Swiss Sustainable Finance

University of Zurich UZH

CSP Center for Sustainable Finance & Private Wealth

Swiss Sustainable Investment Market Study 2022

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Content

Preface by Swiss Sustainable Finance

Integrating sustainability into investment decisions has become mainstream in Switzerland. The fifth Swiss Sustainable Investment Market Study, jointly prepared by Swiss Sustainable Finance (SSF) and the Center for Sustainable Finance and Private Wealth at the University of Zurich, unequivocally confirms this trend. It is not just the growing number of asset managers offering a broad variety of sustainable investment products and integrating ESG aspects into their full range of investments. Increasingly, pension funds and private clients are actively searching for sustainable solutions and confronting their providers with questions on the sustainability performance and impact of products and services.

Given the complexity of the market, it is hardly surprising that clients still have numerous questions. On the one hand, sustainable investing builds on various approaches and has many shades of green. On the other hand, there are countless acronyms and different terms used, but mostly lacking consistent standards. This is one of the reasons why allegations of greenwashing have become a prominent topic in the media. Both the Swiss government and the financial regulator are taking steps to address the topic and foster transparency. The government has made a clear call to the finance industry to provide transparency on climate alignment, and is working on respective recommendations, while FINMA in the past year has called for more standardised and encompassing information on fund processes.

A key question that investors often bring up concerns the actual impact of sustainable investments. Against the backdrop of a brutal war being waged in Europe, ongoing destruction of the natural environment with accelerating loss of biodiversity, and a climate crisis that is becoming ever more visible, the difference that investor stewardship can make concerns all of us. Yet the answer is not straightforward and we have to acknowledge that not all forms of sustainable investing have a direct and immediate effect. Various initiatives have already helped to provide further clarity, but more work needs to be done to come to a widely accepted concept of investor impact and related transparency frameworks. SSF is contributing to such initiatives, be it through its own recommendations or its inputs in various working groups.

With this market study, we once more provide a comprehensive overview of how the Swiss investment market continues to embrace sustainability themes. On top of that, we offer insights into recent regulatory developments, the role of biodiversity for investors, the way gender-related factors can be integrated into investment decisions, and the role of the many emerging investor alliances for net zero. We look forward to working with our members to further advance sustainable finance, as we continue on our mission to contribute to positive change in the economy and society.

Patrick Odier
President SSF

Sabine Döbeli
CEO SSF

Preface by the University of Zurich

For the fifth time, Swiss Sustainable Finance (SSF), in collaboration with the Center for Sustainable Finance and Private Wealth (CSP) at the University of Zurich, is publishing the Swiss Sustainable Investment Market Report. Given the backdrop of Covid-19 and previously unimaginable geopolitical developments, the last months have been a unique period of uncertainty. At the same time, the Swiss financial marketplace has bucked the trend when it comes to sustainable investing: we can once again report substantial growth of market volumes in all segments over the last year. Sustainable investing is becoming the norm.

Similar to previous years, the topic of real-world positive impact has gained relevance, which we very much welcome. This development is encouraging and shows that the Swiss finance sector is taking its role and responsibility seriously. At the same time, the growth rates of the ESG engagement approach, ESG voting, and impact investments remain relatively modest compared to other sustainable investment styles, e.g. exclusion or norms-based screening. As such, the notion of impact has potential to be implemented more effectively. Simultaneously, the Swiss Financial Market Supervisory Authority FINMA has published guidance on preventing and combating greenwashing in the fund segment. One may interpret this as a clear sign that there is a potential risk of greenwashing when offering sustainability-related financial products.

Addressing questions like this is at the heart of the work of both SSF and CSP, driving scientific inquiry, thought leadership and outreach activities to facilitate this important journey of the finance community towards real, positive impact, at scale. We hope that this important report is yet another significant milestone on this collective journey, and invite you to comment, share and collaborate.

Professor Falko Paetzold
Assistant Professor at EBS University
Initiator and Managing
Director at CSP

Professor Timo Busch
Professor at University of Hamburg
Senior Collaborator at CSP

Executive Summary

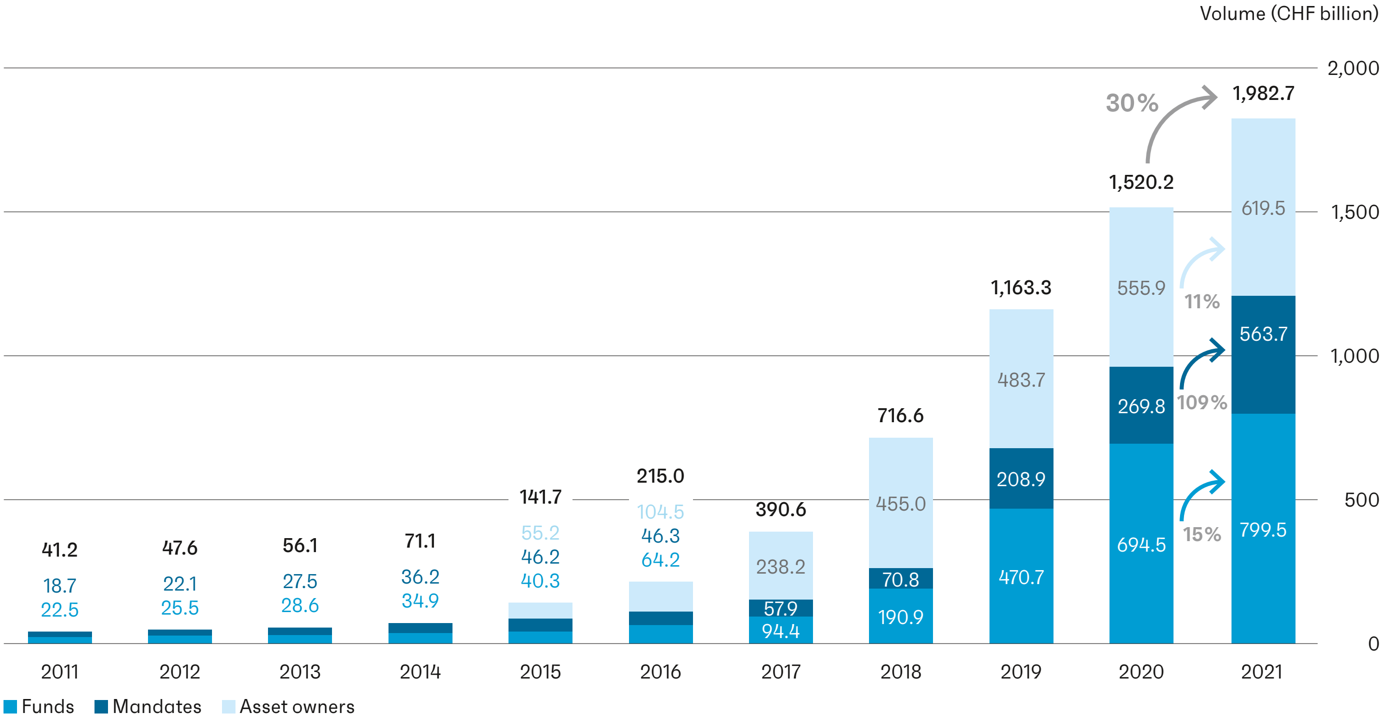
In 2021, the market for sustainable investments (SI) in Switzerland continued its growth story. Based on the responses to a market survey performed by Swiss Sustainable Finance (SSF), which collects data on the funds and mandates reported by banks and asset managers and internally managed asset owner volumes, SI volumes increased by 30% to CHF 1,982.7 billion. This growth rate is almost the same as last year (31%). SI mandates showed the highest growth rate of 109%. A third of this growth can be attributed to new survey participants. Sustainable funds increased by 15% and the sustainable assets of asset owners by 11%. Overall, the SI market growth can be ascribed to two main effects: a wider adoption of SI approaches and the positive market performance in 2021. On the level of sustainable funds, volumes increased to CHF 799.5 billion. This number corresponds to about 53% of the entire Swiss funds market – similar to last year, this represents more than half of the overall fund market. These outcomes again underline the progressive mainstreaming of sustainable investments in Switzerland.

Exclusion: the most prominent approach

In last year's study, we highlighted that ESG integration was the most prominent sustainable investment approach. With substantial growth of about 48% in 2021, exclusions are now – as

Development of sustainable investments in Switzerland
(in CHF billion)

Source: Swiss Sustainable Finance

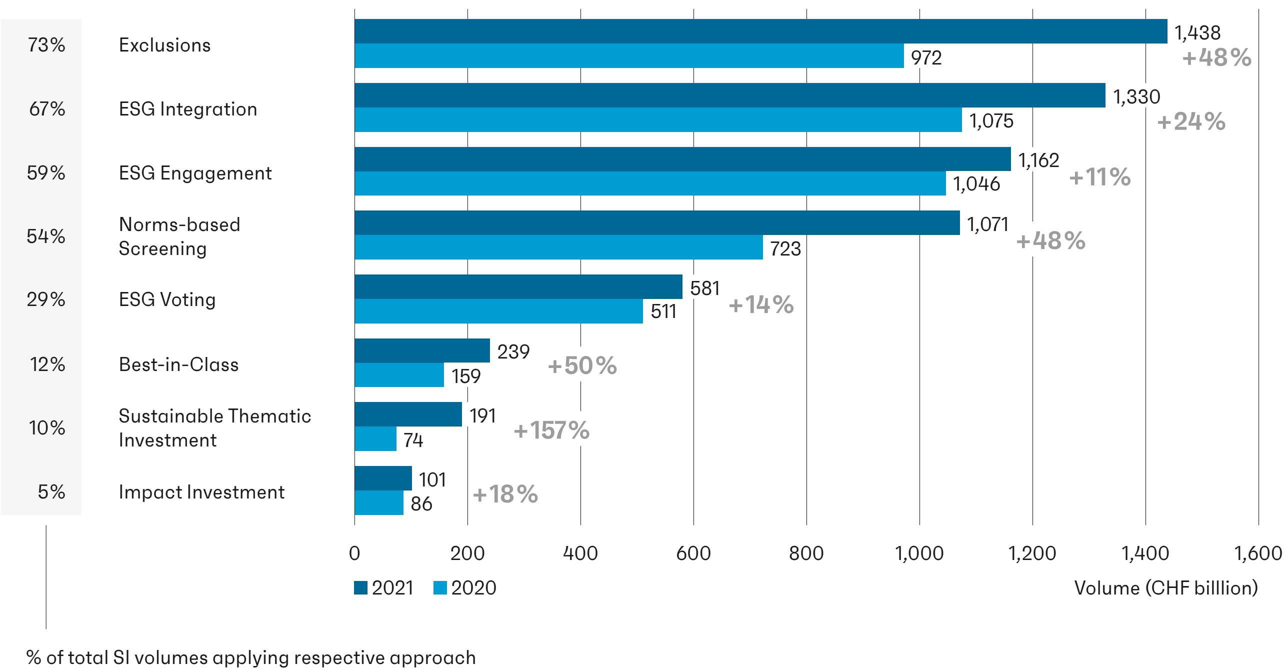


in previous years – once again the most prominent approach. This growth can mainly be ascribed to the fact that coal exclusions have doubled compared to last year's study.

Highest growth rate: sustainable thematic investments

Sustainable thematic investments have experienced the highest growth of all approaches, with 157%, and are now applied to almost 10% of all SI assets in Switzerland in 2021. The growth was driven by large providers of thematic investments, which recorded a large increase in existing products. Similar to impact investments, sustainable thematic investments are mainly applied by asset managers. The top sustainable themes

Development of sustainable investment approaches
(in CHF billion) (n=81)



in 2021 were related to energy, followed by social themes (community development, health) and other environmental topics (e.g. water, cleantech). Besides concentrating on one specific theme, asset managers also held a number of multi-themed funds and mandates combining a broad range of the themes addressing a mix of both social and environmental topics.

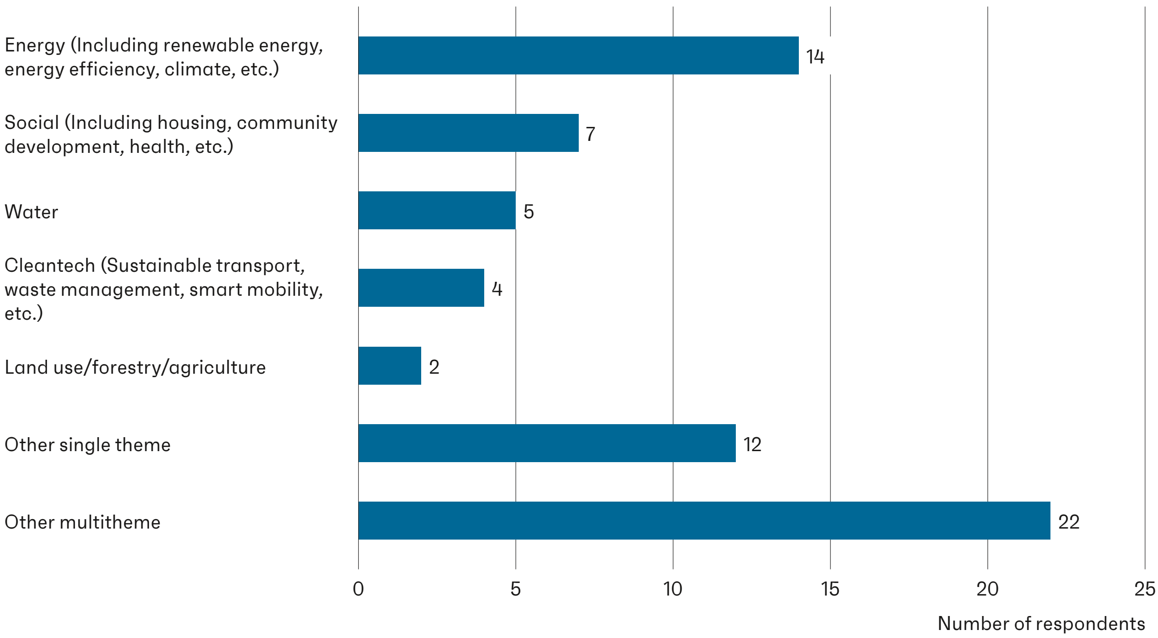
Investment practices remain diverse

For the third time, this year's study looks at common combinations of SI to gain a better picture of the nature and quality of reported volumes. The volumes combining five or more approaches increased to 27% (2019: 9%; 2020: 14%). Due to this increase, the volumes applying four and three approaches simultaneously decreased slightly. At the same time, the amount applying only one approach also increased compared to the previous year. We can therefore conclude that the investment practices remain diverse and we cannot identify a clear trend towards the combination of a growing number of approaches.

Importance of asset classes barely changed

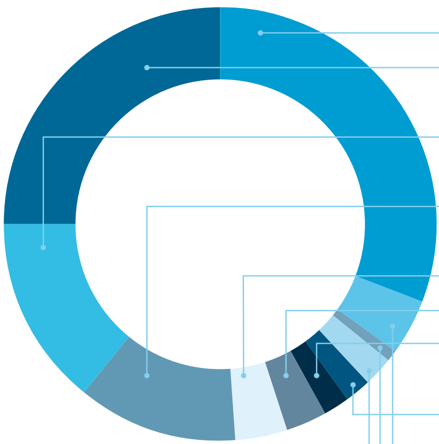
The asset allocation distribution for SI has barely changed compared to the previous years. Equity still ranks first, with about a third of all volumes, followed by corporate bonds at roughly a quarter of all investments. While this picture reflects overall asset class allocation, at the same time it shows that SI is an integral component applied to all relevant asset classes.

Main sustainable thematic investment themes for asset managers
(in number of respondents) (n=35)



Number of approaches applied to sustainable investment volumes
(in %) (n=74)

Asset class distribution for sustainable investments
(in %) (n=75)



Even distribution for main implicit motivations for sustainable investments

In order to better understand investors' motivations for sustainable investments, we tried to cluster all reported volumes into three categories, following the classification by a recent report of Asset Management Association Switzerland and Swiss Sustainable Finance.[1] The basis for our analysis was the matrix that illustrates the suitability of different sustainability approaches for different investors' sustainability goals (see box on page 32 for explanation of method). The analysis shows a relatively even distribution between the three main implicit motivations: about 40% of all volumes reflect primarily a financial motivation, i.e. sustainable investments are seen as a means of achieving a better risk/return profile. Around 32% of the investments are mainly driven by the motivation to contribute to positive change and 28% reflect the primary motivation to align investments to the values of investors. Although financial performance seems to be the dominant motivation, there is also strong interest for positive change.

A variety of impact measurement strategies

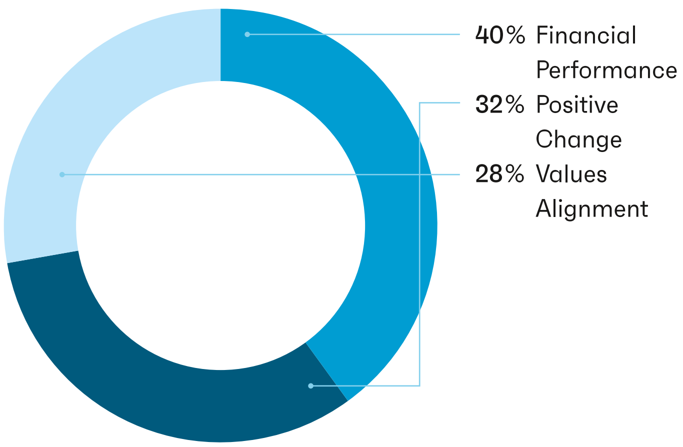
This year, asset managers were additionally asked how they measure their impact. A quarter of the respondents measure specific SDG contributions, while half of the respondents use a combination of the possible answers (qualitative assessment, measuring based on SDG contributions, physical/social indicators and successful engagement activities).

Regulatory developments and emerging topics

In addition to the quantitative analysis of key SI trends, the study also sheds light on regulatory developments and key emerging topics in the SI market.

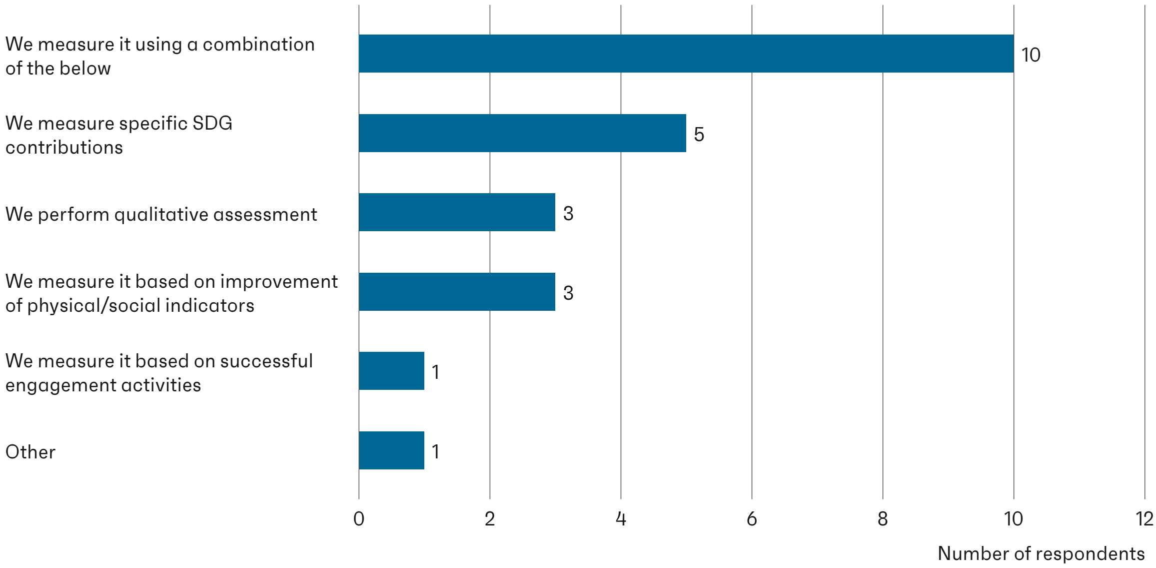
While there is no overarching Swiss legislative framework on sustainable finance, many Swiss financial market players keep progressing, and implement market-driven solutions. However, the counter-proposal to the "Responsible Business Initiative" and the respective executive ordinances of the Federal Council will introduce new duties for companies. Furthermore, by adopting several measures in 2021, the Federal Council made new significant announcements for

Main implicit motivations for sustainable investments
(in % of AuM)



1 AMAS & SSF (2021). *How to Avoid the Greenwashing Trap: Recommendations on Transparency and Minimum Requirements for Sustainable Investment Approaches and Products.* Available at: https://www.sustainablefinance.ch/upload/cms/user/RecommendationsforSustainableInvestmentProducts_AMAS_SSF.pdf

Impact measurement strategies for asset managers
(in number of respondents) (n=20)



financial market players, thereby accelerating change. FINMA focused on consumer protection and specified transparency obligations for climate risks. Also, the rapidly evolving EU regulatory landscape is very important for Swiss financial institutions that conduct activities in the EU or have European clients.

Finally, the study explores three future key themes: biodiversity, gender lens investing, and net zero alliances and commitments.

While the market has concentrated heavily on climate risks, the dependence of the world economy on nature and biodiversity, and its reflection in reporting, is finally attracting more attention. In this context, the framework from the Taskforce on Nature-related Financial Disclosure (TNFD) helps companies to report information on nature-related data. An interview with a TNFD expert sets out the background and key objectives of the framework.

The social dimension of sustainability has been a long-standing concern for governments and a challenge for investors and companies alike. It is embedded in most of the Sustainable Development Goals, the European Social Charter and the Convention on Human Rights. The Gender Lens Initiative for Switzerland (GLIS) seeks to help the Swiss financial industry seize the economic benefits of gender equality and SDG5, which is a key component of social impact within ESG and the SFDR, and a requirement under Swiss and international laws. The GLIS article in Chapter 6 recommends gender-lens key actions for both investors and companies.

In the past year, a number of new net zero initiatives have emerged, and the net zero concept has gained considerable momentum throughout the entire financial industry. This is a positive development, even if neither the global economy nor financial actors are currently on track to meet 2050 targets. Becoming a signatory to a net zero alliance means access to a support community and frameworks for ensuring that crucial interim targets on route towards the 2050 goal are realistic, verifiable and aligned with scientific climate models. The net zero article in Chapter 6 gives an overview of the various alliances and the 36 SSF members that have already signed a net zero pledge up to April 2022.

01

Introduction

This is the fifth Swiss Sustainable Investment Market Study published by Swiss Sustainable Finance (SSF) in collaboration with the Center for Sustainable Finance and Private Wealth (CSP) at the University of Zurich. After the impressive increase in the amount of sustainable investments in Switzerland in 2020, we can once more observe double-digit growth in 2021 – a trend that has endured over the last decade. The purpose of this study is to summarise the status quo, highlight some of the recent interesting market developments and provide a deeper understanding of the topic in order to encourage further growth.

This study refers to the term sustainable investments (SI) as 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 approaches of SI, which are all examined in more detail by SSF (for full definitions, see the glossary at the end of this study, or the SSF website[2]). Figure 2 presents a clas-

Figure 1: **Definitions of sustainable investment 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.

2 SSF (2022). *Glossary.* Available at: http://www.sustainablefinance.ch/en/glossary-_content---1--3077.html, accessed 01/04/2022.

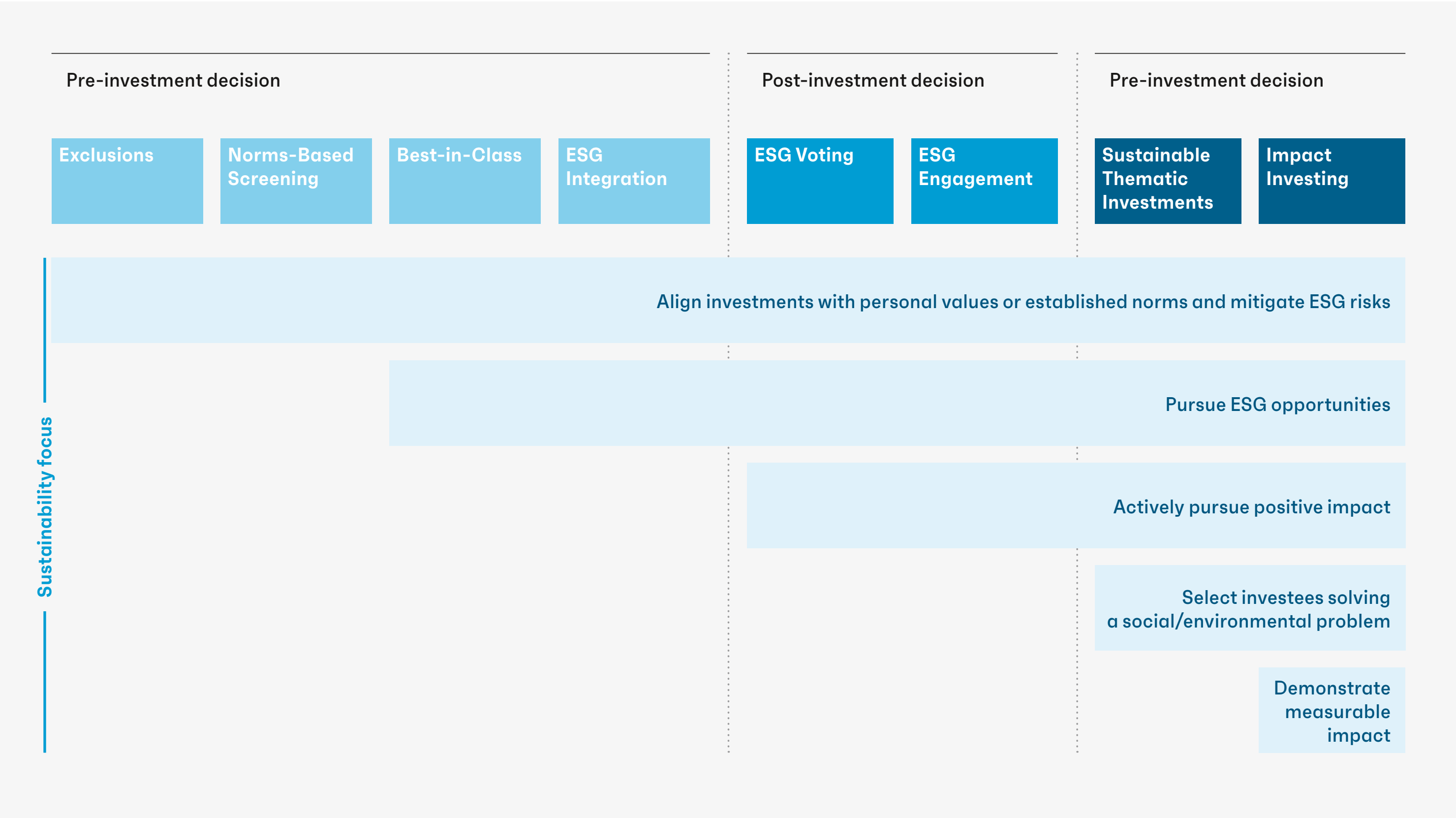
sification of these approaches. In general, we see three main motivations for investors to apply SI approaches: values alignment, risk/return improvement or supporting real-world positive change. All approaches can be categorised according to their sustainability focus or intended effect.

We observe that different approaches are often used in combination. For example, norms-based screening is usually applied in combination with ESG engagement and exclusion. We look more closely at those combinations in Chapter 2.

A total of 85 Swiss players (2020: 83) took part in this year's edition of the Sustainable Investment Market Study, which represents a higher participation rate than last year.[4] As shown in Figure 3, 33% are asset managers, 22% banks/diversified financials and 45% asset owners. For the rest of the study, asset managers banks/diversified financials are collectively referred to as asset managers.

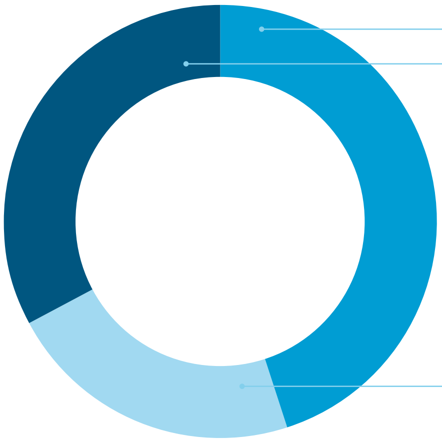
The main part of this study (Chapter 2) provides a detailed analysis of the results from the market survey. The

Figure 2: **Categorisation of sustainable investment approaches**[3]



3 Adapted from Paetzold, F., Impact Investing, in SSF Handbook on Sustainable Investments, 2018.
4 A list of study participants who consented to be named is provided on page 85.

Figure 3: **Swiss sustainable investment market study participants** (in %) (n=85)



main aspects of the analysis encompass general characteristics of the Swiss SI market, investor types, asset allocation, SI approaches, and combinations thereof. Other factors investigated include special topics, such as climate change and the SDGs. Following on from the main part, an analysis of market trends provides a deeper understanding of the possible drivers and barriers to further growth of the Swiss SI market (Chapter 3). The data analysis concludes with a summary of the findings and an outlook (Chapter 4). Chapter 5 contains an overview of the regulatory framework in Switzerland. This year, we have included additional content on the following topical themes: in an interview with a government representative we shed light on the role of the Taskforce on Nature-related Financial Disclosures (TNFD). A chapter on the Gender-Lens Investing Switzerland (GLIS) initiative explains the importance of taking gender-aspects into account as a future-oriented investor. Furthermore, a section on net zero commitments elaborates the role of key initiatives in this field.

Methodology

The Swiss Sustainable Investment Market Study 2022 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 2021 and was provided voluntarily by the study participants. From January to April 2022, data collection was conducted using questionnaires sent out to a total of 261 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. 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 all participants answered the questionnaires in every detail, the total quantity (n) of respondents per question is indicated for all figures. A list of the participants who agreed to be named can be found on page 85.

Volumes in foreign currency (euros and US dollars) were adjusted by means of exchange rates into Swiss francs (CHF). The year-end exchange rates applied for 2021 were CHF 1.037 for one euro and CHF 0.912 for one US dollar.

For Figure 11, 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 explicitly attributed to institutional or private clients.

All study participants received guidelines, including the underlying definitions and detailed information on how to answer the questionnaire. 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.

