

Swiss Sustainable Investment Market Study 2024

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Preface by Swiss Sustainable Finance

As we present the latest Swiss Sustainable Investment Market Study, we are reflecting on a dynamic year with continued improvements in transparency around sustainable investing and further regulatory action. After reporting a decline in volumes of sustainability-related investments for the first time last year, we are pleased to announce that growth has returned, albeit at a moderate level.

The urgent need for more decisive action to address climate change has been underscored by 2023's record-high global temperatures. Fuelled by many global crises, we find ourselves further than ever from achieving many of the Sustainable Development Goals (SDGs). With public budgets under strain, the call for private funding has grown louder. While economic growth is needed to achieve progress on global goals, we have not yet managed to shape it sustainably.

Against this backdrop, the question of the real-world impact of sustainable investing has taken centre stage. Last year, we piloted a new method for sustainable investment market studies, developed by Eurosif in collaboration with the University of Hamburg. Our feedback helped refine the method, and we are proud to once again pioneer its application. This method aims to illustrate which part of the sustainability-related investment volumes can be linked to impact. The respective shares are surprisingly high, indicating that product providers are responding to clearer signals from clients desiring impact and regulatory pushes to put impact at the heart of sustainable investing.

The improving processes and transparency around investor impact depicted in the survey can be considered a positive development. However, it is important to recognise that sustainability-related investments have different shades of green – and rightly so. For institutional asset owners, improving their risk/return profile by integrating ESG factors into investment processes remains a key motivation. This

does not preclude investor impact – the growing volumes for engagement and voting illustrate that institutional investors also aim to contribute to change.

The complexity in sustainable investing has once again increased, leading some market players to report their volumes more carefully – a trend which started last year and continued this year. It illustrates the willingness of market actors to adapt to changing requirements.

In conclusion, our market study paints a picture of a mature sustainable investment market focusing increasingly on real-world impact. We extend our gratitude to all parties involved: the survey respondents for their efforts in providing data, the members of the market study working group for their valuable feedback on the method, and the University of Hamburg for the continued fruitful collaboration in preparing this market study.



Sabine Döbeli
CEO SSF

Preface by the University of Hamburg

We have now entered Sustainable Finance Phase 3.0: the notions of impact and transition are core components when we ask how effective sustainability-related investments actually are. There are a number of proposals on the table: the UK's Financial Conduct Authority (FCA) has proposed four labels that reflect on both impact and transition. Similarly, the Dutch Authority for the Financial Markets (AFM) has published a paper suggesting financial product categories that distinguish between investor impact and the current sustainability performance of assets. At EU level, ESMA refers to "Buying Impact" and "Creating Impact" as an important distinction to prevent greenwashing at product level; in the first proposal for the revision of the SFDR, four distinct product categories are suggested – the transition notion is also immanent here. Such developments are very important: the SFDR's definition of sustainable investments in Article 2(17) does not distinguish between investor and company impact, one of the basic concepts in understanding how investors can achieve impact. Company impact describes a real-world change, while investor impact is evident in cases when such a change is initiated or induced by the investor.

Also in response to these developments, in early 2024 Eurosif published the final version of a new methodology for the purpose of future market studies on sustainability-related investments across Europe. The methodology is designed to reflect the evolving nature of the market and proposes four distinct categories of sustainability-related investments that reflect on the investments' ambition level to actively contribute to the transition towards a more just and sustainable economy. For the second year, we use this new method in the Swiss market report. Switzerland is thus a global leader when it comes to adopting new insights in market reports' statistics.

We can report a substantial increase in Impact-Generating investments in the Swiss market. While this is good news, at the same time it is important to be transparent about the meaning, or the interpretation, of such outcomes. In the past, the rationale behind established SRI (sustainable and responsible investment) market studies was to gather data and establish statistics on which approaches – such as the "best-in-class" approach – investors applied within a given market.

The intention was not to produce a statement about the effectiveness of individual investments, i.e. how responsible or sustainable a given investment approach is. The Eurosif methodology follows a similar logic. Its purpose is to gather data on different categories of sustainability-related investments and provide transparency on their main characteristics. This includes the transition-related ambition levels that investors pursue within a given market. The intention is not to produce a statement about the actual impact of individual investments, i.e. to what extent investments effectively contribute to change (impact magnitude). Such claims go beyond the scope and possibilities of market studies since this would require gathering and validating a significant amount of additional data and information.

The notions of impact and transition are becoming increasingly prominent features of the sustainable investment market. It has become clear that we need to have an answer to the fundamental question many critical voices raise: do sustainable investments make a difference? This is why I believe the avenue we are taking together with this report is so important.



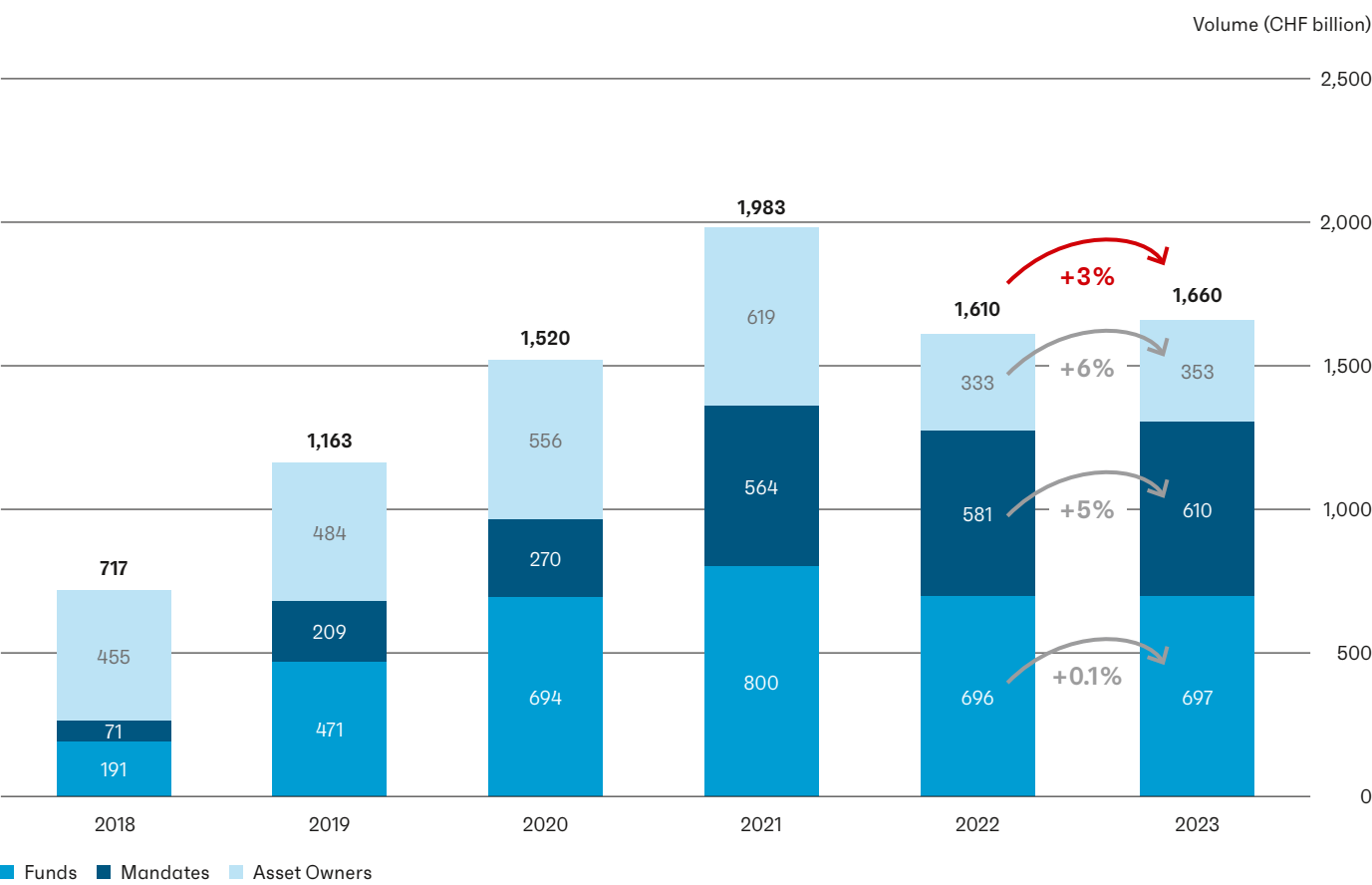
Timo Busch
Professor, Sustainable Finance Research Group
University of Hamburg

Executive Summary

The Swiss Sustainable Investment Market Study 2024 provides an overview of sustainability-related investments in Switzerland. It lists all assets that apply one or sustainable investment approaches (SI approaches) and uses different perspectives on overall sustainability-related investment volumes to provide clarity on various qualities of sustainability-related investments. While discussions around what the term “sustainable investment” should stand for are still ongoing in Switzerland and the EU, the different perspectives provided in the SSF Market Study 2024 help create the necessary transparency on sustainability-related investments in the Swiss market. This year’s study therefore shows how overall sustainability-related investments are classified based on a combination of SI approaches, the definition provided in the AMAS self-regulation and the Eurosif methodology published in February 2024.

Development of sustainability-related investment volumes
Overall sustainability-related investment volumes increased from CHF 1,610 billion to CHF 1,660 billion between 2022 and 2023. After last year’s significant decline in sustainability-related investment volumes, this represents a growth rate of 3%. This increase in overall sustainability-related investments is lower than the market performance of around 15% in 2023. The likely reasons for this difference are, first, participants having improved their measurement methodologies for sustainability-related investments, leading to lower volumes being reported compared with the previous year, particularly for stewardship approaches. Second, some participants stated that they no longer report assets that only use exclusions or ESG integration as a sustainable investment approach.

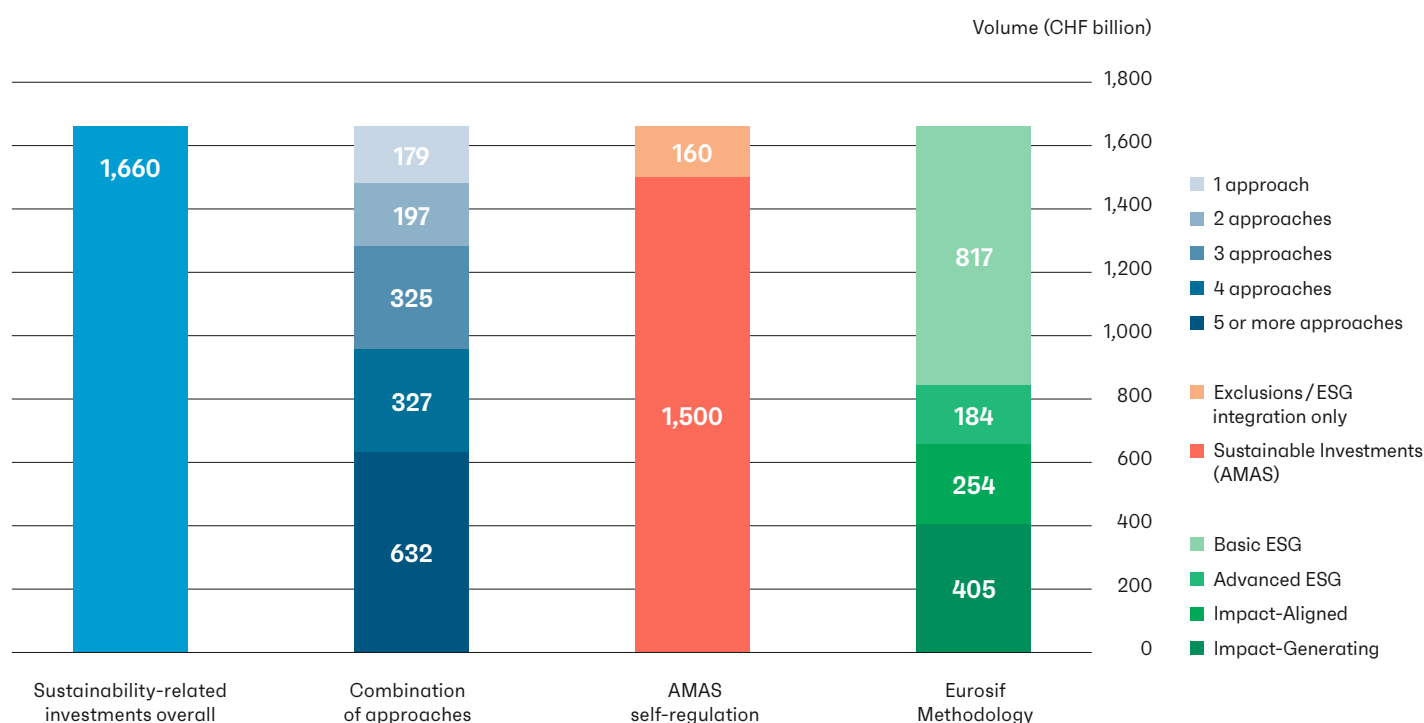
Development of sustainability-related investments in Switzerland
(in CHF billion)



