Sustainable Investment in Switzerland

Excerpt from the Sustainable Investment Market Report 2017

SPONSORS

Foreword by Swiss Sustainable Finance

Dear readers,

In 2017, for the second time FNG and SSF have joined forces to produce comprehensive data on the Swiss market. In 2016, the Swiss market for sustainable investments once again grew significantly, by 39%. There are various reasons for this impressive growth trend, which has been sustained for several years now, and these will be examined in more detail below.

On an international level, sustainable finance attracted even more attention from major players last year. The G20 launched the „Green Finance Study Group", which will examine the role of financial players in promoting a green economy. In December, the Task Force on Climate-related Financial Disclosures (TCFD), a working group of the Financial Stability Board, presented its recommendations for making climate-related financial reporting as material as possible. The TCFD report is to be revised, but the initial version has already set out the important key points for future climate reporting. And finally, the EU's adoption of a new directive on pension funds has ensured that in future all pension funds will have to take environmental, social and governance factors into account.

Swiss players have also seen the introduction of a number of changes in the past year. In June 2016, the Swiss Federal Office for the Environment together with various market players – including Swiss Sustainable Finance – published a roadmap report outlining the route for Switzerland to become a centre for sustainable finance. In autumn 2016, the Federal Council issued a new financial market policy. This highlighted sustainable investments as one of two areas for innovations to stimulate growth. The Swiss Association for Responsible Investments (SVVK), an association of major pension funds from the public sphere, set up to implement sustainable investment strategies, also commenced operations during 2016. These three factors all contributed to raising the profile of the issue among authorities and market players.

By the end of 2016, more assets in Switzerland were being managed using sustainability criteria than ever before – CHF 266 billion. The growth rate of 39%, attributable in part to higher survey participation, was also again significantly above the long-term average of 28%, if not as markedly so as in the previous year. For long-term market participants, some of which have very complex sustainable investment processes, the fact that some of the new assets included tend to operate much more along „worst-out" rather than „best-in" lines may be a bitter pill to swallow. However, the impact of the signals sent out by major players on the market in this regard should not be underestimated, even if at first they concentrate merely on avoiding particularly problematic companies. Experience in other countries shows that the next step is often to make more proactive investment decisions in favour of particularly sustainable companies – whether in relation to their products or their corporate strategies.

When it comes to the implementation of the Sustainable Development Goals, the question remains of how long the resources for implementing them will be available. One thing is clear here: it will not be possible to raise the required trillions as additional funds. Rather, existing financial flows will have to be structured more sustainably. Sustainable investments will play an increasingly important role here, as they will make it possible not only to promote specific sustainable projects or companies, but also to promote increased observance of sustainable standards in the wider economy. In the light of this, it must also be assumed that high growth rates will continue in future, an expectation that, incidentally, is also shared by the study participants. We are pleased to be able to continue making a contribution to developments in this area through our work.

Sabine Döbeli
CEO, Swiss Sustainable Finance

Foreword by Forum Nachhaltige Geldanlagen

Dear readers,


We are delighted to be able to present you this year's Sustainable Investment Market Report for Switzerland. Since 2005, the Swiss survey has been carried out together with the surveys for Germany, Austria and Liechtenstein.

In their strategies and their investment decisions, sustainable investors take into account environmental, social, and good corporate governance factors, which can have a substantial influence on financial returns. The motivation for doing this is obvious: good sustainability performance by a company is an indicator of good overall management quality. There is a similar association on the asset-manager level, where investors are increasingly recognising the systematic integration of sustainability as a sign of process excellence. The market figures presented here once more confirm this encouraging trend. The number of sustainable investors is rising steadily, as is the volume of assets managed sustainably. Politicians, as well as international bodies and institutions have now got the message that the financial sector makes a significant contribution to the achievement of sustainability goals.

Each year since 2015, we have focussed on a particular theme in the market report. This year's theme is „Human rights", chosen due to its current relevance. This choice goes hand in hand with the upward trend to focus on this theme by asset owners in Switzerland and the corresponding growth in the strategies of norms-based screening and engagement. Moreover, the Sustainable Development Goals (SDGs), came into force at the beginning of 2016 as the UN's new sustainability targets. These 17 goals, together with their sub-goals, are closely linked to the human rights goals in the UN Convention on Human Rights.

Human rights were enshrined internationally considerably earlier, namely in the 1948 Universal Declaration of Human Rights, various associated international conventions and treaties, and the UN Global Compact of 2000, which covers human rights in the first two of its ten Principles.

In this report on Switzerland we present a case study of good practice. The overall report for all the German-speaking countries contains further examples, together with a supplementary article on this topic.

Switzerland is very important internationally as a financial centre and is among the leaders in terms of innovative new sustainability strategies as well as market volumes.

This year, too, Switzerland has achieved an impressive sustainable investment growth rate of 39%, thereby continuing its upward trend.

The forecasts going forward remain very positive. This is shown by the surveys carried out for the market report. FNG is continuously working to promote the quality, credibility and transparency of sustainable investments in this environment, whether through the FNG Matrix, the Sustainable Investment Training Course or the FNG Label for sustainable mutual funds. The latter does not merely screen the portfolio concerned; its holistic approach also takes into consideration the intention, strategy and impact of a mutual fund.

This is now the second year that we have collaborated with Swiss Sustainable Finance (SSF) to collect the market data for Switzerland, we would therefore like to thank SSF for its valuable support.

We would also like to thank the sponsors and supporters of the 2017 market report:

Union Investment, oekom research AG, BIB - Bank im Bistum Essen eG, Deutsche Bildung AG, FondsDISCOUNT.de, GES Switzerland, NKI-Institut für nachhaltige Kapitalanlagen, KlimaGut Immobilien AG, Pictet Asset Management, Qualitates GmbH, Raiffeisen Kapitalanlage GmbH, RobecoSAM and South Pole Group.

Claudia Tober
Executive Director, Forum Nachhaltige Geldanlagen

Patrick Wirth
Vice Chair, Forum Nachhaltige Geldanlagen

Introduction

This publication contains the chapter on Switzerland from the Sustainable Investment Market Report 2017 – Germany, Austria and Switzerland (Marktbericht Nachhaltige Geldanlagen 2017 – Deutschland, Österreich und die Schweiz). This publication was produced jointly by Forum Nachhaltige Geldanlagen (FNG) and Swiss Sustainable Finance (SSF).

The Sustainable Investment Market Report 2017 – Germany, Austria and Switzerland focusses on the issue of human rights, with an analysis and case studies from all three countries. This version contains the Swiss case study.

The data on which this publication is based relates to sustainable investments managed in Switzerland.