02

Swiss Sustainable Investment Market

2.1 Overall Market Size and Characteristics

Figure 4: **Development of sustainable investments in Switzerland** (in CHF billion)

Source: Swiss Sustainable Finance

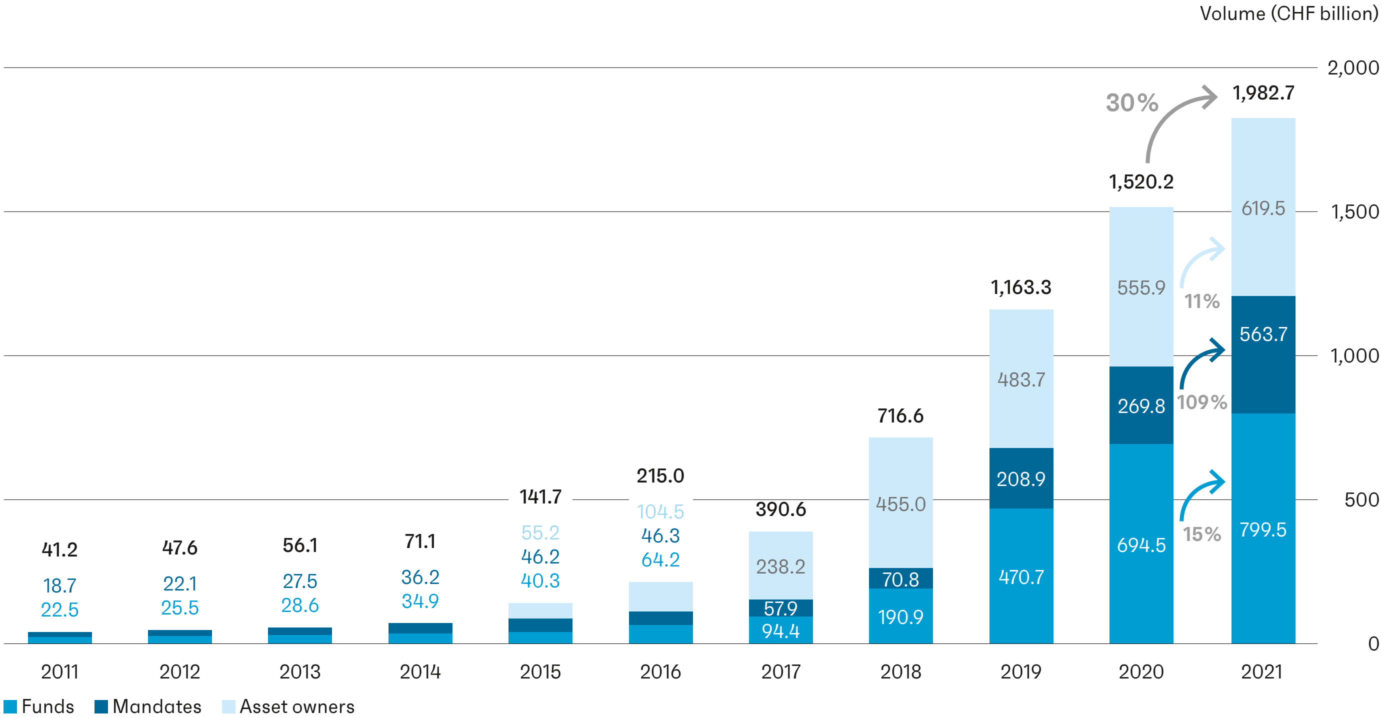


Figure 4 shows the development of the market volume of sustainable assets in Switzerland from 2011 to 2021. As of 31 December 2021, the total measured Swiss SI market was worth CHF 1,982.7 billion, taking into account sustainable funds, sustainable mandates and sustainable assets of asset owners. This represents a growth rate of 30% compared to the previous year. Mandates showed the highest growth rate, with 109%, followed by funds with 15%, and finally asset owners with 11%. In general, approximately 10 percentage points of the observed growth can be ascribed to the positive market performance in 2021.[5]

For asset managers, we observe smaller growth in funds than in mandates. Roughly 16% of the growth in funds stems from new participants' funds. The picture regarding mandates is slightly different. A third of the growth in mandates can be attributed to new participants' volumes (Figure 5), the rest to a few big players that reported a big increase. For asset owners, the growth of 11% can be mainly attributed to new participants' volumes.

A comparison of the developments in the SI fund market with the overall growth of the asset management market in Switzerland shows that the share of SI funds was similar in 2021 compared to 2020. As of 31 December 2021, the overall volume of the Swiss fund market stood at CHF 1,510.8 billion.[6] This represents a market increase of about 14% compared to the previous year. The reported sustainable funds amounted to CHF 799.5 billion, which corresponds to a growth rate of 15% compared to the previous year. The growth in sustainable

5 The performance effect is calculated by applying a given performance to the previous year's volumes of the four major asset classes. For the performance of equity, corporate bonds, sovereign bonds and real estate investments, the indices MSCI World Index (USD), Bloomberg Barclays Global Aggregate Corporate Bond Index, S&P Global Developed Sovereign Bond Index and MSCI World Real Estate Index (USD) were used, respectively.

6 AMAS (2021). *Swiss Fund Market Statistics – Month-End Analysis 31.12.2020.* Available at: https://www.swissfunddata.ch/sfdpub/fundmarket-statistics, accessed 01/03/2022.

funds was therefore slightly higher than the overall growth rate of the Swiss fund market. As a result, sustainable funds now represent 53% of the overall fund market in Switzerland (Figure 6), compared to 52% in the previous year.

Figure 7 shows the proportion of SI held by asset managers compared to their total assets under management (AuM). It shows that both specialised SI companies, as well as those offering SI while still having a focus on traditional products, are well established in Switzerland. The trend for more non-specialised companies to have over 20% of their AuM invested sustainably was confirmed in 2021. Similar to last year, almost half of the respondents now report SI volumes of over 90% of their AuM, which confirms the fact that many

Figure 5: **Sustainable investments of existing vs. new study participants** (in CHF billion)

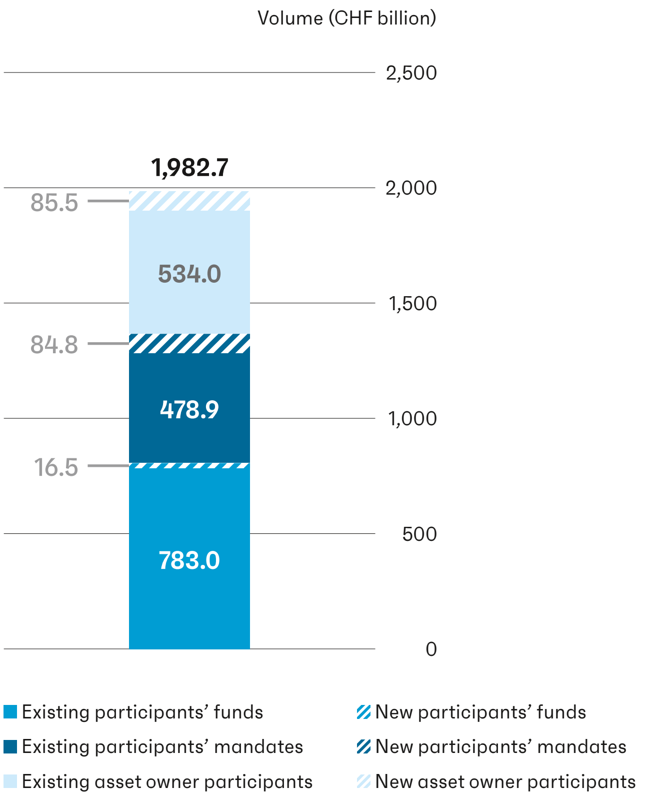


Figure 6: **Proportion of sustainable funds in the overall Swiss fund market** (in % of total funds market)

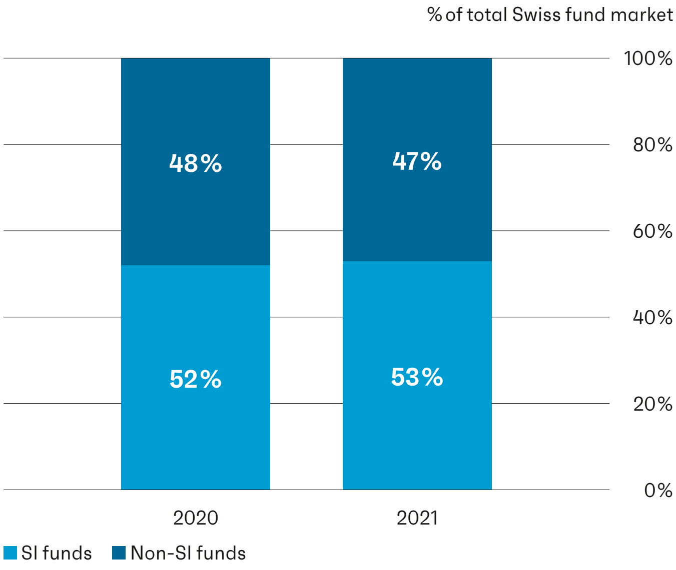
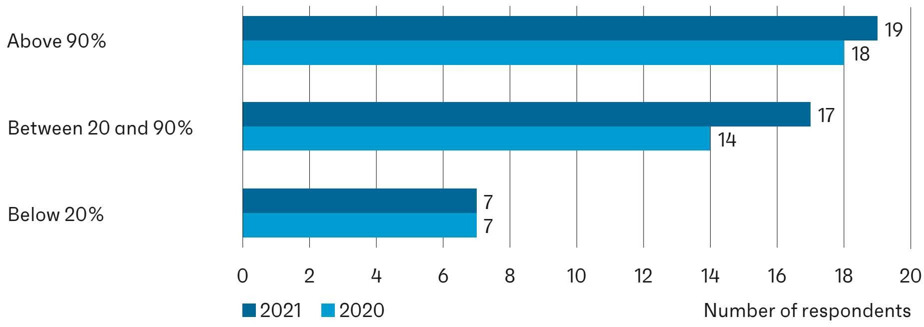


Figure 7: **Ratio of sustainable investments volume compared to total AuM for asset managers** (in number of respondents) (n=43)



asset managers see sustainable investing as the new normal.

Figure 8 shows that asset managers market over half of their reported SI funds as sustainable products. For mandates it is about a third of the reported SI volumes.

Figure 9 shows that an increasing number of the reported SI funds have a third-party-certified label (e.g. FNG-Label, GRESB, Label ISR, LuxFlag). We observe a steady increase over the last years from 6% (2019) to 13% (2020), and now up to 19%. Due to a mix-up in the labelling of last year's chart, the chart from 2020 had to be restated and the proportion of non-third-party certified labels was actually higher. In the figures for 2021, the share of "not specified" is significantly lower than in the previous year. As such, the survey data for this question is now more precise.

Figure 8: **Marketing of sustainable products by asset managers** (in CHF billion) (n=45)

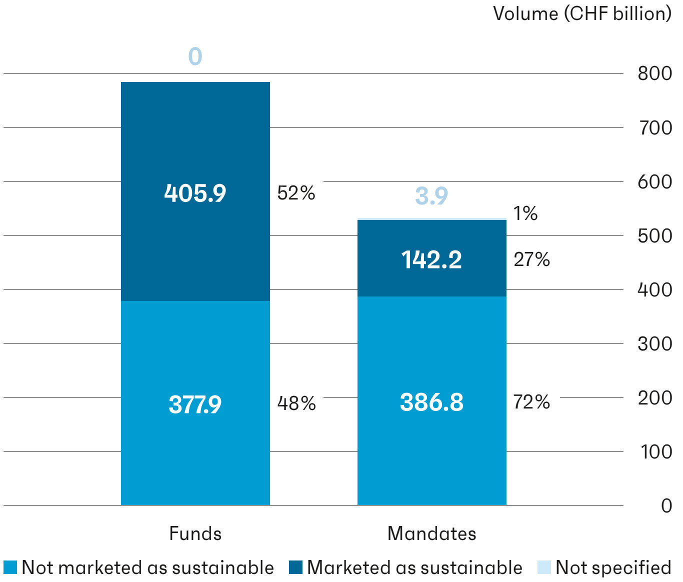


Figure 9: **Labelling of sustainable funds by asset managers** (in CHF billion) (n=42)

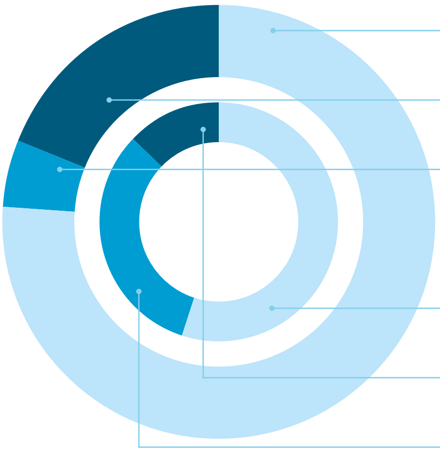
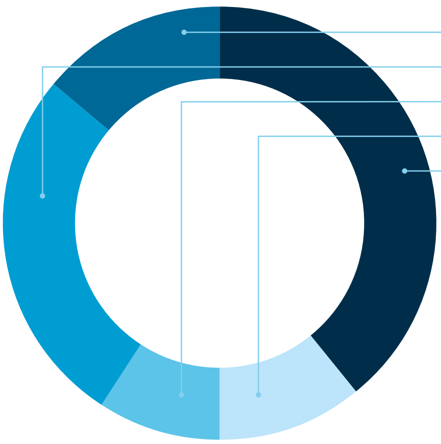


Figure 10: **Classification of funds based on EU regulation by asset managers** (in percentage of total SI) (n=39)



For the first time in this study, asset managers were asked to disclose if their funds fall under any classification regarding EU regulation (SFDR). As Figure 10 shows, 50% of the SI funds fall under either Article 6, 8 or 9 of the SFDR. Of the funds classified accordingly, 14% belonged to the category of Article 6 funds[7], 27% to Article 8 funds and 9% to Article 9 funds. Of the non-classified funds, 11% are Swiss funds only, which means they are not subject to the regulation. For another 39% of the total fund volume, it was not disclosed if the funds are subject to the SFDR classification.

7 According to the SFDR under Article 6 "financial market participants shall include descriptions of the following in pre-contractual disclosures: (a) the manner in which sustainability risks are integrated into their investment decisions; and (b) the results of the assessment of the likely impacts of sustainability risks on the returns of the financial products they make available. Where financial market participants deem sustainability risks not to be relevant, the descriptions referred to in the first subparagraph shall include a clear and concise explanation of the reasons therefore." As such, the reported volumes for Article 6 can be assumed to be investments that take sustainability risks into account in their investment decisions.

2.2 Investor Types

As Figure 11 shows, institutional investors are still more prominent than private investors. While we observed a higher increase in SI volumes for private investors than for institutional investors in the previous year, both investor groups had more or less the same growth rate this year.[8] Institutional investors make up 72% of the total SI volume.

Figure 12 illustrates a similar distribution between different investor types as in past years. Insurance companies, and public and corporate pension funds make up over 80% of the total SI volume of institutional investors. More than half of this is contributed by insurance companies.

Figure 11: **Development of private and institutional sustainable investments** (in CHF billion) (n=79)

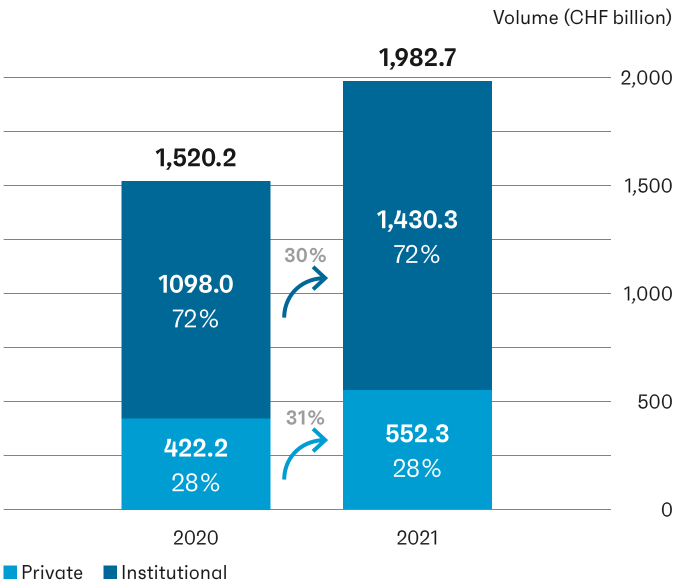
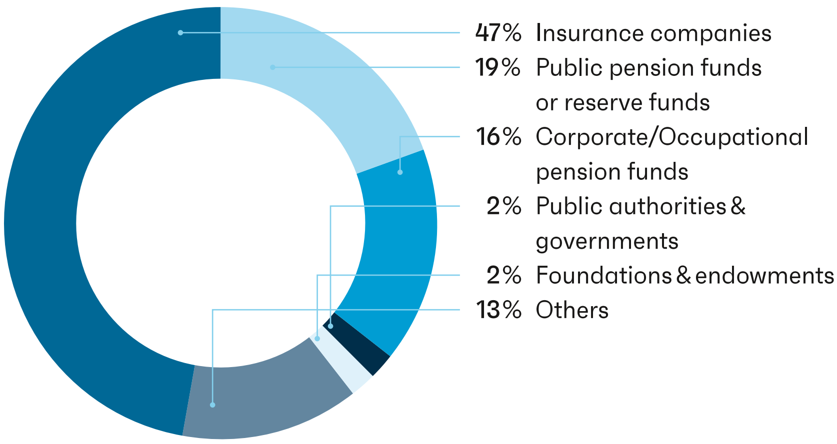


Figure 12: **Development of the institutional sustainable investment investor landscape** (in %) (n=68)



8 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.

2.3 Sustainable Investment Approaches

This chapter provides a detailed analysis of the different SI approaches in Switzerland. Figure 13 presents the total volumes for each approach applied in 2021, with a comparison to 2020. These volumes include data from both asset managers as well as asset owners. All approaches yet again demonstrated substantial growth rates. The highest growth rate can be attributed to sustainable thematic investments, with a rate of 157%. Three other approaches, namely exclusions, norms-based screening and best-in-class, experienced a growth rate of around 50%. Based on this, exclusions surpassed ESG integration again and became the leading approach in 2021, followed by ESG integration, ESG engagement and norms-based screening, all of which reached more than a billion in volume. The large increase in exclusions was mainly driven by a doubling of investment volumes that exclude coal.

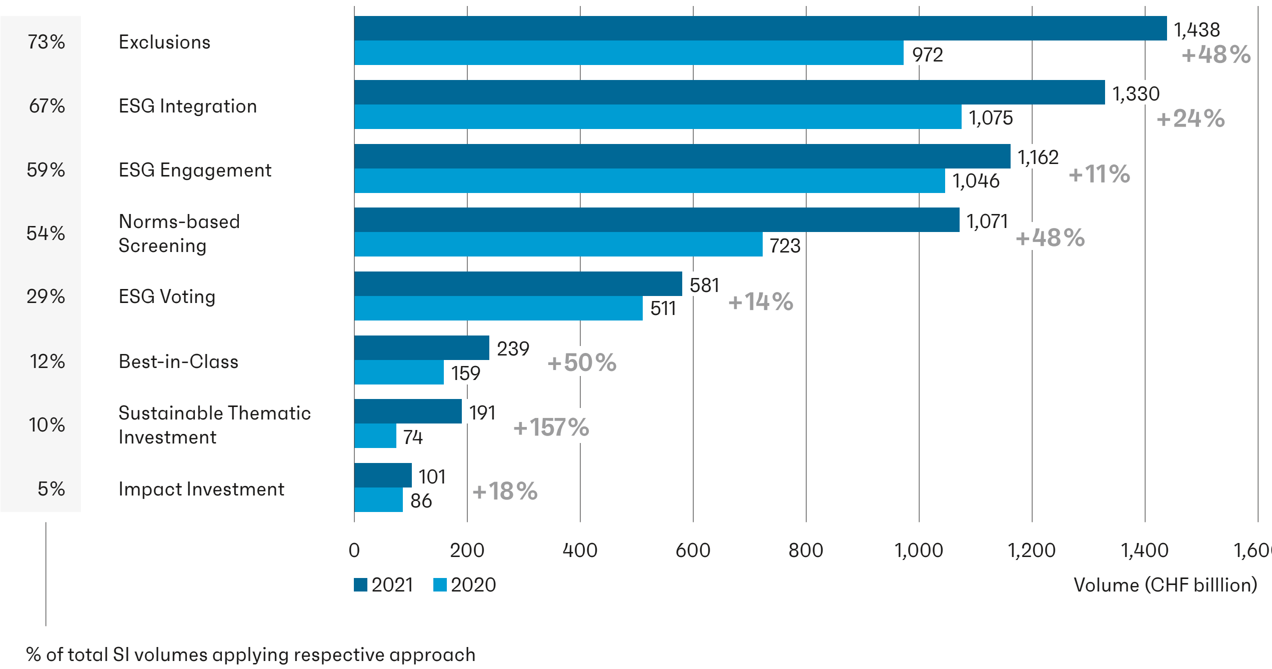
Figure 14 splits up the volumes per SI approach into funds, mandates and asset owners' assets. Regarding the asset owner data, we see that their volumes make up between 20% and 35% of the total volumes of the top five approaches. Only a small fraction of asset owners' volumes are applied to impact investments and sustainable thematic investments. This may suggest that such approaches require more asset manager know-how and are rarely applied by asset owners to their self-managed assets.

Exclusions

The exclusion approach is applied to 73% of all SI in Switzerland (Figure 13).[9] This approach now ranks first, which was mainly driven by a strong growth in coal exclusions (in 2020 CHF 587.6 billion; in 2021 CHF 1,241.8 billion).

Figure 15 illustrates that the most frequently used exclusion criterion for SI assets was once more coal. This is a confirmation of the trend we have seen over the last years. The volume of funds excluding coal more than doubled in 2021, which highlights how high the pressure for global carbon divestment has become. But not only coal shows such a high growth rate: almost all applied exclusion criteria doubled in terms of volume. In 2021, violation of human rights, labour issues and severe environmental degradation have become more prominent overall.

Figure 13: **Development of sustainable investment approaches (in CHF billion) (n=81)**



9 Assets that solely apply exclusions of cluster munitions, anti-personnel mines and/or weapons of mass destruction, as defined in the Federal Act on War Material (WMA), are not counted as an exclusion strategy. According to the 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 not to count it as exclusions in the sense of a sustainable investment approach.

Figure 14: **Application of sustainable investment approaches differentiated by funds, mandates and asset owners** (in CHF billion) (n=81)

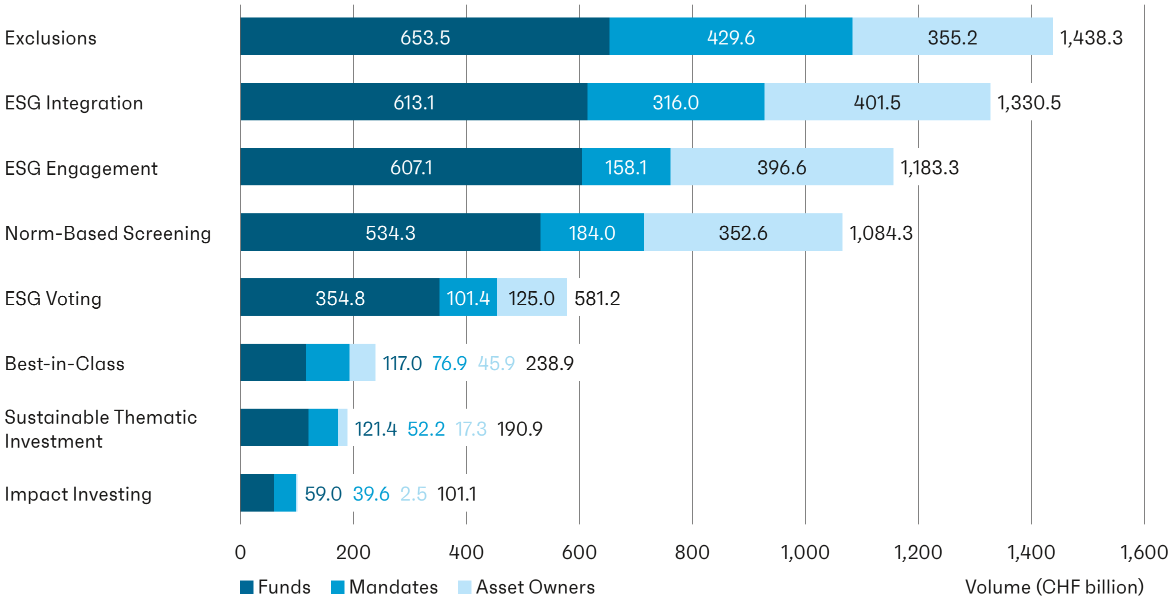
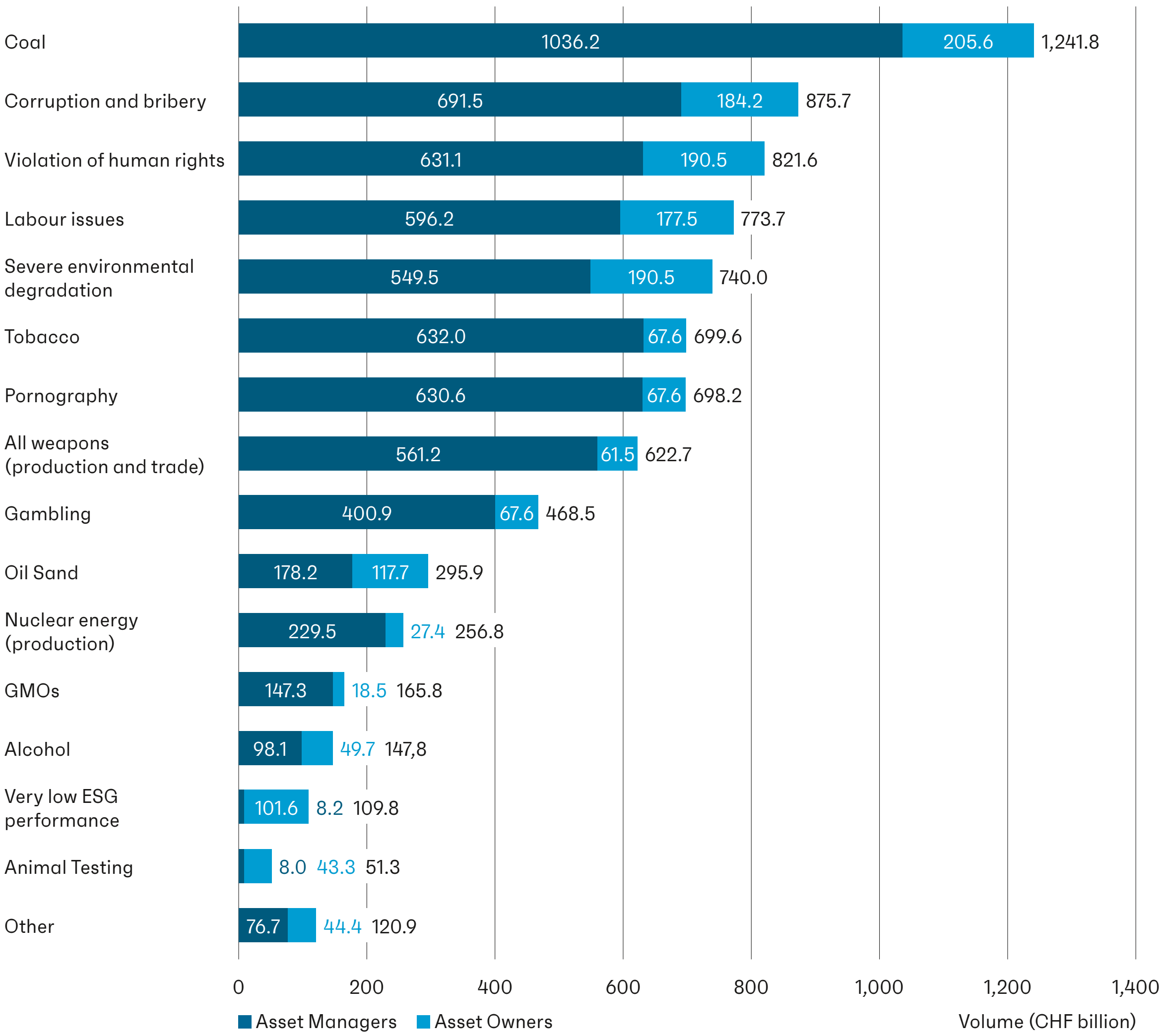


Figure 15: **Applied exclusion criteria for companies** (in CHF billion) (n=61)



Survey respondents were also asked about applied country exclusions, but only 25 participants, covering a small amount of SI volumes, responded. The majority of reported volumes were based on international sanctions. According to the UN, sanctions can pursue a variety of goals, but UN sanctions focus on supporting the political settlement of conflicts, nuclear non-proliferation and counter-terrorism.[10] Considering international UN sanctions are legally binding, these cannot really be considered as SI. Other exclusion criteria mentioned were dictatorship and violation of non-proliferation treaties.

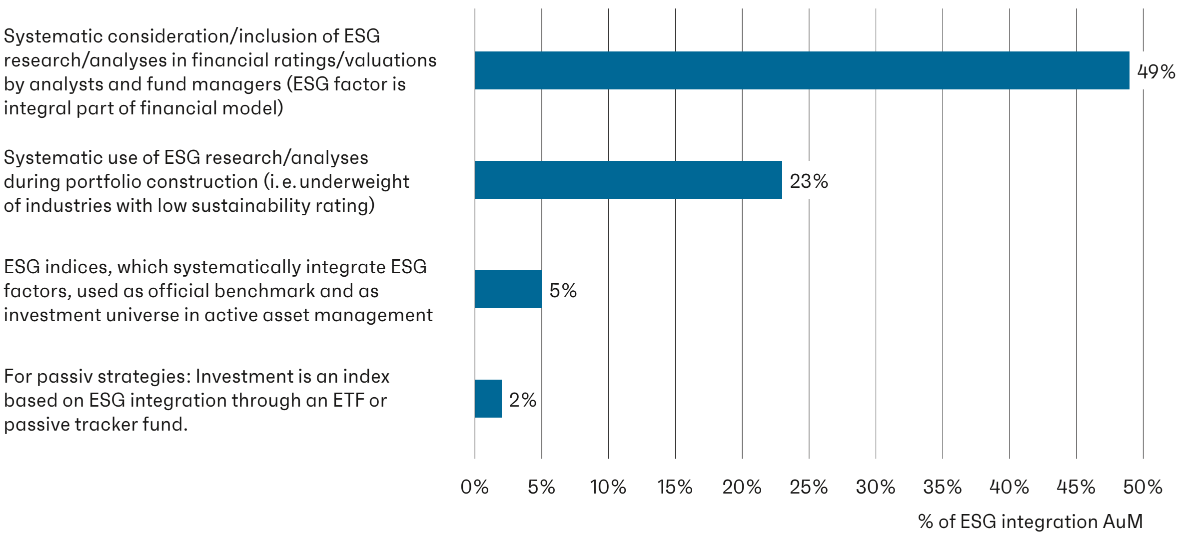
ESG integration
ESG integration ranks second in Switzerland in terms of volumes and is applied to 67% of all sustainable assets (Figure 13). The growth rate of 24% can mainly be attributed to asset managers, almost all of which contributed to the steady growth. Figure 16 illustrates the popularity of different systematic ESG integration approaches used by respondents as an integral part of their asset management process. By far the most popular approach is the systematic consideration/inclusion of ESG research/analyses in financial ratings/valuations by analysts and fund managers.