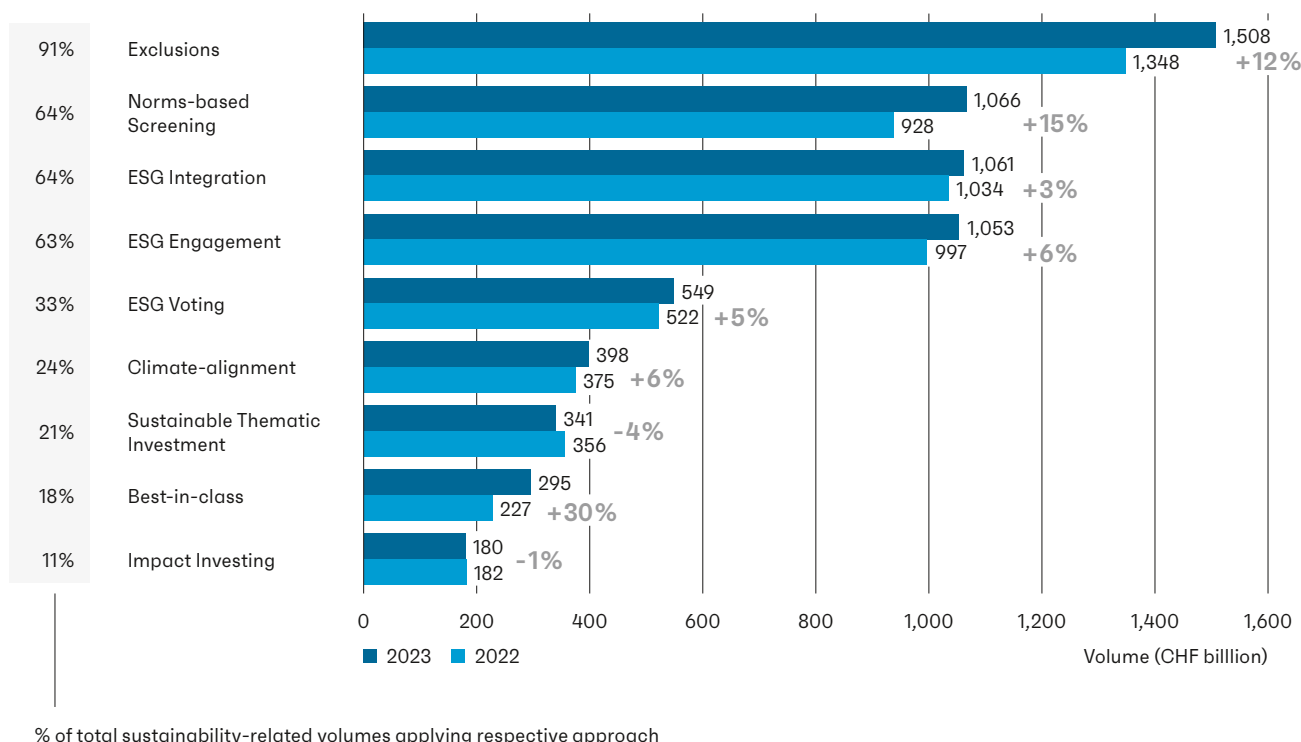
This year's study again uses three perspectives on overall sustainability-related investment volumes (see the figure below): (1) the combination of SI approaches (second bar), (2) the AMAS definition of sustainable investments in its self-regulation (third bar), and (3) the transition-oriented Eurosif methodology (fourth bar). The combination of SI approaches provides a breakdown based on the number of approaches applied that form the basis of the Swiss Sustainable Investment Market Study. The AMAS definition deducts volumes that apply only exclusions or only ESG integration from total Swiss sustainability-related volumes. The Eurosif methodology distinguishes four investment categories that differentiate between the levels of ambition to contribute to a sustainable transition: Basic ESG investments, Advanced ESG investments, Impact-Aligned investments and Impact-Generating investments, with the latter having the highest ambition level.

This year's results show that market participants are responding to ongoing discussions about sustainable investments by increasing the number of SI approaches used, while at the same time the use of only one decreased. This is also reflected in a higher share of sustainable investments as defined in the AMAS self-regulation (90% this year compared with 86% last year). The results based on Eurosif's methodology demonstrate a surprisingly high share of Impact-Generating investments (24% of all sustainability-related volumes). This can mainly be explained by an increasing number of market players reporting effective engagement strategies as a mechanism for investor impact. Although measured differently in all three perspectives, the results show that the sophistication of sustainability-related investment approaches increased compared with last year. This is very likely due to ongoing discussions about what deserves the term "sustainable investment".

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



Development of sustainable investment approaches (in CHF billion) (n=79)

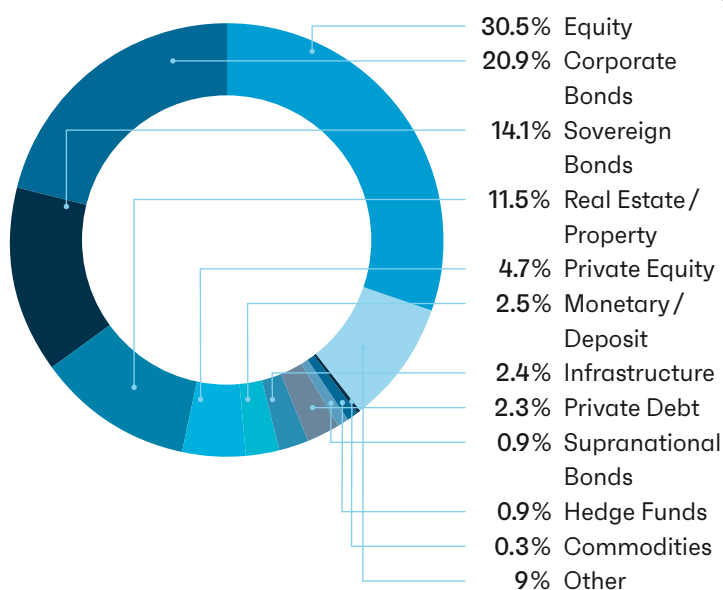


The development of SI approaches shows that most approaches increased at a rate higher than or the same as the overall increase in sustainability-related investment volumes (3%). This reaffirms that participants are using more combinations of SI approaches, leading to increases in their combined usage. The climate-alignment approach continues to show its relevance with an increase of 6%, even though it is a relatively new approach that was introduced in last year's market study. After sustainable thematic investment and impact investment increased strongly last year (by 86% and 80% respectively), they showed slight declines in volumes this year (4% and 1%).

All asset classes continue to be important

Consistent with results from previous years, sustainability-related investments are relevant across all asset classes, including public and private assets. Equity, corporate bonds, sovereign bonds and real estate continue to be the top asset classes. While the share of equity and real estate has declined compared with 2022, the share of corporate and sovereign bonds has increased slightly. Together, these asset classes account for around 77% of the total volumes. The shares of all other asset classes are substantially smaller, while infrastructure, monetary/deposit, supranational bonds and commodities experienced absolute increases.

Asset class distribution for sustainability-related investments (in %) (n=76)



Regulatory developments in Switzerland and the EU

The Swiss Parliament and the Federal Council stepped up their activities to transpose the Paris Agreement into national law. The new regulations apply to the entire economy and will contribute to the success of the Swiss energy transition. With regard to the financial sector, however, the Swiss regulatory landscape remains fragmented and does not provide binding sustainability-related provisions that apply to all areas of the financial sector.

The constantly evolving EU regulation on sustainable finance is part of the EU's package of measures to support the development of a green economy and set international standards. The strong link between the taxonomy, the Sustainable Finance Disclosure Regulation (SFDR) and the Corporate Sustainability Reporting Directive (CSRD) is one of the reasons why the fulfilment of the corresponding disclosure and reporting obligations poses numerous challenges for companies. Through the wide-ranging consultation on the review of the SFDR, the EU is seeking views on the usefulness and compatibility of the current requirements.

Special topics

The real estate sector's contribution to the transition to a more sustainable economy has become a focus of many investors, especially as investors can now link direct environmental and social benefits with the return expectations from their real estate portfolios. Based on the environmental indicators for real estate funds published by AMAS in 2022, the acceptance of the related indicators was again assessed. Most 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).

At global level, sustainability-related debt investments – e.g. green, social, sustainability and sustainability-linked bonds (GSS+) – have grown significantly in recent years. The market study shows that 64% of all respondents invested in such instruments, which is a slight increase compared with last year's share of 61%. A separate article sheds light on the Swiss GSS+ bond market and identified barriers to further growth.

Giving consideration to climate change in investments continues to be mainstream practice, with 87% of respondents explicitly addressing climate change in at least some of their investments. This year, data shows that 43% of respondents already focus their investments on companies with credible transition plans, showing a high level of interest in the transition of the economy.

This is the third year in a row that we have included questions related to investor action on biodiversity. Again, only a minority of asset managers (24%) follow one or more of the biodiversity standards. Eleven asset managers (22%) have conducted a systematic analysis of the negative and positive biodiversity impacts associated with their investment portfolios and 13 asset managers (25%) consider biodiversity risks in their investment decisions. The results are similar to last year and reflect the fact that the industry is not yet in a position to fully understand biodiversity issues, let alone integrate them into investment processes, because of the current lack of data and established frameworks.

Looking ahead

Discussions about what deserves the term “sustainable investment” are ongoing in Switzerland and in other jurisdictions. The regulatory context for sustainable finance in Switzerland and the EU therefore continues to evolve and becomes more complex. The revision of SFDR level one could lead to a new sustainability-related classification for financial products. In Switzerland, the ongoing process to implement the Federal Council's position on the prevention of greenwashing may also lead to new industry self-regulations or other important developments.

In this context, it is crucial to provide transparency on the current development of sustainability-related investments. The SSF Market Study will continue to use both well-known and new perspectives so as to provide insights into past trends and new developments in the Swiss sustainable investment market.

1.1 Objective of the study

Last year, the Swiss Sustainable Investment Market Study provided, for the first time, insights beyond the known sustainable investment approaches. With a changing regulatory environment in addition to advancements within the industry, it became increasingly clear that the market demanded more from “sustainable investments” than simply applying one of the common SI approaches. In reaction, last year’s study extended the overview of overall volumes using the classification of sustainability-related investment categories developed in a white paper from Eurosif and the University of Hamburg¹ as well as the AMAS² definition of “sustainable investment”. In the meantime, discussions on definitions of sustainable investments have continued. The Sustainable Finance Disclosure Regulation (SFDR) and its article 6, 8, and 9 categories are currently under review, the Financial Conduct Authority (FCA) in the United Kingdom developed labels for sustainable financial products³, and the debate in Switzerland is also evolving⁴. The objective of this year’s market study is to continue to provide clarity on different qualities of sustainability-related investments. For that purpose, the SSF Market Study 2024 again uses several perspectives (combinations of SI approaches, AMAS and Eurosif’s methodology) to qualify overall sustainability-related investment volumes. Apart from this overview, it also provides further insights regarding the development of sustainability-related volumes, details on the different SI approaches and special topics, as well as regulatory developments.

Another objective of the SSF Sustainable Investment Market Study is to continue to create transparency regarding investments’ different ambition levels to actively contribute to the transition towards a more just and sustainable economy. During 2023, Eurosif, the University of Hamburg, and Advanced Impact Research (AIR) updated the Eurosif methodology based on discussions in Eurosif’s SRI Study Group (SSG), leading to a final report in January 2024.⁵ This development strongly benefited from the experiences gained in the SSF Market Study 2023. For the SSF Market Study 2024, the Eurosif methodology has been applied for the first time in practice, furthering transparency regarding the different ambition levels mentioned above. As a result, SSF continues to pioneer the work on developing and testing Eurosif’s methodology.

The report is structured as follows. Chapter 2 provides insights on the adoption of sustainability in the Swiss investment market. This includes overall volumes of sustainability-related investments, the AMAS, as well as the Eurosif perspectives. Chapter 3 covers details on applied SI approaches, investor types, asset allocation and an overview of special topics: real estate investments, sustainable fixed income, for example green bonds, climate change and biodiversity. Chapter 4 provides a conclusion to the market study and chapter 5 contains an overview of the regulatory framework in Switzerland and beyond. In chapter 6, the Enterprise for Society Center (E4S) provides insights into the Swiss green bond market.

- 1 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>
- 2 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/self-regulation/sustainable-finance-self-regulation>
- 3 FCA (2023): *Sustainability Disclosure Requirements (SDR) and investment labels*. Available at: <https://www.fca.org.uk/publications/policy-state-ments/ps23-16-sustainability-disclosure-requirements-investment-labels>
- 4 In October 2023, the Federal Department of Finance (FDF) communicated its plans to implement the Federal Council’s position on the prevention of greenwashing, that includes a general definition of which financial products and services can be considered “sustainable”. In case no self-regulation solution is developed to implement the Federal Council’s position, the FDF plans to publish a consultation draft to the Federal Council by end-August 2024 the latest. SSF monitors these developments closely and will make sure to integrate their results in future market studies. For a detailed discussion of the Swiss regulation, see section 5.1. Swiss Federal Council (2023): *Further efforts to prevent greenwashing*. Available at: <https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-98351.html>
- 5 Busch et al. (2024): *Methodology for Eurosif Market Studies on Sustainability-related Investments. Measuring progress of capital flows to support the sustainable transition of the real economy*. Available at: https://www.eurosif.org/wp-content/uploads/2024/02/2024.02.15-Final-Report-Eurosif-Classification_2024.pdf

1.2 Methodology of the study

The Swiss Sustainable Investment Market Study 2024 was prepared based on 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), its academic cooperation partner, the University of Hamburg, and Advanced Impact Research (AIR). The gathered data is from 31 December 2023 and was provided voluntarily by the study participants. From January to April 2024, 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.

Since not all participants answered each 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.

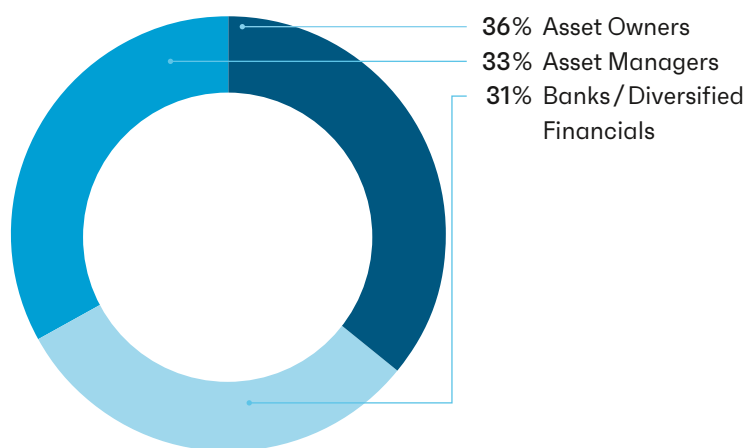
Volumes in foreign currency (euros and US dollars) were adjusted using exchange rates into Swiss francs (CHF). The year-end exchange rates applied for 2023 were EUR 1.0772 for one CHF and USD 1.1891 for one CHF. For Figure 16 the volumes for institutional and private investors were extrapolated to total 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 were resolved.

1.3 Overview of study participants

A total of 86 Swiss respondents took part in this year's edition of the Swiss Sustainable Investment Market Study, which represents a lower participation rate than last year (91 respondents in 2023).⁶ However, considering that the organisations that no longer participated in the survey only account for around 1.8% of the volume of last year's study, the lower participation can be considered negligible. As shown in Figure 1, 33% of respondents are asset managers, 31% are banks or diversified financials and 36% are asset owners. For the rest of the study, asset managers and banks or diversified financials are collectively referred to as asset managers.

