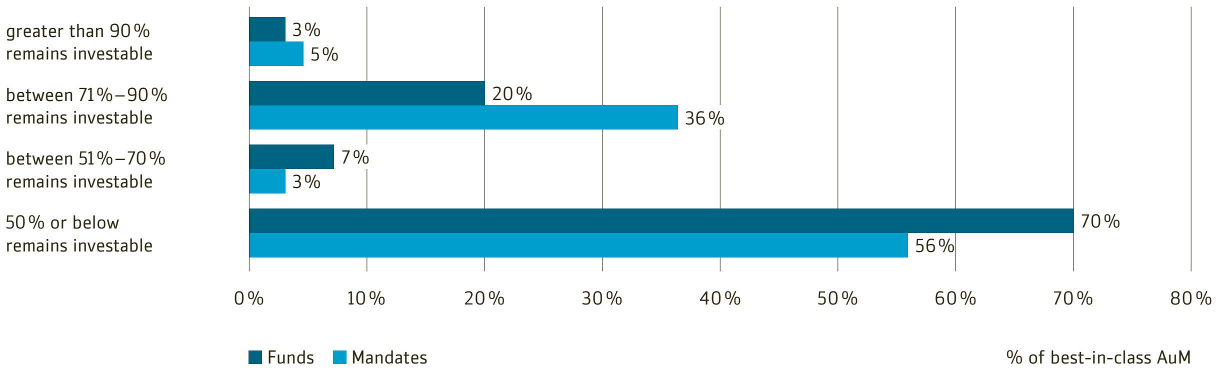
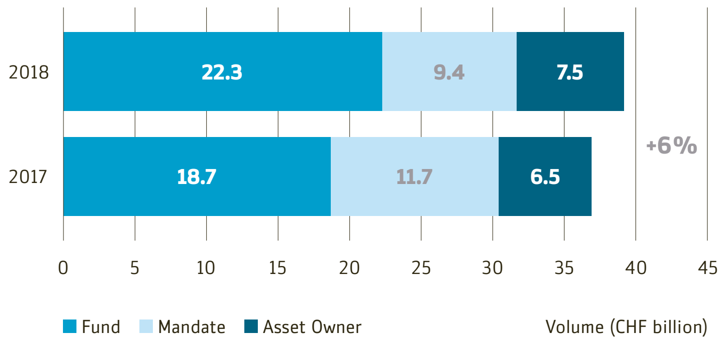


Figure 23
INVESTMENT UNIVERSE REDUCTION BASED ON BEST-IN-CLASS APPROACH (IN % OF BEST-IN-CLASS AUM) (n=16)



The asset managers were also asked in more detail about the thresholds of their best-in-class approach. The results show that the majority applies this approach in a rather strict manner (Figure 23). For 56% of the mandate volume and 70% of the fund volume, applying the best-in-class approach reduces the investment universe by 50% or more due to this assessment. On the other hand, in 5% of the mandates and 3% of the funds the investment universe is kept very large, with more than 90% remaining investable.

Figure 24
SUSTAINABLE THEMATIC INVESTMENTS
(IN CHF BILLION) (n=30)



SUSTAINABLE THEMATIC INVESTMENTS

Sustainable thematic investments recorded marginal growth of 6% in 2018. With a volume of CHF 36.9 billion in 2017, they now stand at CHF 39.2 billion and rank seventh among all approaches (Figure 24). It is an approach mainly applied by asset managers, who contribute 81% to the total volume. The overall use of thematic investments pertains to 5% of all sustainable assets in Switzerland.

In 2018, the top single theme in which asset managers und asset owners invested was energy (including energy efficiency, renewable energy), at CHF 9.7 billion (Figure 25). Other relevant themes were water and social themes, such as community development or 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 9.5 billion by the end of 2018.

Figure 25
MAIN SUSTAINABLE THEMATIC INVESTMENT THEMES
(IN CHF BILLION) (n=34)

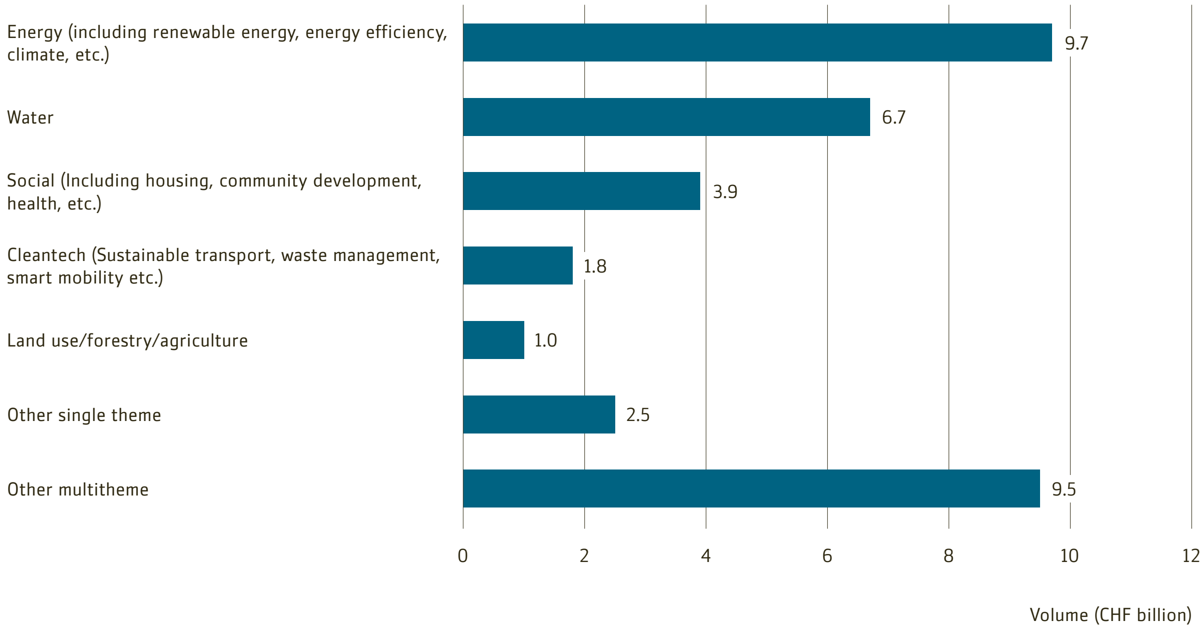
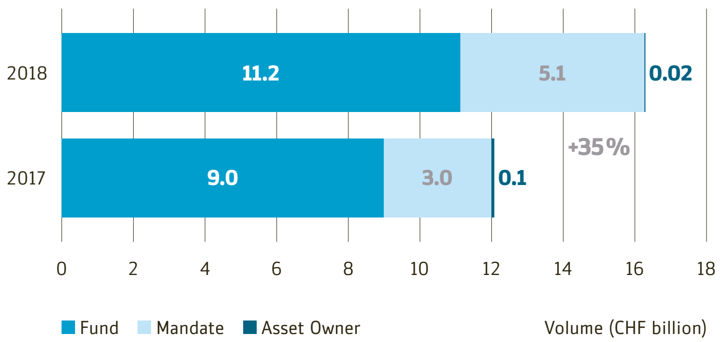


Figure 26
IMPACT INVESTING (IN CHF BILLION) (n=24)



IMPACT INVESTING

With annual growth of 35%, impact investing accounted for CHF 16.3 billion. This covers only 2% 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, with asset owners only accounting for 1% of the total volume.

In total, 94 products were defined as impact investments by 22 asset managers. Individual volumes of asset managers ranged from around CHF 13 million to CHF 2.9 billion. Interestingly, three respondents contribute 53% 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 impact-related products, the majority of asset managers are not willing to accept a financial return lower than the market return, making impact investments far from being a philanthropic activity. Impact investing has gained greater international attention recently with the IFC publishing its Operating Principles for Impact Management. With these principles, the industry may see stricter definitions and categorisations of this approach in the coming years.

2.4 **ASSET ALLOCATION**

Figure 27 captures the developments of asset allocation for both asset managers and owners, in absolute terms. It highlights the significant increase of all major asset classes. The largest relative increase was recorded for corporate bonds, which have risen from CHF 54.0 billion to CHF 109.7 billion (103%). This growth is mainly driven by the big increase in asset owner respondents. There has been strong growth in the private equity sector this year as well. In 2018, growth of CHF 35 billion (to CHF 44.1 billion in total) was recorded, corresponding to a growth rate of 364%. The real estate/property asset class has also experienced substantial growth, expanding from CHF 73.8 billion to CHF 133.5 billion (81%). The infrastructure segment remains rather niche, but is also notable for a growth rate of more than 250%. Hedge funds and commodities posted less strong growth, while monetary/deposit has even decreased slightly.

Figure 27
CHANGE IN ASSET CLASS DISTRIBUTION FOR SUSTAINABLE INVESTMENTS (IN CHF BILLION) (n=54)

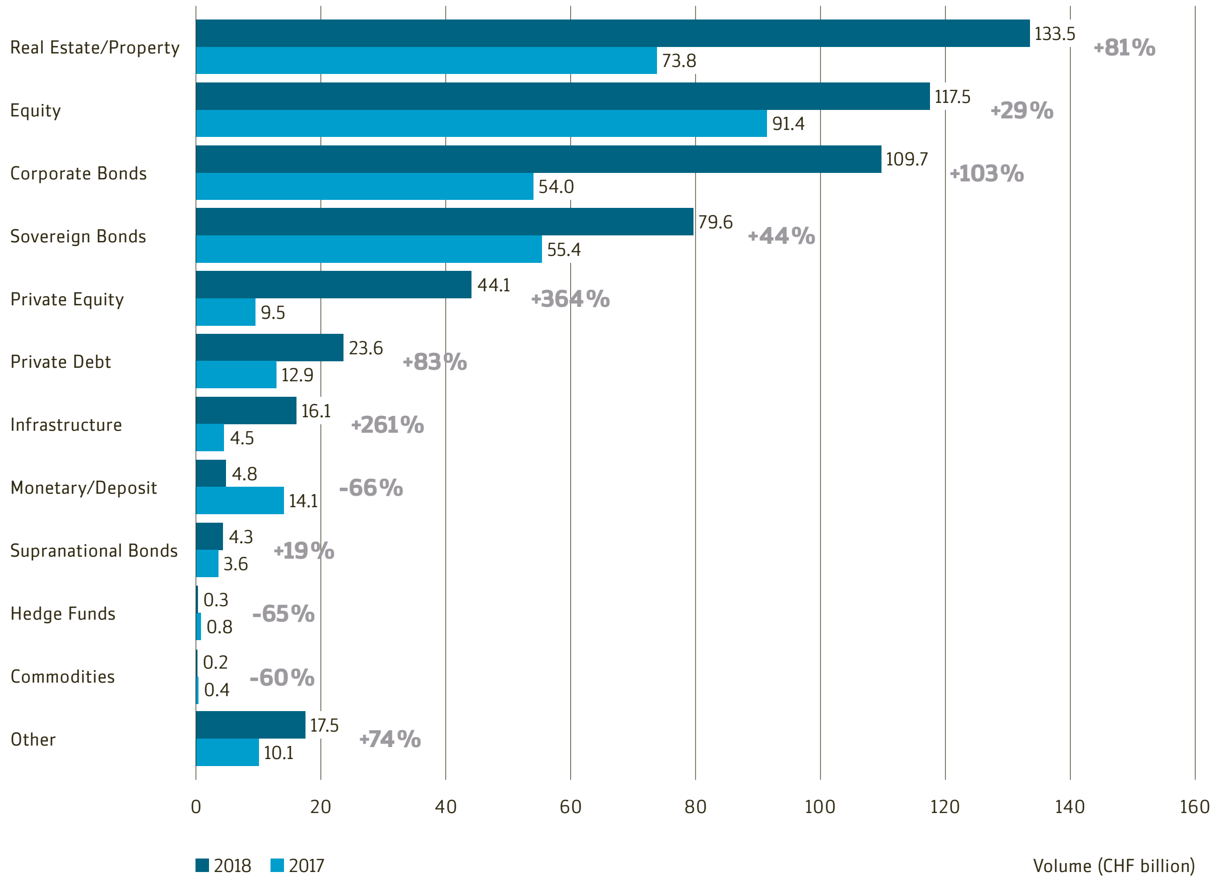
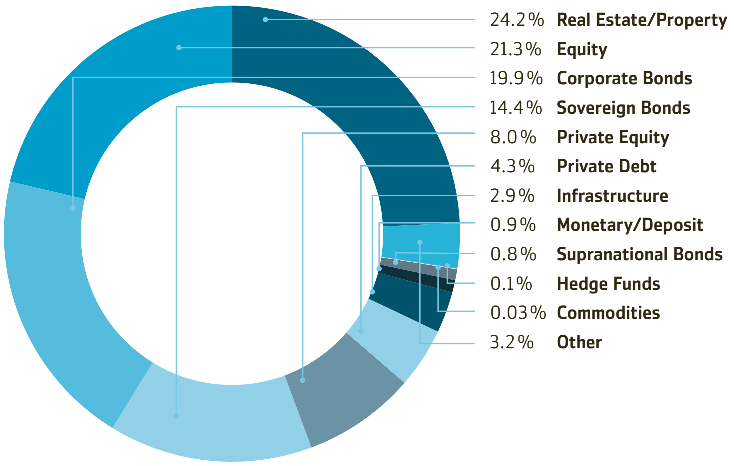


Figure 28
ASSET CLASS DISTRIBUTION FOR SUSTAINABLE INVESTMENTS FOR ASSET MANAGERS AND ASSET OWNERS (IN %) (n=54)

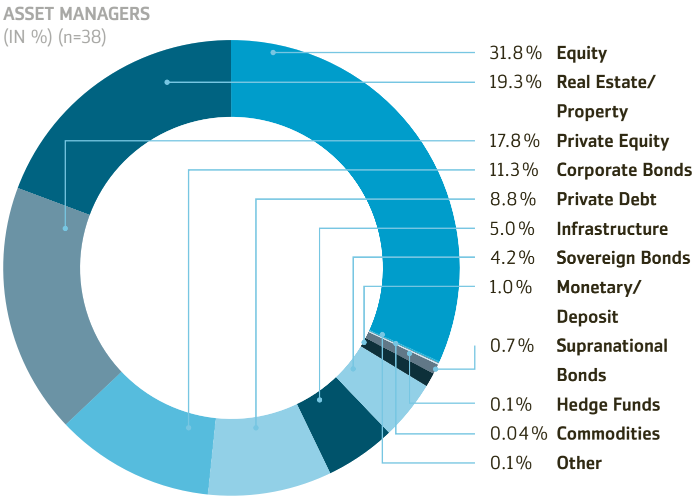


The strong growth of corporate bonds and real estate/property can be attributed to the increase in asset owner respondents, who strongly favour these asset classes, as seen in Figure 29.

The asset allocation distribution of sustainable investments has experienced some shifts between 2017 and 2018. With a share of 24.2%, real estate/property is the most popular category for SI in Switzerland now (Figure 28). The second largest asset class is equity with 21.3%, followed by corporate bonds with 19.9%. Sovereign bonds are in fourth place with 14.4%.

Asset managers and asset owners show major differences regarding the asset allocation of their sustainable investments. The most common investments for asset owners are in sustainable real-estate/property (28%) and corporate bonds (27%). At almost 23%, sovereign bonds also play a very important role in the portfolios of asset owners. The major differences between asset managers and asset owners can be explained by the fact that both pension funds and insurance companies hold a larger proportion of bonds overall. Overall, more than 50% of the total SI managed by asset owners is allocated to bonds (Figure 29).

Figure 29
ASSET CLASS DISTRIBUTION FOR SUSTAINABLE INVESTMENTS



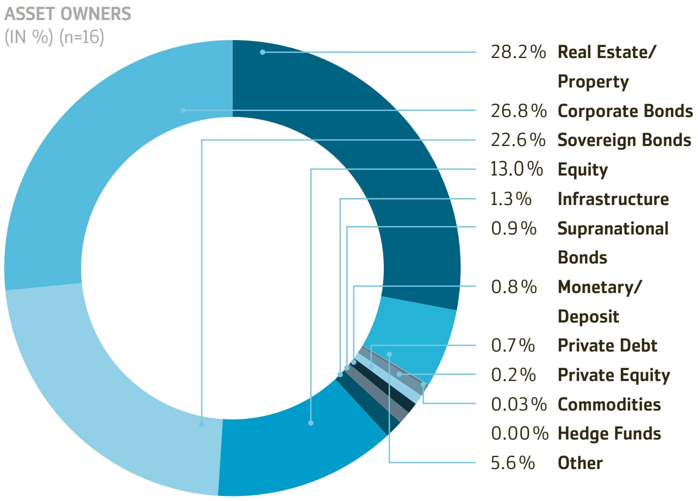
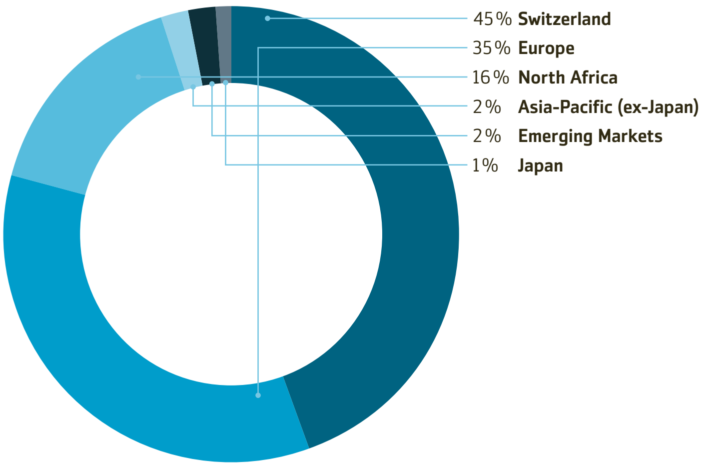


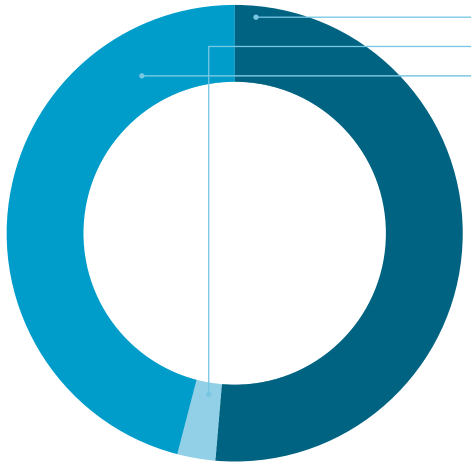
Figure 30
REGIONAL ALLOCATION OF SUSTAINABLE INVESTMENTS (IN %) (n=22)



A breakdown of the regional allocation of SI assets managed by asset owners shows that the bulk (45%) is invested in Switzerland (Figure 30).[22] This home bias is partly driven by regulation and partly by investor preference. Another large proportion of 35% is invested in Europe, while 16% is invested in the North American market. Emerging markets 2%, Japan and Asia-Pacific (ex-Japan) play a much smaller role in total sustainable investments. Regional breakdowns are not available for asset managers, as regional aggregation across the many different reported SI funds and mandates is too complex.