ESG engagement
The ESG engagement approach now ranks third and is applied to 59% of all SI in Switzerland (Figure 13). Overall the volumes grew by 13%, which is the smallest growth rate of all approaches. Figure 17 shows that risk management and reporting related to climate change is once more a very important subject to engage with.

For asset managers, around 50% of the engagement volumes are reported to be outsourced to third parties. For the other half of assets subject to engagement, this process is managed by internal resources.

Norms-based screening
Overall, norms-based screening is applied to 54% of all SI in Switzerland (Figure 13). The volumes managed under this approach recorded 50% volume growth in 2021. Figure 18 shows that the most important norm used for screening asset managers' portfolios is the UN Global Compact. Besides the international frameworks, asset manager respondents used several other norms as the basis for their screening, for instance the Rio Declaration on Environment and Development.

Figure 16: **ESG integration types applied**
(% of ESG integration AuM) (n=81)



10 UN (2020). *United Nations Security Council – Sanctions*. Available at: https://www.un.org/securitycouncil/sanctions/information, accessed 31/03/2022.

Figure 17: **Main ESG engagement themes**
(in average level of importance) (n=60)

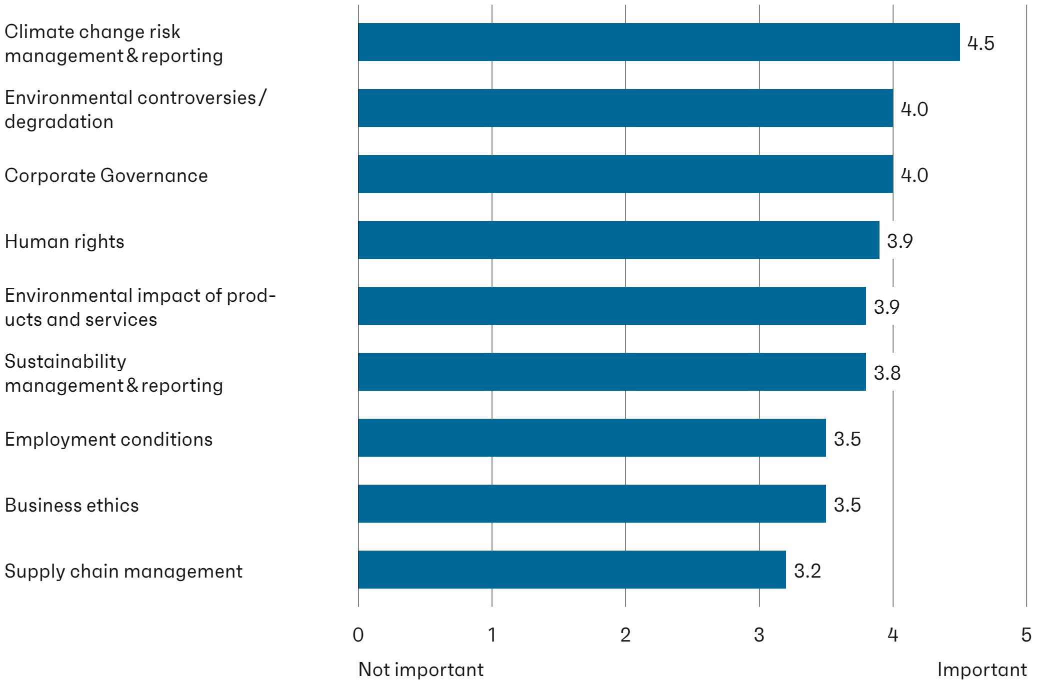


Figure 18: **Criteria for norms-based screening for asset managers**
(in CHF billion) (n=50)

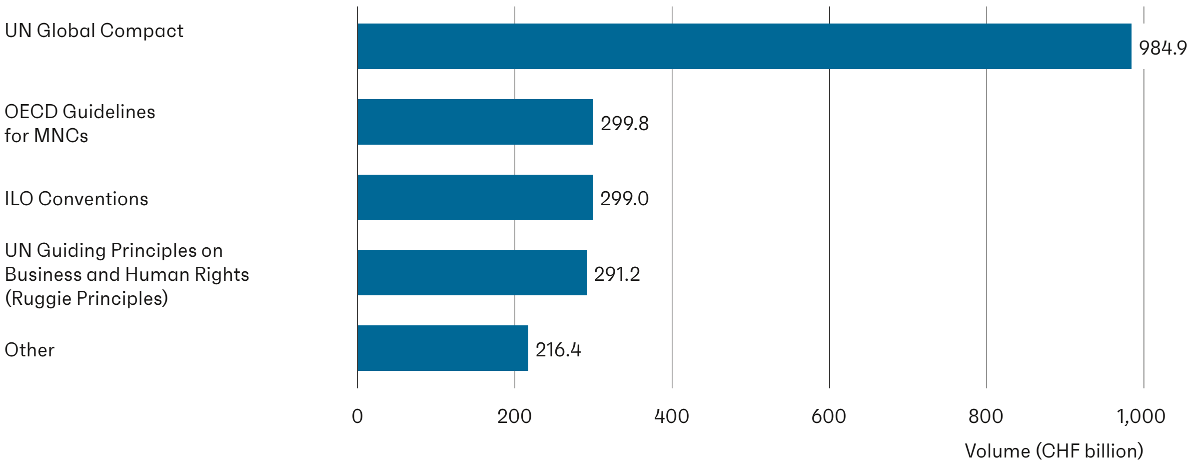


Figure 19: **Investor actions following norms violations**
(in number of respondents) (n=54)

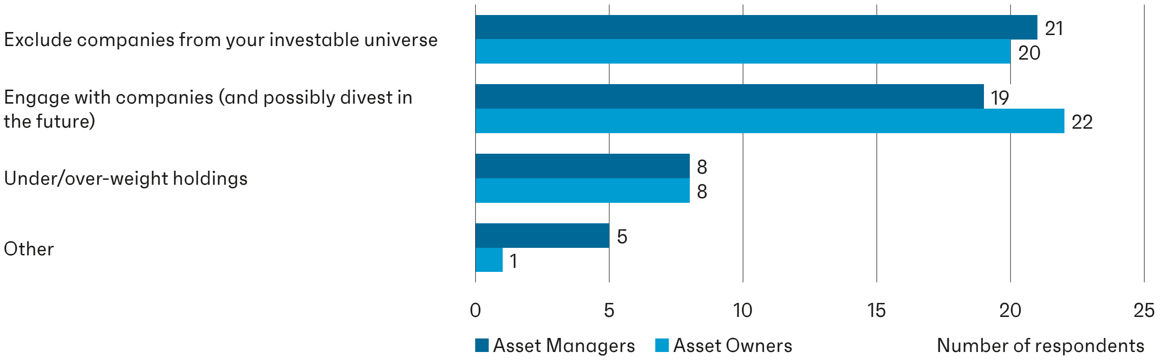
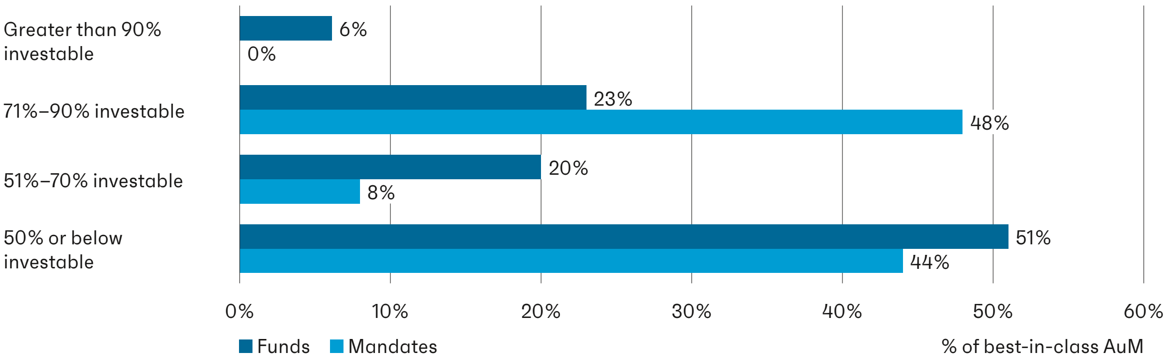


Figure 20: **Investment universe reduction based on best-in-class approach for asset managers**
(in % of best-in-class AuM) (n=27)



Survey respondents were also asked about the actions they take when companies are found to be in breach of one of the applied norms. Figure 19 shows that both asset managers and asset owners further engage with the companies or exclude these companies from their investment universe. While exclusion is slightly more popular for asset managers, there are more asset owners that prefer engaging further with the companies before possibly divesting. A smaller fraction of respondents change the weightings of their holdings after violations. An example of an action listed under "other" is that companies are added to watch lists, monitored more frequently and excluded if they are not compliant within a pre-defined time frame.

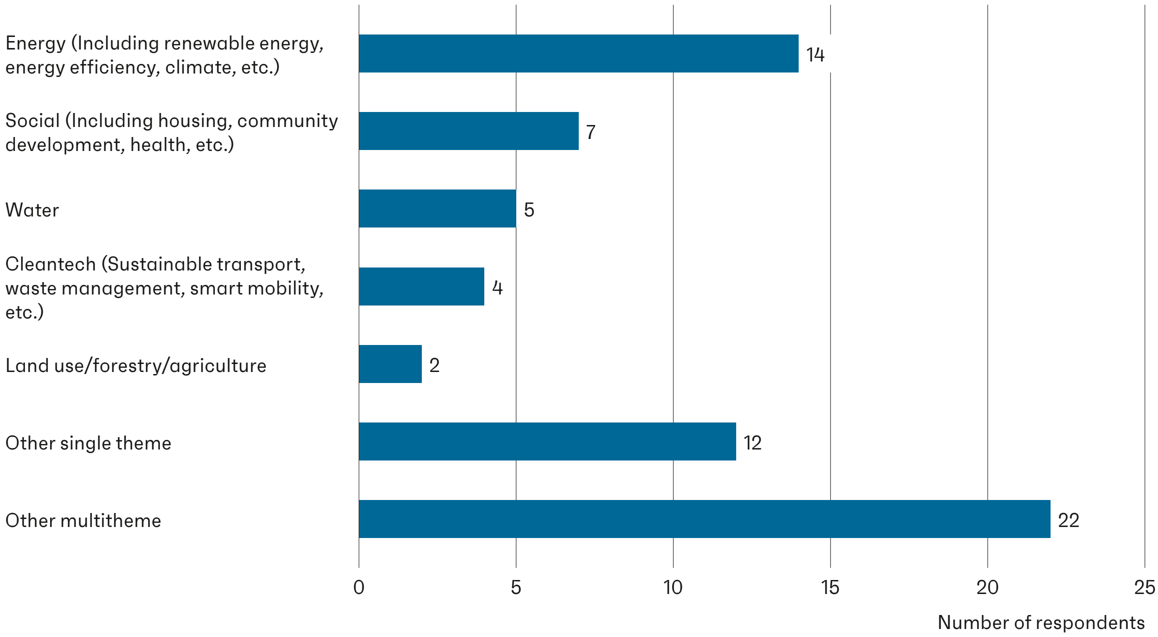
ESG voting

ESG voting experienced growth of 14% in 2021 and is now applied to 29% of all SI assets in Switzerland (Figure 13), which is a relatively high share, considering that ESG voting is not relevant for all asset classes. Around 33% of the asset managers volume applies ESG voting. For asset owners it is around 20% of the total SI volume, which reflects the lower share of equities in the portfolios of asset owners.

Best-in-class

The best-in-class approach has experienced growth of 50% in 2021 and represents 12% of all SI assets in Switzerland (Figure 13). Similar to the ESG voting approach, best-in-class is more

Figure 21: **Main sustainable thematic investment themes for asset managers**
(in number of respondents) (n=35)



popular with asset managers, accounting for around 81% of the volume.

To dive deeper, asset manager participants were asked about the thresholds of their best-in-class approach in more detail (Figure 20). The majority of funds apply the best-in-class approach in a rather strict manner. For 51% of the fund volume, the investment universe is reduced by at least 50%. For another 23% of the fund volume, 71–90% of the investment universe remain investable, while only for a small fraction (6%) over 90% stays investable. For the latter, it may be questionable to actually relate to these assets as "best-in-class". Regarding mandates, we see that for 48% of volumes, 71–90% of the investment universe remains investable, while for 44% of the volumes a low share of below 50% of the universe is investable.

Sustainable thematic investment

Sustainable thematic investments have experienced the highest growth of all approaches, with 157%, amounting to almost 10% of all SI assets in Switzerland in 2021 (Figure 13). Similar to impact investments, sustainable thematic investments are mainly applied by asset managers (Figure 14).

Figure 21 shows that the top sustainable theme in 2021 is energy, followed by social themes and other environmental topics. Besides focusing on one specific theme, asset managers also hold a number of multi-themed funds and mandates combining a broad range of the themes addressing a mix of both social and environmental topics.

Impact investment

With a growth rate of 18%, impact investing slowed its increase in 2021 and has fallen behind sustainable thematic investments (Figure 13) again. Impact investing is currently applied to 5% of all SI in Switzerland. As Figure 14 shows, impact investments are mainly applied by asset managers. The top five impact investment topics of asset managers (based on 17 respondents) are environment, water, housing and community development, energy and microfinance.

Figure 22 indicates that the impact investment market has a strong focus on listed equity and, as Figure 23 shows, are mainly focused on developed countries, however, the share of developing countries increased. These results mirror the insights from 2020's study.

Figure 22: **Asset allocation in impact investment for asset managers**
(in CHF billion) (n=20)

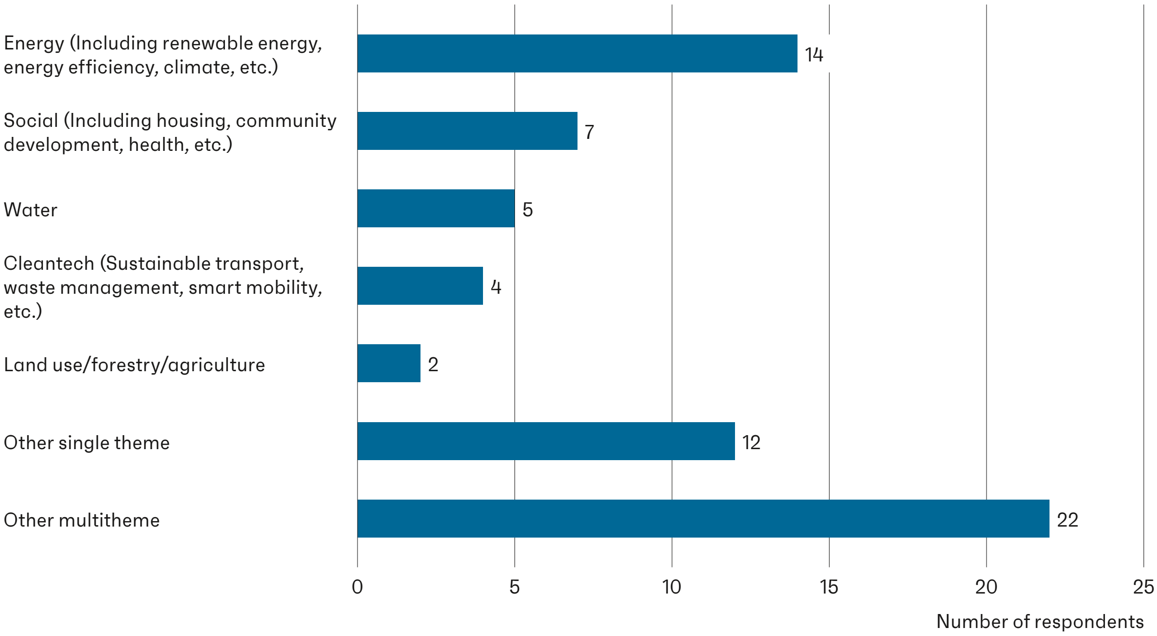
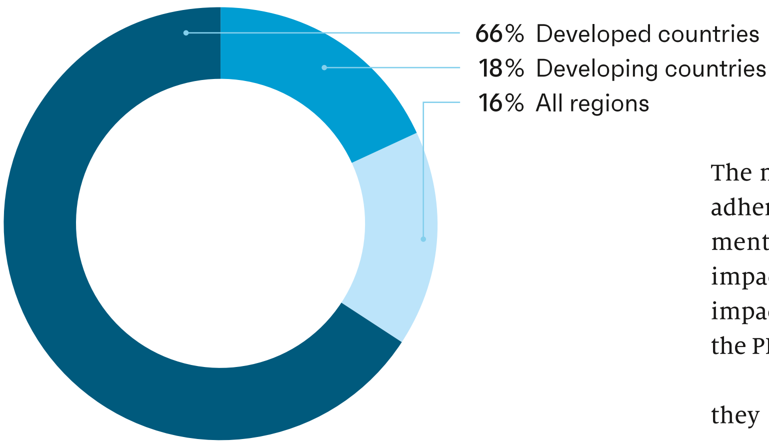


Figure 23: **Impact investment in developed versus developing countries for asset managers** (in %) (n=20)



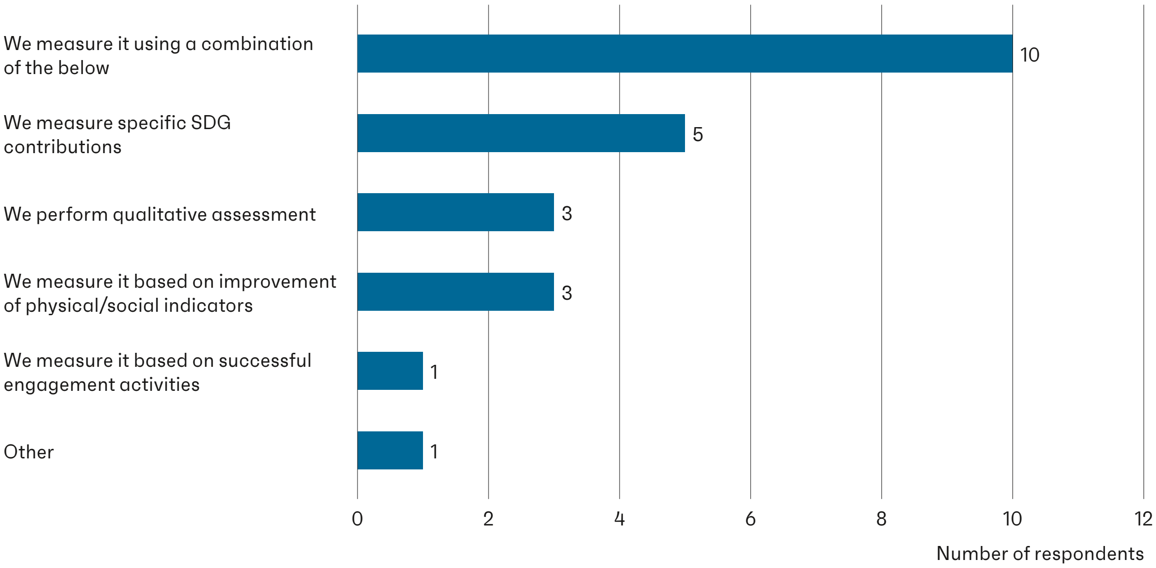
The most frequently mentioned principles impact investors adhere to are the IFC Operating Principles for Impact Management, adopted by approximately half of those reporting impact investments. Other guidelines/principles applied for impact investing products were IRIS, the SDG framework and the PRI.

This year, asset managers were additionally asked how they measure their impact (Figure 24). A quarter of the respondents measure specific SDG contributions, while half of the respondents use a combination of the possible answers (qualitative assessment, measuring based on SDG contributions, physical/social indicators and successful engagement activities).

Role of different combinations of SI approaches

Overall, 82% of the total SI volumes apply combinations with two or more approaches (Figure 25). We saw a shift from SI volumes applying four approaches to volumes applying five

Figure 24: **Impact measurement strategies for asset managers**
(in number of respondents) (n=20)



or more approaches, which can be seen as a good sign, since it shows that investors are still becoming more sophisticated and apply more holistic sustainability approaches. However, we also saw an increase from 13% to 18% in the volumes that apply only one approach in the course of the past year. Hence we have to conclude that investment practices remain diverse and especially newcomers to the SI market tend to start by applying only one or a few approaches.

Figure 26 shows the top ten combinations of asset managers. ESG integration appears in eight of the top 10 combinations. Furthermore, ESG engagement is represented in seven and exclusions in six of the top 10 combinations. For asset owners (Figure 27), exclusions, ESG integration and ESG engagement are also the most popular approaches to combine with other approaches. Compared to last year, where only ESG integration was in the top 10 combinations as a stand-alone approach, this time the exclusions approach also appears in the top 10 as a stand-alone option for asset managers.

Figure 25: **Number of approaches applied**
(in %) (n=74)

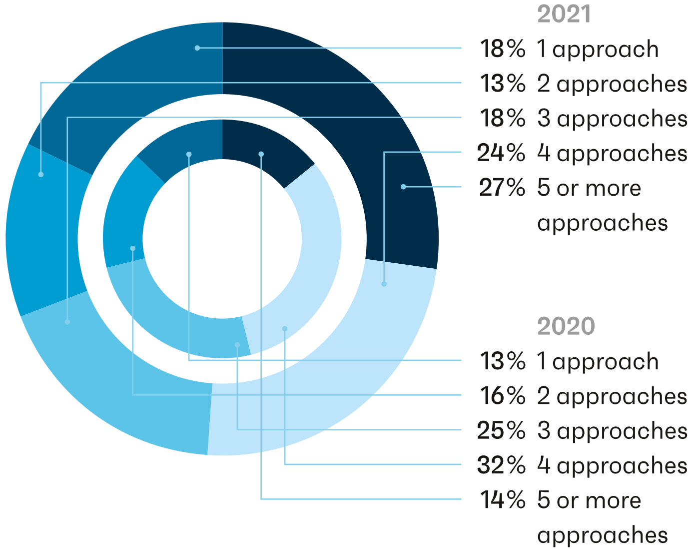


Figure 26: **Top 10 combinations of sustainable investment approaches applied by asset managers** (in CHF billion) (n=45)

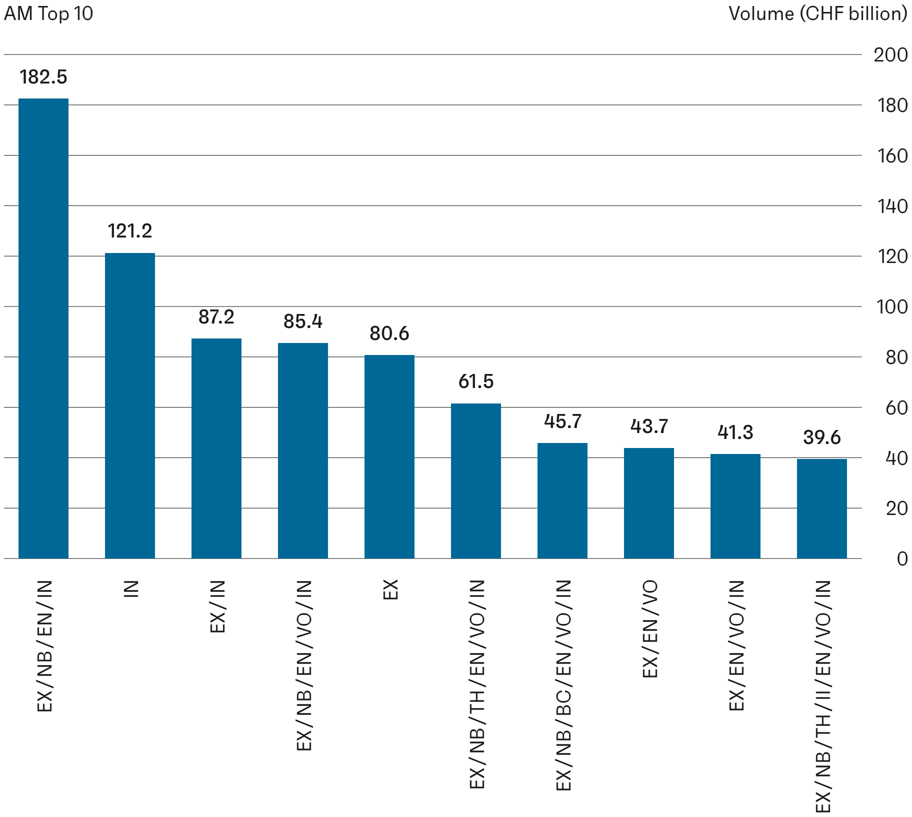
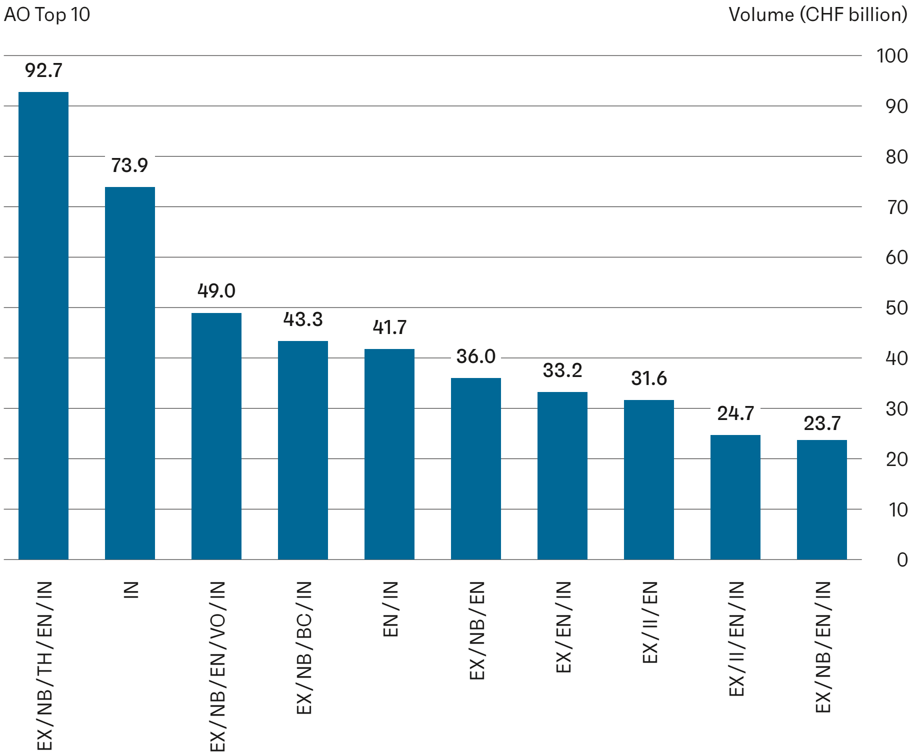


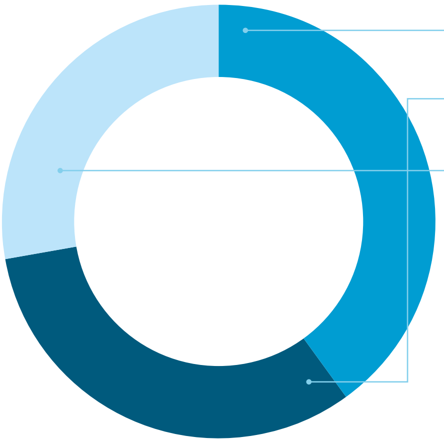
Figure 27: **Top 10 combinations of sustainable investment approaches applied by asset owners** (in CHF billion) (n=29)



Legend to figure 26 & 27
Abbreviations used for combinations

BC	Best-in-class
EN	ESG engagement
EX	Exclusions
II	Impact investing
IN	ESG integration
NB	Norms-based screening
TH	Sustainable thematic investments
VO	ESG voting

Figure 28: **Main implicit motivations for sustainable investments** (in % of AuM)



Main implicit motivations for sustainable investments

In order to better understand investors' motivation for sustainable investments, we tried to cluster all reported volumes into three categories. We follow the classification by a recent report of Asset Management Association Switzerland and Swiss Sustainable Finance.[11] The basis for our analysis was the matrix that illustrates the suitability of different sustainability approaches for different investors' sustainability goals. The results show a relatively even distribution between the main implicit investor motivations (Figure 28, see applied method described in box on page 32): about 40% of all volumes primarily reflect a financial motivation, i.e. sustainable investments are seen as a means of achieving a better risk/return profile. Some 32% of investments are driven by the motivation to contribute to positive change and 28% are driven by the motivation to align investments with investor values.