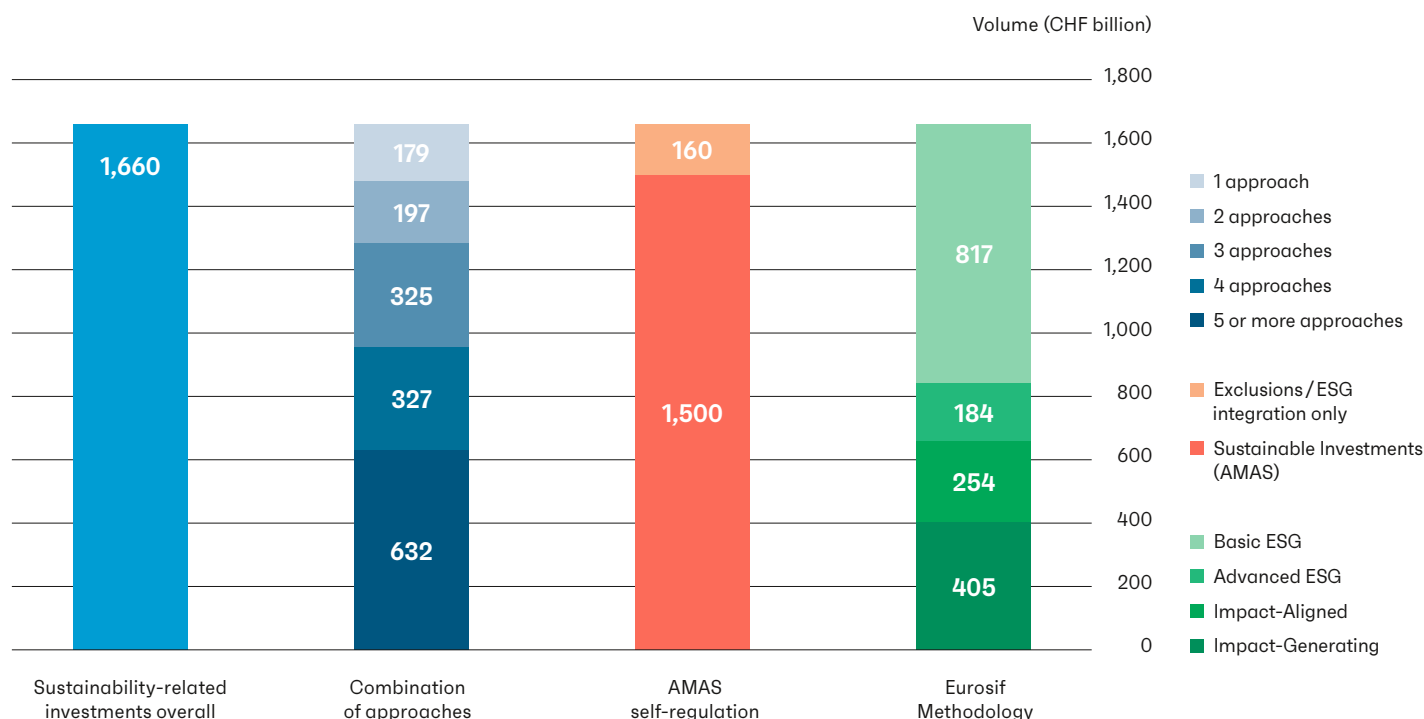
Figure 1: **Market study participants**
(in %) (n=86)



⁶ A list of study participants who consented to be named is provided on page 89.

2.1 Overall volumes of sustainability-related investments

Figure 2: Different perspectives on sustainability-related investments in the Swiss investment market (in CHF billion)



By the end of 2023, reported sustainability-related volumes amounted to CHF 1,660 billion. The discussion about what deserves the term “sustainable investments” is still on-going in Switzerland and beyond, which is why we build upon last year’s approach and continue to characterise the overall volumes of sustainability-related investments using three different lenses (Figure 2).

We first look at the application of different combinations of SI approaches (second bar). Section 2.2 shows that the share of volumes applying three or more SI approaches increased significantly from 70% in 2022 to 77% in 2023. In addition, the usage of single approaches decreased (see Figure 8). Taken together, this shows a trend towards applying more SI approaches.

The AMAS self-regulation (third bar) is one example of a definition of sustainable investment.⁷ The overview in Figure 2 shows that according to this definition, CHF 1,500 billion assets under management (90%) can be interpreted as sustainable. Section 2.3 provides further insights, showing that

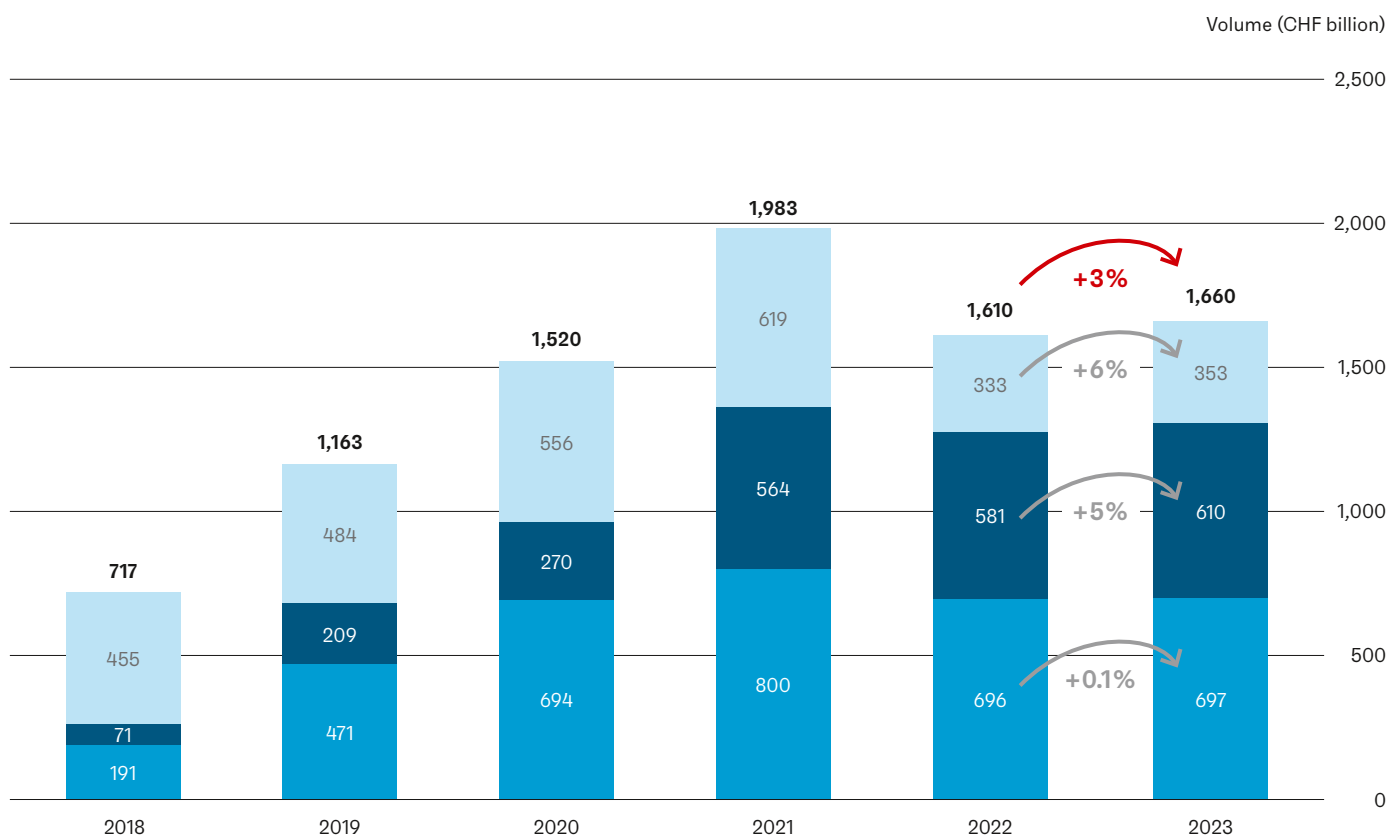
the volumes that fulfil the AMAS definition increased significantly. As a result, the trend of a decreasing share of stand-alone SI approaches could be due to market participants reacting to the AMAS definition of sustainable investments.

Eurosif’s methodology⁸ (fourth bar) provides insights that go beyond the combination of SI approaches, focusing on a strategy’s ambition to contribute to the transition towards a sustainable economy. Compared to last year, the methodology was changed significantly based on SSF’s pilot study, practitioner feedback and discussions in Eurosif’s SRI Study Group

⁷ AMAS (2022): *Self-regulation on transparency and disclosure for sustainability-related collective assets*. Available at: <https://www.am-switzerland.ch/en/regulation/self-regulation/sustainable-finance-self-regulation>

⁸ Busch et al. (2024): *Methodology for Eurosif Market Studies on Sustainability-related Investments. Measuring progress of capital flows to support the sustainable transition of the real economy*. Available at: https://www.eurosif.org/wp-content/uploads/2024/02/2024.02.15-Final-Report-Eurosif-Classification_2024.pdf

Figure 3: Development of sustainability-related investments in Switzerland
(in CHF billion)⁹

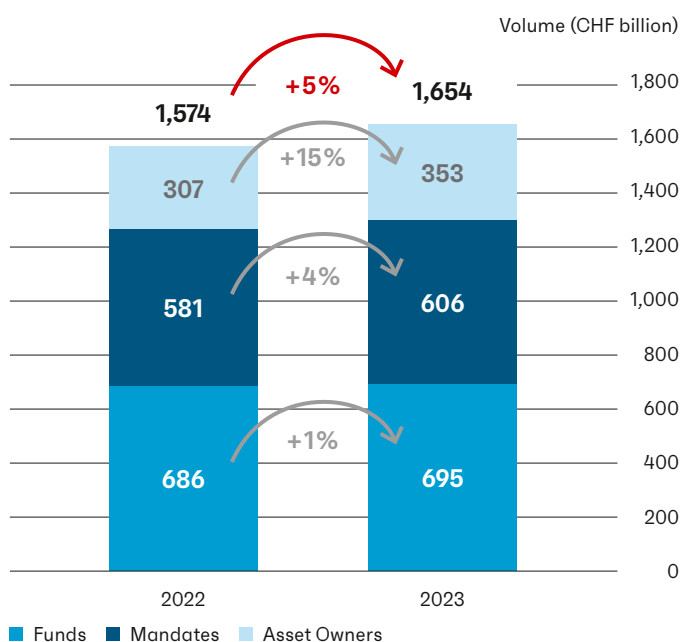


(SSG) (see the appendix for details on the methodology changes). The new classification now comprises four categories: Basic ESG, Advanced ESG, Impact-Aligned and Impact-Generating investments. Section 2.4 provides details on the results of applying the Eurosif Methodology. Figure 2 shows that most sustainability-related investment volumes are classified as Basic ESG (CHF 817 billion, or 49% of all assets). A smaller but still significant share has an impact-orientation, referring to those volumes that are classified as Impact-Aligned or Impact-Generating investments (CHF 659 billion, or 40%).

Figure 3 illustrates the development of the market volume of sustainability-related investments in Switzerland from 2018 to 2023. As of 31 December 2023, the total volume of Swiss sustainability-related investments was CHF 1,660 trillion, considering funds, mandates and self-managed assets of asset owners. After last year's significant decline in sustainability-related investment volumes, this represents a positive

⁹ Some participants that submitted the questionnaire for asset owners for the market study 2023 have reported as asset managers for this year's market study. We reclassified these participants as asset managers for 2022 to have like-for-like comparisons between 2022 and 2023 data.

Figure 4: Development of sustainability-related investments in Switzerland without changes in participants
(in CHF billion)¹⁰



growth rate of 3% compared to the previous year. Taking into account those participants who took part in the SSF Market Study both this and last year, the increase in sustainability-related investment volumes corresponds to 5% (see Figure 4). Hence last year's decrease in sustainability-related volumes has not continued this year, even though the increase in this year's volumes is well below the double-digit growth rates we saw between 2018 and 2021.

The increase of overall sustainability-related investment is significantly lower than the market performance of around 15% in 2023.¹¹ This lower increase has different reasons. First, participants improved their measurement methodologies for sustainability-related investments, leading to lower volumes being reported compared to the previous year, particularly for stewardship approaches. Second, some participants provided feedback that they did not report assets under management that only use exclusions or ESG integration as SI approaches anymore.

¹⁰ This figure includes only those participants in the data for 2022 and 2023 who participated in both years to control for the influence that changes in participants have on overall sustainability-related volumes.

¹¹ 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 5: **Ratio of sustainability-related volume compared to total AuM for asset managers** (in number of respondents) (n=48)

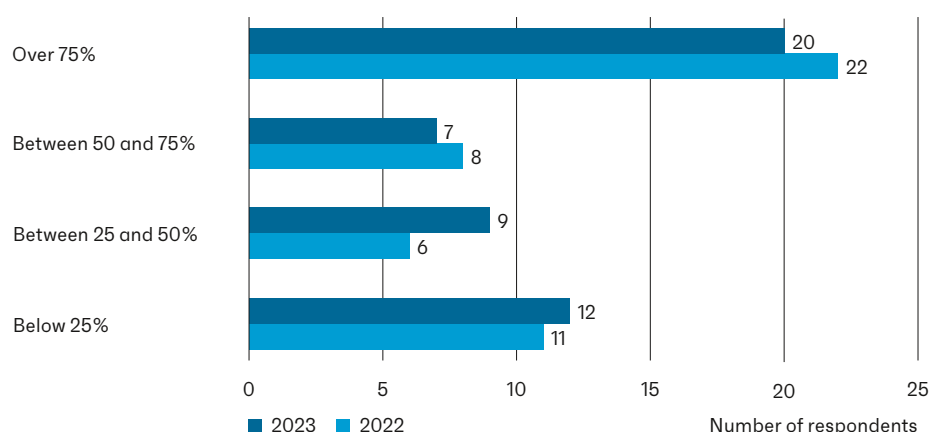


Figure 5 shows the proportion of sustainability-related investments of asset managers as a percentage of their total assets under management (AuM). Over half of the asset managers responding to the question report having at least 50% of sustainability-related investments, confirming that many asset managers see the integration of sustainability into investments as an integral part of their processes. With 44% of them 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 close to 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 that answered this question, this averages to approximately 15 full-time positions per company. We also see very high levels of required training. 85% percent of asset managers indicate that their employees are required to undergo mandatory training in sustainable investment, an increase of 16% compared to last year. This shows a rise in asset managers' awareness of the importance of keeping employees up to date with current and fast-developing trends in sustainable investments.