[22] This data is based on a volume of CHF 402.2 billion for SI assets. It represents about 88% of the total reported volume by asset owners.

Figure 31
OFFERING OF SDG-RELATED PRODUCTS BY ASSET MANAGERS (IN % RESPONDS) (n=37)



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). The 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.[23] Seeing the increasing importance of this topic for investors, SSF also included in its second study some specific questions on how SDGs are considered within the SI approaches of asset managers.

As shown in Figure 31, more than half (51%) 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. In 2017, this was about 38% of asset managers, whereas 12% declared that that they plan to create SDG-related products in the future. Apparently, these plans were implemented in 2018. Yet, based on discussions with market participants, some of these products were existing products whose investment activities are now linked to the SDGs and provide corresponding reporting. These numbers clearly demonstrate that the SDGs are an important topic. However, as of this year, only 3% of the asset managers stated that they plan to align their products and strategies with the SDGs in future.

Figure 32 illustrates that all SDGs are addressed by the different SDG-related products, whereas some SDGs are more prominently incorporated (e.g., SDG 3, good health) and others less so (e.g., SDG 16, peace and justice). In order to determine an investment product's specific contribution to the SDGs, several options were named. The answers suggest that most asset managers do not use a standardised evaluation scheme to determine their products' contribution to the SDGs. Only two respondents stated that they use IRIS metrics of the Global Impact Investing Network (GIIN) to determine the SDG contribution of their products. The other responses indicate that an in-house solution is often chosen to evaluate the impacts. These individual qualitative and quantitative assessment frameworks make direct comparisons difficult between offered SDG-related products.

Asset managers are motivated to develop SDG-related products for different reasons, which are largely unchanged compared to last year's responses. The most prominent one is to use the SDGs as a framework to shift investments towards sustainable solutions (Figure 33). Six rated this factor as being 'very important' and nine 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.

[23] UNCTAD (2018): "World Investment Report 2014 – Investing in the SDGs: An Action Plan", United Nations Conference on Trade and Investment, New York and Geneva.

Figure 32
SPECIFIC SDGS ADDRESSED IN FINANCIAL PRODUCTS (IN NUMBER OF RESPONSES) (n=19)

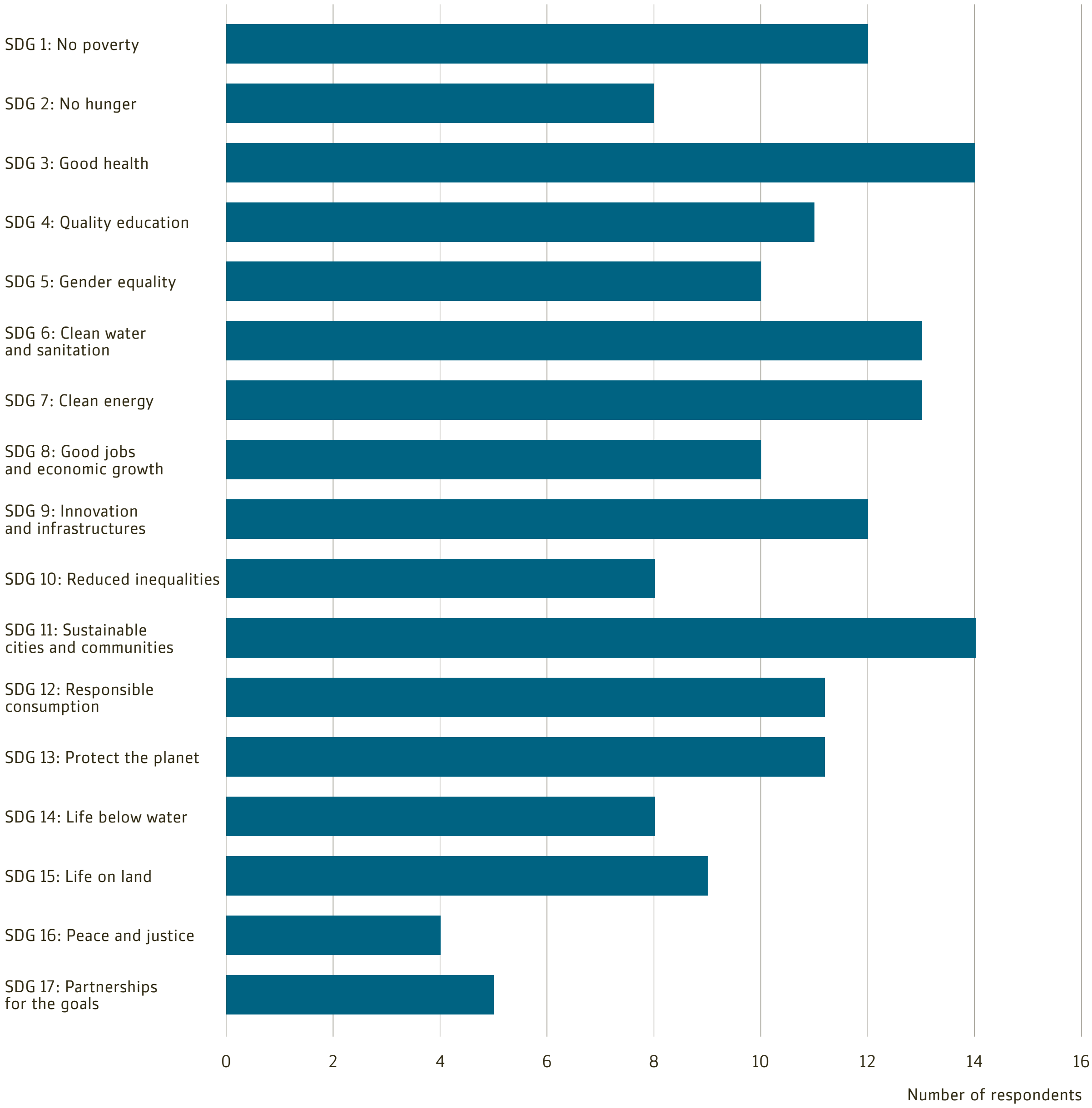


Figure 33
MAIN MOTIVATION FOR DEVELOPING SDG-RELATED PRODUCTS (IN AVERAGE LEVEL OF IMPORTANCE) (n=18)

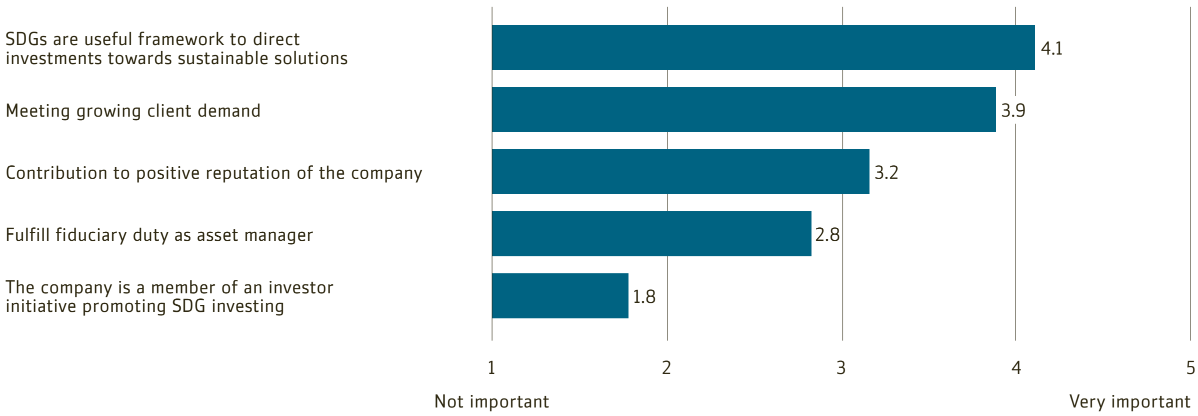
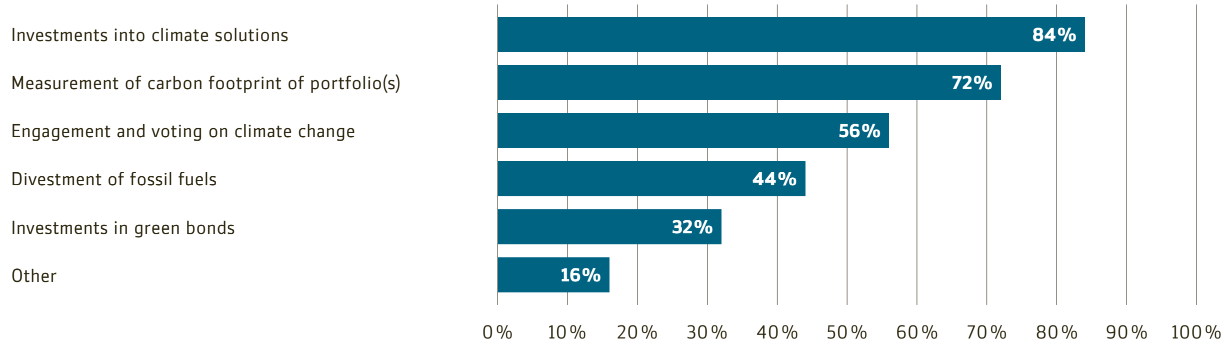


Figure 34
MEASURES TO ADDRESS CLIMATE CHANGE WITHIN INVESTMENTS
(IN % OF RESPONDENTS) (n=25)



CLIMATE CHANGE

The ambitious goal of the Paris Agreement[24] – keeping a global temperature rise well below 2, or ideally below 1.5, degrees Celsius – requires economy-wide efforts to mitigate greenhouse gas emissions and to pave the way for new low-carbon technologies. This creates different risks and opportunities for financial markets.

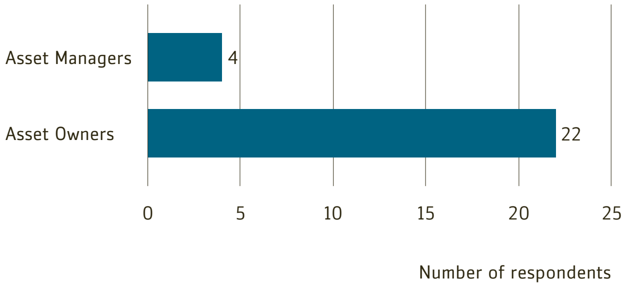
In total, 25 asset managers indicated that they explicitly address climate change. As in 2017, investments in climate solutions remained the most important strategy regarding climate change, named by 84% of respondents (Figure 34). Measurement of the carbon footprint of portfolios is in second place, indicated by 72% of respondents. Other strategies are engagement and voting on climate change (56%) and divestment from fossil fuels (44%). While most strategies concerning climate change are applied as much as in the previous year, investments in green bonds declined from 48% to 32%.

Only 13 respondents indicated that they publish information on their climate change strategy. Whereas this is an improvement compared to the nine respondents in 2017, this outcome remains an area for improvement, since only through intense reporting and disclosure practices will awareness of this topic improve.

REAL-ESTATE SUSTAINABILITY POLICY

The 2018 market study already identified strong growth in the real-estate and property asset class. In order to reflect this trend, the questionnaire for 2019 included further questions in this regard. 22 asset owners stated that they followed a formal sustainable real-estate policy, whereas only 4 asset managers did so (Figure 35). 21 asset owners and 3 asset managers declared that they focus on renovation of their properties. Furthermore, many of the asset owners (17) and also a few asset managers (4) utilise internal or external standards to monitor the sustainability performance of their real-estate investments. Finally, green labels such as Minergie (16), LEED (7), SNBS (6) and BREEAM (6) were mentioned as important aspects for real-estate investments. The strong preference seen with asset owners applying such policies may indeed be due to the fact that in Switzerland, this asset class is of great importance to many asset owners' investment strategies, as also reflected in the asset allocation distribution (Figure 29).

Figure 35
FORMAL ESG REAL-ESTATE POLICY
(IN NUMBER OF RESPONDENTS) (n=38)



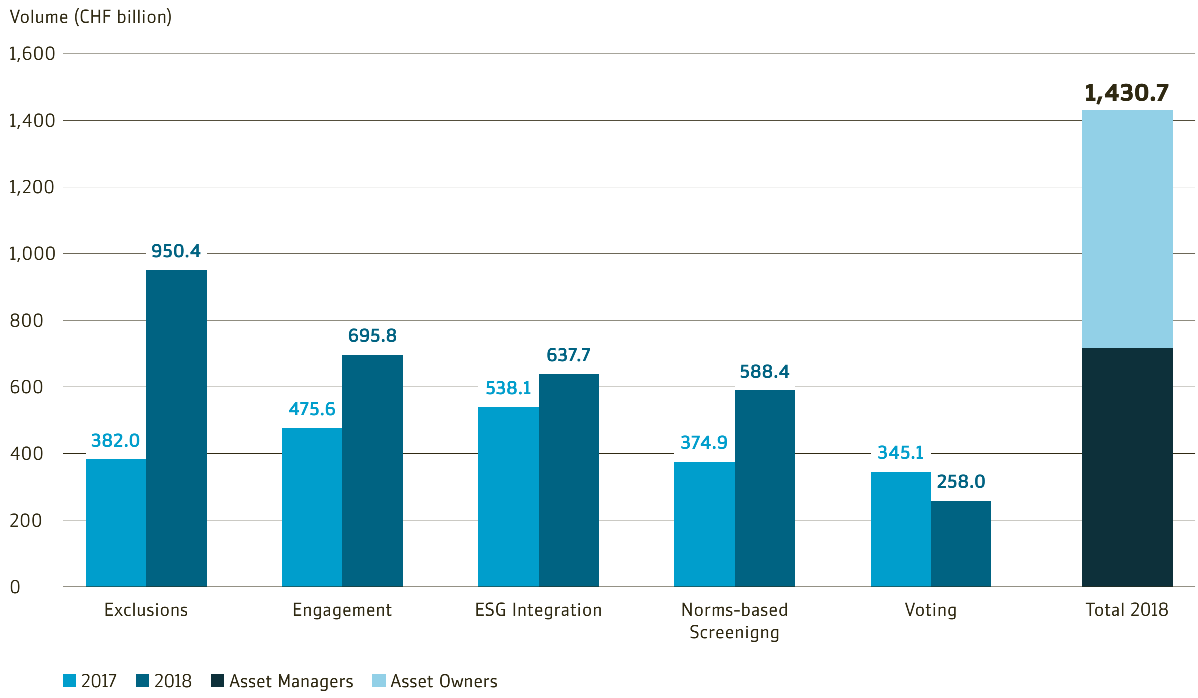
ASSETS UNDER LICENSE

In addition to managing clients' assets, some asset managers, through licence agreements, also provide proprietary data 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 the means to do so.

Based on two respondents with such offerings, the survey revealed a volume of CHF 9.9 billion that is managed based on sustainability indices, and over CHF 100 billion that is managed based on sustainability research. Generally, sustainability indices and related products such as ETFs are of growing importance as a tool to manage sustainable assets.

[24] UNFCCC: "The Paris Agreement", available at http://unfccc.int/paris_agreement/items/9485.php, accessed on 15/04/2019.

Figure 36
APPROACHES ADDRESSED IN BROAD SI POLICIES
(IN CHF BILLION) (n=68)



Sustainable investment (SI) approaches can also be applied product-independently to a wide range or even the entire range of assets – referred to as broad SI. Typically, general SI policies are defined and applied at the institutional level. This study reflects on the following approaches as part of broad SI policies: Exclusion, ESG engagement, ESG integration, norms-based screening and ESG voting.[25]

Figure 36 presents the total volumes that are subject to such policies. By the end of 2018, a total volume of CHF 1,431 billion applied some form of broad SI policy. The CHF 739 billion reported by asset managers is considerably higher than their CHF 262 billion of SI assets. Asset owners reported a total volume of CHF 692 billion of assets subject to a broad SI policy, compared to the CHF 455 billion of their SI assets. As companies are integrating more sophisticated SI strategies across broad ranges of their assets, we expect these figures to gradually converge in the future. At CHF 950.4 billion, the most common approach is exclusion[26] of controversial business practices or areas, followed by ESG engagement at CHF 695.8 billion. The ESG integration approach ranked third, amounting to CHF 637.7 billion. Accounting for CHF 588.4 billion, norms-based screening is currently used for slightly lower volumes. Only the voting volume decreased to CHF 258 billion, 25% down on the previous year.