The following asset classes were considered:

- Equities
- Money market / Bank deposits
- Hedge funds
- Property / Land
- Municipal or local bonds
- Commodities
- Government bonds
- Supranational bonds
- Corporate bonds
- Venture capital / Direct investments

The following sustainable investment strategies were covered:

- Exclusions
- Best-in-Class
- Engagement
- ESG integration
- Impact investment
- Sustainability Themed
- Norms-based screening
- Voting

The definitions of the different investment strategies can be found in the following table:

TABLE: Overview of investment strategies

Best-in-Class	Approach where leading or best-performing investments within a universe, category, or class are selected or weighted based on ESG criteria.
Engagement and voting	Engagement activities and active ownership through voting of shares and engagement with companies on ESG matters. This is a long-term process, seeking to influence behaviour or increase disclosure.
Exclusions	An approach that excludes specific investments or classes of investment from the investible universe such as companies, sectors, or countries.
Impact Investment	Impact investments are investments made into companies, organizations, and funds with the intention to generate 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 market rate, depending upon the circumstances.
Integration	The explicit inclusion by asset managers of ESG risks and opportunities into traditional financial analysis and investment decisions based on a systematic process and appropriate research sources.
Norms-based screening	Screening of investments according to their compliance with international standards and norms.
Sustainability Themed	Investment in themes or assets linked to the promotion of sustainability. Thematic funds focus on specific or multiple issues related to ESG.

The study examines all eight sustainable investment strategies on a product specific level and considers the following four strategies product-independently, as asset overlays:

- Exclusions
- Engagement
- Integration
- Voting

There are thus two sets of data for each of these four investment strategies – one product-specific and one product-independent (asset overlay). The latter results in much higher figures in most cases.

There is a fundamental difference in sustainability quality between specifically sustainable investment products and mainstream investments to which sustainability criteria or strategies have been applied as overlays. For example, in the case of overlays involving exclusion criteria, generally only one or at most two exclusion criteria, such as a ban on anti-personnel mines, are applied.

FNG takes this quality difference into account when aggregating and presenting the data, which it subdivides into the following two categories:

TABLE: Overview of sustainable investment categories

More exacting sustainability approach	Broader sustainability approach
Sustainable investments	Responsible investments
Core SRI	Broad SRI
▶ Includes products explicitly presented as sustainable and sustainability-oriented specialist banks.	▶ Includes investments using product-independent sustainability criteria or strategies (asset overlays).

The sustainable investment market in Switzerland

In addition to the funds and mandates, which have been recorded since 2005, assets managed by asset owners were, for the second year in a row, recorded for this study. Factors examined in greater detail here include sustainable investment strategies, allocation to asset classes and investors. Also included is a section devoted to the investment strategies recorded product-independently as asset overlays and their development since 2014. This is followed by a short overview of sustainability-oriented specialist banks in Switzerland, and the report concludes with an evaluation of qualitative questions relating to human rights, climate change, key drivers and trends.

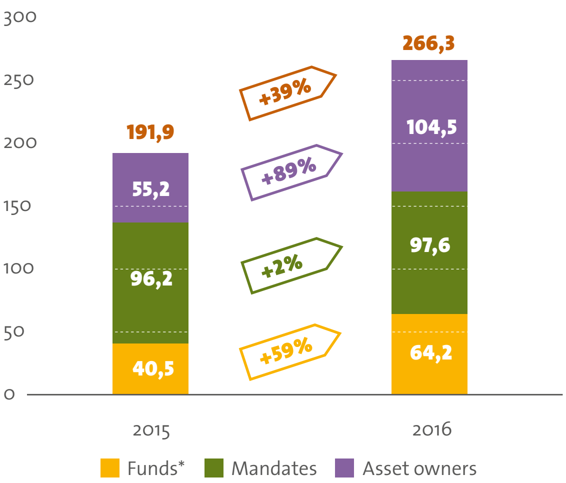
STUDY PARTICIPANTS

A total of 41 Swiss players took part in the 2017 edition of the Sustainable Investment Market Report. These included 27 asset managers and 14 asset owners, which provided details of the assets they manage.[1] All study participants which consented to be named are listed on page 18. The circle of study participants has thus been substantially increased in 2017. The number of asset owners, in particular, has risen from four to 14.

INVESTMENT FUNDS, MANDATES AND ASSETS MANAGED BY ASSET OWNERS

As at 31 December 2016, the total sum of sustainable investment funds, sustainable mandates and sustainable assets of asset owners stood at around CHF 266.3 billion. This equates to growth of 39%. Assets managed by asset owners made the greatest contribution to this, with growth of 89%. However, investment funds also saw strong growth, of 59%, while mandates grew by just 2%. Figure 1 shows the volume of sustainable investments in Switzerland in 2015 and 2016.

FIGURE 1: Sustainable Investments in Switzerland (in CHF billion)



** The fund figure for 2015 also includes other financial products*
Source: Forum Nachhaltige Geldanlagen, Swiss Sustainable Finance

The strong growth recorded for asset owners can primarily be explained by the improved market coverage of this year's study. A significant proportion of the additional study participants first became involved with sustainable investments during the course of 2016. As at 31 December 2016, 14 asset owners had provided details of their assets. In the previous year, the number had been just four. The volumes given include assets managed by the asset owners. In Switzerland, assets managed by the asset owners now make up around 39% of the total. They are followed in second place by mandates, accounting for 37%, and in third place by investment funds, which make up 24%.

The growth seen in investment funds is based primarily on the fact that almost all study participants recorded larger volumes than in the previous year. A second factor, however, was that one major player reported its sustainably managed property fund for the first time in this study. The picture concerning mandates is mixed. While some study participants reported higher values, overall these were almost cancelled out by the lower values reported by other providers. The figures are therefore almost unchanged compared with the previous year. The change compared with the previous year and the development so far are summarized in Table 1.

[1] In the case of one study participant, data from the year ending 31 December 2015 had to be used, as no current data in the depth of detail necessary was available. This was deemed to be necessary in order to continue the data series as far as possible without data gaps.

Table 1: Sustainable investments in Switzerland in 2015 and 2016 (in CHF billion)

Year	2016	2015	Change in per cent
Funds*	64,2	40,5	+59%
Mandate	97,6	96,2	+2%
Asset owners	104,5	55,2	+89%
Total	**266,3**	**191,9**	**+39%**

** In 2015, the funds also included other financial products.*
Source: Forum Nachhaltige Geldanlagen, Swiss Sustainable Finance

The overall total from sustainable investment funds, mandates and assets managed by asset owners, at CHF 266.3 billion, is referred to as the total amount of sustainable investments (or core SRI).

Figure 2 shows the historical development of sustainable funds and mandates in Switzerland since 2005. The average annual growth rate is around 28%. There has therefore now been growth in sustainable funds and mandates for the eighth year running. To make it easier to compare the figures, we have not included the assets managed by asset owners in Figure 2.