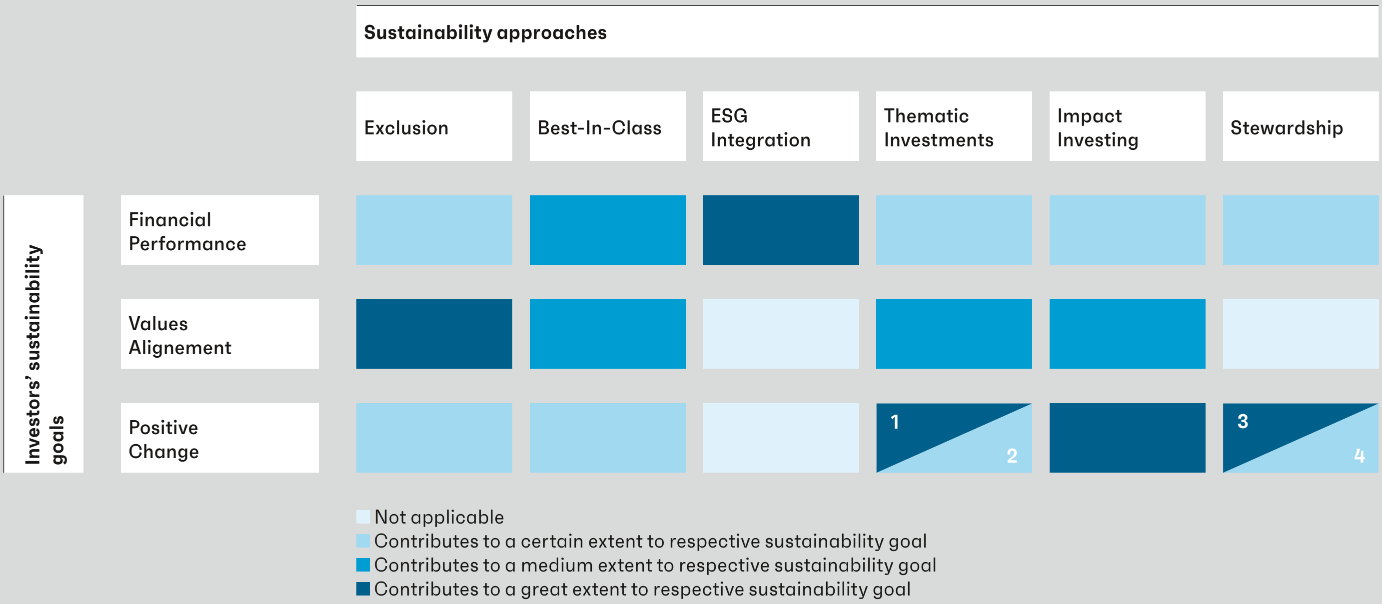
11 AMAS & SSF (2021). *How to avoid the Greenwashing Trap: Recommendations on Transparency and Minimum Requirements for Sustainable Investment Approaches and Products.* Available at: https://www.sustainablefinance.ch/upload/cms/user/RecommendationsforSustainableInvestmentProducts_AMAS_SSF.pdf

Method applied to calculate main implicit motivations for sustainable investments

In the AMAS/SSF publication on the "How to Avoid the Greenwashing Trap: Recommendations on Transparency and Minimum Requirements for Sustainable Investment Approaches and Products" the different SI approaches are categorised based on the three main investors' SI motives: financial performance, values alignment and positive change. For the calculation of the main implicit motivations we built on the judgment to the extent to which a specific SI strategy contributes to one of three main investors' sustainability goals. Based on the contribution levels illustrated in Figure 29, we attributed a weight of zero to three to each SI approach. For example, ESG integration contributes to "financial performance" with a weight of three, but contributes with a zero-weight to both "values alignment" and "positive change". Based on this, we calculated the total contribution to each investor goal for the top 20 combinations of approaches that appeared in our survey and aggregated this to the total implicit motivations.

Figure 29: **Matrix illustrating the suitability of different sustainability approaches for different sustainability approaches for different investor's sustainability goals**

Source: AMAS & SSF (2021). How to avoid the Greenwashing Trap: Recommendations on Transparency and Minimum Requirements for Sustainable Investment Approaches and Products



1 Private Equity and Private Debt
2 Public Markets
3 ESG Engagement
4 ESG Voting

2.4 Asset Allocation

Figure 30 captures the development of the SI asset allocation for both asset managers and asset owners in absolute terms. Equity, corporate bonds, sovereign bonds and real estate are unsurprisingly the top asset classes, whereby equity and corporate bonds show the highest absolute increase. Together these asset classes cover over 80% of the total volume (Figure 31). Since sovereign bonds gained slightly more volume, they surpassed real estate and are now the third largest asset class. All other asset classes are substantially smaller, but almost all of them increased, except for monetary and mortgages.

As Figure 32 shows, real estate in the ESG context seems to be more important for asset owners than for asset managers, as reflected in the number of policies linked to this asset class. In total, 38 out of 46 respondents indicated they had an explicit ESG real estate policy in place. For 30 asset owners and 7 asset managers, the content of the policy focuses on renovation of properties. Furthermore, many of the asset owners (38 respondents) and also a few asset managers (10 respondents) apply internal or external standards to monitor the sustainability performance of their real estate investments. Within

Figure 30: **Change in asset class distribution for sustainable investments**
(in CHF billion) (n=75)

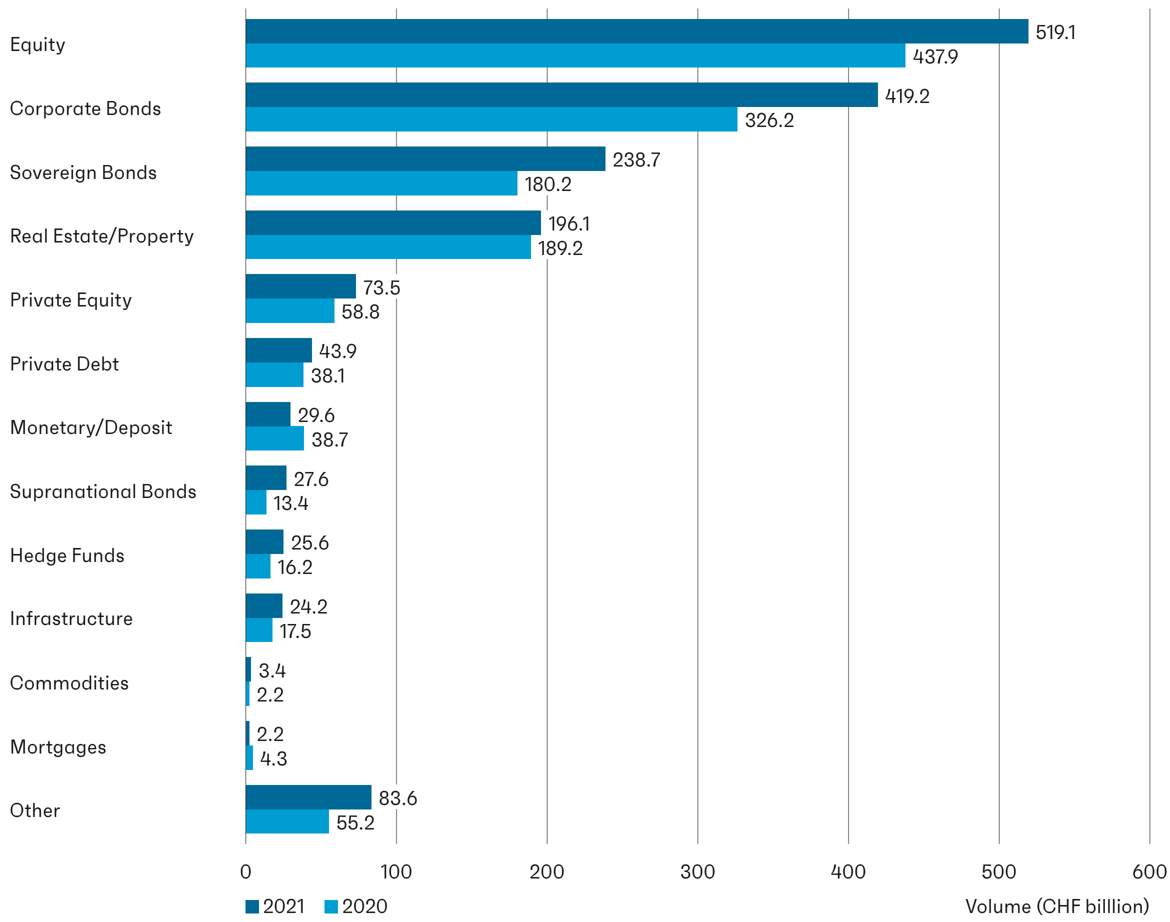


Figure 31: **Asset class distribution for sustainable investments** (in %) (n=75)

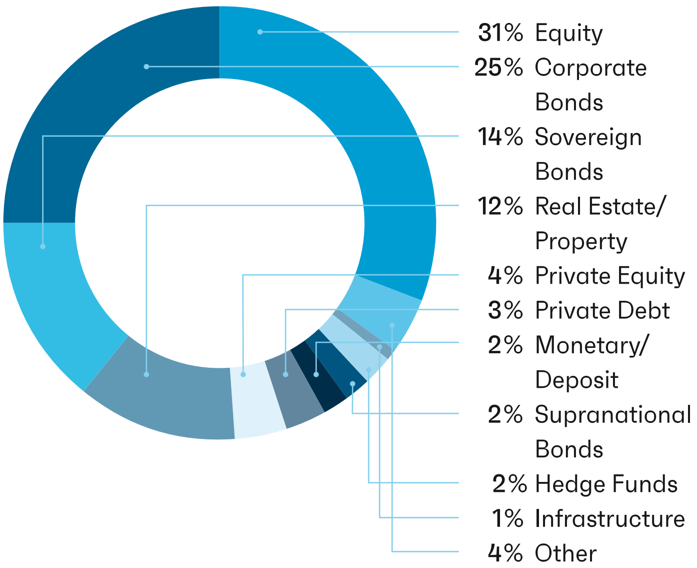
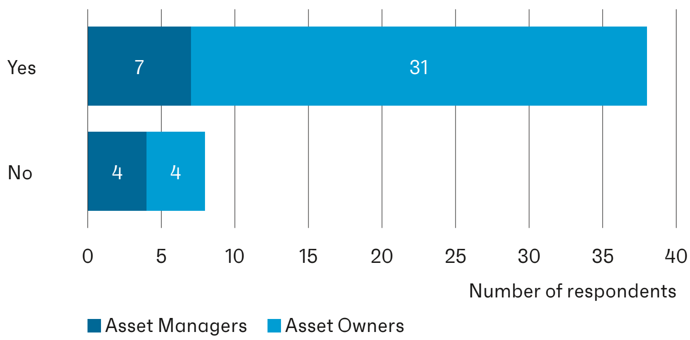


Figure 32: **ESG real-estate policy** (in number of respondents) (n=46)



that context, the green labels or benchmarks Minergie for Swiss property (22 respondents), LEED for US property (7 respondents), BREEAM for UK property (5 respondents) and GRESB for property globally (13 respondents) were all mentioned as important.

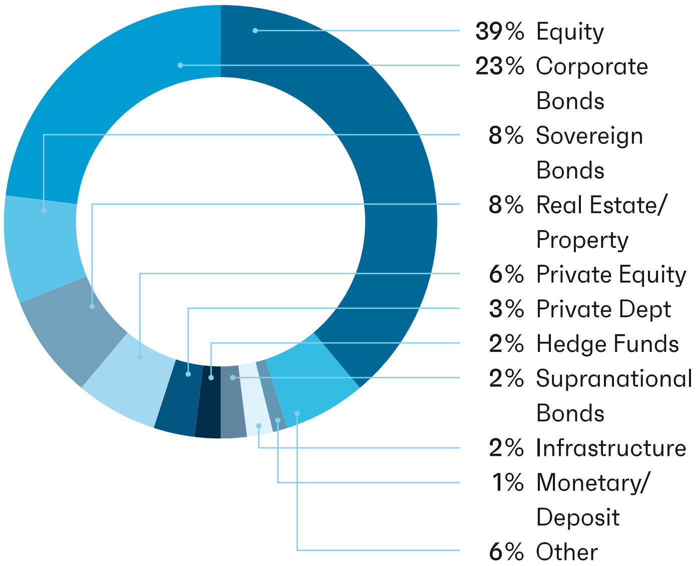
Asset managers and owners show major differences regarding the asset allocation of their SI. These differences can be explained by the fact that both pension funds and insurance companies hold a larger proportion of bonds overall. Figure 33 shows that 60% of the total SI managed by asset owners is allocated to bonds. It is not surprising that real estate also ranks high for the SI held by asset owners, as this asset class generally takes a high share in their portfolios.

A breakdown of the regional allocation of SI assets managed by asset owners shows that the bulk (51%) is invested in Switzerland (Figure 34).[12] This home bias is partly driven by regulation and partly by investor preferences. Additionally, 33% is invested in Europe, while 9% is invested in the North American market. Emerging markets, Japan and Asia-Pacific (ex-Japan) play a much smaller role in SI for asset owners.[13]

12 This data is based on a volume of CHF 219.4 billion of SI assets. It represents about 40% of the total volumes reported by asset owners.
13 Regional breakdowns are not available for asset managers, as the assignment of the reported SI funds and mandates to a specific region is too difficult to report.

Figure 33: **Asset class distribution for sustainable investments for asset managers and asset owners**

Asset managers
(in %) (n=45)



Asset owners
(in %) (n=30)

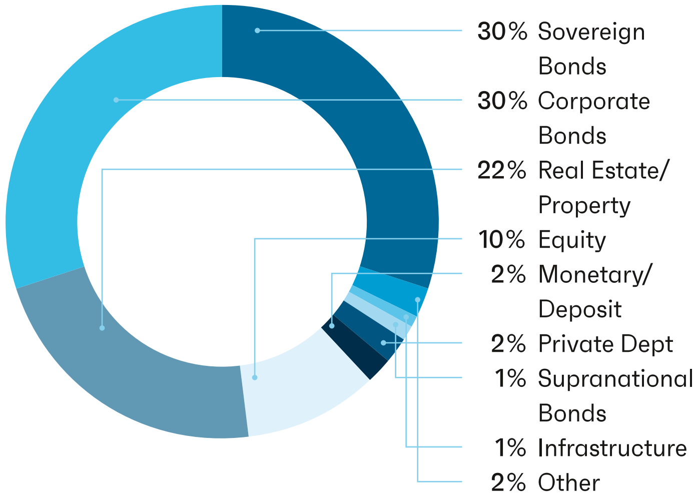
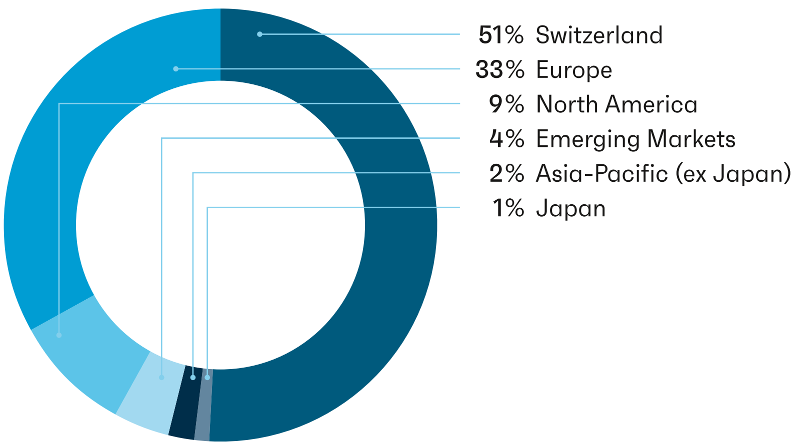


Figure 34: **Regional allocation of sustainable investments for asset owners** (in %) (n=26)



How Swiss asset managers and asset owners integrate sustainability into their policies

For the greater part of this study, we focus on the specific application of the different eight SI approaches to funds, mandates or asset owner volumes. At the same time, most asset managers and owners have defined formal investment policies that are ultimately applied to their full asset ranges. While formal policies represent a company-wide understanding of how specific approaches are generally relevant, these policies do not reveal any product-specific information to customers.

Asset managers most often have company-wide policies for exclusions and ESG integration, while for asset owners the two most common approaches reflected in overarching policies are exclusions and ESG voting (Figure 35).

Figure 36 shows that asset owners see two main reasons for adopting or incorporating sustainability into investment practices: (1) aligning investments with national and/or international norms or company values and (2) fostering a long-term sustainable economy and society. In other words, asset owners clearly emphasise the responsibility they bear for society and the environment.

Figure 35: **Formal sustainable investment policies**
(in number of respondents) (n=82)

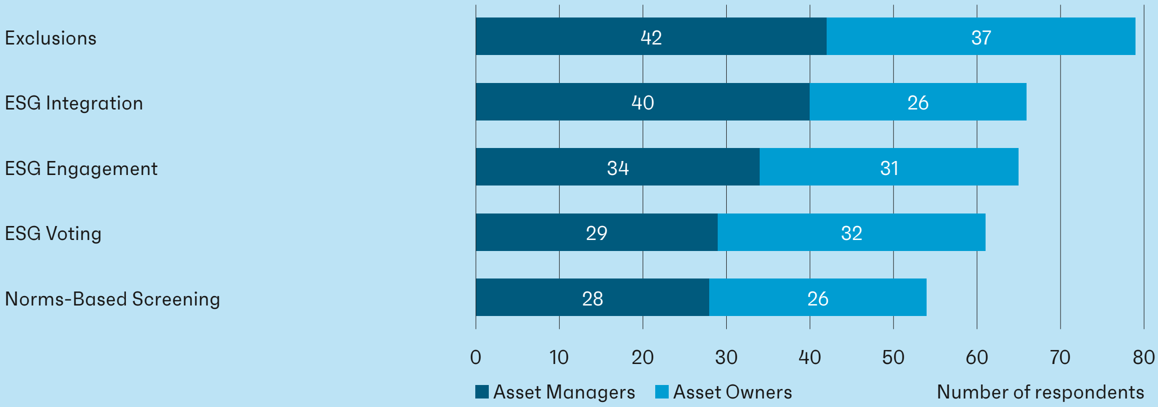
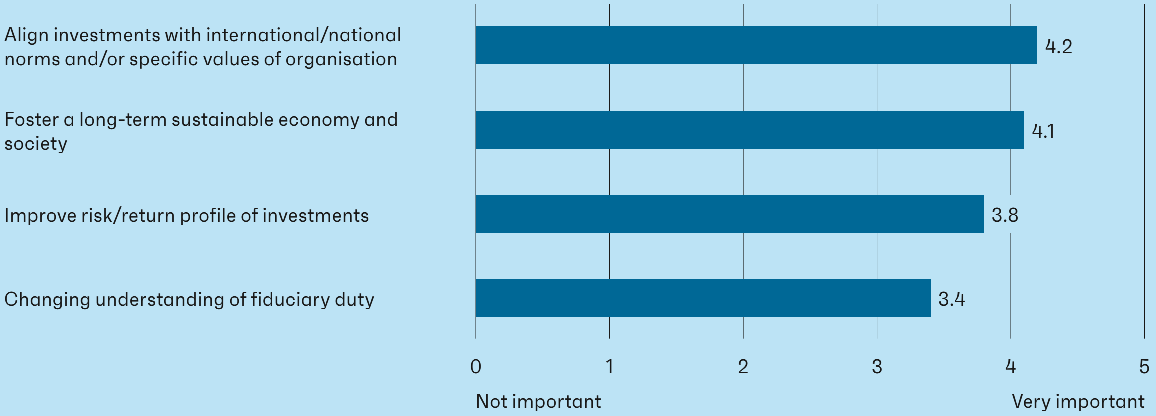
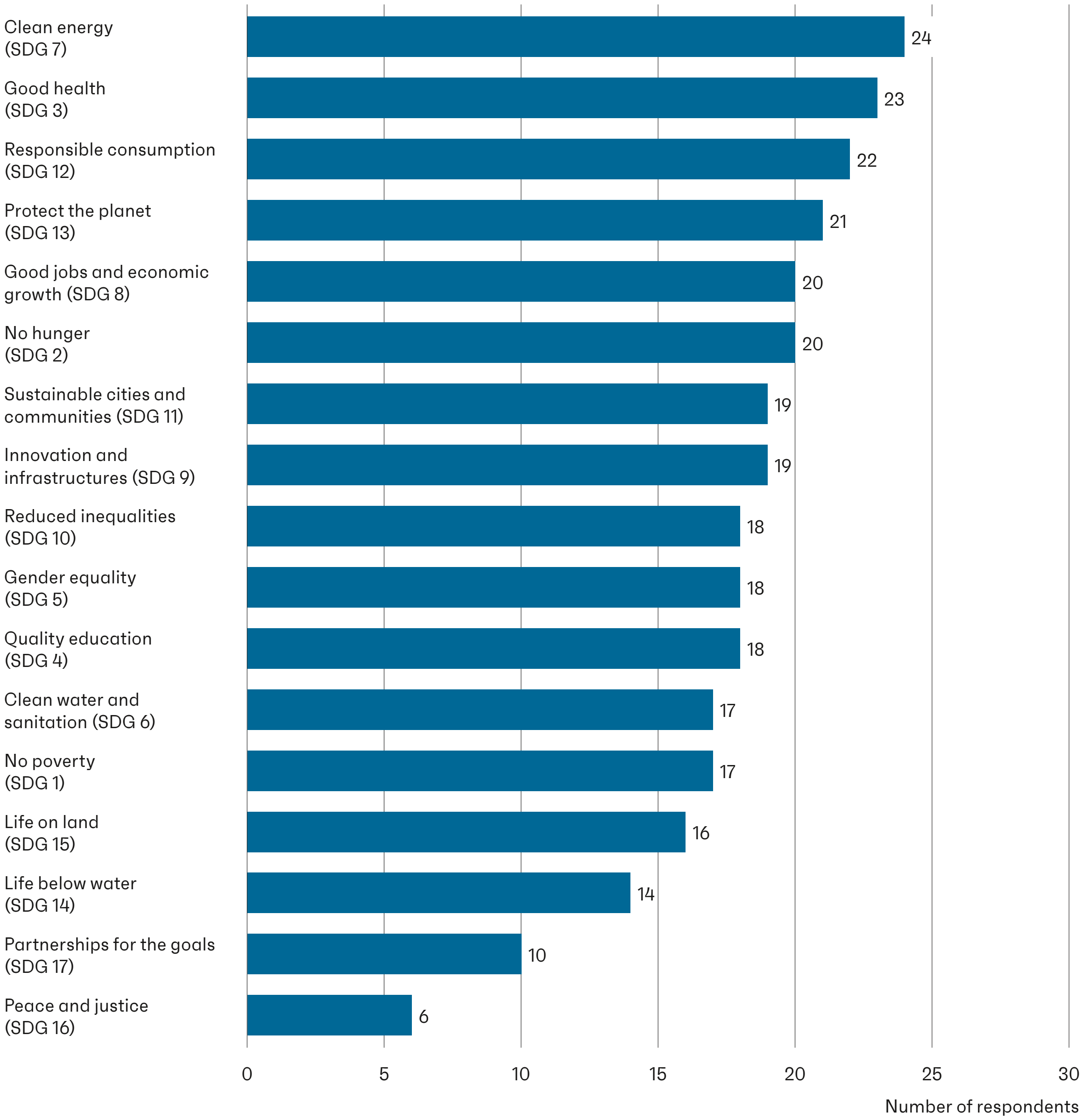


Figure 36: **Main motivations of asset owners for adopting sustainable investment policies**
(in average level of importance) (n=37)



2.5 Special Topics

Figure 37: **Specific SDGs addressed in financial products of asset managers**
(in number of responses) (n=27)



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 SDGs. The goals address 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.

Figure 37 illustrates the 17 SDGs and their prominence in asset manager data. Clean energy, good health and responsible consumption are incorporated by most of the respondents, while partnerships for the goals, and peace and justice, seem less pressing. Compared to last year, the number of asset manager respondents addressing specific SDGs increased for all of the goals.

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, but an in-house solution to determine their products' contributions to the SDGs. 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. The main motivations come both from the demand and the supply side. On the one hand, growing client demand drives the development of SDG-related products. On the other hand, asset managers use SDG-related products as a framework to direct investments towards sustainability (Figure 38).

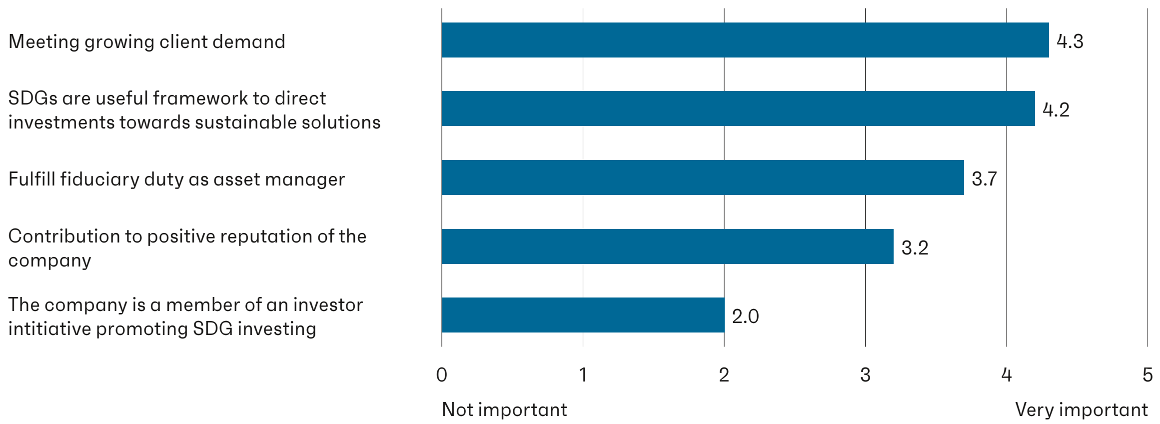
Climate change

The ambitious goal of the Paris Agreement[14] – 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 pave the way for new low-carbon technologies. This creates different risks and opportunities for financial market participants. In total, 80 out of 85 respondents indicated that they explicitly address climate change. Over 90% of those respondents measure the carbon footprint of their portfolios and more than 70% invest in climate solutions (Figure 39).

In total, 92% of the respondents to this question disclosed that they measure their climate performance by using carbon reduction targets (Figure 40). At the same time, 34% of the respondents currently use implied temperature rise as an indicator.[15]

Furthermore, both asset managers and asset owners were asked if they are signatories to one or more net zero alli-

Figure 38: **Main motivations for developing SDG-related products for asset managers**
(in average level of importance) (n=25)



14 UNFCCC (2022). *The Paris Agreement*. Available at: https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement accessed 02/04/2022.

15 The indicator "implied temperature rise" is used to express – in degrees Celsius – the alignment of portfolios with global climate goals. It stands for the level of global warming that would occur if the global economy acted with the same ambition as the companies in the portfolio intend to act.

Figure 39: **Measures to address climate change within investments**
(in % of respondents) (n=80)

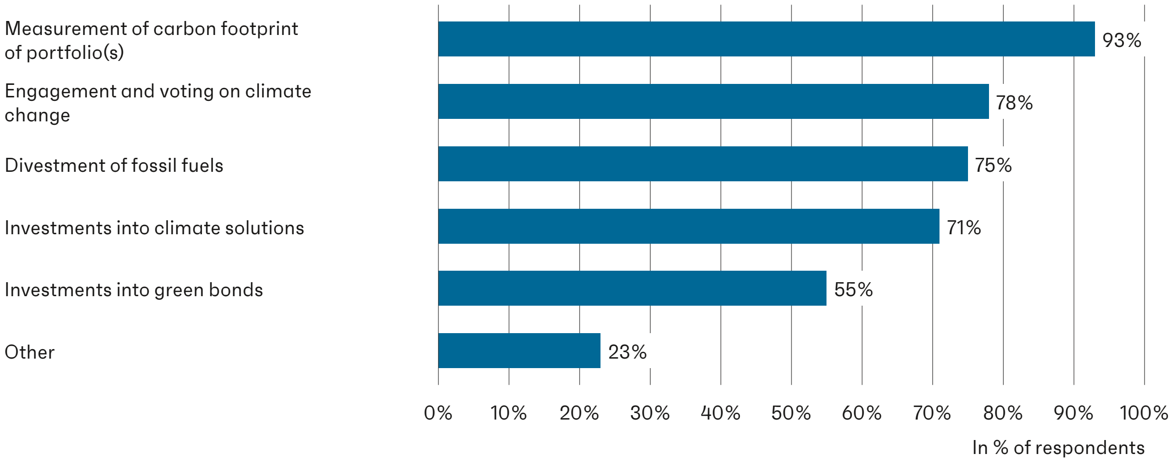


Figure 40: **Use of climate indicators to measure climate performance**
(in number and % of respondents) (n=64)

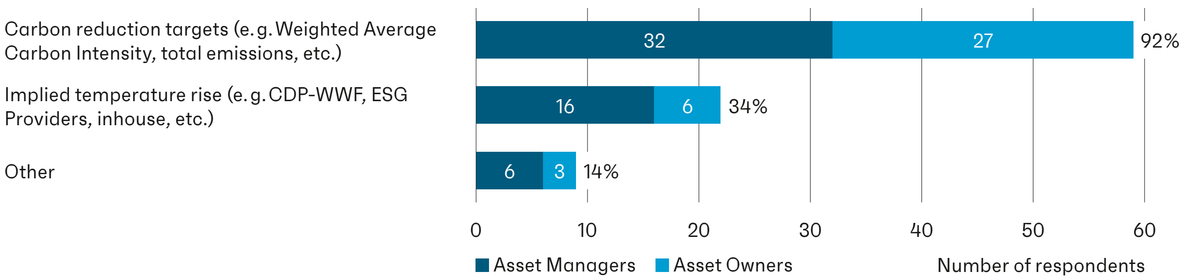


Figure 41: **Signatory of net zero alliances (asset managers)**
(in number of respondents) (n=23)

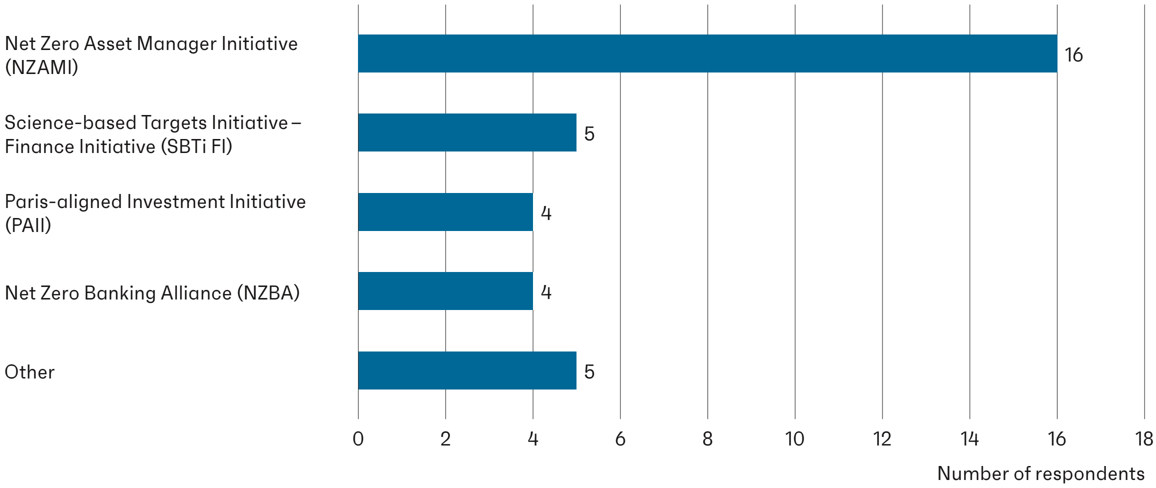


Figure 42: **Signatory of net zero alliances (asset owners)**
(in number of respondents) (n=8)

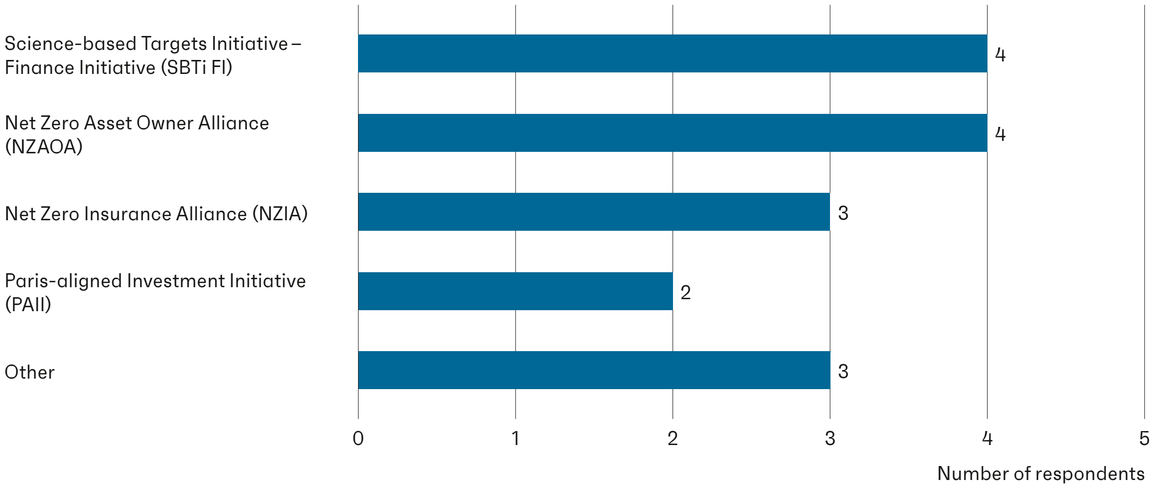


Figure 43: **Voluntary commitment to biodiversity standards**
(in number of respondents) (n=43)

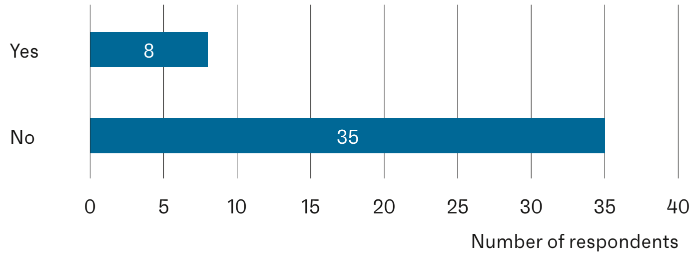
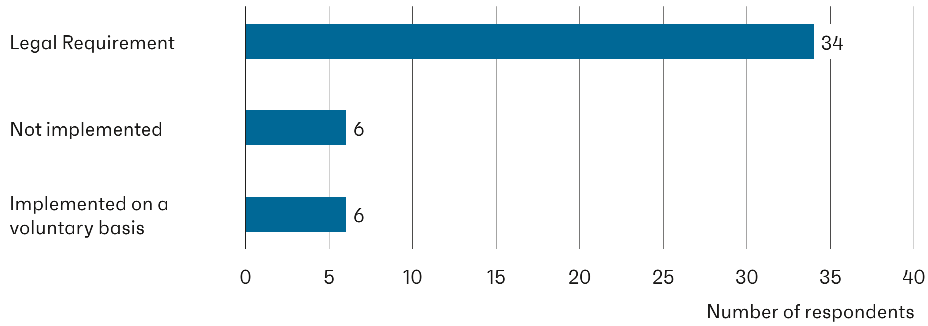


Figure 44: **Basis for implementation of EU regulation for asset managers**
(in number of respondents) (n=46)



ances. As Figure 41 depicts, a total of 16 asset manager respondents are signatories of the Net Zero Asset Manager Initiative (NZAMI). For asset owners, the response rate was fairly low and we can assume that not many asset owners have so far signed one of the respective alliances (Figure 42).