2.2 Role of different combinations of SI approaches

Figure 6: Common SI approaches applied to investment products with the objective to incorporate sustainability considerations¹²

Best-in-class / Positive Screening	Approach in which a company's or issuer's environmental, social and governance (ESG) performance is compared with the ESG performance of its peers (i.e. of the same sector or category) based on a sustainability rating. All companies or issuers with a rating above a defined threshold are considered as investable. The threshold can be set at different levels (e.g. 30% best performing companies or all companies that reach a minimum ESG score).
Climate-alignment	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.
ESG Engagement	Engagement is an activity performed by shareholders with the goal of convincing management to take account of environmental, social and governance criteria. This dialogue includes communicating with senior management and / or boards of companies and filing or co-filing shareholder proposals. Successful engagement can lead to changes in a company's strategy and processes so as to improve ESG performance and reduce risks.
ESG Integration	The explicit inclusion by investors of ESG risks and opportunities into traditional financial analysis and investment decisions based on a systematic process and appropriate research sources.
Exclusions	An approach excluding companies, countries or other issuers based on activities considered not investable. Exclusion criteria (based on norms and values) can refer to product categories (e.g. weapons, tobacco), activities (e.g. animal testing), or business practices (e.g. severe violation of human rights, corruption).
Impact Investing	Investments intended to generate a measurable, beneficial social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below-market to above-market rates, depending upon the circumstances. SSF considers impact investments as those having three main characteristics: intentionality, management and measurability.
Norms-based Screening	Screening of investments against minimum standards of business practice based on national or international standards and norms such as the ILO conventions, the OECD Guidelines for Multinational Enterprises, the UN Global Compact or the UN Guiding Principles on Business and Human Rights.
Sustainable Thematic Investment / Thematic Investing	Investment in businesses contributing to sustainable solutions, both in environmental or social topics. In the environmental segment this includes investments in renewable energy, energy efficiency, clean technology, low-carbon transportation infrastructure, water treatment and resource efficiency. In the social segment this includes investments in education, health systems, poverty reduction, and solutions for an ageing society.
ESG Voting	This refers to investors addressing concerns of environmental, social and governance (ESG) issues by actively exercising their voting rights based on ESG principles or an ESG policy.

There are nine different SI approaches (with “climate-alignment” as the newest approach introduced last year), which are all examined in detail by SSF (see Figure 6; for full definitions, see the glossary on the SSF website¹³). Figure 7 illustrates an important aspect of the use of the different SI approaches in relation to investor goals. Certain approaches are better suited to achieving one or more specific investor objectives. Figure 7 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.

12 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.

13 SSF: “Glossary”, available at: <https://www.sustainablefinance.ch/en/resources/what-sustainable-finance/glossary.html>, accessed: 26/03/2024

Figure 7: 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"

		Sustainability approaches						
		Exclusion	ESG Integration	Best-in-class	Climate-alignment	Sustainable Thematic Investments	Impact Investing	Stewardship
Investors' sustainability goals	Financial Performance							
	Values Alignment							
	Positive Change					1 2		3 4

Not applicable
 Contributes to a certain extent to respective sustainability goal
 Contributes to a medium extent to respective sustainability goal
 Contributes to a great extent to respective sustainability goal

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

Looking at total volumes through the lens of the number of applied SI approaches is one way to interpret the overall sum of sustainability-related investments (Figure 8). This year, we see a clear trend away from using one SI approach in isolation, which decreased from representing 17% of the market in 2022 to 11% in 2023 (see Figure 8). At the same time, we observe an increase in strategies using three or more SI approaches from 70% in 2022 to 77% in 2023. Figure 9 provides a more detailed overview of the share of the different combinations of SI approaches in 2022 and 2023.

Taken together, this shows a trend towards applying more SI approaches. 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.

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

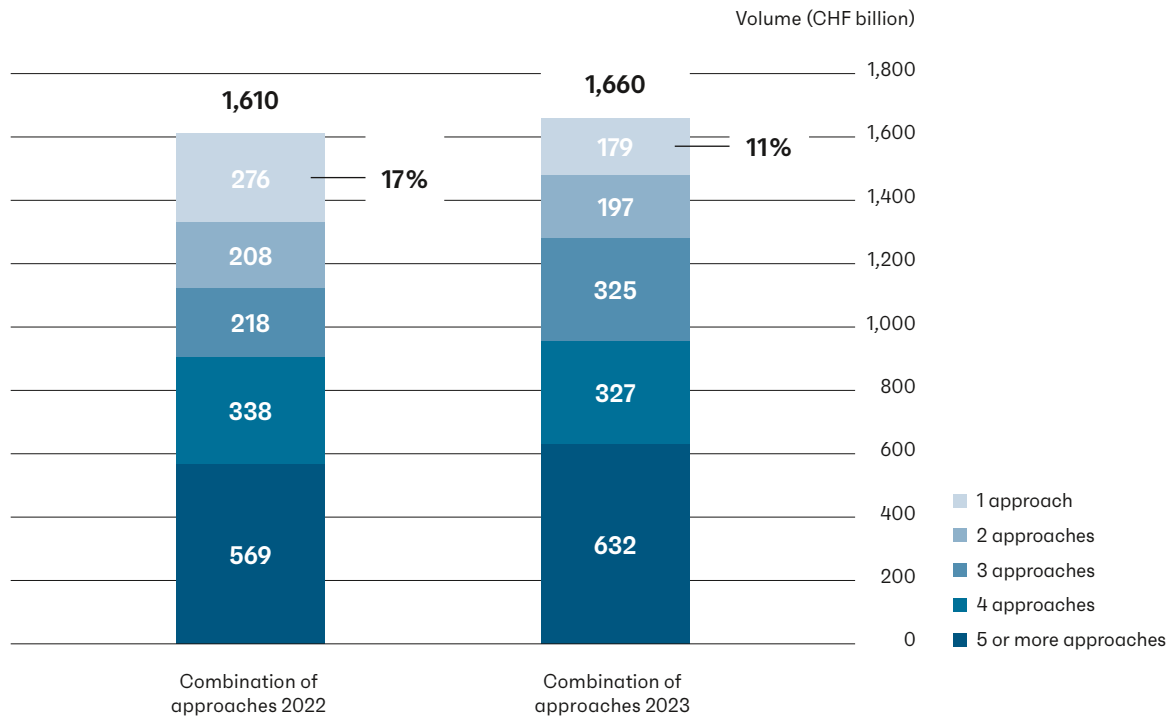


Figure 9: Number of applied SI approaches (in % AuM)

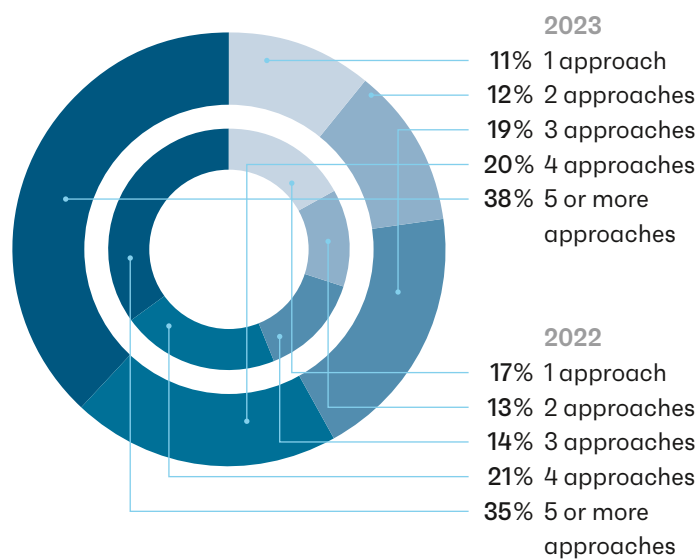


Figure 10 shows the top 10 combinations of SI approaches of asset managers. This data provides one explanation of the decrease in using single SI approaches, which is partly due to a decrease in asset managers' volumes that only use exclusions. While exclusions as a stand-alone approach was the most common form last year (CHF 148.2 billion), it fell to second position this year (CHF 116.8 billion). This is likely a reaction to the AMAS self-regulation¹⁴, which explicitly excludes strategies that only implement exclusions from its definition of sustainable investments.

While exclusions as a stand-alone approach decreased in importance, generally exclusions are still very common in combination with other SI approaches, being part of all top ten combinations. Norms-based screening, ESG integration and ESG engagement are also common, being represented in seven of the top ten SI approaches of asset managers.

The complex combination of exclusions, norms-based screening, sustainable thematic investments, ESG engagement, ESG integration and climate-alignment increased its position from second to first compared to last year. Even though climate-alignment is the newest SI approach, it is already part of the most used combination of SI approaches by asset managers, showing its high relevance in the Swiss market. The importance of such complex combinations could also be explained by the fact that climate-alignment can only be achieved by the application of a combination of SI approaches like exclusions, thematic investing, and engagement.

For asset owners (Figure 11), exclusions as a stand-alone approach also declined in popularity compared to last year, falling from sixth to eighth place. Exclusions in combination with other approaches also remains popular for asset owners, being represented in eight of the top 10 combinations of SI approaches. The top combination includes exclusions, ESG integration, ESG engagement, ESG voting, and impact investing representing approaches suited to pursue all three investor objectives (financial performance, values alignment, and positive change). Compared to last year, climate-alignment is not represented as a stand-alone approach anymore. But it is part of four of the top 10 SI approaches, showing its relevance for asset owners as well.

¹⁴ 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/self-regulation/sustainable-finance-self-regulation>

Figure 10: Top 10 combinations of SI approaches applied by asset managers
(in CHF billion) (n=54)

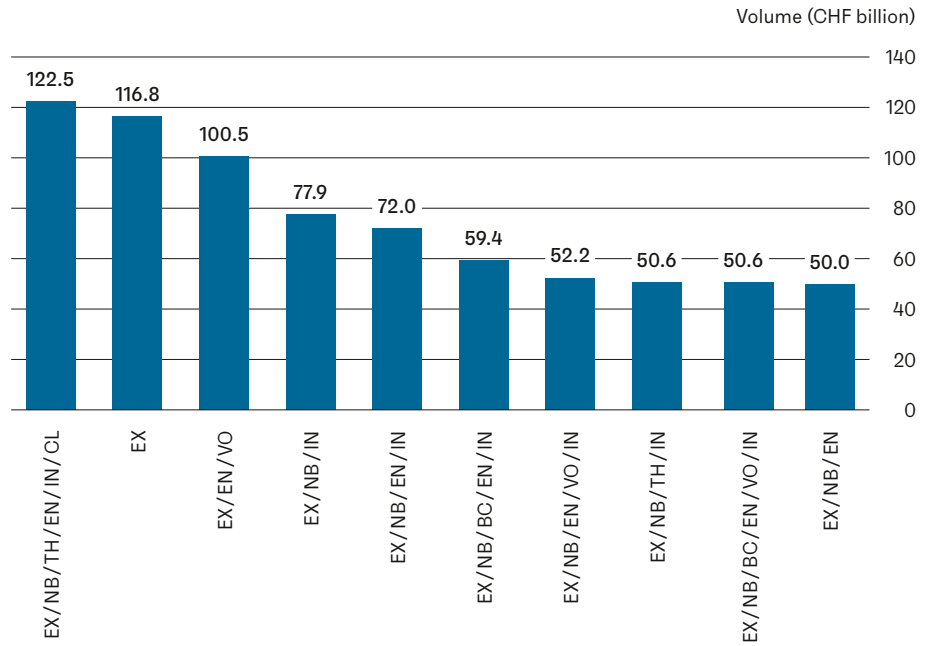
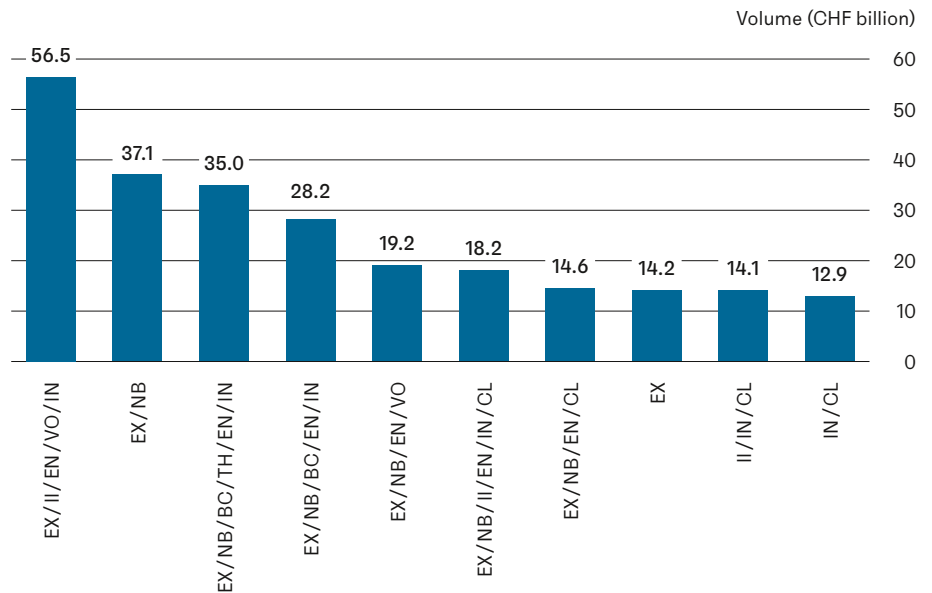


Figure 11: Top 10 combinations of SI approaches applied by asset owners
(in CHF billion) (n=25)

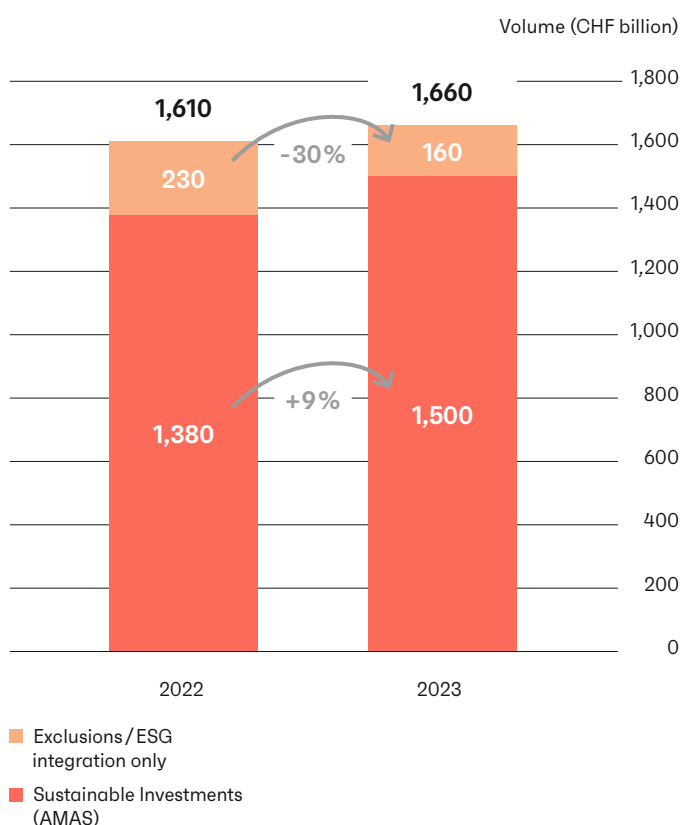


Legend to Figure 10 & 11
Abbreviations used for combinations

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

2.3 Sustainable investment as defined by AMAS self-regulation

Figure 12: Breakdown and development 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 and it came into force on 30 September 2023.¹⁵ The self-regulation does not fall under FINMA supervision; however, AMAS members are required to comply with the guidelines. 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).