[25] These are individual volumes per approach. Most companies have more than one approach implemented. Thus, these volumes are not cumulative.

[26] Exclusions regarding cluster munitions, anti-personnel landmines, and weapons of mass destruction are not considered since these are legal requirements.

In the Market Study 2019, all participants were asked whether they had integrated a formal SI investment policy at the institutional level. This was corroborated by 95% of asset managers and 88% of asset owners (Figure 37).

As Figure 38 shows, the policies typically apply to equities (for 100% of respondents[27]), corporate bonds (84%) and real estate (71%). Furthermore, 58% of respondents apply a broad SI policy to sovereign/municipal bonds. For all other asset classes, less than 50% of responding asset owners declared a specific coverage by a broad SI policy. Commodities come in last, with a coverage of only about 6% of respondents.

The following sections provide more details on the specific broad SI approaches applied by asset managers and asset owners.

EXCLUSIONS

Among 38 responding asset managers, the majority (36) 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: 31 out of 34 respondents confirmed they apply exclusion criteria across a wide range or the entire range of their assets.

23 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 severe violation of international norms, which is applied by 78% of respondents. This is closely fol-

Figure 37
FORMAL SUSTAINABLE INVESTMENT POLICY
(IN NUMBER OF RESPONDENTS) (n=72)

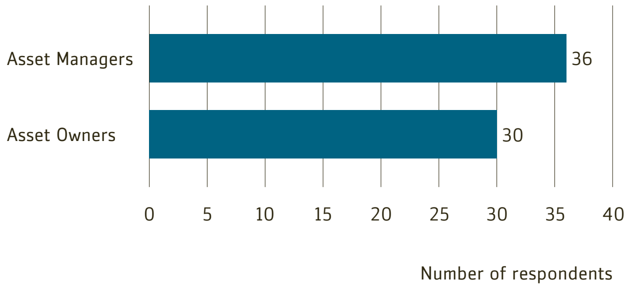


Figure 38
ASSET CLASSES COVERED BY BROAD SI POLICIES
(IN % OF RESPONDENTS) (n=31)

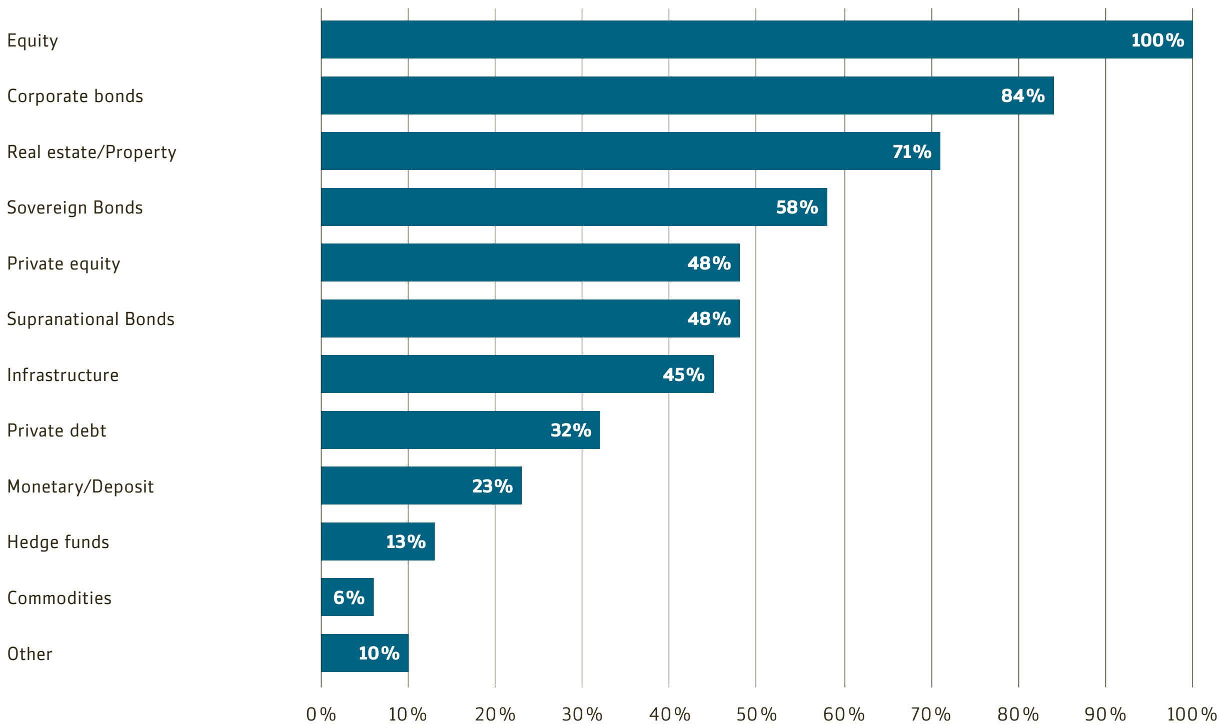


Figure 39
FORMAL POLICY ON ESG EXCLUSIONS
(IN NUMBER OF RESPONDENTS) (n=72)

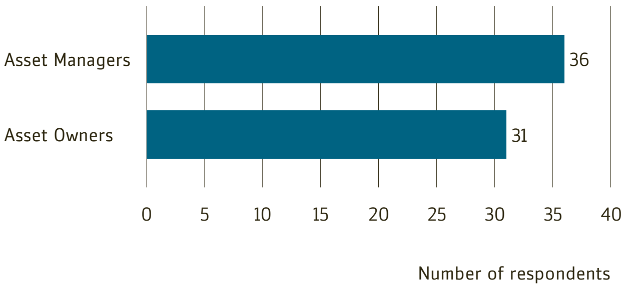
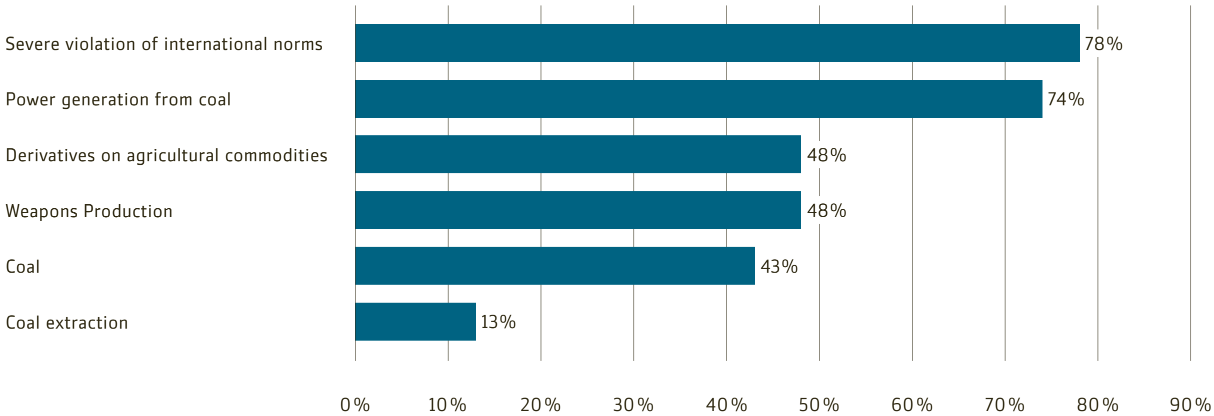


Figure 40
EXCLUSION CRITERIA APPLIED IN BROAD SI APPROACHES (IN % OF RESPONDENTS) (n=23)



lowed by power generation from coal, accounting for 74% of respondents. Further relevant criteria include derivatives on agricultural commodities, as well as weapon production. Additionally, a variety of other topics was mentioned by individual asset managers, such as alcohol, tobacco, gambling, nuclear and GMOs.

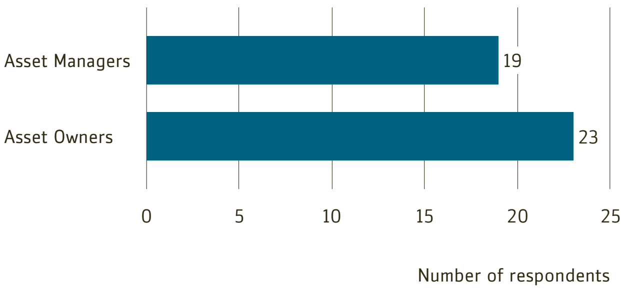
ESG ENGAGEMENT

Out of 31 responding asset managers, over half claimed to have a formal policy on ESG engagement in place (Figure 41). In the case of asset owners, two-thirds of the 31 respondents have such a policy.

13 asset managers stated that they used internal resources for their ESG engagement activities. Six 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.

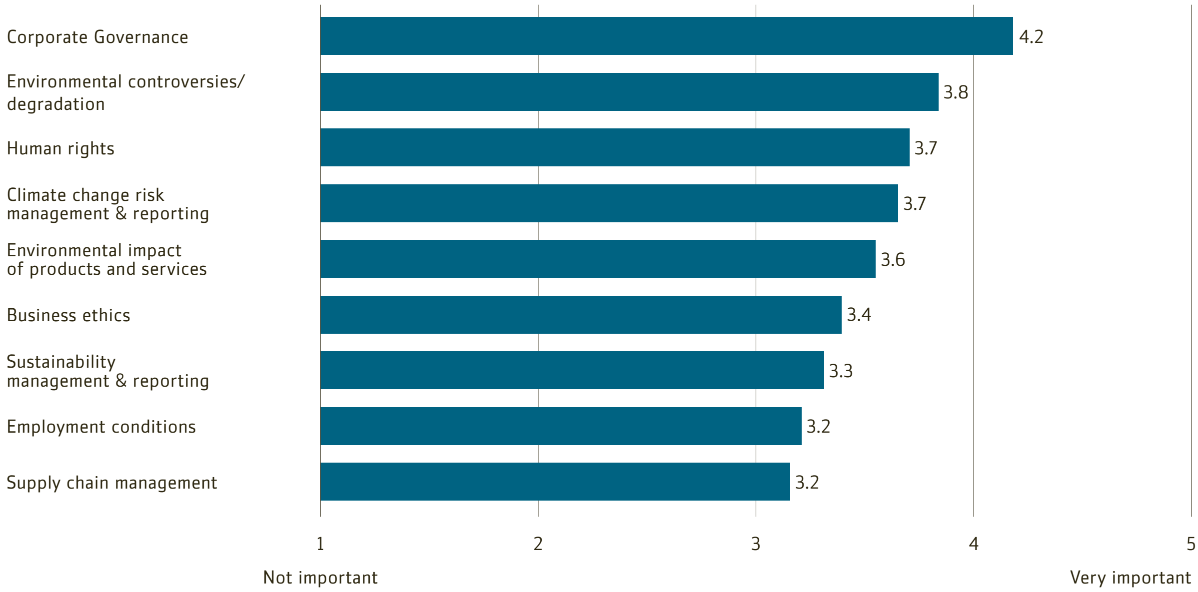
Similar to the 2017 results, the most important ESG engagement theme remained corporate governance (Figure 42). Issues such as environmental controversies/degradation jumped from seventh to second place. In a direct comparison with 2017, climate change risk management & reporting lost minimal importance. Among the other themes, there were also some similar changes in relevance. For example, human rights have lost in relative importance, while supply chain management has gained in relative importance.

Figure 41
FORMAL POLICY ON ESG ENGAGEMENT
(IN NUMBER OF RESPONDENTS) (n=62)



[27] This data only refers to asset owners

Figure 42
MAIN ESG ENGAGEMENT THEMES
(IN AVERAGE LEVEL OF IMPORTANCE) (n=38)

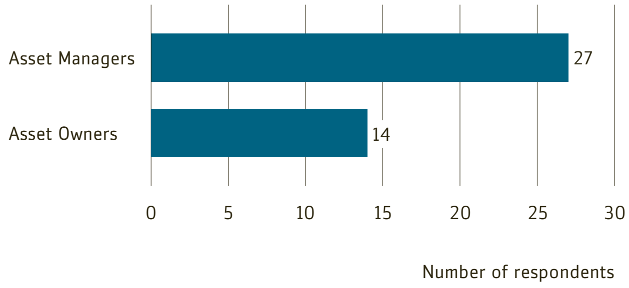


To better understand the consequences of unsuccessful engagement, asset owners were asked about their typical reaction. There are two typical actions: out of 20 respondents, 14 asset owners reported that they excluded companies from their investible universe, and three said they underweighted such holdings. Six respondents indicated that they take other actions, such as persisting with their engagement efforts. Additionally, eleven asset owners gave information on the time frame for reacting to unsuccessful engagement. Answers ranged from immediate action to three years, with the most popular time frame being two years (named by seven respondents).

ESG INTEGRATION

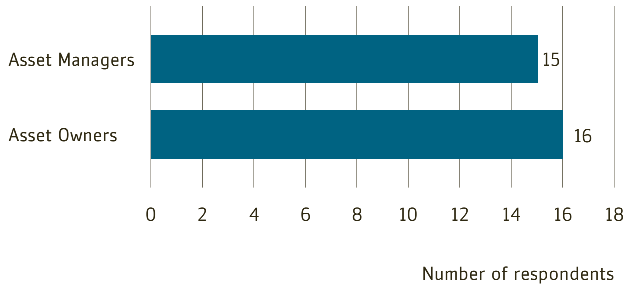
Out of 34 responding asset managers, 27 reported having a formal policy on ESG integration in place, which is applied across the entire range or large shares of AuM of their organisation (Figure 43). 14 out of 25 asset owner respondents reported having a formal policy in this regard. All respondents indicated that they cover all three ESG areas – i.e. environmental, social and governance aspects – within their integration activities. Ten of the asset owners provide public access to their guidelines on websites.

Figure 43
FORMAL POLICY ON ESG INTEGRATION
(IN NUMBER OF RESPONDENTS) (n=59)



In order to examine the different ESG integration approaches more closely, it helps to distinguish between unsystematic and systematic integration of ESG considerations. The first relates to an approach where ESG research/analysis is made generally available to mainstream analysts and fund managers. The latter focuses on the explicit inclusion of ESG information in ratings or valuations or the application of minimum ESG performance thresholds. For the purposes of this study, unsystematic approaches were not considered as sustainable assets.[28] The asset managers' responses indicate that most of them follow a systematic approach. The majority of their assets are managed *with systematic consideration/inclusion of ESG research/analysis in financial ratings/valuations by analysts and fund managers.* Less than half of the respondents stated the *systematic application of minimum ESG-performance thresholds (exclusions of stocks below minimum rating, underweighting based on low ESG-rating etc.)* as their integration approach. And only a few indicated the *systematic use of ESG research/analyses in portfolio construction (i.e. underweighting of sectors with low sustainability ratings).* The analysis of the data also reveals mixtures of these methods.

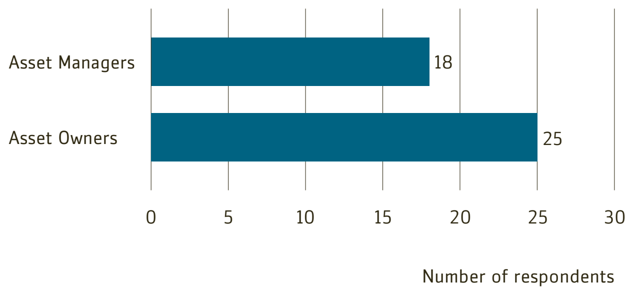
Figure 44
FORMAL NORMS-BASED SCREENING POLICY
(IN NUMBER OF RESPONDENTS) (n=60)



NORMS-BASED SCREENING

15 from 31 asset managers indicated that they generally screen their investments for severe violations of international norms (Figure 44). Considering asset owners, 16 out of 29 respondents confirmed that they have a norms-based screening approach in place. Consistent with the findings in chapter 2.3, the most frequently mentioned norms included the UN Global Compact (23) and the ILO Conventions (14), UN Guiding Principles on Business and Human Rights (13), followed by the OECD Guidelines (12) and several others.