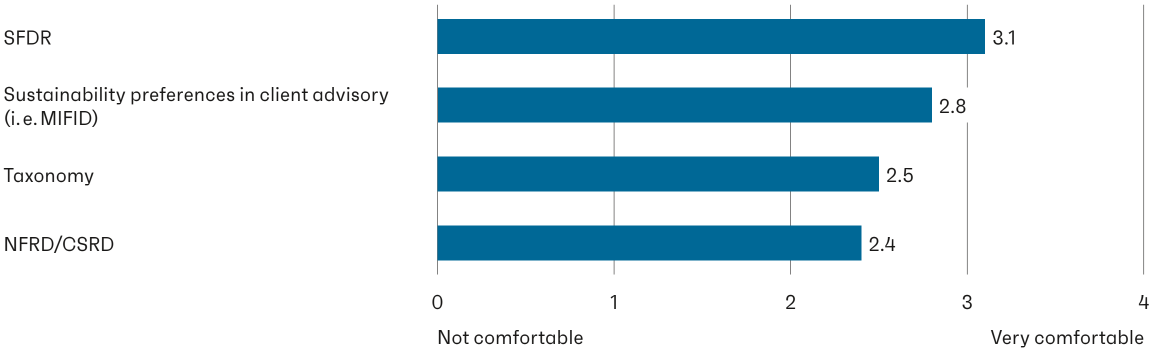
The role of biodiversity for investors

This year for the first time, we included some questions related to investor action on biodiversity loss. Different biodiversity standards such as the Finance for Biodiversity Pledge and the Taskforce on Nature-related Financial Disclosures framework have emerged over the past year, however, all of them are of a voluntary character. Figure 43 shows that only a small number of respondents follow one or more of the biodiversity standards for now. Furthermore, only 8 asset managers have carried out a systematic analysis of the negative and positive biodiversity impacts associated with their investment portfolio. Twelve asset managers consider biodiversity risk in their investment decisions.

EU regulation

Many Swiss asset managers are also affected by EU regulation. In case they conduct activities in the EU or they have European clients, we asked asset managers in this year's survey how they respond to EU regulation (i.e. SFDR, Taxonomy, NFRD/CSRD, and MiFID II). Overall, 34 out of 46 respondents are legally required to implement EU regulations and 6 more do so on a voluntary basis (Figure 44).

Figure 45: **Comfort of asset managers with implementation of EU regulation**
(in level of comfort) (n=43)



As Figure 45 shows, asset managers feel slightly more comfortable with implementing SFDR than with Implementing MiFID II, Taxonomy and NFRD/CSRD.

Furthermore, regulatory alignment between SFDR, CSRD and the taxonomy is considered as somewhat clear and implementable by most of the respondents (30 respondents) while a minority thinks it is fully clear and implementable (6 respondents), or not clear and implementable (6 respondents). Most asset managers find that the SFDR improves transparency for clients in terms of avoiding greenwashing (39 respondents), while only one respondent thinks it is not an improvement at all.

03

Expected Market Trends

3.1 Market Trends – Asset Managers

The forecasts for further growth in SI volumes remain positive for 2022, and stagnation or negative developments are not expected (Figure 46). The majority of respondents expect the market for SI to continue to grow in Switzerland at a rate of 15% to 30%. A smaller portion of participants also predicts growth of up to 50% or even more. However, since we have already reached over 50% penetration of SI on the fund level, we need to acknowledge that the market share is already considerably high.

Demand from institutional and retail investors, as well as legislation, are seen as the key drivers for SI (Figure 47). The high importance attributed to legislation might be explained by the key role of EU regulation, which is an important external factor for SI in Switzerland, too. Additionally, Swiss authorities are expanding their sustainable finance provisions, such as the higher transparency requirements of FINMA for sustainable funds.

In addition to the driving factors, the survey also examined potential barriers to SI growth. As already seen in previous years, the lack of standards and the lack of conviction of client advisors are still expected to be the key barriers to SI growth (Figure 48).

Figure 46: **Growth forecasts for sustainable investments in Switzerland in 2022 by asset managers** (in number of respondents) (n=40)

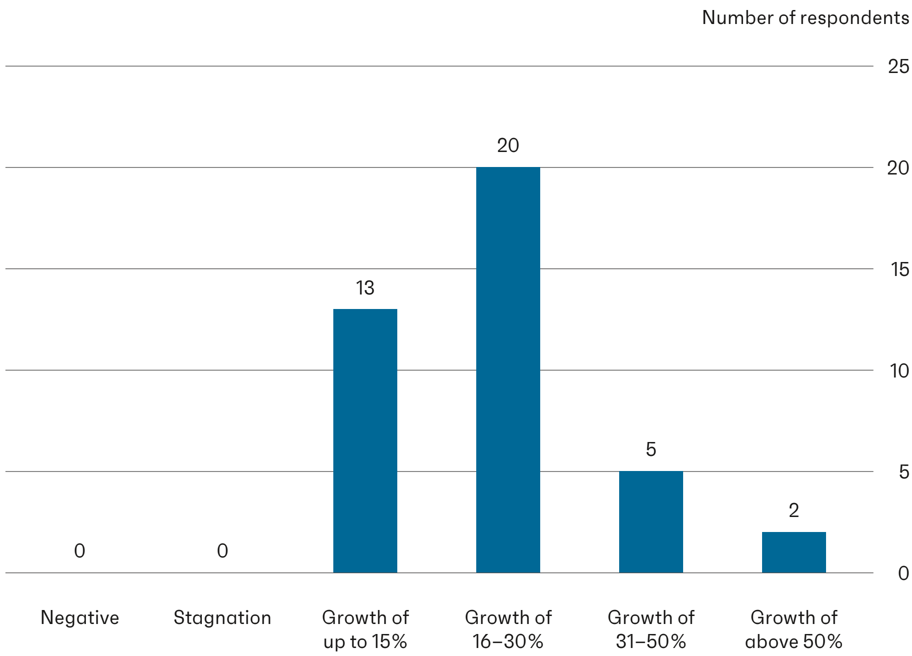


Figure 47: **Key drivers for sustainable investment demand in the next three years for asset managers** (in average level of importance) (n=41)

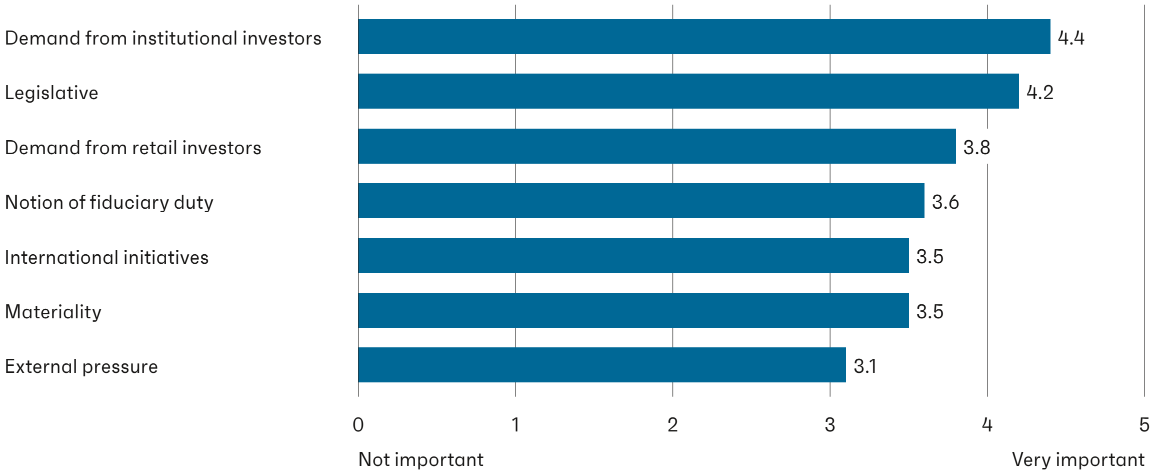
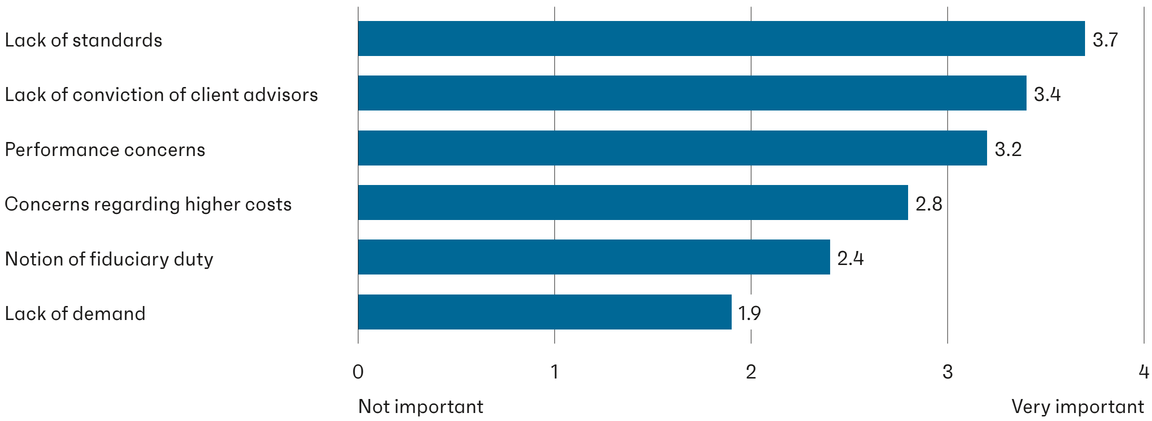


Figure 48: **Key barriers to sustainable investment growth in the next three years for asset managers** (in average level of importance) (n=41)



Sustainable investment capacities of asset managers

For the third time, we looked at SI capacities of asset managers. Out of the 47 participating asset managers, 29 said they require their employees to undergo mandatory training in the area of SI. Furthermore, organisations have varying team sizes with professionals in dedicated SI roles. On average, asset managers employed 26 (2020: 19) professionals dedicated to SI. Of the 43 respondents, the number of SI professionals ranged from zero to 221 (2020: 137), with only one indicating they have no employees with dedicated SI roles.

3.2 Market Trends – Asset Owners

From the perspective of asset owners, the future development of SI will also be positive in 2022. However, different levels of growth are expected, as displayed in Figure 49, showing a similar picture to the asset managers' forecast. Most asset owners have slightly more conservative forecasts compared to asset managers and expect continued growth rates of up to 15% or 16%–30%, while only a few predict growth of over 31%.

In terms of key drivers for the wider adoption of SI approaches, asset owners rated political pressure as most important (Figure 50), as in 2020.

Concerns regarding higher costs, performance concerns and the lack of standards are seen as the key barriers to further adoption of SI by asset owners (Figure 51)

Figure 49: **Growth forecasts for sustainable investments in Switzerland in 2022 by asset owners** (in number of respondents) (n=33)

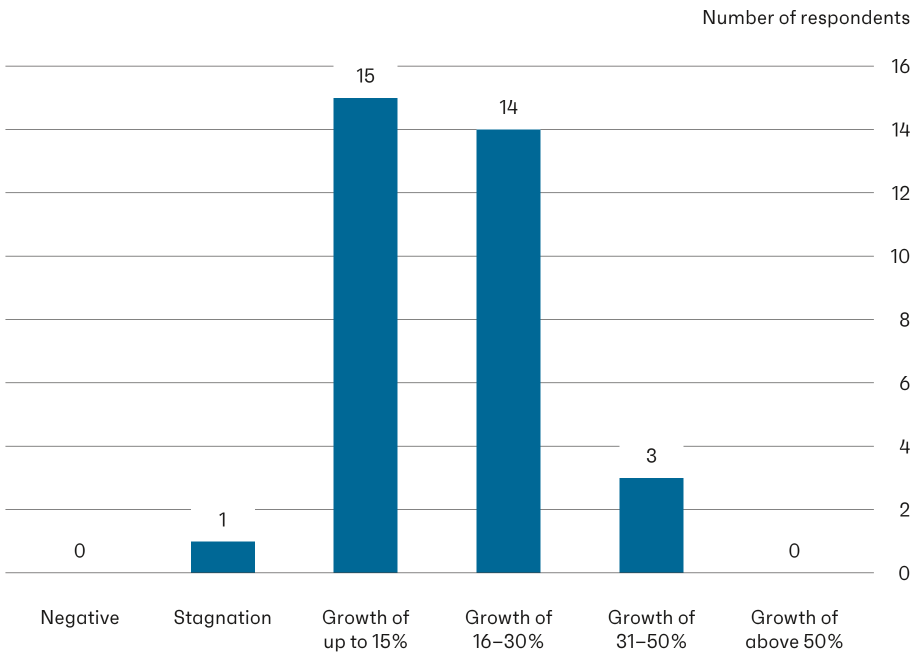


Figure 50: **Key drivers for further adoption of sustainable investment for asset owners**
(in average level of importance) (n=32)

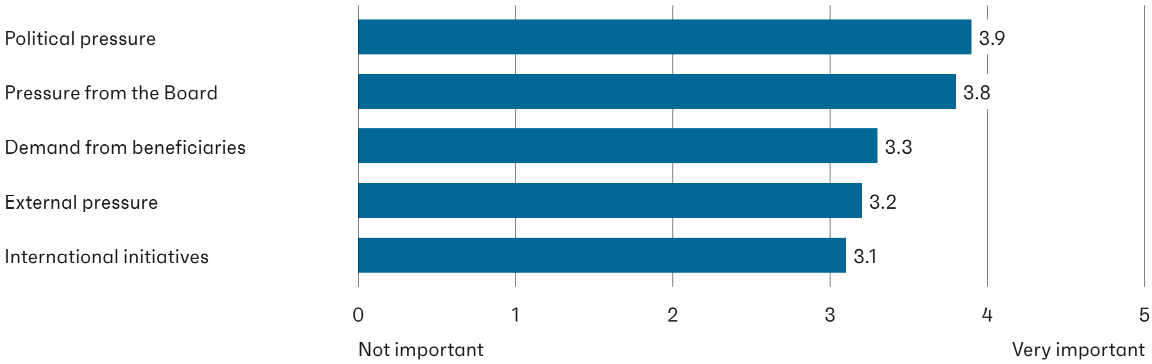
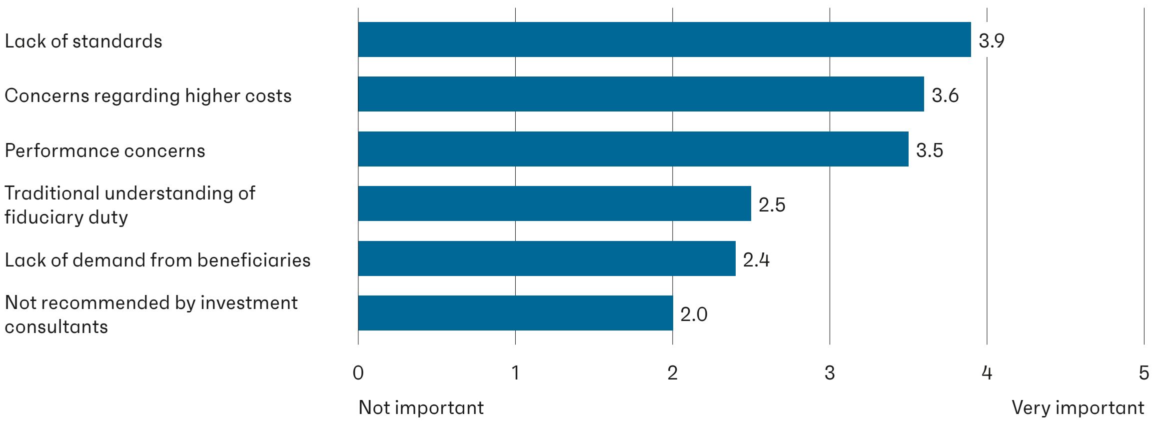


Figure 51: **Key barriers to further adoption of sustainable investment for asset owners**
(in average level of importance) (n=37)



04

Conclusion and Outlook

Similar to last year, we wonder whether there is any limit to the potential growth of sustainable assets. Although the overall market share was already high last year, with a gain of 30% the SI market in Switzerland once again enjoyed impressive growth in 2021. We have outlined the main drivers of this growth: wider adoption of SI approaches, in combination with inflows and the positive market performance in 2021.

Need for rigorous impact-related classification

The observed steady growth was not surprising, given that our questionnaire uses the umbrella term "sustainable investments", meaning that any investment integrating any environmental, social and governance (ESG) factors into the selection and management process of investments will count as a "sustainable investment". With such a broad definition, we can expect close to a 100% of all investments to apply one of the eight SI approaches at some point in time. As sustainable investments have entered the mainstream, the volumes of this market study reflect this development. Consequently, we argued in last year's conclusion of the market study that this growth trend highlights the need for a more rigorous impact-related classification scheme for different ESG investment styles. In case we disregard this development, investors – notably private ones – will lose orientation, and most importantly motivation to align their investments towards sustainability. If their objective is to contribute to real-world changes, sustainable investments need to provide transparency on how they deliver on this expectation.

Three main motivations for sustainable investments

Given the fact that such a new classification scheme which classes different approaches by the degree to which they contribute to positive change is still missing, we examined more closely the reported numbers. Based on the "How to Avoid the Greenwashing Trap" report published by Asset Management Association Switzerland and Swiss Sustainable Finance in December 2021, we classified all reported volumes into three main implicit investor motivations. This is a first step in analysing the impact-related objectives of SI. Still, the outcome illustrates that there are obviously three almost equally important motives at hand: financial performance considerations, values alignment efforts and the ambition to stimulate positive change in the real world. Notably the latter appears to be of special relevance when considering the current debate about positive impact and global challenges.

New finance initiatives to tackle global challenges

In this year's study our questionnaire contained more specific and more detailed questions on different aspects. As such, we were able to present more multi-layered and complex results, e.g. in the impact context. Furthermore, we included questions regarding global voluntary efforts (e.g. TNFD) to address the major challenges we face – such as climate change and loss of biodiversity. The COP 26 in Glasgow led to many finance initiatives. Similar trends arise for biodiversity initiatives. While this is good news, the speed of implementation and concrete action needs to be accelerated. In the interview on the role of the Taskforce on Nature-related Financial Disclosures or investors we are able to dig deeper into related challenges and show how the financial market seeks to address them. In two other chapters we shed light on the growing role of net zero commitments and the emerging topic of gender-lens investing. Hence, this study incorporates new aspects describing the full range and dynamic developments of sustainability topics in the investment context.

Collaborative efforts for clear standards

Seeing that all SI practices reported in this study reflect voluntary action by market participants, we can conclude that the Swiss SI market is a dynamic field not primarily driven by regulation. It demonstrates many initiatives that go beyond a least effort approach when implementing SI – a clear indication that the risk of greenwashing is taken seriously. Yet we believe it is important that Switzerland continues the current path of working towards clearer standards and further transparency through collaborative efforts of the government and industry associations. Building on the industry's high level of expertise will help to further sustain the development of the Swiss SI market. We experienced a turbulent 2020 and 2021. Early 2022 has seen us enter a new phase of unexpected turbulence. Although not all the impacts can be directly mitigated by investors, it is still very important to use the potential of SI to contribute to a more sustainable and just economy.

05

Regulatory Developments

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This chapter provides an overview of the most important regulatory developments related to sustainable finance in Switzerland and the EU in 2021. Several international developments are also addressed.

Developments in Switzerland

In practice, the Swiss financial market took further steps to advance the adaption of the financial system to sustainability goals in 2021. While many Swiss financial market players continue progressing, by taking bottom-up, market-driven solutions, there is still no overarching Swiss legislative framework on sustainable finance. However, the counter-proposal to the “Responsible Business Initiative” and the respective executive ordinances of the Federal Council will introduce new duties for companies. Furthermore, by adopting several measures in 2021, the Federal Council made new significant announcements for financial market players, thereby accelerating change. FINMA focused on consumer protection and specified transparency obligations for climate risks.

Parliament and government action

On 29 November 2020, the Popular Initiative “For responsible business – protecting human rights and the environment" was rejected by a majority of the Swiss cantons. This means that the indirect Counter-proposal to the Responsible Business Initiative of the parliament, adopted on 19 June 2020 in the context of the “major revision of the company law”, will come into effect. The indirect counter-proposal is primarily oriented towards the regulation currently in force in the EU. The new provisions are incorporated in the Swiss Code of Obligations (CO) and will come into force on 1 January 2022. They provide for two important obligations: on the one hand, large Swiss companies will be legally obliged to report on the risks of their business activities in the areas of the environment, social concerns, employee concerns, human rights and the fight against corruption, as well as on the measures taken against these risks (non-financial matters). On the other hand, companies with risks in the sensitive areas of child labour and so-called “conflict minerals” must comply with special and far-reaching due diligence and reporting obligations.[16]

To specify the details of these new obligations, the Federal Council opened a consultation on its preliminary draft of the "Ordinance on Due Diligence and Transparency in relation to Minerals and Metals from Conflict-Affected Areas and Child Labour (DDTrO)", from 14 April to 14 July 2021. On 3 December 2021, the Federal Council decided to bring this ordinance into force on 1 January 2022, at the same time as the amendments to the CO. The law grants companies one year to adjust to the new obligations. These will therefore apply for the first time in the 2023 business year.[17]

In August 2021 the Federal Council decided on parameters for the future mandatory climate reporting by large Swiss companies. It mandated the Federal Department of Finance (FDF), together with other federal units, to develop a binding implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) for Swiss companies. The FDF is to prepare a consultation draft on ordinance level during 2022.[18] On 30 March 2022, the Federal Council initiated the consultation on the implementing ordinance on climate reporting for large Swiss companies that will run until 7 July 2022. The ordinance is expected to come into force at the beginning of the financial year 2023.[19]

In November 2021, the Federal Council adopted various other measures to promote sustainable finance. First, it strongly recommended to the industry to use comparable and meaningful climate compatibility indicators and join net zero initiatives. Second, it underlined the importance of promoting uniform definitions of sustainability impacts to address greenwashing. And third, the Federal Council informed that the government would assess, by the end of 2022, to what extent the financial sector has implemented these recommendations and – if needed – propose measures. The Federal Council also instructed the FDF, in cooperation with the

16 For “Transparency on Non-Financial Matters”, see Article 964*a*-964*c* CO, for “Due Diligence and Transparency in relation to Minerals and Metals from Conflict-Affected Areas and Child Labour” see Article 964*j*-964*l* CO. These new provisions entered into force on 1 January 2022

17 Federal Council (03.12.2021). *Press release: Bestimmungen für besseren Schutz von Mensch und Umwelt gelten ab 1. Januar 2022.* Available at: https://www.admin.ch/gov/de/start/dokumentation/medienmitteilungen.msg-id-86226.html

18 Federal Council (18.08.2021). *Press release: Federal Council sets parameters for binding climate reporting for large Swiss companies.* Available at: https://www.admin.ch/gov/en/start/documentation/media-releases/media-releases-federal-council.msg-id-84741.html

19 Federal Council (30.03.2022). *Press release: Federal Council initiates consultation on ordinance on climate reporting by large companies.* Available at: https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-87790.html

Federal Department of the Environment, Transport, Energy and Communications (DETEC), to inform it by the end of 2022 of the extent to which the financial sector has implemented the above-mentioned recommendations and to propose measures if need be. In order to implement these measures, at the end of 2021, the Federal Administration (SIF, FOEN) established two workgroups on net zero commitments and on Swiss climate scores with the involvement of the financial industry, as well as financial associations. The results of these workgroups are expected in the course of 2022.

Furthermore, the Federal Council has instructed the FDF, in cooperation with the DETEC and FINMA, to propose by the end of 2022 how financial market legislation could be amended – particularly with regard to transparency – in order to avoid greenwashing.[20]

To enhance the application of international standards in Switzerland, the Federal Council also decided to prepare a basis for the issuance of green Confederation bonds.[21] It instructed the Federal Finance Administration (FFA), in cooperation with the DETEC, to prepare a framework for the issuance of green Confederation bonds and submit it to the Federal Council by the end of 2022 for a decision. The issuance of such sovereign green bonds is expected to give a strong signal to the market and contribute to further market development.

FINMA action

In summer 2020, FINMA conducted an intensive dialogue with industry representatives, academics, NGOs and the federal authorities on transparency rules in relation to climate risks. This dialogue led, amongst other things, to a revision of the FINMA circulars "Disclosure-banks" and "Disclosure-insurers".[22 | 23] The new disclosure rules are based on the recommendations of the TCFD to introduce internationally compatible disclosure requirements in Switzerland. After a public consultation between November 2020 and January 2021, the revised circulars entered into force on 1 July 2021. Large banks and insurance companies (supervisory categories 1 and 2) have to provide qualitative and quantitative information about identifying, measuring and managing climate-related financial risks. The affected institutes should also describe the major climate-related financial risks and their impact on the business strategy, business model and financial planning (strategy). In addition, they must describe the central attributes of their governance structure in relation to climate-related financial risks.

Furthermore, in 2021 FINMA focused intensively on the topic of consumer protection by examining measures combating greenwashing. It is important to outline that the term "greenwashing" is neither defined nor used by the Swiss financial market law. However, where investor protection provisions apply, greenwashing practices may be addressed by many Articles of the regulatory regime. For example, Article 12 of the Collective Investment Schemes Act (CISA) explicitly foresees that *"the designation of 'collective investment schemes' must not provide any ground for confusion or deception"*. As FINMA approves products offered by collective investment schemes and grants authorisation to any party who establishes or operates a collective scheme or is responsible for the safekeeping of the assets held, FINMA has required, since January 2021, more accurate and detailed information for so-called "green", "ESG" or "sustainable" funds in the product approval process, as well as in the fund documents (e.g. prospectus, fund and investment contracts). In addition, FINMA published its Guidance 05/2021 on preventing and combating greenwashing in the fund segment on 3 November 2021.[24] In this guidance, it set out its expectations and current practice regarding the management of sustainability-related collective investment schemes at fund level (transparency and reporting) and institutional level (organisation requirements). The fund level requirements became applicable on 1 September 2021. FINMA also expects that until 30 June 2022, all fund documents of sustainability-related funds are updated according to its guidance.

SNB action

In 2019 the Swiss National Bank (SNB) became a member of the Network for Greening the Financial System (NGFS), which brings together supervisory bodies and central banks across five continents to define best practice for financial market regulators and strengthen sustainable central-bank action. The SNB has already contributed a case study to an NGFS report, and continued engagement in the relevant NGFS

20 Federal Council (17.11.2021). *Press release: Federal Council strives to be international leader in sustainable finance with climate transparency.* Available at: https://www.admin.ch/gov/en/start/documentation/media-releases/media-releases-federal-council.msg-id-85925.html

21 Federal Council (17.11.2021). *Press release: Federal Council wishes to show its commitment to sustainability with green Confederation bonds.* Available at: https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-85932.html

22 FINMA Circular 2016/1, Disclosure-banks, Capital adequacy and liquidity disclosure requirements

23 FINMA Circular 2016/2, Disclosure-insurers, Principles for the financial condition report

24 FINMA Guidance 05/2021, Preventing and combating greenwashing of 3 November 2021

workgroups will help it to further develop its approaches, based on a peer-to-peer dialogue. In one respect, the SNB can be considered a leader amongst peers: it has taken up the integration of climate risks and sustainability factors into its actively managed corporate bond portfolios. This makes it the first central bank to apply such criteria to the management of foreign exchange reserves – notably being a central bank with one of the largest foreign exchange portfolios. With this, it is going a step further than those banks applying sustainability criteria to their own funds or pension funds. At the end of 2020, the SNB, in collaboration with Compenswiss, the institution managing Switzerland's first-pillar social security funds, announced their decision to move out of coal. As regards being an active owner, the SNB has executed its voting rights on governance questions since 2015, with a focus on medium and large European companies, thereby aiming to use its power to improve the governance of its holdings. Along with the SNB, FINMA also became a member of NGFS in 2019.