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. This year’s market study continues to use the AMAS definition of sustainable investments as one perspective on what deserves the term “sustainable investment”. After deducting volumes that apply only the exclusion or the ESG integration approach from the total Swiss sustainability-related volumes,

the resulting volume of “sustainable” investment according to AMAS is CHF 1,500 trillion (or 90%) compared to total assets of CHF 1,660 trillion (Figure 12).

Figure 12 shows the development of sustainability-related volumes based on AMAS’ perspective. The share of sustainability-related volumes that can be considered “sustainable” according to AMAS increased from 86% in 2022 to 90% in 2023. Consequently, the share of approaches using only exclusions or ESG integration as an SI approach decreased from 14% in 2022 to 10% in 2023. This is very likely a reaction by Swiss financial market participants to the AMAS self-regulation, which would explain the decrease in using only exclusion as an SI approach by Swiss asset managers observed in section 2.2. Overall, this development might be an indication that Swiss market participants are reacting to the ongoing discussions about what deserves the term “sustainable investment” and no longer reported assets that only rely on exclusions or ESG integration only. Furthermore, some managers might have improved their processes by adding additional SI approaches as a reaction to the AMAS self-regulation.

Like last year, it remains to be seen whether linking definitions to individual SI approaches will be the way forward, especially considering national and international discussions like the review of the SFDR. AMAS’s 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. This year’s data shows that this view is increasingly applied by many market players. To provide more details on the ambition of different strategies and funds, the Swiss market study continues to use the Eurosif methodology, which goes beyond looking at the type or number of SI approaches.

¹⁵ AMAS (2022): Self-regulation on transparency and disclosure for sustainability-related collective assets. Available at: <https://www.am-switzerland.ch/en/regulation/self-regulation/sustainable-finance-self-regulation>

2.4 Results based on the Eurosif methodology

In February 2024, the European Sustainable Investment Forum (Eurosif) published a new methodology for future market studies on sustainability-related investments.¹⁶ The methodology was developed by Eurosif's SRI Study Group (SSG), in cooperation with the University of Hamburg, the Sustainable Finance Research Group, and Advanced Impact Research (AIR). In 2023, both feedback from SSG members and other practitioners was gathered to make the methodology more practicable. It builds upon an earlier version of the methodology developed in a white paper¹⁷, which was the basis for the pilot study conducted in last year's SSF Market Study. The insights from SSF's pilot study in 2023 were an important input in developing this Eurosif methodology. It continues to

build on widely applied SI approaches as defined by the Global Sustainable Investment Alliance (GSIA), the United Nations Principles for Responsible Investment (PRI), and the CFA Institute¹⁸ and combines them with the classification proposed by the Impact Taskforce established by the G7.¹⁹ The result is a classification scheme of four categories for sustainability-related investments that aims to differentiate their investment strategy and objective to actively support the transition towards a more sustainable economy. The four categories are (1) Basic ESG investments, (2) Advanced ESG investments, (3) Impact-Aligned investments and (4) Impact-Generating investments (see Figure 13).

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

		Basic ESG	Advanced ESG	Impact-Aligned	Impact-Generating
Investment objective		Integration of ESG factors	Systematic analysis & incorporation of ESG factors	Align with positive impacts on environment and/or society	Measurable contribution to positive real-world impacts
Investment process	Investment approach	Binding negative or positive screening	Binding negative & positive screening (≤80% of initial universe investable)	Binding negative & positive screening for assets with positive impact	Exclude non-transformable activities & use stewardship or provide new capital to assets to generate measurable positive impact
	Performance Measurement	–	Measurement of ESG performance	Measurement of company impact	Measurement of company impact & investors contribution
Ambition level		Low	Moderate	Medium	High
Investment focus		Double materiality			

Source: Busch et al. (2024): Methodology for Eurosif Market Studies on Sustainability-related Investments. Measuring progress of capital flows to support the sustainable transition of the real economy.

16 Busch et al. (2024): Final Report: Methodology for Eurosif Market Studies on Sustainability-related Investments. Measuring progress of capital flows to support the sustainable transition of the real economy. Available at: https://www.eurosif.org/wp-content/uploads/2024/02/2024.02.15-Final-Report-Eurosif-Classification_2024.pdf

17 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>

18 GSIA et al. (2023): Definitions for Responsible Investment Approaches. Available at: https://www.gsi-alliance.org/wp-content/uploads/2023/10/ESG-Terminology-Report_Online.pdf

19 Impact Taskforce (ITF) (2021): Financing a better world requires impact transparency, integrity and harmonization. Workstream A. Available at: <https://www.impact-taskforce.com/media/105ntb41/workstream-a-report.pdf>

Box 1: Description of the four sustainability-related investment types²⁰

Investment type	Description
Basic ESG	The main objective of Basic ESG investments is to integrate ESG factors with a focus on ESG risks or opportunities, including a possible focus on normative or ethical reasoning. To implement this goal, they use binding negative or positive screening, i.e. restrictions in the selection of companies or assets. While Basic ESG investments assess risks or opportunities to implement their investment approach, they do not carry out explicit ESG performance measurements. They have a low ambition level since they do not include the 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.
Advanced ESG	Advanced ESG investments systematically analyse and incorporate ESG factors with a focus on ESG risks and opportunities. While the transition towards a more sustainable economy is not the explicit focus of such investments, Advanced ESG investments can still indirectly contribute to the transition. To manage ESG risks or opportunities, Advanced ESG investments apply binding positive and negative screenings. One important criterion that distinguishes Advanced from Basic ESG investments is that only 80 percent or less of the initial investment universe is still investable after screening. Another important difference is that Advanced ESG investments measure the ESG Performance of investees or assets they invest in. Advanced ESG investments have a moderate ambition level. While they have a focus on financially material sustainability matters, they can aim to utilise ESG opportunities or trends. If these trends are material from both a financial and impact perspective (e.g., financing new renewable energy projects), Advanced ESG investments can also contribute to the sustainable transition of the economy.
Impact-Aligned	Alongside their financial risk and return objective, Impact-Aligned investments have the objective and strategy of contributing to positive social or environmental real-world changes by aligning with positive impacts of investees or assets. They use binding positive and negative screening to implement this objective. In contrast to Advanced ESG investments, Impact-Aligned investments measure company impact performance which captures the impacts of investees (company impact). Impact-Aligned investments have a medium ambition level because they explicitly aim to align their portfolio with investees with positive impacts. This impact focus increases the likelihood of an actual contribution towards a sustainable transition through the allocation of capital to companies and assets with positive impacts.
Impact-Generating	Impact-Generating investments have an objective and a strategy of contributing to positive real-world impacts through their investment process alongside their financial risk and return objective. They use negative and either positive screening or stewardship to implement their investment objective. Impact-Generating investments differ from Impact-Aligned investments in that they aim to actively change investees' impacts in a more sustainable direction through investor actions (stewardship or new capital). Impact-Generating investments measure impact performance both at the investee or asset level (company impact) and the investor level (investor contribution). Consequently, Impact-Generating investments have a high ambition level, going beyond the alignment of their portfolio with companies that have positive impacts.

The Eurosif methodology was changed in important aspects when compared to the methodology used in last year's SSF market study (see appendix for more details on these changes). The updated version is better suited to provide an assessment of whether investments have the potential to actively support the transition towards a just and sustainable economy, since its criteria are clearer and its categories easier to distinguish. Since last year's market study used the older version of the Eurosif methodology, it is important to note that while there's a degree of comparability between last year's and this year's findings, they are not entirely comparable.

²⁰ Source: Busch et al. (2024): *Methodology for Eurosif Market Studies on Sustainability-related Investments. Measuring progress of capital flows to support the sustainable transition of the real economy*. Available at: https://www.eurosif.org/wp-content/uploads/2024/02/2024.02.15-Final-Report-Eurosif-Classification_2024.pdf

Figure 14 shows how the overall sustainability-related volumes of both asset managers and asset owners are classified into the four types of sustainability-related investment based on the Eurosif methodology. The next section describes the results in more detail.

Basic ESG

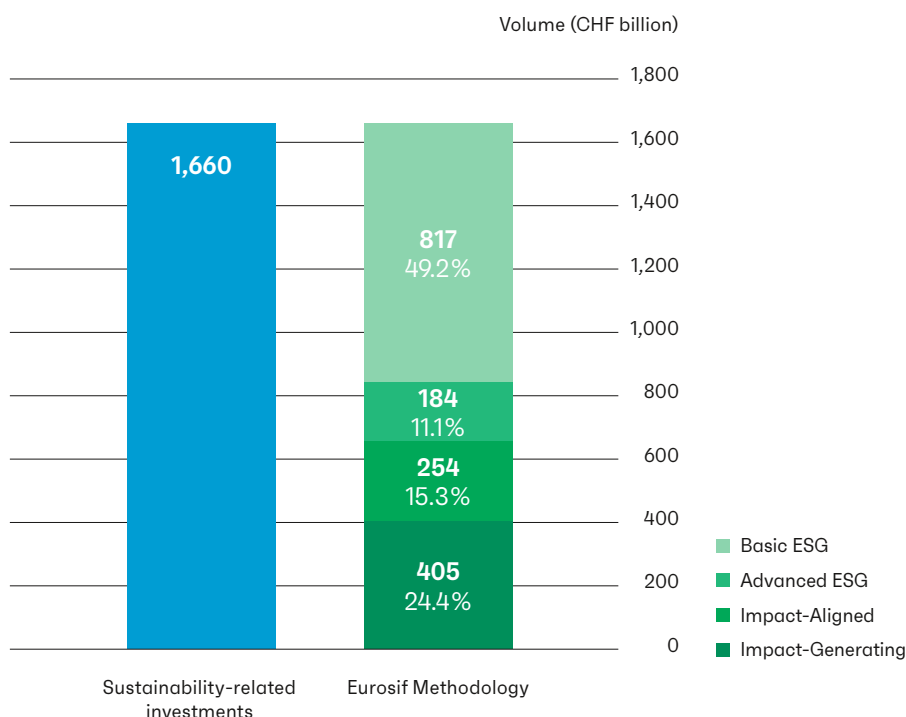
CHF 817 billion, or 49% of this year's sustainability-related volumes, fell in the category of Basic ESG investments. For asset managers, this share is the same (CHF 637 billion). For asset owners, the share of Basic ESG investments is slightly higher with 51% or CHF 180 billion of all their volumes.

The large share of Basic ESG investments has different explanations. First, it now includes the former "Exclusion-Focused" category. Second, many strategies classified as Basic ESG either do not fulfil the 80% selection threshold or the performance measurement conditions of Advanced ESG investments. Looking at the Basic ESG volumes in more detail shows

that CHF 504 billion or 61.7% of all Basic ESG volumes fulfil one but not all aspects of Advanced ESG investments. CHF 68 billion (8.3%) fulfil the 80% selection threshold of Advanced ESG, but not the requirements for performance measurement. CHF 436 billion (53.4%) of Basic ESG volumes apply performance measurement, but do not fulfil the selection threshold of 80%.

Last year, the majority of Basic ESG volumes could not be classified as Advanced ESG due to their missing performance measurement. This year, this only applies to 8.3% of Basic ESG volumes. This might be due to participants getting used to the previously new questions about performance measurement. Using the Eurosif methodology also illustrates that a large share of Basic ESG volumes is not classified into Advanced ESG because they are missing the 80% threshold criterion. In other words, the methodology helps better understand and provide transparency for different levels of rigor applied in ESG-related selection processes.

Figure 14: Breakdown of sustainability-related investment volumes based on new Eurosif methodology (in CHF billion)



Advanced ESG

Advanced ESG investments account for 11% (CHF 184 billion) of all sustainability-related investment volumes. CHF 153 billion, or 12% of asset managers' sustainability-related volumes, can be classified as Advanced ESG. This share is higher compared to asset owners for which 9% (CHF 31 billion) of their investments correspond to Advanced ESG. The main difference between Basic and Advanced ESG investments is that the latter use ESG performance measurement such as ESG ratings to track the results of the applied SI approaches. In addition, Advanced ESG investments also use positive screening approaches which result in a higher selectivity (80% or less of the initial investment universe) compared to positive screening approaches used by Basic ESG investments.

