

# Swiss Sustainable Investment Market Study 2023

Main  
sponsors







# Content

	Preface by Swiss Sustainable Finance	p.4
	Preface by Professor Timo Busch	p.5
	Executive Summary	p.6
<b>01</b>	<b>Introduction</b>	
1.1	Objective of study	p.13
1.2	Methodology of study	p.14
1.3	Overview on study participants	p.16
<b>02</b>	<b>Adoption of Sustainability in the Swiss Investment Market</b>	
2.1	Overall volumes of sustainability-related investments	p.18
2.2	Role of different combinations of SI approaches	p.22
2.3	Sustainable investments as defined by AMAS self-regulation	p.25
2.4	New classification scheme for sustainability-related investments: Pilot study	p.26
<b>03</b>	<b>Details on Sustainability-related Investments</b>	
3.1	Investor types	p.33
3.2	Highlights on funds and mandates	p.34
3.3	Sustainable investment approaches	p.36
3.4	Asset allocation	p.44
3.5	Special topics	p.47
<b>04</b>	<b>Conclusion and Outlook</b>	p.52
<b>05</b>	<b>Regulatory Developments</b>	p.54
<b>06</b>	<b>Sponsor Contributions</b>	p.66
<b>08</b>	<b>Appendix</b>	
	List of abbreviations	p.77
	List of figures	p.78
	Study participants	p.79
	List of sponsors	p.80
	Imprint	p.82

# Preface by Swiss Sustainable Finance

Sustainability-related investments have faced a challenging environment over the past year. The negative market performance of 2022 hit sustainable investors just as much as their mainstream peers. Furthermore, many banks and asset managers chose to take a more conservative approach in reporting their sustainable offerings in order to manage greenwashing risks and rising regulatory complexity attributable to the absence of commonly agreed definitions. As a result of these and other factors, volumes saw a decline in 2022. Does this mean sustainable investments are in crisis? Absolutely not. Instead, we see these developments as a natural step in the evolution towards the mainstreaming of sustainability-related investments.

First, it is not surprising to see a slowdown after years of considerable growth resulting in market shares higher than 50% for some segments. In addition, considering that sustainability-related investments are now offered for most asset classes and reflect standard asset allocations, it is normal that volumes fell in line with the strong bear markets.

Second, current efforts to combat greenwashing not only illustrate that sustainable investments are taken more seriously by market actors but also that expectations with regards to the impact of such products are rising – which is a positive development. Improved communication regarding the objectives of sustainability-related investments, will foster understanding and contribute to bolstering trust in such investments. Federal initiatives such as Swiss Climate Scores, as well as initiatives for more transparency by different associations will play a significant role in facilitating clearer communication.

Third, sustainable finance regulation may be perceived as a burden by market actors and so far hasn't brought about the intended clarity vis a vis clients. But it led to higher sensitivity with regard to the establishment of sound investment processes and clearer communication on them. On-going discussions regarding definitions, labelling and reporting requirements will lead to even better frameworks, contributing to improved transparency.

In light of these developments, we've chosen to focus this year's Swiss Sustainable Investment Market Study on bringing different perspectives into the discussion. We think it is vital to lead an informed dialogue between all stakeholders to define a principle-based framework that allows better classification of sustainable investments. More transparency on objectives and clearer information on results provide investors with the foundation needed for greater clarity and trust. They will then be able to better differentiate which investments fit their goals, be it alignment to specific values, improving the risk/return profile thanks to incorporating sustainability risks and opportunities, or – probably the most important goal – making a clear contribution to the much-needed transition to a sustainable economy.



**Patrick Odier**  
President SSF



**Sabine Döbeli**  
CEO SSF

# Preface by Professor Timo Busch

In past editions of the Swiss Sustainable Investment Market Study, we frequently discussed how the notion of impact needs to be better embedded in market studies and sustainable finance as a whole. I was inspired by this to launch a project with Eurosif last year. The outcome was a white paper published in 2022 that proposed ideas for a new classification scheme for sustainable investments. One significant characteristic of this scheme is that it distinguishes between two types of impact-related investments, as proposed by the G7 task force on impact investments: Impact-Generating and Impact-Aligned investments.

The new classification scheme has two main objectives. First, the scheme considers an investment's individual ambition to contribute to a sustainable and just transition of the real economy. Second, it builds upon established and widely applied approaches for sustainable investment strategies as defined by the European Sustainable Investment Forum (Eurosif), the Global Sustainable Investment Alliance (GSIA) and the United Nations Principles for Responsible Investment (PRI). These approaches were also the foundation of previous editions of the Swiss Sustainable Investment Market Study as well as this year's report.

The first objective appears to be highly relevant, especially in light of current EU regulations. With the Sustainable Finance Disclosure Regulation (SFDR), the EU has imposed new regulatory requirements that many practitioners also use for the purpose of product classification. Yet the regulation was not designed to be a classification system, but rather a disclosure regulation. As a consequence, various ambition levels of investments are not explicitly captured in terms of their contribution to the sustainable transition of the real economy. We attempt to remedy this by placing transparent ambition levels at the heart of the classification system proposed in the Eurosif white paper. In addition, there is one severe shortcoming. The SFDR's definition of sustainable investments in Art. 2 (17) does not distinguish between investor impact and company impact, a distinction that is key if we want to understand how investors can achieve impact. The proposed new classification offers such a distinction.

Of course, the proposed Eurosif classification scheme was only the first step in a long process. Further work was and still is needed to develop and fine-tune the individual classifications, and to explore how this scheme as a whole can be applied in practice. Many open-ended questions needed answers, and the only way to find them was to use the concept in a pilot study. With SSF we found the right partner for such a pilot study. Given our long-standing cooperation for the Swiss Sustainable Investment Market Study and the in-depth market expertise of the team, we had the right prerequisites for testing the method. Based on the insights gained in this pilot we obtained important information for improvement, which allows us to continue our work on the classification scheme. Eurosif aims to have a final version out by the end of the year.

I would like to thank the entire SSF team and all Swiss market players that contributed to this endeavour. Without the long discussions and extensive feedback, we would never have gained these numerous insights. We hope this new, qualitative way of looking at market figures will help us support the creation of sustainable investments with even greater impact.



**Professor Timo Busch**  
Sustainable Finance Research Group  
University of Hamburg

# Executive Summary

The Swiss Sustainable Investment Market Study 2023 contributes to efforts to define sustainable investments by offering different perspectives, and by discussing the complexities of measuring and reporting sustainable investment volumes. A tightening regulatory environment, in addition to advancements within the industry, can be seen as a reaction to the fact that the market demands more from “sustainable investments” than the simple application of one of the common sustainable investment (SI) approaches (e.g. exclusions). Yet there is still no clear definition of when an investment can be labelled “sustainable”, neither in Switzerland nor in the EU.

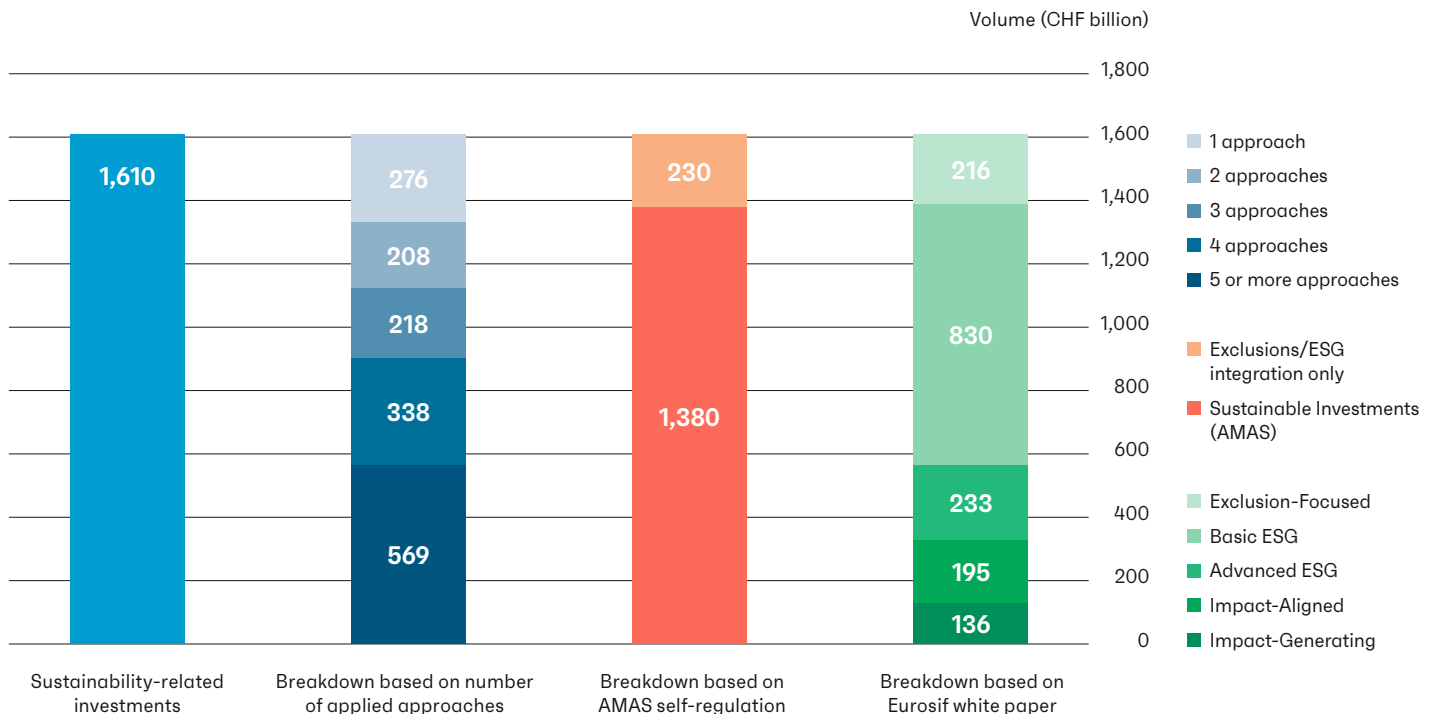
This year’s study therefore looks at how sustainability is integrated in the investment market by providing details on

various segments of sustainability-related investment volumes. Although the study no longer reports a specific volume of “sustainable investments”, to ensure continuity with past studies, it still contains an overview of applied SI approaches and, on the basis of their application, shows total volumes of sustainability-related investments.

## Different perspectives on sustainability

At the end of 2022, reported sustainability-related volumes amounted to CHF 1,610 billion. This year, in the absence of a standardised definition of “sustainable investments”, we look at the nature of these investments through three different lenses.

## Different perspectives on sustainability-related investments in the Swiss investment market (in CHF billion)



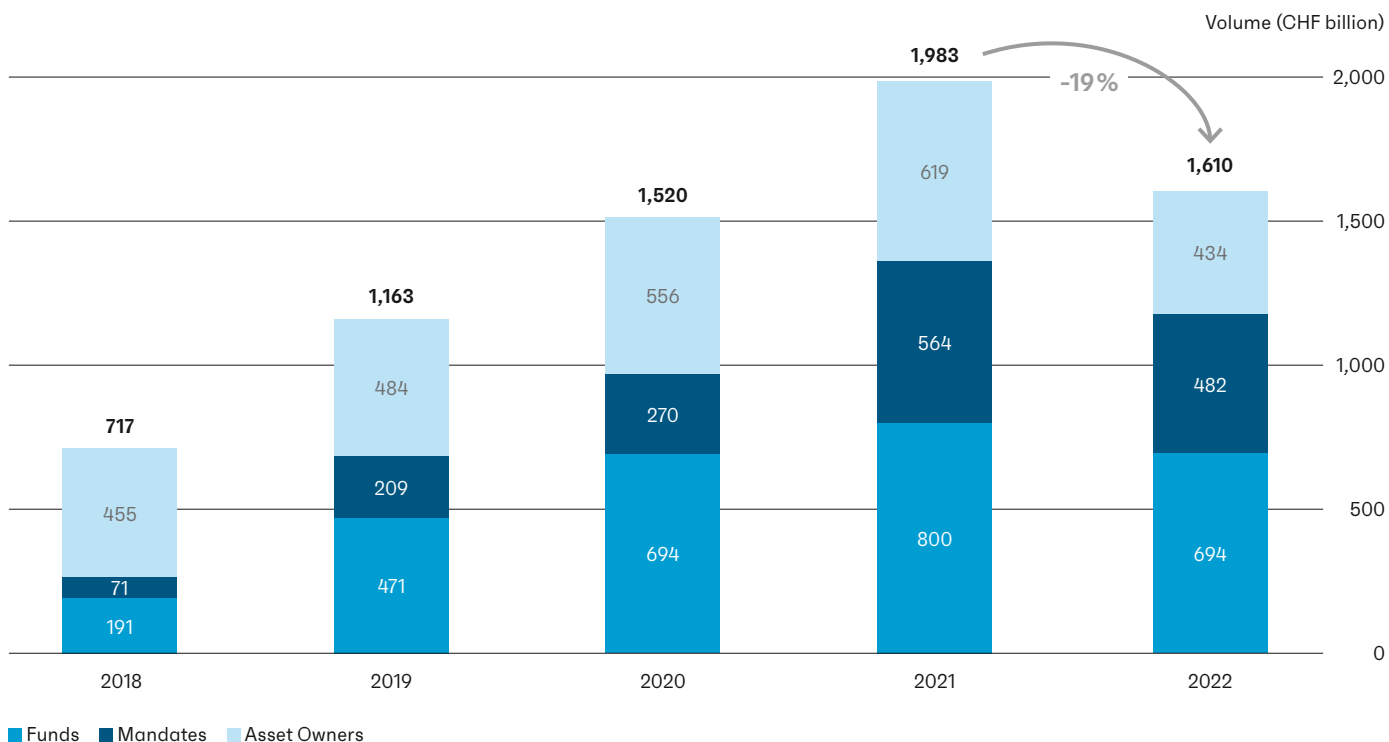
First, we look at the application of various combinations of approaches (second bar). This can serve as a proxy for the level of sophistication in the management of sustainability-related assets. With approximately two thirds of all volumes applying three or more SI approaches, the majority of sustainability-related investments reflect the ambition of looking at sustainability from different angles and taking into consideration multiple investor motivations.

Second, we illustrate which of these volumes meet the definition of the Asset Management Association Switzerland's (AMAS) self-regulation (third bar). After deducting volumes that apply only the exclusion or the ESG integration approach from total Swiss sustainability-related volumes, the resulting volume comes to CHF 1.38 trillion, or 85% of all sustainability-related investments and thus a major share of the market.

Third, we conducted a pilot study based on a Eurosif white paper that classifies investments in terms of their main objective and ambition level to contribute to the transition to a sustainable world (fourth bar). The resulting five types are Exclusion-Focused, Basic ESG, Advanced ESG, Impact-Aligned and Impact-Generating. 35% of all sustainability-related assets fall into one of the latter three more ambitious types, while only 20% have a clear link to impact, whether by being aligned with company impact or by generating investor impact. With 52%, Basic ESG, which is considered to have a marginal ambition level with regards to contributing to a sustainable transition, accounts for the largest share of assets. However, a closer look at these assets reveals large volumes (60% of Basic ESG, or CHF 498 billion) that would be reclassified as Advanced ESG if they applied and reported ESG performance measurement.

The three applied lenses show how different the perspectives in classifying sustainability-related investments can be, depending on which methodology is applied, ranging from simple to complex. The market has yet to agree on a final definition of sustainable investments or a methodology for identifying them.

## Development of sustainability-related investments in Switzerland (in CHF billion)

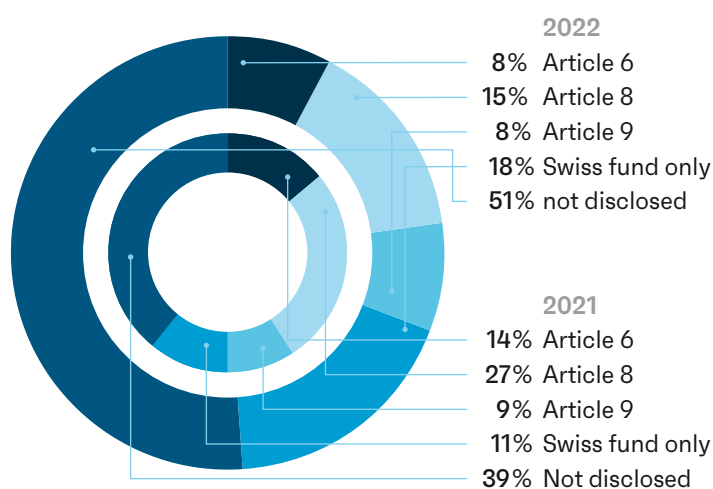


### Market performance driven declines

From end-2021 to end-2022, sustainability-related volumes declined by 19%, to CHF 1,610 billion. The reduction can be attributed to the negative market performance in 2022 (18 percentage points), tighter definitions by respondents managing sustainability-related investments in Switzerland, and lower reported volumes for asset owner stewardship approaches as a result of methodology changes. Sustainability-related fund volumes correspond to about 52% of the entire Swiss funds market, similar to last year's level.

With regard to reported fund volumes, 8% belonged to the category of Article 6 funds under EU regulation (SFDR), 15% to Article 8 funds and 8% to Article 9 funds. 18% are Swiss funds only, which means they are not subject to EU regulation and have no such classification. For a large share (51% of total fund volume), it was not disclosed if the funds are subject to the EU SFDR classification, possibly because of current uncertainty in the market as to when a fund can be classified as Article 8 or 9. It is therefore difficult to compare these findings year on year.

### Classification of funds based on EU regulation by asset managers (in % AuM) (n=44)

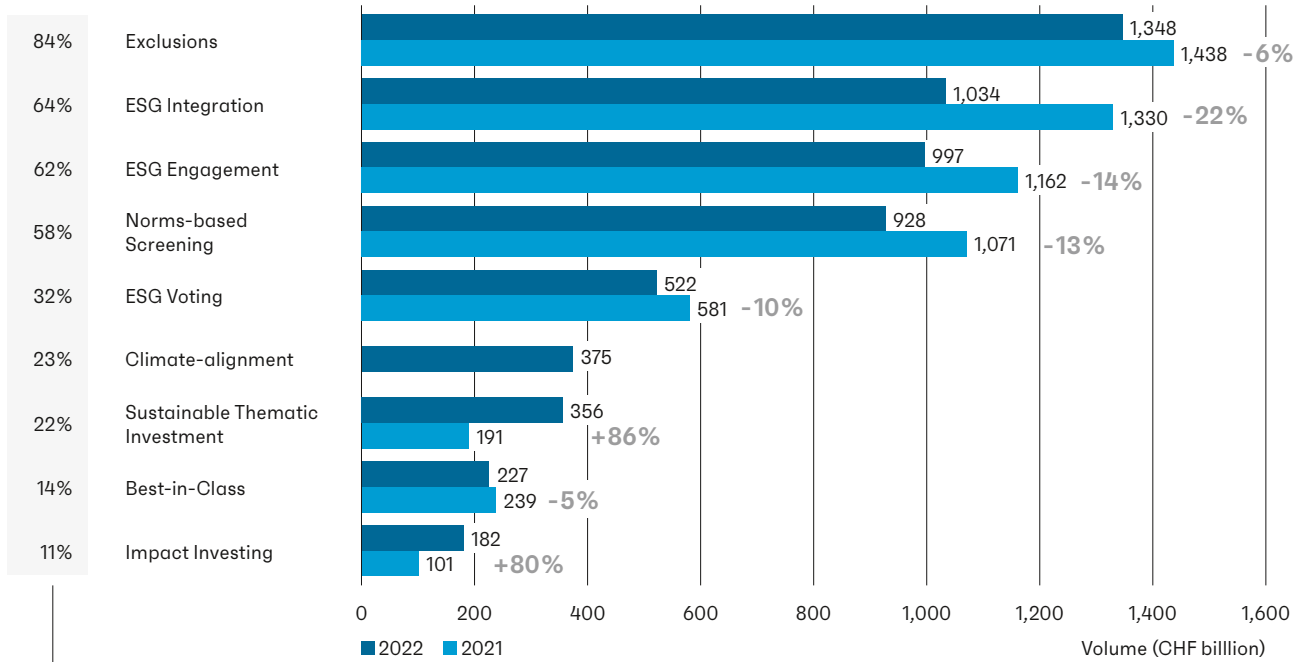




**New approach embedded in market: climate-alignment**

The majority of SI approaches lost attributed volumes due to the poor market performance in 2022. Remarkably, we saw strong growth for two SI approaches, sustainable thematic investment and impact investing (86% and 80%, respectively), which reflects investor appetite for impact-related approaches. This is the first year we collected data on the climate-alignment approach, which focuses on reducing the carbon footprint of a portfolio or its components. With CHF 375 billion, or about 20% of total sustainability-related assets, this approach is already well-established in the Swiss market.

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

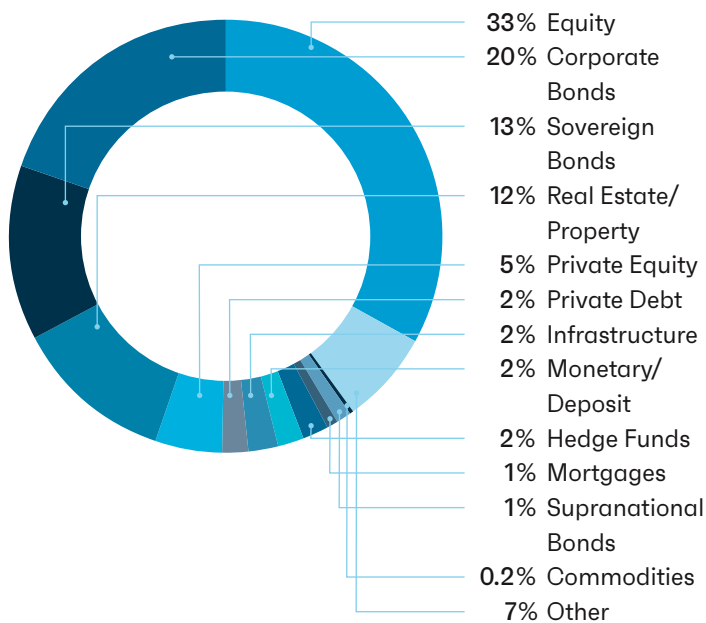


% of total sustainability-related volumes applying respective approach

### All asset classes play a role

Once again we see SI approaches applied across practically all asset classes, demonstrating that sustainability considerations play a role for both major asset classes and alternative assets. Equity, corporate bonds, sovereign bonds and real estate are unsurprisingly the top asset classes, yet all of them show decreased volumes analogous to overall market performance. Together these asset classes make up around 78% of total volume. All other asset classes are substantially smaller, though private equity, infrastructure and mortgages experienced absolute increases.

Asset class distribution for sustainability-related investments (in % AuM) (n=79)



### Regulatory developments in Switzerland and the EU

In Switzerland, the government reconfirmed its ambition to strengthen and promote Switzerland as a leader in sustainable finance. Over the past year, regulator activities (Parliament, Federal Council and FINMA) and those of finance associations regarding soft law on sustainable finance have intensified. Overall, however, the Swiss regulatory landscape is still fragmented. Overarching principle-based rules for all financial sectors would help protect investors and enhance the international competitiveness and reputation of the Swiss financial centre.

In the EU, the constantly evolving sustainable finance regulation is part of its package of measures to build a green economy and to set international standards. However, due to the complexity and strong links between the Taxonomy, SFDR and CSRD, companies are currently facing many challenges to fulfil disclosure and reporting obligations. Regardless of these challenges, the regulation has sent a strong signal to the market to address the topic of sustainability, and has set in motion continuous improvement in transparency.

### Special topics

The study explores four developing themes: real estate, sustainability-related debt investments, climate change and biodiversity.

The real estate sector's contribution to the transition to a more sustainable economy has shifted in the focus of many investors, especially as investors can now link direct environmental and social benefits to efficient management of real estate portfolios. On the basis of the environmental indicators for real estate funds published by AMAS in 2022, we assessed the uptake of related indicators. The vast majority of respondents with real estate investments collect data on the five main indicators (energy mix, energy consumption, energy intensity, greenhouse gas emissions and intensity of greenhouse gas emissions).

On a global level, sustainability-related debt investments – e.g. green, social and sustainability (GSS) bonds and sustainability-linked bonds (SLBs) – have grown significantly in recent years. The market study shows that 61% of all respondents invested in such instruments.

The consideration of climate change in investments has reached the mainstream. 91% of respondents explicitly address climate change in at least some of their investments, and about half of these respondents indicated a commitment to one or more net-zero alliances or frameworks.

This is the second year in a row that we have included questions related to investor action on biodiversity. Still only a minority of asset manager respondents (23%) follow one or more of the biodiversity standards and/or have conducted a systematic analysis of the negative and positive biodiversity impacts associated with their investment portfolio.

### Looking ahead

Given the numerous evolving regulations and standards in sustainable finance, both asset managers and asset owners are facing related challenges.

In the absence of an accepted and clear definition, regulators and market participants must align their understanding of concepts and methods in sustainable investing. Collaboration between academics and practitioners can also support this process and bring guidance to the market with regard to best-practice transparency. However, for this market to continue to thrive there must be sufficient flexibility to use various methods in pursuing different goals. At the same time, the definition of sustainable investment needs to address concerns about the credibility of the market.

The solution lies in agreements on a common language for sustainable investing and more transparency on objectives and results, thanks to clear and accurate communication by market players.





# 1.1 Objective of study

For the past five years, Swiss Sustainable Finance (SSF) has presented the Swiss Sustainable Investment Market Study, in which we provided a concise overview on the uptake of different sustainable investment approaches<sup>1</sup> (SI approaches) by Swiss asset managers and asset owners. In these past studies we referred to the term sustainable investments (SI) as any investment approach integrating environmental, social and governance (ESG) factors into the selection and management of investments, measured through volumes applying one or more of the existing commonly accepted SI approaches. This has been industry practice for the last two decades.

However, with a changing regulatory environment, in addition to advancements within the industry, it is increasingly clear that the market demands more from “sustainable investments” than simply applying one of the common SI approaches. Both regulators and investors increasingly expect sustainable investments to fulfil clear sustainability characteristics or have concrete positive impacts. Yet neither in Switzerland nor in the EU is there a clear definition on when an investment can be labelled as “sustainable”. Therefore, one goal of this year’s study is to contribute to this discussion and offer different perspectives on definitions, practical examples and complexities when it comes to measuring and reporting

sustainable investment volumes. This year’s study looks at how sustainability is integrated in the investment market without explicitly reporting a specific volume of “sustainable investments”, but still offers detailed views on the different SI approaches applied, combinations thereof and further characteristics of sustainability-related investments.<sup>2</sup>

For this important turning point, SSF continues its work with Prof. Timo Busch (University of Hamburg) and provides further insights into sustainability-related investment volumes based on novel research.<sup>3</sup> The main part of this study (chapter 2) provides a detailed analysis of the total volumes of sustainability-related investments. A decisive difference to previous years is the critical examination of the status quo and the classification of all volumes applying one of the SI approaches (Figure 1) on the basis of various perspectives (see chapter 2.1). As in previous years, we will first look into different combinations of SI approaches (chapter 2.2). In addition, we integrate the new definition provided in the self-regulation of the Asset Management Association Switzerland (AMAS) (chapter 2.3.) and – a new feature – include a pilot in which assets are classified into five different types of sustainability-related investments, based on a methodology developed by Prof. Timo Busch and team on the basis of a Eurosif white paper (for method and results see chapter 2.4) published in July 2022.

Chapter 3 covers details on applied SI approaches, investor types and asset allocation, and also gives an overview of special topics: real estate investments, sustainability-related debt investments, climate change and biodiversity. Following on from the main part, the data analysis concludes with a summary of the findings and an outlook (chapter 4). Finally, chapter 5 contains an overview of the regulatory framework in Switzerland and beyond.

By applying these different perspectives, this study aims to contribute to the discussion on different characteristics and ambition levels of sustainability-related investments, and a clearer communication on their goals and approaches.

1 The term “sustainable investment approach” (SI approach) has been used for over two decades in the field of sustainability-related investments for all investment approaches that apply ESG criteria in an investment process in different forms.

2 In this year’s market study, we use the term “sustainability-related investments” instead of “sustainable investments” to refer to all reported volumes. This reflects the ongoing discussions and uncertainties of defining “sustainable investments” mentioned above.

3 Busch et al. (2022): *Classification Scheme for Sustainable Investments: Accelerating the just and sustainable transition of the real economy*. Available at: <https://www.eurosif.org/wp-content/uploads/2022/07/FINAL-White-Paper-Eurosif-Classification.pdf>

## 1.2 Methodology of study

There are now nine different SI approaches (with “climate-alignment” as a new approach covered for the first time), which are all examined in detail by SSF (see Figure 1<sup>4</sup>). Figure 2 illustrates an important aspect of the use of the different approaches in relation to investor goals. Certain approaches are better suited to achieving one or more specific investor objectives. Figure 2 maps the different approaches to the three main investor objectives of financial performance, values alignment and positive change. It is vital to understand that not all investors pursue sustainability-related investments for the same reasons, but rather place a higher value on one or more of the investor objectives.

The Swiss Sustainable Investment Market Study 2023 was prepared on the basis of company data taken from organisations domiciled or with operations in Switzerland and

which manage sustainability-related investments. All available data was collected, reviewed and evaluated by Swiss Sustainable Finance (SSF) and its academic cooperation partner, the University of Hamburg, together with the Advanced Impact Research GmbH. The gathered data is from 31 December 2022 and was provided voluntarily by the study participants. From January to April 2023, data collection was conducted using questionnaires sent out to over 250 asset owners and managers in Switzerland.

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.

Figure 1: Common SI approaches applied to investment products with the objective to incorporate sustainability considerations<sup>5</sup>

<b>Best-in-class</b>	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.
<b>Climate-alignment (new 2023)</b>	The climate alignment of a portfolio refers to the reduction of the greenhouse gas emissions of a portfolio (i.e. of the issuers it contains) in line with global climate goals.
<b>ESG Engagement</b>	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.
<b>ESG Integration</b>	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.
<b>Exclusions</b>	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).
<b>Impact Investing</b>	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.
<b>Norms-based Screening</b>	Screening of investments against minimum standards of business practice based on national or international standards and norms.
<b>Sustainable Thematic Investment</b>	Investment in businesses contributing to sustainable solutions, both in environmental or social topics.
<b>ESG Voting</b>	This refers to investors addressing concerns of ESG issues by actively exercising their voting rights based on ESG principles or an ESG policy.

4 For full definitions, see glossary on SSF website, available at: [http://www.sustainablefinance.ch/en/glossary\\_content---1--3077.html](http://www.sustainablefinance.ch/en/glossary_content---1--3077.html), accessed: 01/04/2023

5 In 2023, the «climate-alignment» approach was added to the list of common approaches. Innovations as well as demands in the industry have created a space for such strategies in recent years.

Since not all participants answered each individual question, 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 at the end of the report.