Figure 45
FORMAL POLICY ON ESG VOTING
(IN NUMBER OF RESPONDENTS) (n=63)



ESG VOTING

Out of 31 responding asset managers, 18 stated that they have a formal policy on ESG voting in place that covers ESG criteria (Figure 45). For asset owners, this applies to 25 out of 32 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.[29]

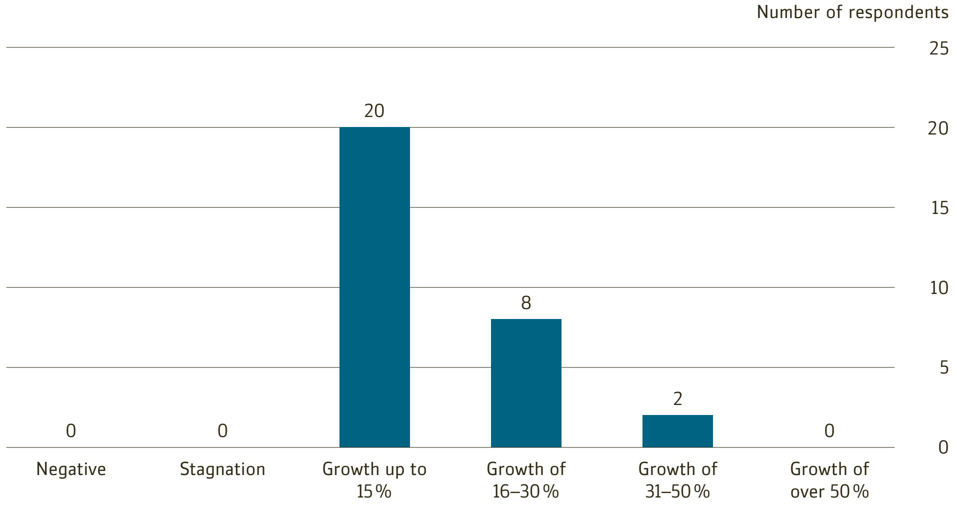
For 76% of total AuM covered by asset managers' voting policies, respondents stated that they had exercised voting rights in 2018.[30]

[28] A full description of what was considered under systematic ESG integration can be found in the market study guidelines: http://www.sustainablefinance.ch/upload/cms/user/2019_Guidelines_SSF_Market_Survey_Asset_Managers_FINAL.pdf

[29] Two asset managers and six asset owners did indicate having a voting policy focusing solely on governance issues, which is why they were disregarded in figure 45.

[30] This data is based on a volume of CHF 236.3 billion, which is covered by asset managers' voting policies.

Figure 46
GROWTH FORECASTS FOR SI IN SWITZERLAND IN 2019 BY ASSET MANAGERS (IN NUMBER OF RESPONDENTS) (n=30)



As the market survey covers both asset managers and asset owners, the analysis of their opinions is discussed separately in the following section.

4.1 MARKET TRENDS – ASSET MANAGERS

The forecasts for further growth in the SI area remained positive in 2018. With respect to future market development, there is still a widespread consensus among surveyed asset managers that the Swiss market for sustainable investments will continue to grow significantly in the future. However, different levels of growth are predicted: 20 study participants expect market growth of up to 15% within one year, eight forecast a growth rate between 16% and 30% and two even anticipate growth of 31% to 50% (Figure 46). Stagnation or negative developments, as well as growth above 50%, are not expected.

Increasing demand by institutional investors was listed as a core driver for the SI growth by surveyed asset managers (Figure 47), similar to last year's outcome. 28 asset managers considered the role of institutional investors to be either 'very important' or 'important'. This year, legislative drivers were considered to be even more influential than last year. In fact, 20 asset managers rated this as 'very important' or 'important'. This could be explained by the EU's aspiring engagement through the EU Action Plan, which is also considered an important external factor in the SI market in Switzerland. Demand stemming from private investors also ranked highly, being considered by 17 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.

Figure 47
KEY DRIVERS FOR SI DEMAND IN THE NEXT 3 YEARS FOR ASSET MANAGERS
(IN AVERAGE LEVEL OF IMPORTANCE) (n=34)

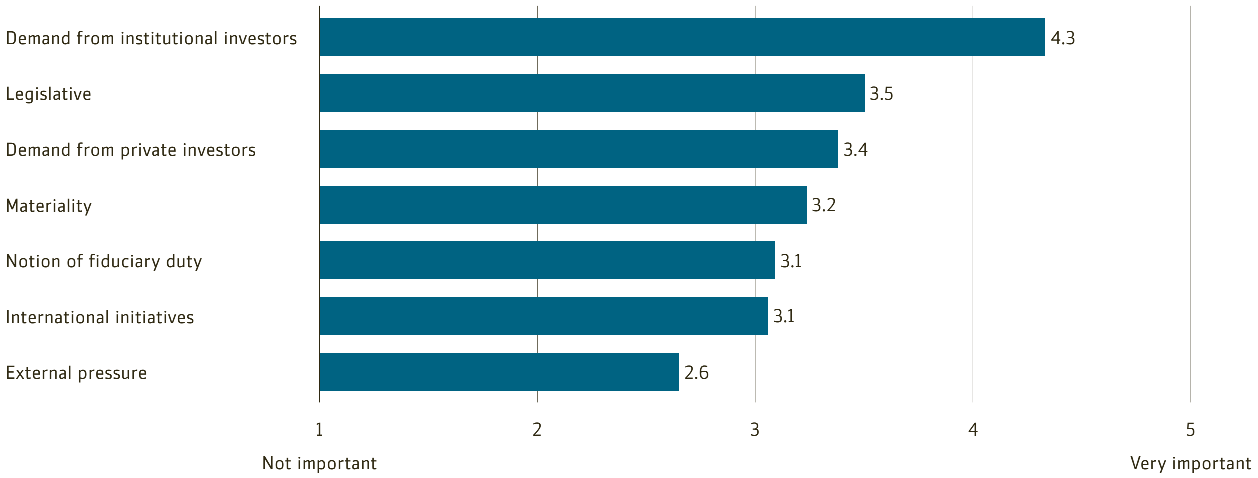
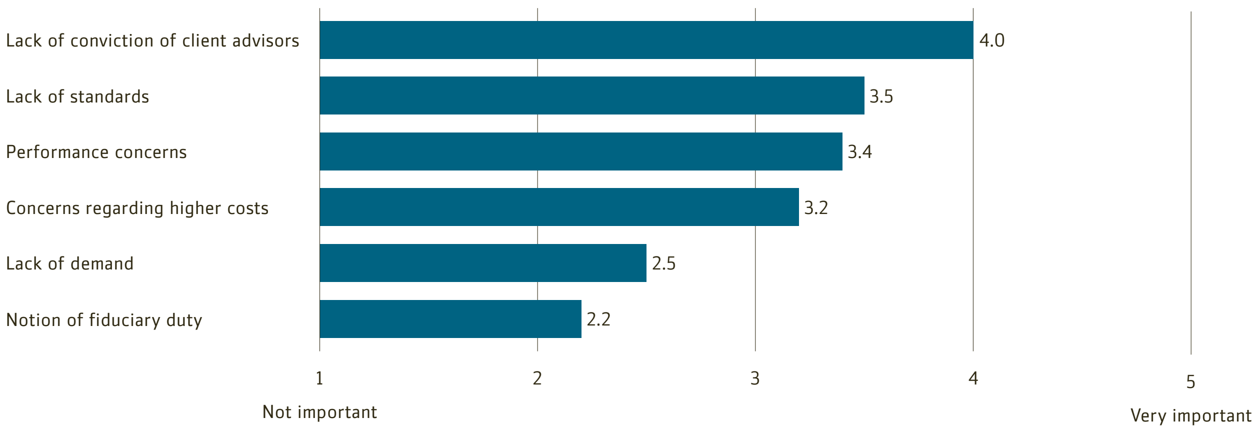


Figure 48
KEY BARRIERS FOR SI GROWTH IN THE NEXT 3 YEARS FOR ASSET MANAGERS
(IN AVERAGE LEVEL OF IMPORTANCE) (n=33)



In addition to these factors, the survey also examined potential barriers to SI growth. Figure 48 shows that in the view of asset managers, the most critical barrier to the further expansion of sustainable investments remains the lack of conviction on the part of client advisors. While this was the same outcome in 2017, the relative importance of this barrier even increased from 3.8 to 4.0 in this year's survey. Unlike last year, concerns about performance appear to be declining a little. Nevertheless, 17 asset managers still see this as a critical barrier. Other barriers identified were the lack of standards and concerns about higher costs. The lack of demand and the notion of fiduciary duty are currently seen to be of secondary importance.

Figure 49
GROWTH FORECASTS FOR SI IN SWITZERLAND IN 2019 BY ASSET OWNERS
(IN NUMBER OF RESPONDENTS) (n=29)

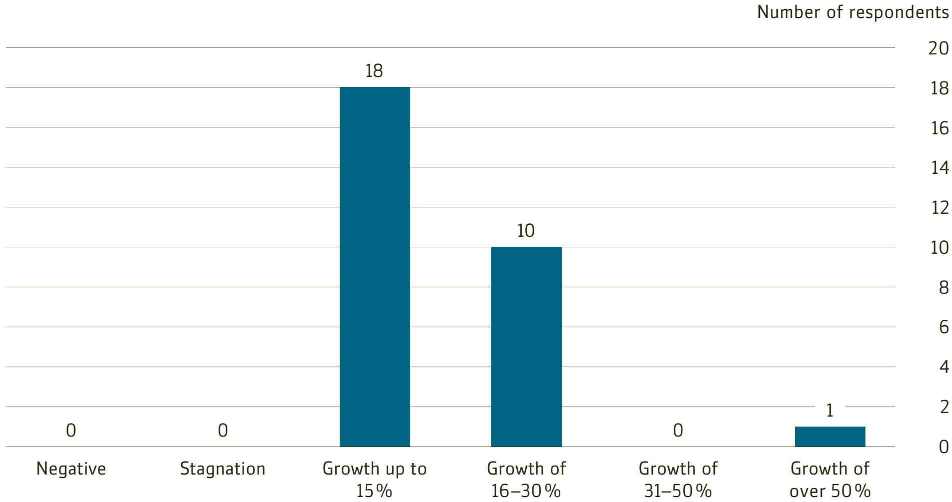
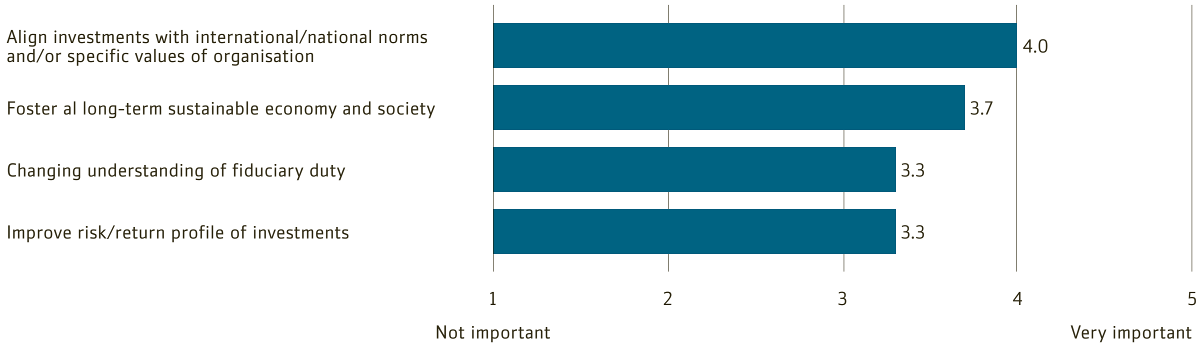


Figure 50
MAIN MOTIVATION OF ASSET OWNERS FOR ADOPTING BROAD SI POLICIES
(IN AVERAGE LEVEL OF IMPORTANCE) (n=33)



4.2 MARKET TRENDS – ASSET OWNERS

From the perspective of asset owners, the development of sustainable investments mirrors the asset managers' expectations. Compared to 2017 figures, a slight increase in positive optimism can be identified. With 18 responses, the majority forecast growth of up to 15% and ten expect growth of 16% to 30% (Figure 49). One participant even estimates growth of above 50%.

Asset owners alluded to different motivations for adopting an SI policy. As shown in Figure 50, they perceive the alignment of investments with international or national norms and/or specific values of their organisation to be the most important factor. 24 respondents regarded this aspect to be 'very important'. It is followed in second place by the vision of fostering a long-term sustainable economy and society. The changing understanding of fiduciary duty and the risk/return profile of investments represent other important, but less relevant, motivations for the development of SI policies. In sum, the 2018 figures closely reflect the 2017 picture.

In terms of key drivers for the wider adoption of sustainable investment approaches, asset owners rated the pressure stemming from their organisation's board as the most important (Figure 51). 24 respondents considered this factor as either 'very important' or 'important'. In second and third place, demand from beneficiaries and political pressure were considered as relevant drivers. Interestingly, the political pressure slightly lost in importance as a key driver compared to the 2017 survey.

Similar to the 2017 results, performance concerns are seen as the most critical barrier for the further adoption of sustainable investments by asset owners (Figure 52). 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 51
KEY DRIVERS FOR FURTHER ADOPTION OF SI FOR ASSET OWNERS
(IN AVERAGE LEVEL OF IMPORTANCE) (n=33)

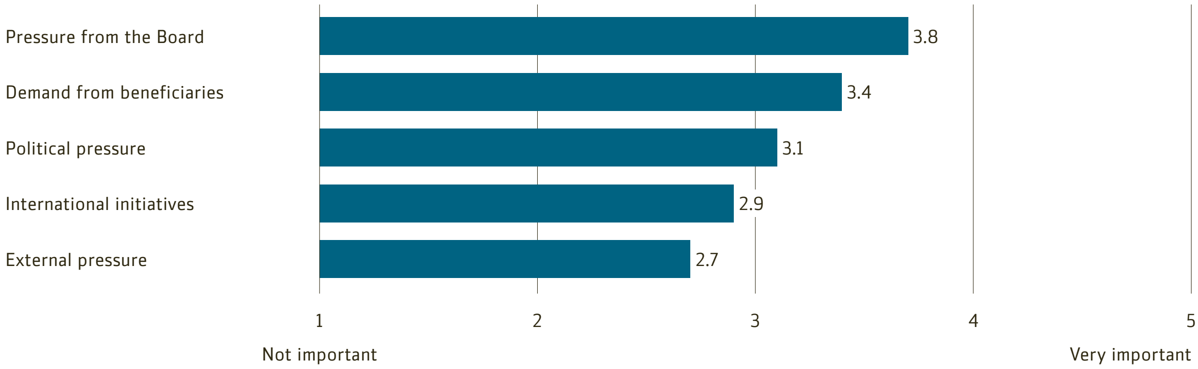


Figure 52
KEY BARRIERS FOR FURTHER ADOPTION OF SI FOR ASSET OWNERS
(IN AVERAGE LEVEL OF IMPORTANCE) (n=31)

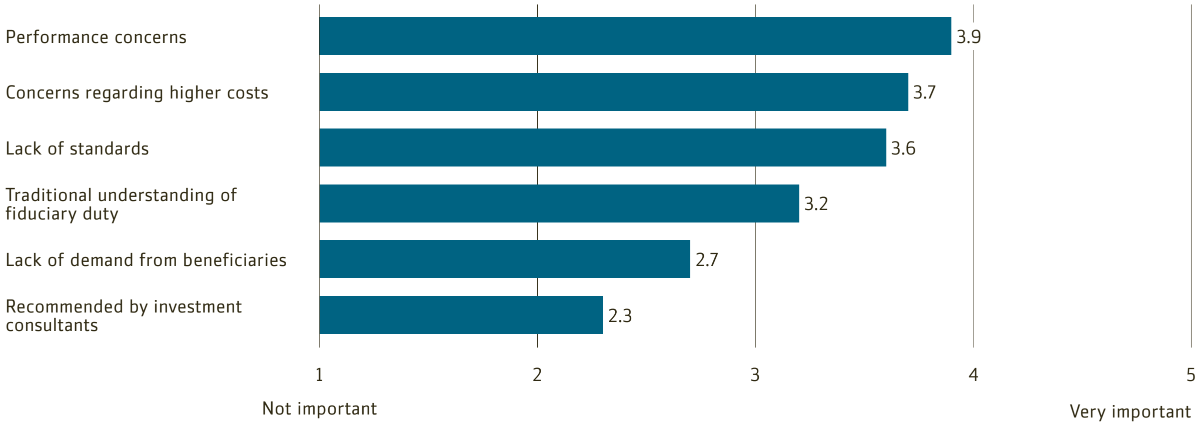
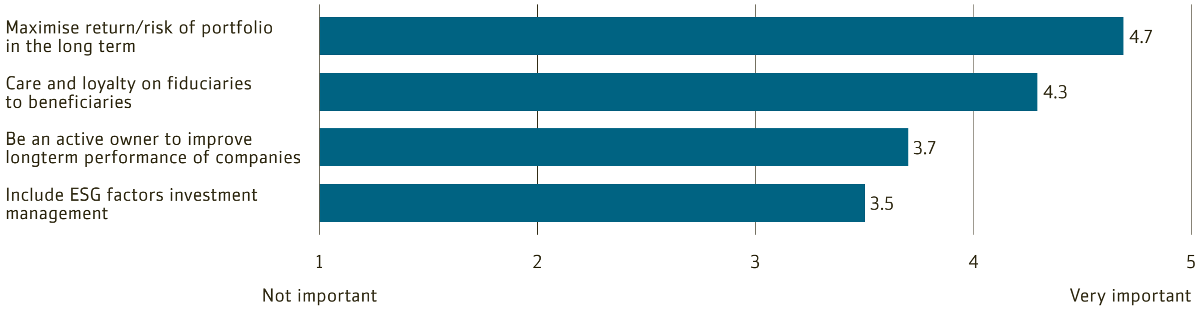


Figure 53
MAIN ASPECTS SHAPING THE CONCEPT OF FIDUCIARY DUTY
(IN AVERAGE LEVEL OF IMPORTANCE) (n=33)



HOW SWISS ASSET OWNERS PERCEIVE FIDUCIARY DUTY

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 53 displays which aspects asset owners associate with fiduciary duty and their respective level of importance. In the top position is the maximisation of a portfolio's risk/return profile, followed by the care and loyalty of fiduciaries to beneficiaries. These 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, four respondents considered this to be 'very important' and thirteen considered it to be 'important'.