The results show that using the Eurosif methodology leads to a relatively small share of the overall market being classified as Advanced ESG investments. This is not only due to missing ESG performance measurement, but also due to a large share of Basic ESG investments not implementing selection processes that are strict enough to be considered Advanced ESG.

Impact-Aligned

Impact-Aligned investments make up 15% of overall volumes, or CHF 254 billion. Asset managers' share for this type is 19% (CHF 253 billion), while for asset owners the share is 0.3% (CHF 1 billion) of their total assets. This astonishingly low share of Impact-Aligned investments for asset owners is partly due to asset owners implementing sophisticated stewardship approaches that lead to a high share of their volumes being classified as Impact Generating investments.²¹ Compared to Basic or Advanced ESG investments, a core difference of Impact-Aligned investments is that they do not measure overall ESG performance, but instead the share of portfolio constituents that contribute to a specific sustainability goal. For example, they measure 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 a benchmark. Impact-Aligned investments, therefore, go further in integrating a double materiality perspective into their investment processes than Basic or Advanced ESG investments.

²¹ Another reason for the small share of Impact-Aligned investments for asset owners is that some candidates who submitted the questionnaire for asset owners for the market study 2023 have reported as asset managers for this year's market study. These participants had very high shares of Impact-Aligned investments. Would we classify them as asset owners in this year, the share of Impact-Aligned investments of asset managers and asset owners would be 15% and 17% respectively.

Impact-Generating

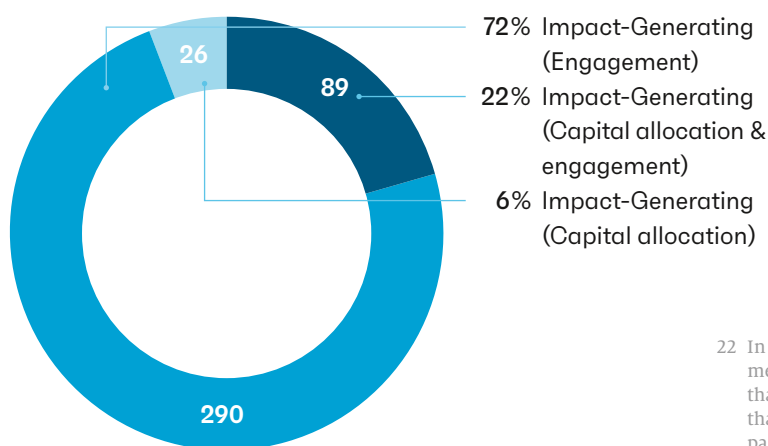
24%, or CHF 405 billion, of all sustainability-related volumes can be classified as Impact-Generating investments. Using the Eurosif methodology, they represent a surprisingly large share of overall volumes. For asset managers, this share is lower, at 20% (CHF 265 billion) of their total assets. For asset owners, the share is higher, at 40% (CHF 140 billion) of their total assets. This high share of Impact-Generating investments might be partly due to the sophisticated stewardship systems of asset owners' services providers.²² The main difference between Impact-Aligned and Impact-Generating investments is that the latter provide evidence of their investor contribution. The Eurosif methodology assesses this by asking participants whether they measure their own contribution as an investor. For stewardship approaches, the methodology goes further and asks whether participants have (1) a formalised engagement policy, (2) specific engagement objectives targeting significant social or environmental improvements of investees, and (3) a monitoring system that tracks the impact of engagement activities and measures the progress towards the achievement of the engagement objectives.

There are several possible explanations for this high share of Impact-Generating investments. First, the engagement approaches implemented by participants are getting

more sophisticated. Many participants answered that they fulfil all three criteria mentioned above (formal engagement policies, clear objectives for improving the social or environmental performance of investees and monitoring systems tracking engagement results). They also stated that they are explicitly measuring investor contribution. Second, these results could show learning effects in the market regarding impact, as the topic remains an important and ongoing discussion with last year's market study providing important input. A third reason for the large share of Impact-Generating investments with an engagement focus could be that Swiss market participants are increasing their focus on strategies that have a high potential to generate positive impacts. The data on combining SI approaches and the perspective of the AMAS self-regulation provided evidence that market participants increased the number of SI approaches applied. The results of the Eurosif methodology complete the picture, showing that not only the number of SI approaches increased, but also the volume of investments with a higher ambition level to contribute to a sustainable transition.

We also analysed different types of Impact-Generating investments in more detail (Figure 15). The results show that most volumes classified as Impact-Generating investments are engagement strategies (72%), while 6% of all Impact-Generating volumes use capital allocation as a mechanism for investor contribution. Some participants answered the questions regarding Impact-Generating investments broadly across strategies and asset classes, fulfilling the criteria for both forms of impact generation (capital allocation and engagement). To capture these volumes, these cases were analysed separately. They make up CHF 89 billion or 22% of all Impact-Generating investments.

Figure 15: Sustainability-related investment volumes based on new Eurosif methodology: Breakdown of Impact-Generating investments (in CHF billion)



²² In addition, this relatively large share of Impact-Generating investments for asset owners is to a large degree due to one participant that implements a sophisticated impact measurement approach and that answers the questionnaire for all its self-managed assets. This participant's self-managed assets make up 40% of all Impact-Generating volumes for asset owners. Without the volumes of this outlier, Impact-Generating investments make up 24% of all sustainability-related volumes of asset owners.

Conclusions from applying the Eurosif methodology

Applying the Eurosif methodology helps to go beyond analysing sustainability-related investments based on the combination of SI approaches. The methodology provides transparency about an investment's ambition level to contribute to a sustainable transition, showing that the share of investments that focus on impact is surprisingly large (CHF 659 billion, or 40% of all sustainability-related investment volumes, see Figure 14, Impact-Aligned and Impact-Generating investments). At the same time, by differentiating Basic from Advanced ESG investments, the results also show how investments that focus on ESG risks and opportunities can vary in how strictly they apply their selection processes and whether they use ESG performance measurement. As a result, the methodology also provides important transparency for those investors who integrate ESG factors into investment processes with the objective to improve their risk and return profile. While regulators and NGOs push for more investments contributing to the transition, we have to acknowledge that financial goals remain valid motivations for choosing sustainability-related investments.

One result of last year's pilot study was that response rates to some of the key questions dividing Basic and Advanced ESG investments were relatively low. This year, when applying the Eurosif methodology, the response rate to questions about ESG or Impact performance measurement increased. This improvement in responses might have different reasons. First, the Eurosif methodology replaced concepts that might have

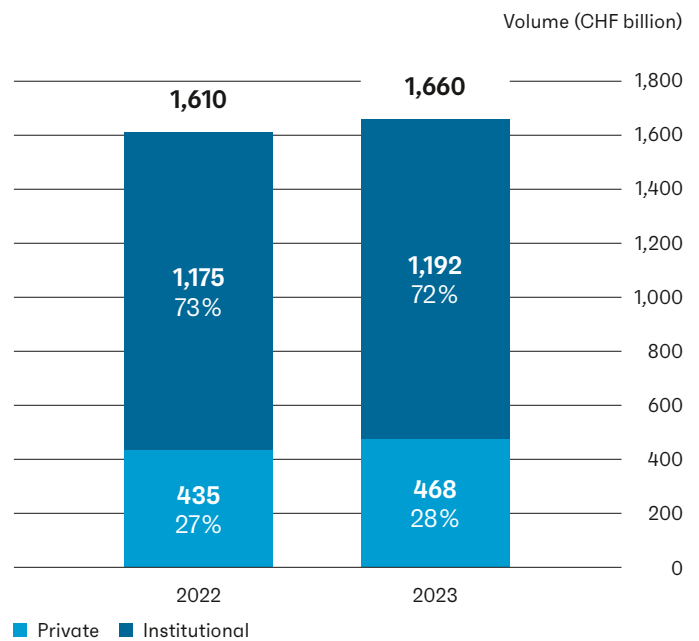
been unfamiliar to market participants (e.g. investor impact) with concepts used more often in practice (e.g. investor contribution). Second, the questions necessary for the classification were placed more prominently in the questionnaire. Third, as mentioned above, participants strengthened their measurement of sustainability-related volumes, especially regarding stewardship approaches. All three developments likely led to participants answering the relevant questions more accurately and to a smaller share of Basic ESG investments.

The results of the Eurosif methodology also show that market participants not only react to stricter definitions of "sustainable investment" as provided by AMAS, but also put a strong focus on strategies that have a higher ambition to contribute to a sustainable transition, as represented in the high share of Impact-Aligned and -Generating investments. It is important to note, however, that this market study is not able to provide any details about how participants implement their impact-related investment processes. As such, future case studies and deep dive investigations should focus on how participants measure the company impact of their investees and based on this, how they determine their own investor contribution. Establishing effective stewardship strategies is one key lever of investor contribution, at least as much as developing and scaling products that bring capital to sectors and regions that are currently underserved. The large share of Impact-Generating investments using engagement approaches shows that that this message has reached both asset managers and asset owners.

3.1 Investor types

As Figure 16 shows, institutional investors are still more prominent in the application of sustainable investment approaches than private investors, with institutional investors making up 72% of the total sustainability-related volumes.²³ The volume of private investors increased slightly from CHF 435 billion in 2022 to CHF 468 billion in 2023. The same is true for institutional investors, whose assets increased slightly from CHF 1,175 billion in 2022 to CHF 1,192 billion in 2023.

Figure 16: Development of private and institutional sustainability-related investments (in CHF billion) (n=80)



²³ 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 partly 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 2023 is above that of non-sustainability-related funds (51%, see Figure 17). As of 31 December 2023, the total volume of the Swiss fund market stood at CHF 1,371 billion.²⁴ This represents an increase in overall fund volumes of around 3,5% compared to the previous year. The reported sustainability-related funds amounted to CHF 697 billion, which corresponds to an increase of around 0,4% compared to the previous year. One reason for the lower increase in sustainability-related funds compared to the overall fund market could be that some asset managers stopped reporting funds that only use ESG integration or exclusions leading to lower volumes of sustainability-related funds being reported this year. The results show that sustainability-related funds still account for around half of the total fund market in Switzerland.

Figure 17: Proportion of sustainability-related funds in the overall Swiss fund market (in % of total fund market)

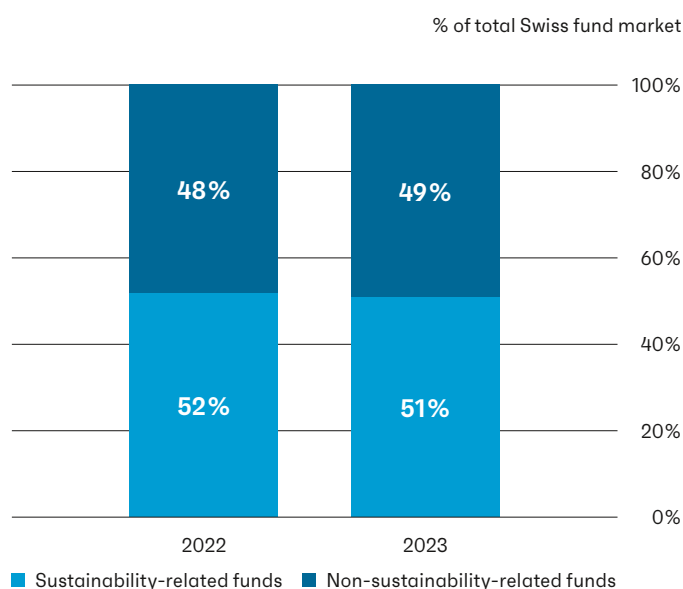
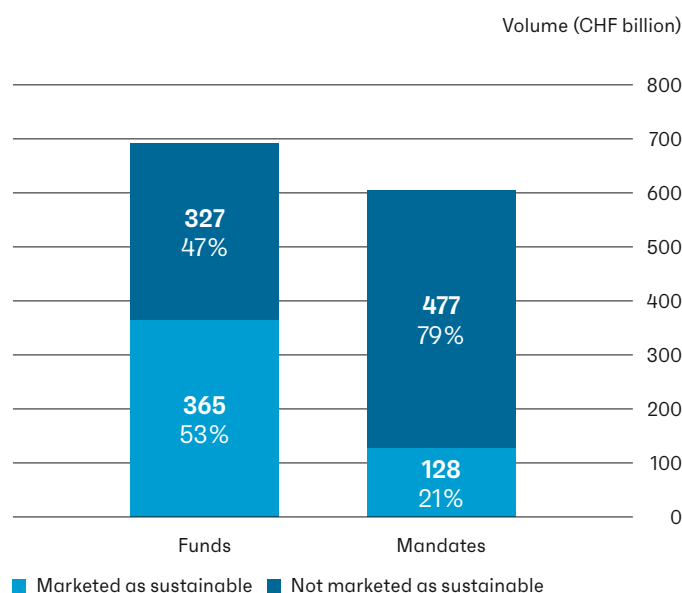


Figure 18 shows that asset managers market over half of their reported sustainability-related funds as sustainable products (53%). For mandates, it is about 21%. The low share is a result of the method of this study, which aims to assess all sustainability-related investment practices in the market, including products that are not marketed as “sustainable”.

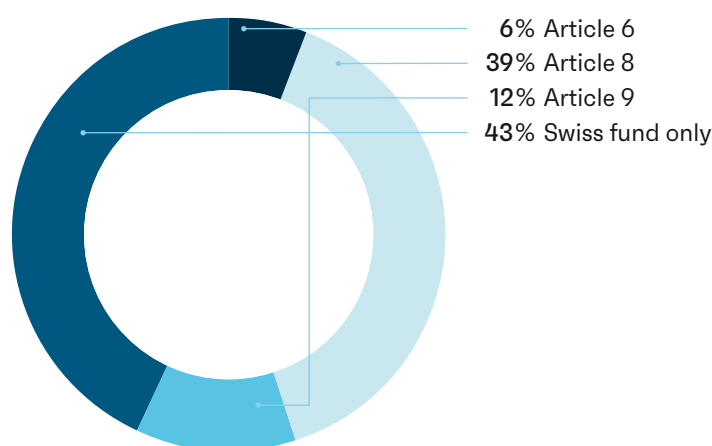
Figure 18: Marketing of sustainability-related products by asset managers (in CHF billion) (n=53)



²⁴ AMAS (2023): Swiss Fund Market Statistics – Month-End Analysis 31.12.2023. Available at: <https://www.swissfunddata.ch/sfdpub/fundmarket-statistics>, accessed 01/04/2024

Asset managers were asked to disclose if their funds fall under any classification regarding EU regulation (SFDR). As Figure 19 shows, 57% of the sustainability-related funds fall under either Article 6, 8 or 9 of the SFDR. 6% are Article 6²⁵ funds, 39% are Article 8 funds and 12% are Article 9 funds. 43% are Swiss funds only, which means they are not subject to the regulation. Since the European Commission is currently reviewing the SFDR, it is unclear whether the categories of Article 6, 8 and 9 products will continue to exist or whether the Commission will establish new categories.