Industry initiatives

In December 2021, SSF and the Asset Management Association Switzerland (AMAS) published their joint "Recommendations on transparency on minimum requirement for sustainable investments approaches and products".[25] They are based on the first joint recommendations "Sustainable Asset Management: key messages and recommendation of AMAS and SSF" of June 2020[26] and introduce a framework to foster transparency on the sustainability promises made by the asset manager. They aim to make it easier for investors to select sustainability products based on their preferences and therefore to prevent greenwashing. They are directed at the asset management industry with the intention of building a bridge between asset managers, other financial service providers and end investors. The recommendations focus on the products designed by the fund and asset management industry and sold by financial service providers to investors, and have three main goals: 1) define the various sustainable investment approaches and instruments in more detail and set minimum criteria for the implementation of each of them; 2) specify minimum requirements for investor information on the different investment approaches and instruments; 3) identify which of these sustainable investments satisfy the three main sustainable investor goals (financial performance, values alignment, positive change) most efficiently. They also aim at supporting the "point of sale" and distribution units by ensuring a financial advisor has access to all relevant information in order to recommend the most suitable sustainable product to a client.

At the end of 2021, AMAS also decided to integrate the topic of sustainability into their self-regulation. The result is expected to be published in September 2022. In December 2021, the association joined the UN-convened Net Zero Asset Management Initiative as supporter organisation.

The Swiss Bankers Association (SBA) published its "Guideline for the integration of ESG considerations into the advisory process for private clients" in June 2020.[27] At the end of 2021, it decided to revise this guideline in the form of the concept called "free self-regulation". The result is expected to be published in June 2022. In April 2022, the SBA joined the UN-convened Net-Zero Banking Alliance (NZBA).

Since 2020 the Swiss Insurance Association (SIA) has published an annual report about current sustainability practice in the Swiss insurance industry as well as the development of sustainable assets managed by insurance companies.[28] In October 2021, the association became a supporting member of the UN-convened Net Zero Asset Owner Alliance.

Conclusion

Going forward, it is key that Swiss frameworks for sustainable finance keep the right balance between bottom-up, market-driven solutions and a supporting regulatory framework, thereby guaranteeing a level playing-field for all. Improved transparency and comparable information that allows all clients to make choices based on their preferences are an important prerequisite for trust, and therewith for a further mainstreaming of sustainable financial services. A continued and intense dialogue between the private sector, the government and the regulator prepares the ground for such an environment and will leave us with effective frameworks

25 AMAS & SSF (2021). *How to Avoid the Greenwashing Trap: Recommendations on Transparency and Minimum Requirements for Sustainable Investment Approaches and Products.* Available at: https://www.sustainablefinance.ch/upload/cms/user/RecommendationsforSustainableInvestmentProducts_AMAS_SSF.pdf

26 AMAS/SSF (2020). *Sustainable Asset Management: Key Messages and Recommendations.* Available at: https://www.sustainablefinance.ch/upload/cms/user/EN_2020_06_16_SFAMA_SSF_key_messages_and_recommendations_final.pdf

27 Swissbanking (2020). *Guideline for the integration of ESG considerations into the advisory process for private clients.* Available at: https://www.swissbanking.ch/_Resources/Persistent/5/9/3/b/593b75d1d479ddc70fff20a76991deffd9ca4bab/SBA_Guidelines_for_the_integration_of_ESG_considerations_into_the_advisory_process_for_private_clients_EN.pdf

28 SVV (10.06.2021). *Annual Report 2020.* Available at: https://www.svv.ch/en/annualreport2020/sustainability

Developments in the European Union

Over the past year, the EU has pursued its sustainable finance ambitions through a multitude of new regulations and standards whose effects stretch far beyond the EU's borders. This rapidly evolving landscape holds great significance for Swiss financial institutions that conduct activities in the EU or that have European clients. All the EU's sustainable finance-related actions and policies that exist today aim to contribute to the objectives of the European Green Deal, which was presented by the EU Commission in December 2019. With the European Green Deal, the EU expressed its commitment to become the first climate-neutral continent by 2050 and to strengthen its resilience to climate change and environmental degradation, while leaving no one behind in the process. In July 2021, the EU demonstrated its commitment to these goals when it published its long-awaited Strategy for Financing the Transition to a Sustainable Economy. The strategy aims to align the financial sector's activities with the targets outlined in the European Green Deal. The sections below provide an overview of the most important developments that took place in the EU in 2021.

EU Taxonomy Regulation

The EU Taxonomy Regulation (TR) is one of the most important legal frameworks the Union is relying on to achieve the objectives of the European Green Deal. It sets out a system for classifying economic activities as "green" in relation to six environmental objectives:

1. climate change mitigation,
2. climate change adaptation,
3. sustainable use and protection of water and marine resources,
4. transition to a circular economy,
5. pollution prevention and control, and
6. protection and restoration of biodiversity and ecosystems.

The principal goal of the TR is to create a collective understanding of sustainability and thereby help prevent greenwashing (i.e. claiming a financial product is sustainable when it is not).

The year 2021 saw the first taxonomy-related delegated act published – the Climate Delegated Act (CDA); it addresses the first two objectives [29] of the TR and has been applicable since January 2022. The CDA defines a list of technical screening criteria that is used to determine whether an economic activity substantially contributes to climate change mitigation or to climate change adaptation. The day after the CDA was published, the Article 8 Disclosures Delegated Act, which specifies how to comply with the disclosure requirements under Article 8 TR, was published in the Official Journal of the European Union (OJEU); it became applicable on 1 January 2022 (see figure 52).

Sustainability-related disclosure requirements

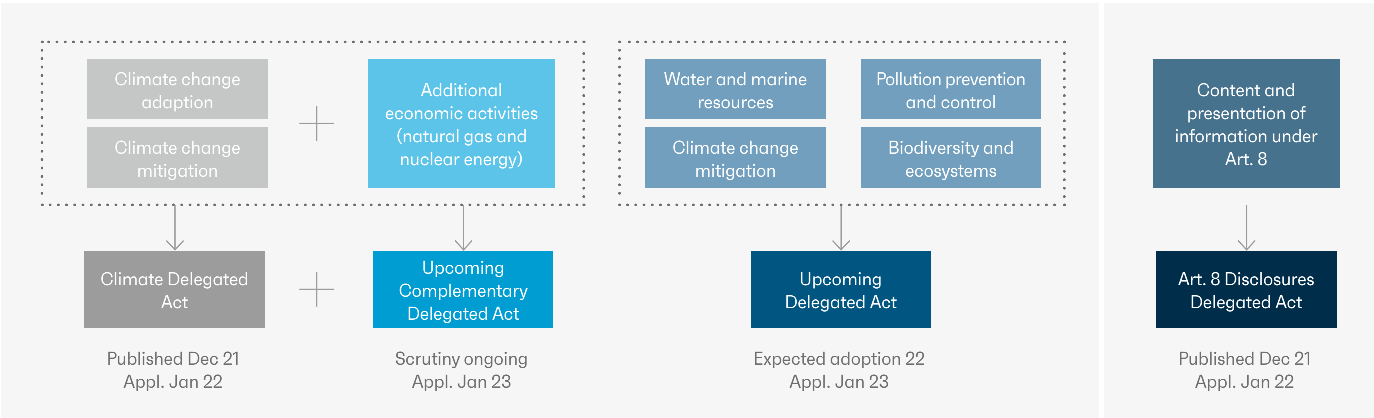
Disclosure requirements are an indispensable part of the EU's overall sustainable finance regulations. The EU Commission identified the mandatory disclosure framework for financial as well as non-financial companies as one of the three "building blocks" for realising the goals of the Strategy for Financing the Transition to a Sustainable Economy. There are several regulations in the EU which introduce sustainability-related disclosure requirements, primarily the Sustainable Finance Disclosure Regulation (SFDR), the TR and the Non-Financial Reporting Directive (NFRD) (i.e. the future Corporate Sustainability Reporting Directive [CSRD]).

These legal acts complement each other: their personal scope of application overlaps and their material scope of application is partially interdependent. First, the overlapping personal scope means that the same entity might be subject to a reporting obligation under all three frameworks. For example, the CSRD proposes reporting obligations for all large companies and all companies with securities listed on EU-regulated markets, excluding micro-companies. This covers both financial and non-financial institutions. The entities that are subject to reporting obligations under the CSRD are also subject to reporting obligations under Article 8 TR. Furthermore, if an entity is a financial institution that also falls within the scope of the SFDR,[30] it would have to make disclosures under the SFDR too. Second, the interdependence of these frameworks means that an entity that reports under one framework needs the information that is disclosed under another framework to fulfil its reporting obligations. This is explained further below.

29 These two objectives are: 1) climate change mitigation and 2) climate change adaptation
30 SFDR applies to the financial market participants and financial advisers

Figure 52: **EU Taxonomy Regulation**

Source: ECOFACT AG/SSF 2022



At the entity level: When the EU Commission unveiled its revision to the NFRD in April 2021, it packaged the revision as a proposed directive (the CSRD) that aims to ensure there is adequate, publicly available information on the sustainability risks that companies are exposed to. The CSRD also aims to ensure adequate information is available on companies' impact on people and the environment (a concept called "double materiality"). By improving the quality, reliability, and comparability of the sustainability information disclosed by investee companies, the CSRD also supports the application of the TR and the SFDR. The idea is that a consistent and coherent flow of sustainability information provided by investee companies would also help financial market participants and financial advisers to meet their disclosure requirements under the SFDR. The SFDR introduces multiple disclosure obligations that require detailed information on investee companies' sustainability risks and impacts. For example, a financial market participant needs to know about the most significant adverse impacts of its underlying investments on sustainability factors to prepare a principal adverse impacts (PAI) statement.

Furthermore, the TR also interacts with the NFRD (i.e. the future CSRD) because it requires companies within the scope of the NFRD to disclose indicators that inform about the extent to which their activities are environmentally sustainable. The CSRD is currently a draft, and to be adopted it has to pass through the complete EU legislative process.[31]

At the financial-product level: The SFDR also introduced several rules at the financial-product level that mostly started applying on 10 March 2021[32] on a principle basis (Level 1). These rules are applicable for financial products' pre-contractual disclosures, websites, and periodic disclosures. The disclosures have to inform about a product's integration of sustainability risks (Article 6), its promotion of environmental and/or social characteristics (Article 8), or the sustainable investments it makes (Article 9) to clearly communicate the sustainability commitment of each financial product. Moreover, products *without* any sustainability feature have to update their pre-contractual disclosures to explain why sustainability risks are not relevant to them (Article 6). On 6 April 2022, the EU Commission also adopted Level 2 requirements for the implementation of the SFDR in the form of regulatory technical standards (RTS), which were developed by the three European supervisory authorities (ESAs [European Banking Authority, European Securities and Markets Authority, and European Insurance and Occupational Pensions Authority]). The RTS are based on the ESAs' reports from February 2021 and October 2021.

31 The EU Commission proposed 1 January 2023 as the application date of the CSRD, whereas the EU Parliament proposed to delay this to 1 January 2024

32 Article 11, which regulates products' periodic disclosures, has been applicable since 1 January 2022. Article 7, which regulates PAI disclosure at the product level, will start applying on 30 December 2022

It is worth emphasising that the SFDR's product-level disclosures must be supplemented with information that satisfies the requirements of Articles 5, 6, and 7 TR. The products which make sustainable investments contributing to environmental objectives must identify in their pre-contractual and periodic disclosures which environmental objective the product contributes to, as well as the extent to which the economic activities the product invests in are aligned with the taxonomy. The SFDR's Regulatory Technical Standards (RTS) contain detailed implementation rules for the pre-contractual and periodic disclosures of SFDR's Articles 8 and 9 products, including the additional specific disclosure requirements stemming from Articles 5 and 6 TR. The RTS are scheduled to apply from 1 January 2023.

Integrating sustainability into AIFMD, UCITS, Solvency II, IDD, and MiFID II

To harmonise the above-mentioned disclosure requirements, the EU amended the AIFMD, UCITS, Solvency II, IDD, and MiFID II frameworks via delegated acts that integrate the consideration of sustainability risks and sustainability factors. The final texts of the delegated acts were published in the Official Journal of the European Union (OJEU) in August 2021. Most of the sustainability-related amendments will start applying in August 2022.[33] Under the MiFID II framework, for example, firms providing investment advice and portfolio management will have to ask clients or potential clients about their sustainability preferences during suitability assessments from 2 August 2022 onwards. Furthermore, from 22 November 2022 onwards, investment firms manufacturing and distributing financial instruments will have to determine whether each financial instrument is consistent with the sustainability-related objectives of the target market.[34]

Developments around the globe

Intergovernmental and industry-led initiatives

Disclosure requirements also play a significant role internationally. In 2021, global efforts to advance sustainability reporting standards were on display. The Taskforce on Nature-related Financial Disclosures officially launched in June 2021, is working to advance reporting on nature-related risks. Much like the renowned TCFD, the TNFD focuses on financial risks, but instead of climate risks, it is looking to address risks posed by the degradation of nature, biodiversity, and habitat. The TNFD uses the term "nature-related risks" in referring to the risks posed by the linkages between an organisation's activities and nature. In addition to shorter-term financial risks (deemed material today), this includes longer-term risks represented by its impact and dependencies on nature over time. As there is a gradual convergence in the perspective on materiality of nature-related risks emerging in the market, the consideration of both nature-related dependencies and impacts is required for a comprehensive assessment of risks and opportunities. It also acknowledges that an organisation's impacts on nature become relevant to enterprise value when assessed over a future time horizon.[35]

In 2021, the recommendations of the TCFD were subject to important developments too. A new Guidance on Metrics, Targets, and Transition Plans was published in October 2021 to further increase comparability of metrics and targets disclosures.[36] On the same day, the TCFD also published an updated version of its Annex "Implementing the Recommendations of the TCFD"[37], which replaces the original issued in 2017. Another relevant development was the IFRS Foundation's establishment of the International Sustainability Standards Board (ISSB) in November 2021. The ISSB's main task is to create a global baseline of high-quality sustainability disclosure standards that meet the information needs of investors. The ISSB will build on existing frameworks such as the TCFD recommendations and the standards set by the Sustainability Accounting Standards Board (SASB) and the Global Reporting Initiative (GRI).

Finally, there are a number of climate finance initiatives that were established to encourage private-sector actors to make net zero pledges, publicly communicate them, and quantitatively report on their progress toward meeting them on an annual basis. A detailed description of these initiatives and related developments can be found in Chapter 6.3.

33 The only exception to the August 2022 applicability is Commission Delegated Directive 2021/1269, which was adopted under Mi-FID II. It requires EU member states to amend their national laws by 21 August 2022 to ensure that the amendments will apply from 22 November 2022
34 The only exception to the August 2022 applicability is Commission Delegated Directive 2021/1269, which was adopted under Mi-FID II. It requires EU member states to amend their national laws by 21 August 2022 to ensure that the amendments will apply from 22 November 2022
35 See the TNFD homepage: *The TNFD-Framework, FAQ*. Available at: https://tnfd.global/the-tnfd-framework/faq/
36 TCFD (14.10.2021). *Task Force on Climate-related Financial Disclosures: Guidance on Metrics, Targets, and Transition Plans*. Available at: https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf
37 TCFD (14.10.2021). *Task Force on Climate-related Financial Disclosures: Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures*. Available at: https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf

Important national initiatives

Sustainability disclosure frameworks have gained importance in several jurisdictions. The UK government published its roadmap for the area of sustainable investments in October 2021.[38] The document explains how the government will implement the new Sustainability Disclosure Requirements (UK's SFDR) for businesses and asset managers. It also provides details on the UK's Green Taxonomy.

The year 2021 particularly saw significant momentum around the TCFD-aligned climate reporting requirements. In November 2021, the Hong Kong Stock Exchange published Guidance on Climate Disclosures to provide issuers with practical tips and advice for preparing climate change reports that are aligned with the TCFD recommendations.[39] The TCFD-aligned climate reports will be mandatory in Hong Kong by 2025. Similarly, the Singapore Stock Exchange announced in December 2021 that all issuers must provide climate reporting on a *comply or explain* basis in their sustainability reports, starting with the 2022 financial year.[40] Climate reporting will be *mandatory* for financial sector issuers, starting in 2023.

An important development regarding climate-related financial risks also took place in the United States (US). The US Office of the Comptroller of the Currency issued draft principles for climate-related financial risk management for large banks for consultation in December 2021.[41] The aim is to test large banks on their climate risk management capacities in the future.

Important developments took place in relation to national green taxonomies too. The South Korean Ministry of Environment published the Green Taxonomy (K-Taxonomy) in December 2021.[42] Furthermore, the member states of the Association of Southeast Asian Nations (ASEAN) issued a proposal for an ASEAN taxonomy for sustainable finance in November 2021.[43]

Conclusion

The constantly evolving regulation of the EU is part of its package of measures to build the foundations for sustainable finance and to set international standards. Also, disclosure frameworks around the globe are constantly evolving and play a significant role in setting international standards. Other initiatives are increasing the awareness of the business community that the world's economic output is moderately or highly dependent on nature and that nature loss represents significant risk to corporate and financial stability.

38 HM Treasury (18.10.2021). *Greening Finance: A Roadmap to Sustainable Investing.* Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1031805/CCS0821102722-006_Green_Finance_Paper_2021_v6_Web_Accessible.pdf

39 Hong Kong Stock Exchange (05.11.2021). *Reporting on TCFD Recommendations: Guidance on Climate Disclosures.* Available at: https://www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Environmental-Social-and-Governance/Exchanges-guidance-materials-on-ESG/guidance_climate_disclosures.pdf

40 Singapore Exchange (15.12.2021). *Responses to Comments on Consultation Paper: Climate and Diversity: The Way Forward.* Available at: https://api2.sgx.com/sites/default/files/2021-08/Consultation%20Paper%20on%20Climate%20and%20Diversity%20-%20The%20Way%20Forward.pdf

41 Office of the Comptroller of the Currency (16.12.2021). *Principles for Climate-Related Financial Risk Management for Large Banks.* Available at: https://www.occ.gov/news-issuances/bulletins/2021/bulletin-2021-62a.pdf

42 Ministry of Environment (30.12.2021). *K-Taxonomy.* Available at: http://me.go.kr/home/web/board/read.do;jsessionid=IhdmJdt-8Ed+fSYut9gcnPtal.mehome1?pagerOffset=10&maxPageItems=10&maxIndexPag-es=10&searchKey=&searchValue=&menuId=10525&org-Cd=&boardId=1498700&boardMasterId=1&boardCategoryId=&decorator=

43 Asean Taxonomy Board (10.11.2021). *Asean Taxonomy for Sustainable Finance: Version 1.* Available at: https://asean.org/wp-content/uploads/2021/11/ASEAN-Taxonomy.pdf

06

Additional Market Insights

6.1 Taskforce on Nature-related Financial Disclosures (TNFD) and its Role for Investors

Interview with Lucretia Landmann
Senior Policy Advisor Environmental Finance, Federal Office for the Environment (FOEN)

Why should investors care about nature and biodiversity?

First and foremost, it is important to highlight that biodiversity is the basis of life on earth. If we look at the macroeconomic level, a study from the WEF in 2019[44] showed that more than half of global GDP is dependent on the ecosystem services that nature provides (e.g. water, waste decomposition, flood protection, carbon sequestration). Consequently, investors should also care about nature and biodiversity.

They should do this both from a risk and an opportunity perspective. On the one hand, there is a systemic physical risk analogue to the climate risk: financial market players are dependent on nature's "services". But they must also consider transition risks in ignoring biodiversity aspects as regulation and market trends change. On the other hand, funds may also seek opportunities by investing in nature and biodiversity, subsumed under thematic investing.

A growing number of frameworks and initiatives is emerging in the market, TNFD being one of them. Can you tell us what TNFD is all about? How did TNFD emerge and who were the main drivers behind the initiative?

TNFD is the acronym for "Taskforce on Nature-related Financial Disclosures" and builds on the existing TCFD framework. Its mission is to provide a framework for corporations and organisations to report and act on nature-related risks. TNFD was launched at the World Economic Forum in 2020 by Global Canopy, UNDP, UNEP FI and WWF. The initiative started as an informal working group with the aim of bringing together the public and private sector, and it managed to mobilise around 200 institutions, including Swiss players. The TNFD is a voluntary public-private initiative. The above-named WEF study, as well as a growing body of literature from different sources including the OECD[45], the Dasgupta Report (2020)[46] and the Paulson Report (2020)[47], among others, analyse the economics of biodiversity and form the intellectual foundation of the initiative. After defining the objective and scope, the TNFD was launched in 2021 with the aim of setting up a transparent risk management, disclosure and reporting framework that allows the private sector to deal with nature-related risks. The first beta version of the framework was published in March of this year and the first feedback phase is ongoing.

What was the role of Switzerland in setting up TNFD and which Swiss companies are actively involved?

The original idea was born in Switzerland at the WEF, with a strong interest from Swiss companies. Switzerland has provided financial support and is part of the stewardship council, a consulting body of all the founders and funders. The Federal Office for the Environment (FOEN), together with the State Secretariat for International Finance SIF, represent Switzerland on the stewardship council. This demonstrates the interest in the TNFD across different parts of the federal administration. Besides Switzerland, various European countries including France and the UK, Australia and many others are supporting the initiative. The taskforce has 35 active members participating in various working groups and is contributing to the development of the disclosure framework. There are four Swiss companies (Holcim, Nestlé, Swiss Re and UBS) among the 35 taskforce members.

44 WEF (2019). *Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy.* Available at: https://www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf
45 See the latest releases by the OECD on biodiversity finance. Available at: https://www.oecd.org/env/resources/biodiversityfinance.htm
46 Dasgupta (2020). *The Economics of Biodiversity: The Dasgupta Review.* Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/962785/The_Economics_of_Biodiversity_The_Dasgupta_Review_Full_Report.pdf
47 Paulson Institute (2020). *Financing Nature: Closing the Global Biodiversity Financing Gap.* Available at: https://www.paulsoninstitute.org/wp-content/uploads/2020/10/FINANCING-NATURE_Full-Report_Final-with-endorsements_101420.pdf

What specific expertise is Switzerland able to contribute to the process?

The Swiss government has long been involved in initiatives assessing and protecting natural capital. A starting point was the support for the development of the "ENCORE" tool by the State Secretariat for Economic Affairs (SECO), along with the FOEN. This innovative tool assesses dependence on nature for different sectors and is publicly available for anyone to use.

Furthermore, the Swiss government has set the clear ambition to establish Switzerland as a global hub for sustainable finance, thereby building on strong Swiss know-how in sustainable finance and close links to international organisations based in Geneva. All of this prompted the decision to be an early supporter of TNFD.

Can you briefly describe the main objective of TNFD? How can investors contribute to stopping biodiversity loss and what are the specific challenges related to it?

TNFD is in line with the new Global Biodiversity Framework (GBF), but is independent of it. The objective is to establish a framework that supports shifting financial flows into solutions that have positive outcomes for nature. The approach aims to minimise financial risk through transparency, while also providing a positive impact on biodiversity.

In alignment with TCFD, the TNFD proposes the same four pillars: governance, strategy, risk management, and metrics & targets related to biodiversity. It builds on a double materiality perspective and encourages companies to take into account both their dependence as well as their impact on nature.

In the context of disclosing (and reporting on) nature-related financial risks, investors face two main challenges: unlike with climate, data on nature-risks is location-specific and therefore difficult to compare. Furthermore, nature-related data has multiple dimensions that cannot be aggregated easily. Investors will have to develop skills in dealing with asset-specific and multidimensional data. Data availability and accessibility is of course also a major issue. However, a growing number of tools, including ENCORE, will hopefully help address these challenges, going forward.

You've just come back from the latest negotiations in preparation of the Biodiversity COP 15 due to take place in Kunming, China, in September 2022. What are the key take-aways for financial players?

The parties to the United Nations Convention on Biological Diversity (CBD) are negotiating a new post-2020 Global Biodiversity Framework (GBF) that is expected to be adopted at COP 15 [the 15th conference of the parties] in Kunming later this year. The post-2020 GBF addresses the root causes of biodiversity loss and forms a stepping stone towards the 2050 Vision of "Living in harmony with nature". It consists of 21 targets and four overarching goals. The framework has three main pillars: nature conservation, sustainable use of natural resources and fair sharing of nature's benefits. To be honest, negotiations were slow and we had hoped for more concrete progress. But we are optimistic that the additional session in June 2022 will offer an opportunity to make greater progress towards Kunming, where the post-2020 GBF is expected to be finalised later this year. One of the key take-aways for financial players is that the alignment of financial flows to biodiversity goals will also be included in the framework. This is a key priority for TNFD and other related initiatives aiming to make financial flows part of the solution. Our objective at FOEN is clearly to make Switzerland a leading player in aligning of financial flows with nature-positive development.

6.2 The Case for Gender Lens Investing in Switzerland

Tim Radjy
Chair of the GLIS
Managing Partner, AlphaMundi Group

Arlette Espinosa
Associate, AlphaMundi Group

Kali Taylor
Community Manager, Sustainable Finance Geneva

Switzerland is a leading global financial centre and a nexus for sustainable finance. Following its pioneering work in microfinance and impact investing, Switzerland now has the chance to embark on the next frontier of financial innovation: Gender Lens Investing (GLI).

The Gender Lens Initiative for Switzerland (GLIS) was launched on International Women's Day, 8 March 2021, to enhance Switzerland's contribution to SDG 5 (Gender Equality)[48] by conducting market research, developing and promoting the adoption of standards, and raising awareness of gender lens investing. With these activities, the founding partners aim to illustrate how investors can invest in gender empowerment globally, thereby contributing to economic development.

The Global Impact Investing Network (GIIN) defines GLI as investment strategies applied to an allocation or the entirety of an investment portfolio, which seek to examine gender dynamics to inform investment decisions in order to better and/or intentionally and measurably address gender disparities. Gender-sensitive business models include considerations for gender equality at the workplace and in society at large, access to capital for women, and/or products and services that empower women and girls.

Approximately USD 30 trillion in wealth is set to change hands in the next decade and women are poised to inherit a sizable share.[49] Women are also increasingly building wealth on their own. It is estimated that greater gender diversity could lead to a potential increase in global annual GDP by 26%, and likely enhance business performance by 15%.[50]

Women now control 32% of the world's wealth.[51] Related financial assets will rise at a compound annual growth rate of 7.2% and reach USD 93 trillion by 2023. Gender lens considerations are therefore not merely a requirement for the global transition to a sustainable economy; they also amount to an incredible business opportunity for those institutions able to seize it.

Key facts on gender equality and SDG[52]

- In 2021, women accounted for 49.6% of the world population of 7.97 billion people.
- Globally, 83% of adult females are literate compared with 90% of adult males.
- Women hold only 28% of managerial positions worldwide, a 3% increase in the last 20 years.
- Women hold 26% of national parliamentary seats, with gender parity likely to take another 40 years.
- 1 in 3 women were subject to violence at least once since turning 15 years old.
- The World Economic Forum has predicted it would take 267 years to close the economic gender gap, and the United Nations estimates it will take more than 100 years to achieve SDG 5 at the current pace of progress.

Gender equality in Swiss society

The Human Development Index (HDI) is a composite index measuring a country's average development according to three basic dimensions: a long and healthy life, knowledge, and a decent standard of living. UN Women evaluates gender-based metrics and calculates the Gender Development Index (GDI),[53] which compares a country's female and male HDI scores. Switzerland is classified in the highest HDI group and ranks 3rd worldwide according to the GDI; however, it still lags on several key measures and particularly in business.

Switzerland is ranked 23rd for female representation in government by the Inter-Parliamentary Union. The Swiss average for female participation in government is 26.1% compared to the worldwide average of 25.9%, with Switzerland matching the Sub-Saharan Africa average and trailing behind both the US and Europe by about 5%.

48 UN Department of Economic and Social Affairs (2022). *Achieve gender equality and empower all women and girls.* Available at: https://sdgs.un.org/goals/goal5
49 McKinsey & Company (2020). *Women as the next wave of growth in US wealth management.* Available at: https://www.mckinsey.com/industries/financial-services/our-insights/women-as-the-next-wave-of-growth-in-us-wealth-management
50 European Investment Bank (2020). *Funding Women Entrepreneurs: How to Empower Growth.* Available at: https://www.eib.org/attachments/thematic/why_are_women_entrepreneurs_missing_out_on_funding_en.pdf
51 BCG (2020). *Managing the Next Decade of Women's Wealth.* Available at: https://www.bcg.com/publications/2020/managing-next-decade-women-wealth
52 UN Department of Economic and Social Affairs (2022). *Achieve gender equality and empower all women and girls.* Available at: https://sdgs.un.org/goals/goal5
53 Gender Development Index (2020). *Technical notes.* Available at: https://hdr.undp.org/sites/default/files/hdr2020_technical_notes.pdf

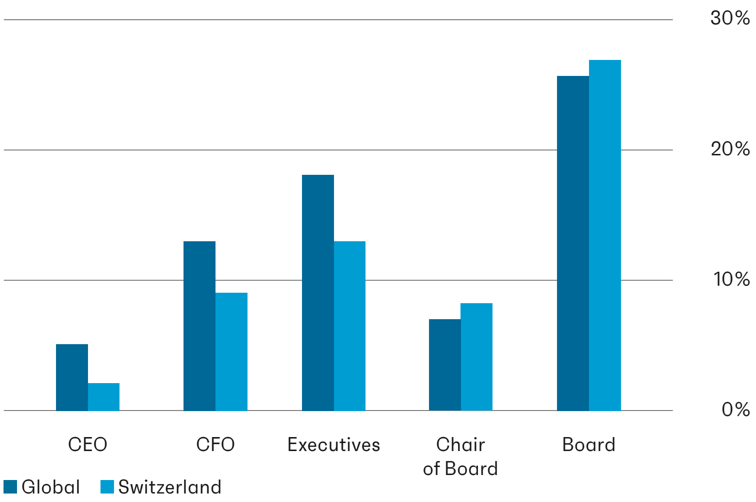
Switzerland is the European country with the lowest level of partner violence against women, with 9.8% of Swiss women subject to violence from their partner during their lifetime. Against this backdrop it comes as a surprise that Switzerland is in the third quartile of the OECD Index on Domestic Violence Laws, far behind most European countries that are ranked in the first and most progressive quartile. With 15% of Swiss women believing that a husband/partner can be justified in beating his wife/partner, the OECD ranks Switzerland 63rd out of 152 countries assessed.