KIRIBATI
TAIBO TABOKAI (15)
TEENAGER
TEBUNGINAKO, ABAIANG ATOLL, KIRIBATI

We have been told that the land where we are now sitting will disappear. Our church will go, too. That worries me more than anything. I don't want to lose what was made in the past, what our parents built. When we had a storm, it destroyed the causeway and the seawater went into the ponds. I would like our government to help us protect the village. Perhaps foreigners can stop this land from disappearing. But we've had people come here and explain that there is no hope for us because we will eventually lose everything.

—

As on many small island states, the people of Kiribati in the South Pacific view rising ocean levels and intensifield storm activity as existential threats. They are already losing land to erosion and crops due to increasing salinity levels.

USA
CHRIS BROWER (43)
ORGANIC PRODUCE VENDOR
SILVERTHORNE, COLORADO, UNITED STATES

We had a couple of years of really bad droughts, and the beetles just took over and decimated the place. From the mid-to early nineties, you could see them spreading, every year getting a little bit closer. Now, our area is surrounded by brown, mostly brown, and it used to be mostly green. When the trees are healthy and it is wet, they can produce enough sap and zap the bugs right out, and now they are not able to do that. The bugs do not die out in winter because it is not getting cold. I read in the paper that one hundred percent of the large pine forest will be dead in Colorado in the next five years. It is really kind of sad. It feels like the end of a time period for this place, and I talk a lot about this with my wife. It does not feel as vibrant, as alive as before.

—

Pine beetle infestations are a growing problem in Colorado. Swathes of forest are being destroyed because winters are no longer cold enough to kill off insects, and the trees' defense systems have been weakened by drought.

6 REGULATORY FRAMEWORK

In the past 12 months, high-level regulatory action to further integrate sustainability into financial decision-making has developed at a quick pace and resulted in decisive acts both in Europe and beyond. While the topic is receiving increased attention from regulators, financial players themselves are not just discussing how they will react to the new requirements, but are also developing industry-led standards and principles. Thus, across regions, markets and sectors, there is a deepening trend towards both voluntary and mandatory disclosure and a clearer and more extensive integration of ESG factors.

The work done by both public and private initiatives thus far is generally based on one of the following approaches: prescribing certain investment criteria (i.e. discouraging, excluding or promoting certain investments), restructuring the decision-making process or requiring more transparency. While prescribing investment criteria and influencing the decision-making process is delicate and politically controversial, more transparency is increasingly viewed as a means to encourage the consistency and trust necessary for the growth and mainstreaming of sustainable investments. Still, the scope and consequences of many policies targeting sustainable finance are not yet carved in stone. This chapter provides an overview of the complex framework conditions in which sustainable finance operates, and the different mandatory regulations and voluntary standards in the making.

Switzerland

The Swiss government continues to give priority to market solutions and sees its role as a subsidiary actor. On the federal level, there are two legislative frameworks with a link to sustainable finance; the Executive Pay Provision,[31] which obliges Swiss pension funds to exercise their voting rights concerning their investee companies' board remuneration, and the Federal Act on War Materials,[32] the only direct regulatory restriction on financing certain assets. At the cantonal level, Fribourg, Geneva and Vaud require their pension funds to integrate ESG criteria in their decision-making, either in the form of a law or an investment regulation. Also relevant for pension funds are legal considerations on fiduciary duty as stipulated by Art. 71 of the Federal Law on Occupational Old-Age, Survivors' and Invalidity Pension Provision (BVG). In autumn 2018, a Swiss law firm assessed that fiduciary duty is also applicable to climate risks if these are financially material.[33] Thus, the debate has evolved from whether BVG Art. 71 allows for the consideration and disclosure of ESG, to whether an obligation to consider ESG factors exists.

Besides these existing laws and regulations, legislative developments on multiple fronts are shaping the general business environment, and thus also the conditions for sustainable finance, with the most prominent item being the revision of the Swiss CO_2 Act currently under debate in the Swiss Parliament. Having ratified the Paris Climate Agreement, Switzerland has committed to reducing greenhouse gas emissions by 50% by 2030, relative to 1990 levels, and must now implement these pledges. No concrete changes to the existing law have been made so far, but new momentum for Swiss climate policy is expected in the second half of 2019. Notably, the environmental committee of Council of States included a provision for making "financial flows compatible with climate goals" in its latest legislative proposal.[34] Also on the climate front, Switzerland has linked its emissions' trading scheme to that of the EU so that Swiss companies now have a wider choice of carbon credits. While these policies are not financial regulation per se, they send important signals to the financial sector.

Regulatory signals also came from the considerable number of different parliamentary items of business that refer to sustainable finance and climate finance.[35] Ten parliamentary interventions of this nature were submitted in 2018, ranging from an interpellation on whether the Swiss National Bank has a duty to consider sustainability aspects for its investments,[36] to a call for restricting the most serious polluters' access to credit.[37] In the spring session 2019 alone, an additional nine interventions were filed, including one that calls for Swiss action on sustainable finance and one that asks for integration of climate factors in the client on-boarding process.[38]

Two federal popular initiatives[39] are currently on the Swiss political agenda. The first is the Responsible Business Initiative, which, if accepted, would make it mandatory for large Swiss-based companies to apply human rights, exercise due diligence and respect environmental standards in all their activities abroad. The proposal would create the legal basis for companies to be held liable for damages and violations, reflecting a shift towards embedding corporate responsibility into hard law.[40] The second initiative is aimed at "Prohibiting the financing of war material producers by the Swiss National Bank, foundations and public and occupational pension funds" (Kriegsgeschäfte Initiative).[41] If the two initiatives were to pass, it would have a considerable effect on financial industry players.

In April 2019, the Swiss National Bank (SNB) and the Swiss Financial Market Supervisory Authority (FINMA) joined the Network for Greening the Financial System (NGFS), as its 35th and 36th members respectively. The network, founded in 2017, aims to assess the relevance of climate risks on a macro level and promote the implementation of best practices.[42]

What characterises the Swiss policy landscape is the important role of voluntary standards and initiatives, and the integration of ESG criteria in industry-developed norms. In mid-2018, the Swiss Pension Fund Association (ASIP) incorporated sustainability factors into its Guidelines for Pension Fund Investments,[43] a voluntary stewardship code. Similarly, SSF is working with the Swiss Fund and Asset Management Association (SFAMA) to develop industry guidelines. The Swiss Code of Best Practice for Corporate Governance from economiesuisse and the SIX Directive on Information relating to Corporate Governance, which includes an opt-in clause for sustainability reporting,[44] are two further examples of self-regulatory instruments stemming from large mainstream organisations.

Finally, Swiss pension funds and insurance companies were supported by the Federal Administration to conduct a voluntary climate alignment test, which examines the compatibility of their portfolios with the internationally agreed 2° climate goal. This analysis revealed that participating Swiss investors are aligned more closely with a 4–6° scenario, which calls for additional steps to be taken to align portfolios with the 2° climate goal. This test is set to be repeated by the Federal Office for the Environment (FOEN) in 2020 and is already available for a broad range of investors as a free online tool.[45]

European Union

Although EU law does not apply in Switzerland, EU regulation in the field of financial products and services has always been highly relevant for Swiss financial service providers, be it in the context of discussions about the equivalence of Swiss financial regulation, or in relation to the direct activities of Swiss players in Europe. The centrepiece of current EU regulatory developments is the fast-paced Action Plan on Financing Sustainable Growth, which was presented in March 2018 and stipulated 10 actions to align the financial market with a more sustainable development.[46] Based on the 10 actions, a first package of four measures was adopted in May 2018 and a Technical Expert Group (TEG) was set up to work on these measures. The plan gained considerable traction, with the TEG presenting concrete legislative proposals on each of the four measures in early 2019.

— **Harmonised framework to facilitate sustainable investments ("Taxonomy"):** The unified classificiation system is considered the cornerstone of the Action Plan and aims to ensure clarity and transparency about what qualifies as environmentally sustainable economic activity. The first proposals that passed through the EU Parliament focus on the "green" component, but also include social safeguard provisions based on the OECD Guidelines, the ILO Declaration and International Bill of Human Rights.
— **Disclosure requirements relating to sustainable investments and sustainability risks:** This new regulation sets out how financial market participants and financial advisors must consistently integrate ESG risks and opportunities in their processes. Financial market participants will have to provide a defined set of sustainability-related information for each financial product, as well as policies on ESG integration on their websites. By doing so, the regulation aims to introduce regulatory neutrality and establish a level playing field for the financial services sector.
— **Low carbon benchmarks (amending Regulation EU 2016/1011):** The proposed amendment focuses on a harmonised and reliable tool to pursue low-carbon investment strategies, by establishing two new types of financial benchmarks; a low-carbon and a positive carbon impact benchmark.
— **Amendment of delegated acts under the Markets in Financial Instruments Directive (MIFID II) and the Insurance Distribution Directive (IDD):** Under the new rules, investment firms and insurance distributors will have to ask their clients about ESG preferences and take these preferences into account when advising them, as part of the product selection process and the suitability assessment.

31 Verordnung gegen übermässige Vergütungen bei börsenkotierten Aktiengesellschaften (VegüV) vom 20. November 2013 (SR 221.331). Ordinance against Excessive Remuneration in Listed Companies Limited by Shares of 20 November 2013.

32 Federal Act on War Material of 13 December 1996 (Status 1 February 2013) (SR 514.51).

33 Nieder Kraft Frey (12 Oct 2018): "Rechtsgutachten Klimarisiken in der Vermögensverwaltung bei Pensionskassen", available at: https://uploads.strikinglycdn.com/files/34f940b0-96c0-4f50-829b-c453ea27ade2/181012%20Rechtsgutachten%20an%20Klima-Allianz%20Schweiz%20betr.%20Klimarisiken%20in%20de....pdf, accessed 02/05/2019.

34 NZZ (12 Feb 2019): "Ständeratskommission will Klimaschutzmassnahmen im Inland", available at: https://www.nzz.ch/schweiz/co2-gesetz-kommission-will-klimaschutz-massnahmen-im-inland-ld.1459215, accessed 02/05/2019.

35 For a list of parliamentary interventions see: http://www.sustainablefinance.ch/en/swiss-parliament-news-_content---1--3090.html

36 Federal Parliament: Motion 18.3921, Jacqueline Badran, September 2018.

37 Federal Parliament: Motion 18.3974, Beat Jans, September 2018.

38 Federal Parliament: Motion 19.3259, Beat Jans, March 2019; Motion 19.3369, Cédric Wermuth, March 2019.

39 In Switzerland, a federal popular initiative is a request submitted by a minimum of 100,000 voters to undertake a complete revision of the federal constitution or to adopt, repeal or amend a provision of the constitution.

40 As of May 2019, the two chambers of the Swiss parliament are still working on a counter-proposal. If the counter proposal is accepted by both chambers, the Initiative Committee has agreed to pull back the initiative. If not, the initiative will be put to the vote in 2020.

41 Swiss Federal Council (20 July 2018): "Communiqué: L'initiative populaire fédérale "Pour une interdiction du financement des producteurs de matériel de guerre" a abouti", available at: https://www.admin.ch/gov/fr/accueil/documentation/communiques.msg-id-71665.html, accessed 02/05/2019.

42 Network for Greening the Financial System (Oct 2018): "NGFS First Progress Report", available at: https://www.banque-france.fr/sites/default/files/media/2018/10/11/818366-ngfs-first-progress-report-20181011.pdf, accessed 02/05/2019.

43 Swiss Pension Funds Association ASIP (2018): Fachmitteilung 112, available at: http://www.asip.ch/wissen/fachmitteilungen/, accessed 02/05/2019.

44 SIX Exchange Regulation of 20 March 2018. Art 9. Directive Corporate Governance, in accordance with art. 9 para.2.03 of the Directive Regular Reporting Obligations.

45 Federal Office for the Environment (n.d.): Climate and financial markets, available at: https://www.bafu.admin.ch/bafu/en/home/topics/climate/info-specialists/climate-and-financial-markets.html, accessed 02/05/2019.

46 European Commission (n.d.): Sustainable Finance, available at: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en#implementing, accessed 02/05/2019.

All proposals, except for the taxonomy, have passed through the EU's legislative bodies and are expected to come into force in September 2020. However, the adoption of the taxonomy is currently still underway and slight modifications may be undertaken, which also has an influence on the other three proposals. The general tone of this first package of measures is a call for more transparency and disclosure, which is seen as necessary by many market players. At the same time, critical voices wonder whether the taxonomy may stifle innovation and whether reporting requirements are not going too far. In any case, the adoption of further measures under the Action Plan is expected to continue throughout 2019 to 2022, but could potentially be influenced by the new EU Parliament.

Additionally, sustainability standards were also incorporated into other major EU legislation. Since 1 January 2019, the Directive on Institutions for Occupational Retirement Provision (IORP II) obliges pension schemes to take ESG factors into account in a number of circumstances. Furthermore, the amendments to the Shareholder Rights Directive, to be implemented by June 2019, require institutional investors and asset managers to publicly disclose their shareholder engagement, encouraging them to take longer-term commitments in the companies they invest in. Finally, the EU Commission has also pledged to update the Guidelines to the Non-financial and Diversity Information Directive, making some initial suggestions on how to align them with the TCFD.

European national legislation

Article 173 of the French Law on Energy Transition and Green Growth, which stipulates compulsory disclosure for investors on ESG on a comply-or-explain basis, remains a pioneering regulation on reporting. However, other countries have pushed in a similar direction: Spain mandated extensive shareholder rights, including shareholder votes, on non-financial ESG reporting when it transposed the EU Directive on Non-financial and Diversity Information. The law requires that large companies provide a report on non-financial information, which must be put to a shareholder vote as a separate agenda item in the annual general meeting.[47] As of January 2019, UK occupational pension funds will have to carry out and document a risk assessment of "new or emerging" material ESG risks, due to amendments[48] made by the Department of Work and Pensions (DWP) to the Pensions Act 2004.[49] In Belgium, the Belgian Financial Sector Federation Febelfin developed a quality standard and label for sustainable finance products, which is meant to be aligned with the EU proposals.[50]

Global

Elsewhere, financial regulation and initiatives incorporating sustainability are multiplying. In September 2018, the Hong Kong Securities and Futures Commission (SFC) introduced a framework to spur the development and promote the credibility of green financial products in Hong Kong, through an internationally compatible disclosure guidance on environmental information.[51] In China, the Asset Management Association and the China Securities Regulatory Commission issued voluntary guidelines for green investment (The Green Investment Guidelines). Japan has also created an expert group to develop its green finance market.[52] While these endeavours do not represent binding hard law yet, they reflect proactive initiatives from central regulating bodies. Finally, Canada launched its Expert Panel on Sustainable Finance in April 2018. Similarly to the EU Action Plan, the panel is currently looking at how it can develop regulation and policy to support sustainable finance, calling for transition-linked financial products and a centralised source of climate data.[53]

Industry standards and self-regulation

Most striking in the field is the development of market-driven initiatives. These voluntary stepping stones are often valuable in preparing the market for more formalised rules. First and foremost, the Task Force on Climate-Related Financial Disclosures (TCFD) remains central for guidance on proper disclosure of climate change related issues and serves as the basis for many other initiatives such as the EU Action plan or the PRI. The PRI in its turn, a self-regulatory international network of investors who follow six responsible investment principles, has grown to represent USD 100 trillion AuM.[54] Following the example of the PRI, a recent initiative has set out to create the Principles for Responsible Banking.

The trend towards including ESG as financially material factors is also being taken up by mainstream international financial bodies. The International Organization of Securities Commissions (IOSCO) sought public feedback on proposed recommendations related to the development of sustainable finance in capital markets and the role of securities regulators in this area. The International Organisation of Pension Supervisors (IOPS) published a draft version of guidelines on the integration of ESG factors in investment and risk management of pension funds. The International Finance Corporation finalised and officially launched the Operating Principles for Impact Management in April 2019, intended to establish a common discipline and market consensus around the management of investments for impact. In summer 2018, the members of the international standard-setting organisation ISO voted to create a Technical Committee on Sustainable Finance, which aims to develop a framework for sustainable finance and consolidate concepts into common terminology. Furthermore, ISO is also working on a set of global green bond standards, with a view to creating the world's first internationally endorsed standards for the asset class by 2020.

In order to take stock of what is occurring across different financial centres, UN Environment convened the Financial Centres for Sustainability (FC4S). Established in September 2017, the FC4S

Network provides a platform for financial centres to exchange experience and develop practical collaboration for the growth of green and sustainable finance. The initiative has its secretariat in Geneva and both the cities of Geneva and Zurich are among the current 22 members. One of its activities is an assessment programme to compare progress in different financial centres. Furthermore, the network promotes sustainable fintech and capacity building in sustainable finance.

Finally, social and environmental dimensions are also covered by the OECD Multinational Guidelines and UN Guiding Principles on Business and Human Rights (also known as "Ruggie Principles"), which continue to be relevant for financial industry players.

Outlook

The implementation of both legislative requirements and self-regulation is not expected to ease off any time soon, given the urgency of the world's most pressing problems. However, anticipating and positioning in this complex and evolving regulatory environment remains a challenge. While some policy developments and their effects are still unclear, the general direction towards more transparency and accountability cannot be denied and will likely accelerate. Important signals for the Swiss market, with the SNB joining the NGFS, also point in this direction. Given this, it is important that Swiss financial players closely monitor the regulatory developments in the EU and in other parts of the world, and proactively join the debate on these topics in collaboration with other financial players and authorities. SSF will continue to provide insights into relevant developments and use opportunities to coordinate feedback on crucial regulatory frameworks.