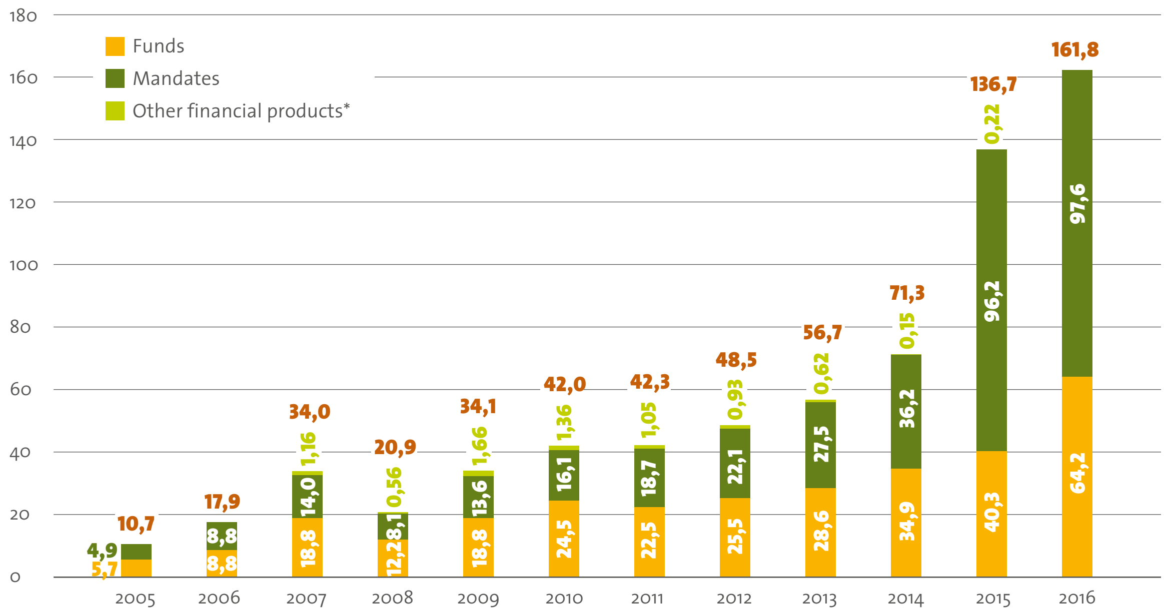
.

Sustainable investment funds recorded positive net inflows of just under CHF 3.0 billion in 2016. As only incomplete figures are available, their informative value is limited. The bulk of the fund growth was due to one major player, which provided details of its high-volume sustainable property fund for the first time in 2016. If this fund is not included, sustainable funds grew by 18%. On top of this, 15 new sustainable funds were launched in 2016, and one fund switched to a sustainability-oriented strategy.

As far as sustainable mandates are concerned, there were five new sustainable mandate types and two switched to a sustainability-oriented strategy. The total volume of these seven mandate types comes to just under a billion Swiss francs.

As at 31 December 2016, the overall volume of the Swiss fund market stood at CHF 911.7 billion.[2] This represents growth of 2.3% compared with the previous year. The growth achieved by sustainable investment funds, at 59%, was thus above overall market growth. Sustainable funds' share of the overall funds market therefore stands at around 7.0%. This equates to growth of 2.5 percentage points compared with the previous year, when the market share was only 4.5%.

Figure 2: Sustainable investment funds and mandates in Switzerland (in CHF billion)



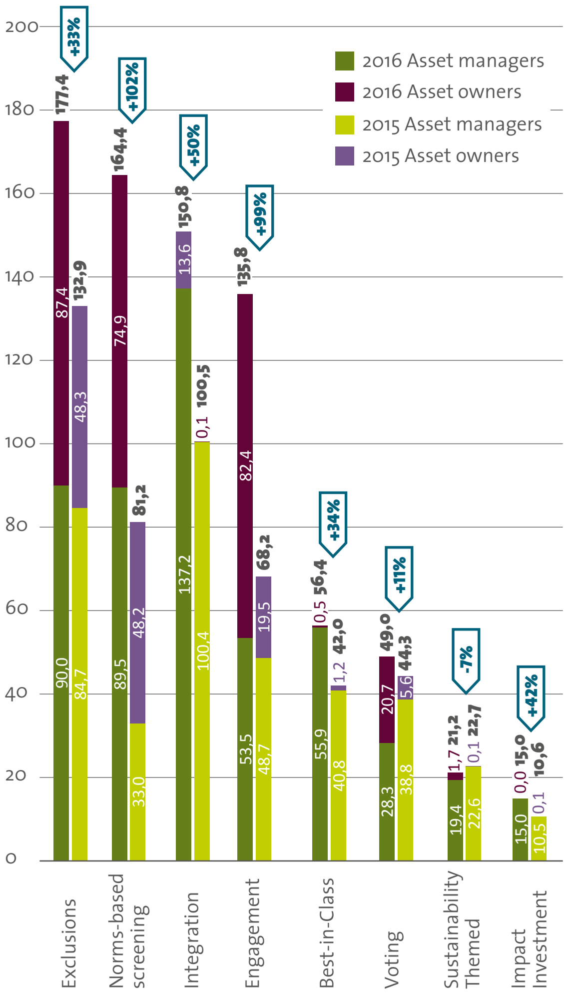
** As of 2016, „Other financial products" will not be reported separately*
Source: Forum Nachhaltige Geldanlagen/Swiss Sustainable Finance

[2] Based on fund market statistics from the Swiss Funds & Asset Management Association SFAMA and the SIX Swiss Exchange at: https://www.swissfunddata.ch/sfdpub/fondsmarkt-statistiken (accessed 29 March 2017).

INVESTMENT STRATEGIES

Figure 3 shows the sustainable investment strategies with their respective volumes. As in the previous year, the volumes of asset owners and asset managers are disclosed separately.

FIGURE 3: Sustainable investment approaches as of end of year 2015 and 2016 (in CHF billion)



Source: Forum Nachhaltige Geldanlagen, Swiss Sustainable Finance

The most commonly used investment strategy in Switzerland is still the **exclusion** of specific sectors, areas of business or business practices. This strategy is applied to 67% of all sustainable investments in Switzerland. The volume to which it was applied grew by 33% compared to the previous year. The exclusion criterion most frequently used by companies was that of violations of human rights. This was applied to a volume of assets totalling around CHF 130.2 billion (see Table 2). The top four criteria related to controversial business practices were violations of human rights, violations of labour rights, corruption and environmental destruction. These were followed by arms, tobacco and pornography.