On 28 April 2021 the Federal Council took an important step by adopting the 2030 Gender Equality Strategy,[54] and now the Federal Office for Gender Equality (FOGE) – established within the Federal Department of Home Affairs – is leading the action plan to realise the strategy.

FOGE's mandate is based on the Federal Constitution's article 8 paragraph 3 on gender equality, included in 1981, and the Gender Equality Act (GEA) adopted in 1996: the promotion of equal opportunities and pay, a work climate devoid of sexual harassment, a fair division of unpaid housework in the family and the prevention of domestic violence. FOGE provides CHF 3 million in annual financial support to GEA-related organisations. Switzerland also became a signatory to the UN Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) in 1997.

Figure 53: **Comparison of Swiss and global female representation in executive management and boards** (in percentage)

Source: Equileap and European Women on Boards



54 FOGE (28.04.2022). *Key topics*. Available at: https://www.ebg.admin.ch/ebg/en/home/the-foge/organization/key-topics.html

Figure 54: **Female representation per country** (in percentage)

Source: Equileap

Country	Board	Executives	Senior Management	Workforce
Australia	32	24	30	39
France	44	23	29	40
Germany	32	14	20	36
Italy	40	14	21	37
Japan	12	4	10	28
Netherlands	31	16	24	34
Singapore	19	28	32	44
Spain	32	15	25	38
Sweden	37	27	29	34
Switzerland	27	13	22	39
United Kingdom	35	20	30	39
USA	27	22	30	41

0–10% 11–20% 21–30% 31–40% 41–50%

Gender equality in Swiss companies

Swiss companies achieved an average Equileap score[55] of 40% on gender equality; this is above the global average of 37% but lower than most European averages. Switzerland ranks fourth lowest of European countries in the Gender Diversity Index[56]. Current statistics (Figures 53 and 54) show 27% of board members, 13% of executives, 22% of senior management and 39% of the Swiss workforce is female.[57] Switzerland and Germany unfortunately stand out in Europe as having a particularly strong glass ceiling for women in leadership.

Some 24% of Swiss companies go beyond regulatory requirements for maternity/paternity benefits, with one of them even offering 20 weeks of gender-neutral paid parental leave. Based on Equileap research, no Swiss company has closed its gender pay gap, and only 20% publish pay gap information – in comparison to 27% in France and 78% in the UK publishing this information. A mere 1% of companies worldwide have closed their pay gap to a disparity of 3% or less, and only 18 companies worldwide have achieved a gender balance at all levels. Only one Swiss company ranks among the global 100 corporate leaders on gender equality.

According to EDGE[58], women account for half of students enrolled in tertiary education in finance, banking and insurance in Switzerland, yet they only represent 17% of top management in the Swiss financial industry. EDGE research also found that employees perceive larger gender gaps in the organisational culture of Swiss companies than in European ones.

Based on these assessments, Switzerland does not rank well in various aspects of gender equality in the workplace. Overall, the leading countries for corporate gender equality include France, Spain, Italy, the UK and Sweden. Swiss investors should therefore further align their own organisations on gender equality principles, and encourage their portfolio companies to do so as well. Credit Suisse, for example, has set a target to increase overall women's representation to 42% by 2024, because doing so is good for business.[59]

55 Equileap claims to hold the largest database on gender equality, covering 3,895 companies across 23 developed economies and employing 102 million members of staff. It scores companies using 27 metrics across various dimensions, such as: a company's gender balance in leadership and workforce, compensation and life balance, policies, and commitment, transparency and accountability. https://equileap.com

56 European Women on Boards (2021). *Switzerland Country Report*. Available at: https://europeanwomenonboards.eu/wp-content/uploads/2022/01/Switzerland-Country-report-2021-GDI.pdf

57 Equileap (2022). *Gender Equality Global Report and Ranking*. Available at: https://equileap.com/wp-content/uploads/2022/03/Equileap_Global_Report_2022.pdf

58 EDGE is a foundation that aims to measure, accelerate and certify gender and intersectional equity in the workplace. They hold an assessment methodology and certification, and complete market research. For more information see https://edge-cert.org

59 Credit Suisse, CSRI Gender 3000 Report (2021). Available at: https://www.credit-suisse.com/sustainability/en/people-and-planet/inclusion-and-sustainability.html

Swiss gender lens investing offering

Globally, 206 gender lens funds were identified in 2021, representing 49% growth over 2020.[60] These funds raised USD 6 billion, with more than 60% focused on venture capital and private equity strategies. Around 69% of fund senior leadership identified as female, an exceptionally high ratio for the financial industry.

According to recent data, Swiss asset managers contributed 22 impact products to the gender lens investing market by January 2022, holding USD 4.9 billion in assets.[61] Most of the Swiss gender lens funds focused on emerging markets, with only one of them having a global scope and another one investing in developed markets only. Half of the funds focus on financial inclusion, with the rest investing in a variety of other sectors, with impact alignment on SDGs 1 (Poverty), 5 (Gender), 8 (Growth), and 10 (Inequality) primarily.

Impact funds are not the only option to invest in SDG 5. In the listed sphere, ETFs can be created on the basis of gender-related KPIs. Existing funds illustrate that this can be an attractive investment opportunity. The Gender ETF launched by UBS in 2011, based on the Equileap Top 100 Index, has assets under management of USD 937 million as of March 2022.[62]

GLIS action

The data clearly shows that action is needed by both Swiss investors and companies to promote gender equality and to reap the full economic benefits that come with it. Here are some tangible actions that can be taken:

For companies (including financial institutions):

1. Develop HR policies that enable equal opportunity for women, including:
   a. Fair pay
   b. Flexible working arrangements (part-time or flexible location)
   c. Anti-harassment training & policy
   d. Gender-neutral parental leave
2. Publish equal pay report

For Investors:

1. Develop strategies following clear target criteria in the investment process, like the ones from 2X[63]: invest in businesses founded, majority-owned or partially led by women, or with a substantial share of women in the workforce, or with products and services that disproportionately benefit women.
2. Monitor the evolution of these criteria in portfolio companies.
3. And/or proactively encourage portfolio companies to improve gender lens policies or get a credible gender-lens certification.

60 S. Biegel, M. Brown & S. Hunt (2021). *Project Sage 4.0: Tracking Venture Capital, Private Equity, and Private Debt with a Gender Lens.* Available at: https://socialimpact.wharton.upenn.edu/research-reports/reports-2/project-sage-4/

61 Phenix Capital Group (2022). Available at: https://www.phenixcapital-group.com/impact-database

62 For more information on the UBS Global Gender Equality UCITS ETF visit www.ubs.com

63 2X Challenge (2018). Available at: https://www.2xchallenge.org/criteria

Gender Lens Initiative for Switzerland

About the GLIS The Gender Lens Initiative for Switzerland (GLIS) is a working group of Sustainable Finance Geneva (SFG), established in 2021, that aims to mobilise more capital from Swiss-based institutions for gender lens investing. The GLIS establishes industry standards and advocates their adoption, completes and disseminates market research, and raises awareness of financial innovation and products with a gender lens, as well as SDG 5 more broadly. https://sfgeneva.org/what-we-do/work-groups/gender-lens-initiative-for-switzerland/

6.3 Net Zero Pledges and their Role in the Swiss Financial Sector

Veronica Baker
Project Manager, Swiss Sustainable Finance

Global climate disasters have become a common news feature. The 2021 flooding in Germany and Belgium was the costliest weather disaster in European history,[64] July 2021 was the warmest month in recorded history globally[65] and many other climate disasters occurred globally. Clearly, drastic climate action is urgently needed. Earth has already warmed by 1.1°C since the 1850–1990[66] period. Scientists agree it will be challenging to reach the aim of the Paris Agreement, which is to limit global warming to 1.5°C (or at least well below 2°C). To achieve this – and to keep the planet liveable – reaching net zero carbon emissions by 2050 is incredibly important. The projected climate risks are less for lower magnitudes and rates of warming.[67] Therefore, it is paramount that change comes *now* in the form of multilevel, cross-sectoral change. Such change includes the financial sector, which has fairly low internal emissions but significant influence, as it is involved in the financing of almost all sectors of the economy. Implementing a net zero policy across all operations, including financed emissions,[68] could make a considerable contribution to meeting global emission reduction goals. As things stand, however, net zero targets will not be met in time for 2050.

UN Race to Zero

Key representatives of the economy have recognised that achieving net zero emissions will require a concerted global effort. At the same time, it is important to ensure that commitments made are realistic and that reported emissions reductions are credible, science-based and verifiable. The UN Race to Zero, backed by UNFCCC,[69] was launched by the UN on World Environment Day in 2020 as a worldwide campaign to ensure exactly such a global framework. The campaign sets a number of requirements that every member of this campaign must satisfy to ensure credible net zero targets.[70] These are divided into the so-called "starting line" measures, which are procedural steps required of all actors, and "leadership practices" which are key areas where networks and initiatives must at least reach current best practice. These criteria are reviewed on an annual basis (see Figure 55 for those as of June 2021[71]).

Figure 55: **The UN Race to Zero Criteria summarised**

Summarised from: https://racetozero.unfccc.int/wp-content/uploads/2021/04/Race-to-Zero-Criteria-2.0.pdf (status: 1 June 2021)

The UN Race to Zero Criteria…

… for the "starting line":

- Pledge to achieve net zero as soon as possible, with interim goals for 2030 that represent a fair share of the 50% decarbonisation required by the end of the decade
- Within 12 months of joining, submit a plan of action for interim and long-term pledges
- Take immediate steps on the actions determined
- Report publicly on progress towards interim and long-term targets annually

… for the "leadership practices":

- Net zero efforts must cover all greenhouse gas emissions, including scope 3
- Emission reduction and elimination should be prioritised, with strict restrictions on the use of offsets and immediate contributions to restoring carbon sinks
- The Sustainable Development Goals and Articles 2 and 4 of the Paris Agreement should be used as guidelines for ensuring an equitable global transition

64 Climate Copernicus (2.4.2022). *Europe experienced its warmest summer on record in 2021, accompanied by severe floods in Western Europe and dry conditions in the Mediterranean.* Available at: https://climate.copernicus.eu/europe-experienced-its-warmest-summer-record-2021-accompanied-severe-floods-western-europe-and-dry

65 NOAA (2021). *July 2021 Global Climate Report.* Available at: https://www.ncei.noaa.gov/access/monitoring/monthly-report/global/202107

66 Nature (2021). *IPCC Climate report: Earth is warmer than it's been in 125,000 years.* 9.8.2021. Available at: https://www.nature.com/articles/d41586-021-02179-1#:~:text=Earth's%20global%20surface%20temperature%20has,the%20most%20recent%20ice%20age

67 IPCC (2022). *Climate Change 2022: Impacts, Adaptation and Vulnerability.* Available at: https://www.ipcc.ch/report/sixth-assessment-report-working-group-ii/

68 LSE (2021). *Net zero success demands a whole of financial system response.* 2.11.2021. Available at: https://www.lse.ac.uk/granthaminstitute/news/net-zero-success-demands-a-whole-of-financial-system-response/

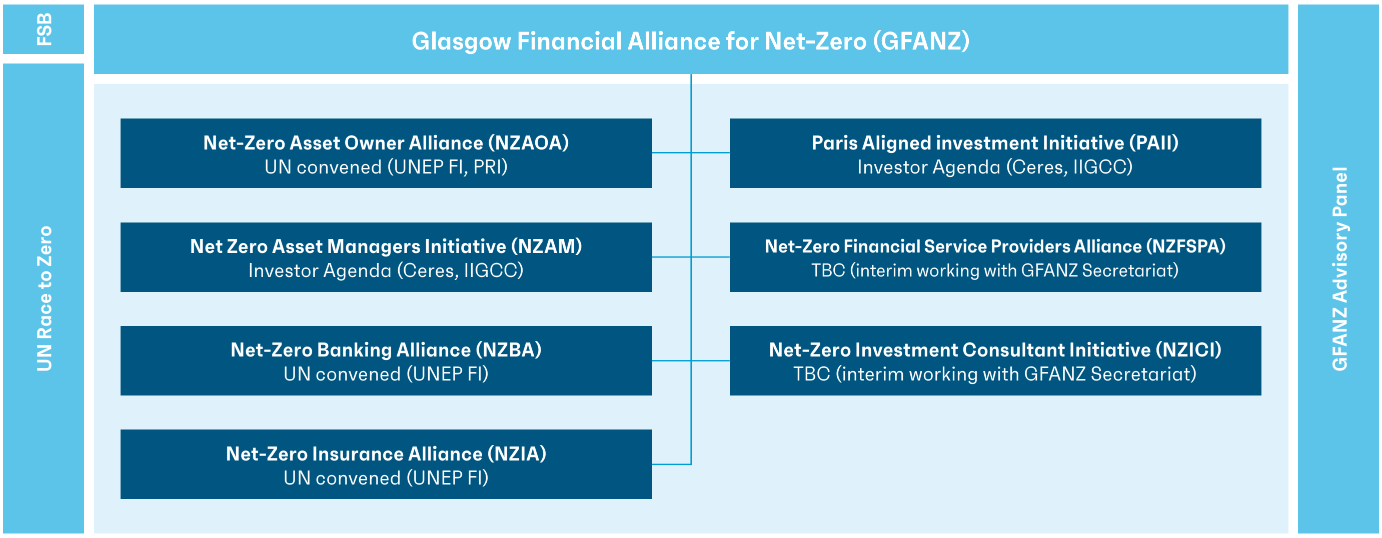
69 UNFCCC (2022). *Race to Zero Campaign.* Available at: https://unfccc.int/climate-action/race-to-zero-campaign

70 COP 25 (05.06.2020). *Cities, Regions and Businesses ramp up ambition on climate change to deliver healthier economies in the wake of the pandemic.* Available at: https://cop25.mma.gob.cl/en/cities-regions-and-businesses-ramp-up-ambition-on-climate-change-to-deliver-healthier-economies-in-the-wake-of-the-pandemic/

71 Race to Zero (01.06.2021). *Starting Line and Leadership practices 2.0 – In force from 1 June 2021.* Available at: https://racetozero.unfccc.int/wp-content/uploads/2021/04/Race-to-Zero-Criteria-2.0.pdf

Figure 56: **Overview of net zero alliances within the GFANZ umbrella**

Source: GFANZ



The emergence of GFANZ

The Glasgow Financial Alliance for Net Zero[72] (GFANZ) is the finance arm of UN Race to Zero and an umbrella organisation for seven different, UN-backed, net zero alliances (see Figure 56) whose aim is to provide a network of support and guidance. GFANZ emerged out of COP26 as a finance-industry-led effort to lower emissions and achieve net zero by 2050, in order to limit global (average) warming to 1.5°C, or at least below 2°C. Figure 56 provides an overview of the three supporting elements that GFANZ offers. An advisory panel, including the Science-Based Targets initiative (SBTi), aims to ensure ambition and alignment with science by providing technical expertise. All GFANZ pledges must align with the UN Race to Net Zero Criteria, to make sure the quality and success of targets is the same across all pledges. The final element is the Financial Stability Board (FSB), acting as an overseer on progress. GFANZ representatives from Europe, the Americas, Africa and Asia will periodically report to FSB. In addition, GFANZ has seven workstreams designed to support signatories and drive change in the following topics:

- building commitment
- mobilising private capital to emerging markets and developing countries
- evaluating sectoral pathways
- real-economy transition plans
- financial institution transition plans
- measurement of portfolios
- and the guidance of policy action via the GFANZ ‘policy call to action’ workstream.

By committing to a GFANZ-endorsed net zero pledge, including SBTi, financial players can benefit from the support and knowledge of all of these workgroups and access a global network of companies with the same aim.

72 GFANZ (2022). *About us*. Available at: https://www.gfanzero.com/about/

A brief overview of where the pledges stand

The seven alliances within the GFANZ umbrella exist to offer support for specific financial players, while the Science-Based Targets initiative (SBTi)[73] aims to help organisations from any sector set and achieve targets with an actionable implementation pathway. There is a specific group called the Science-Based Targets initiative for Financial Institutions (SBTi-FI) whose purpose is to give sector-specific advice and support to financial players.

- The Net Zero Asset Owner Alliance (NZAOA) was the first net zero finance sector initiative to join the Race to Zero after being launched in 2019, and its signatories will set their first generation of five-year targets in 2025. So far, NZAOA has published their opinion on a number of critical topics, such as a paper on negative emission technologies and sectoral decarbonisation pathways,[74] and has also produced its first progress report.[75]
- The Net Zero Asset Manager Initiative (NZAM) has already attracted over 236 signatories[76] since its launch in December 2020 and 43 signatories have so far disclosed their initial proportion of assets under management (AUM) that will be managed in line with net zero and their interim targets. NZAM has also published a progress report.[77]
- The Net Zero Banking Alliance (NZBA), launched in April 2021, has doubled its initial membership base and appointed a 12-member steering group and chair to ensure transparent governance of the alliance. The work plan for supporting members is currently under development.[78]
- Since its establishment in July 2021, the Net Zero Insurance Alliance (NZIA) has put its governance and workstreams in place and is developing a global, standardised methodology for measuring and disclosing emissions for global insurance and reinsurance portfolios.[79]
- The Paris-Aligned Investment Initiative (PAII) was established in 2019 and within the context of COP26; five of the 50 signatories have already submitted their interim targets.
- The Net Zero Investment Consultants Initiative (NZICI) was launched in September 2021 and so far has published some guidance for their signatories.[80]
- The Net Zero Financial Service Providers Alliance (NZFSPA) was also launched in September 2021 and has established a full list of commitments, with a breakdown by service provider type.[81]

The different alliances assist financial players in developing a strategy that is suited to the challenges of becoming net zero aligned, whether an insurer, asset manager, asset owner or bank. Financial players transition at different speeds and use a different combination of strategies to align their portfolios with net zero targets and promote change in both the financial sector and the real economy.

73 Science-Based Targets initiative (2022). *How it works.* Available at: https://sciencebasedtargets.org/how-it-works
74 GFANZ (2021). *The Glasgow Financial Alliance for Net Zero: On progress and plan towards a net-zero global economy.* Available at: https://assets.bbhub.io/company/sites/63/2021/11/GFANZ-Progress-Report.pdf
75 UNEP FI (2021). *UN-Convened Net Zero Asset Owner Alliance Progress Report: Credible Ambition, Immediate Action.* Available at: https://www.unepfi.org/publications/credible-ambition-immediate-action/
76 The Net Zero Asset Managers initiative (31.12.2021). *The Net Zero Asset Managers initiative - 236 signatories.* Available at: https://www.netzeroassetmanagers.org/
77 NZAM (2021). *Net Zero Asset Managers initiative: Progress Report.* Available at: https://www.netzeroassetmanagers.org/media/2021/12/NZAM-Progress-Report.pdf
78 NZBA (2022). *Latest news from the Alliance.* 21.4.2022. Available at: https://www.unepfi.org/net-zero-banking/media/ and GFANZ (2021). The Glasgow Financial Alliance for Net Zero: On progress and plan towards a net-zero global economy. Available at: https://assets.bbhub.io/company/sites/63/2021/11/GFANZ-Progress-Report.pdf
79 GFANZ (2021). *The Glasgow Financial Alliance for Net Zero: On progress and plan towards a net zero global economy.* Available at: https://assets.bbhub.io/company/sites/63/2021/11/GFANZ-Progress-Report.pdf
80 UNPRI (2021). *Net Zero Investment Consultants Initiative (NZICI): Guidance and Q&A.* Available at: https://www.unpri.org/download?ac=14611
81 NZFSPA (2022). *Net Zero Financial Service Providers Alliance Commitment.* Available at: https://www.netzeroserviceproviders.com/our-commitment

Figure 57: **Overview of SSF members with a net zero pledge as of April 2022**

Acting on net zero

Acting on net zero involves setting targets that are measurable, realistic and externally verified. The portfolio emissions of each sector can be lowered via different strategies, including exclusion of high-emitting sectors entirely, exclusion of the worst polluters within a sector, or dialogue with companies to encourage their emissions reduction. Not all of these approaches are equally effective.

Besides lowering portfolio emissions, financial institutions can fund the energy transition, for example by providing capital to real-economy actors to develop new technologies or business lines that facilitate the low-carbon economy transition, in addition to investment-related activities. Financial institutions can also evoke change via a company policy that is aligned with net zero and by promoting such ideas on a sector-wide level through engagement with policymakers. Such active engagement can, for example, encourage stricter regulations for the real economy, setting a carbon price, or banning non-sustainable sector activities.

Swiss players commit to net zero

In the summer of 2021, ahead of COP26, SSF put out a call to members to encourage them to become net zero signatories. Since then, SSF has been monitoring those members that have signed up and supported them in their efforts via workshops. It has also promoted visibility on the SSF website and social media. In the interim, the entire net zero topic has attracted more attention and support across the entire industry.

As of April 2022, SSF had 36 members with a net zero pledge recognised by GFANZ or SBTi (for an overview, see Figure 57). Of these, 19 are Swiss financial players and 17 are international. Twenty of them have signed one pledge, while ten of them are signatories of more than one of the recognised pledges. Signing multiple net zero pledges can add administrative effort for reporting, depending on the required specifications or formats, but also increases transparency, offers even more credibility and allows for access to multiple support mechanisms and resources. Among SSF members we see a clear trend that more banks and asset managers than insurers and asset owners have committed to a net zero pledge so far.

Continued push for more signatories

There are a number of factors which will contribute to further uptake and successful implementation of net zero pledges going forward. First of all the Swiss government is clearly pushing for such commitments, through two of its own current workgroups. Traditional finance associations also encourage their members to adopt clear goals. Both the Swiss Bankers Association (SBA) and the Asset Management Association Switzerland (AMAS) have become formal supporters of net zero initiatives. There is still a way to go, but momentum around net zero is gathering in Switzerland and SSF is excited to see the year ahead as many signatories begin to publish reports on their progress.

07

Sponsor Contributions

Amundi
ASSET MANAGEMENT

Investing in emerging markets sustainable bonds in the wake of Covid-19: a unique combination of attractive yields and additionality

Maxim Vydrine, Co-Head of EM Credit and High Yield.

The COVID-19 crisis has exacerbated existing challenges in Emerging Markets and Developing Economies (EMDEs), concerning healthcare systems, social inequalities and the economy in general. It has also demonstrated that social and environmental issues are intertwined, demonstrating how fundamental the economy is in rebuilding developing economies towards a green, resilient and inclusive development. A consequence of COVID-19 is the widening gap between the funding needed to meet the UN Sustainable Development Goals and what is readily available. The issuance of EM sustainable bonds can potentially make up for this deficit. Currently, EM green bonds represent a growing market size of US$239 billion, while the combined market size of EM social, sustainability, and sustainability-linked bonds is US$84,6 billion.

Addressing the dual challenges of social inequalities and climate change, Amundi has developed two innovative partnerships to develop EM sustainable bond markets with the International Finance Corporation (IFC).

In 2018, the Amundi Planet Emerging Green One (AP EGO) fund was created to support the development of EM green bond markets. It was the largest green bond fund at launch ($1.42bn) and the first focused on specifically on EMDEs. It has now invested into 30 green bonds from 13 emerging countries, equivalent to 54% of the portfolio.[82] These results were also made possible by the Technical Assistance Program (TAP), which aims to stimulate the volume of green bond issuances by providing training to financial institutions in emerging countries.

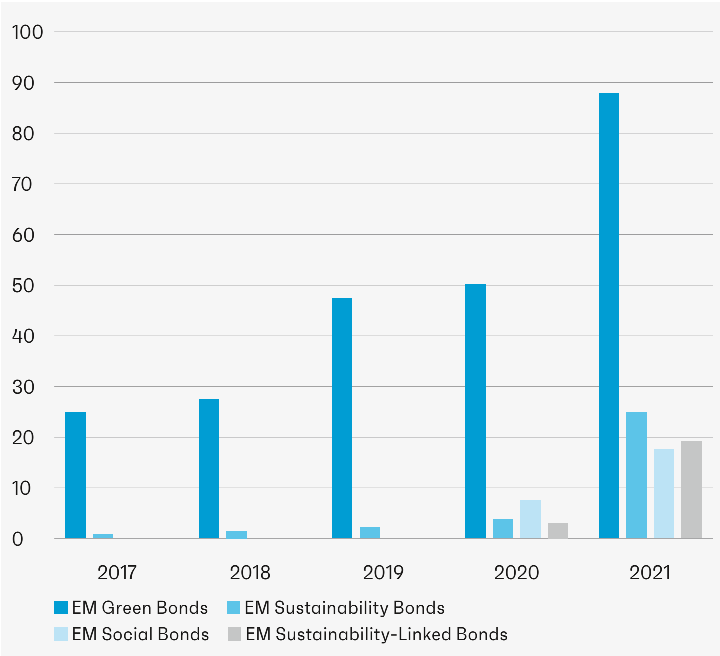
In November 2021, another initiative in partnership with the IFC was launched. The Build-Back-Better Emerging Markets Sustainable Transaction (BEST) Bond strategy aims to mobilize up to US$2bn of private investment into EM sustainable bonds that support COVID-19 relief efforts and promote a sustainable recovery from the pandemic. This new program is designed to help expand EM sustainable bond supply and demand for further segments of the sustainable bond market in emerging markets beyond green bonds.

Both the AP EGO and BEST initiatives are examples of Amundi's commitment to support sustainable capital market development in EMDEs.

Investors should consider sustainable bonds not only as an investment strategy to have access to the EM yield pick-up but also as an opportunity to support these countries in their sustainable recovery paths. Providing long-term financing to sustainable development projects has, by definition, more positive impact spillovers in emerging markets than in developed economies.

COVID-19 has inflicted a high cost on EM and developing economies. At the same time, the EM sustainable bond market has developed remarkably in the last years. Growth in private sector issuance of sustainable bonds, alongside increased investment activity, has the potential to help address financing gaps in EM.

New Issuance: sustainable bonds in EM (USD bn)
Sources (as of end December 2021): IFC, Bloomberg, Environmental Finance, Climate Bonds Initiative



82 As of end December 2021.

AXA for Progress Index: a holistic approach to integrating and measuring sustainability in a company

Daniel Gussmann, Chief Investment Officer

Act for human progress by protecting what matters

AXA Group's sustainability strategy aims to achieve two main goals: to act as a leading force against climate change and biodiversity loss, as well as to position ourselves as an inclusive insurer by making our health products and protection services more accessible for vulnerable populations. We have chosen to send a strong signal by placing our climate commitments at the core of this new strategy.

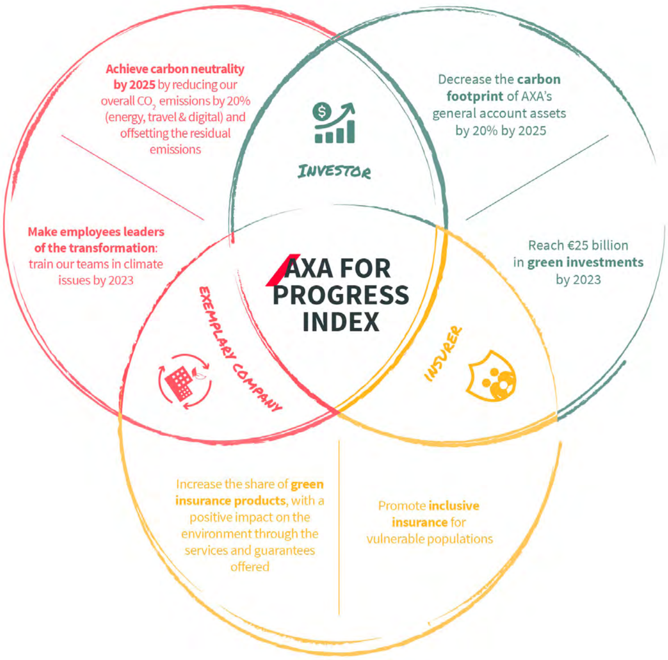
To tackle the challenge of how to integrate and manage such a topic that will fundamentally reshape our business and to make our Purpose "Act for human progress by protecting what matters" tangible for all our staff, we decided to implement a tool to measure and track our progress.

AXA for Progress Index: to manage, we must measure

The AXA for Progress Index was launched in April 2021.[83] It is based on seven commitments shared across operations worldwide to further embed sustainable development in our activities: as an investor, as an insurer and as an exemplary company. With five of the seven commitments aimed at shaping the climate transition, the index is now the primary measurement tool for AXA Group to achieve objectives set out in its climate and biodiversity strategy.

This index enables us to identify, measure, and steer our actions to fulfill our commitments thanks to key performance indicators (KPIs). Specific working groups have been set up with key stakeholders at the local entity and Group levels to define the action plans to achieve our commitments. We are currently setting objectives for green insurance products that contribute to climate change mitigation, while also addressing the closely linked biodiversity aspects.

The implementation and measurement come with challenges. For example, from an investor's perspective, data coverage and quality need is lacking for certain assets. This why we continue to work closely with data providers in order to enhance the data.



Holistic approach with a clear strategy

Our climate-related initiatives leverage every asset and expertise at our disposal: green investments, products with environmental added value, climate resilience and adaptation solutions, direct environmental footprint reduction, academic support via the AXA Research Fund, and partnerships.

However, successful action also includes internal climate literacy staff have access to the AXA Climate Academy, an online training program on climate change and its impacts. The transformation requires staff commitment and action. AXA does all this because climate change is a medium- to long-term risk and quantifying its impacts on our activities is a complex task. AXA's strategy is not only to adapt, but also to take advantage of our expertise to provide solutions, since "a 2°C world might be insurable, but a 4°C world certainly would not be".

83 https://www.axa.com/en/magazine/leaders-voice-axa-for-progress-index

Private Banking

LGT's 2030 net-zero commitment: accelerating the climate transition by aligning client and investment offering

Ursula Finsterwald, Head Group Sustainability Management, LGT Group Holding
Christopher Greenwald, Head Sustainable Investing, LGT Bank (Schweiz) AG

Last year, the Intergovernmental Panel on Climate Change (IPCC) came to a clear conclusion in its 6th Assessment Report: Global warming is continuing, and the goal of limiting it to 1.5°C under the Paris Agreement is a long way off. Reaching the set targets requires drastic reductions in greenhouse gas emissions in the coming decades.

For LGT's owner, the Princely Family of Liechtenstein, sustainable and long-term oriented action has always been among their core values. This attitude is also anchored in LGT's values and culture.