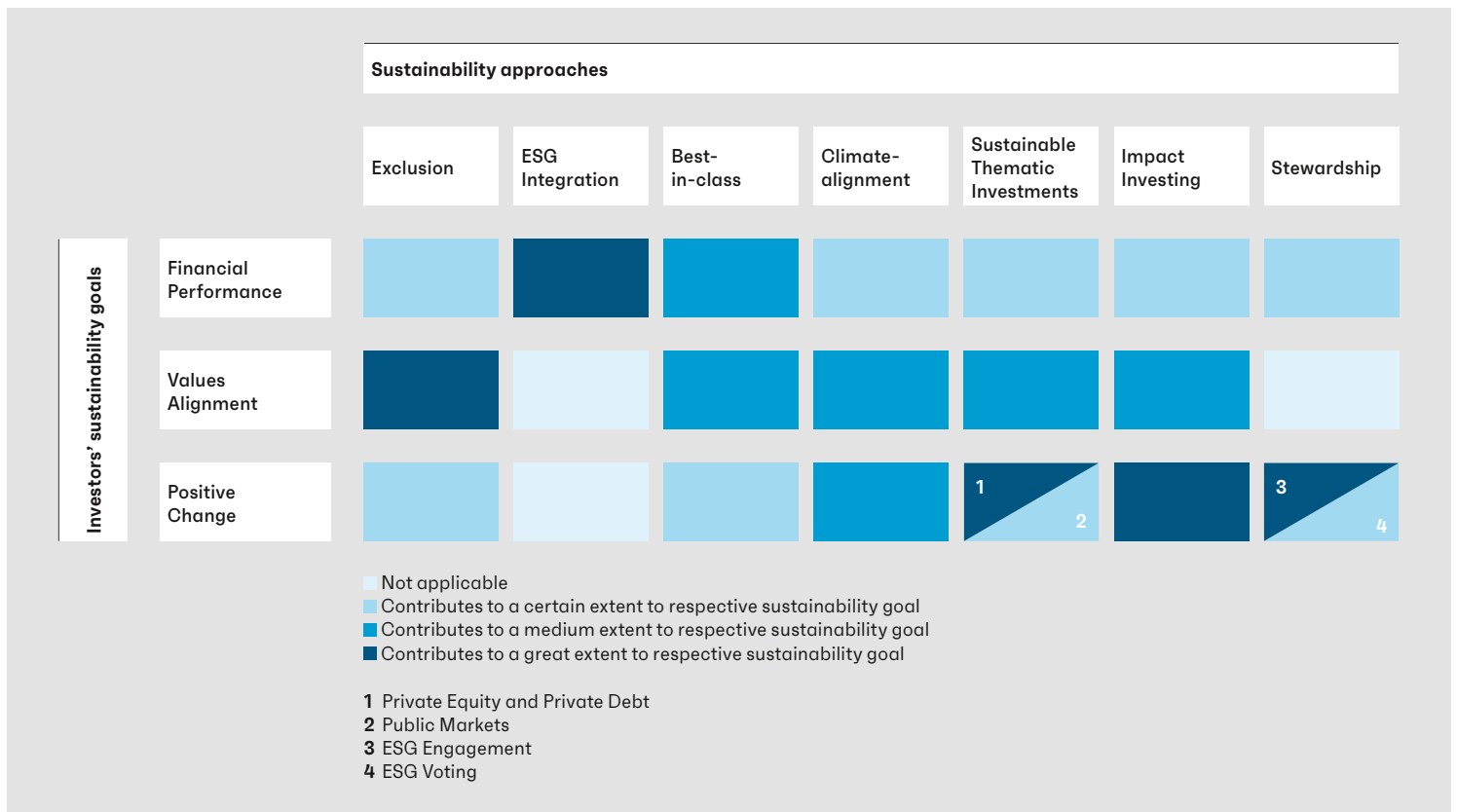
Volumes in foreign currency (euros and US dollars) were adjusted by means of exchange rates into Swiss francs (CHF). The year-end exchange rates applied for 2022 were CHF 0.9917 for one euro and CHF 0.9245 for one US dollar. For Figure 15 the volumes for institutional and private investors were extrapolated to total reported sustainability-related volumes, since a small percentage of sustainability-related 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. To provide an accurate picture of how sustainability factors are integrated in the Swiss investment 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.

**Figure 2: Matrix illustrating the suitability of various SI approaches for different investors' sustainability goals**

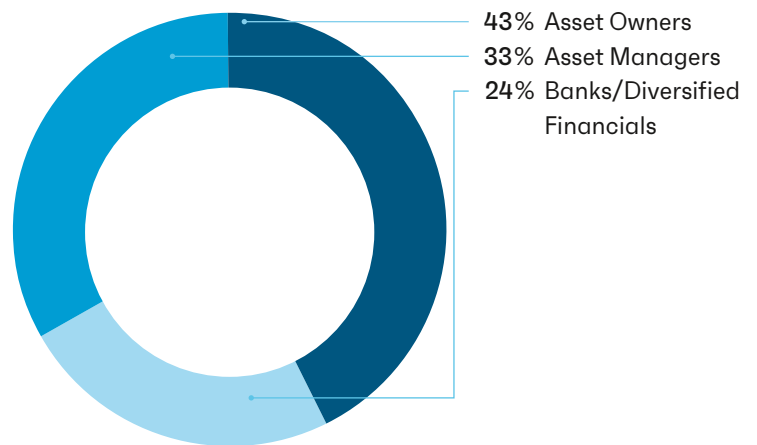
Source: SSF, adapted from AMAS/SSF (2021). "How to Avoid the Greenwashing Trap: Recommendations on Transparency and Minimum Requirements for Sustainable Investment Approaches and Products"



# 1.3 Overview on study participants

A total of 91 Swiss respondents took part in this year's edition of the Swiss Sustainable Investment Market Study, which represents a higher participation rate than last year (85 in 2022).<sup>6</sup> As shown in Figure 3, 33% are asset managers, 24% banks/diversified financials and 43% asset owners. For the rest of the study, asset managers and banks/diversified financials are collectively referred to as asset managers.

Figure 3: **Market study participants**  
(in % of respondents) (n=91)



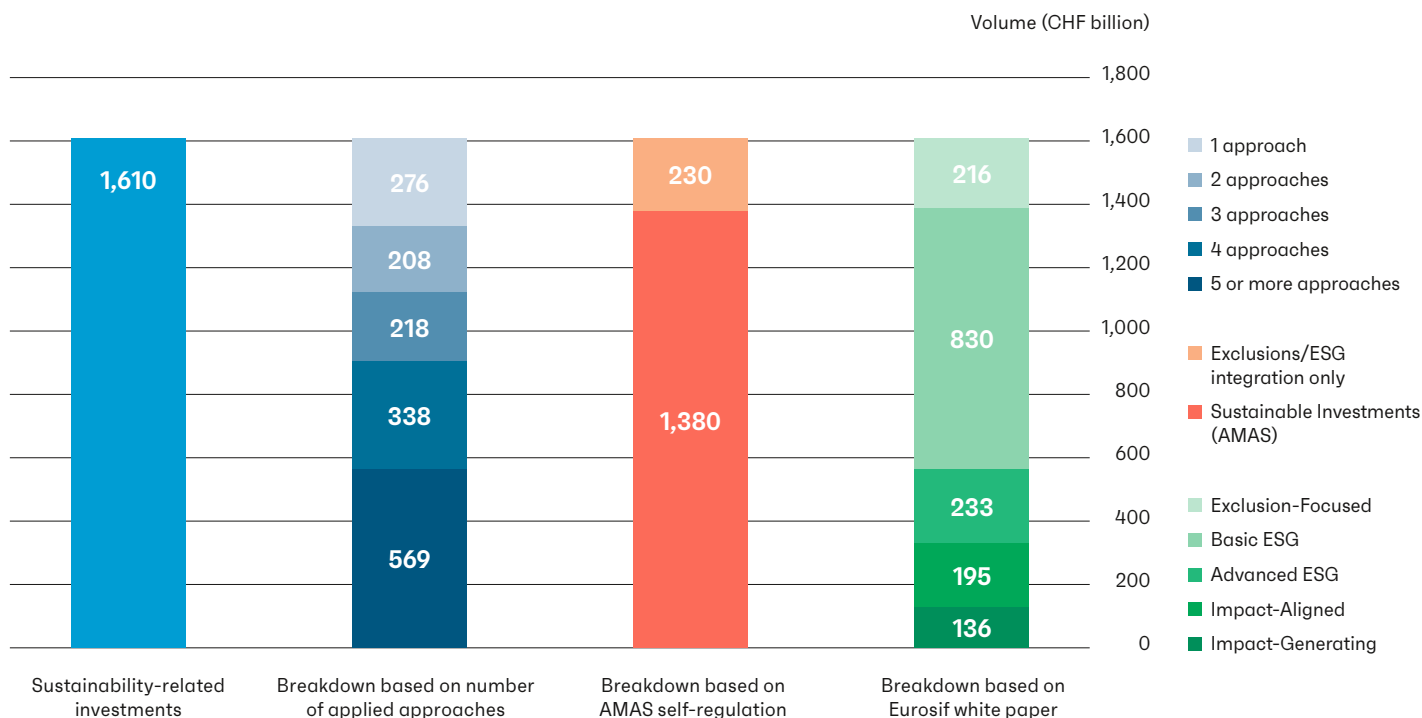
<sup>6</sup> A list of study participants who consented to be named is provided in the appendix.





## 2.1 Overall volumes of sustainability-related investments

Figure 4: Different perspectives on sustainability-related investments in the Swiss investment market (in CHF billion)



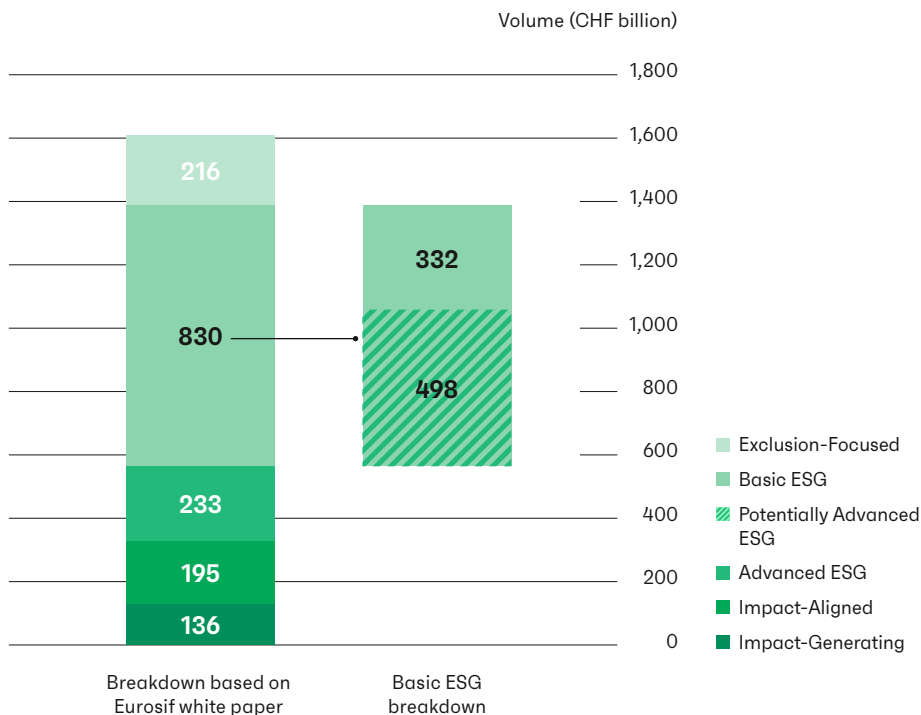
By the end of 2022, reported sustainability-related volumes amounted to CHF 1,610 billion. This year, in the absence of a standardised definition of “sustainable investments”, we characterise the nature of these investments through three different lenses (Figure 4).

First we look at the application of different combinations of approaches (second bar, for details see section 2.2). With approximately two-thirds of all volumes applying three or more sustainable investment approaches, the majority of sustainability-related investments show the ambition of looking at sustainability from different angles and considering multiple investor motivations. Although one cannot derive the level of sustainability simply from the number of approaches applied, it is an indication of the sophistication in managing sustainability-related assets.

We then illustrate which of these volumes fulfil the definition in the AMAS self-regulation (third bar, for details see section 2.3). By applying the AMAS view and deducting volumes that apply only the exclusion or the ESG integration

approach from the total Swiss sustainability-related volumes, the resulting volume is CHF 1.38 trillion compared to total assets of CHF 1.61 trillion. This reflects 85% of all sustainability-related investments and therewith a major share of the market. It remains to be debated if the choice to exclude these two single approaches corresponds to the perception of the majority of clients in terms of what sustainable investing should cover.

**Figure 5: Sustainability-related investment volumes based on new classification scheme derived from Eurosif white paper: Breakdown of Basic ESG type (in CHF billion)**



As a third lens, we conducted a pilot study based on a Eurosif white paper that classifies investments according to the main objective and the ambition to contribute to the transition towards a sustainable world (fourth bar, see section 2.4 for details). The resulting five types are Exclusion-Focused, Basic ESG, Advanced ESG, Impact-Aligned and Impact-Generating. As illustrated in the chart, only 35% of all sustainability-related assets fall into one of the three more ambitious types, while only 20% have a clear link to impact, whether by being aligned with company impact or by generating investor impact. With 52%, the largest share of all assets fell into Basic ESG, a type that is considered to have a marginal ambition level with regards to contributing to a sustainable transition. However, this outcome needs to be interpreted with caution. When looking closer at this type (Figure 5), we see large volumes (60% of Basic ESG, or CHF 498 billion) that would actually be reclassified as Advanced ESG if they used and reported ESG performance measurement.

**Figure 6: Development of sustainability-related investments in Switzerland**  
(in CHF billion)

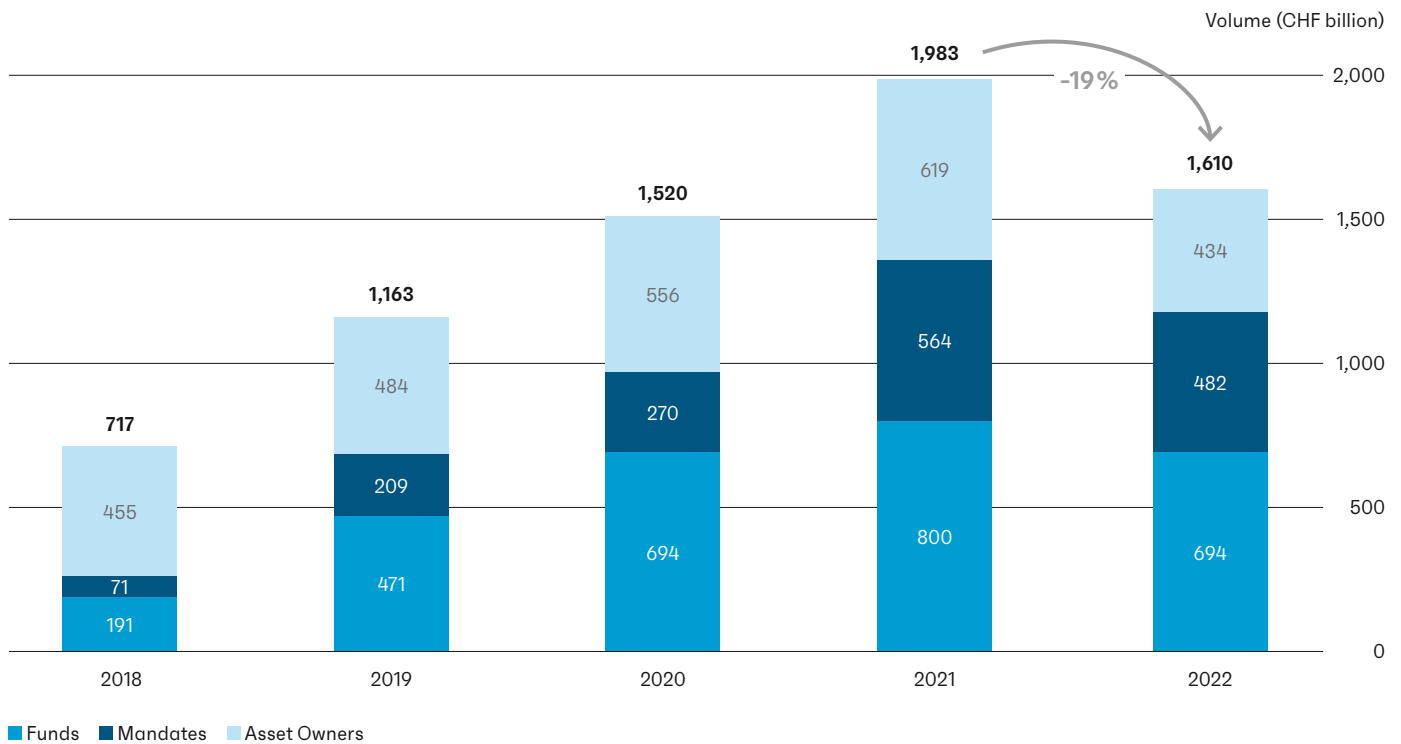


Figure 6 shows the development of the market volume of sustainability-related investments in Switzerland from 2018 to 2022. As of 31 December 2022, the total volume of Swiss sustainability-related investments was CHF 1,610 billion, taking into account funds, mandates and self-managed assets of asset owners. This represents a negative growth rate of 19% compared to the previous year. In general, this reduction in reported volumes can be attributed to three main factors. Firstly, the vast majority (18 percentage points) of the observed decline compared to last year can be ascribed to negative market performance in 2022.<sup>7</sup> Secondly, some market players have tightened their definitions of sustainability-related investments managed in Switzerland and reported lower volumes than in previous years. Thirdly, a new method for asset owners was implemented which led to lower reported volumes for stewardship approaches. The fact that the full volumes only decreased by approximately the same percentage as the negative market performance indicates that there were most likely no substantial outflows, and that instead inflows could have compensated for the latter two effects.

<sup>7</sup> 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.



Figure 7: **Ratio of sustainability-related volume compared to total AuM for asset managers** (in number of respondents) (n=47)

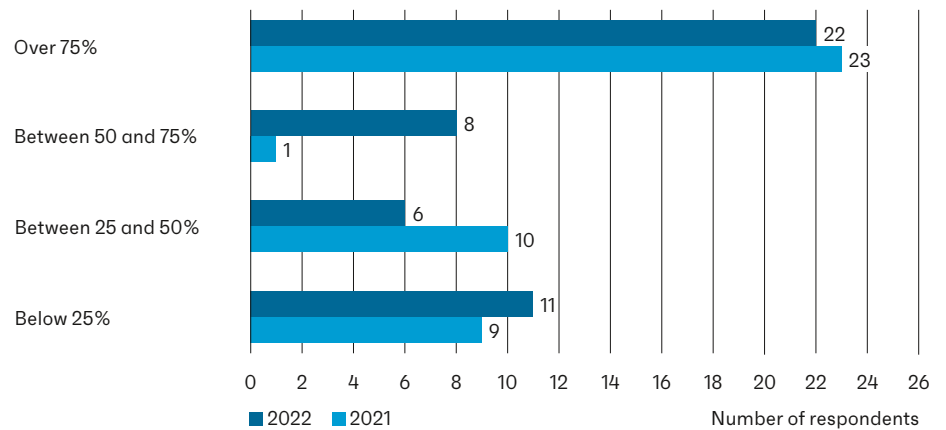


Figure 7 shows the proportion of sustainability-related investments of asset managers as a percentage of their total assets under management (AuM). Over half of all participating asset managers report having at least 50% of sustainability-related investments, confirming that many asset managers see the integration of sustainability into investments as an integral part of their processes. With 38% of all firms reporting less than 50% of volumes as sustainability-related, there is still room for asset managers to improve the application of SI approaches firm-wide.

#### **Sustainable investment capacities of asset managers**

The asset managers in the study reported that over 800 full-time professionals have dedicated sustainable investment roles within their organisations, e.g. as SI specialists or analysts. In relation to the overall participating 52 companies, this averages to approximately 15 full-time positions per company. We also see very high numbers with regard to required training. Seventy percent of asset managers indicate that their employees are required to undergo mandatory training in the area of sustainable investment.

## 2.2 Role of different combinations of SI approaches

Looking at total volumes through the lens of applied approaches, as seen in Figure 8, is one way to interpret the overall sum of sustainability-related investments. Overall, 83% of the total sustainability-related volumes apply combinations of two or more approaches (Figure 9). The levels of volumes related to four or more approaches remain high, with an increase in five or more from 27% to 35%.<sup>8</sup>

Figure 8: Breakdown of sustainability-related investment volumes based on number of applied approaches (in CHF billion)

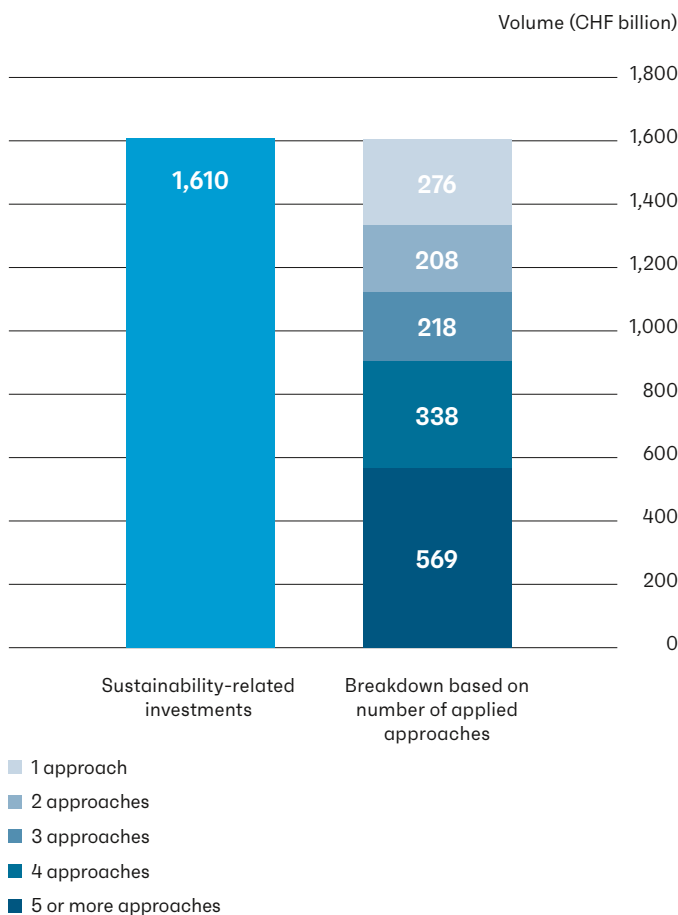
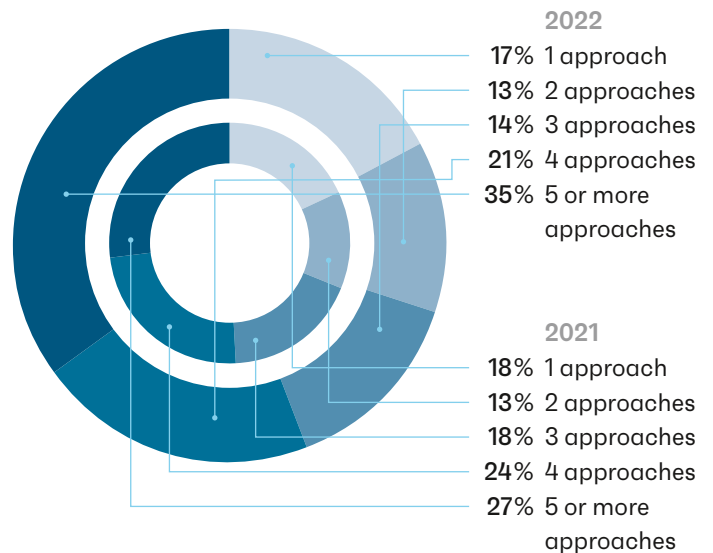


Figure 9: Number of approaches applied (in % AuM)



<sup>8</sup> In 2022 this data was based on a total of nine separate approaches as opposed to eight separate approaches used in the analysis of 2021 data.

We conclude that as approximately two-thirds of all volumes apply three or more approaches, the majority of sustainability-related investment practices have the objective of looking at sustainability from different angles and considering various investor motivations. We would like to emphasise that the sophistication of sustainability-related investments cannot simply be derived from the number of approaches applied, but combining more approaches can be an indication of higher effort.

Figure 10 shows the top 10 combinations of asset managers. Exclusion, ESG integration and engagement appear in eight of the top 10 combinations. While the application of exclusions alone holds the top spot and integration alone holds spot seven, one sees that seven combinations within the top 10 all apply four or more approaches. It is very interesting that the newly introduced climate-alignment approach has already reached a high application appearing in the second most commonly applied combination of approaches.

For asset owners (Figure 11), the top combination applied consisted of five SI approaches, including ESG integration, exclusions, engagement and voting, representing approaches suited to pursue all three investor objectives (financial performance, values alignment and positive change). Single approaches such as exclusions and climate-alignment still appear to be utilised in the market.

Overall, 17% of the sustainability-related volume applied only one approach, similar to last year's share of 18%.

Figure 10: Top 10 combinations of SI approaches applied by asset managers  
(in CHF billion) (n=51)

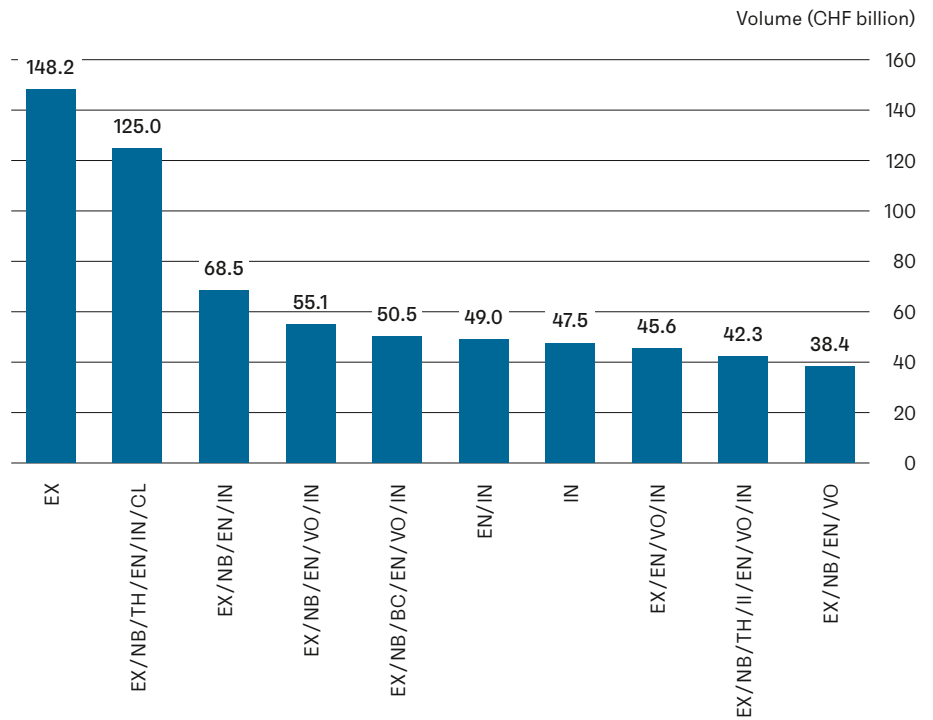
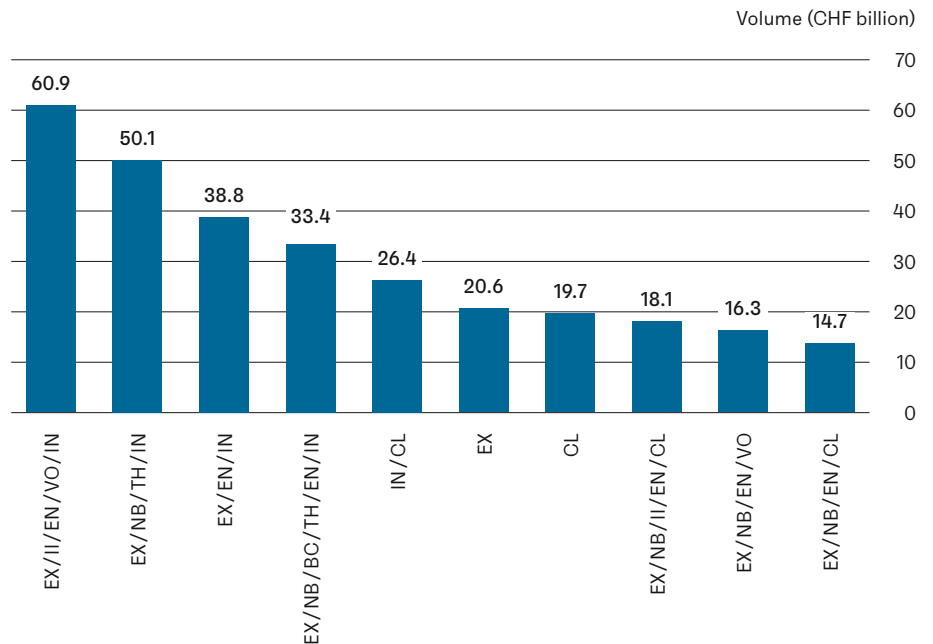


Figure 11: Top 10 combinations of SI approaches applied by asset owners  
(in CHF billion) (n=28)



**Legend to figure 10 & 11**  
**Abbreviations used for combinations**

- BC Best-in-class
- CL Climate-alignment
- EN ESG Engagement
- EX Exclusions
- II Impact Investing
- IN ESG Integration
- NB Norms-based Screening
- TH Sustainable Thematic Investments
- VO ESG Voting

## 2.3 Sustainable investments as defined by AMAS self-regulation

Figure 12: Breakdown of sustainability-related investment volumes based on AMAS self-regulation (in CHF billion)



AMAS published its “Self-regulation on transparency and disclosure for sustainability-related collective assets” on 26 September 2022 (issuing an update on 20 December of the same year).<sup>9</sup> The self-regulation does not fall under FINMA supervision; however, AMAS members are required to comply with the guidelines. It obliges asset managers offering products positioned as sustainable to ensure that necessary infrastructure and qualified resources are in place, and governance, investment management processes as well as sustainability metrics are documented. The self-regulation specifies that collective investment schemes and assets “that only employ exclusion or ESG integration approaches do not qualify as sustainability-related collective assets” (AMAS, 2022, Articles 17 and 26).

By deducting volumes that apply only the exclusion or the ESG integration approach from the total Swiss sustainability-related volumes, the resulting volume is CHF 1.38 trillion compared to total assets of CHF 1.61 trillion (Figure 12).

The fact that the AMAS self-regulation requires transparency on SI policies, related governance and metrics is an important step. It will bring more clarity to the market regarding applied approaches and achieved results. Regarding definitions, the self-regulation builds on commonly accepted SI approaches that also have formed the basis of the SSF Market Study since it was first established. In light of international and national regulatory developments, it remains to be seen whether linking definitions to individual SI approaches will be the way forward. The choice to exclude two single approaches (Exclusions and ESG-Integration) from the definition of sustainable investments, while declaring that all other forms deserve the use of the term “sustainable”, reflects growing ambitions for sustainable investments, namely that they should serve goals beyond values alignment or risk reduction. While this view is shared by many market players, one may also argue that the application of a stewardship approach, such as voting or engagement alone, is not enough to qualify an investment as sustainable. This holds true specifically for cases where the success of such approaches is uncertain. At the same time, excluding large shares of “dirty” industries, such as high-emitting sectors, may lead to a portfolio that is closer to what some clients would perceive as more sustainable than a portfolio based purely on a best-in-class approach. This illustrates that the answer to the question of what is a “sustainable investment” depends on the perspective, leaving ample room for further developments.