TABLE 2: Top ten exclusion criteria in Switzerland 2016 (in CHF billion)

1.	Violation of human rights	130,2
2.	Violation of labour rights	111,2
3.	Corruption and bribery	109,4
4.	Environmental destruction	105,5
5.	Weapons (production and trade)	90,0
6.	Tobacco	80,0
7.	Pornography	66,2
8.	Nuclear power	61,3
9.	Genetic engineering	58,9
10.	Gambling	48,9

Source: Forum Nachhaltige Geldanlagen, Swiss Sustainable Finance

The top exclusion criterion applied to countries was nuclear power, at CHF 7.6 billion (see Table 3). A glance at the investment volumes to which the exclusion criteria apply shows that these are far less commonly used for countries than the exclusion criteria for companies[3]

TABLE 3: Top five exclusion criteria for countries in Switzerland 2016 (in CHF billion)

1.	Nuclear power	7,6
2.	Corruption	6,3
3.	Violations of arms proliferation treaties	6,2
4.	Death penalty	5,3
5.	Non-ratification of environmental conventions	4,3

Source: Forum Nachhaltige Geldanlagen, Swiss Sustainable Finance

The second most important sustainable investment strategy is **norms-based screening**. Its use has increased by 102% compared with the previous year. This is primarily attributable to the fact that a few major asset owners have recently committed to this investment strategy. The most important norms are the ILO's core labour standards and the criteria of the UN Global Compact, accounting for CHF 110.1 and 109.8 billion respectively (see Table 4). Overall, norms-based screening is applied to 62% of all sustainable assets in Switzerland.

TABLE 4: Norms-based screening (in CHF billion)

1.	ILO-Conventions	110,1
2.	UN Global Compact	109,8
3.	OECD Guidelines for Multinational Enterprises	53,1

Source: Forum Nachhaltige Geldanlagen, Swiss Sustainable Finance

[3] The exclusion criteria for countries were not recorded in the case of asset owners.

Looking only at funds and mandates and leaving out the volumes reported by asset owners, the **integration** of ESG criteria into traditional financial analysis and investment decisions is now the most important sustainable investment strategy in Switzerland and is used for around 85% of all funds and mandates. While the integration of ESG criteria by asset owners has seen strong growth, it is applied to only around 13% of assets, with a total value of CHF 13.6 billion. Use of this strategy grew by 50% compared with the previous year.

The use of **engagement** has increased by 99% compared with the previous year, which is mainly attributable to strong growth in its use by asset owners. The most important engagement themes in Switzerland in 2016 were corporate governance, climate change and corporate ethics (see Table 5).

Table 5: ESG engagement themes in Switzerland in 2016 in order of importance

1.	Corporate governance
2.	Climate change (risks, GHG emissions disclosure, targets, strategy, measures)
3.	Business ethics
4.	Supply chains
5.	Human rights
6.	Environmental management system & reporting
7.	Environmental impact of investments / products and services
8.	Environmental controversies
9.	Employment
10.	Community involvement

Source: Forum Nachhaltige Geldanlagen, Swiss Sustainable Finance

Use of the **Best-in-Class** approach grew by 34% but is now only the fifth most commonly used approach. Until 2014, the Best-in-Class approach always ranked first or second among the most popular investment strategies in Switzerland. In recent years, however, the integration approach has increasingly been chosen over the Best-in-Class approach: this is also linked to the growing mainstreaming of sustainable investments.

At product level, **voting** gained only just over 11%. More detailed information on this approach can be found in the Asset Owners section on page 12.

Sustainability Themed funds, were the only investment strategy to record a slight fall of 7%. During the period under consideration, major themes included water, property, renewable energies, environment and climate. Besides these, there were also a number of multi-themed funds with a broader thematic focus.

Impact investment managed to achieve slightly higher-than-average growth of 42%, but at CHF 15.0 billion still ranks last among the sustainable investment strategies used in Switzerland. A total of 13 study participants from Switzerland offer impact investments. Of these, two state that they would under certain circumstances be prepared to accept lower yields in return for social benefits. Microfinance products still account for the bulk of impact investments. However, there are also impact investments in the areas of rural agriculture, rural electrification and general support for small and medium-sized enterprises and the local economy in the target countries.

Table 6: Key drivers of impact investment in Switzerland in 2016

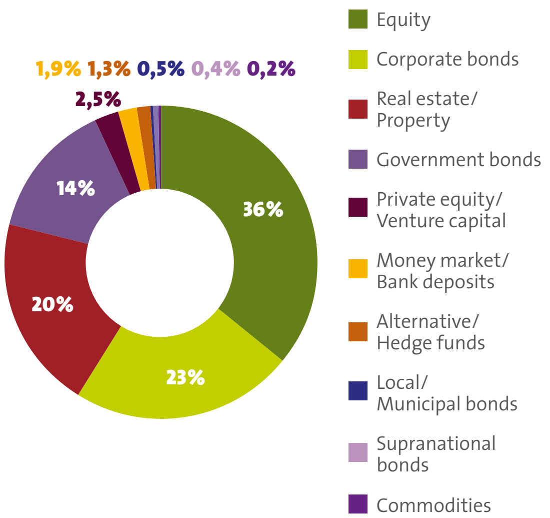
1.	Desire for stable long-term returns
2.	Contribution to sustainable development
3.	Financial opportunities

Source: Forum Nachhaltige Geldanlagen, Swiss Sustainable Finance

ALLOCATION OF ASSETS

The breakdown of assets by allocation is based on the data table on page 19. The allocation to asset classes in Switzerland saw a number of changes compared with the previous year. Equities, which last year made up 50% of the assets, now account for just 36% (see Figure 4). It should be mentioned, however, that the volume of equities has not decreased on an absolute level (see Figure 5). The significant new asset class of real estate and property saw massive growth. This now accounts for around 20% and has quadrupled its volume. This sharp rise is largely attributable to one major player, which reported its property fund for the first time on 31 December 2016.

FIGURE 4: Proportions of the various asset classes in Switzerland in 2016 (in per cent)

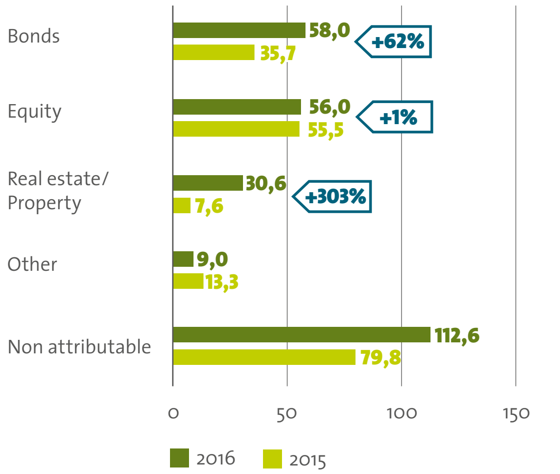


Source: Forum Nachhaltige Geldanlagen, Swiss Sustainable Finance

The breakdown of assets by allocation is based on the data table on page 19. The allocation to asset classes in Switzerland saw a number of changes compared with the previous year. Equities, which last year made up 50% of the assets, now account for just 36% (see Figure 4). It should be mentioned, however, that the volume of equities has not decreased on an absolute level (see Figure 5). The significant new asset class of real estate and property saw massive growth. This now accounts for around 20% and has quadrupled its volume. This sharp rise is largely attributable to one major player, which reported its property fund for the first time on 31 December 2016.