LGT Private Banking (LGT PB) has therefore set the goal of reducing its greenhouse gas emissions from operations and investments to net-zero by 2030. This means that it must reduce its greenhouse gas emissions from its operations, its own investments and client investments as far as possible by 2030, so that only unavoidable emissions will be subject to mitigation mechanisms such as carbon capture storage

LGT PB is a founding member of the UN Net-Zero Banking Alliance and is committed to the Partnership for Carbon Accounting Financials, which is developing a standard to measure financed emissions. LGT PB has also signed an agreement with Climeworks at the end of 2021. The Swiss company will filter a part of LGT's greenhouse gas emissions from the air and permanently store them in the ground starting in 2025.

What does this mean for clients of LGT?

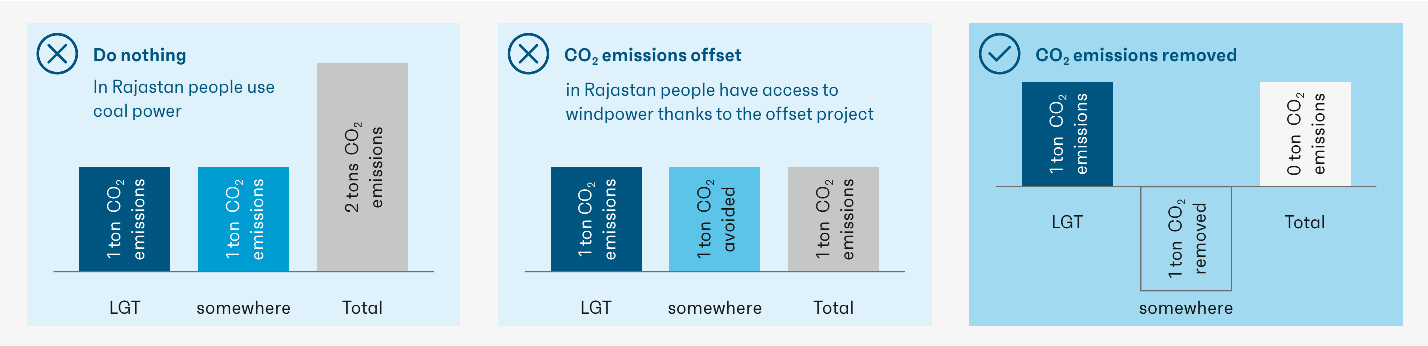
LGT has committed to net-zero across all of its operations and its investment portfolio by 2030. We have taken this step not only because it is imperative to address the climate crisis, but also because it represents an opportunity for our clients to better manage risks in their portfolios and identify long-term growth opportunities in light of the global transition to a low-carbon economy.

Our strategy for addressing net-zero across our investments comprises three key elements. Firstly, we educate our clients about climate risks in their investment portfolios and provide them with transparency and adequate tools in order to help them manage those risks effectively across their investment strategies. This is only possible by collaborating with industry partners to develop forward-looking low-carbon trajectories in order to identify companies across portfolios that are most exposed to climate risks.

Secondly, by identifying climate transition leaders, our net-zero strategy allows us to identify the long-term investment opportunities in companies that are positioned to benefit from a transition to a low-carbon world. Through the insights of our research and advisory teams, we highlight companies that will benefit from de-carbonization trends such as energy efficiency, the electrification of transportation, and the circular economy.

Finally, our net-zero target requires us to actively engage with our investee companies. Participating in leading initiatives such as Climate Action 100+ allows us to work collaboratively with other investors to incentivize companies to mitigate climate risks, reduce their carbon footprints, and orient their strategies toward a low-carbon economy.

Net zero: what does it mean?
Net zero is achieved by removing from the atmosphere and permanently sequestering the same amount of climate-relevant gases for which an actor is responsible. Since 2010 LGT is offsetting its operational CO_2 emissions; since 2019 with a windpower project in India



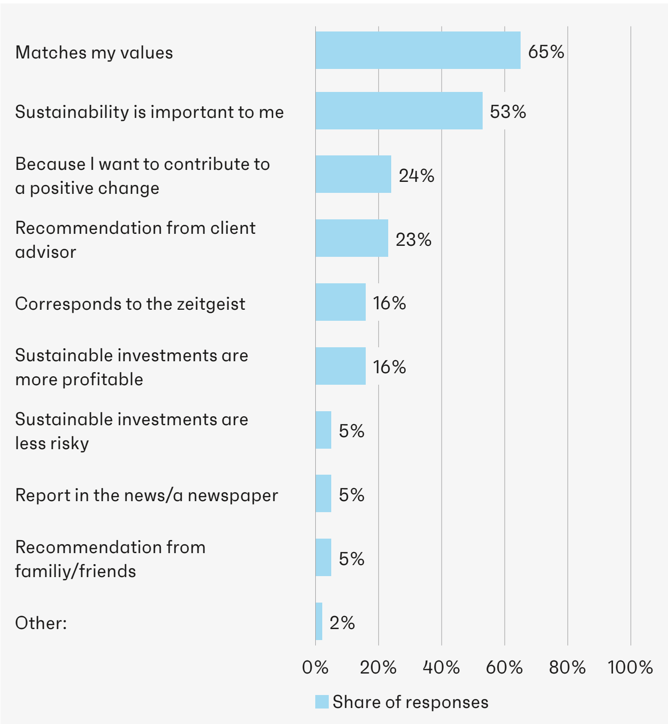
ESG preferences of investment clients: findings from eight years of systematic survey experience – and current status

Erol Bilecen, Head Competence Center Sustainability Investments,
Raiffeisen Switzerland Cooperative

The EU Action Plan on Financing Sustainable Growth and the development of a Renewed Sustainable Finance Strategy under the European Green Deal are producing an increasingly dense web of regulations. Even if the individual measures and regulations are not always coordinated and some long-standing experts and practitioners of sustainable investments are occasionally irritated, it is impressive with what rigour the EU Commission is proceeding here. While the first focus was on the taxonomy, i.e. the categorisation of what can be considered sustainable, and transparency of sustainable investment products (Sustainable Finance Disclosure Regulation), things will get serious as of 2 August this year. In addition to questions about a client's financial suitability, financial institutions must record their sustainability preferences. While for most banks in Europe this can be considered as "new territory", Raiffeisen is already familiar with this procedure. Since 2013, all investment clients have been asked about their sustainability preferences when opening a securities account and at the periodic review of their financial suitability, and have been advised accordingly. Raiffeisen is currently evaluating this data with scientific support. Therefore, the following summary represents interim results, but certain contours are already emerging.

Reasons for sustainable investments
Results from a representative survey from December 2021
(multiple answers possible)

Statistical base: population 15–79 years with residence in German- or French-speaking parts of Switzerland with investments



According to a recent survey more than half of Raiffeisen customers (54%) were concerned with sustainability in general, with the focus on resource-conserving business practices. Sustainable investment is also seen as vital by the majority of investors. Starting from a comparatively low level in the past, this attitude is now reflected in a steadily increasing share of customers with sustainability preferences. This could be an indication of client advisors' diminishing influence due to increasing knowledge and/or self-confidence of the clients. This trend is also reflected by a very strong desire for additional active information (88%), product labelling (65%) and sustainability reporting (75%) from clients. However, it is important to act on this very carefully because the respective expectations can diverge substantially. A wide range of sustainability data can quickly become very complex. The reduction to a few key figures or a single label, can be perceived as oversimplification. Hence banks and – on behalf of the clients – the regulator are called upon to strike a fine balance between the various demands. In addition, there is still a lot of educational work to be done towards further financial literacy. This concerns the training of client advisors, the creation of more transparency, but also the education of clients regarding the possibilities and – with respect to financial suitability – limits of sustainable investment in a portfolio context. These findings are not only relevant for Raiffeisen when designing the complete value chain of sustainable investing, but also for other banks and even the regulator.

Towards the integration of nature-related risks: facing the loss of biodiversity

Lucian Peppelenbos, Climate Strategist, Robeco

Biodiversity loss is among the top global risks to society. Ecosystems and species are under massive pressure as human production and consumption exceed our planet's carrying capacity. Scientists confirm that Earth is facing its sixth mass extinction, with thousands of populations of vertebrate animal species lost in the last century. Continued loss of biodiversity will irreversibly affect all life on Earth.

Playing a crucial role

We recognize that the financial sector has a crucial role in helping to prevent further biodiversity loss. This is in the long-term interest of our clients and our investment performance. Robeco has been addressing biodiversity issues for a number of years through a dedicated engagement program on commodity-related deforestation, through our palm oil policy, and by assessing biodiversity as a material factor in our ESG integration process.

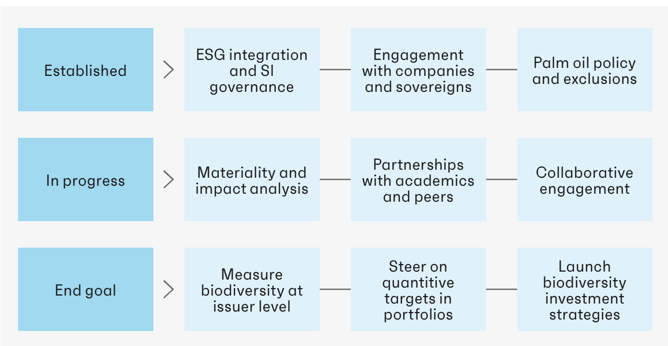
Time to act

The extent of interconnection between climate change and biodiversity loss should not be overlooked. Climate change is one of the main drivers of biodiversity loss. The reverse is also true – the loss of biodiversity, for instance through deforestation, accelerates the impacts of climate change. We must therefore act and reverse the loss of natural capital to ensure we meet our broader climate ambitions.

Outlining the urgency in our white paper with WWF-NL

A Robeco white paper addressing biodiversity loss, backed by the World Wide Fund for Nature Netherlands,[84] outlines the urgency that biodiversity presents to the planet and the future stability of business life. The World Economic Forum estimates that more than half of the world's economic output of USD 44 trillion is moderately or highly dependent on nature in some form, meaning that if natural systems collapse, so will our economic and financial systems.

Robeco's efforts on biodiversity
Source: Robeco



Measuring the impact of biodiversity loss

At Robeco, we conducted a materiality assessment to understand the exposure of our investments to risks related to biodiversity loss. Around one-quarter of our investments are highly or very highly dependent on one or more ecosystem services. We are partnering with academics and peers to build the required methods and data to analyze biodiversity impacts and dependencies at the issuer level. This will enable us to systematically integrate biodiversity impacts and risks into our investment processes, based on quantitative metrics and targets, as we do with climate-related risks and opportunities. Our aim is that within the next few years we will be able to measure and steer on our contribution as an investor to the protection of biodiversity and nature.

Highlights of Robeco's 2022 Global Climate survey[85]:

- 84% of investors will have climate change as a central or significant part of their investment policy over the next two years, while 75% have it so today.
- 56% say biodiversity will be at the center or a significant factor in their investment policy over the next two years.
- 79% agree that there is a general lack of awareness on the financial implications of biodiversity loss
- 80% say engagement will make a central or a significant portion of their investment policy over the next two years.

84 https://www.robeco.com/ch/en/insights/2022/01/robeco-launches-biodiversity-paper-and-teams-up-with-wwf-nl.html
85 https://www.robeco.com/ch/en/insights/2022/03/engagement-and-biodiversity-lead-2022-global-climate-survey.html

Balancing regulation between complexity and transparency

Fabio Pellizzari, Head of ESG Strategy & Business Development, Asset Management of Zürcher Kantonalbank

The range of collective capital investments with sustainability strategies has multiplied over the past 20 years. As the number of sustainable funds increases, accusations of greenwashing make the rounds on the market. Standardising sustainability performance records will pave the way for greater transparency.

The 21st century has been marked by the debate about sustainability. Today, sustainability stands for a number of approaches including the exclusion of controversial business models and practices, decarbonisation, promotion of diversity and implementation of the UN Sustainable Development Goals. Against this background and given the ubiquity of sustainability, it seems plausible that interest-driven sustainability concepts could also develop in the investment industry. The topic received particular boost from the EU Commission with its "EU Action Plan" in 2016. Its overarching goal is to redirect capital flows towards sustainable investments.

Many calls for transparency

The EU Action Plan pushes for the implementation of a total of ten measures.[86] Three of these measures directly relate to the demand for greater transparency: 1) Sustainability benchmarks: Developing transparency for methods and characteristics; 2) Sustainability among institutional investors/asset managers with obligations regarding inclusion and transparency; 3) Transparency for companies: Strengthening rules regarding the disclosure of sustainability information and financial reporting (EU taxonomy).

The contradiction: a significant increase in complexity

The EU taxonomy, aims to ensure that participants and markets have a common understanding of what is sustainable and what it is not, is considered by many to increase bureaucracy. The USA, Great Britain and China are working on their own taxonomies. Listed, internationally active companies will need to meet the requirements of each of these taxonomies in order to remain investable in the medium to long term.

Standardisation is a must

Institutional investors will need to create more transparency about how their products actually provide capital for sustainable activities. Despite the dozens of sustainability frameworks and rating agencies true transparency will ultimately only be possible through standardisation and an associated reduction in complexity.

Welcome initiatives

In light of this, the efforts of Swiss Sustainable Finance (SSF) to submit a proposal based on the requirements of the TCFD[87] (Task Force on Climate-related Financial Disclosures) to solve the complexity problem are welcomed. Other associations such as the Asset Management Association Switzerland (AMAS) are also pointing to a viable path of self-regulation with the aim of strengthening the credibility of Switzerland as a sustainable financial center.

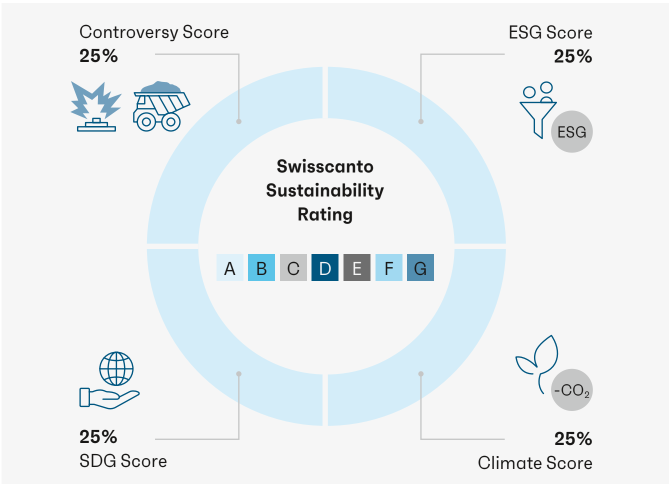
How to recognise sustainable added value

Creating transparency remains a challenge, given the multitude of sustainability strategies. The Swiss legislator will undoubtedly be guided by international initiatives, while focusing on added value for investors. Are Swiss investors well informed enough to assess sustainable added value when it comes to sustainability? According to a 2021 study by ETH Zurich with over 3000 Swiss investors, the Swiss have some catching up to do in terms of "sustainable financial literacy".

Best practice

With its extensive sustainability reporting for all sustainable funds Zürcher Kantonalbank's asset management aims to demonstrate transparency. The detailed documentation of its voting and engagement activities may also set a benchmark in terms of transparency within the Asset Management industry.

Figure: Zürcher Kantonalbank has developed its own Sustainability Rating for the funds of the Swisscanto brand, which provides transparency for the various dimensions of sustainability.



86 Ten measures to implement the EU Action Plan Overview of measures in the action plan: The financing of sustainable growth by the EU Commission (cric-online.org)
87 Task Force on Climate-Related Financial Disclosures | TCFD (fsb-tcfd.org)

Where the wild things are: why investors should care about natural capital

Julie Zhuang, Portfolio Manager Global Equities at Aviva Investors

Finance must wake up to the risks associated with biodiversity loss and the opportunities that arise from nature-friendly solutions, argues Julie Zhuang, Portfolio Manager Global Equities at Aviva Investors.

It is exciting that biodiversity is now being recognised in our industry, but there are many nuances to consider. The role of asset managers is to help clients invest sustainably by identifying companies that are leading on reducing their impact on nature, which means we really need to understand the intricacies involved.

Responsibly-minded investors can allocate capital to transition leaders in their respective industries – companies that are moving in the right direction in terms of their management of natural capital and environmental risks – and engage with them to move even further and faster. They can also seek out innovative companies providing products or services that directly protect nature or lessen the harmful impact of human activity. Companies involved in, for example, precision agriculture, sustainable animal nutrition, wastewater management, meat alternatives, the circular economy, plastic reduction or biodegradable materials.

In many cases, the marked improvement of companies' management of biodiversity and environmental risks is underappreciated by the market as investors are not focused on natural capital as a theme. In particular, companies involved in testing, inspection and certification of natural capital tend to get overlooked, for example, despite facilitating better standards in biodiversity risk management globally.

In order to make informed decisions, investors need to gain a picture of relevant risks on a sectoral basis, by using data from a variety of sources. Aviva Investors has a proprietary transition risk model that draws on many different datasets.

To protect their credibility and integrity, investment managers in natural capital need to focus on their dual mandate: to deliver a positive outcome for nature as well as driving investment returns. If investee companies make promises but don't deliver on them, it is important to use engagement or time-bound divestment to facilitate a positive outcome in the long run.

ESG: the key to unlocking opportunities in Small Caps

Guillaume Chieusse, Head of All Cap & Small Cap Opportunities , ODDO BHF AM SAS
Simona Rizzuto, ESG Analyst, ODDO BHF AM SAS

When investing in small caps, there are three key pillars across which attention must be focused: quality of corporate governance, respect for human capital and shareholder engagement. To this purpose, we believe that it is beneficial to have an internal ESG analysis model, and to build an active ownership strategy. We estimate that by combining a best-in-universe with a best-efforts approach, it is possible to better capture the potential of the small-cap segment, eliminating issues of size and information biases.

In our view, a company with good governance practices is more likely to effectively address the most important risks, including environmental and social issues. A study conducted by ODDO BHF AM over 3 year data ending September 2019 shows that companies in the STOXX Europe 600 Index with the highest corporate governance rating also showed lower volatility compared to those with a lower rating. Since private founders or management tend to hold a significant stake in small and medium-sized companies, this stakeholder alignment traditionally leads to potentially stronger returns.

We consider human capital a key factor in determining the building of sustainable competitive advantages and thus the ability of a company to create value. Indeed, according to our analysis, effective management of human capital has a direct impact on the innovation potential of a company. It is often by investing in small companies that investors can gain exposure to a new technology, or a new market driven by innovation.

Finally, active ownership is about actively exercising shareholder rights in a company, including engaging with management and discussing financial and non-financial ESG factors. That implies the alignment on concrete ESG improvement targets in areas where we expect progress. This is particularly important in the small-cap segment to hopefully track efforts and progress of investees on ESG topics, which often are poorly disclosed externally.

Decarbonizing the world: the three must-haves to achieve environmental and financial sustainability

Jonathan Davis, Client Portfolio Manager,
Emerging Markets Fixed Income, New York

The decarbonization of our planet is vital to its sustainability, and the coordinated commitment of governments, financiers, and corporate entities toward that goal is essential to its success. In our role as asset managers, we have a responsibility to contribute to environmental sustainability efforts and a responsibility to ensure that our clients' portfolios are positioned for financial sustainability as well.

At PineBridge, we have a history of focusing on alpha generation through bottom-up credit analysis and security selection.With so much of this story yet to be written, we have identified three must-have attributes within our ESG framework that will enable our investments to both promote decarbonization and to profit from it.

First, we find it essential to prioritize an integrated, forward-looking ESG trend within our analysis of ESG risk.

Second, we must be prepared to look to the future and not necessarily exclude exposure to carbon, but rather to include exposure to entities that are moving toward lower-carbon processes.

Third, we must maintain an engagement framework to identify and encourage issuers to make investments in green technology – investments that will make their business models not only more sustainable, but also more profitable in the carbon-neutral world of the future.

Finally, we believe it is vital for investment managers to maintain a formal engagement framework, that will not only set a standard for the way in which we engage management teams on ESG issues across industries, but also provide metrics for how those engagements have impacted corporate behavior.

For further information on this subject please visit pinebridge.com.

The importance of ESG risk data in private markets

Alexandra Mihailescu Cichon, RepRisk Executive Vice President of Sales and Marketing

By 2025, it's estimated[88] that private equity firms will hit USD 5.8 trillion in assets under management – a sum that exemplifies the growth and opportunity for ESG in private markets. Private markets can achieve fully sustainable capital allocation and long-term value creation, along with their public market counterparts.

Yet when it comes to ESG integration, private markets still have a long way to go. For example, in 2020 only 10% of the 8,800 global private equity firms[89] were signatories of the UNPRI. While private market firms invest a lot of time, money, and effort into their due diligence, their proximity to acquisitions might cause them to believe they have not overlooked any potential risks. Yet, due diligence primarily looks at data provided by the company itself, in most cases via checklists that firms use to assess ESG performance. It's critical to move[90] beyond this static, outdated, and limited approach – especially when it comes to risks. RepRisk works with some of the largest private equity firms in the world and helps them integrate ESG in a way that circumnavigates the growing pains experienced by public markets.

What is next for ESG in private markets? Beyond the traditional use-cases of pre-acquisition/pre-financing due diligence and post-transaction monitoring – an area where private equity firms are increasingly leveraging ESG data is in their engagement with portfolio companies to drive value creation. Because private equity firms often invest over a longer time period – with ESG also having a longer time-horizon it's in their best interest to support portfolio companies on their ESG journeys, as this will create value for firms, while also increasing the value of that portfolio company when the private equity firm exits that investment. Leading private market firms are increasingly moving away from a 'tick-box' approach and towards accepting active ESG risk analysis and ongoing engagement with portfolio companies as a long-term driver of value.

88 https://www2.deloitte.com/us/en/insights/industry/financial-services/private-equity-industry-forecast.html
89 https://www.institutionalinvestor.com/article/b1m8spzx5bp6g7/Private-Equity-Makes-ESG-Promises-But-Their-Impact-Is-Often-Superficial
90 https://www.mdpi.com/2071-1050/12/14/5725/html

Thurgauer Kantonalbank

Building sustainable portfolios using passive investment vehicles

Karel Ehmann, Head Investment Center,
Thurgauer Kantonalbank

All six Thurgauer Kantonalbank strategy funds have a fund of funds structure, with the strategy and investment policy implemented by index components. Traditional indicators such as the cost (TER) and volume of a tracker (ETF or index fund), as well as liquidity, spreads, taxes, replication type and domicile are all factored in when evaluating passive investment vehicles. When building sustainable investment portfolios, it is also necessary to use additional criteria to determine the degree of sustainability. We systematically include sustainability criteria in the process, which prioritises choosing the sustainable index for each asset class. In addition to the ESG criteria, the selection process for the instruments has to balance the impact on costs and on the tracking error (TE) versus the fund's benchmark subindices.

Over the last few years, the number of sustainable passive investment vehicles has increased significantly. They now range from products with a light green sustainability approach, which excludes companies with controversial business practices, to dark green sustainability approaches. The latter will only consider positions with the best ESG ratings or companies with the lowest carbon emission intensities. This approach significantly reduces the number of portfolio positions compared to the underlying index and this tends to be reflected in a higher tracking error.

Ultimately, it is an optimisation problem with a range of variables like ESG rating, carbon footprint and carbon intensity plus the tracking error and TER. This is particularly important when building a portfolio using passive investment vehicles as the various aspects of sustainability can impact each other. For example, a portfolio comprising companies with the best ESG ratings won't necessarily be a portfolio with the lowest carbon emission intensity. It is not that simple, there is a discreet decision to be made by the investment manager.

ZURICH

Achieve climate goals in real estate with active management

Fabio Oliveira, Senior ESG Officer, Zurich Invest Ltd
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The building sector plays a key role in the fight against climate change. More than a third of global energy consumption and about 40 percent of global greenhouse emissions are caused by the real estate sector. In Switzerland, this sector also makes a significant contribution to national greenhouse gas emissions, accounting for over 20 percent. Since 1990, emissions have already been cut by more than 30 percent. To curb climate change, however, there is an urgent need for further reduction.

Positive impact on sustainable energy balance

To cut greenhouse emissions in the real estate sector, active real estate management is a must. Real estate accounts for a substantial portion of carbon emissions. In the portfolio context, it is thus imperative to systematically address this area. With a view to climate protection, active management of energy consumption and fuel emissions is vital to ensure a profound impact on the sustainable energy balance of a building. Sustainable building and real estate management are key aspects of both asset and building management.

Zurich Invest Ltd makes use of renewable energy sources in all its real estate portfolios. Suitable processes are used in all areas of building management. Since 2010, carbon emissions have already been reduced by more than 20 percent. To reach climate neutrality by 2050, the company also intends to reduce carbon emissions by an additional 20 percent by 2025 and to qualify for three stars in the GRESB rating.

Action taken to achieve net zero

At Zurich Invest Ltd a clearly defined package of measures was assembled to achieve the climate targets. Optimising the operation of heating systems is just one example of how first successes can be achieved quickly and in the short term. In the medium and long term, energy efficiency and carbon reduction targets can be achieved by building and renovating according to the Minergie standard. Over time, these measures, along with the use of renewable energies will replace fossil fuels fully. Zurich Invest Ltd endeavors to reach its climate goals in its transactions, asset management and renovation/new building projects.

08

Appendix

Glossary[91]

Best-in-Class
Approach in which a company's or issuer's 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.

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 Environment (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 ESG 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 ESG issues by actively exercising their voting rights based on ESG principles or an ESG policy.

European SRI Transparency Code
In May 2008, the European SRI Transparency Code was created to foster transparency of sustainable investment products. It builds on five pillars: (1) secure quality through transparency (2) investors know what they invest in (3) sustain the spectrum of sustainable investment (4) no prescription of ethical standards (5) no prescription for the portfolio composition.

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.

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

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. SSF considers impact investments as those having three main characteristics: intentionality, management and measurability.

Implied Temperature Rise
The indicator "implied temperature rise" is used to express – in degrees Celsius – the alignment of portfolios with global climate goals. It stands for the level of global warming that would occur if the global economy acted with the same ambition as the companies in the portfolio intend to act.

IRIS
IRIS is a catalogue of generally accepted performance metrics that impact investors use to measure social, environmental and financial success, to evaluate deals as well as to 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. https://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

Paris Agreement
Agreed at COP21 in Paris in 2015, the Paris Agreement's central aim is to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius.

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 ESG factors 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 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.

List of Abbreviations

ASEAN	Association of Southeast Asian Nations
AMAS	Asset Management Association Switzerland
AuM	Assets under Management
BREEAM	Building Research Establishment Environmental Assessment Methodology
CDA	Climate Delegated Act
CHF	Swiss franc
CISA	Collective Investment Schemes Act
CO	The Swiss Code of Obligations
CSP	Center for Sustainable Finance and Private Wealth
CSRD	Corporate Sustainability Reporting Directive
DETEC	Federal Department of Environment, Transport, Energy and Communications
DDTrO	Ordinance on Due Diligence and Transparency in relation to Minerals and Metals from Conflict-Affected Areas and Child Labour
ESG	Environmental, social and governance
EU	European Union
FDF	Federal Department of Finance
FFA	Federal Finance Administration
FINMA	Swiss Financial Market Supervisory Authority
FNG	Forum Nachhaltige Geldanlagen e.V.
FOEN	Federal Office for the Environment
GBF	Global Biodiversity Framework
GDI	Gender Development Index
GFANZ	Glasgow Financial Alliance for Net Zero
GIIN	Global Impact Investing Network
GLI	Gender Lens Investing
GLIS	Gender Lens Initiative for Switzerland
GRESB	Global Real Estate Sustainability Benchmark
GRI	Global Reporting Initiative
HDI	Human Development Index
IFC	International Finance Corporation
IRIS	Impact Reporting and Investment Standards
ISSB	International Sustainability Standards Board
LEED	Leadership in Energy and Environmental Design
MIFID	Markets in Financial Instruments Directive
NFRD	Non-Financial Reporting Directive
NZAOA	Net Zero Asset Owner Alliance
NZAM	Net Zero Asset Manager Initiative
NZBA	Net Zero Banking Alliance
NZIA	Net Zero Insurance Alliance
NZICI	Net Zero Investment Consultants Initiative
NZFSPA	Net Zero Financial Service Providers Alliance
OECD	Organisation for Economic Co-operation and Development
OJEU	Official Journal of the European Union
PAII	Paris Aligned Investment Initiative
SASB	Sustainability Accounting Standards Board
SBTi-FI	Science-based Targets Initiative for the Financial Industry
SBA	Swiss Banking Association
SDG	Sustainable Development Goal
SECO	State Secretariat for Economic Affairs
SFDR	European Sustainable Finance Disclosure Regulation
SI	Sustainable Investment
SIA	Swiss Insurance Association
SIF	Swiss State Secretariat for International Finance
SSF	Swiss Sustainable Finance
TCFD	Taskforce on Climate-Related Financial Disclosures
TNFD	Taskforce on Nature-Related Financial Disclosures
TR	EU Taxonomy Regulation
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
US	United States
USD	US dollar
WEF	World Economic Forum
WMA	Swiss Federal Act on War Material

List of Figures

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Overview Table: Swiss Sustainable Investment Market

CHF/EUR (Millions)	2021		2020	
Sustainable Investment Market	CHF	EUR	CHF	EUR
Funds	799,523	770,996	694,464	641,419
Mandates	563,665	543,554	269,790	249,183
Asset Owners	619,488	597,385	555,927	513,464
Total	**1,982,676**	**1'911,935**	**1,520,181**	**1,404,065**
Sustainable Investment Approaches	CHF	EUR	CHF	EUR
Exclusions	1,438,266	1,386,949	971,970	897,728
ESG Integration	1,330,489	1,283,018	1,075,433	993,288
ESG Engagement	1,161,878	1,120,422	1,045,946	966,053
Norms-Based Screening	1,070,931	1,032,721	723,340	668,089
ESG Voting	581,186	560,450	510,724	471,713
Best-in-Class	238,862	230,339	158,825	146,693
Sustainable Thematic Investments	190,938	184,125	74,377	68,696
Impact Investing	101,123	97,515	85,585	79,048
Asset Classes	CHF	EUR	CHF	EUR
Equity	519,129	500,607	437,851	404,407
Corporate Bonds	419,180	404,224	326,191	301,276
Sovereign Bonds	238,690	230,174	180,179	166,416
Real Estate/Property	196,142	189,143	189,210	174,758
Private Equity	73,510	70,887	58,795	54,304
Private Debt	43,904	42,338	38,085	35,176
Monetary/Deposit	29,554	28,499	38,697	35,741
Supranational Bonds	27,621	26,636	13'408	12,384
Hedge Funds	25,610	24,697	16,202	14,964
Infrastructure	24,193	23,329	17,497	16,161
Other	89,185	86,003	61,651	56,942
Not specified	295,957	285,398	142,415	131,537
Investor Types	CHF	EUR	CHF	EUR
Institutional	1,430,347	1,379,313	1,097,953	1,014,088
Private	552,329	532,622	422,228	389,977

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