<sup>9</sup> AMAS (2022): *Self-regulation on transparency and disclosure for sustainability-related collective assets*. Available at: <https://www.am-switzerland.ch/en/regulierung/selbstregulierung-standard/sustainable-finance>

## 2.4 New classification scheme for sustainability-related investments: pilot study

In July 2022, the European Sustainable Investment Forum (Eurosif) published the white paper “Classification Scheme for Sustainable Investments”, which introduces a *transition-oriented classification* of investments.<sup>10</sup> It builds on widely applied SI approaches as defined by the Eurosif, the Global Sustainable Investment Alliance (GSIA) and the Principles for Responsible Investment (PRI), and combines them with the classification proposed by the Impact Taskforce established by the G7.<sup>11</sup> The resulting five types of sustainability-related investments are (1) Exclusion-Focused investments, (2) Basic ESG investments, (3) Advanced ESG investments, (4) Impact-Aligned investments and (5) Impact-Generating investments (see Figure 13).

Past market studies on sustainability-related investments typically included assets based on a range of different SI approaches, and aggregated them into a single number. However, they did not judge the quality of these approaches and combinations thereof regarding their contribution to different investor goals or motivations. Today both regulators and investors put more and more emphasis on the active contribution of individual investments to the transition towards a more just and sustainable economy. Market studies to date have not been designed to differentiate investments based on the extent to which they actively support this transition. Therefore, for this year’s market study, we conducted a pilot study that classifies the volumes into five different investment types, based on the Eurosif white paper. This chapter describes the methodology (see Figure 13 and Box 1), and provides a detailed description of the five sustainability-related investment types (see Box 2) and corresponding volumes.

10 Busch et al. (2022): *Classification Scheme for Sustainable Investments: Accelerating the just and sustainable transition of the real economy*. Available at: <https://www.eurosif.org/wp-content/uploads/2022/07/FINAL-White-Paper-Eurosif-Classification.pdf>

11 Impact Taskforce (ITF) (2021): *Financing a better world requires impact transparency, integrity and harmonization*. Workstream A. Available at: <https://www.impact-taskforce.com/workstreams/workstream-a/>



Figure 13: Classification of sustainability-related volumes into five sustainability-related investment types

		Exclusion-Focused	Basic ESG	Advanced ESG	Impact-Aligned	Impact-Generating
Main objective		Exclude sectors or companies to align with values	Consideration of ESG risks & opportunities	Systematic analysis and incorporation of ESG factors	Align with positive impacts	Active contribution to positive impacts
Investment focus						Double materiality
Ambition level		None	Marginal	Medium	Medium-High	High
Investment process	Investment approach	Exclusions or norms-based screening	ESG integration or Best-in-class (>70% investable) & other approaches not fulfilling minimum criteria	Exclusions and ESG integration or Best-in-class (≤70% investable)	Exclusions and selection of investees with already positive impact	Engage investees or provide capital to generate positive impact
	ESG/impact performance measurement	–	–	Measurement of ESG performance	Measurement of company impact	Measurement of investor impact

Source: Derived from Busch et al. (2022): Classification Scheme for Sustainable Investments: Accelerating the just and sustainable transition of the real economy

### Box 1: Defining characteristics of the five sustainability-related investment types

Dimension	Definition	
<b>Main objective</b>	The main objective describes the underlying motivation of the investor. There are broadly three types of main objectives: (1) the adherence to specific personal values or norms, (2) the reduction of financial risk or improvement of financial performance, and (3) the contribution to solving real-world challenges in the ecological and/or social context.	
<b>Investment focus</b>	The investment focus describes how an investment identifies and considers sustainability issues or ESG factors in its main objective and investment process. A “financial materiality” perspective only considers ESG factors that have a material impact on the financial value of underlying investees or assets (“ESG risks and opportunities”). An “impact materiality” perspective considers ESG aspects of investees or assets that have an impact on society or the environment. A “double materiality” perspective combines both.	
<b>Ambition level</b>	The ambition level describes the extent to which an investment seeks to support and has processes in place that support the transition to a more sustainable economy. It depends on two factors: (1) the main objective of the investment, and (2) the potential for the investment process to contribute to a sustainable transition.	
<b>Investment process</b>	<b>Investment approach</b>	The classification specifies further criteria necessary to qualify for one of the five investment types based on common SI approaches used in the investment processes.
	<b>ESG/impact performance measurement</b>	The classification distinguishes between ESG and impact performance measurement. ESG performance measurement refers to the measurement of performance in relation to specific sustainability factors and associated ESG risks and/or opportunities. <sup>12</sup> Impact performance measurement refers to the measurement of real-world changes. These impact measurement processes can either refer to the company’s impact or the investor’s impact generated by the investment (activity) itself. <sup>13</sup>

12 This is often implemented by ESG ratings (for example on scales like AAA-CCC or numeric scores between 0-100).

13 Company impact is defined as “change that a company’s activities achieve in a social or environmental parameter”. Investor impact refers to a change in company impacts within the portfolio actually caused by the investment (activity). See Kölbel et al. (2020). *Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact*. Available at: <https://journals.sagepub.com/doi/full/10.1177/1086026620919202>

## 2.4.1 Sustainability-related volumes based on new classification scheme

Figure 14 shows how the overall sustainability-related volumes of both asset managers and asset owners are classified into the five types of sustainability-related investments based on the Eurosif pilot methodology.

### Exclusion-Focused

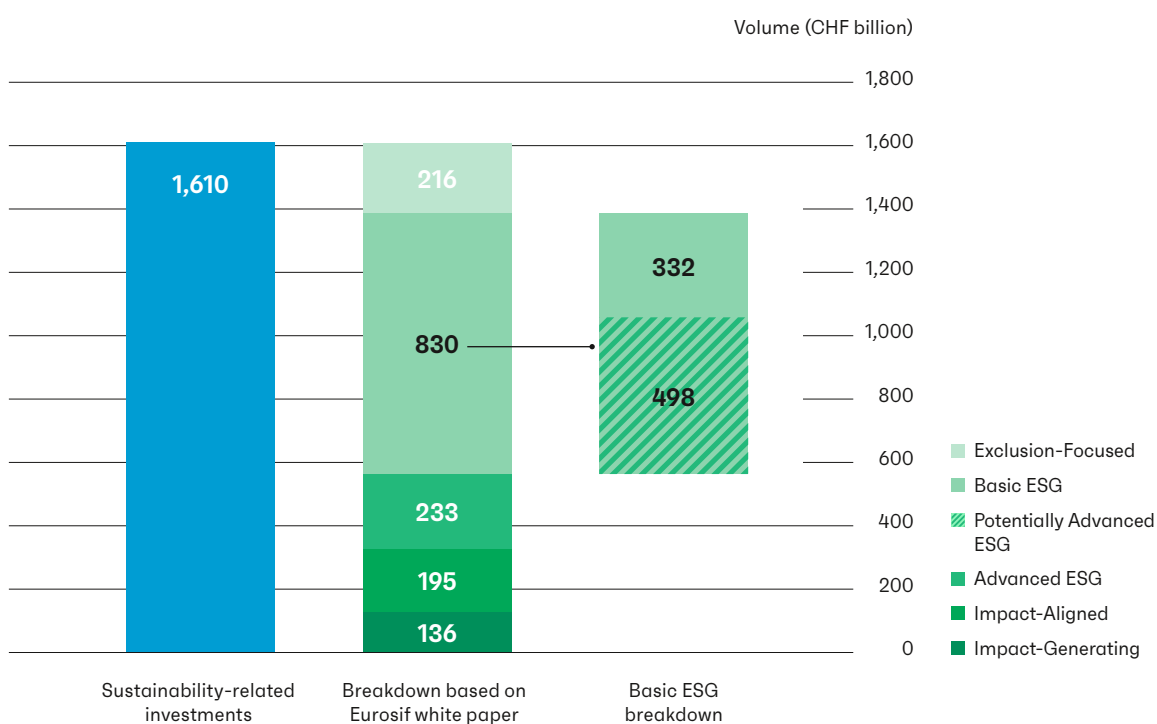
At CHF 216 billion, Exclusion-Focused strategies account for 13% of all volumes. For asset managers (funds and mandates), CHF 181 billion, or 15% of the respective volumes, can be classified as such, while for asset owners the share is lower at CHF 35 billion, which makes up 8% of all sustainability-related investments managed by asset owners.

### Basic ESG

CHF 830 billion, or 52% of this year's sustainability-related volumes, fell in the category of Basic ESG investments. For asset managers, this share is slightly lower, at 50% (CHF 584 billion), while for asset owners Basic ESG investments account for 57% (CHF 246 billion).

The large share of Basic ESG investments can be explained mainly by the fact that no ESG performance measurement was reported for a large share of these assets. There are many Basic ESG investments which fulfill the other criteria for Advanced ESG (e.g. a selective best-in-class approach). However, since information about their ESG performance measurement is missing, they are classified as Basic ESG. This is true for 60% of all Basic ESG investments, or CHF 498 billion. In other words, more than half of the assets classified as Basic ESG could move up to be considered Advanced ESG, if ESG performance was measured properly, and if more

Figure 14: Breakdown of sustainability-related investment volumes based on new classification scheme derived from Eurosif white paper (in CHF billion)



information was provided on the ESG performance of these investments.

We can only speculate about possible explanations for the lack of ESG performance measurement, and offer three possible reasons. First, for many of these assets, at present no thorough ESG performance measurement processes are implemented. Second, asset managers and owners did not provide enough transparency on their ESG performance measurement through this survey. Third, the answer categories offered in the survey may not have captured all processes on performance measurement that are in fact implemented by asset managers and asset owners.

### **Advanced ESG**

Advanced ESG investments account for 14% (CHF 233 billion) of all sustainability-related investment volumes. CHF 172 billion, or 15% of asset managers' sustainability-related volumes, can be classified as Advanced ESG, which is nearly the same share as for asset owners for which 14% (CHF 59.9 billion) of their investments correspond to this type. The main difference to Basic ESG investments is that Advanced ESG investments use ESG performance measurement such as ESG ratings to track the results of the applied SI approaches. In addition, Advanced ESG investments also use best-in-class approaches, which result in a higher selectivity and reduce the initial investment universe more than best-in-class approaches used by Basic ESG investments.

The results show that a relatively small share of the overall market can be considered Advanced ESG investments. This might come as a surprise, given that large shares of total assets combining three or more SI approaches. The missing element is clear ESG performance measurement and transparent information on achievements.<sup>14</sup>

### **Impact-Aligned**

Impact-Aligned investments make up 12% of overall volumes, or CHF 195 billion. This accounts for 15% of asset managers' assets (CHF 171 billion), while for asset owners the share is 6% (CHF 24 billion) of their total assets. Compared to Exclusion-Focused, Basic or Advanced ESG Investments, a core difference of Impact-Aligned Investments is that they measure company impact, in addition to, or instead of ESG performance. Examples include measuring the share of portfolio constituents that contribute to a specific sustainability goal, such as the amount invested in specific economic activities that contribute to one or several SDGs or the improvement of physical/social indicators (e.g. carbon footprint/water consumption/board diversity), whether compared to an absolute

threshold (e.g. Paris-alignment, planetary boundaries or other science-based targets) or to a benchmark. Impact-Aligned investments, therefore, go further in integrating a double materiality perspective into their investment processes than other types.

### **Impact-Generating**

Nine percent, or CHF 136 billion, of all sustainability-related volumes can be classified as Impact-Generating investments. They represent the smallest share of all five sustainability-related investment types. For asset managers, this share is lower, at 6% (CHF 68 billion) of their assets. For asset owners, while the absolute volume of Impact-Generating investment is roughly the same as for asset managers (CHF 68 billion), the share is higher, at 16% of their total assets. The main difference between Impact-Aligned and Impact-Generating investments is that the latter provide evidence of their investor impact, for example by setting and assessing concrete targets for engagement activities and regular reporting to investors about the achievement of these targets. This leads to increased transparency on investor contribution to real-world changes, a characteristic that is important to many investors.

<sup>14</sup> An important implication of this pilot study is that it will be key to focus strongly on the various forms of performance measurement in future market studies. This would help study participants to better relate to questions on their day-to-day practice, and thereby hopefully increase the rate of reply to respective questions.

## Box 2: Description of the five sustainability-related investment types

Investment type	Description
<b>Exclusion-Focused</b>	Exclusion-Focused strategies' main objective is to follow investors' ethical norms and values by not investing in certain sectors or companies. Since they rely solely on exclusions and do not add further approaches such as positive screening or engagement and voting strategies, they very likely will not contribute to a sustainable transition.
<b>Basic ESG</b>	Basic ESG investments aim to minimise ESG risks and therefore use either systematic ESG integration or best-in-class selection as a pre-investment approach. Seeing that their potential contribution to a sustainable transition is low, this type of investment has a marginal ambition level. For example, investors might use a best-in-class approach to select companies that are more energy efficient than their peers. In the case of Basic ESG investments, such a best-in-class approach would have only a minimal effect on the initial investment universe; as such, the potential contribution to sustainable transition remains rather small. Moreover, this type also includes investments that apply sustainability-themed or engagement/voting approaches, but which do not fulfil all necessary criteria for higher investment types such as Advanced ESG or Impact-Aligned.
<b>Advanced ESG</b>	The objective of Advanced ESG investments is the systematic analysis and incorporation of ESG factors. Their investment process is based on exclusions and norms-based screening, which not only helps to align investments to values but also to reduce ESG risks. They further implement systematic ESG integration or best-in-class approaches with higher selectivity compared to those applied for Basic ESG investments. With the latter they aim not only to reduce risks but also to steer capital away from non-sustainable companies. In addition to a best-in-class or ESG integration screening, Advanced ESG investments may also include sustainability-themed strategies intended to capitalise on ESG opportunities. <sup>15</sup> Although not required, they may also implement engagement and voting strategies. An important difference from Basic ESG investments is that Advanced ESG investments use ESG performance measurement in the investment process. In sum, Advanced ESG investments are more sophisticated compared to Basic ESG investments and have a medium ambition level regarding the contribution to a sustainable transition.
<b>Impact-Aligned</b>	The main objective of Impact-Aligned investments is to align their portfolio with positive change solutions by investing in companies that already have a positive impact on people and/or the planet through their products, services or operations. They do this by excluding issuers with negative impacts and by investing in issuers with positive impacts. In addition, they use engagement or voting strategies. They have a medium to high level of ambition, as the investment process focuses on companies contributing to a sustainable transition. To measure positive change, Impact-Aligned investments document the achieved company impact. Since their selection and engagement or voting processes focus on ESG factors that are material from an impact perspective, their potential to contribute to a sustainable transition is greater than that of Exclusion-Focused, Basic or Advanced ESG investments.
<b>Impact-Generating</b>	The main objective of Impact-Generating investments is to actively contribute to solving real-world social and/or environmental challenges. They use exclusions or norms-based screenings to exclude issuers with non-transformable, negative impacts. Their positive screening focuses on issuers that provide solutions to environmental and/or social challenges, and need new or flexible capital to grow. Their selection strategy may also focus on those issuers whose impact can be improved through engagement or voting. In contrast to Impact-Aligned investments, they measure and document the investor's impact, i.e. the change in the company's impact brought about by the investor's actions. They therefore have the highest ambition level to contribute to a sustainable transition.

<sup>15</sup> In rare cases, sustainability-themed approaches were implemented without additional exclusions. Since these investments clearly restrict their investment universe, these cases were classified as Advanced ESG.

## 2.4.2 Conclusions

With CHF 564 billion, 35% of all sustainability-related investments can be classified as Advanced ESG, Impact-Aligned, or Impact-Generating investments. These three sustainability-related investment types have a medium to high ambition level to contribute to a sustainable transition. The two impact-related investment types together make up 21% of all sustainability-related volumes, or CHF 331 billion. These results show that, based on the applied methodology of the pilot study, a comparatively small share of all sustainability-related volumes can be referred to as directly impact-related.

Another important result of this pilot study is that some terms and concepts (e.g. investor impact) used in the survey might not yet be widely used in the market. Also, reply rates to some of the key questions dividing between Basic and Advanced ESG were relatively low, which is one of the reasons for the large share of Basic ESG investments. Such insights will play an important role in further developing and refining the methodology for classifying investments into one of the five types.

This pilot study aims to differentiate more clearly between investments that align with investors' values, that primarily focus on ESG risks and opportunities, that pursue a mix of goals, and that focus on positive social or environmental change. While many stakeholders argue that focusing on impact should be the main objective of sustainable investing, there are other valid reasons for taking sustainability factors into account. For institutional investors in particular, the main objective of integrating ESG factors into an investment process is still risk reduction, whether financial or reputational. While regulators and NGOs push for more investments contributing to the transition, we have to acknowledge that financial goals or values alignment remain valid motivations for choosing sustainability-related investments.

In addition to providing transparency, the results of the pilot study show the importance of market players strengthening their capacities to design sustainability-related investments that have the clear ambition to contribute to change, and provide proof of respective ambitions through adequate target setting, monitoring and reporting. Yet it is vital to accept that Impact-Aligned investments are not related to investor impact; simply investing in companies which offer products that support the transition does not entitle investors to claim that they are contributing to this change. An active investor contribution requires more complex processes, such as actively encouraging change through engagement or financing companies in need of additional capital. Given the

pressing issues the world is facing, it is important that investors maximise their efforts to contribute to the much-needed transition. Establishing effective stewardship strategies is a key lever for achieving this goal, at least as much as developing and scaling products that bring capital to sectors and regions that are currently underserved.

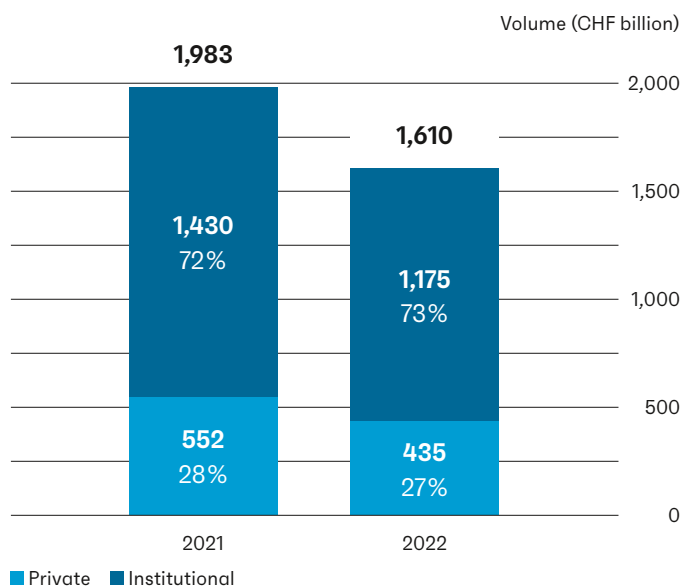




# 3.1 Investor types

As Figure 15 shows, institutional investors are still more prominent in the application of sustainable investment approaches than are private investors, with institutional investors making up 73% of the total sustainability-related volume. Both private and institutional investor groups saw negative growth rates in 2022 of 21% and 18%, respectively.<sup>16</sup>

Figure 15: Development of private and institutional sustainability-related investments (in CHF billion) (n=89)



16 Since not every asset manager participant answered the questions on this topic, asset managers' volumes for institutional and private investors have been extrapolated to their total reported SI volumes for both years.

## 3.2 Highlights on funds and mandates

A comparison of the development of the sustainability-related fund market with the overall fund market in Switzerland shows that the share of sustainability-related funds in 2022 was similar to that in 2021 (Figure 16). As of 31 December 2022, the total volume of the Swiss fund market stood at CHF 1,325 billion.<sup>17</sup> This represents a market decline of around 12% compared to the previous year. The reported sustainability-related funds amounted to CHF 694 billion, which corresponds to a decrease of 13% compared to the previous year. The decline in sustainability-related funds was therefore in line with the overall growth rate of the Swiss fund market. As a result, sustainability-related funds still account for around half (52%) of the total fund market in Switzerland.

Figure 16: Proportion of sustainability-related funds in the overall Swiss fund market (in % of total fund market)

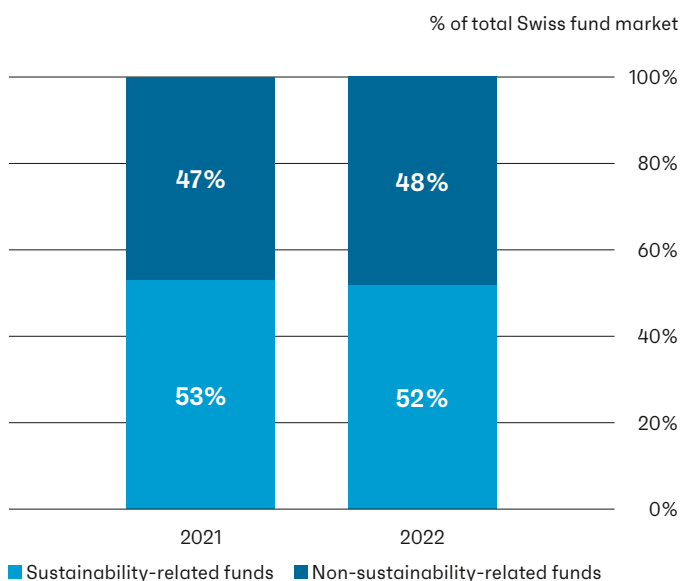
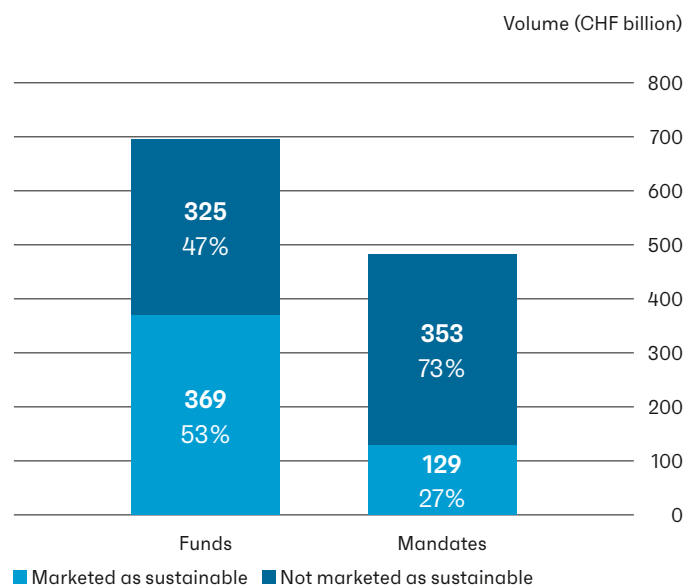


Figure 17 shows that asset managers market over half of their reported sustainability-related funds as sustainable products. For mandates it is about a quarter of the reported sustainability-related volumes. The low share is a result of the method of this study, which aims to assess all sustainability-related investment practices in the market, independent of the marketing as a sustainable product. Given current developments on the regulatory level, including implementation of the AMAS self-regulation, we expect clearer guidance on the application of sustainability terminologies in the marketing of products.

Figure 17: Marketing of sustainability-related products by asset managers (in CHF billion) (n=51)



<sup>17</sup> AMAS (2022): Swiss Fund Market Statistics – Month-End Analysis 31.12.2022. Available at: <https://www.swissfunddata.ch/sfdpub/fundmarket-statistics>, accessed 01/03/2023

Figure 18: Labelling of sustainability-related funds by asset managers (in % AuM) (n=48)

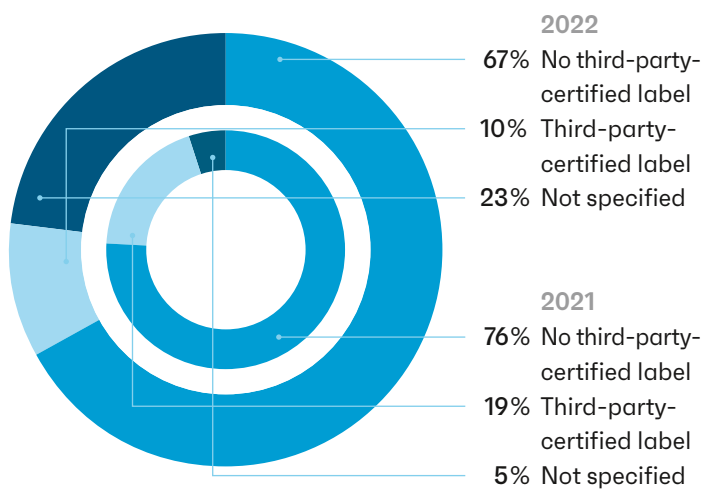


Figure 19: Classification of funds based on EU regulation by asset managers (in % AuM) (n=44)

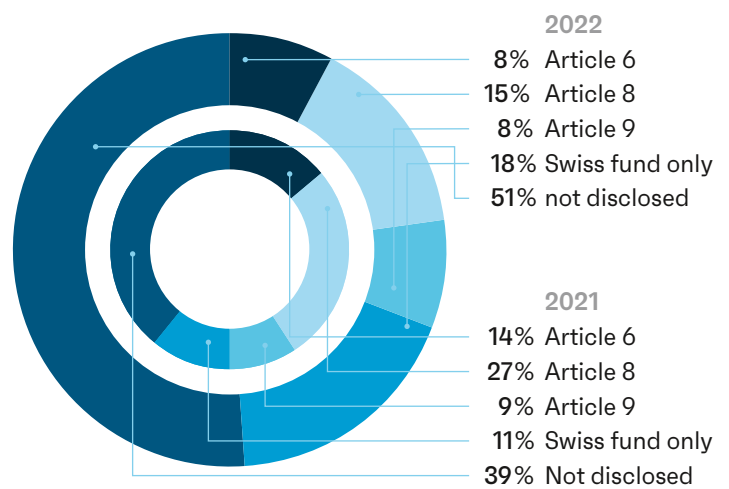


Figure 18 shows the number of reported sustainability-related funds with a third-party-certified label (e.g. FNG-Label, GRESB, Label ISR, LuxFlag). We observe a decrease to a share of only 10% of funds labelled by third parties, compared to 19% last year. The sharp decrease comes as a surprise in an environment where private investors seek clear quality indications.

Asset managers were asked to disclose if their funds fall under any classification regarding EU regulation (SFDR). As Figure 19 shows, 31% of the sustainability-related funds fall under either Article 6, 8 or 9 of the SFDR. Of all funds, 8% belonged to the category of Article 6<sup>18</sup> funds, 15% to Article 8 funds and 8% to Article 9 funds. 18% are Swiss funds only, which means they are not subject to the regulation. For another 51% of the total fund volume, it was not disclosed if the funds are subject to the EU SFDR classification. It is difficult to compare these findings year on year, as we saw a high share of unclassified fund volumes, probably due to insecurity about the future definition of sustainable investments, as well as a wave of reclassification from article 9 to article 8 funds.<sup>19</sup> Since the European Commission made clear that the definition of sustainable investments is the task of financial market participants,<sup>20</sup> this trend might reverse.

18 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.

19 Morningstar (02.02.2023): *ESG Fund Downgrade Accelerates*. Available at: <https://www.morningstar.co.uk/uk/news/231438/esg-fund-downgrade-accelerates.aspx>

20 European Commission (08.05.23): *Answers to questions on the interpretation of Regulation (EU) 2019/2088, submitted by the European Supervisory Authorities on 9 September 2022*. Available at: [https://www.esma.europa.eu/sites/default/files/2023-04/Answers\\_to\\_questions\\_on\\_the\\_interpretation\\_of\\_Regulation\\_%28EU%29\\_20192088.PDF](https://www.esma.europa.eu/sites/default/files/2023-04/Answers_to_questions_on_the_interpretation_of_Regulation_%28EU%29_20192088.PDF)

## 3.3 Sustainable investment approaches

Figure 20 presents the total volumes for each SI approach applied in 2022, with a comparison to 2021. These volumes include data from both asset managers and asset owners. Exclusions remain the leading applied approach in 2022, followed by ESG integration, ESG engagement and norms-based screening.

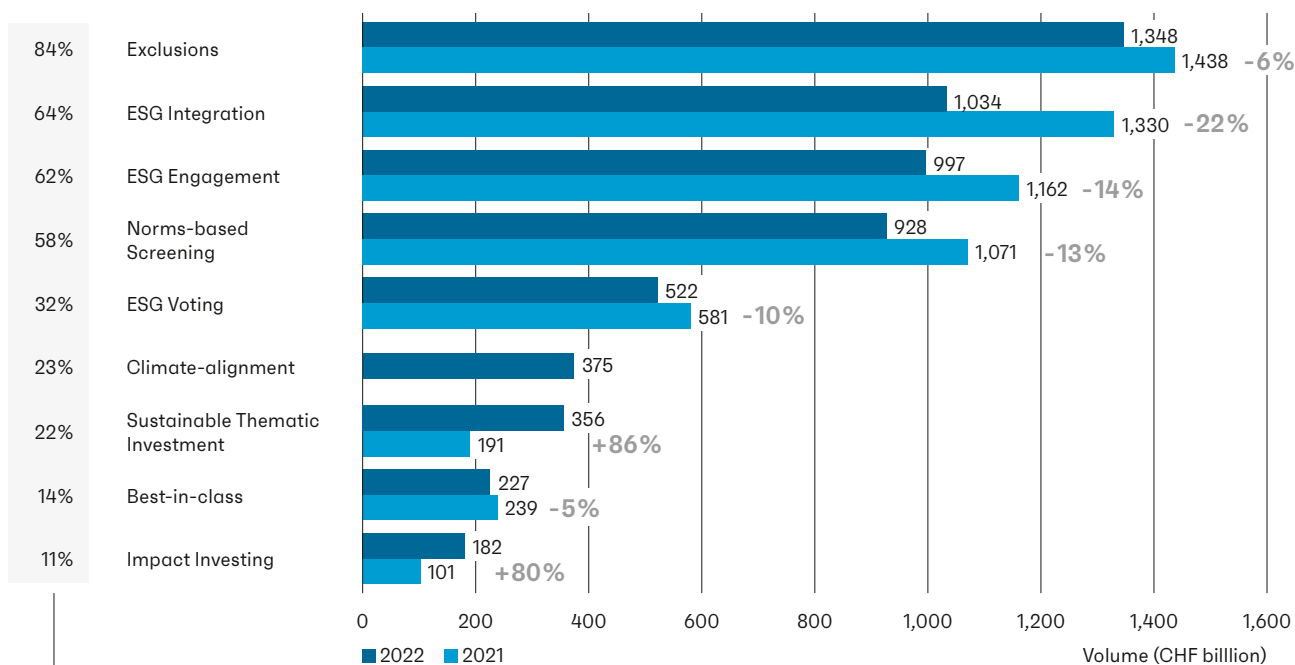
As expected, the poor market performance in 2022 is also reflected in Figure 20. Almost all approaches lost attributed volumes. However, we have seen strong growth in thematic and impact approaches (86% and 80%, respectively). This shows the growing client interest in strategies with a clear link to impact. This is the first year we have collected data on the climate-alignment approach, which focuses on reducing the carbon footprint of a portfolio or those of its components.<sup>21</sup> With CHF 375 billion (about 20%) of total sustainability-related assets, the approach already has a strong foothold in the Swiss market.