[4] This data is based on information relating to assets of CHF 205.3 billion (no data available for 23%).

FIGURE 5: Comparison of the various asset classes in Switzerland in 2015 and 2016 (in CHF billion)



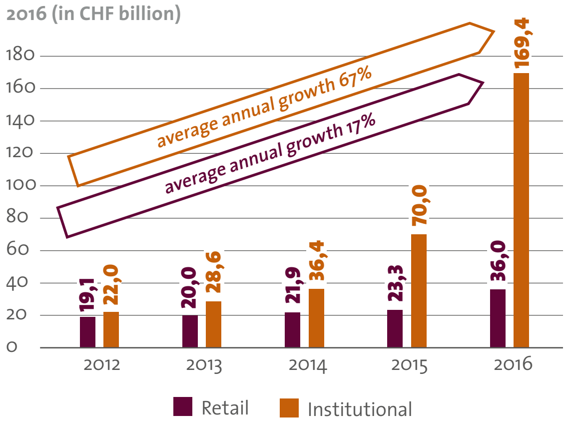
Source: Forum Nachhaltige Geldanlagen, Swiss Sustainable Finance

INVESTORS

In 2016, thanks in particular to the increased number of asset owners study participants, the proportion of institutional investors in Switzerland increased to 82%. Correspondingly, retail investors accounted for 18% of sustainable investments. Figure 6 clearly shows that this does not equate to a decline in retail investment. Rather, both groups of investors have been steadily growing year on year since 2012. However, the average annual growth rate for investments by institutional investors, at around 67%, is far higher than the average annual growth rate for investments by retail investors. Between 2012 and 2016, the latter nonetheless stood at 17%.[4]

The increasing significance of institutional investors in the sustainable investment market can primarily be explained by the fact that the importance of sustainable investments to asset owners has increased. The increasing levels of activity have also resulted in greater willingness to take part in a survey on this topic..

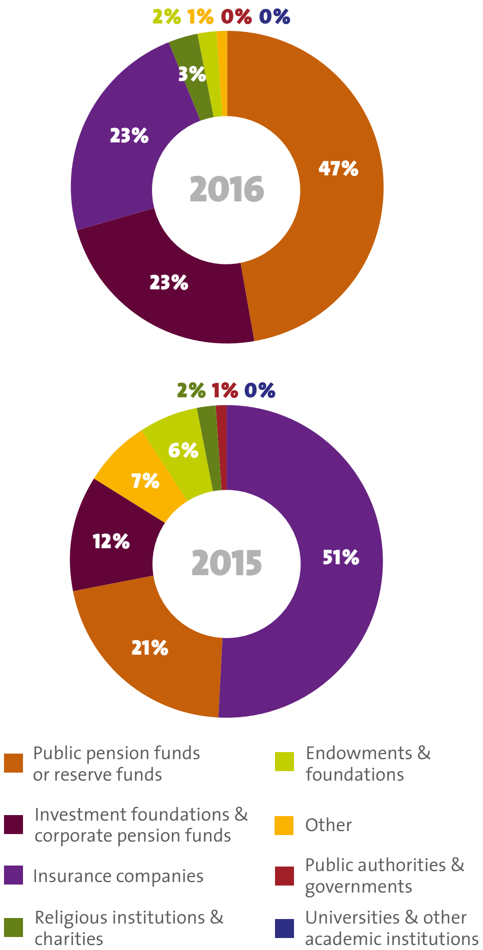
FIGURE 6: Distribution of investor type in Switzerland in 2015 and 2016 (in CHF billion)



Source: Forum Nachhaltige Geldanlagen, Swiss Sustainable Finance

In 2016, the composition of the institutional investors shifted once again, with public pension and reserve funds now forming the largest group, at around 47%. They are followed in second place by investment foundations and corporate pension funds, which account for 23%, and in third place by insurance companies, also accounting for 23%. None of the other institutional investors play a significant role in the current sustainable investment market in Switzerland. The changes are due largely to the newly participating asset owners which were recorded for the first time in 2017.[5]

Figure 7: Types of SRI institutional investors in Switzerland in 2015 and 2016 (in per cent)

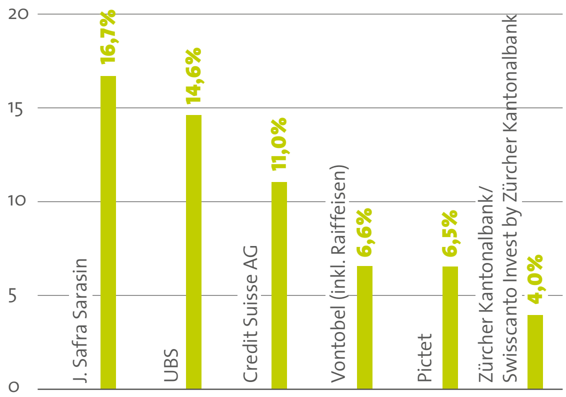


Source: Forum Nachhaltige Geldanlagen, Swiss Sustainable Finance

ASSET MANAGERS

Figure 8 gives an overview of the market shares of the largest asset managers in Switzerland in terms of sustainable investment. One player did not consent to being listed in this diagram and is therefore not shown. In total, 27 asset managers from Switzerland took part in the 2017 Sustainable Investment Market Report.

Figure 8: Market shares of the leading Swiss asset managers in 2016 (in per cent)



Source: Forum Nachhaltige Geldanlagen, Swiss Sustainable Finance

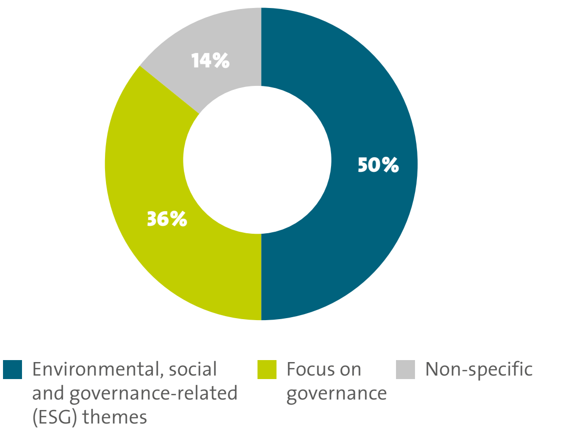
[5] This data is based on details for assets of CHF 145.2 billion.

ASSET OWNERS

Overall, 14 asset owners from Switzerland agreed to take part in the study this year. Compared with the previous year, the number of participants was thus increased by an addition of ten asset owners. Of the 14 asset owners, twelve have stated that they have internal guidelines on sustainable or responsible investment in place. The remaining two players have stated that they have no such guidelines, but one of them is currently in the process of drafting guidelines on sustainable investment.