47 Matti Jaakkola (20 Feb 2019): "Spain is first country to mandate shareholder votes on 'non-financial' ESG reporting", available at: https://www.glasslewis.com/spain-is-first-country-to-mandate-shareholder-votes-on-non-financial-esg-reporting/, accessed 02/05/2019.

48 The Occupational Pension Schemes (Governance) (Amendment) Regulations 2018, available at: http://www.legislation.gov.uk/uksi/2018/1103/made, accessed 02/05/2019.

49 ibid.

50 Febelfin (Feb 2019): "A Quality Standard for Sustainable and Socially Responsible Financial Products", available at: https://www.febelfin.be/sites/default/files/2019-02/quality_standard_-_sustainable_financial_products.pdf, accessed 02/05/2019.

51 Hong Kong Securities and Futures Commission (21 Sep 2018): "SFC announces green finance strategic framework", available at: https://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/corporate-news/doc?refNo=18PR110, accessed 02/05/2019.

52 Climate Bonds (2 Nov 2018): "Tokyo: Launch of Green Finance Network Japan: A new high-level green initiative", available at: https://www.climatebonds.net/2018/11/tokyo-launch-green-finance-network-japan-new-high-level-green-initiative, accessed 02/05/2019.

53 Government of Canada (12 April 2018): "Government of Canada launches Expert Panel to help Canada tap into trillion-dollar opportunity from clean growth and climate action", available at: https://www.canada.ca/en/environment-climate-change/news/2018/04/government-of-canada-launches-expert-panel-to-help-canada-tap-into-trillion-dollar-opportunity-from-clean-growth-and-climate-action.html, accessed 02/05/2019.

54 UN PRI (2018): "About the PRI", available at: https://www.unpri.org/pri/about-the-pri, accessed 02/05/2019.

6.1 INTERVIEW WITH ASIP

Long-term prospects determine pension funds' investment strategies

INTERVIEW WITH HANSPETER KONRAD | Director of the Swiss Association of Pension Funds (ASIP)

ASIP is the Swiss Association of Pension Funds – Why is your organisation interested in the theme of sustainable investments and where did the impulse for this come from?

If we consider the ultimate goal of pension funds – to ensure the long-term provision of benefits – then sustainable investing is nothing new for Swiss pension funds. They have been dealing with this issue for years, not only to make sure their investments are in tune with the overriding goal of sustainability, or out of a moral and ethical conviction, but above all to integrate important long-term factors (ESG and climate criteria) into their investment strategy.

This principle is also entailed in the ASIP Guidelines, which serves as a strategic basis for asset management activity for our members. The ASIP updated these Guidelines in summer 2018, taking the opportunity to integrate recommendations on sustainable investing. With an eye on future regulatory developments, it is particularly important for pension funds to actively demonstrate they are taking this issue seriously.

Where do you see ASIP's primary role regarding sustainable investments by pension funds? What concrete products and services has ASIP developed, or what measures has it implemented?

The main priority for ASIP is to share knowledge and to raise awareness at the highest level, in other words among the board of trustees, which is responsible for investment policy. By adopting the Guidelines mentioned above, as well as through workshops and training videos, ASIP promotes trustees' awareness and knowledge of how to integrate sustainability into the investment process. In the workshops especially, valuable specialist expertise and practical examples are presented and discussed.

A specific trigger for these activities was not necessary because, as I said, sustainability has always been an important component of pension funds' investment strategies due to their long-term investment horizon. Governance issues, for example, were addressed early on. What may be different today is the clearer alignment and refinement of investment strategies to reflect ESG factors.

Different studies conclude that one aspect of the fiduciary duty of pension funds is to integrate sustainability factors into the investment process. Is this opinion shared by you and your members?

Switzerland's Federal Law on Occupational Old-age, Survivors' and Invalidity Pension Provision (OASI) is key for defining fiduciary duty, and already underlines the principle of sustainability (see Art. 71 OASI in conjunction with Art. 51b OASI). However, this legislation does not stipulate how this principle should be implemented. This is the sole responsibility of the management bodies composed on the basis of social partnership. Nevertheless, one can assume today that the pension foundation bodies have a duty to deal with sustainability factors and to engage in a fundamental discussion of principles. It's important to bear in mind, however, that upholding the duty of care effectively means considering many different aspects. First and foremost, it is important not to overlook the achievement of the pension goal for the insured members.

What opportunities do you think are available to pension funds by placing more emphasis on sustainability in their investment processes?

The inclusion of ESG factors makes it possible to reduce long-term risks and ensure the preservation of the value of investments for the insured members. This does not generally compromise investment performance in any way, as many studies have since shown.

What are the biggest hurdles for pension funds in implementing a sustainable investment policy?

I think the biggest challenge is to develop a collective understanding of sustainability in the pension fund's most senior body. The different values of the trustees must be reconciled, and this requires some time-consuming fundamental discussion. Before a decision can be made, the board of trustees must also obtain detailed information on implementation options, in other words on the different forms of investment and the costs involved. Transparency regarding the impact of the chosen approach and its measurability are also very important.

In this discussion, it is important to focus on ESG and climate factors, otherwise the debate can become too political. The trustees cannot avoid the opinion-forming process on these important issues.

At the regulatory level, I currently see no major hurdles, at least with today's legislation. I do not see the current quotas for various asset classes as hurdles, as they can also be extended. However, the current regulatory framework does require the industry to take responsibility and drive the issue forward proactively.

So how could SSF help overcome these hurdles?

SSF already does valuable educational work, especially through its Handbook on Sustainable Investments and its Swiss Sustainable Investment Market Study, which both clearly highlight the growth of sustainable investments. The workshops organised by SSF for asset owners are also very helpful.

What role do pension funds play as big real estate investors and developers when it comes to sustainability in the construction industry?

It's certainly true that pension funds have an important role to play here, and there are already various commendable standards for green buildings. Amongst other things, the ASIP has consistently drawn members' attention to the Swiss Sustainable Building Standard (SNBS). The board of trustees is responsible for implementing the green building criteria and applying the relevant standards. Many pension funds – especially the bigger ones – are actively taking on this responsibility.

The EU has already made the IORP II legislation binding, requiring pension funds to report on how they integrate sustainability factors. It is also working on various regulations governing sustainable investments, some of which also affect pension funds. What are the pros and cons of the lawmaker becoming more proactive?

I take a rather critical view of these regulatory initiatives, as they impose additional requirements on pension funds regarding reporting. These obligations are not effective, hamper the process of asset management and create considerable extra work.

Increased transparency is very important, but I think such reporting should be voluntary. The responsibility lies with the pension funds themselves – and I admit we need to take action here. The Federal Council has also confirmed this approach to promoting transparency and a voluntary approach with regard to the investment strategy of pension funds, in a report on investments in the venture capital sector published at the end of 2018.

Are you engaged in an international dialogue as well – with other pension fund associations, for example – about sustainable investments and appropriate general conditions?

ASIP is a member of two associations: PensionsEurope and the Europe Association of Public Sector Pension Institutions (EAPSPI). In the two associations, discussions focus on sustainability issues, as well as the scope and consequences of the (forthcoming) regulations. Germany, the Netherlands and even the UK often have a similar approach to Switzerland and tend to favour voluntary measures. France, on the other hand, leans in the other direction and wants tighter regulation. It's interesting to see how the pension fund sector is organised differently in each country. In the Netherlands, for example, associations are very typical.

According to a study published by WWF Switzerland, Swiss pension funds are making some headway, but progress is slow. Do you share this opinion?

The fact is that the WWF study only assessed the 20 biggest pension funds. I can see greater progress being made particularly by the mid-sized pension funds, such as municipal authorities. These were not included in the WWF study. SSF is also increasingly seen as an important promoter of know-how, which also indicates that pension funds are starting to move forward. But of course, the process towards comprehensive integration of sustainability criteria has to be stepped up. Ultimately each board of trustees needs to decide how far it wants to go. At ASIP we are making every effort to encourage this process by providing information on best practice in sustainable investments.

6.2

INTERVIEW WITH SIA

Climate risks – a twofold challenge for insurance companies

INTERVIEW WITH THOMAS HELBLING | CEO of the Swiss Insurance Association (SIA)

At your annual press conference back in January 2019, you highlighted sustainable investments as an important instrument for managing climate risks. Why do you think insurers have a duty here, and what opportunities arise from following a sustainable investment policy, in your opinion?

We were personally rather astonished – and of course also delighted – that this issue attracted so much media coverage. Climate risks and sustainability have been high on the SIA's agenda for a long time now, as climate risks present a twofold challenge for insurance companies: they have a direct impact on insurers' core business (risk coverage) on the one hand, and influence their investments on the other hand.

Added to that, Switzerland's insurance sector carries a lot of responsibility within the Swiss economy because its services are so relevant. We want to live up to this responsibility and create even greater momentum for sustainability as a core theme. To this end, we have already organised events with members of the Swiss parliament on the topic of "Responsible Investments" which not only dealt with climate change, but other environmental, social and governance (ESG) themes. After all, insurance clients, the general public and even investors are increasingly demanding clarity on ESG risks, and proof of appropriate behaviour. It is in particular the millennials and their firmly held convictions who are providing the driving force.

What progress have Swiss insurers already made in integrating sustainability issues into asset management? And how do they stand compared with insurance companies in other countries?

Last autumn, SIA corporate members committed themselves to consistently integrating ESG criteria into their investment processes. As far as we know, comparable sectors in Switzerland have not made such a commitment to date. This leaves the Swiss insurance industry well placed, also in terms of the international competition.

The big insurance groups such as Swiss Re or Zurich Insurance are certainly taking the lead and have already initiated concrete steps to integrate sustainability criteria into their investment business. This is because they operate in an international environment where they face substantial public pressure, a whole raft of regulatory requirements and intense competition, all of which demand high standards in the area of sustainability. Even if smaller and medium-sized insurance companies have not yet made the same progress, they can benefit from the best practices of the front runners.

What role do insurers play as large real estate investors and developers when it comes to sustainability in the construction industry?

Direct investments in real estate have gained in importance for insurers during the ongoing phase of low interest rates. Energy-efficient construction on the basis of standards such as Minergie is already very important today, as it contributes to the long-term preservation of the value of investments. Many insurance companies are over 100 years old and have been managing buildings and estates for decades. They therefore play a particularly important role in the renovation of housing stock, where they can use their expertise to promote energy-efficient buildings.

At the same time, however, criteria such as environmental compatibility, spatial planning requirements and, ultimately, commercial aspects must also be considered. Sustainable construction always involves a balancing act, for example between social compatibility (low rental costs) and high energy and environmental standards (renovation of old buildings).

The insurance business aims to reduce risks for individuals or organisations. This requires a sound understanding of risks. Does the extensive knowledge of risks help insurance companies to better manage their investments?

The evaluation and assessment of risks are core skills of insurers. This knowledge can be very useful for the integration of ESG criteria into asset management. Expertise is mainly bundled in the underwriting segment, and the transfer of that know-how could be made more effective. However, it should be noted that ESG factors cannot necessarily be evaluated in the same way in asset management as in risk coverage. The context for the insurance business is complex, especially for global activities.

What are the biggest challenges for insurers in implementing a sustainable investment policy? Do they vary from one asset class to another (e.g. infrastructure)?

The insurers' capital investments are very tightly regulated to assure consumer protection. Although these requirements allow for sensible diversification, they make sustainable investment more difficult. In the case of infrastructure investments, strict capital adequacy requirements mean that certain investments cannot be counted as tied assets (capital to cover technical provisions). This further reduces the scope for investing in this asset class. This applies in particular to investments in infrastructure such as power plants, retirement homes, schools, etc. Our members would often like to invest more in the Swiss market and also do so sustainably. Here, the industry sees a need for action on the part of the regulator and the supervisory authority respectively. Within the asset classes, however, there are good reasons to adopt a sustainable investment strategy.

What is SIA's role in promoting sustainable investments: do you support your members with information or concrete recommendations? Or do you rather try and influence the general conditions?

Within our association there is a valuable exchange of knowledge, and particularly in relation to sustainability we are seeing a clear commitment from large companies to share their expertise. For SMEs especially, the SIA is an important forum for developing strategies and then implementing them.

I think one of the major advantages of our association is that our members on expert panels exchange ideas on pressing issues and through this collaborative transfer of know-how are able to come up with industry-wide solutions. The SIA is trying to encourage this voluntary process. The SIA is also in close contact with various national entities, including SSF, and participates in mixed working parties and forums.

So how could Swiss Sustainable Finance help overcome potential hurdles?

SSF already performs an important role and has established itself as a centre of excellence for sustainable finance. The studies it publishes, as well as the way it disseminates concrete knowledge through different channels, provide a valuable service and we have high regard for SSF as a trailblazer for a sustainable Swiss financial centre. SSF could expand this role even further with measures in the areas of transparency and impact, and provide insurers with even greater support in their endeavours to assume responsibility and sustainable business practices.

The Task Force on Climate-related Financial Disclosures (TFCD) has passed guidelines for reporting climate risks. How useful do you think these guidelines are, and to what extent has the market already implemented them?

The TCFD recommendations provide a good basis for establishing a market standard for corporate reporting of climate risks. We have noticed that these guidelines have been adopted on several fronts and efforts in this area have gathered momentum. If more companies were to report in a standardised format, then insurers – as long-term investors – would obviously also benefit from greater transparency.

With their "Action Plan on Sustainable Finance", the EU is planning compulsory reporting for institutional investors (i. e. for insurers as well) on how sustainability factors are integrated into risk management. What are the pros and cons of the lawmaker becoming more proactive?

We are ambivalent about the EU's current aspirations. On the one hand, it is impressive to see how sustainability is gaining momentum and the issue is being tackled on a broad front. Government reporting standards can guide companies providing accountability towards the public, politicians, investors and other stakeholders. On the other hand, we prefer individual responsibility and a voluntary code, because the planned EU regulations are heavily standardised. They would entail a great deal of administrative work, especially for small and medium-sized insurers. In our opinion, the focus should not be on the producing complex reports, but on the direction and efficiency of responsible action.

Are you also engaged in an international dialogue – with other insurance associations, for example – about sustainable investments and appropriate framework conditions?

The SIA is working with various international players; we have representatives in Insurance Europe, and some of our members are also active in the Pan-European Insurance Forum (PEIF) for leading insurance and reinsurance companies. Our broad international network allows us to cover many themes. Of course, we are also proud of actively participating in the Swiss delegation for international climate conferences. Gunthard Niederbäumer for example, our Head of Property and Reinsurance, represented the Swiss industry at last year's global climate conference COP24 in Katowice, Poland.

7 CONCLUSION AND OUTLOOK

Sustainable investment volumes continue to grow

Besides the general growth of the sustainable investment (SI) market in Switzerland in 2018, this study reveals several interesting findings. All SI approaches grew in volume. However, specific emphasis now seems to be on ESG integration as an approach. With a further increase in the number of participants in this study, sustainable investments once again grew in importance for the Swiss finance sector. Broad SI policies are also increasingly being adopted by the surveyed asset managers and asset owners. 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.

Similar to the 2017 report, Swiss asset managers and asset owners are generally optimistic about the further growth of the SI market. For asset managers and asset owners, bottom-up drivers (i.e. investors' demands), as well as top-down pressure (i.e. board level initiatives, and legislation), have been identified as the most relevant drivers for this development, respectively. At the same time, financial performance concerns remain one of the most critical barriers for fostering sustainable investments, at least for asset owners. Nonetheless, ESG factors have become one of the key aspects shaping asset owners' perception of fiduciary duty.

Expanding the picture

Gathering data for such a report with the ambition of covering the entire SI market clearly poses some challenges. Although a detailed guidance document was sent to all survey participants, different understandings and interpretations regarding the various SI approaches cannot be completely eliminated. Also, not all participants draw the line between a product-specific focus or an application to a broad range of AuMs at the institutional level in the same place. A further harmonisation of definitions, notably internationally, is proving to be difficult but would be desirable. With 77 respondents, many of them including the largest Swiss asset managers and asset owners, this report covers a fair share of the market. Yet, as a growing share of asset managers and asset owners start to integrate ESG factors into their standard processes, the report most likely misses out on significant sums of sustainably managed assets, at least with regards to broad SI policies applied to mainstream assets. A further expansion of the participating organisations would therefore be important.

The figures presented do not reflect the full Swiss SI market in two ways: firstly, for asset managers, the scope of the study was assets managed in Switzerland. As Switzerland is home to many international financial players managing part of their assets in other countries, the study does not give a full picture of Swiss strengths in sustainable investing. Even so, this limitation to assets managed in Switzerland is in line with other European market studies and aims to avoid double counting in regional and global aggregated reports. Secondly, for asset managers, the study only counts self-managed assets (or assets for which the asset owners directly apply a SI approach) but does not include asset owner assets managed by third parties (again to avoid double counting). As a result, the study underestimates the actual share of sustainable assets held by asset owners. Providing additional insights into total sustainable assets held by asset owners (many of them possibly managed by foreign asset managers) would broaden the picture.