### Exclusions

The exclusion approach is applied to 84% of all sustainability-related volumes in Switzerland (Figure 20).<sup>22</sup> Similar to last year, the top five most frequently used criteria were coal, violation of human rights, corruption and bribery, severe environmental degradation and labour issues (Figure 21). The appearance of both environmentally and socially driven exclusions in the top five is a signal that market players are well aware of issues going beyond climate-related risks. When we look at the category of “other”, questionnaire participants excluded pesticides and divested after climate engagement failures.

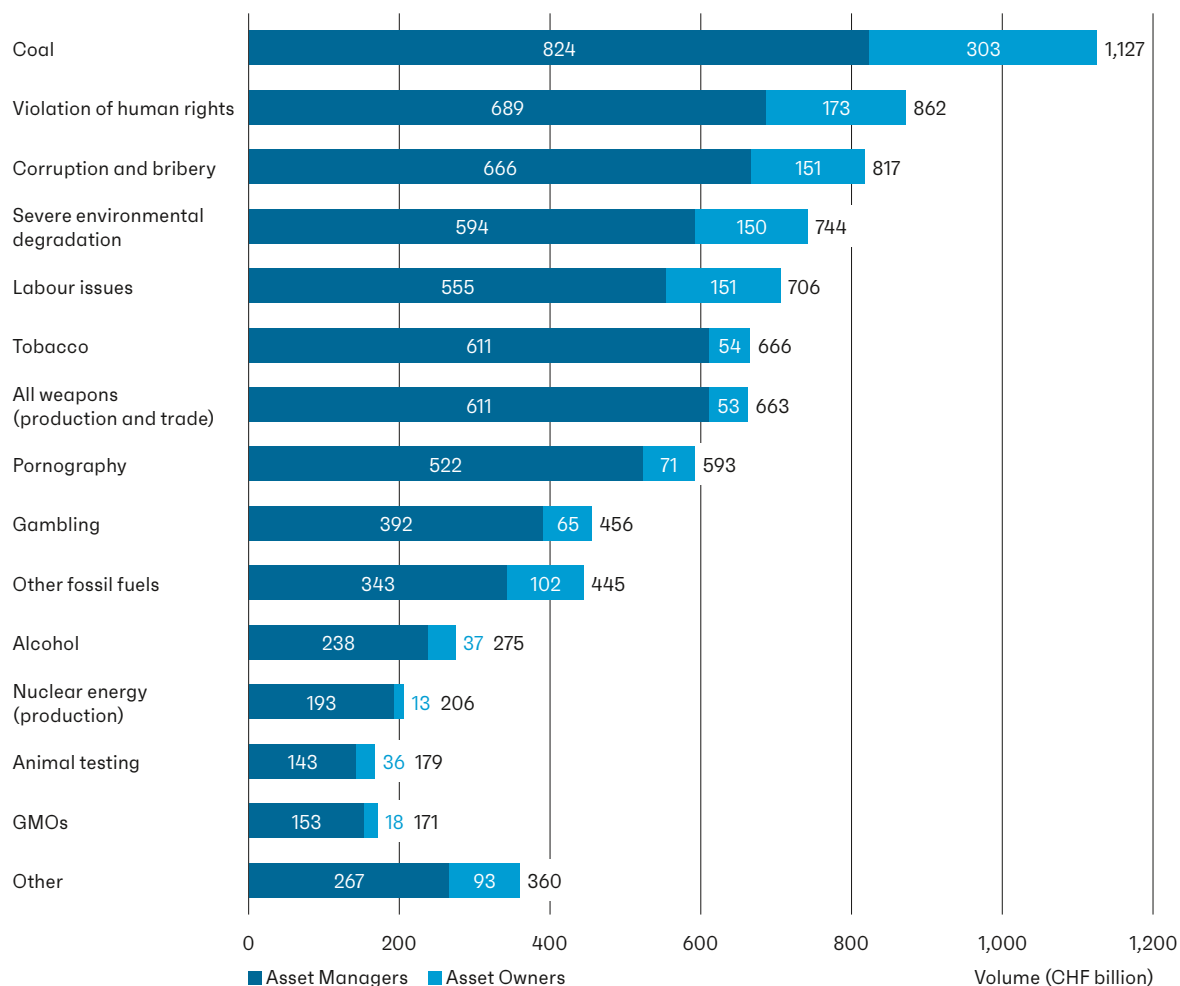
Although all survey respondents were asked about applied country exclusions, only 39 participants, representing a small share of sustainability-related volumes, responded to this question. The majority of reported volumes applying country exclusions did so based on international sanctions.

Figure 20: Development of sustainable investment approaches (in CHF billion) (n=81)



% of total sustainability-related volumes applying respective approach

Figure 21: Applied exclusion criteria for companies (in CHF billion) (n=72)



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 counterterrorism.<sup>23</sup> Considering that international UN sanctions are legally binding, applying them cannot really be seen as a special sustainability-related action. Other exclusion criteria mentioned were dictatorship and violation of non-proliferation treaties.

21 Asset Management Association Switzerland (AMAS) (2022): *Self-regulation on transparency and disclosure for sustainability-related collective assets from 26 September 2022*. Available at: <https://www.am-switzerland.ch/en/regulierung/selbstregulierung-standard/sustainable-finance>

22 Assets that apply solely 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 (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.

23 UN (2020): *United Nations Security Council – Sanctions*. Available at: <https://www.un.org/securitycouncil/sanctions/information>, accessed 31/03/2023

### ESG integration

ESG integration ranks second in Switzerland in terms of volumes and is applied to 64% of all sustainability-related assets (Figure 20). Figure 22 illustrates the popularity of different systematic ESG integration approaches used by respondents as an integral part of their asset management process. The most popular approach is the systematic use of ESG research/analyses during portfolio construction, which doubled in importance compared to last year. The systematic consideration/inclusion of ESG research/analyses in financial ratings/valuations remained on the same levels, while ESG integration in passive strategies also stayed on low levels.

### ESG engagement

The ESG engagement approach ranks third and is applied to 62% of all sustainability-related investments in Switzerland (Figure 20). Figure 23 shows that risk management and reporting related to climate change is once again a very important subject to engage in. Furthermore, corporate governance as an engagement theme continues to be rated with

high importance, reflecting the necessity of strong governance as the basis for a company's environmental and social performance.

For asset managers, around 38% of the engagement volumes are reported to be outsourced to third parties. For the rest of the assets subject to engagement, this process is managed by internal resources. For asset owners, we see a share of 65% of engagement volumes outsourced to third parties (Figure 26). This larger amount of outsourcing is to be expected as asset owners, especially small to mid-size, do not have the resources to manage the processes internally.

### Norms-based screening

Overall, norms-based screening is applied to 58% of all sustainability-related investments in Switzerland (Figure 20). Figure 24 shows that the most important norm used for screening portfolios is the UN Global Compact. Besides the international frameworks, respondents used several other norms as the basis for their screening (e.g. IFC guidelines and standards, or controversy red flags based on screenings of various research providers).

Figure 22: ESG integration types applied (% of ESG integration AuM) (n=69)

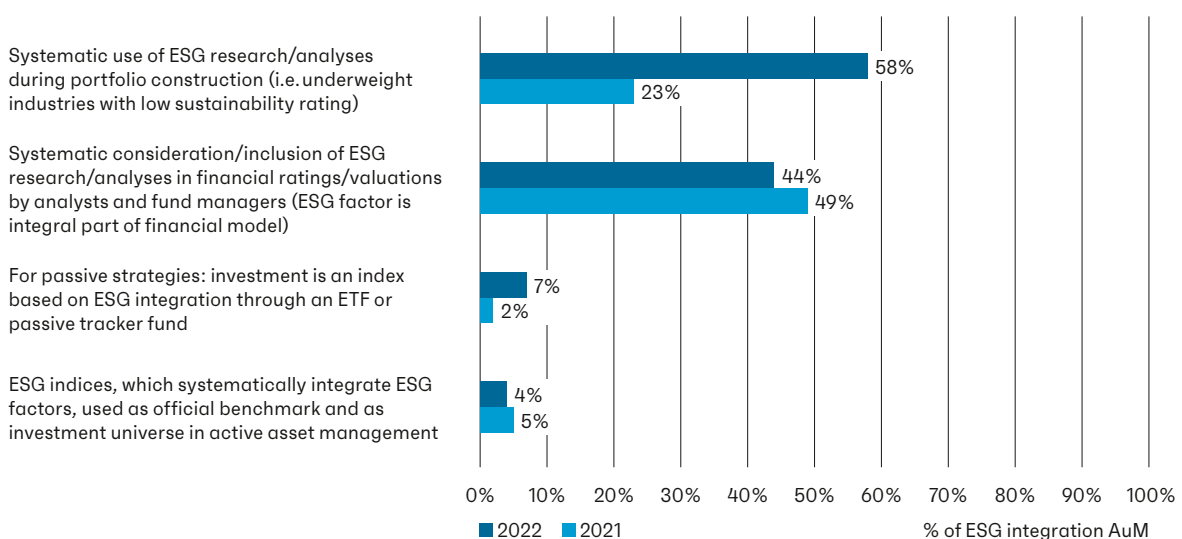




Figure 23: Main ESG engagement themes (in average level of importance) (n=52)

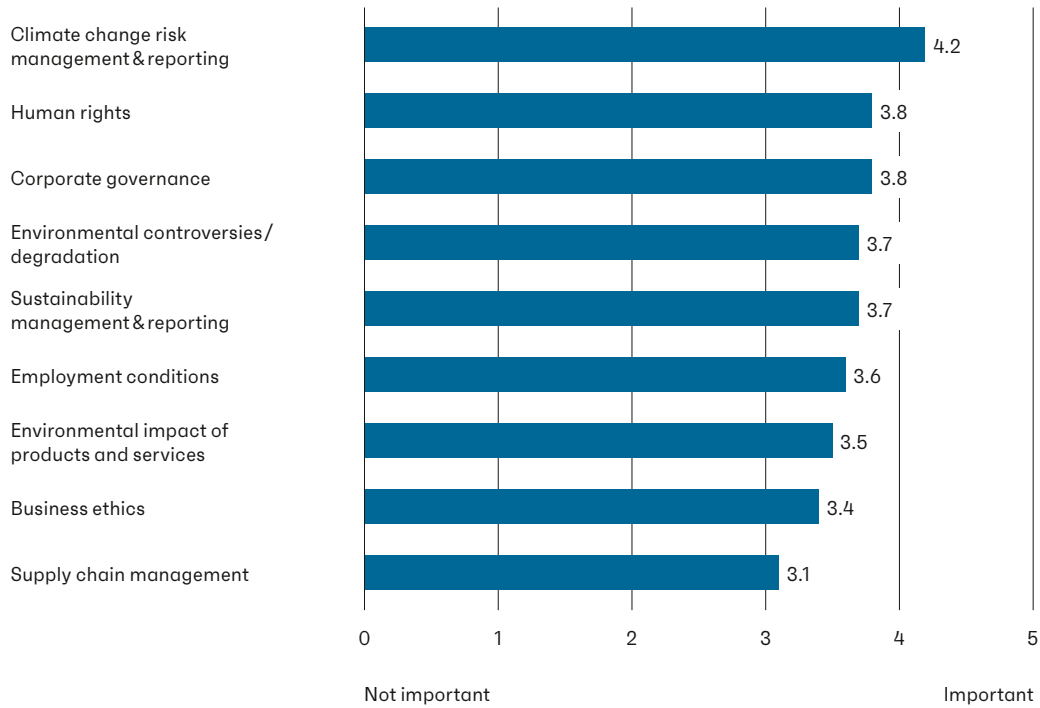


Figure 24: Criteria for norms-based screening (in CHF billion) (n=54)

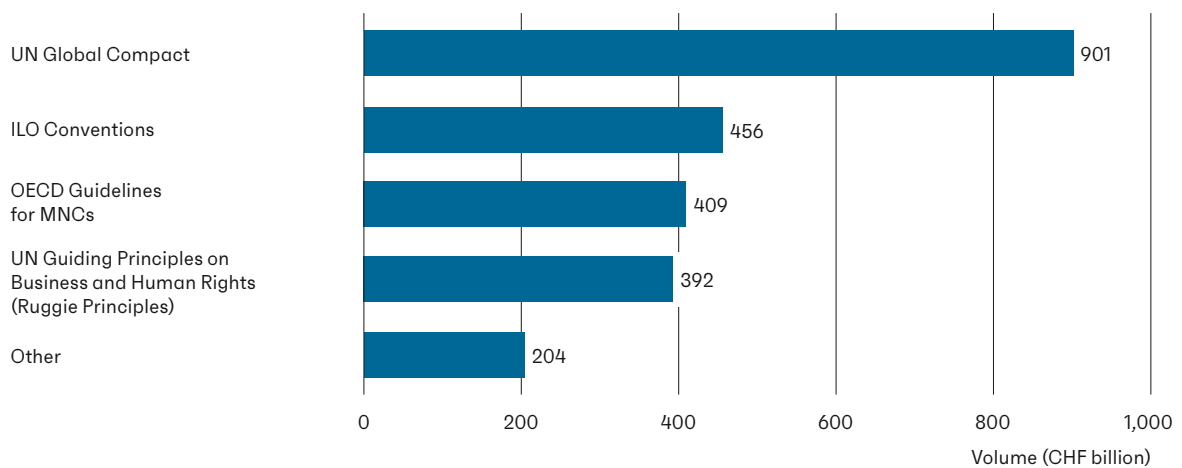
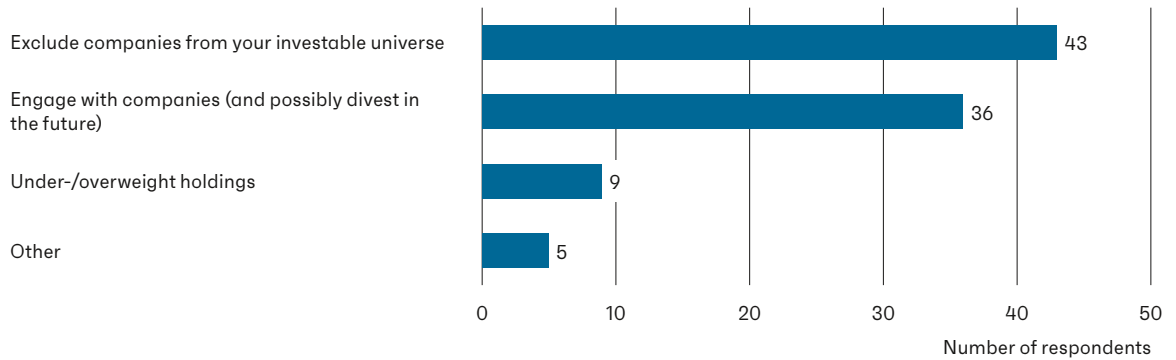


Figure 25: Investor actions following norms violations (in number of respondents) (n=52)



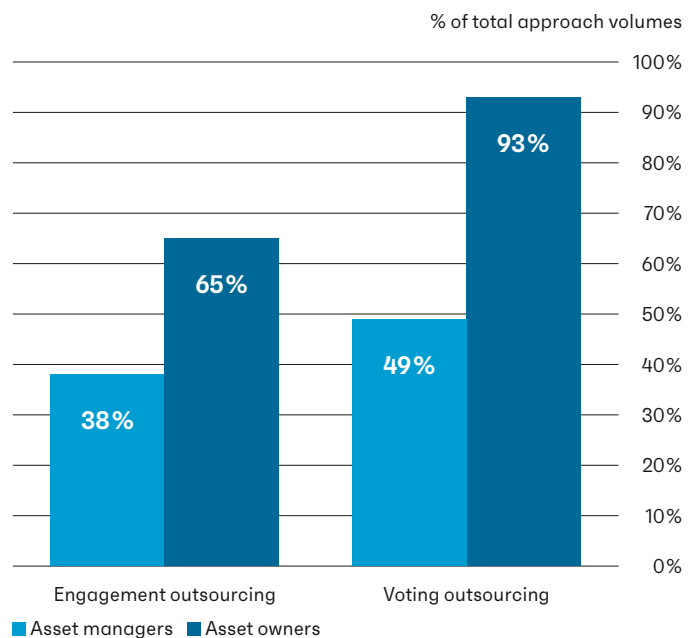
Survey respondents were also asked about the actions they take when companies are found to be in breach of one of the applied norms. Figure 25 shows that respondents further engage with the companies or exclude these companies from their investment universe. Exclusion of companies is slightly more popular than engagement, likely due to the larger amount of resources needed for engagement activities. A smaller fraction of respondents change the weightings of their holdings after violations. Examples of actions listed under “other” are adding companies to a watchlist, and the fact that investment needs to be justified on a quarterly basis by the investment team.

### ESG voting

ESG voting is now applied to 32% of all sustainability-related assets in Switzerland (Figure 20), a relatively high share considering that ESG voting is not relevant for all asset classes. Around 35% of the asset-manager-related volume applies ESG voting. For asset owners it is around 25% of the total sustainability-related volume, which reflects the lower share of equities in the portfolios of asset owners.

In terms of outsourcing voting rights, asset managers outsource almost half of their voting activities (49%) to external service providers. For asset owners, this proportion is considerably higher, with voting outsourced for 93% of volumes applying an ESG voting approach (Figure 26).

Figure 26: Outsourcing of engagement and voting activities (in % of total approach volumes) (n=55)



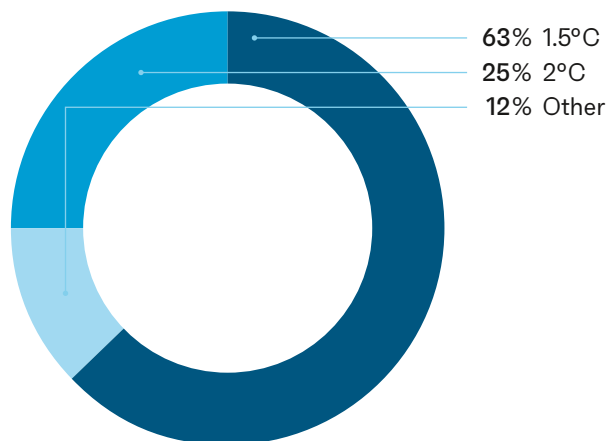
### Climate-alignment

This is the first year for which SSF collected data on the climate-alignment approach. Throughout the years, Swiss players, especially those having net zero ambitions, have launched strategies aiming to decrease carbon footprints and intensities of certain portfolios. Based on respondents, this approach is already being applied to about a quarter of all sustainability-related investments in Switzerland (Figure 20). We see ambitious climate targets by some market players with 1.5 degrees being linked to the majority of assets applying such an approach (63%) (Figure 27). At the same time, a quarter of these assets can be linked to a target scenario of 2 degrees.

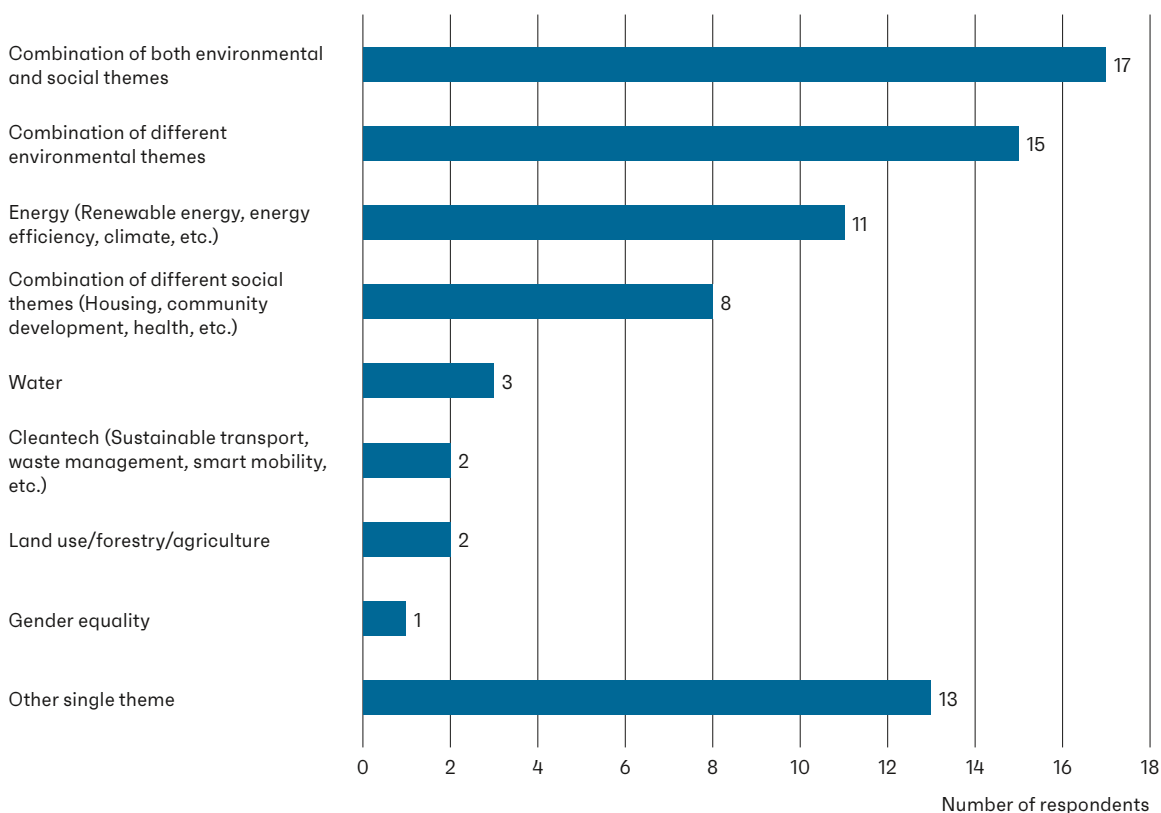
When looking at asset managers and asset owners separately, we observe that the target of 1.5 degrees appeals to a majority of asset owners, while the majority of asset managers target a 2 degree scenario.

When looking at “other”, we observe that targets often were not linked to a specific temperature scenario, but rather to the reduction of absolute emissions or of exposure to high emitters while increasing exposure to low emitters. Some of these assets stem from private markets, for which data availability is often limited. Therefore private equity firms use engagement to establish processes for GHG accounting within investee companies. Furthermore, private markets provide the opportunity to specifically invest in fast growing companies which aim to solve climate issues.

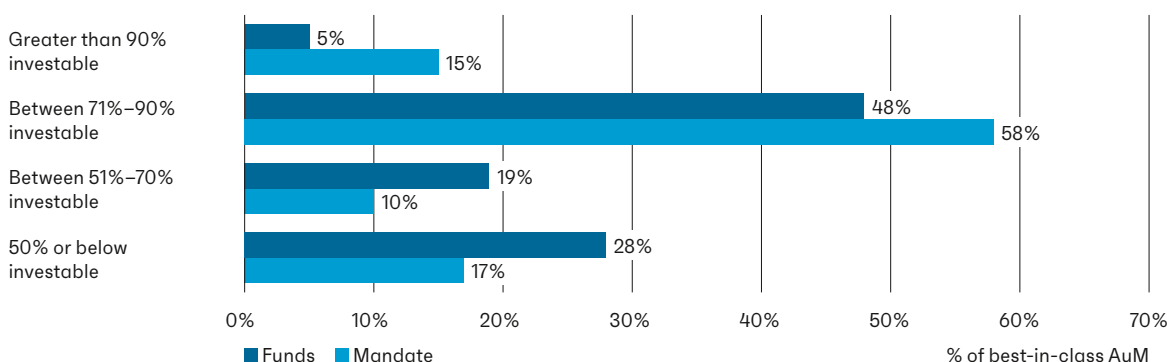
Figure 27: Climate-alignment target scenarios (in % AuM) (n=27)



**Figure 28: Main sustainable thematic investment themes for asset managers and asset owners**  
(in number of respondents) (n=41)



**Figure 29: Investment universe reduction based on best-in-class approach for asset managers**  
(in % of best-in-class AuM) (n=29)



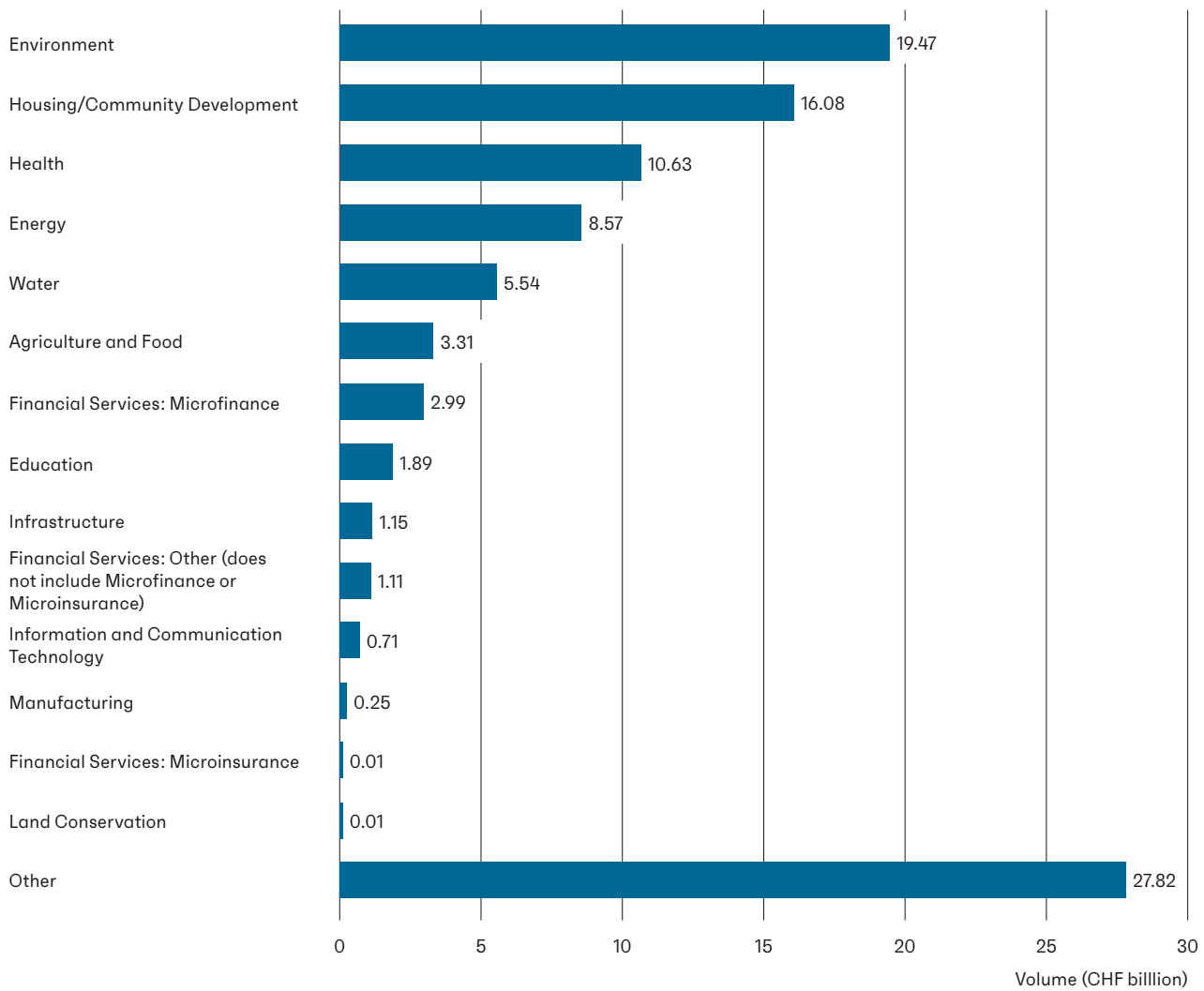
### Sustainable thematic investment

When we look at sustainable thematic investment, now applied to 22% of sustainability-related investments, the figure nearly doubled compared to last year's market study (Figure 20). After adapting the thematic categories to better reflect the market development in 2022, the use of a combination of both environmental and social themes ranked highest in terms of number of participants, with a total of 17 out of 41 participants (Figure 28). The next most frequently used category was a combination of different environmental themes, followed by the energy theme as the dominating single-theme approach. The fact that environmental factors were observed in the top three thematic categories shows the dominance of this subject for thematic investors. Participants identified other single themes, namely a sustainable commodity value chain, resource efficiency, public transport, hospitals and social housing.

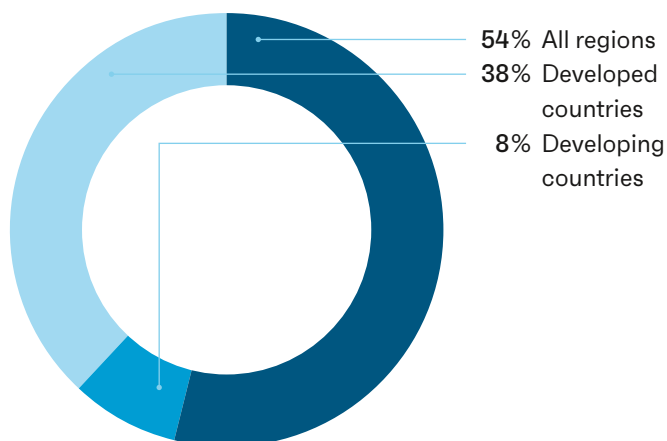
### Best-in-class

The best-in-class approach represents 14% of all sustainability-related assets in Switzerland (Figure 20). To dive deeper, asset manager and asset owner participants were asked about the thresholds of their best-in-class approach in more detail. However, it was only for participating asset managers that sufficient data was collected for inclusion in the analysis (Figure 29). For 28% of the fund volume applying a best-in-class approach, the investment universe is reduced by at least 50%. For another 48% of the fund volume, 71–90% of the investment universe remain investable, while only for a small fraction (5%) over 90% stays investable. For the latter, it may be questionable to actually refer to these assets as “best-in-class”. Regarding mandates, we see that for 58% of volumes, 71–90% of the investment universe remains investable, while for 17% of the volumes a share of below 50% of the universe is investable.

**Figure 30: Impact investment by sector for asset managers and asset owners**  
(in CHF billion) (n=17)



**Figure 31: Impact investment in developed versus developing countries (in % AuM) (n=26)**



### Impact investing

Impact investing almost doubled its volume compared to last year (Figure 20). When looking at the total sustainability-related volumes, it remains on the last rank of the nine SI approaches, with a share of 11%. The top five investment topics consist of environment, housing and community development, health, energy and water (Figure 30). The category “other” includes mostly real estate and climate-related sectors.

Figure 31 indicates that the impact investment market is focused mainly on strategies linked to all world regions (54%). Assets linked purely to developing countries were reported at 8%. When looking at applied, publicly available impact investing guidelines, principles or frameworks, 85% of the volumes apply at least one of them. The most frequently mentioned principles impact investors adhere to are the IFC Operating Principles for Impact Management. Other guidelines/principles applied for impact investing products were individual green bond frameworks. On the basis of these results, it is obvious that market players interpret the term “impact investment” in diverse ways and often establish company-specific guidelines.

## 3.4 Asset allocation

Figure 32 captures the development of the sustainability-related 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, yet all of them show decreased volumes, analogous to overall market performance. Together these asset classes cover around 78% of the total volume (Figure 33). All other asset classes are substantially smaller, while private equity, infrastructure and mortgages experienced absolute increases.

Asset managers and asset owners show major differences regarding the asset allocation of their sustainability-related investments. These differences can be explained by the fact that both pension funds and insurance companies hold a larger proportion of bonds and real estate overall. Figure 34 illustrates that over 50% of the total sustainability-related assets managed by asset owners is allocated to bonds. It is not surprising that real estate ranks first with around 28%, as this asset class generally has attractive features for asset owners.