All 14 asset owners have stated that they have formal guidelines on exercising voting rights in place. Half of these have a voting policy pertaining to environmental, social and governance factors. The voting policies of five asset owners pertain only to governance issues (see Figure 9). In addition, all the asset owners stated that they actively exercise their voting rights in respect to Swiss equities. Furthermore, eight of the 14 asset owners also exercise their voting rights in respect to global equities, and half of these do so for over 50% of such equities.

Figure 9: Themes covered by Swiss asset owner voting guidelines



Source: Forum Nachhaltige Geldanlagen, Swiss Sustainable Finance

In addition, eleven of the 14 study participants stated that they have a formal engagement policy in place. Of the 14 asset owners, eleven agreed to be listed together with the other study participants on page 18.

ASSET OVERLAYS

Investment strategies can also be applied and recorded independently of products, as asset overlays. With these, certain criteria or investment strategies are applied to all or part of the assets under management.

Since 2014, the following investment strategies have also been recorded product-independently as asset overlays: exclusions, engagement, voting and integration. The volumes reported by asset owners have also been added to these. Figure 10 shows the development of asset overlays in Switzerland since 2014. Exclusion overlays – which as of 31 December 2016 in Switzerland totalled around CHF 2.78 trillion – generally cover controversial areas of business. For almost all assets, cluster munitions and anti-personnel mines are excluded from investments (CHF 2.78 trillion). These are followed in second place by weapons of mass destruction, accounting for a volume of CHF 2.26 trillion. Next, at CHF 335.2 billion, are the exclusion of human rights violations. The exclusion of all weapons applies to CHF 282.7 billion, exclusions of investments in coal to CHF 243.9 billion and the exclusion of speculation in foodstuffs to CHF 161.1 billion.

Since 2014, in its SRI Study Eurosif has included a classification of sustainability quality with respect to the integration investment strategy. Based on this, the current market report makes a distinction between the following two segments:

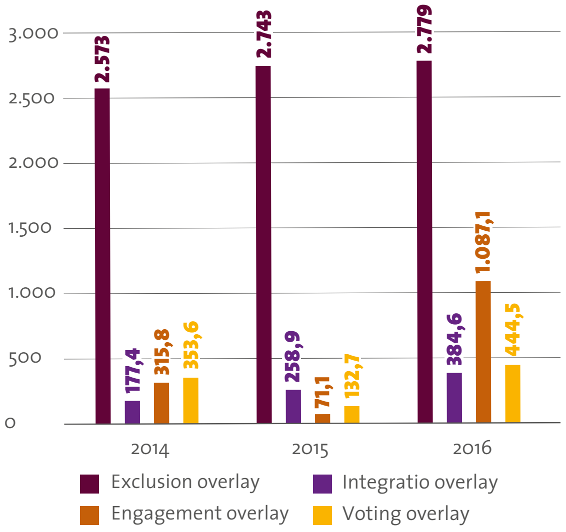
Category 1:
non-systematic ESG integration (ESG research and analysis is provided to asset managers and analysts).

Category 2:
ex-post ESG evaluation of the portfolio or fund.

Of the CHF 384.6 billion to which integration is applied, CHF 306.3 billion can be assigned to the second category, and a non-systematic approach to ESG integration is correspondingly applied to CHF 78.3 billion.

As at 31 December 2016, thanks to an improved database, the figures for voting and engagement overlays have also risen strongly, to CHF 444.5 billion and CHF 1.09 trillion respectively. A three-year comparison reveals that all asset overlays have seen growth (see Figure 10). This growth was particularly strong in the case of engagement, where the value more than tripled between 2014 and 2016. The overall figure for asset overlays is CHF 2.78 trillion. This amount represents the volume of responsible investments (or broad SRI).

Figure 10: Overview of asset overlays in Switzerland (in CHF billion)



Source: Forum Nachhaltige Geldanlagen, Swiss Sustainable Finance

SUSTAINABILITY-ORIENTED SPECIALIST BANKS

In Switzerland, the banks classified as sustainability-oriented specialist banks are Freie Gemeinschaftsbank and Alternative Bank Schweiz. According to Freie Gemeinschaftsbank's website, the funds it manages are invested predominantly in projects which "support people, animals, plants and the Earth". Its objective is "to ensure that its entire cash flow is in accordance with ethical/environmental criteria". Alternative Bank Schweiz describes itself as a social and environmental bank which works "for the common good, humanity and nature". Its high degree of transparency is the main feature distinguishing this bank from conventional banks; for example, when issuing loans, it publishes the recipient's name, the amount and the intended purpose of the loan.

The customer deposits of these specialist banks have remained largely static, and in 2016 amounted to approximately CHF 1.7 billion. This value has increased by two per cent compared with the previous year.

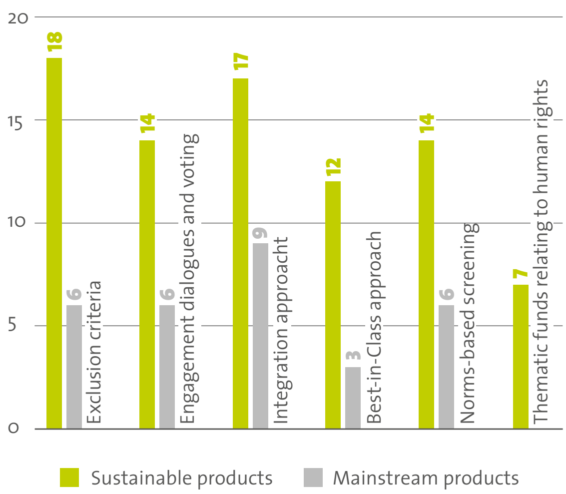
QUALITATIVE QUESTIONS RELATING TO HUMAN RIGHTS, CLIMATE CHANGE, KEY DRIVERS AND TRENDS

HUMAN RIGHTS

For this year's focal issue, qualitative questions relating to human rights were also posed to the study participants. 21 asset managers provided information here.

Of the 21 asset managers, 18 stated that they applied exclusion criteria with respect to human rights to their sustainable funds. Six stated that they also took exclusion criteria relating to human rights into account for mainstream funds. 17 financial service providers stated that they took the issue of human rights into account in their integration approach for sustainable funds. Nine of them also apply this integration approach to their mainstream funds. 14 companies incorporate the issue of human rights in their engagement dialogues and the same number include it in their norms-based screening for sustainable products; similarly, six companies in each case also include the issue of human rights in their engagement and voting approaches and norms-based screening for their mainstream products. Twelve players use the Best-in-Class approach to take human rights into account in their sustainable products and three players also apply a Best-in-Class approach to mainstream products. Seven players apply human rights in the form of specialist products such as social-impact investments and microfinance products. Figure 11 summarises the analysis of the questions relating to the issue of human rights.

Figure 11: Strategies of financial players in Switzerland that take human rights into account (study participants)



Source: Forum Nachhaltige Geldanlagen, Swiss Sustainable Finance

The Global Compact and the core labour standards of the ILO are cited equally as being the most important standards when it comes to human rights (see Table 7). They are followed in third place by the UN Guiding Principles on Business and Human Rights (Ruggie Guidelines).