Figure 19: Classification of funds based on EU regulation by asset managers (in % AuM) (n=41)



²⁵ 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.

3.3 Sustainable investment approaches

Figure 20 presents the total volumes for each SI approach applied standalone or in combination with others in 2023, with a comparison to 2022. These volumes include data from both asset managers and asset owners. Exclusions remain the leading approach in 2023, followed by norms-based screening, ESG integration and ESG engagement.

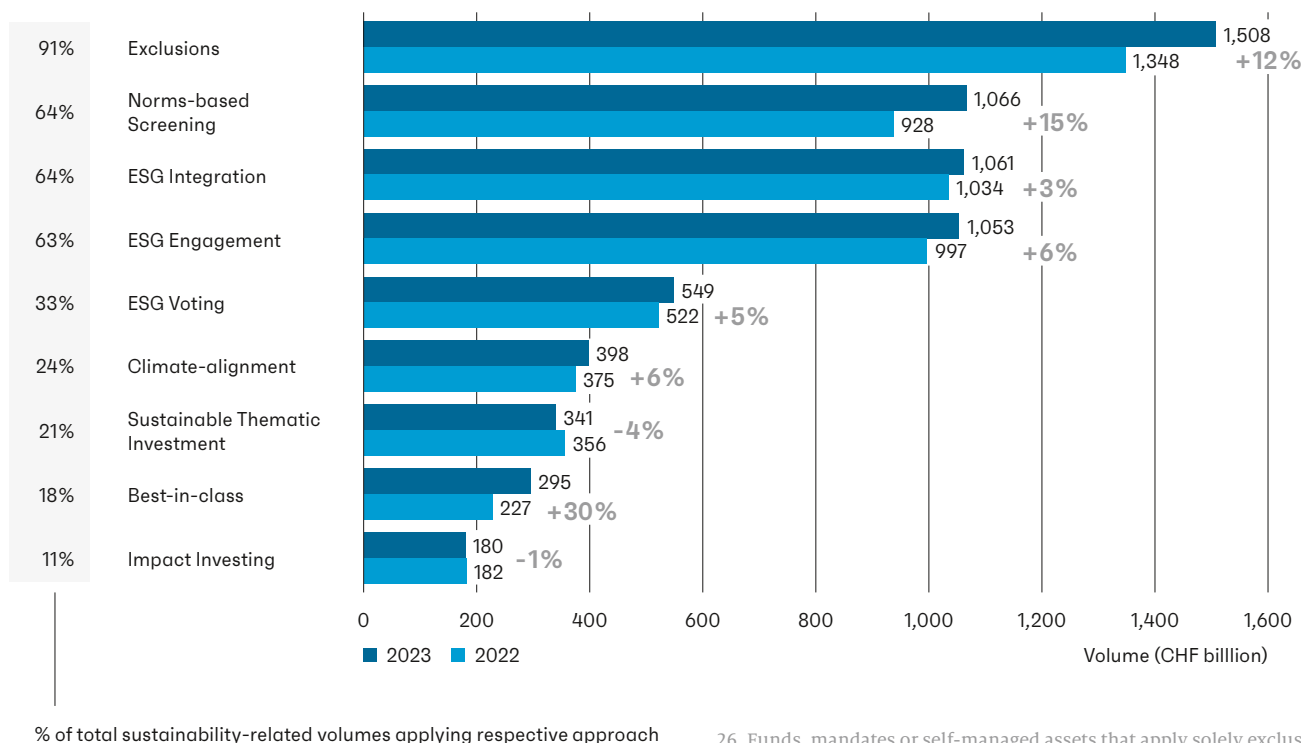
After sustainable thematic investments and impact investment strongly increased last year (86% and 80% respectively), they show slight declines in volumes this year (4% and 1%). The volumes of all other sustainable investment approaches increased at a rate higher or the same as the overall increase in sustainability-related investment volumes (3%). This shows, again, that participants are using more combinations of SI approaches, leading to increases in their combined usage as shown in Figure 20. The climate-alignment approach continues to show its relevance with an increase of 6% although it is a relatively new approach that was introduced in last year's market study.

Exclusions

The exclusions approach is applied to 91% of all sustainability-related volumes in Switzerland (Figure 20).²⁶ The top five most frequently used criteria were coal, violations of the UN Global Compact, production and trade of weapons, tobacco, and pornography (Figure 21). The appearance of both environmentally and socially driven exclusions in the top five is a signal that market players are aware of issues going beyond climate-related risks. While in 2022 the categories "violation of human rights", "corruption and bribery", "severe environmental degradation" and "labor issues" were listed and were all among the top 5 exclusions, this year these categories were combined under UN Global Compact violations. Looking at the category of "other", questionnaire participants for example excluded pesticides and divested after climate engagement failures.

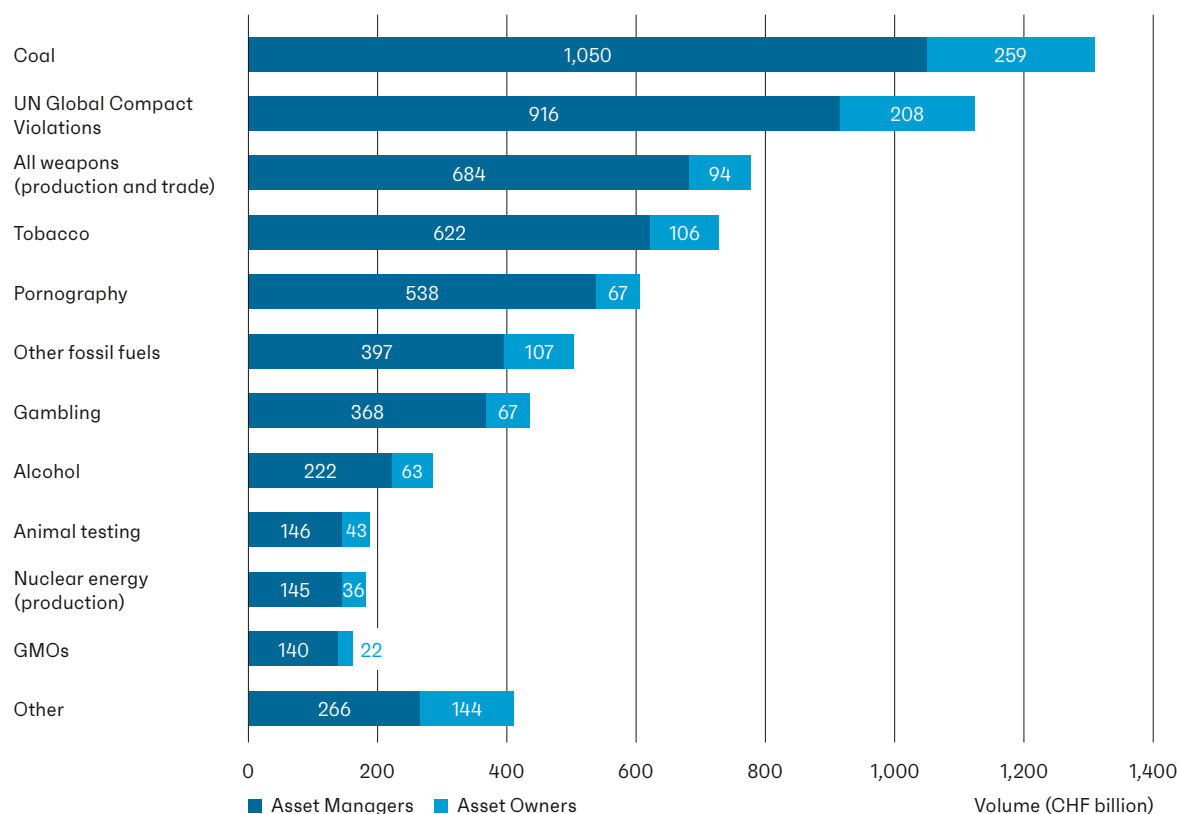
Although all survey respondents were asked about applied country exclusions, only 41 participants responded to this question, representing a small share of sustainability-related

Figure 20: Development of sustainable investment approaches
(in CHF billion) (n=79)



²⁶ Funds, mandates or self-managed 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.

Figure 21: Applied exclusion criteria for companies (in CHF billion) (n=76)



volumes. The majority of reported volumes applying country exclusions did so based on international sanctions. According to the UN, sanctions can pursue a variety of goals, but UN sanctions focus on supporting the political settlement of conflicts, nuclear non-proliferation and counterterrorism.²⁷ 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.

²⁷ UN (2020): *United Nations Security Council – Sanctions*. Available at: <https://www.un.org/securitycouncil/sanctions/information>, accessed 31/03/2022

Figure 22: Criteria for norms-based screening (in CHF billion) (n=61)

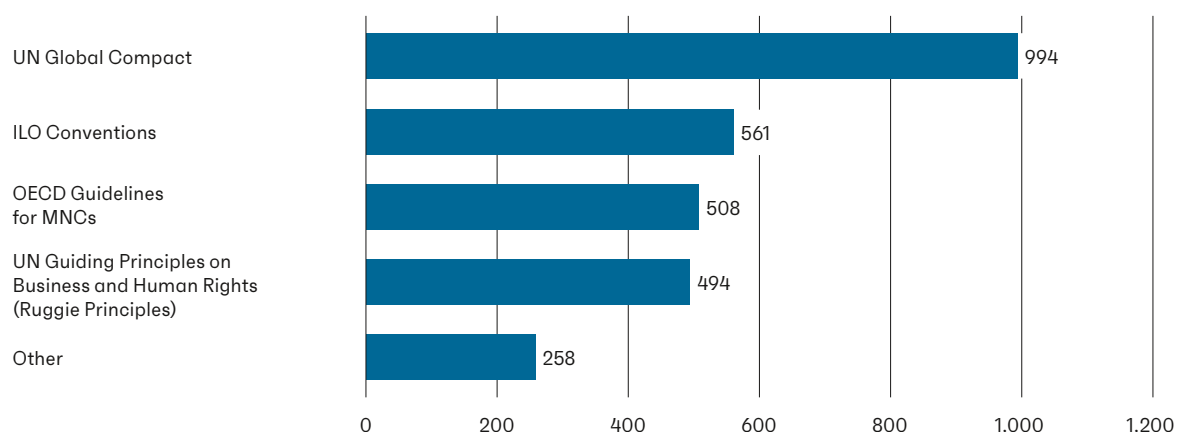
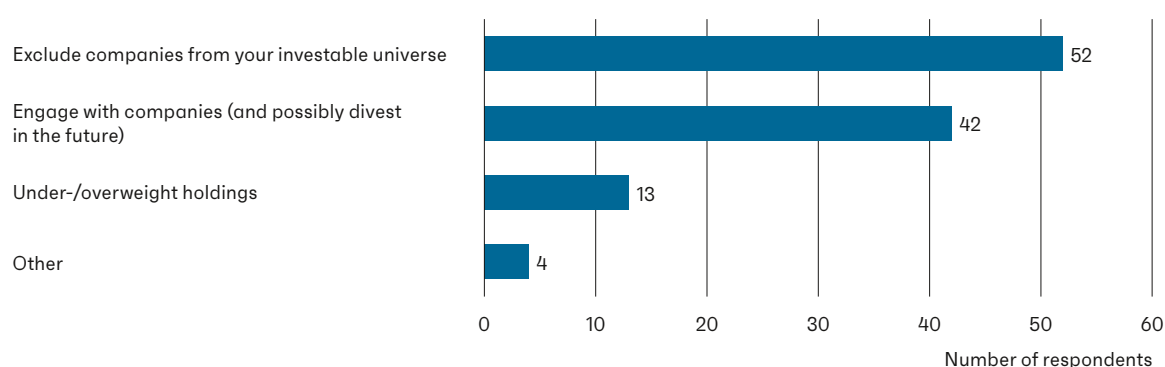


Figure 23: Investor actions following norms violations (in number of respondents) (n=60)



Norms-based-screening

The norms-based approach ranks second and is applied to 64 % of all sustainability-related investments in Switzerland (Figure 20). Figure 22 shows that the most important norm used for screening portfolios is the UN Global Compact. Besides the international frameworks shown in Figure 22, respondents used several other norms as the basis for their screening (e.g. IFC guidelines and standards, or red flags for controversies based on screenings of various research providers).

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 23 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 changes the weightings of their holdings after violations. Examples of actions listed under “other” are further active ownership activities.