Figure 32: Change in asset class distribution for sustainability-related investments (in CHF billion) (n=79)

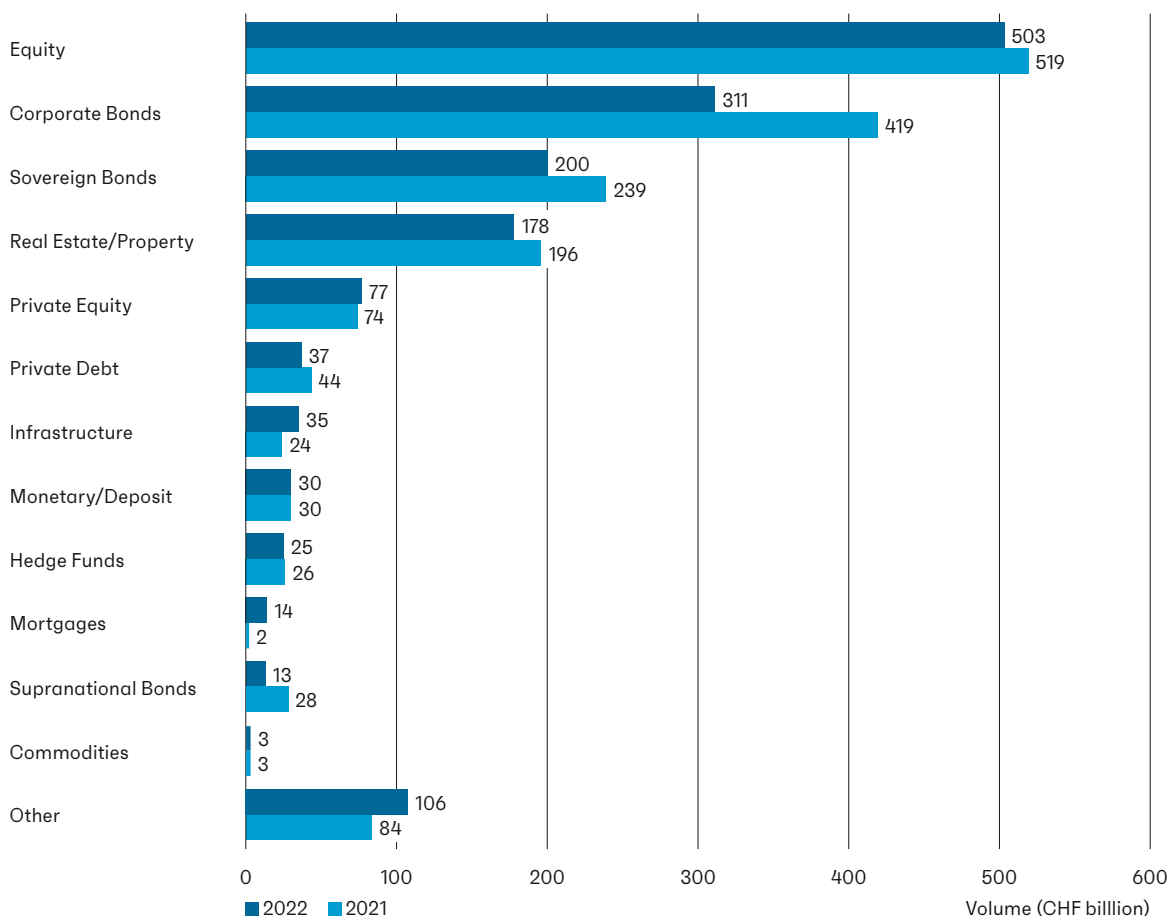




Figure 33: Asset class distribution for sustainability-related investments (in % AuM) (n=79)

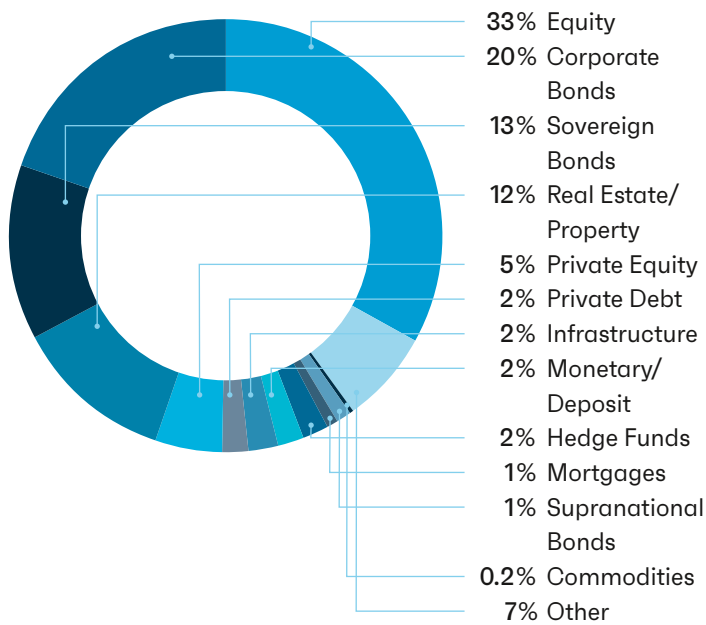
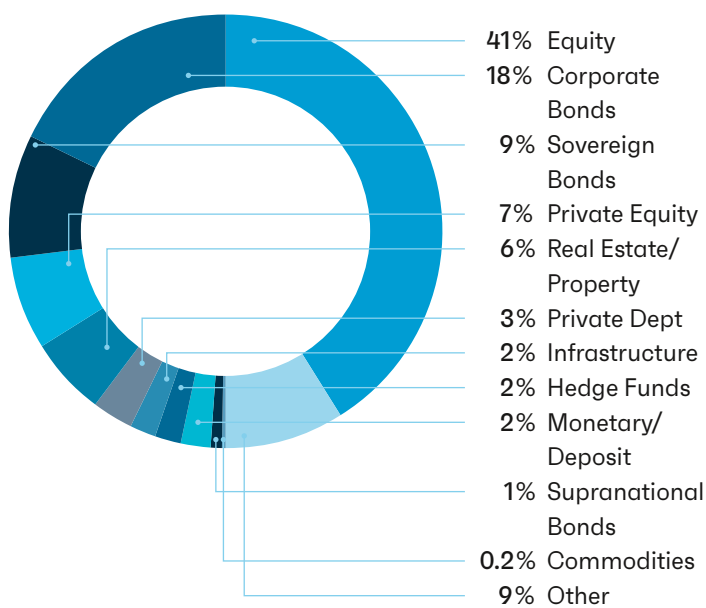
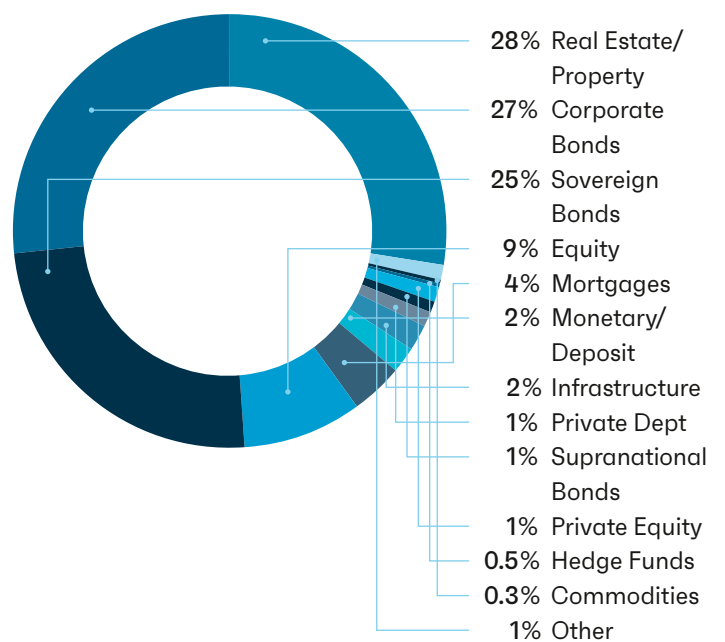


Figure 34: Asset class distribution for sustainability-related investments for asset managers and asset owners (in % AuM)

Asset managers  
(in % AuM) (n=51)



Asset owners  
(in % AuM) (n=28)

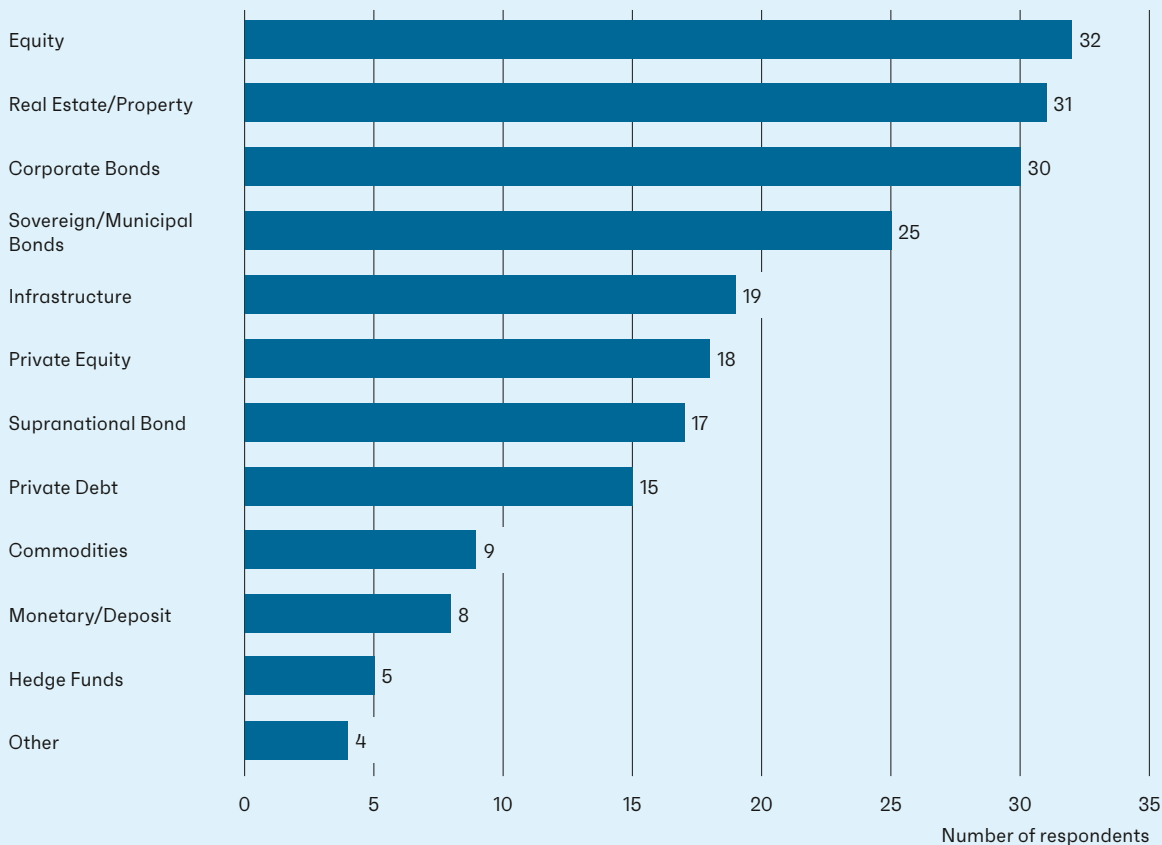


## How Swiss asset owners integrate sustainability into their policies

For most of this study we focus on the nine SI approaches and on classifying types of sustainability-related investments. 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, in almost all cases, have company-wide policies for their SI approaches, while asset owners have increased the number of standardised policies over the years. Figure 35 shows that asset owners especially set up company-wide ESG policies for their volume-leading asset classes. 32 of the 34 responding asset owners established an ESG policy for equities. Real estate, corporate and sovereign bonds are close behind with 31, 30 and 25, respectively.

Figure 35: **Formal sustainability-related investment policies of asset owners**  
(in number of respondents) (n=34)



## 3.5 Special topics

In this section we cover four topics chosen as focus areas due to their growing importance: real estate, sustainability-related debt investments (e.g. green bonds), climate change and biodiversity.

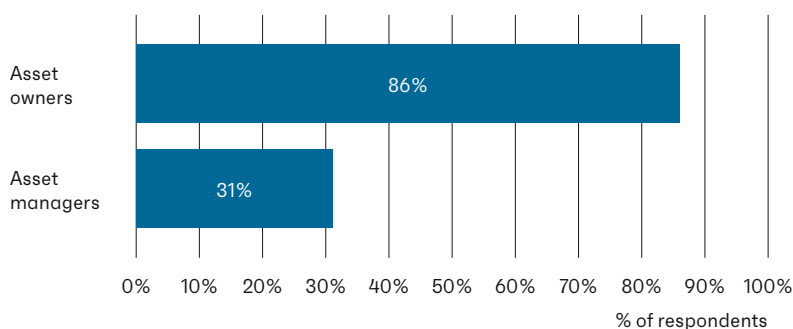
### Real estate

The real estate sector's contribution to the transition to a more sustainable economy is becoming more significant, especially as investors can link direct environmental and social benefits to the proper management of real estate portfolios. When respondents were asked about formal real estate policies linked to reported sustainability-related assets, 31% of asset managers vs. 86% of asset owners said they have a formal policy in place (Figure 36). In Switzerland, the high application of a policy by asset owners does not come as a surprise, given the importance of real estate as an asset class. We observe from the numerous pension funds responding to our survey that many of them outsource a large portion of asset management (often based on asset classes), but manage direct real estate portfolios with internal resources, justifying the need for a policy.

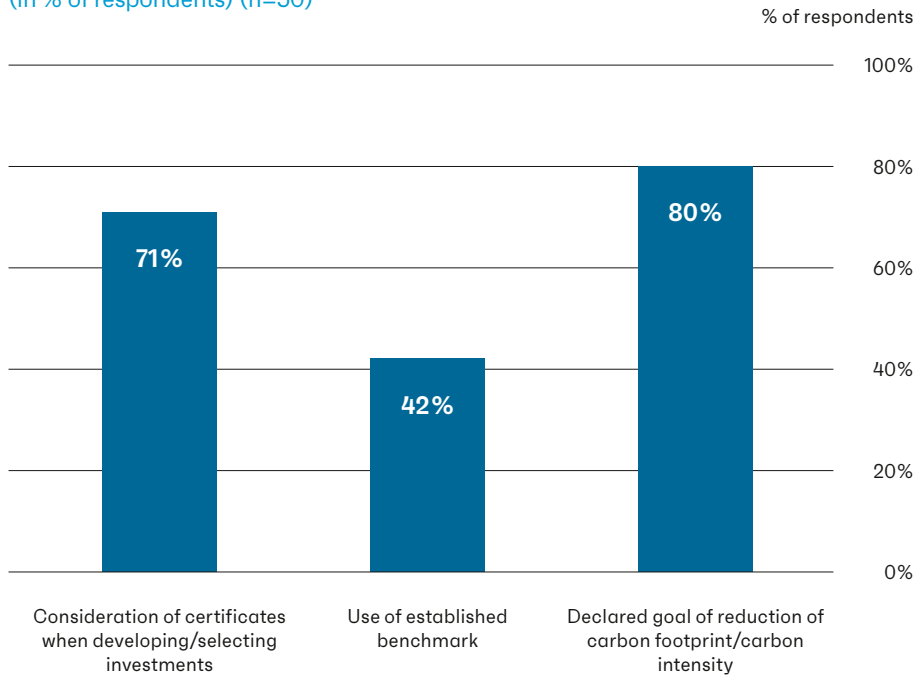
Within the policy, most respondents in both categories indicated that they included all three common areas related to real estate investment: property monitoring and management, property development and renovation, as well as property selection. In addition, a few respondents mentioned other categories, such as "property for sale".

The questionnaire also included questions on real estate certification, benchmarking and carbon footprint reduction. Of the 50 respondents who replied to these questions, 71% of them consider sustainability certificates of objects when developing/selecting real estate investments (Figure 37). Common certificates listed were: Minergie, SNBS, LEED, BREEAM, DGNB, SGNI, 2000 Watt, as well as proprietary quality labels.

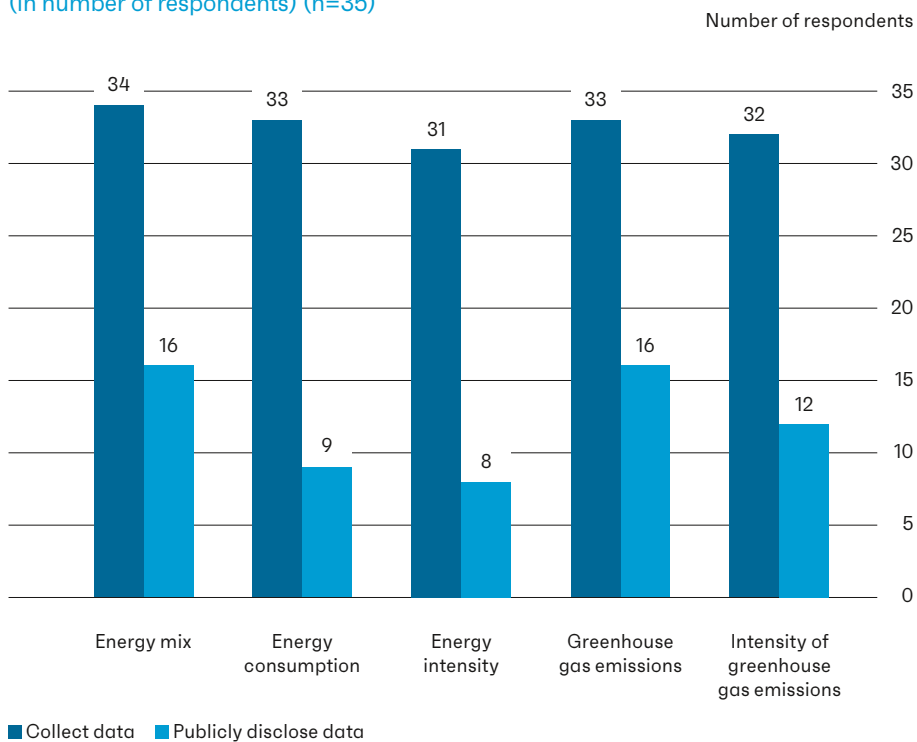
Figure 36: **Formal ESG real estate policy for asset managers and asset owners** (in % of respondents) (n=35 asset managers, n=37 asset owners)



**Figure 37: Aspects of sustainability-related real estate investments**  
(in % of respondents) (n=50)



**Figure 38: Application of AMAS real estate indicators**  
(in number of respondents) (n=35)



Forty-two percent of respondents indicated benchmarking their portfolios through established benchmarks such as GRESB, REIDA, ESI and SSREI. In addition, a very positive result is that for 80% of respondents, carbon footprint/intensity reduction is a declared investment-strategy goal.

In Switzerland, AMAS published a set of environmental indicators for real estate funds in 2022.<sup>24</sup> The indicators are mandatory for AMAS members and represent an important first step towards defining industry-wide real estate compati-

ble environmental indicators. Of the 35 respondents to this question (Figure 38), the vast majority collect data on the five main indicators, while only a minority have already published this data.

<sup>24</sup> Asset Management Association Switzerland (2022): *Environmental indicators for real estate funds, AMAS Circular 04/2022*. Available at: <https://www.am-switzerland.ch/en/regulierung/selbstregulierung-standard/immobilienfonds>

Figure 39: Investments in sustainability-related debt investments (in CHF billion) (n=39)

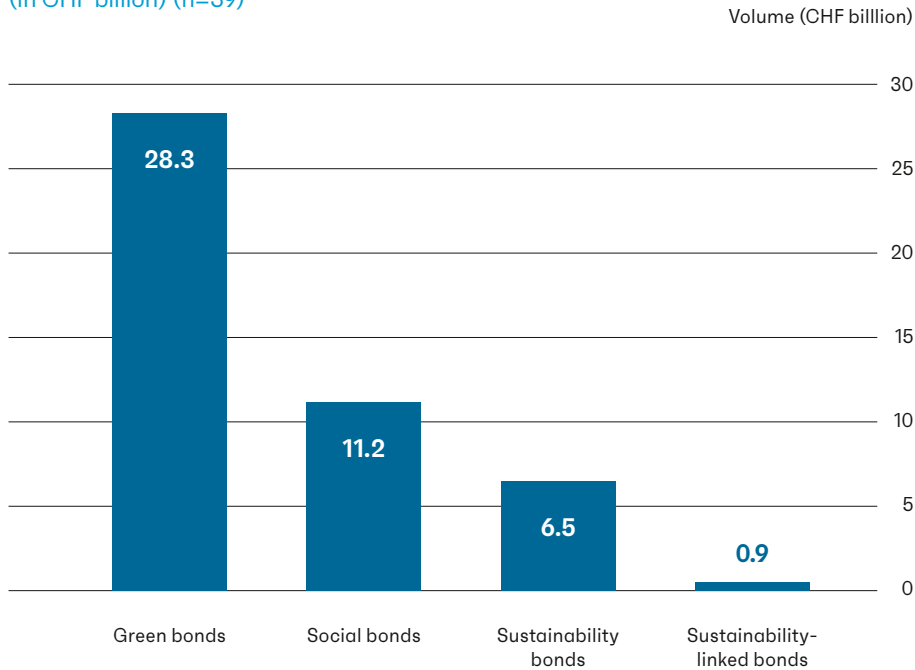
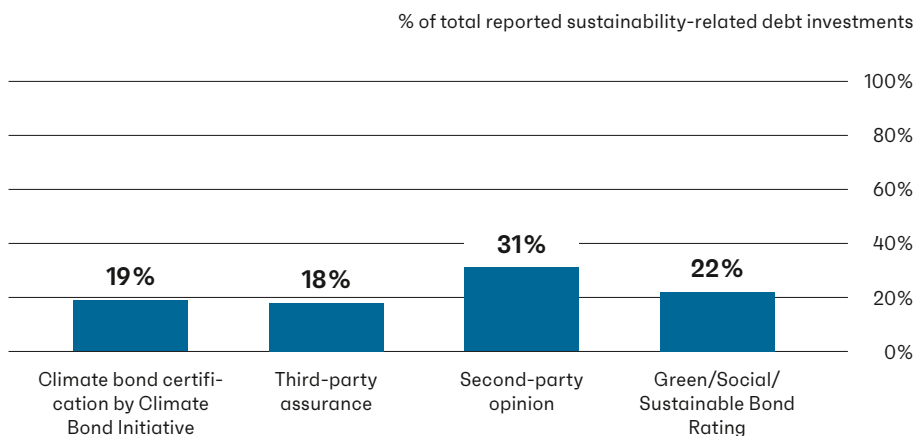


Figure 40: External reviews of sustainability-related debt investments (in % of total reported sustainability-related debt investments) (n=17)



### Sustainability-related debt investments

On a global level, sustainability-related debt investments, such as green, social and sustainability (GSS) bonds plus sustainability-linked bonds (SLBs), have grown significantly in recent years, peaking at USD 1.1 trillion in 2021.<sup>25</sup> Many of these assets are developed through audited processes, resulting in certified products that allocate invested capital to projects with particular environmental or social benefits.

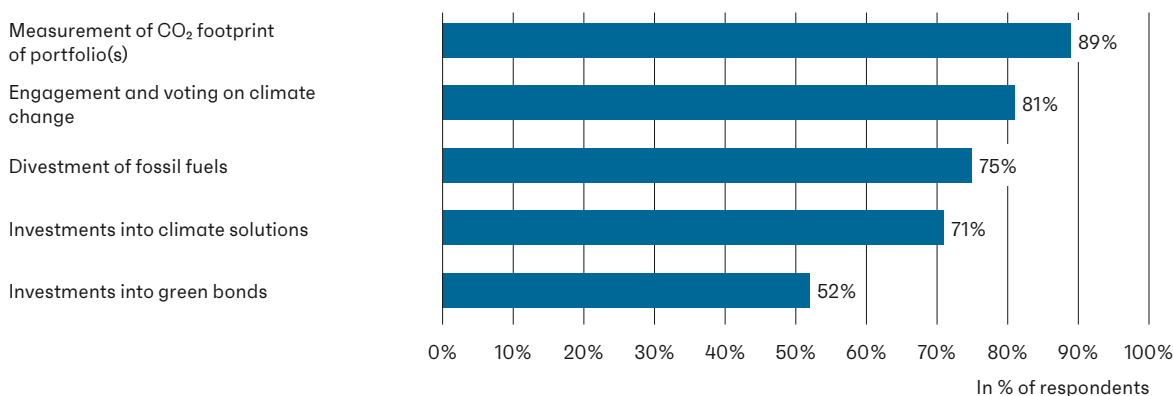
When asked whether asset managers or asset owners invest in debt instruments such as green bonds, social bonds and sustainability-linked bonds, 47 of the 77 respondents (61%) replied that they did invest in such instruments. Green bonds were listed as the most common investment (by volume), followed by social bonds, sustainability bonds and sus-

tainability-linked bonds (Figure 39). With a total of only around CHF 46 billion invested in such assets, this is still only a niche area for Swiss investors.

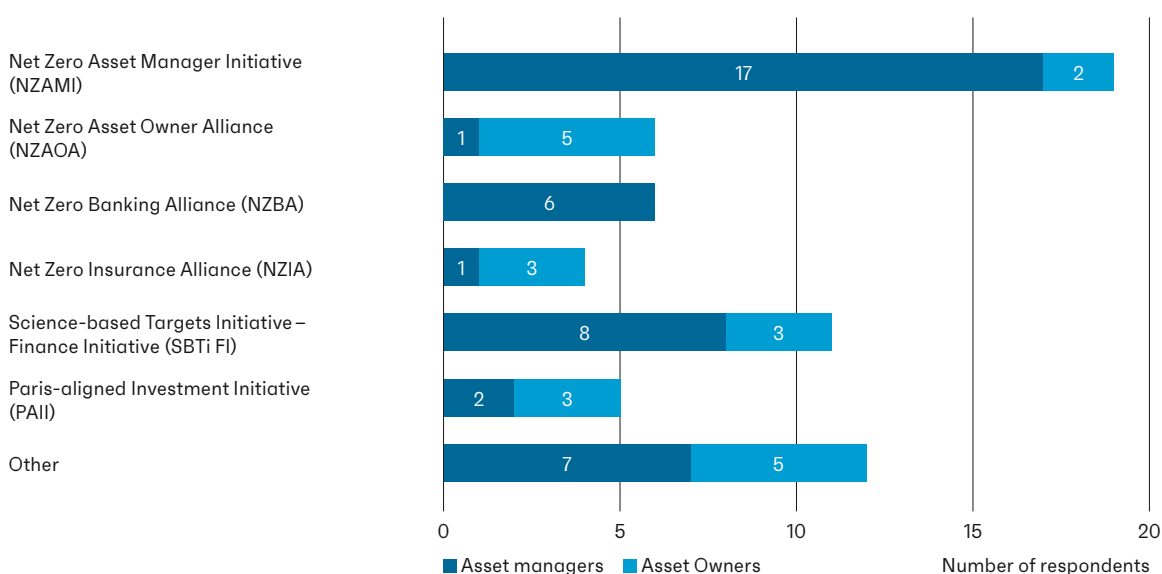
Respondents were also asked whether their debt investments were subject to any external reviews. Based on the data provided by participants, only a small fraction of the reported sustainability-related debt investments has been certified by the Climate Bond Initiative (19%), third-party assurance (18%) or second-party opinion (31%), or has a green/social/sustainable bond rating (22%) (Figure 40).

<sup>25</sup> Climate Bond Initiative (2023): *Global State of the Market Report 2022*. Available at: <https://www.climatebonds.net/resources/reports/global-state-market-report-2022>

**Figure 41: Strategies with regard to climate change**  
(in % of respondents) (n=83)



**Figure 42: Signatory of net-zero-alliances**  
(in number of respondents) (n=36)



### Climate change

The goal of the Paris Agreement<sup>26</sup> – to keep the global temperature rise well below 2 degrees Celsius, and ideally below 1.5 degrees – requires an economy-wide effort to reduce greenhouse gas emissions and pave the way for new low-carbon technologies. This creates a range of risks and opportunities for financial market participants. Overall, 83 respondents (91% of the total) said they explicitly address climate change in at least some of their investments. 89% of those respondents measure the carbon footprint of their portfolios, and 81% engage and vote on climate change. About 75% divest from fossil fuels, and 71% invest in climate solutions. Finally, 52% of respondents report investing into green bonds (Figure 41). Other strategies mentioned by a minority of respondents include setting science-based targets, impact investments, climate-related mortgage rates and direct real estate interventions.

Furthermore, both asset managers and asset owners were asked if they were signatories to one or more net-zero-alliances. As shown in Figure 42, a total of 36 respondents

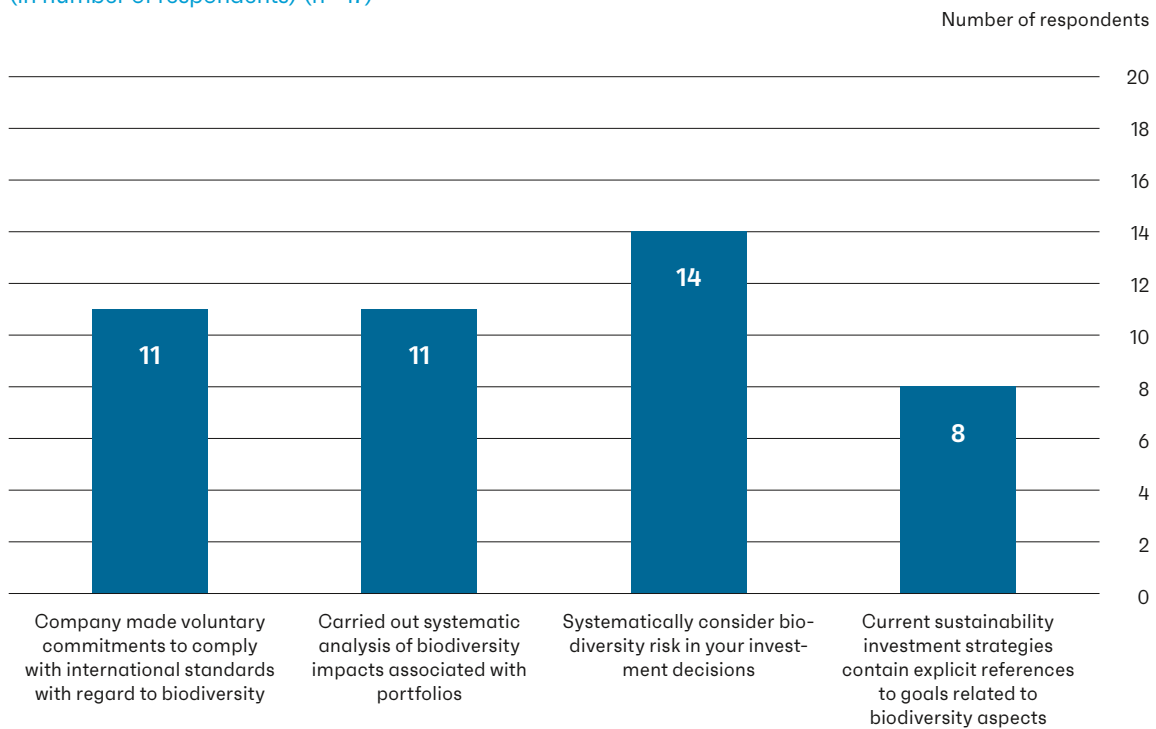
indicated a commitment to one or more alliance or framework. In addition to the most common frameworks, commitments to Institutional Investors Group on Climate Change (IIGCC) and Climate Action 100+ were also reported under “other”.