Next steps

SSF views a further alignment of definitions and understandings of SI approaches as an ongoing task. With the increasing trend of the application of broad SI policies to large AuMs at institutional levels, it will be especially important to discuss the best methods to integrate such assets into this survey. Furthermore, this report again identified key challenges in the market place in terms of prevailing barriers. As crucial next steps, the sources of these barriers should be better understood and mitigated. The long-standing claim that sustainable investments underperform conventional investments has still not disappeared. Yet it is mainly asset owners, many of whom heavily rely on low-cost passive products, who still perceive performance as an issue. Promoting further research into reasons for the prevailing perception and ways to react to it seems to be essential in order to bring more clarity to the debate. Furthermore, SSF will discuss with its workgroup how to further expand the survey coverage while making sure that the surveyed assets reflect the given definitions.

The Swiss SI market has experienced substantial growth for two years in a row. SI has thus clearly become an important segment of the mainstream market. Looking at the way ahead, purely focussing on further market growth should not be the only objective. Next to quantitative growth, a second focus should be on the quality and impact of SI products. The impact side of SI is still under discussion. Recently established standards on impact reporting such as the ones developed by the International Finance Corporation (IFC) and the Impact Management Project (IMP) help to guide the discussion to aligned action. Moreover, further increasing the transparency about individual SI methods and about the level of sustainability of specific products and portfolios can help clients better understand the advantages of SI as a whole. Also, gaining endorsement from boards and client advisors is still an important next step towards further promoting sustainable investments.

Swiss SI market on the right path

In a recent speech given in March 2019 at the European Commission Conference "A global approach to sustainable finance", Mark Carney, Governor Bank of England, highlighted his vision regarding a new horizon: "A virtuous circle is becoming possible where companies disclose more information, investors make better informed decisions, and sustainable investment goes mainstream." This market study shows that the levels of sustainable investments are increasing sharply to a point where many players are fully integrating an ESG investment policy on a firm-wide level, a signal that the virtuous circle has started. Yet, in light of the impressive dynamics in sustainable finance in Europe and on a global level, it is vital that Switzerland further develops both the right frameworks and market capacities to continue the journey. Building on the strong know-how prevalent in the market will help to sustain these efforts and thus contribute to the creation of a more robust and stable financial system, as well as advancing sustainable development in Switzerland and on a global scale.

MALI
HAAWO MAHAMMAN (53)
LEADER OF THE WOMEN'S ASSOCIATION
TOYA, MALI

My fears in life are linked to water scarcity and desert advancement. In the past, there was lot of rain and there were no problems. But now, it does not rain anymore and this is what makes the sand advance very fast. Before, we could not cross this river on foot; but today people don't need a boat to get to the other side because the sand has swallowed the river. Some months ago, we had to move our vegetable gardens because they were consumed by sand. It has eaten all the papayas we planted and we are now scared the same will happen to our homes. None of the things that have been tried have really worked, because the sand closes in on everything, and the water from the Niger is getting lower and lower. This scares me too much. In the end it is death.

INDIA
TSERING TUNDUP CHUPKO (51)
FARMER
CHEMDAY, LADAKH, INDIA

We have been good friends and neighbors for a long time in this village, but there have been some conflicts recently because of water shortages. We are going through some of the biggest changes I have experienced in my life. When I was a child, November, December, January, and February were extremely cold, and we had enough snow in our valley. Now, both summer and winter are almost the same. Every year there is less rain and the snow melts earlier. In summer, the glaciers melt, which causes floods that destroy fields, trees, plantations, and bridges. The valley also has a bigger population than in the past. This makes the water shortages more acute. Everybody feels something is going wrong. That is not good for us. We have a very effective water distribution system, but there is more abuse and bitterness about sharing. There ist definitely more conflict. Many years back, a wise person said, «If there is no water, there is no valley.» I think if this situation continues for more than twenty years, this valley will not survive.

Comprehensive Sustainability Performance Measurement for Real Estate Investments

ANDREAS WIENCKE | Head Strategic Projects & Head ESG Solutions | Global Real Estate, Credit Suisse Asset Management (Switzerland) AG

The demand for sustainable investments is growing enormously. As a result, real estate investment managers are confronted with the challenge of raising sustainability key figures and building meaningful benchmarking.

Rising demand for sustainable investments

Demand for sustainable investments has increased significantly in recent years in Switzerland. Swiss Sustainable Finance estimates the volume of sustainable investments in Switzerland at around CHF 390 billion in 2017, an increase of 82 % over the previous year. Real estate and real estate investments, with a share of around 22 % (after Equities with 27 %), are among the most important asset classes within sustainable investments.

Sustainability certificates and building labels serve as an indicator

For many users, renting sustainable space is an important selection criterion. Above all, large and international companies pursue a company policy that is specifically geared towards sustainability. They are guided by holistic ESG criteria that take environmental and social standards as well as governance aspects into account. Sustainability certifications and building labels are an important indicator and signal whether these are sustainable properties. However, the building labels often do not offer a holistic sustainability rating. Thus, real estate investment managers face the challenge of evaluating their real estate portfolio for suitable sustainability criteria that can withstand a comprehensive ESG approach.

ESG benchmarking for real estate

In the meantime, the Global Real Estate Sustainability Benchmark (GRESB) has established itself as a leading initiative in the field of ESG assessment. The GRESB determines the sustainability performance of real estate and real estate portfolios worldwide according to uniform ESG criteria. The participating real estate companies and investment managers have the opportunity to compare their sustainability performance with their peer group as well as the overall global ranking (Figure 1).

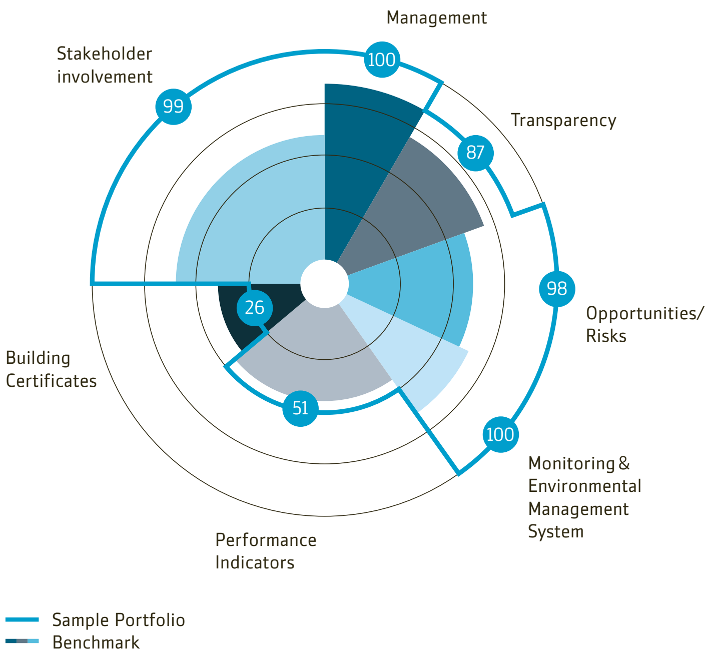
Systematic evaluation and worldwide establishment of the GRESB

In 2018, GRESB systematically examined more than 900 of the world's leading real estate companies and real estate funds in 64 countries for their ESG and sustainability performance (Figure 2). The GRESB is evaluating a total property assets of more than CHF 3.5 trillion or around 79,000 properties. Depending on the size of the portfolio, the type of use and the country allocation, the peer groups are evaluated and compared in the benchmark. Among the very different real estate portfolios objective comparability is thus ensured.

GRESB as an evaluation platform for institutional investors

Many participating real estate investment managers also use GRESB to engage with their investors on ESG and sustainability performance. More than 75 institutional investors, representing more than CHF 17.7 trillion of institutional assets, use the GRESB data and the GRESB analysis tools to make an informed selection of sustainable real estate funds. Consequently, the GRESB stands for a systematic measurement of the ESG performance of investment managers as well as for an adequate evaluation on the investor side. The benchmark creates transparency for ESG criteria, which allows and encourages the gradual optimization of one's own sustainability performance.

COMPREHENSIVE ESG-EVALUATION WITH GRESB
CREDIT SUISSE EXAMPLE PORTFOLIO AND GRESB- MAIN CATEGORIES.



No fear!

EROL BILECEN | Sustainability Investment Expert, Raiffeisen Switzerland Cooperative

With the ongoing student protests ("Fridays for Future") the issue of climate change has made its way into the category of continuous public attention. The constantly high (and still increasing) level of carbon emissions makes it obvious that great efforts are necessary to limit the rise in the global average temperature to 2 degrees Celsius. With the Paris Agreement, the signatories also committed themselves to "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development". While the Swiss Federal Council, when discussing the total revision of the CO_2 Act, was more inclined to avoid this issue and to focus exclusively on voluntary measures, the EU Commission presented an "Action Plan: Financing Sustainable Growth" in March 2018.

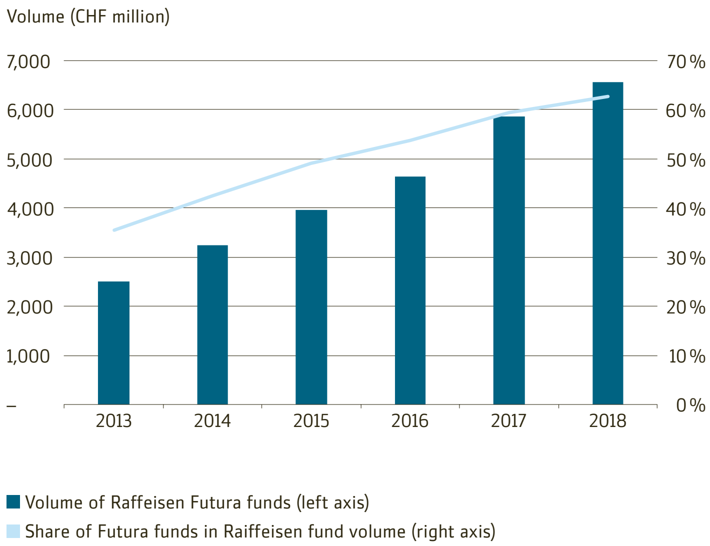
Although Switzerland is not an EU member, the interconnection between the economies is so strong that the mentioned regulations are likely to be adapted sooner rather than later. Although much is still in flux, the following themes are currently emerging:

— First, there will soon be a definition of "green" investments, but this will initially be limited to the issue of climate change.
— Secondly, starting from 2021, investment funds for private investors that meet the above definition of green investment will be eligible for the EU eco-label.
— Thirdly, soon, in addition to inquiring about customers' financial risk appetites, preferences regarding sustainability will also be a mandatory part of due diligence.

Does that mean that investors in Switzerland have to prepare for major changes? Of course, new regulations leave their footprint. However, this does not imply that the banks in Switzerland have been passive all the way and are now being caught on the wrong foot. On the contrary! Switzerland is in particular regarded as the world leader in the field of sustainable investments. The variety of investment funds offered already covers a broad range of investors' needs. This is an additional reason why we at Raiffeisen have decided to further expand our Futura product range. As a consequence, our entire range of pension products is sustainable now.

Considerations of amending MiFID II in a way that all clients must actively be questioned whether and how sustainability is to be integrated into their investment strategy should be regarded as an opportunity. There are already several surveys published that document clients' interest in sustainable investments. However, actions speak louder than words: for several years, Raiffeisen Switzerland has been questioning every client opening a custody account to what degree they prefer sustainable investments to conventional ones. The result is a clear message: around 40 % choose (more) sustainability. It is therefore no surprise that based on inflows our Futura funds have continued their success story also in 2018.

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



ROBECOSAM
We are Sustainability Investing.

Measuring the SDG contribution across your investment portfolio!

JACOB MESSINA | CFA, Head of SI Research, RobecoSAM

Two trends of growing importance are investing in companies that contribute to the United Nations' Sustainable Development Goals and demonstrating the strength of those contributions in client portfolios. RobecoSAM was among the first investment managers to develop a proprietary framework that measures SDG contributions of individual companies using a clear and consistent methodology.

The Challenge: measuring impact on the SDGs

It's easy to imagine that some businesses have a positive impact on goals, and others a negative one (e.g. a solar firm versus an oil company). But for others, the process is less intuitive, more nuanced, and invariably complex. Properly evaluating and quantifying the SDG contribution(s) of *all* companies within an investment universe requires a framework with clear, objective and consistent rules.

Step 1: Product focus – What does the company produce?

In step one, we link company products and services to the SDGs. We assess to which SDGs the company principally contributes as well as the quality of those contributions. To do this consistently and objectively, analysts use a guidebook with an extensive set of rules and Key Performance Indicators (KPIs).

Step 2: Company policies & processes – How does the company operate?

Measuring SDGs are also about how companies produce these goods and services. Are they polluting, do they respect labor rights, is the board diverse? In step 2, analysts check if the way the firm operates is compatible with the SDGs. RobecoSAM's Corporate Sustainability Assessment (CSA) provides the foundation for this analysis, with comprehensive evaluations of a company's governance, internal policies, and historic track record on material sustainability issues.

Step 3: Business conduct – Are there controversies or legal issues?

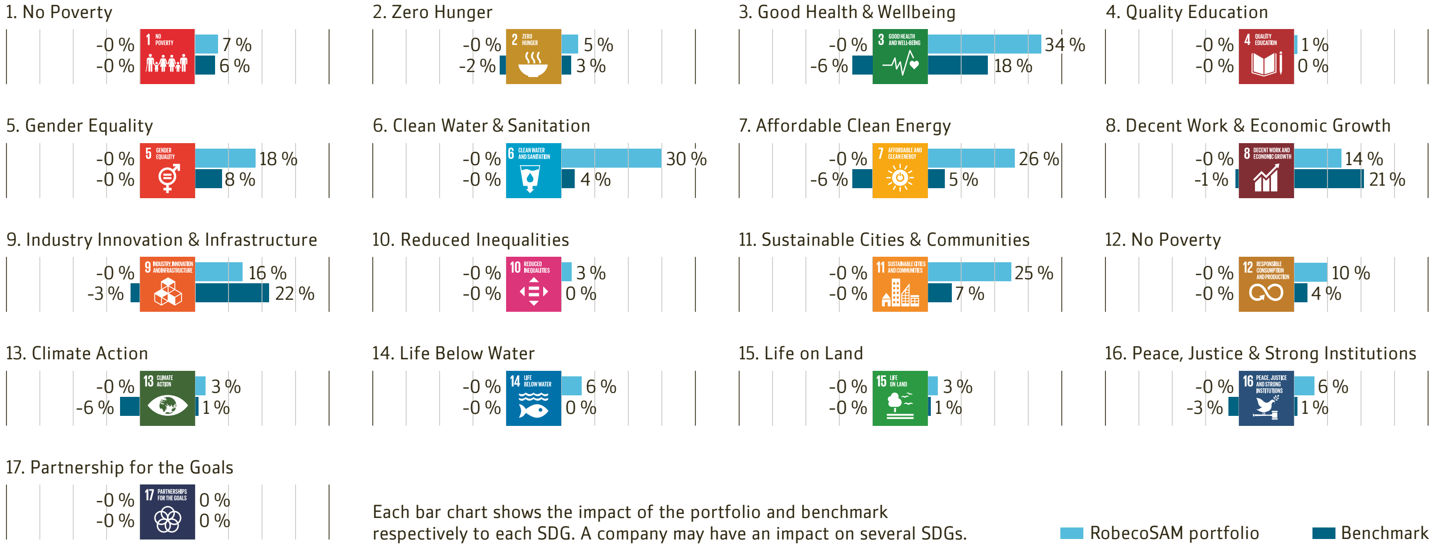
In the final step, we evaluate meaningful incidents and controversies. A company can make the right products, operate in the right manner, but still have weak spots that end in poor decision-making and damaging results (e.g. oil spills, fraud or bribery). We examine whether the controversy is structural and systematic or just an isolated incident. Moreover, we monitor management's response and whether these are comprehensive and meaningful enough to prevent future incidents.

The outcome of this three-step analysis is quantified using a proprietary SDG rating methodology. All companies obtain an SDG score based on the quality and the extent of their contributions.

An advantage of the framework is its versatility. It can be used as a screening tool to construct and customize portfolios based on the strength of their SDG impact as well as a reporting tool that measures the SDG contributions of a specific investment portfolio. Moreover, it can be adapted to fit different asset classes. RobecoSAM is already applying the framework to investment portfolios to give better insight into how these investments relate to the SDGs.

SDG CONTRIBUTION OF ROBECOSAM PORTFOLIO VS. BENCHMARK

SIMPLIFIED VERSION OF THE REPORTING FOR ILLUSTRATIVE PURPOSES



Each bar chart shows the impact of the portfolio and benchmark respectively to each SDG. A company may have an impact on several SDGs.

Swisscanto Invest
by Zürcher Kantonalbank

Climate-friendly investments: the CO_2 footprint does not go far enough

SIMONE SCHAERER | Senior Sustainability Analyst, Swisscanto Invest by Zürcher Kantonalbank

Investment decisions taken today will determine how much greenhouse gas will be emitted in the future. The Paris climate target aims to limit global warming to well below 2°C compared to pre-industrial levels. To achieve this goal, CO_2 emissions must be halved every ten years – equivalent to a reduction of around 7% per year (Rockström et al., Science 2017). Global investments and financing play a central role in the transformation towards a climate-friendly economy. However, an analysis carried out by the Swiss Federal Office for the Environment (FOEN) in 2017 showed that the current investment behaviour of Swiss pension funds and insurance companies, which hold the majority of assets under management in Switzerland, is supporting global warming of between 4 and 6°C. Comprehensive climate protection – if implemented – will result in companies dependent on CO_2 intensive technologies becoming losers while companies whose products and services help to reduce CO_2 emissions will benefit. Thus, higher CO_2 prices or regulations represent risks or opportunities for companies that are currently still given scant consideration by market participants.