Table 7: The three most important norms for human rights in Switzerland in 2016

1.	UN Global Compact
1.	ILO Conventions
3.	OECD Guidelines for Multinational Enterprises

Source: Forum Nachhaltige Geldanlagen, Swiss Sustainable Finance

The study participants indicate exclusion criteria together with engagement and voting in joint first place as the most effective strategies used in Switzerland with regard to human rights. In third place comes norms-based screening (see Table 8).

Table 8: The investment strategies relating to human rights seen as most effective by Swiss asset managers

1.	Exclusions
1.	Engagement and voting
3.	Norms-based screening

Source: Forum Nachhaltige Geldanlagen, Swiss Sustainable Finance

Responsibility as asset managers was cited as the most important reason for considering human rights. This was followed in second and third places by reputation management and risk management. Customer demand and compliance requirements were seen as being less important (see Table 9).

Table 9: Key drivers for taking human rights into account in investments in Switzerland (in order of importance)

1.	Responsibility as asset manager
2.	Reputational management
3.	Risk management
4.	Demand from retail investors
5.	Compliance requirements

Source: Forum Nachhaltige Geldanlagen, Swiss Sustainable Finance

CLIMATE CHANGE

To complete the survey for this market report, participants were asked about how they take climate change into account. Here, too, 21 asset managers provided information. In order to compare their answers with last year's results, 2015 data is cited in each case.

With respect to climate change, 14 participants stated that they already have green investments (2015: 10) and measure their carbon footprint (2015: 7). For 2016, twelve asset managers stated that they have already initiated divestment processes (2015: 10) and that they include the issue of climate in their engagement dialogues (2015: 10). Compared with the previous year, the issue of climate change has thus continued to grow in importance.

MARKET TRENDS AND KEY DRIVERS

34 study participants reported what they see as being the key drivers, and 33 ventured predictions regarding the further development of sustainable investments in 2017. The core key driver of further growth in the sustainable investment market in 2016 was „demand from institutional investors“, once again coming in first place (see Table 10). Elsewhere, too, the order of the rankings has remained largely unchanged since last year. The only one to change was „fiduciary duty“, which moved up from fifth to third place, displacing „external pressure“, which slipped from third to fifth place.

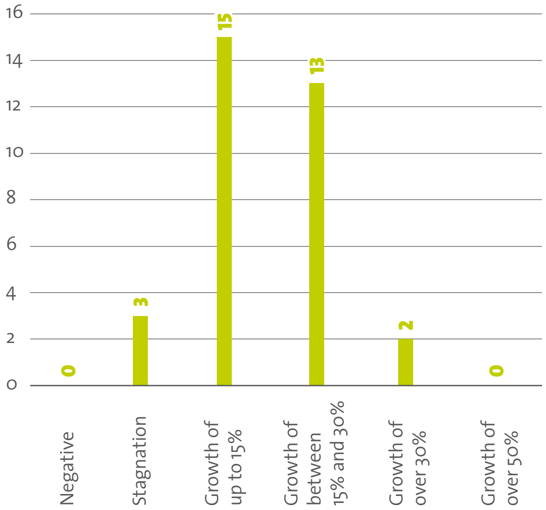
Table 10: Key drivers for demand in SRI

1.	Demand from institutional investors
2.	Legislative
3.	Notion of fiduciary duty
4.	Demand from retail investors
5.	External pressure (NGOs, media, trade unions)
6.	International initiatives
7.	Materiality

Source: Forum Nachhaltige Geldanlagen, Swiss Sustainable Finance

As far as forecast growth for sustainable investments in 2017 is concerned, there was widespread agreement among the 33 study participants that the market would continue to grow in the current year. Overall, 30 study participants predict growth, while only three anticipate stagnation. Concerning the extent of the growth, however, opinions diverge, with 15 study participants forecasting market growth of up to 15 per cent, 13 predicting growth of between 15 and 30 per cent and two even forecasting growth of over 30 per cent. The results are summarised in Figure 12.

Figure 12: Growth forecasts for sustainable investments in Switzerland in 2017 (study participants)



Source: Forum Nachhaltige Geldanlagen, Swiss Sustainable Finance

SUMMARY

In 2016, the sustainable investment market in Switzerland continued its upward trend. There was particularly strong growth in the asset owner segment in which the ten new participants, many of which only started their sustainable investment activities during the course of 2016, contributed a substantial proportion. The picture concerning sustainable funds and mandates is mixed: on the one hand, the funds showed strong growth and increased their proportion of the market as a whole to 7.0%, but on the other hand, the volume of the mandates remained almost static.

HUMAN RIGHTS PROTECTION: ON THE RADAR OF SWISS PENSION FUNDS

The Swiss Association for Responsible Investments (SVVK-ASIR) was founded on 3 December 2015 by seven pension funds from the public sphere. BVK (Zurich canton's civil service pension fund), compenswiss (AHV/IV/EO compensation fund), comPlan, the Swiss Post Office pension fund, the Swiss Federal Railways pension fund, the Federal pension fund PUBLICA and Suva manage investment assets totalling over CHF 150 billion. They now jointly plan to exercise their environmental, social and economic responsibilities in a holistic and structured way. Their investment processes are therefore to be updated to include ESG (environmental, social, governance-related) criteria.

SVVK-ASIR's assessment criteria are defined as objectively as possible and reflect the democratic consensus typical of Switzerland. In the area of human rights, these normative criteria are based exclusively on Swiss law and on international treaties and conventions ratified by Switzerland. SVVK-ASIR's Board decided on the selection of particular key human rights as basic criteria for the screening and monitoring of the portfolio of their members, which is carried out every 6 months for the Equity and Fixed Income asset classes.

SVVK-ASIR applies two types of tests. Product-based screening (e.g. for banned weapons) can lead directly to an exclusion recommendation. For this step, SVVK-ASIR works jointly with the service provider ISS Ethix. In addition, behaviour-based screening is carried out in cooperation with ECOFACT. Here, the companies in the members' investment universe are checked for possible violations of human rights and labour rights, environmental standards or other governance-related ESG criteria. If any non-compliance is identified, SVVK-ASIR enters into a dialogue with the companies concerned. To conduct the dialogues, SVVK-ASIR in turn commissions specialist external providers such as Global Engagement Services (GES), which have the necessary networks and expertise. The 10-15 companies currently classified as problematic are predominantly involved in human rights violations. These are mainly companies with complex supply chains and with production sites in countries where there are no appropriate human rights standards in place or where the government pays insufficient attention to such issues. However, examples of human rights violations can also be found in developed countries. In the USA, for example, minors from the age of 12 illegally work on tobacco plantations, where they come into contact with nicotine and toxic pesticides and are exposed to other hazards. Doing this type of work at such a young age has serious consequences for their health and personal development. Studies show long-term and chronic effects including cancer, depression, respiratory diseases and neurological deficits. Leading global tobacco companies purchase their tobacco from these plantations. However, they do not have guidelines on child labour to guarantee adequate protection for these children from very poor backgrounds.