In the area of climate change, Switzerland has taken a step towards transparent reporting on climate indicators. The Swiss Climate Scores<sup>27</sup>, published by the Swiss Federal government in 2022, aim to establish a baseline for best-practice transparency on the Paris-alignment of financial investments. Implementation of the Swiss Climate Scores is still in its infancy, with only about one-third of asset managers surveyed saying they plan to publish Swiss Climate Scores in the near future.

26 UNFCCC (2022): *The Paris Agreement*. Available at: <https://unfccc.int/process-and-meetings/the-paris-agreement>

27 State Secretariat for International Finance (29.06.2022) press release: *Federal Council launches Swiss Climate Scores for climate transparency in financial investments*. Available at: <https://www.sif.admin.ch/sif/en/home/documentation/press-releases/medienmitteilungen.msg-id-89524.html>

Figure 43: Analysis of biodiversity impacts by asset managers (in number of respondents) (n=47)



### The role of biodiversity for asset managers

This is the second year in a row that we have included questions related to investor action on biodiversity. Different biodiversity standards have been active in recent years, such as the Finance for Biodiversity Pledge and the Taskforce on Nature-related Financial Disclosures (TNFD) framework, all of which are of a voluntary character. Figure 43 shows that only 11 of all asset manager respondents (23%) follow one or more of the biodiversity standards and/or have conducted a systematic analysis of the negative and positive biodiversity impacts associated with their investment portfolio. Fourteen asset managers (30%) consider biodiversity risk in their investment decisions. Only eight asset managers (17%) refer explicitly to biodiversity objectives in their investment strategies, which is not surprising given the emerging nature of the relevant frameworks.

In 2022, SSF co-convened the Swiss Consultation Group on the TNFD. The group has been working with members to provide feedback for the TNFD framework in 2023. This volun-

tary reporting framework will be published in its final form in autumn 2023. The TNFD aims to help redirect financial flows away from nature-negative and towards nature-positive activities, and to provide guidance on KPIs and metrics that can facilitate the measurement of this, while complying with national regulations such as the EU CSRD and international reporting standards such as the TCFD and IFRS.

We see this as an important development, but recognise that the industry is not yet in the position to fully understand biodiversity issues, let alone integrate them into investment processes, because of the current lack of data and established frameworks.





Previous studies about the sustainable investment market have not been designed to systematically differentiate investments based on the extent to which they actively support the necessary sustainable transition of the economy. This year, SSF set out to tackle this question by testing the transition-oriented classification system proposed in the Eurosif white paper. Classifying the overall sustainability-related investment volume provides a first overview of the different ambition levels in the Swiss sustainable investment market.

This year's market study deliberately refrained from providing a definition of "sustainable investments", as there is currently no commonly accepted definition of this term in the Swiss market or globally. Discussions between regulators and market participants about how to define "sustainable investments" are ongoing, both in the EU and in Switzerland. For example, the Asset Management Association Switzerland (AMAS) published a principles-based self-regulation on transparency and disclosure for sustainability-related collective assets in 2022, arguing that "collective assets that only employ exclusion or ESG integration approaches do not qualify as sustainability-related collective assets".<sup>28</sup> Also in 2022, the Swiss Federal Council published a position on the prevention of greenwashing in the financial sector. It states that financial products labelled as sustainable or with sustainable characteristics need to pursue at least one of two investment objectives: "Alignment with one or more specific sustainability goals" or "contribution to achieving one or more specific sustainability goals".<sup>29</sup>

Volumes in this study are all self-reported and, as such, are naturally subject to individual interpretations and judgments. Although SSF has set out minimum standards and transparency requirements for all SI approaches,<sup>30</sup> not all market players implement them with the same levels of ambition and resources. Faced with the numerous evolving regulations and standards in sustainable finance across the world, both asset managers and asset owners are still looking for ways to meet these requirements.

All of this emphasises the need for diligent and accurate reporting and communication on sustainable investment practices. It is the responsibility of product providers and institutional investors to communicate clearly on the objectives of their investments and on how these objectives can be achieved through the investment process. Yet in the absence of precise and accepted definitions, regulators and market participants need to align their understanding of concepts and methods in sustainable investing. Collaboration between academics and practitioners can also support this process and bring guidance to the market with regard to best-practice

transparency. A global convergence of standards should be fostered, although this is difficult to achieve. International players such as the PRI, the International Platform on Sustainable Finance (IPSF), CFA and GSIA can play a role in creating a common language to reduce misunderstandings and conflicting views.

Given the complexities involved, we must recognise that definitions will always be subject to personal views and interpretations. Consequently, we cannot answer the question of whether an investment is sustainable or not with a simple yes or no. However, we must acknowledge that many of the investments sold today as "sustainable" do not meet the expectations that clients actually have. This calls for a narrower definition of "sustainable investments". However, if we want this market to continue to thrive, we must allow enough flexibility to use a variety of methods to pursue various goals. At the same time, in response to concerns about the credibility of the market, "sustainable investments" should not be defined too broadly. The solution lies in agreements on a common language, and in clear and accurate communication by market players on objectives and results. By providing different perspectives on how to strike this balance between flexibility and credibility, this year's market study fosters the transparency necessary for these discussions.

28 Asset Management Association Switzerland (AMAS) (2022): *Self-regulation on transparency and disclosure for sustainability-related collective assets from 26 September 2022*. Available at: <https://www.am-switzerland.ch/en/regulierung/selbstregulierung-standard/sustainable-finance>

29 Swiss Federal Council (2022): *The Federal Council's position on the prevention of greenwashing in the financial sector*. Retrieved April 6, 2023, from <https://www.news.admin.ch/newsd/message/attachments/74580.pdf>

30 AMAS/SSF (December 2021): *How to Avoid the Greenwashing Trap: Recommendations on Transparency and Minimum Requirements for Sustainable Investment Approaches and Products*



## Developments in Switzerland

Over the past year, the Parliament and Federal Council adopted sustainability-related regulation that is also relevant for finance. FINMA continued activities focusing on consumer protection and specified transparency obligations for climate risks. In the soft law area, various Swiss financial associations have published sustainability recommendations, some of which are part of traditional self-regulation in finance.

### Parliament and Federal Council

At the legislative level, Parliament has adopted new provisions that affect the overall economy. It introduced the obligation of sustainable corporate management for the protection of people and the environment (with reference to international standards and partial reference to EU law). In addition, the Climate Act and the revised CO<sub>2</sub> Act constitute an important milestone for Switzerland's implementation of goals of the Paris Climate Agreement. The drivers for the adoption of these new legal provisions were popular initiatives (e.g. Responsible Business Initiative, Glacier Initiative). The Federal Council has specified the legal provisions for sustainable corporate management with corresponding ordinances, and referred to international recommendations such as those of the TCFD<sup>31</sup>, as well as OECD<sup>32</sup> and ILO<sup>33</sup> standards. These new regulations are also relevant to the financial industry.

Furthermore, the Swiss government reaffirmed its goal to establish Switzerland as a leading sustainable financial centre, and announced various areas of action<sup>34</sup> and measures for achieving this goal.

### a) Code of Obligations

Following the rejection of the Responsible Business Initiative by a majority of the Swiss cantons on 29 November 2020, Parliament adopted on 19 June 2020 an indirect counterproposal in the context of the "major revision of corporate law" anchored in the Code of Obligations (CO)<sup>35</sup>. This revision provides non-financial reporting obligations (Art. 964a-964c CO) as well as due diligence and transparency obligations in the areas of conflict minerals and child labour (Art. 964j-964l CO). The new Art. 964a et seq. CO entered into force on 1 January 2022 and is applicable as of business year 2023.

#### *Non-financial reporting obligations (Art. 964a et seq. CO) and Ordinance on Climate Disclosures*

Companies of public interest must publish a report on non-financial matters each year if, in two successive financial years and for all Swiss or foreign companies controlled by them, they have at least 500 full-time positions (annual average) and exceed at least one of the following two thresholds: a balance sheet total of 20 million CHF or sales revenues of 40 million CHF.

The report on non-financial matters must cover environmental matters, in particular CO<sub>2</sub> goals, social issues, employee-related issues, respect for human rights and combating corruption. It must also provide information needed to understand the business performance, business result, state of the undertaking and the effects of company activities on these non-financial matters (Art. 964b CO).

The Federal Council specified the requirements for climate disclosure in the Ordinance on Climate Disclosures.<sup>36</sup> Large companies that base their report on the "Recommendations of the Task Force on Climate-related Financial Disclosure" (TCFD recommendations) and the annex "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures", and cover the topics of governance, strategy, risk management, key figures and targets, will be assumed to be compliant with the climate reporting obligations in accordance with Art. 964b para. 1 CO.

<sup>31</sup> Task Force on Climate-Related Financial Disclosures.

<sup>32</sup> Organisation for Economic Co-operation and Development.

<sup>33</sup> International Labour Organisation.

<sup>34</sup> Federal Council (2022), *Report Sustainable Finance in Switzerland – Areas for action for a leading sustainable financial centre, 2022-2025 of 16 December 2022*. Available at: <https://www.sif.admin.ch/sif/en/home/finanzmarkt-politik/sustainable-finance.html>, accessed 23/05/2023.

<sup>35</sup> Classified Compilation 220.

<sup>36</sup> Federal Council (2022), *Federal Council brings ordinance on mandatory climate disclosures for large companies into force as of 1 January 2024*. Available at: <https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-91859.html>, accessed 09/05/2023.

Figure 44: Current application of TCFD recommendations by asset managers (in number of respondents) (n=29)



If a company does not make disclosures on climate issues in accordance with TCFD recommendations, it must a) demonstrate that it complies in other ways with the climate disclosure obligation in accordance with Article 964b para. 1 CO as regards climate issues, or b) clearly declare that it does not follow any climate concept and justify this decision. The Ordinance on Climate Disclosures will enter into force on 1 January 2024.

Of the 52 banks and asset managers taking part in the survey of the present market study, approximately half are subject to this legal climate disclosure obligation and comply by following TCFD recommendations (Figure 44). Of the companies currently using the TCFD recommendations, Figure 44 shows which of the 11 recommendations of the four thematic areas are currently in use and to what degree.

Therefore, the Swiss market seems to be implementing the TCFD recommendations to a certain extent. Many organisations that indicated they do not yet implement particular

recommendations also stated that they plan to do so by 2023. Only a minority of organisations have implemented all 11, but many are working towards full implementation.

*Due Diligence and Transparency Obligations in Relation to Minerals and Metals from Conflict-Affected Areas and Child Labour (Art. 964j et seq. CO)*

Undertakings whose seat, head office or principal place of business is located in Switzerland must comply with obligations of due diligence in the supply chain and report thereon if 1) they place in free circulation or process in Switzerland minerals containing tin, tantalum, tungsten or gold, or metals from conflict-affected and high-risk areas; or 2) they offer products or services for which there is a reasonable suspicion that they have been manufactured or provided using child labour. Undertakings in scope must comply with an ongoing due diligence process. They must maintain a management system, and in particular define a supply chain pol-

icy and a supply chain traceability system (see Art. 964k CO). Each year a report on compliance with due diligence obligations must be published. The Ordinance on Due Diligence and Transparency in Relation to Minerals and Metals from Conflict-Affected Areas and Child Labour of 3 December 2021 (DDTrO)<sup>37</sup> regulates the due diligence and reporting obligations to be complied with by companies under Articles 964j–964l CO. The DDTrO entered into force on 1 January 2022.

#### b) Federal Act on the Reduction of CO<sub>2</sub> Emissions

On 16 September 2022, the Federal Council adopted the message on the revised Federal Act on the Reduction of CO<sub>2</sub> Emissions (CO<sub>2</sub> Act)<sup>38</sup> for the period from 2025 to 2030.<sup>39</sup> The legislative proposal addresses the concerns raised during the last revision and does not contain any new or higher levies. Instead, it relies on targeted subsidies to steer investments into climate-friendly solutions. The focus is on measures that enable the population to reduce CO<sub>2</sub> emissions. At the same time, the legislative proposal strengthens the Swiss energy supply and reduces Switzerland's dependence on oil and natural gas. As a measure in the financial sector, FINMA and the SNB shall report regularly and publicly on climate-related risks. This means that FINMA has the legal obligation to regularly review climate-related financial risks of supervised companies and to publish a report on the results. The revised CO<sub>2</sub> Act still has to be adopted by Parliament.

#### c) Climate and Innovation Act

Parliament adopted the Federal Act on Climate Protection Targets, Innovation and Strengthening Energy Security on 30 September 2022 as an indirect counterproposal to the Glacier Initiative (Climate and Innovation Act, KIG). The act sets a roadmap for the federal government for reducing fossil fuels such as oil and natural gas. By the year 2050, emissions of harmful greenhouse gases are to be reduced to zero. Due to a referendum, the Climate and Innovation Act was submitted to the vote of the Swiss people and was adopted on 18 June 2023.<sup>40</sup>

#### d) Further measures of the Federal Council

In both its strategy for the Swiss financial center and its foreign policy strategy for 2020–2023, the Federal Council reconfirmed that it wants to further strengthen and promote Switzerland as a leader for sustainable financial services. Against this background, the Federal Council published the following key measures and reports:

- The Federal Council launched the voluntary Swiss Climate Scores (SCS) on 29 June 2022.<sup>41</sup> The scores are intended to create a baseline for best-practice transparency on the Paris alignment of financial investments. In a joint workgroup, SSF and the Asset Management Association Switzerland (AMAS) created a template to guarantee standardised calculations of the various indicators and to uniformly display results.<sup>42</sup> The Federal Council plans to regularly review the SCS and to adapt them to the latest international findings.

- Regarding the new provisions of the CO for sustainable corporate management, the Federal Council's report from 2 December 2022 shows how Swiss law differs from the adopted and planned EU regulations, and assesses the impact that corresponding EU decisions would have on the Swiss economy. The government further decided to conduct an in-depth assessment of the impact of the future EU directive on due diligence obligations by the end of 2023, and to prepare a consultation draft regarding sustainability reporting obligations by July 2024.<sup>43</sup>
- The Federal Council published a new report on Sustainable finance in Switzerland on 16 December 2022.<sup>44</sup> The government plans 15 measures for 2022–2025 to consolidate the Swiss financial centre's position as a leading global location for sustainable finance. The measures listed in this report are divided into four areas for action: sustainability data from all sectors of the economy, transparency in the financial sector, impact investments and green bonds, and pricing pollution.
- In its position on the prevention of greenwashing in the financial sector of 16 December 2022, the Federal Council emphasised the need for a uniform understanding of the condition required for products and financial services to be considered sustainable. It outlined that a uniform understanding is key to protecting investors and to ensuring the international competitiveness and reputation of the Swiss financial center.<sup>45</sup> The Federal Council instructed a working group, including federal authorities, industry and non-governmental organisations. Based on the result of this working group, the FDF will present to the Federal Council its proposal on the next steps by autumn 2023.

<sup>37</sup> Classified Compilation 221.433.

<sup>38</sup> Classified Compilation 641.71.

<sup>39</sup> Federal Council (2022), *Klimapolitik: Bundesrat verabschiedet Botschaft zum revidierten CO<sub>2</sub>-Gesetz*. Available at: <https://www.admin.ch/gov/de/start/dokumentation/medienmitteilungen.msg-id-90389.html#:~:text=September%202022%20die%20Botschaft%20zum,in%20klimatefreundliche%20L%C3%B6sungen%20zu%20lenken>, accessed 09/05/2023.

<sup>40</sup> Federal Council (2023), *Climate and Innovation Act*. Available at: <https://www.admin.ch/gov/en/start/documentation/votes/20230618/climate-and-innovation-act.html>, accessed 19/06/2023.

<sup>41</sup> Federal Council (2022), *Federal Council launches Swiss Climate Scores for climate transparency in financial investments*. Available at: <https://www.sif.admin.ch/sif/en/home/documentation/press-releases/medienmitteilungen.msg-id-89524.html>, accessed 23/05/2023.

<sup>42</sup> SSF (2022), *Swiss Climate Scores*. Available at: <https://www.sustainablefinance.ch/en/resources/climate-finance/swiss-climate-scores.html>, accessed 23/05/2023.

<sup>43</sup> Federal Council (2022), *Nachhaltige Unternehmensführung: Bundesrat legt weiteres Vorgehen fest*. Available at: <https://www.admin.ch/gov/de/start/dokumentation/medienmitteilungen.msg-id-92009.html>, accessed 23/05/2023.

<sup>44</sup> Federal Council (2022), *Report: Sustainable Finance in Switzerland – Areas for action for a leading sustainable financial centre, 2022-2025*. Available at: <https://www.news.admin.ch/news/message/attachments/74562.pdf>, accessed 09/05/2023.

<sup>45</sup> Federal Council (2022), *Federal Council wants to prevent greenwashing in financial market*. Available at: <https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-92279.html>, accessed 23/05/2023.

### Swiss Financial Market Supervisory Authority (FINMA)

FINMA considers the enhancement of the reputation, competitiveness and future sustainability of the Swiss financial centre as being part of its legal mandate to protect clients and to ensure the proper functioning of the financial markets.<sup>46</sup>

In 2022, protecting clients and investors from greenwashing remained a key objective for FINMA's supervisory activities regarding collective investment schemes. Following its Guidance 05/2021 of 3 November 2021 on preventing and combating greenwashing, FINMA set a deadline of mid-2022 for providers to incorporate additional information into fund documentation of collective investment schemes designated as "sustainable". The product information required by FINMA includes information on the sustainability goals being pursued, planned method of implementation and intended impact. To improve transparency of the fund documentation and the implementation of appropriate risk management measures, FINMA carried out further sustainability-focused on-site supervisory reviews in 2022 with managers of occupational pension scheme assets and fund management companies. FINMA also performed spot checks on funds for which there were indications (e.g. in media reports) that investors were being deceived about their sustainable nature, and performed in-depth analysis of sustainability reporting by Swiss real estate funds.<sup>47</sup>

Moreover, FINMA analysed the first disclosures on climate-related financial risks that banks and insurance companies of supervisory categories 1 and 2 were required to include in their annual reporting for financial year 2021, in accordance with FINMA Circulars 2016/1 "Disclosure – banks" and 2016/02 "Disclosure – insurers". On 29 November 2022 the supervisory authority published a new Guidance 03/2022 on the implementation of climate-related risk disclosures by category 1–2 institutions that sets out the key findings from these disclosures.<sup>48</sup> Although transparency has improved, FINMA points out that in general the information disclosed does not give a clear picture of how relevant climate-related financial risks are for the individual institutions. As a result, the supervisory authority communicated areas for improvement: form of disclosure, governance structure, description of climate-related risks and impact, risk management, quantitative information, criteria and methods. FINMA will continue to review climate risk-related disclosures throughout 2023.

In its Guidance 01/2023 on developments in the management of climate risk of 23 January 2023, FINMA refers to relevant developments in the area of climate-related risk management. The Basel Committee on Banking Supervision (BCBS) and the International Association of Insurance Super-

visors (IAIS) expect banks and insurers to manage their climate risks effectively (i.e. in the same manner as applies to all other risks), which also includes the establishment of related governance, risk management and disclosure. FINMA expects the supervised financial institutions to engage proactively with the recommendations and guidance provided by international bodies, as well as with relevant best practices in the market, and to further develop tools and processes where necessary. FINMA announced that it will specify, where appropriate and necessary, what it expects from supervised institutions in terms of climate risk management.<sup>49</sup>

As a member since 2019 (with SNB) of the Network for Greening the Financial System (NGFS), FINMA has continued to participate in work with direct relevance for its supervisory practice on climate-related financial risks. The priority topics of NGFS include supervisory practices for managing climate-related risks, the design and analysis of climate scenarios, guidance for central banks on the transition to net zero and nature-related financial risks, such as risks relating to biodiversity loss.<sup>50</sup>

Based on these international developments and the revised CO<sub>2</sub> Act, FINMA announced that it would elaborate a new circular on environmental risk management which covers management of not only climate risks, but also risks of biodiversity loss. FINMA is expected to conduct a public consultation on a draft proposal by the end of 2023.

46 FINMA (2022), *Annual Report 2022*, p. 2. Available at: <https://www.finma.ch/en/news/2023/03/20230328-mm-geschaeftsbericht-2022/>, accessed 23/05/2023.

47 FINMA (2022), *Annual Report 2022*, pp. 39 and 55. Available at: <https://www.finma.ch/en/news/2023/03/20230328-mm-geschaeftsbericht-2022/>, accessed 23/05/2023.

48 FINMA (2022), *FINMA publishes guidance on climate risk disclosures*. Available at: <https://www.finma.ch/de/news/2022/11/20221129-meldung-am-03-22/>, accessed 23/05/2023.

49 FINMA (2023), *FINMA Guidance 01/2023: Developments in the management of climate risks*. Available at: <https://www.finma.ch/en/news/2023/01/20230124-meldung-am-01-2023/>, accessed 23/05/2023.

50 FINMA (2022), *Annual Report 2022*, p. 72 et seq. Available at: <https://www.finma.ch/en/news/2023/03/20230328-mm-geschaeftsbericht-2022/>, accessed 23/05/2023.



## Finance Associations

In the course of 2022, several finance associations published voluntary self-regulation guidelines and recommendations.

### Swiss Sustainable Finance (SSF)

In response to the strong interest expressed by its members, SSF worked with EY to publish the Practitioners' Guide on the Integration of Sustainability Preferences into the Advisory Process for Private Clients on 5 July 2022.<sup>51</sup> These non-binding recommendations address financial institutions that advise private clients. Within the financial institution, the recommendations are relevant for many different functions, especially client advisors, front office staff (e.g. specialist advisors), staff in support functions (e.g. training specialists), and staff with any other function related to designing, upgrading and implementing the client advisory process. The guide is categorised into five key areas linked to the client advisory process: 1) client onboarding process, 2) knowledgeable client advisors as a prerequisite for complying with information duties towards clients, 3) ensuring that clients' suitability preferences are matched with the financial instrument and service offering, 4) regular monitoring of product compliance and performance, and 5) frequency and content of client reporting.

### Asset Management Association Switzerland (AMAS)

According to the self-regulation on Transparency and Disclosure for Sustainability-related Collective Assets of 26 September 2022,<sup>52</sup> institutions that produce and manage sustainable financial products are subject to organisational, reporting and disclosure obligations at the institutional and product levels. These obligations are binding for members of AMAS. They will enter into force on 30 September 2023 with a transitional period until 30 September 2024 for submission to FINMA of the adapted fund regulations and prospectuses. This self-regulation is not recognised by FINMA as a minimum standard because FINMA has restricted inter alia competence to specify the content of prospectuses and other fund documents specified partially by the Financial Services Act (FinSA).

Together with SSF, AMAS published key messages and recommendations on sustainable asset management in 2020, followed by recommendations on transparency and minimum requirements for sustainable investment approaches and products in 2021. In view of these developments, AMAS published the environmental indicators for real estate funds by Circular 04/2022.<sup>53</sup> The environmental indicators are part of the voluntary self-regulation on sustainability of AMAS.

They are set out in a separate section of the specialist information fact sheet on the key figures of real estate funds and explained in detail in the appendix of Circular 04/2022.

### Swiss Bankers Association (SBA)

On June 2022, the SBA published Guidelines for financial service providers on the integration of ESG preferences and ESG risks into investment advice and portfolio management.<sup>54</sup> The guidelines build on the conduct rules of the FinSA and clarify the consideration of ESG criteria at the point of sale (investment advice and portfolio management). They are binding for financial service providers which are SBA members. The guidelines entered into force on 1 January 2023 (for transitional periods see Art. 18 of the guidelines). They are not recognised by FINMA as a minimum standard because the supervisory authority has no legal competence inter alia to specify the obligations for financial service providers provided by FinSA.

The Guidelines for mortgage providers on the promotion of energy efficiency of June 2022<sup>55</sup> address the provision of advisory services to private individuals by mortgage providers with regard to the financing of owner-occupied real estate. They set out mandatory content that must be discussed with customers during the consultation. The guidelines entered into force on 1 January 2023 (for transition periods see Art. 7 of the guidelines). On the same grounds as above, they are not recognised by FINMA as a minimum standard.

51 SSF/EY (2022), *Practitioners' Guide on the Integration of Sustainability Preferences into the Advisory Process for Private Clients*. Available at: [https://www.sustainablefinance.ch/upload/cms/user/2022\\_07\\_05\\_SSF\\_Practitioners\\_Guide\\_SI\\_in\\_Client\\_Avisory\\_single\\_pages.pdf](https://www.sustainablefinance.ch/upload/cms/user/2022_07_05_SSF_Practitioners_Guide_SI_in_Client_Avisory_single_pages.pdf), accessed 23/05/2023.

52 AMAS (2022), *Self-regulation on Transparency and Disclosure for Sustainability-related Collective Assets of 26 September 2022*. Available at: <https://www.am-switzerland.ch/en/regulierung/selbstregulierung-standard/sustainable-finance>, accessed 23/05/2023.

53 AMAS (2022), *Circular 04/2022*. Available at: <https://www.am-switzerland.ch/en/regulierung/selbstregulierung-standard/immobilienfonds>, accessed 23/05/2023.

54 SBA (2022), *Guidelines for financial service providers on the integration of ESG preferences and ESG risks into investment advice and portfolio management of June 2022*. Available at: [https://www.swissbanking.ch/\\_Resources/Persistent/a/5/e/o/a5e0845f065a60699d-f88910ae675b7082e69411/SBA\\_Guidelines\\_investment\\_advice\\_and\\_portfolio\\_management\\_EN.pdf](https://www.swissbanking.ch/_Resources/Persistent/a/5/e/o/a5e0845f065a60699d-f88910ae675b7082e69411/SBA_Guidelines_investment_advice_and_portfolio_management_EN.pdf), accessed 23/05/2023.

55 SBA (2022), *Guidelines for mortgage providers on the promotion of energy efficiency of June 2022*. Available at: [https://www.swissbanking.ch/\\_Resources/Persistent/c/b/b/3/cbb3619179bd238dca41328b2464a-f560a2c0f3a/SBA\\_Guidelines\\_mortgage\\_providers\\_on\\_the\\_promotion\\_of\\_energy\\_efficiency\\_EN.pdf](https://www.swissbanking.ch/_Resources/Persistent/c/b/b/3/cbb3619179bd238dca41328b2464a-f560a2c0f3a/SBA_Guidelines_mortgage_providers_on_the_promotion_of_energy_efficiency_EN.pdf), accessed 23/05/2023.

### Swiss Pension Fund Association (ASIP)

In July 2022, ASIP published the ESG Guidance for Swiss Pension Funds on how to consider ESG criteria in their investment decisions.<sup>56</sup> Later in the year, the non-binding recommendations ESG Reporting: Standards for Pension Funds of 13 December 2022 were added. While the former provides general guidance on how to implement a sustainable investment policy, the latter has as their objective to increase transparency of pension funds on how they implement ESG criteria into their investment process.<sup>57</sup> The ESG reporting standard includes qualitative and quantitative disclosure recommendations and entered into force on 1 January 2023.

### Conclusion

As mentioned, the Swiss government reconfirmed the ambition to strengthen and promote Switzerland as a leader for sustainable financial services. In 2022 and 2023, the Swiss regulators' activities (Parliament, Federal Council and FINMA) and those of the finance associations regarding soft law on sustainable finance were intensified. However, the Swiss regulatory landscape remains fragmented overall and offers no binding sustainability-related regulatory provisions that apply to institutions and products across all parts of the financial sector. To create a level playing field and a uniform understanding of sustainability-related services and products, principle-based rules focusing on sustainability-specific transparency and reporting obligations would be important. Overarching principle-based rules would also help protect investors and ensure the international competitiveness and reputation of the Swiss financial centre, thereby supporting Swiss ambition to be a leader in this field.

## Developments in the European Union

Over the past year the EU has pursued its sustainable finance ambitions through new regulations whose effects stretch far beyond EU borders. All EU actions and policies related to sustainable finance that exist today aim to contribute to the objectives of the European Green Deal, which was presented by the EU Commission in December 2019. The EU has 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. The EU sustainable finance 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 2022 and 2023.

### EU Taxonomy Regulation

The EU Taxonomy Regulation (TR) is one of the key 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. An economic activity can be classified as "sustainable" if it makes a substantial contribution to at least one environmental objective, does no significant harm (DNSH) to any other environmental objective and complies with minimum social safeguards and the technical screening criteria.

The principal goal of the TR is to create a collective understanding of sustainability and thereby help prevent greenwashing.

There are several delegated acts to supplement the TR (see Figure 45). The Climate Delegated Act (CDA) addresses the first two objectives<sup>58</sup> of the TR and has been applicable since January 2022. It 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. In addition, the Complementary Climate Delegated Act (CCDA) entered into force in July 2022

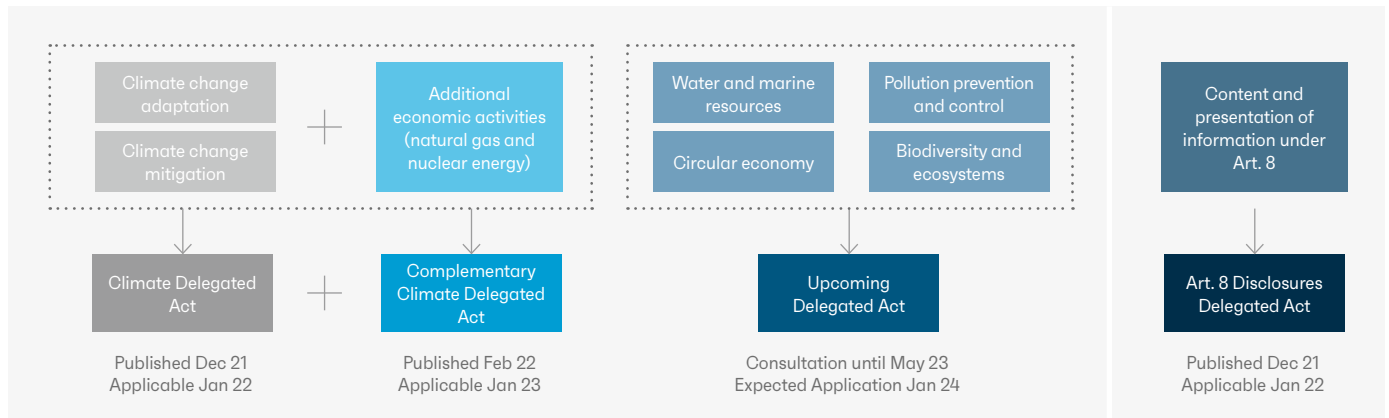
<sup>56</sup> ASIP (2022), *ESG Guidance for Swiss Pension Funds of July 2022*. Available at: <https://www.asip.ch/de/verband/standpunkte/>, accessed 23/05/2023.

<sup>57</sup> ASIP (2022), *ESG Reporting: Standards for Pension Funds of 13 December 2022 (Recommendations)*. Available at: <https://www.asip.ch/de/verband/standpunkte/>, accessed 23/05/2023.

<sup>58</sup> Climate change mitigation and climate change adaptation.