Carbon footprint – a risk indicator

As a signatory of the UN Montreal Carbon Pledge, Swisscanto Invest calculates the carbon footprint relative to the benchmark for its funds. For example, the Swisscanto Equity Fund Sustainable has a CO_2 footprint that is approximately 50% lower than the footprint of the MSCI World (as of the end of October 2018). The carbon footprint merely indicates whether the companies in the portfolio emit less or more CO_2 than the companies in the benchmark when manufacturing their products and purchasing electricity and heat. A fund's carbon footprint – as it is usually calculated today – therefore is a key figure that indicates whether companies in the fund have more or less additional costs than those in the benchmark, when CO_2 prices are increasing. Hence, it is an indicator of relative risk. However, the carbon footprint does not make any statement as to whether the fund is compatible with the Paris climate target.

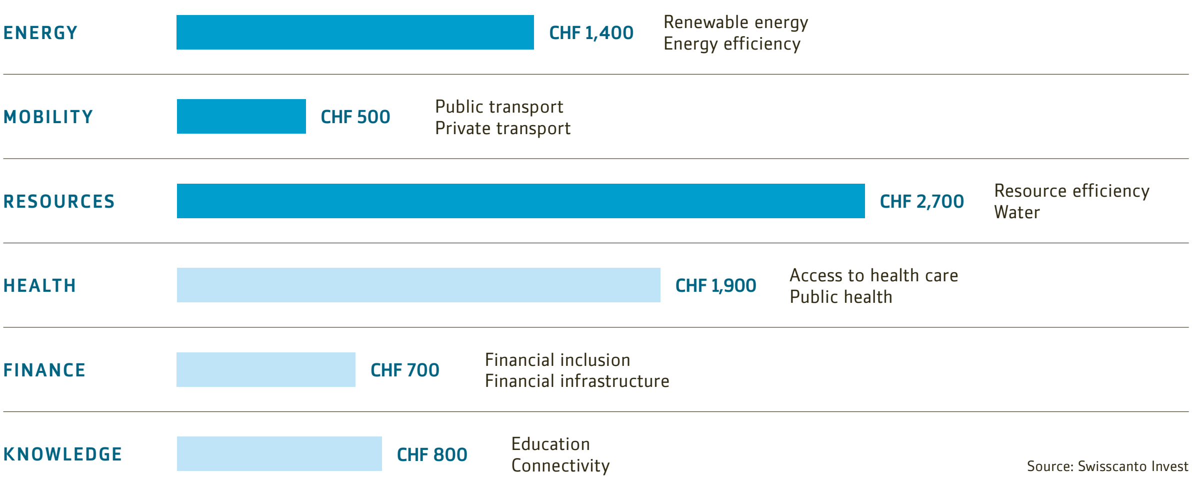
What is a climate friendly investment?

As yet, there is no established standard for climate-friendly capital investments. In the aforementioned study carried out by FOEN, a forward-looking analysis model is used; however – investment opportunities that arise from positive corporate solutions for climate protection are only partly included. We are trying to go one step further: the selection procedure for Swisscanto Invest's Sustainable product line consists of two core elements:

— Investments in the most CO_2-intensive industries are excluded, i.e. the extraction of fossil energy sources, as well as electricity production from fossil energy sources, airlines and traditional car manufacturers, whose business model is based on the combustion engine.

— Instead, investments are made in companies whose products and services contribute to making the goal of the Paris Climate Agreement a reality. Here we focus in particular on the topics of energy and resource efficiency, renewable energies and low CO_2 mobility (see figure).

SWISSCANTO EQUITY FUND SUSTAINABLE – PROPORTION OF AN INVESTMENT OF CHF 10,000 THAT GOES INTO



Source: Swisscanto Invest

The Climate Imperative: An investor's approach

MICHAEL BALDINGER | Head of Sustainable & Impact Investing, UBS Asset Management

Of all the sustainability indicators which investors need to consider, climate change is arguably the most pressing, both in terms of its impact and its complexity.

This year, for the third year in a row, environmental risks dominated the annual World Economic Forum Global Risk Report, with climate change high on the list. Certainly we in Switzerland are feeling the impact. According to the 2018 Report of the Federal Council, average annual temperatures in the country have risen by 2° Celsius since the 1850's. This in turn has led to a rise in the zero-degree line, melting glaciers and thawing permafrost, all factors which have increased the threat of flooding and mass wasting.

The urgent need to tackle climate change is clear. And steps are being taken. One of the most visible actions is increased regulation. Globally over 1,500 separate pieces of climate policy or legislation are currently in force, some targeting companies, others targeting investors. In France for example, climate change reporting was made mandatory for institutional investors in 2015, while in Switzerland our own CO_2 Act has set clear emission targets, notably the reduction of domestic greenhouse gases by a minimum of 20 % from their 1990 levels by 2020. And for Swiss asset managers, the Federal Office for the Environment has already raised the possibility that they will have to include sustainability as part of their fiduciary duty.

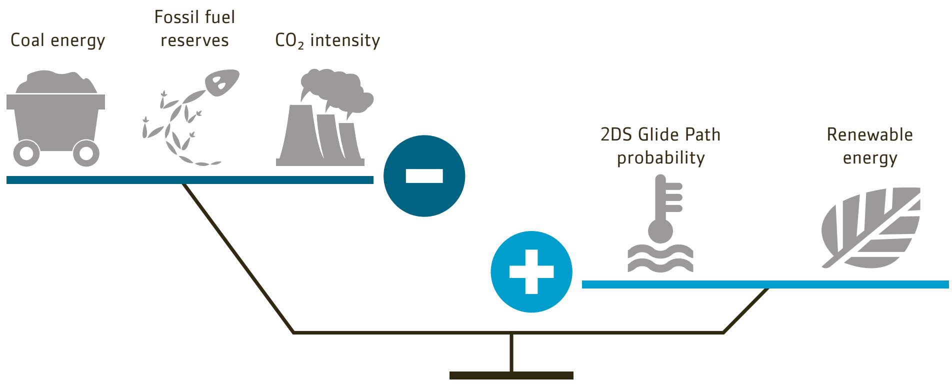
So how do investors cope?

One answer is to apply scenario analysis, a concept with which most institutional investors are already very familiar, to climate change. UBS Asset Management has been instrumental in developing a five step framework with the Institutional Investors' Group on Climate Change (IIGCC). It is designed to help asset owners and managers understand how climate change can drive financial impact across their portfolios, show how they can monitor for early warning signs, and position their portfolio accordingly.

But it's not just about risk; there is another side to the climate change equation which investors should not lose sight of, and that is the opportunity presented by climate change. An analysis carried out in 2018 for the Global Commission on the Economy and Climate estimated that taking bold action now to tackle climate change could generate a direct economic gain of USD 26 trillion between the present day and 2030, compared with business as usual.

As well as helping clients understand the effects of climate change on their investments, UBS Asset Management is also committed to helping them find a way to manage the associated risks and changing climate change targets while not losing sight of the opportunities. One way we have done this is by launching a dedicated Climate Aware Strategy – a passive-like rules-based equity strategy which allows investors to align their investments more closely to the 2 degrees Celsius scenario. The strategy then tilts towards companies making the greatest progress towards meeting that scenario, and away from those making the least. We also engage directly with selected companies held within the strategy as a way to learn more about their future plans and behavior and where needed, seeking to influence their long-term actions. For investors, this may offer the potential to maintain their investment objectives while better managing risk and leveraging opportunity. Crucially, there is a chance of driving positive long-term change in a highly relevant area.

FACTOR TILTS APPLIED TO THE CIMATE AWARE STRATEGY



Source: UBS Asset Management. For illustrative purposes

Geographical distinctions in Sustainable Investing: ESG in the Nordics

The approaches to ESG Investing across the Nordic region are diverse both in depth and breadth of strategies. Investors in Denmark, Norway and Sweden have historically assigned the greatest importance to ESG.

For investors in Norway, ESG is one of the most important factors that stakeholders must adhere to. The Norwegian Government Pension Fund's exclusion list is trend-setting as many investors worldwide closely follow the list. As a consequence, the largest institutional investors have applied significant pressure on fossil fuel companies, and millions of assets have been divested from coal companies.

Sweden was one of the first countries to incorporate environmental and ethical standards in its legislation around the 1990s and continues to lead the way in ESG. And today, the Swedish AP funds largely dictate the ESG developments in Sweden.

Having historically followed in the footsteps of their Swedish and Norwegian peers, the majority of Danish investors have allocated dedicated resources to ESG. Many Danish investors combine their ESG policies with exclusions and norm-based principles and investments in renewable energy. Furthermore, they have a long history of engaging with shareholders and proxy voting.

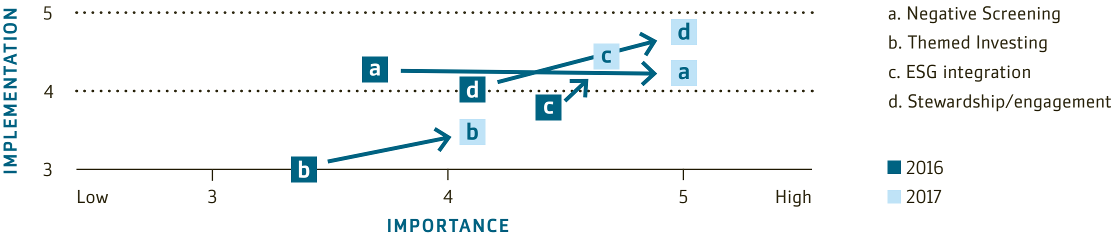
Finally, also among Finnish investors ESG has become more important over the past few years.

Trends in ESG Investing approaches
The figure depicts the importance and degree of implementation of different approaches to ESG investing from 2016 to 2017 across the Nordic region. An overarching conclusion is that ESG Integration is gaining in importance, whereas the focus on negative screening and themed investing is decreasing.

Screening, and particularly negative screening, remains the most implemented ESG approach. It is applied by most institutional investors in the Nordics. However, its perceived importance has decreased, which should be seen in light of the growing level of ESG sophistication among Nordic investors: screening is now normal and expected.
Sustainability-themed investing is only implemented among Nordic investors to a limited extent. This is in part because it is often connected to unlisted investments. The most covered topic has been the trend away from the most polluting fossil fuel producers – a trend that is largely led by Danish and Swedish pension funds.
ESG Integration seems to be on the lips of most investors and asset managers these days, and the approach has gained importance among Nordic investors over the last year. All of the surveyed Nordic investors assigned some importance to this approach. However, the degree of its implementation is still relatively small among this group.
Active engagements with companies on sustainability issues is mainly the preserve of a limited crowd of ESG specialists. Danish and Swedish investors were among the first to start implementing shareholder engagement and use third parties to engage with their company investments.

IMPORTANCE AND DEGREE OF IMPLEMENTATION OF APPROACHES TO ESG INVESTING

Survey Question: "Please indicate the importance your organization assigns to ESG on a scale from 1–5 (1= low importance, 5 = high importance) and the degree of implementation of ESG approaches on a scale from 1–5 (1 = low implementation, 5 = high implementation)."



Source: Kirstein proprietary resarch.

GLOSSARY[55]

Broad SI Policies	Sustainability criteria and approaches can be applied to mainstream products or the full asset base of a fund manager or asset owner by integrating them in the investment process at the institutional level. 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 integration.
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 (i.e. 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 (i.e. 30% best performing companies or all companies that reach a minimum ESG score).
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 (i.e. energy consumption, water consumption), environmental governance (i.e. environmental management system based on ISO 14 001) and environmental product stewardship (i.e. vehicles with low fuel consumption).
ESG – Environment, Social and Governance	ESG stands for Environmental (e.g. energy consumption, water usage), Social (e.g. talent attraction, supply chain management) and Governance (e.g. 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 forums, 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 have a fiduciary duty 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. Given the 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.

55 Sources: bnp paribas, FNG, GIIN, pwc, Responsible Investment Association (RIA), RI, SSF, World Bank, OECD, your SRI, KPMG, WCED.

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 declarations, 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 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, in the environmental or social domain. 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.
Sustainable Development Goals (SDG)	The SDGs are 17 goals set by the UN in 2017 aiming to catalyse sustainable development. They include goals such as no poverty, gender equality, decent work, sustainable consumption, climate action and reduced inequalities. The goals were created 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.
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-personnel mines, as well as biological, chemical and nuclear weapons. Switzerland is one of 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.
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.

LIST OF FIGURES

LIST OF ABBREVIATIONS

AuM	Assets under management
BREEAM	Building Research Establishment Environmental Assessment Methodology
BVG	Federal Law on Occupational Old-Age, Survivors' and Invalidity Pension Provision
CHF	Swiss franc
CO_2	Carbon dioxide
COP	Conference of the Parties
ESG	Environmental, social and governance
ETF	Exchange-traded fund
EU	European Union
EUR	euro
FC4S	Financial Centres for Sustainability
FINMA	Swiss Financial Market Supervisory Authority
FNG	Forum Nachhaltige Geldanlagen e.V.
FOEN	Federal Office for the Environment
GIIN	Global Impact Investing Network
GMO	Genetically modified organism
IDD	Insurance Distribution Directive
ILO	International Labour Organization
IORP II	Directive for institutions for occuptation retirement provisions
LEED	Leadership in Energy and Environmental Design
MIFID II	Markets in Financial Instruments Directive
MNC	Multinational companies
NGFS	Network for Greening the Financial System
OECD	Organisation for Economic Co-operation and Development
SDG	Sustainable Development Goal
SFAMA	Swiss Funds & Asset Management Association
SI	Sustainable investment
SRI	Socially Responsible Investment
SNBS	Standard nachhaltiges Bauen Schweiz
SSF	Swiss Sustainable Finance
SVVK-ASIR	The Swiss Association for Responsible Investments
TCFD	Task Force on Climate-Related Financial Disclosures
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
USD	US Dollar
WEF	World Economic Forum
WMA	Swiss Federal Act on War Material

STUDY PARTICIPANTS

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BVK
Caisse de pensions de la fonction publique du Canton de Neuchâtel
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CONINCO Explorers in finance SA
CP Fédération internationale des sociétés de la Croix Rouge et du Croissant Rouge
CPEG
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de Pury Pictet Turrettini & Cie SA
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Partners Group
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Zurich Insurance Group Ltd

OVERVIEW TABLE: SWISS SUSTAINABLE INVESTMENT MARKET

CHF/EUROS (MILLIONS)	2018		2017	
SUSTAINABLE INVESTMENT MARKET				
Funds	190,851 CHF	168,939 €	94,388 CHF	80,745 €
Mandates	70,762 CHF	62,638 €	57,926 CHF	49,553 €
Asset Owners	455,013 CHF	402,773 €	238,243 CHF	203,807 €
Total	716,626 CHF	634,351 €	390,557 CHF	334,106 €
SUSTAINABLE INVESTMENT APPROACHES				
ESG Integration	490,393 CHF	434,091 €	188,877 CHF	161,576 €
Exclusions	379,000 CHF	335,488 €	142,638 CHF	122,021 €
Norms-based Screening	315,696 CHF	279,451 €	217,797 CHF	186,317 €
ESG Engagement	286,740 CHF	253,819 €	157,813 CHF	135,003 €
ESG Voting	159,506 CHF	141,194 €	117,845 CHF	100,811 €
Best-in-Class	89,595 CHF	79,309 €	65,094 CHF	55,686 €
Sustainable Thematic Investments	39,186 CHF	34,687 €	36,907 CHF	31,572 €
Impact Investing	16,288 CHF	14,418 €	12,074 CHF	10,329 €
BROAD SI APPROACHES				
Exclusions	950,428 CHF	841,310 €	381,965 CHF	326,756 €
ESG Engagement	695,830 CHF	615,942 €	475,623 CHF	406,876 €
ESG Integration	637,746 CHF	564,527 €	538,059 CHF	460,288 €
Norms-based Screening	588,398 CHF	520,844 €	374,888 CHF	320,702 €
ESG Voting	257,982 CHF	228,364 €	345,078 CHF	295,201 €
Total	1,430,695 CHF	1,266,438 €	Not available	Not available
ASSET CLASSES				
Real Estate/Property	133,512 CHF	118,184 €	73,833 CHF	63,161 €
Equity	117,536 CHF	104,042 €	91,435 CHF	78,219 €
Corporate Bonds	109,705 CHF	97,110 €	54,030 CHF	46,220 €
Sovereign Bonds	79,560 CHF	70,426 €	55,371 CHF	47,368 €
Private Equity	44,062 CHF	39,004 €	9,493 CHF	8,120 €
Private Debt	23,560 CHF	20,855 €	12,898 CHF	11,034 €
Infrastructure	16,070 CHF	14,225 €	4,455 CHF	3,811 €
Monetary/Deposit	4,792 CHF	4,242 €	14,095 CHF	12,058 €
Supranational Bonds	4,282 CHF	3,791 €	3,605 CHF	3,084 €
Hedge Funds	290 CHF	257 €	835 CHF	714 €
Commodities	173 CHF	153 €	428 CHF	366 €
Other	17,511 CHF	15,501 €	-	-
Not specified	165,573 CHF	146,563 €	70,079 CHF	59,950 €
INVESTOR TYPES				
Institutional	630,234 CHF	557,877 €	336,334 CHF	287,720 €
Private	86,392 CHF	76,473 €	54,223 CHF	46,386 €

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