What is important for SVVK-ASIR is that it should be possible to proceed in a structured way when conducting dialogue processes with companies from members' investment portfolios and which are classified as problematic, says SVVK-ASIR's CEO, Jacqueline Oh. The so-called Swiss finish, which distinguishes SVVK-ASIR from other initiatives and is intended to give expression to specifically Swiss norms and values, should be reflected here, as it was when the basic documents on normative criteria were drawn up.

SVVK-ASIR captures the spirit of the times and has generated strong interest in the form of membership enquiries. Jacqueline Oh also stresses the following: The motivation and commitment of our members have hugely helped us in making real progress in this area. The enthusiastic and lively exchange of views with the respective managers relating to the investment dealings of our members demonstrates to me the enormous potential of SVVK-ASIR to have a real impact in the area of ESG, including human rights.

We would like to thank our sponsors and supporters:

Gold Sponsor

Union Investment

Silver sponsor

oekom research AG

Supporters

BIB – Bank im Bistum Essen eG

Deutsche Bildung AG

FondsDISCOUNT.de

GES Switzerland

NKI – Institut für nachhaltige Kapitalanlagen GmbH

KlimaGut Immobilien AG

Pictet Asset Management Limited – Niederlassung Deutschland

Qualitates GmbH

Raiffeisen Kapitalanlage GmbH

RobecoSAM

South Pole Group

Study participants

- Aberdeen Asset Management
- ACATIS Fair Value Investment AG
- AXA Winterthur
- Bank J. Safra Sarasin
- Bank Julius Baer & Co. Ltd.
- Basellandschaftliche Kantonalbank
- BlueOrchard Finance Ltd
- BVK
- CONINCO Explorers in finance SA
- CP de la Féd. Internationale de la Croix Rouge et du Croissant Rouge
- CPEG
- Credit Suisse AG
- de Pury Pictet Turrettini & Cie S.A.
- Ethos Services SA
- FUNDO SA
- Hauck & Aufhäuser (Schweiz) AG
- INOKS Capital SA
- LGT Capital Partners AG
- Lombard Odier
- Mirabaud Asset Management
- Nest Sammelstiftung
- Obviam AG
- Partners Group
- Patrimonium Private Equity AG
- Pensionskasse der Zürcher Kantonalbank
- Pensionskasse des Bundes PUBLICA
- Pensionskasse Post
- Pensionskasse Stadt Zürich
- Pictet Asset Management
- responsAbility Investments AG
- RobecoSAM AG
- Schweizerische Mobiliar Asset Management AG
- Schwyzer Kantonalbank
- Suva
- Symbiotics SA
- UBS AG
- Vontobel Holding AG
- Zürcher Kantonalbank/Swisscanto Invest by Zürcher Kantonalbank

Imprint

Published by:	*Forum Nachhaltige Geldanlagen e.V., Swiss Sustainable Finance*
Authors:	*Simon Dittrich, Sabine Döbeli, Lea Fäh, Kelly Hess, Jean Laville, Gesa Vögele*
Translation:	*David Darrah-Morgan*
Design:	*www.christinaohmann.de*

Berlin/Zürich, May 2017

dieUmwelt Druckerei Mit Biofarben auf 100% Recyclingpapier gedruckt

klimaneutral natureOffice.com | DE-275-419506 gedruckt

Swiss Sustainable Investment Market

CHF / Euros (millions)	2016		2015	
Funds	64,166 CHF	*59,762 €*	40,325 CHF	*37.279 €*
Mandates	97,602 CHF	*90,902 €*	96,154 CHF	*88.892 €*
Structured products	–	–	225 CHF	*208 €*
Asset owners	104,499 CHF	*97,326 €*	55,236 CHF	*51.064 €*
Total	266,267 CHF	*247,990 €*	191,940 CHF	*177.443 €*
Customer deposits held in sustainable banks	1,748 CHF	*1,628 €*	1,712 CHF	*1.583 €*
Asset Overlays				
Exclusions	2,778,959 CHF	*2,588,208 €*	2,743,206 CHF	*2,536,014 €*
Integration	384,600 CHF	*358,201 €*	258,892 CHF	*239,338 €*
Engagement	1,087,059 CHF	*1,012,442 €*	71,092 CHF	*65,722 €*
Voting	444,468 CHF	*413,959 €*	132,665 CHF	*122,645 €*
Sustainable investment approaches				
Exclusions	177,430 CHF	*165,251 €*	132,949 CHF	*122,907 €*
Norms-based screening	164,402 CHF	*153,117 €*	81,183 CHF	*75,051 €*
Integration	150,834 CHF	*140,481 €*	100,464 CHF	*92,876 €*
Engagement	135,812 CHF	*126,490 €*	68,158 CHF	*63,010 €*
Best-in-Class	56,428 CHF	*52,555 €*	42,041 CHF	*38,866 €*
Voting	49,022 CHF	*45,657 €*	44,342 CHF	*40,993 €*
Sustainability Themed	21,161 CHF	*19,708 €*	22,734 CHF	*21,017 €*
Impact investment	14,972 CHF	*13,944 €*	10,620 CHF	*9,818 €*
Asset classes				
Equity	55,956 CHF	*52,115 €*	55,529 CHF	*51,335 €*
Corporate bonds	34,778 CHF	*32,391 €*	19,702 CHF	*18,214 €*
Real estate/Property	30,648 CHF	*28,544 €*	7,610 CHF	*7,035 €*
Sovereign bonds	21,757 CHF	*20,264 €*	6,693 CHF	*6,187 €*
Venture capital/Private equity	3,851 CHF	*3,587 €*	5,039 CHF	*4,658 €*
Monetary/Deposit	2,942 CHF	*2,740 €*	3,205 CHF	*2,963 €*
Alternative/Hedge funds	1,958 CHF	*1,824 €*	2,749 CHF	*2,541 €*
Local or municipal bonds	828 CHF	*771 €*	6,798 CHF	*6,285 €*
Supranational bonds	638 CHF	*594 €*	2,481 CHF	*2,294 €*
Commodities	282 CHF	*263 €*	2,355 CHF	*2,177 €*
Total	153,638 CHF	*143,093 €*	112,161 CHF	*103,689 €*
Not specified	112,629 CHF	*104,897 €*	79,779 CHF	*73,753 €*
Investor types		*in per cent*		*in per cent*
Institutional	169,384 CHF	*82%*	69,978 CHF	*75%*
Retail	35,955 CHF	*18%*	23,345 CHF	*25%*
Total	205,339 CHF	*100%*	93,323 CHF	*100%*
Not specified	60,928 CHF	*23%*	98,617 CHF	*51%*

** As of 2016, "Other financial products" will not be reported separately*