Figure 45: EU Taxonomy Regulation – Delegated Acts



and became applicable in January 2023. It amends the CDA and includes nuclear energy and natural gas as transitional activities. The Article 8 Disclosures Delegated Act, which specifies how to comply with the disclosure requirements under Article 8 TR, has also been applicable since January 2022. On 5 April 2023, the Commission launched a consultation on its draft of the long-awaited delegated act for the four remaining taxonomy objectives. At the same time, the Commission consulted on a draft amendment to the existing TSC for the first two environmental objectives, namely climate change mitigation and climate change adaptation.

### Sustainability-related disclosure requirements

The TR, the Corporate Sustainability Reporting Directive (CSRD)<sup>59</sup> and the Sustainable Finance Disclosure Regulation (SFDR) introduce sustainability-related disclosure requirements.

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 may be subject to a reporting obligation under all three frameworks. 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<sup>60</sup>, it must 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 below.

At the entity level: The CSRD aims to ensure there is adequate, publicly available information on the sustainability risks that companies are exposed to. The directive also aims to ensure that adequate information is available on companies' impact on people and the environment (i.e. "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 advisors 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 material negative impacts of its underlying investments on sustainability factors to prepare a principal adverse impacts (PAI) statement.

59 The CSRD entered into force on 5 January 2023. It amends the Non-Financial Reporting Directive (NFRD).

60 SFDR applies to financial market participants and financial advisers.

Furthermore, the TR also interacts with the CSRD because it requires companies within the scope of the CSRD to disclose indicators that provide information about the extent to which their activities are environmentally sustainable.

At the financial-product level: The SFDR also introduced several rules at the financial-product level; most were applicable as from 10 March 2021<sup>61</sup> on a principle basis (level 1). These rules are applicable for financial products' pre-contractual disclosures, websites and periodic disclosures. The disclosures must provide information on a product's integration of sustainability risks (Art. 6), its promotion of environmental and/or social characteristics (Art. 8), or the sustainable investments it makes (Art. 9) in order to clearly communicate the sustainability commitment of each financial product. Moreover, products without any sustainability feature must update their pre-contractual disclosures to explain why sustainability risks are not relevant to them (Art. 6). On 6 April 2022, the EU Commission 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 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 investment contributes to, as well as the extent to which the economic activities the product invests in are aligned with the taxonomy. The 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 have been applicable since 1 January 2023.

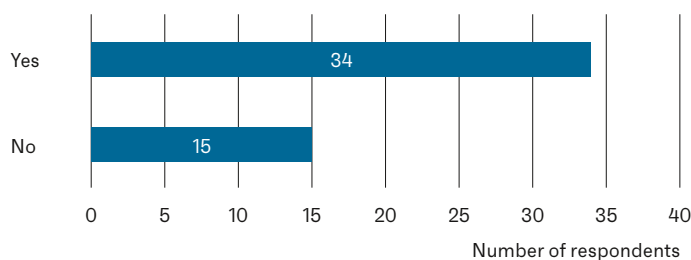
### Latest SFDR and CSRD Developments

To acknowledge some of the concrete implementation issues of SFDR, the EU Commission mandated the ESAs to review and propose amendments to the RTS under the SFDR. The ESAs published a joint consultation on the review of the SFDR Delegated Regulation on 12 April 2023. The consultation focuses on extending the list of social principal adverse impact (PAI) indications and refining the contents of other indicators. In addition, the ESAs also consult on 1) the improvement to disclosures related to how sustainable investments do not significantly harm environmental or social objectives, 2) simplifications of the pre-contractual and periodic documents' disclosure templates, and 3) technical adjustment on e.g. the treatment of derivatives or definition of equivalent information. The deadline for comments is 4 July 2023. On 9 June 2023, the European Commission published the draft Delegated Act laying down the contents of the first set of European Sustainability Reporting Standards (ESRS) as required by the CSRD adopted in December 2022. The Delegated Act and its Annexes are available for public consultation until 7 July 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 in August 2021. Most of the sustainability-related amendments became applicable as from August 2022.<sup>62</sup> Under the MiFID II framework, firms providing investment advice and portfolio management must ask clients or potential clients about their sustainability preferences during suitability assessments. Investment firms which manufacture and distribute financial instruments will have to determine whether each financial instrument is consistent with the sustainability-related objectives of the target market since 22 November 2022.<sup>63</sup>

Figure 46: Organisation under legal obligation to implement the EU sustainable finance regulation (in number of respondents) (n=49)

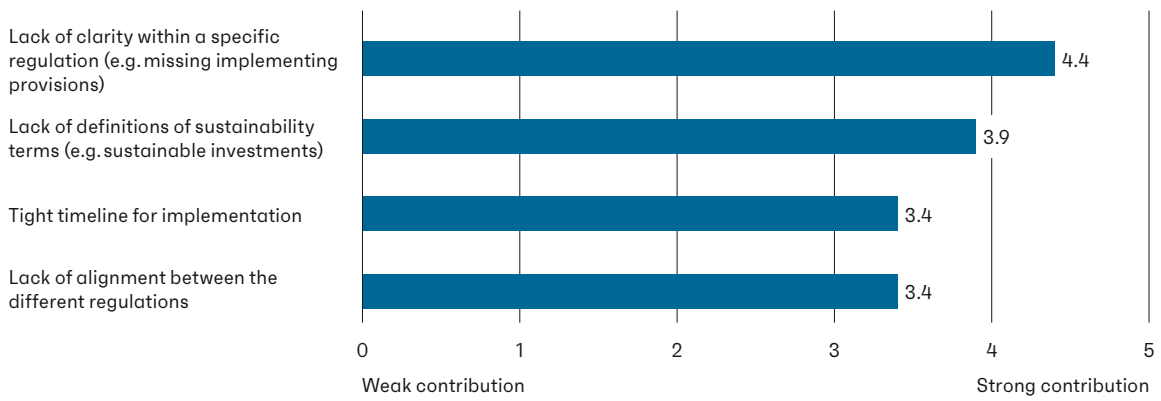


61 Article 11, which regulates products' periodic disclosures, has been applicable since 1 January 2022. Article 7, which regulates PAI disclosure at the product level, became applicable on 30 December 2022.

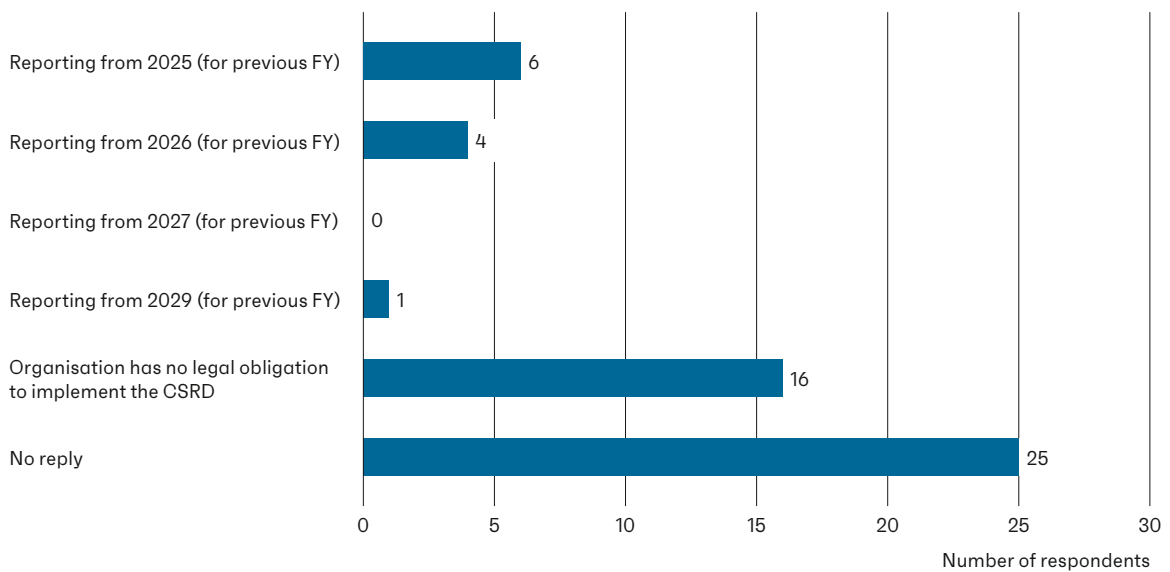
62 The only exception to the August 2022 applicability is Commission Delegated Directive 2021/1269, which was adopted under MiFID II. It requires EU member states to amend their national laws by 21 August 2022 to ensure that the amendments will apply from 22 November 2022.

63 The only exception to the August 2022 applicability is Commission Delegated Directive 2021/1269, which was adopted under MiFID 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.

**Figure 47: Assessment of contributing factors hindering implementation of EU regulations**  
(in level of contribution) (n=34)



**Figure 48: Relevant timelines for obligatory CSRD reporting**  
(in number of respondents) (n=52)



### Impact on Swiss financial institutions

The rapidly evolving regulatory landscape holds great significance for Swiss financial institutions that conduct activities in the EU or that have European clients. As Figure 46 shows, two thirds of bank and asset manager respondents indicate that they have a legal obligation to implement the EU sustainable finance regulation. This leaves approximately one-third (mostly cantonal banks) which do not face this legal obligation. Of those who indicate they are under the legal obligation to implement the EU regulation, the main perceived issues

that contribute to the difficulty in implementation include a lack of clarity and lack of definitions (see Figure 47). Other indicated barriers were data availability/coverage, constant updates requiring adaptations, and specification letters from EU authorities resulting from lack of clarity and definitions provided by the EU regulation.

It is important to note that the CSRD applies to all companies and/or groups based in the EU, regardless of the origin or domicile of the parent company. The timeline of application for the reporting obligation depends on the company's size as well as its net turnover and total assets. By financial year 2028 at the latest, companies based in the EU will have to report even on the activities of the non-EU parent (e.g. Swiss parent company) if certain complementary conditions are to be fulfilled. According to Figure 48, only a minority of banks and asset managers see themselves as subject to the reporting requirements. Yet the fact that 25 companies did not answer the question may indicate that the market is still analysing the extraterritorial effects of the CSRD.

## Conclusion

The constantly evolving sustainable finance regulation of the EU is part of its package of measures to build a green economy and to establish international standards. However, due to the strong links between the TR, SFDR and CSRD, companies are currently facing many challenges to fulfil the disclosure and reporting obligations under these regulations. Regarding the SFDR, there are fundamental issues with the provisions in the level 1 text of the regulation. In particular, the definition of "sustainable investment" provided by Article 2 (17) is vague and open to differing interpretations. Also, in practice, Article 8 and 9 products are used as product labels (instead of disclosure requirements) without clear criteria for product classification. Financial market participants are also struggling to satisfy the requirements associated with Article 9 funds, which lead to multiple "downgrades" to Article 8 or 6 products. Regarding the TR, there are strong delays in the final adoption of the delegated acts providing technical screening criteria (TSC) that are required to assess taxonomy alignment of economic activities. The lack of reliable data on taxonomy alignment of investee companies renders disclosures at product level under SFDR very difficult. Regarding the interaction of TR and SFDR with MiFID II, the fact that data on PAIs and taxonomy alignment of investee companies is not yet readily available leads to considerable challenges. Yet regardless of the expected difficulties in implementing these rules, the regulation has sent a strong signal to the market to address the topic of sustainability and set in motion continuous improvement on transparency.

## International developments

### Intergovernmental and industry-led initiatives

Disclosure requirements also play a significant role internationally. The Taskforce on Nature-related Financial Disclosures (TNFD), 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 is developing a risk management and disclosure framework for organisations to report and act on evolving nature-related risks.<sup>64</sup> In 2022 and 2023, the TNFD has published four beta versions of its framework. As part of the TNFD Forum, SSF, in collaboration with the UN Global Compact Network Switzerland & Liechtenstein (GCNSL), set up a Swiss consultation group in October 2022 which provides feedback on these beta versions. The final TNFD framework will be published by autumn 2023.

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 (SDS) that meet the information needs of investors. The ISSB builds 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). By the end of June 2023, the final versions regarding the general requirements for disclosure of sustainability-related financial information and climate-related disclosure will be released.

Finally, a number of sector-specific climate alliances united in the GFANZ initiative continue to encourage private-sector actors to make net zero pledges, publicly communicate them and report on their quantitative progress towards meeting them on an annual basis.

<sup>64</sup> TNFD (2022), *The TNFD Framework, FAQ*. Available at: <https://tnfd.global/the-tnfd-framework/faq/>, accessed 24/05/2023.

### 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.<sup>65</sup> The document explains how the government will implement the new Sustainability Disclosure Requirements (SDR) for businesses and asset managers. It also provides details on the UK's Green Taxonomy. In October 2022, the Financial Conduct Authority (FCA) published a consultation paper (CP22/20)<sup>66</sup> for a new sustainability disclosure and investment labelling regime: package of proposals for sustainable investment labels, consumer-facing product-level disclosure, detailed pre-contractual disclosures, ongoing reporting, entity level disclosures, naming and marketing rules, anti-greenwashing rule and requirements for distributors. According to the FCA, without common standards, clear terminology and accessible product classification and labelling, there is a risk that consumers will find it difficult to navigate the landscape of products and to assess product suitability.<sup>67</sup> The FCA aims to publish a policy statement in the second half of 2023.

An important development regarding climate-related financial risks also took place in the United States (US). On March 2022, the Securities and Exchange Commission (SEC) proposed rules to enhance and standardise climate-related disclosure for investors.<sup>68</sup> Drawing from the TCFD framework, the rules would require a domestic or foreign registrant to include certain climate-related information in its registration statements and periodic report (e.g. climate-related risks and their actual or likely material impacts on the registrant's business, strategy; and outlook, governance and risk processes, greenhouse gas emissions, certain climate-related financial statement metrics and related disclosures, as well as information about climate-related targets, goals and transition plan, if any).

65 HM Treasury (2021) *Greening Finance: A Roadmap to Sustainable Investing*. Available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1031805/CCSo821102722-006\\_Green\\_Finance\\_Paper\\_2021\\_v6\\_Web\\_Accessible.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1031805/CCSo821102722-006_Green_Finance_Paper_2021_v6_Web_Accessible.pdf), accessed 24/05/2023.

66 FCA (2022), *Sustainability Disclosure Requirement (SDR) and investment labels, Consultation Paper, CP22/20*\*\*\*, October 2022. Available at: <https://www.fca.org.uk/publication/consultation/cp22-20.pdf>, accessed 24/05/2023.

67 FCA (2022); *Sustainability Disclosure Requirements (SDR) and investment labels, Discussion Paper (DP21/4)*, November 2021. Available at: <https://www.fca.org.uk/publication/discussion/dp21-4.pdf>, accessed 24/05/2023.

68 SEC (2022), *SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors*. Available at: <https://www.sec.gov/news/press-release/2022-46>, accessed 24/05/2023.

# Sponsor Contributions

# Blended Finance to promote real-world change

Leticia Ferreras Astorqui,  
Senior Portfolio Manager, Development Finance, Allianz Global Investors

It is estimated that an additional \$4.2Tr of annual investment is needed in Emerging Markets (EM) to achieve the UN Sustainable Development Goals (SDGs). Commercial investors have capital that is vitally needed for this endeavour, but often have limited appetite for sub-investment grade risk and are concerned about political & macroeconomic risks in EM. Blended Finance can be a solution to attracting commercial investors to these markets.

Blended Finance focuses on structuring risk-tiered vehicles where commercial capital ranks senior to the publicly funded junior tier that absorbs the first losses. Thereby commercial investors' risk is akin to that of investment grade. These vehicles often co-invest alongside Development Finance Institutions (DFIs) in high impact projects in EM, creating diversified underlying portfolios. Political & macroeconomic risks are mitigated through DFI partnerships given their local presence, strong track record and robust ESG & impact standards.

## Partnering for sustainable development

At Allianz Global Investors we believe it is through partnerships that we can achieve the SDGs by 2030. Therefore, we bring the public, philanthropic and private sectors together and draw on their expertise while also addressing their top priorities.



## Benefits of Blended Finance for Investors:

- A new asset class with uncorrelated returns: Historically, these investments have yielded stable returns, with low correlation to public EM bond indices,
- Attractive risk-return profile: By blending public and commercial capital in risk-tiered structures, an attractive risk-return profile for all stakeholders may be achieved,
- Scalable investment: The existing funding gap is significant – Blended Finance allows commercial investors to allocate significant amount of capital in sizable vehicles.

Blended Finance can target specific themes such as climate solutions, to bring the capital where it's most needed. Partnering with the public sector is key for sustainable impact given DFIs' strong focus on ESG safeguarding and strict impact targets.

## Conclusion

At Allianz Global Investors we have been active in Blended Finance since 2015 and aim to provide attractive investment solutions to our clients while contributing towards a more sustainable future.

### Investing involves risk.

The value of an investment and the income from it may fall as well as rise and investors might not get back the full amount invested. This is a marketing communication issued by Allianz Global Investors (Schweiz) AG, a 100% subsidiary of Allianz Global Investors GmbH. The Summary of Investor Rights is available in English, French, German, Italian and Spanish at <https://regulatory.allianzgi.com/en/investors-rights.03/2023#2782900>

Scan to see more





# “Just Transition” in practice

Veronika Giusti-Keller,  
Head of Impact Management

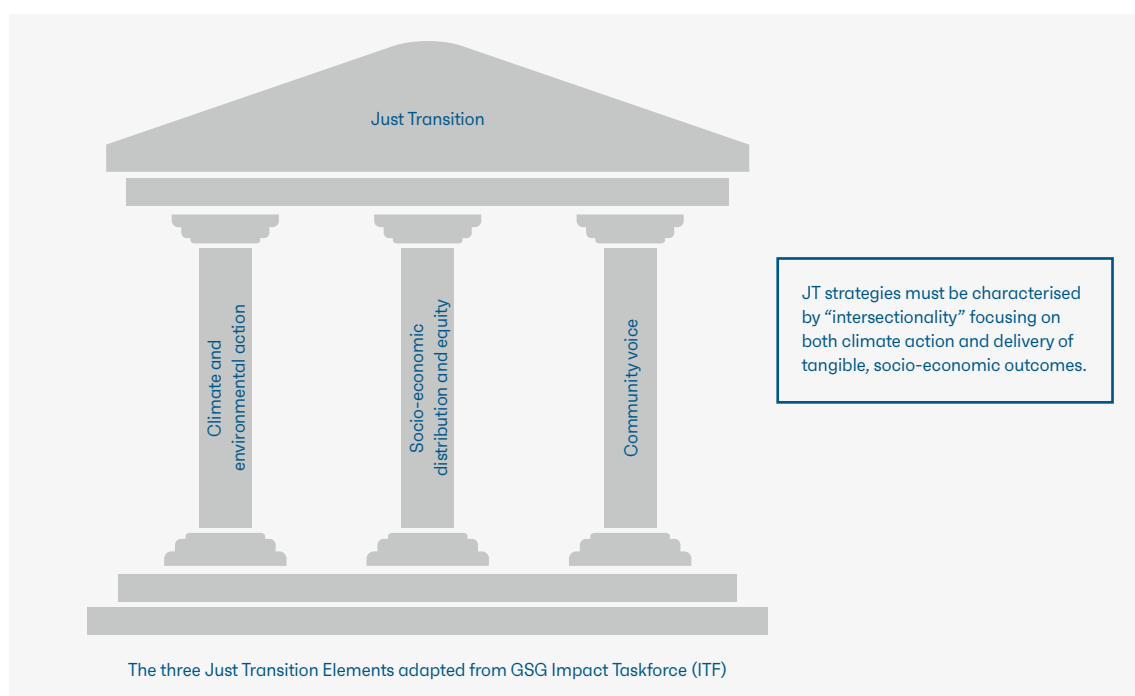
While we understand the urgency to address climate change through investments in decarbonisation, natural capital, and climate adaptation, we must also acknowledge that this targeted transition to a net-zero economy comes with huge socio-economic consequences. Both climate change itself, but also mitigation and adaptation measures, affect people differently, disproportionately and impose high costs that cannot be borne by the poorer groups in our society. We must therefore aim for systemic changes that are fair and equitable across the board, a so called “Just Transition” (JT).

Investment in the climate finance sector plays a major role in this context, with impact investors increasingly viewing climate investments from an “inclusion” perspective. Thus far, various publications, particularly the G7 Impact Taskforce’s report on Capital Mobilization for Just Transition, have been influential in setting guidelines and strategies for a JT.

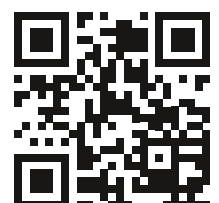
The InsuResilience Investment strategy aims to reduce the vulnerability of micro, small, and medium-sized enterprises (MSMEs) and low-income households to extreme weather events. The strategy executes on this objective by

supporting development and distribution of insurance solutions that help poor and vulnerable people recover faster in the face of climate-related losses. The strategy reflects the three core pillars of a JT in the following ways:

1. Climate action: contributing to climate adaptation through investments that increase climate insurance coverage for poor and vulnerable populations and MSMEs.
2. Socio-economic development: reaching specifically vulnerable populations, increasing resilience and security in case of financial stress associated with negative climate events.
3. Community voice: considering the specific needs and limitations of end beneficiaries in vulnerable economic segments while developing climate insurance products. Considerable work remains to be done, as asset and impact managers explore the optimal standards, guidelines, and financing structures for an efficient and effective JT. Community voice is a top priority in making JT more effective.



Scan to see more





# Switzerland's climate targets

Fabio Pellizzari, Head of ESG Strategy, Asset Management at Zürcher Kantonbank  
 Samuel Manser, Senior Portfolio Manager

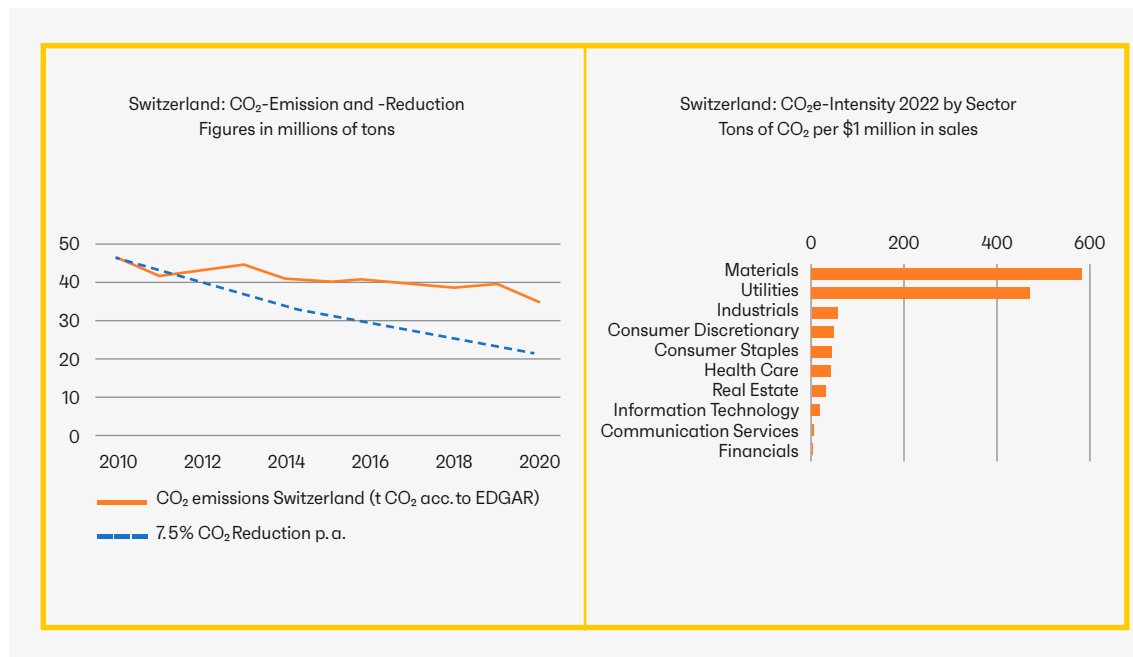
## Is Switzerland on track to achieve the climate targets set by the Federal Council in 2030 and 2050?

The "CO<sub>2</sub> reduction" chart (below) shows that the direction is right – emissions are actually decreasing (orange line). However, the rate of decline from 2010 to 2020 would not be sufficient to achieve the 2030 interim targets of the 1.5-degree Paris Agreement in the future. The blue dashed line illustrates the 7.5% reduction needed in the future for a 1.5-degree target. The reduction achieved was only 2.7% p.a. between 2010 and 2020. Both the Swiss economy and companies operating in Switzerland are still a long way from the necessary reduction.

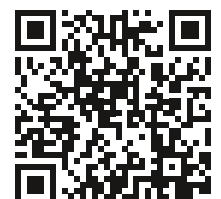
## Will it be possible to switch to the more ambitious reduction path of 7.5% p.a.?

We believe there are some reasons for optimism, but it is important to remain realistic given the complexity of the task in terms of cost and time. We could expect concrete progress

from those companies that have committed to SBT (Science Based Targets) as part of their strategy or even those that already have targets validated by the SBTi and are pursuing them. Of a total of 233 listed Swiss companies, 87 reported CO<sub>2</sub> figures (Scope 1 and 2), 20 set targets with the SBTi, including Holcim, ABB, Clariant and Nestlé, and 21 others made a commitment, including Swiss Steel, Vetropack and Sika. These 41 companies, which, under the leadership of SBTi, are going or intending to go down the carbon reduction path for the climate, account for 45% of the aggregated Swiss CO<sub>2</sub>e intensity of the listed universe. That is why we think a touch of optimism is justified. Zürcher Kantonbank's Asset Management is continuously committed to an ambitious approach within the framework of the SBTi as part of its ESG dialogues with companies ("engagement").



Scan to see how we reduce the CO<sub>2</sub>e intensity of our actively managed funds



# Investing in Emerging Markets: The Importance of Alignment with UN Sustainable Development Goals

Jonathan Davis, Sustainable Investing Strategist, Emerging Markets Fixed Income

At PineBridge, we aim to balance sustainability with our fiduciary responsibility to clients to optimize capital preservation and investment returns.

Within emerging markets (EM), there is a need to further balance global environmental needs with the economic and industrial needs of the region, which represents roughly 85%<sup>1</sup> of the world's population, much of which lives below Western poverty standards. The issue of climate change is universal, and nearly all the world's governments have made commitments to limit global warming and mitigate its impacts. However, to ensure a just transition to a net-zero global economy, investment must also consider the roughly one of eight people<sup>1</sup> living in EM without access to reliable electricity, help finance sustainable infrastructure and industry in EM, and ensure that communities dependent on revenue from fossil fuels can adapt and participate in the new global economy.

The UN's Sustainable Development Goals (SDGs) were adopted by all United Nations member states in September 2015 as part of the organization's 2030 Agenda for Sustainable Development and provide an established framework for best practices in sustainable investment. They provide a framework of 17 goals for countries and multinational organizations to pursue, ranging from ending poverty and hunger to taking climate action and protecting life on land and in the water.

As corporate bond investors, our objective in promoting SDGs focuses on those goals for which corporate actions are measurable and the contributions can be meaningful: specifically, SDG 8, Decent Work and Economic Growth; SDG 9, Industry, Innovation and Infrastructure; SDG 12, Responsible Consumption and Production; and SDG 13, Climate Action. These SDGs also help us maintain a balanced view of sustainability issues.

**Disclaimer**

Investing involves risk, including possible loss of principal. The information presented herein is for illustrative purposes only and should not be considered reflective of any particular security, strategy, or investment product. PineBridge Investments is not soliciting or recommending any action based on information in this document. Any opinions, projections, or forward-looking statements expressed herein are solely those of the author, may differ from the views or opinions expressed by other areas of PineBridge Investments, and are only for general informational purposes as of the date indicated.



1 Source: World Bank as of 30 September 2022. We are not soliciting or recommending any action based on this material. Any opinions, projections, estimates, forecasts and forward-looking statements presented herein are valid only as of the date of this presentation and are subject to change. For illustrative purposes only.

Scan to see more



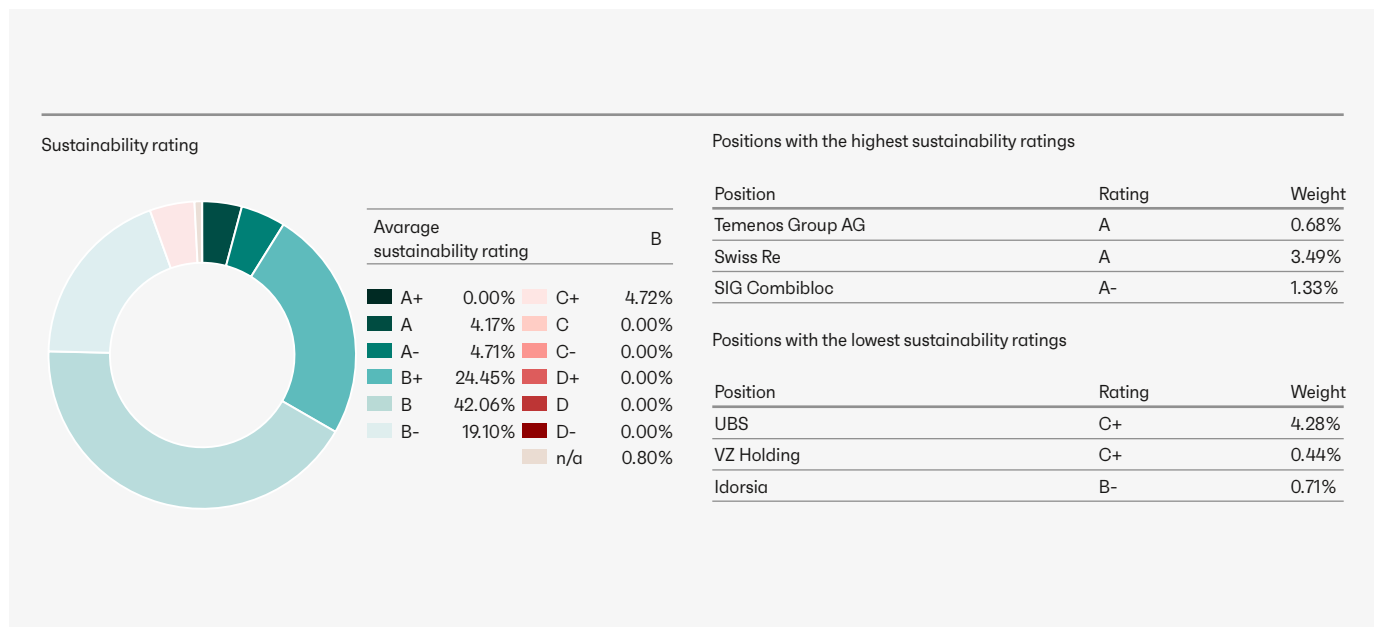
# Transparency – the key to countering greenwashing

Erol Bilecen, Head of the Sustainability Competence Centre Pension & Investments, Raiffeisen Switzerland

Following the EU, Switzerland has recently also set out the characteristics that sustainable investments must have. This principle-oriented approach will provide a framework, but the content will be defined by the providers of these products. In that respect, one sustainable investment is not always the same as the next sustainable investment. And that’s fine, because even if a large majority of the Swiss are interested in strict compliance with environmental, social and governance criteria, there is of course a wide range of individual perceptions and goals. That can probably be seen most clearly in the Sustainable Development Goals (SDG) of the United Nations. Even if SDG no. 13 (Climate Action) is the omnipresent “star”, some investors are also interested in SDG no. 1 (No Poverty), for example, while others put specific emphasis on Life Below Water (SDG no. 14).

First and foremost, investors want to achieve a reasonable return. But those who invest sustainably also have the opportunity to define additional points of emphasis. For that

to succeed, investors need information about the consequences of their investment decisions. At the end of 2022, Raiffeisen met this client requirement by adding a sustainability reporting to the investment account statements and fact sheets of the Futura funds. Because sustainability is a multi-layered concept, a variety of perspectives were included: firstly, a portfolio view based on the indicators sustainability ratings, greenhouse gas emissions, controversies and the contributions of the portfolio companies to the 17 SDGs. Secondly, a supplementing, more granular view with a list of “top and flop” investments, so that investors can better assess the respective contributions and identify courses of action. We are convinced that this type of transparent, differentiated sustainability reporting is the right way to enable our clients to make conscious investment decisions.



**Source:** Extract from the sustainability reporting of a Raiffeisen Futura investment fund  
 This ESG report is produced by yourSRI, a brand of FE fundinfo (Liechtenstein)

Scan to see more



# Investment opportunities in transition infrastructure

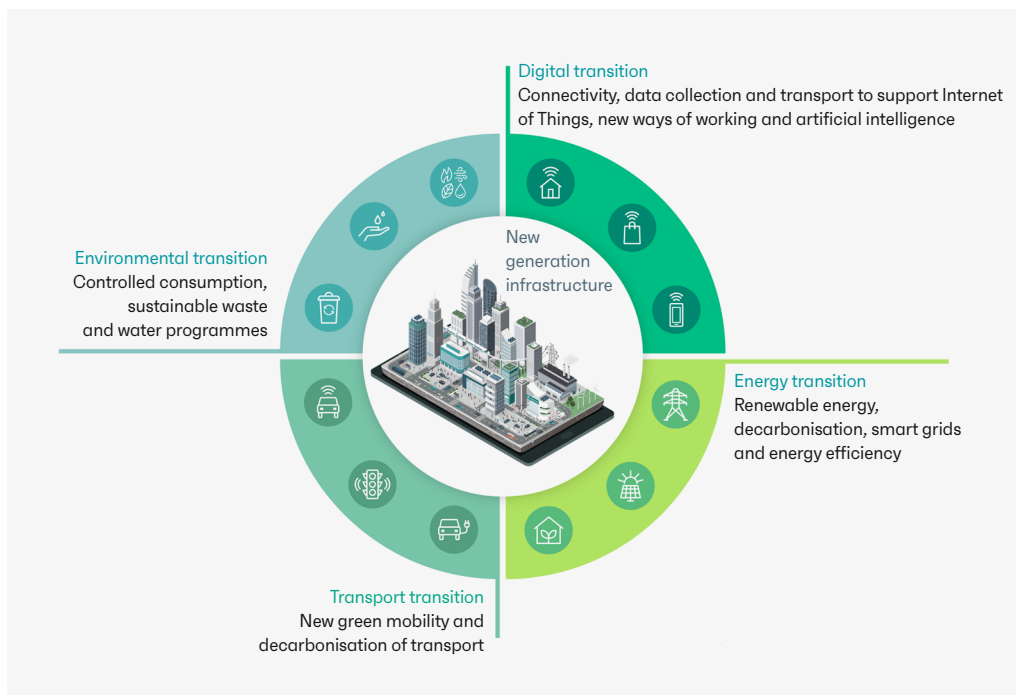
Charlotte Dewynter,  
Head of Infrastructure, Private Markets Group, Union Bancaire Privée

With the construction and operation of infrastructure accounting for 79% of global emissions<sup>1</sup>, climate change, alongside resource scarcity, population growth and urbanisation, is driving the shift to greener, smarter, and socially inclusive infrastructure assets.

Three principal transitions must occur, all closely interrelated and each offering significant investment opportunities.

1. **Energy and environmental:** Energy demand is expected to increase by 30% by 2045<sup>2</sup>. With net-zero targets announced or considered by 140 countries accounting for 90% of global emissions<sup>3</sup>, clean energy will be critical. Some USD 30 tn must be invested in the energy transition infrastructure by 2040<sup>4</sup>, mostly in wind and solar capacities, storage and transmission facilities, grid improvement, other clean energies like green hydrogen, and above all energy efficiency. The decarbonisation of the economy will also require massive investments in industry, district heating and cooling, construction sectors, and water and waste management.
2. **New mobility:** Demand for decarbonised transport is rising. The EU is aiming for a 90% reduction in transport-related emissions by 2050 and has banned the sale of new fossil fuel cars from 2035. Huge investments are required in the electrification of transports, charging stations, urban mobility, traffic management and public transportation, as well as in greener heavy transportation.
3. **Digital:** Digitalisation has enhanced the essential nature of connectivity. Remote working, IoT, AI, cloud computing, and smart cities are increasing the need for wireless connectivity, fibre optics, 5G, and data centres to face huge demand for data transport and storage.

Overall, the transition to a green, circular, and more inclusive economy offers ample opportunities for investments in new-generation infrastructure, supported by public incentives, new regulations, private capital and citizen initiatives.



- 1 Source: Infrastructure for climate action. UNOPS 2021
- 2 Source: Infrastructure 2022 Market Outlook. Carlyle, December 2021
- 3 Source: Climate Action Tracker: climateactiontracker.org/global/cat-net-zero-target-evaluations
- 4 Source: The Shift to Clean Energy. Goldman Sachs. 2019.

Scan to see more





# High yield's Evolution From "Junk" to "Sustainability"

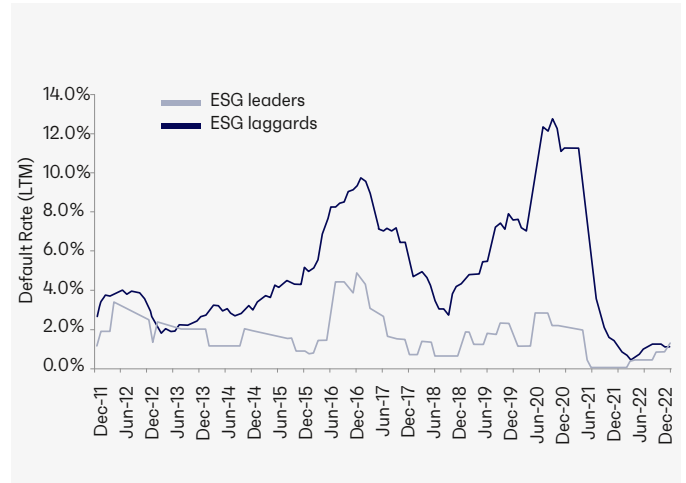
Wernhard Kublun,  
Fixed Income Senior Investment Specialist Bank J. Safra Sarasin

High yield bonds are also commonly known as "junk" bonds. But this term misrepresents a market that has evolved significantly since its early days. Today, many of these "junk" bonds are issued by high quality companies with robust business models and sound financial management.

In the next phase of high yield's evolution, sustainability will play a key role. Combining sustainability with high yield investing helps to mitigate risks (e.g. environmental, reputational and governance) that are typically underestimated. Therefore, it is not surprising that high yield ESG leaders have defaulted less frequently than laggards.

Our ESG research also provides insights that help to identify companies with a more sustainable growth path and stronger governance. Integrating sustainability with fundamental credit analysis results in an effective and powerful risk mitigation and credit selection tool.

Sustainable issuers have defaulted less frequently than the rest of the market



Source: Bloomberg, BofA ML, Bank J. Safra Sarasin Ltd. own calculations. All data as of 31.12.2022. Past default rates do not provide a reliable indication of current or future default rates. ESG leaders refers to issuers rated JSS ESG A, according to our ESG investing approach. ESG laggards refers to the rest of the investment universe, using the ICE BofA US HY index as a proxy.



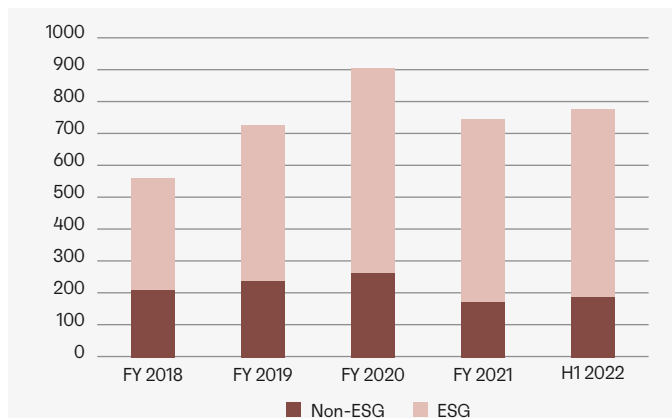
Scan to see more



## Effecting change through active ownership

Schaufelberger,  
Marie-Laure, Head of Group ESG and Stewardship, Pictet

Investor activism on the rise  
Activity in H1 2022 already exceeds that for the entire FY 2021



Source: S&P Capital IQ data as of July 1, 2022.

Scan to see more



Many large investors can add the most value in the transition to a sustainable and more resilient economy through active ownership. Today, 90% of the economy must transition from brown to green. This will require existing companies and states to adopt environmentally-friendly solutions. This transition also generates important social and governance challenges, which investors must address by engaging with companies exposed to the related risks and opportunities. Beyond proxy voting, engagement with corporate management, sovereign issuers and asset owners provides a direct channel for investors to influence management decisions. This can be done both bilaterally and collectively with other investors, through initiatives like Climate Action 100+ and the Valuing Water Finance Initiative, for example. Conversely, excluding or selling laggards from portfolios has limited net negative effect on the real economy.

# Market Study Offshore Wind. Switzerland sets sail: Swiss investors and the growth of offshore wind in Europe

Tobias Griesshaber,  
Co-head of Investments

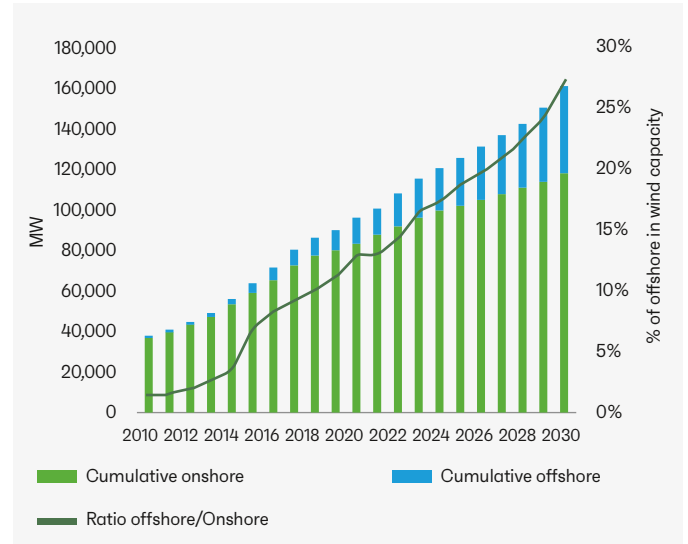
Swiss investors may not think of offshore wind very often: The country has neither coastline nor a considerable number of wind turbines.

And yet considering the critical contribution of offshore wind to the European energy transition and the sheer scale of the opportunity, Swiss institutional investors have the opportunity to make an impact.

Offshore wind installations are on track to see ten-fold growth by 2035 globally, reaching capacity of some 519 gigawatts at the end of 2035, according to Bloomberg New Energy Finance (BNEF). That's almost 23 times Switzerland's current installed capacity.

Strong and steady winds at sea and robust government support are fueling the buildout – not to mention the limited opposition from locals, especially given that turbines are increasingly designed to operate far from the shoreline. They are also becoming more powerful too: Industry experts expect that offshore turbines could one day grow to reach 35 megawatts, featuring blades that are almost 159 meters long, over half the height of the Eiffel Tower.

Wind power increasingly offshore plays a critical role in Europe's future energy mix  
European onshore/offshore capacity mix 2010–2030

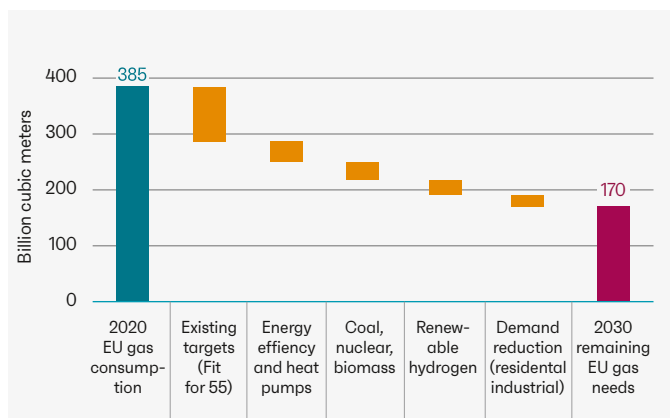


Scan to see more

Source: Wood Mackenzie.

## EU plan to reduce Russian gas imports

- Europe is planning to increase annual installed renewable energy capacity 2.5x
- Annual wind additions (GW) to increase 3.5x
- Annual solar additions (GW) to increase 2.0x



Scan to see more

Source: Bloomberg, European Commission, EIA.

## ROBECO The Investment Engineers

### Energy security – the decarbonization accelerator

Roman Boner, Portfolio Manager Smart Energy, Robeco  
Michael Studer, Co-Portfolio Manager Smart Energy, Robeco

The need for more energy security and the rising carbon price are incentivizing investments in renewable energy, energy efficiency, and electrification. Policy support globally is likely to remain strong, with the latest IPCC climate report calling for more and earlier action. The rising carbon price and a clearer regulatory framework give greater incentive and confidence to corporates and governments to invest in decarbonization sooner rather than later. The EU's REPower plan should give Europe the necessary regulatory support to decarbonize and become more energy independent. Europe aims to increase its annual installed renewable energy capacity by 2.5.

To remain on track on the net-zero roadmap, the IEA estimates that the annual installation of renewable energy generation capacity needs to quadruple in this decade.



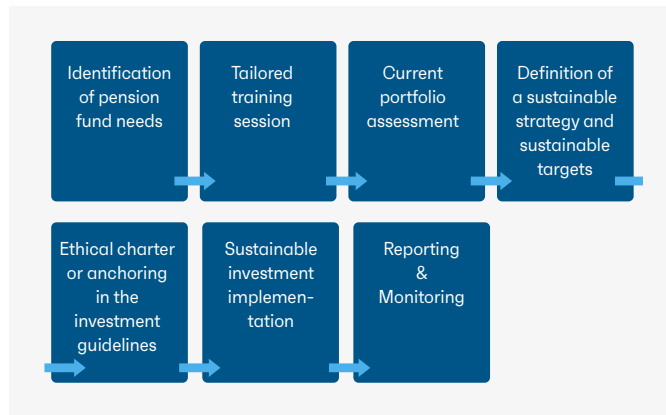
# Sustainability challenges for pension funds

Leila Khammari,  
CAIA Head of Corporate Engagement & Financial Products Analyst

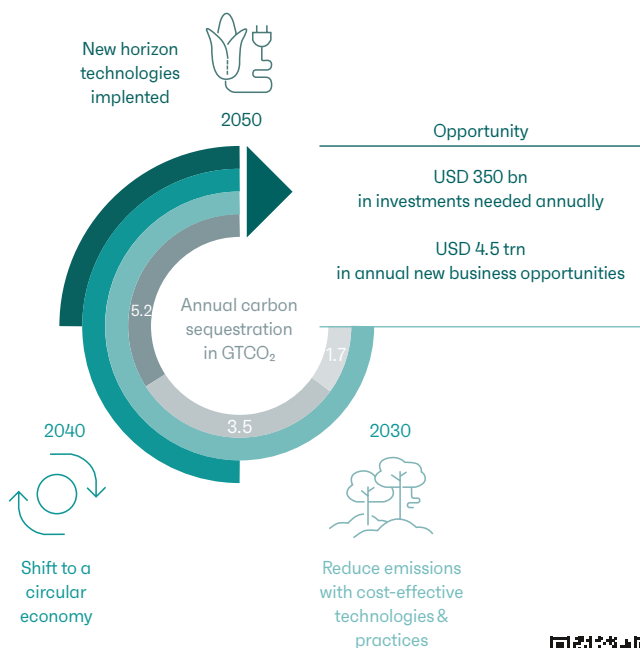
ESG considerations are seen as an essential aspect by most pension funds. Many factors encouraged their adoption (see graph) but we see that those who did not yet take a first step, find themselves facing a series of major challenges:

- Lack of standards: several initiatives help to define steps to follow in order to select the right strategy.
- Portfolio coverage: Once managers have understood opportunities around the topic and integrated sustainable strategies, the question of how much of the portfolio this is applicable to arises.
- Concerns of costs: additional costs will be present, but ESG data will allow a better risk and valuation assessment of investments.
- A lack of knowledge: some programs have created training sessions to plug knowledge gaps and make participants familiar with the topic.
- Type of reporting: Some initiatives (ex. ASIP) have published recommendations highlighting the most relevant information to report.

Steps of implementation for a sustainable strategy



Roadmap for achieving net-zero emissions in global food systems by 2050



## Investing to transform global food systems

responsAbility Investments AG

Global food systems account for nearly 35% of global GHG emissions. responsAbility and scientists from CGIAR developed a decarbonization roadmap built on science-based targets:

**By 2030:** Cost effective technologies and practices such as regenerative agriculture are implemented reducing emissions and sequestering 1.7gt of CO<sub>2</sub> annually.

**By 2040:** A shift to a circular economy has resulted in more renewable energy usage, more peri-urban agriculture, and an increase in electric transportation. Annual carbon sequestration has risen to 3.5gt.

**By 2050:** New horizon technologies have negative emissions and novel plants add to the annual 5.2gt of CO<sub>2</sub> sequestered. Energy efficiency is enhanced for all segments of food value chains.

The transition to net zero food systems requires USD 350 bn in capital annually, offering extensive investment opportunities along the full value chain of global food systems.

# Appendix



# List of abbreviations

<b>AIFMD</b>	Alternative Investment Fund Managers Directive	<b>SGNI</b>	Schweizer Gesellschaft für Nachhaltige Immobilienwirtschaft
<b>AMAS</b>	Asset Management Association Switzerland	<b>SI</b>	Sustainable Investment
<b>ASIP</b>	Swiss Pension Fund Association	<b>SNB</b>	Swiss National Bank
<b>AuM</b>	Assets under Management	<b>SNBS</b>	Standard Nachhaltiges Bauen Schweiz
<b>BREEAM</b>	Building Research Establishment Environmental Assessment Methodology	<b>SSF</b>	Swiss Sustainable Finance
<b>CCDA</b>	Complementary Climate Delegated Act	<b>SSREI</b>	Swiss Sustainable Real Estate Index
<b>CDA</b>	Climate Delegated Act	<b>TCFD</b>	Task Force on Climate-related Financial Disclosures
<b>CFA</b>	Chartered Financial Analyst	<b>TNFD</b>	Taskforce on Nature-related Financial Disclosures
<b>CHF</b>	Swiss franc	<b>TR</b>	EU Taxonomy Regulation
<b>CO</b>	Code of Obligations	<b>UCITS</b>	Undertakings for Collective Investment in Transferable Securities
<b>CSRD</b>	Corporate Sustainability Reporting Directive	<b>UN</b>	United Nations
<b>DGNB</b>	Deutsche Gesellschaft für Nachhaltiges Bauen	<b>USD</b>	US dollar
<b>ESAs</b>	European supervisory authorities		
<b>ESG</b>	Environmental, social and governance		
<b>ESI</b>	Economic Sustainability Indicator		
<b>ETF</b>	Exchange-Traded Fund		
<b>EU</b>	European Union		
<b>Eurosif</b>	European Sustainable Investment Forum		
<b>FCA</b>	Financial Conduct Authority		
<b>FINMA</b>	Swiss Financial Market Supervisory Authority		
<b>FinSA</b>	Financial Services Act		
<b>FNG</b>	Forum Nachhaltige Geldanlagen e.V.		
<b>G7</b>	Group of Seven		
<b>GFANZ</b>	Glasgow Financial Alliance for Net Zero		
<b>GHG</b>	Greenhouse Gas		
<b>GRESB</b>	Global Real Estate Sustainability Benchmark		
<b>GSIA</b>	Global Sustainable Investment Alliance		
<b>IDD</b>	Insurance Distribution Directive		
<b>IFC</b>	International Finance Corporation		
<b>IFRS</b>	International Financial Reporting Standards		
<b>IIGCC</b>	Institutional Investors Group on Climate Change		
<b>ILO</b>	International Labour Organization		
<b>ISSB</b>	International Sustainability Standards Board		
<b>LEED</b>	Leadership in Energy and Environmental Design		
<b>MiFID</b>	Markets in Financial Instruments Directive		
<b>OECD</b>	Organisation for Economic Co-operation and Development		
<b>PRI</b>	Principles for Responsible Investment		
<b>REIDA</b>	Real Estate Investment Data Association		
<b>RTS</b>	Regulatory Technical Standards		
<b>SBA</b>	Swiss Bankers Association		
<b>SDR</b>	Sustainability Disclosure Requirements		
<b>SFDR</b>	European Sustainable Finance Disclosure Regulation		

# List of figures

Figure 1	<b>Common SI approaches applied to investment products with the objective to incorporate sustainability considerations</b>	Figure 29	<b>Investment universe reduction based on best-in-class approach for asset managers</b>
Figure 2	<b>Matrix illustrating the suitability of various SI approaches for different investors' sustainability goals</b>	Figure 30	<b>Impact investment by sector for asset managers and asset owners</b>
Figure 3	<b>Market study participants</b>	Figure 31	<b>Impact investment in developed versus developing countries</b>
Figure 4	<b>Different perspectives on sustainability-related investments in the Swiss investment market</b>	Figure 32	<b>Change in asset class distribution for sustainability-related investments</b>
Figure 5	<b>Sustainability-related investment volumes based on new classification scheme derived from Eurosif white paper: Breakdown of Basic ESG type</b>	Figure 33	<b>Asset class distribution for sustainability-related investments</b>
Figure 6	<b>Development of sustainability-related investments in Switzerland</b>	Figure 34	<b>Asset class distribution for sustainability-related investments for asset managers and asset owners</b>
Figure 7	<b>Ratio of sustainability-related volume compared to total AuM for asset managers</b>	Figure 35	<b>Formal sustainability-related investment policies of asset owners</b>
Figure 8	<b>Breakdown of sustainability-related investment volumes based on number of applied approaches</b>	Figure 36	<b>Formal ESG real estate policy for asset managers and asset owners</b>
Figure 9	<b>Number of approaches applied</b>	Figure 37	<b>Aspects of sustainability-related real estate investments</b>
Figure 10	<b>Top 10 combinations of SI approaches applied by asset managers</b>	Figure 38	<b>Application of AMAS real estate indicators</b>
Figure 11	<b>Top 10 combinations of SI approaches applied by asset owners</b>	Figure 39	<b>Investments in sustainability-related debt investments</b>
Figure 12	<b>Breakdown of sustainability-related investment volumes based on AMAS self-regulation</b>	Figure 40	<b>External reviews of sustainability-related debt investments</b>
Figure 13	<b>Classification of sustainability-related volumes into five sustainability-related investment types</b>	Figure 41	<b>Strategies with regard to climate change</b>
Figure 14	<b>Breakdown of sustainability-related investment volumes based on new classification scheme derived from Eurosif white paper</b>	Figure 42	<b>Signatory of net-zero-alliances</b>
Figure 15	<b>Development of private and institutional sustainability-related investments</b>	Figure 43	<b>Analysis of biodiversity impacts by asset managers</b>
Figure 16	<b>Proportion of sustainability-related funds in the overall Swiss fund market</b>	Figure 44	<b>Current application of TCFD recommendations by asset managers</b>
Figure 17	<b>Marketing of sustainability-related products by asset managers</b>	Figure 45	<b>EU Taxonomy Regulation – Delegated Acts</b>
Figure 18	<b>Labelling of sustainability-related funds by asset managers</b>	Figure 46	<b>Organisation under legal obligation to implement the EU sustainable finance regulation</b>
Figure 19	<b>Classification of funds based on EU regulation by asset managers</b>	Figure 47	<b>Assessment of contributing factors hindering implementation of EU regulations</b>
Figure 20	<b>Development of sustainable investment approaches</b>	Figure 48	<b>Relevant timelines for obligatory CSRD reporting</b>
Figure 21	<b>Applied exclusion criteria for companies</b>		
Figure 22	<b>ESG integration types applied</b>		
Figure 23	<b>Main ESG engagement themes</b>		
Figure 24	<b>Criteria for norms-based screening</b>		
Figure 25	<b>Investor actions following norms violations</b>		
Figure 26	<b>Outsourcing of engagement and voting activities</b>		
Figure 27	<b>Climate-alignment target scenarios</b>		
Figure 28	<b>Main sustainable thematic investment themes for asset managers and asset owners</b>		

# Study participants

Allianz Global Investors  
Allianz Suisse  
Anlagestiftung Terra Helvetica  
AXA Investment Managers Schweiz AG  
AXA Versicherungen AG  
Baloise  
Bank J. Safra Sarasin  
Bank Julius Baer & Co. Ltd.  
Banque Cantonale Neuchateloise (BCN)  
Banque Cantonale Vaudoise (BCV)  
Basellandschaftliche Kantonalbank  
Basellandschaftliche Pensionskasse  
BCGE Asset management,  
a division of Banque Cantonale de Genève  
Berner Kantonalbank AG  
Bernische Lehrerversicherungskasse BLVK  
Bernische Pensionskasse (BPK)  
BlueOrchard Finance Ltd  
BPS (SUISSE)  
BVK  
Caisse de prévoyance de l'Etat de Genève  
CAP Prévoyance  
Carnot Capital AG  
compenswiss (Fonds de compensation AVS/AI/APG)  
CONINCO Explorers in finance SA  
Credit Suisse AG  
CSS Gruppe  
de Pury Pictet Turretini & Cie SA  
Die Mobiliar  
EFG International AG  
Energy Infrastructure Partners AG  
Fondazione Ticinese per il secondo pilastro  
Fundo SA  
Generali Insurances  
Globalance Bank  
Graubündner Kantonalbank  
Groupe Vaudoise Assurances  
Helvetia Insurances  
INOKS Capital  
IST Investmentstiftung  
LGT Capital Partners AG  
LGT Private Bank  
Lombard Odier Investment Managers (LOIM)  
Loyal Finance AG  
Luzerner Kantonalbank  
Luzerner Pensionskasse  
Migros Bank AG  
Mirabaud Asset Management  
Nest Sammelstiftung  
OLZ AG  
Partners Group AG  
Pax Asset Management AG  
Pensionskasse Basel-Stadt  
Pensionskasse der Credit Suisse Group (Schweiz)  
Pensionskasse der F. Hoffmann-La Roche AG  
Pensionskasse der Zürcher Kantonalbank  
Pensionskasse des Bundes PUBLICA  
Pensionskasse Post  
Pensionskasse SBB  
Pensionskasse Stadt Zürich  
Pictet  
PineBridge Investments  
PostFinance AG  
Quaero Capital SA  
radicant bank ag  
Raiffeisen Schweiz  
Reichmuth & Co Investment Management AG  
responsAbility Investments AG  
Retraites Populaires, CPEV, CIP, CCAP, ECA-RP, PROFELIA, DBS  
Robeco Switzerland Ltd.  
Rothschild & Co Bank AG  
Schroders  
Schwyzer Kantonalbank  
Stiftung Abendrot  
SUSI Partners AG  
Suva  
Swiss Finance & Property Group  
Swiss Life Asset Managers  
Thurgauer Kantonalbank  
UBS Asset Management Switzerland AG  
Union Bancaire Privée, UBP SA  
UTILITA Anlagestiftung für gemeinnützige Immobilien  
Vontobel Holding AG  
zCapital  
Zürcher Kantonalbank  
Zurich Insurance Group Ltd

# List of sponsors

## Main Sponsors



**RAIFFEISEN**



## Supporting Sponsors





## **Publisher: Swiss Sustainable Finance**

The mission of Swiss Sustainable Finance (SSF) is to strengthen Switzerland's position as a leading voice and actor in sustainable finance, thereby contributing to a sustainable and prosperous economy. The association, founded in 2014, has representative offices in Zurich, Geneva and Lugano. Currently, SSF unites over 230 members and network partners from financial service providers, investors, universities and business schools, public-sector entities and other interested organisations. Through research, capacity-building and the development of practical tools and supportive frameworks, SSF fosters the integration of sustainability factors into all financial services. An overview of SSF's current members and partners can be found on its website: [www.sustainablefinance.ch](http://www.sustainablefinance.ch)

## **Acknowledgements:**

Swiss Sustainable Finance would like to thank first and foremost Timo Busch and Eric Pruessner for their dedicated support throughout the project as indispensable research partners. We also thank the SSF Market Study focus group. During the course of the project, the focus group provided valuable input to help shape the survey and motivate participation amongst Swiss actors, as well as contribute ideas for the report content and structure. A big thank you goes to all the organisations that participated in the survey and devoted their time to filling in the questionnaire. We would also like to thank all the sponsors to the report, without whose generous contribution this project would not have been possible.



## **Research Partners:**

### **The Sustainable Finance Research Group at the University of Hamburg / The Advanced Impact Research (AIR) GmbH**

The Sustainable Finance Research Group at the University of Hamburg was co-founded by Prof. Timo Busch and aims to highlight the role of financial markets and investments for sustainability in business practice. The Advanced Impact Research (AIR) GmbH is a spin-off of the University of Hamburg that aims to support a sustainable financial market through impact analyses and rigorous research.

## **Contributing authors:**

**Timo Busch**, Sustainable Finance Research Group, University of Hamburg  
**Eric Pruessner**, Lead Senior Researcher, Advanced Impact Research (AIR), Doctoral Researcher at the University of Hamburg  
**Kelly Hess**, Director Projects, Swiss Sustainable Finance  
**Hendrik Kimmerle**, Senior Project Manager, Swiss Sustainable Finance  
**Katja Brunner**, Director Legal & Regulatory, Swiss Sustainable Finance  
**Sabine Döbeli**, CEO, Swiss Sustainable Finance  
**Jean Laville**, Deputy CEO, Swiss Sustainable Finance  
**Veronica Baker**, Project Manager, Swiss Sustainable Finance

**Proofreading:** Jonkers and Partners; Graeme High Language Consultants Ltd.  
**Design:** frei – büro für gestaltung, Zurich | [freigestaltung.ch](http://freigestaltung.ch)  
**Cover:** Lake Brienz, Switzerland; Photo Andreas Gücklhorn, Unsplash

Zurich, June 2023

## **Disclaimer**

This document was prepared by Swiss Sustainable Finance in collaboration with the Sustainable Finance Research Group at the University of Hamburg and the Advanced Impact Research (AIR) GmbH (hereafter "the Parties"). The information contained in this publication (hereafter "the information") is based on sources that are considered to be reliable. The Parties have taken all reasonable measures to ensure that the information presented in this document is complete, accurate and current. The Parties make no express or implied warranty regarding the information, and hereby expressly disclaim all legal liability and responsibility towards persons or entities who use or consult this document.





[sustainablefinance.ch](https://sustainablefinance.ch)

Swiss Sustainable Finance  
Grossmünsterplatz 6  
8001 Zürich  
T 044 515 60 50

Follow us on  
Twitter: @SwissSustFin  
LinkedIn: Swiss Sustainable Finance