ESG integration

ESG integration ranks third among the SI approaches in Switzerland in terms of volumes and is applied to 64 % of all sustainability-related assets (Figure 20). Figure 24 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 or analyses during portfolio construction, which increased slightly in importance compared to 2022. The systematic consideration or inclusion of ESG research in financial ratings or valuations has slightly

Figure 24: Types of ESG integration applied (% of ESG integration AuM) (n=69)

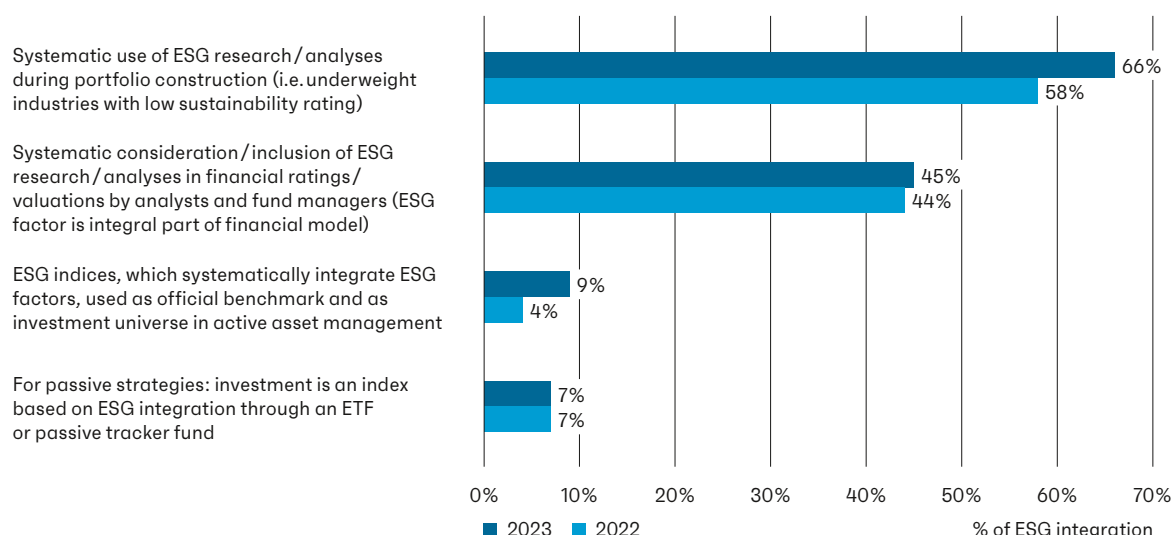
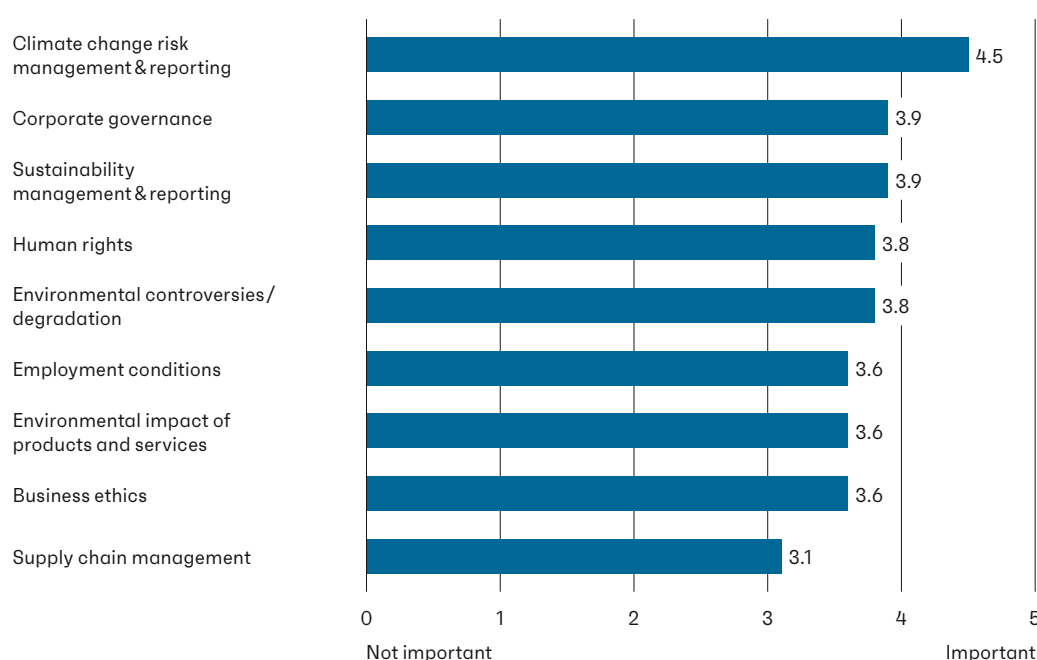


Figure 25: Main ESG engagement themes (in average level of importance) (n=50)



increased in importance as well from 44% in 2022 to 45% in 2023. The same is true for ESG integration using ESG indices which systematically integrate ESG factors as an official benchmark or as the investment universe in active asset management (from 4% in 2022 to 9% in 2023). ESG integration in passive strategies has remained at the same level in 2023 compared to 2022 (7%).

ESG engagement

ESG engagement ranks fourth among the SI approaches and is applied by 63% of all sustainability-related investments in Switzerland (Figure 20). Figure 25 shows that risk management and reporting related to climate change is once again a very important subject for engagement. Furthermore, the importance of corporate governance as an engagement theme continues to be rated as high, reflecting the necessity of strong governance as the basis for a company's environmental and social performance.

For asset managers, around 24% 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 42% 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.

ESG voting

ESG voting is applied to 33% of all sustainability-related assets in Switzerland (Figure 20). This is a relatively high share considering that ESG voting is not relevant for all asset classes. Around 35% of the asset-manager-related volumes apply ESG voting. For asset owners, it is around 27% of the total sustainability-related volumes, which reflects the lower share of equities in the portfolios of asset owners.

In terms of outsourcing voting rights, asset managers outsource about 88% to external service providers. Among asset owners, the percentage of volumes applying an ESG voting approach is notably higher, with voting outsourced for 97% of volumes (refer to Figure 26). Additionally, there is a slight increase compared to the previous year, where the proportion stood at 93%.

Climate-alignment

The climate-alignment approach is applied by 24% of all sustainability-related volumes in Switzerland (Figure 20). Throughout the years, Swiss asset managers and owners, especially those having net zero ambitions, have launched strategies aiming to decrease carbon footprints and carbon intensities of certain portfolios. We observe ambitious climate targets by some market players. 61% of participants that use the climate-alignment approach have the goal to align with a 1.5 degrees scenario (Figure 27). An alignment with a 2 degrees scenario is targeted by 33%. 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 degrees scenario.

The category “other” contains targets that 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 volumes 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 26: Outsourcing of engagement and voting activities
(in % of total engagement or voting volumes) (n=57)

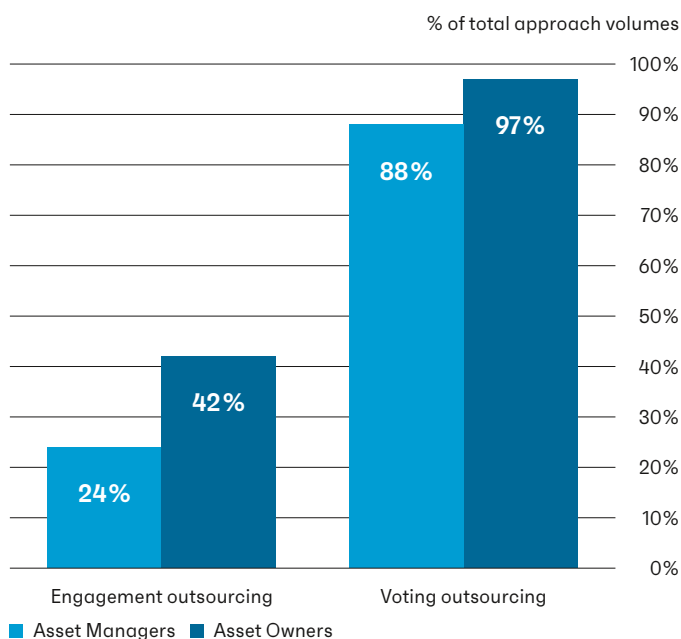


Figure 27: Climate-alignment target scenarios
(in % AuM) (n=26)

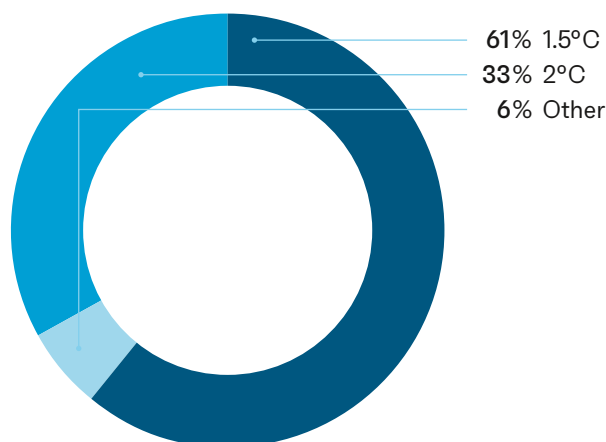
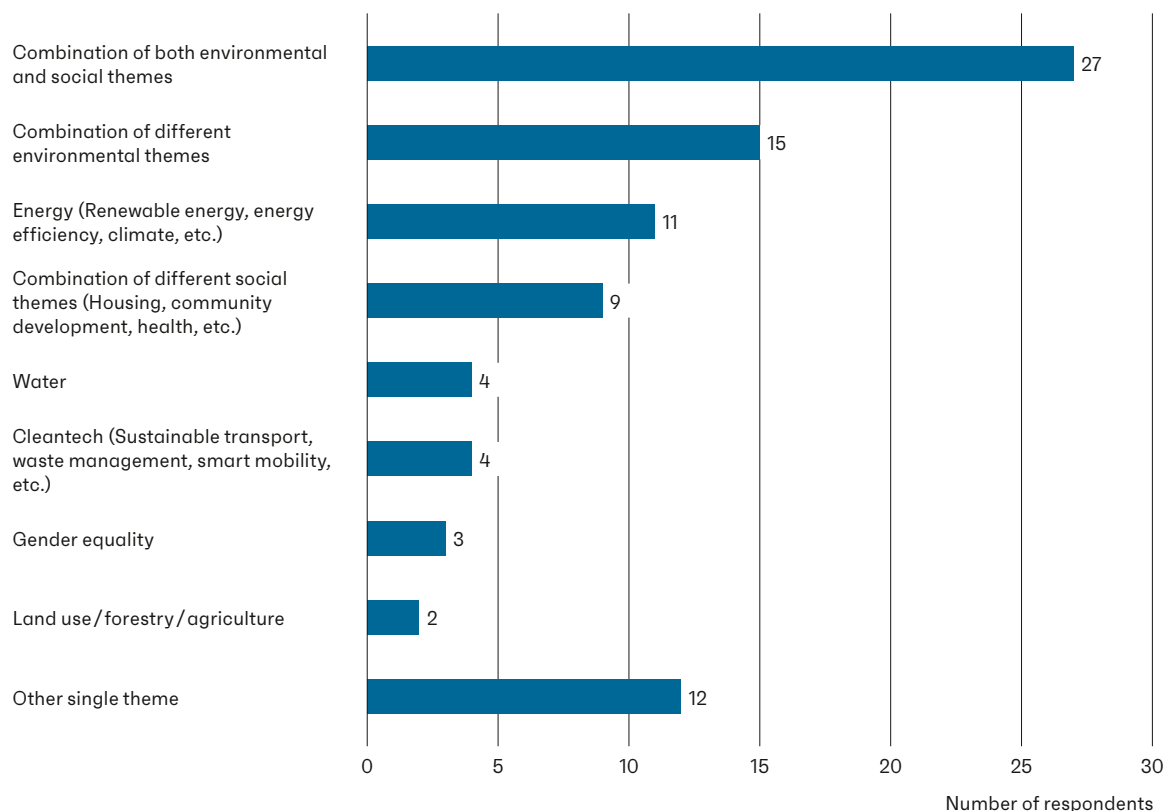


Figure 28: **Main sustainable thematic investment themes for asset managers and asset owners**
(in number of respondents) (n=43)



Sustainable thematic investment

Sustainable thematic investments, now applied by 21% of sustainability-related investments, declined slightly compared to last year's market study (Figure 20). After adapting the thematic themes to better reflect the market development in 2023, the use of a combination of both environmental and social themes ranked highest in terms of number of participants, with a total of 27 out of 43 participants (Figure 28). The second most frequently used theme 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 themes shows the dominance of this subject for thematic investors. Participants also reported to apply other single themes including financial inclusion, a sustainable commodity value chain, resource efficiency, public transport, hospitals and social housing.

Best-in-class

The best-in-class approach represents 18% of all sustainability-related investment volumes 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). Using best-in-class approaches that reduce the investment universe by less than 10% are the most common. They are used by 32% of fund volumes and 40% of mandate volumes. It is debatable whether this should be referred to as “best-in-class”.

Compared to 2022, the best-in-class volumes that consider more than 90 percent to be investable increased significantly. Last year, the shares were at 5% for funds (32% this year) and 15% for mandates (40% this year). At the same time, compared to 2022, the most selective best-in-class approaches increased in relevance for mandates. While the fund volumes investing in 50% or less of the investment universe after the best-in-class selection decreased from 28% to 26%, the mandate volumes increased from 17% to 20%.

This year, the question regarding the selectivity of best-in-class approaches was also developed further, now differentiating between 71%–80% and 81%–90% of the initial investment universe being investable. Last year, this was aggregated into one answer between 71%–90%. This change helps differentiating the selectivity of best-in-class approaches in more detail.

Figure 29: Investment universe reduction based on best-in-class approach for asset managers (in % of best-in-class AuM) (n=31)

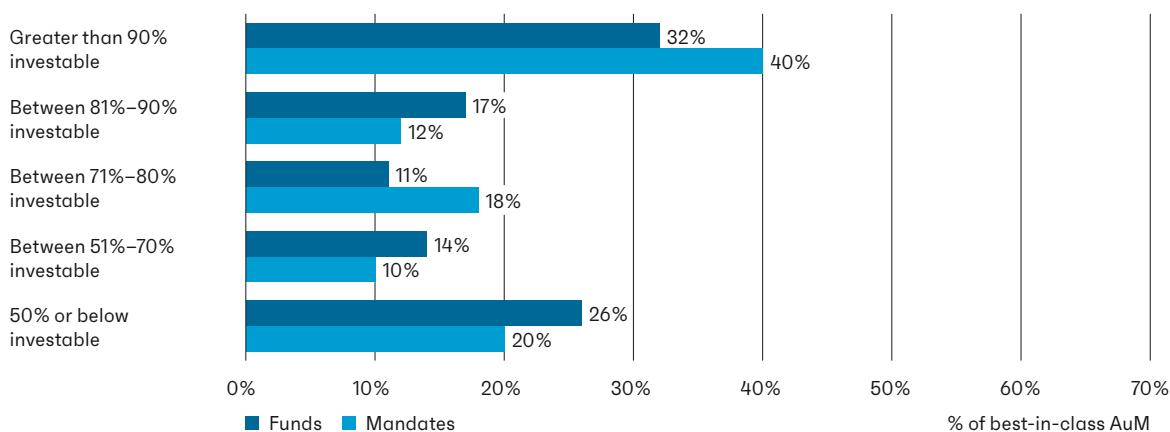
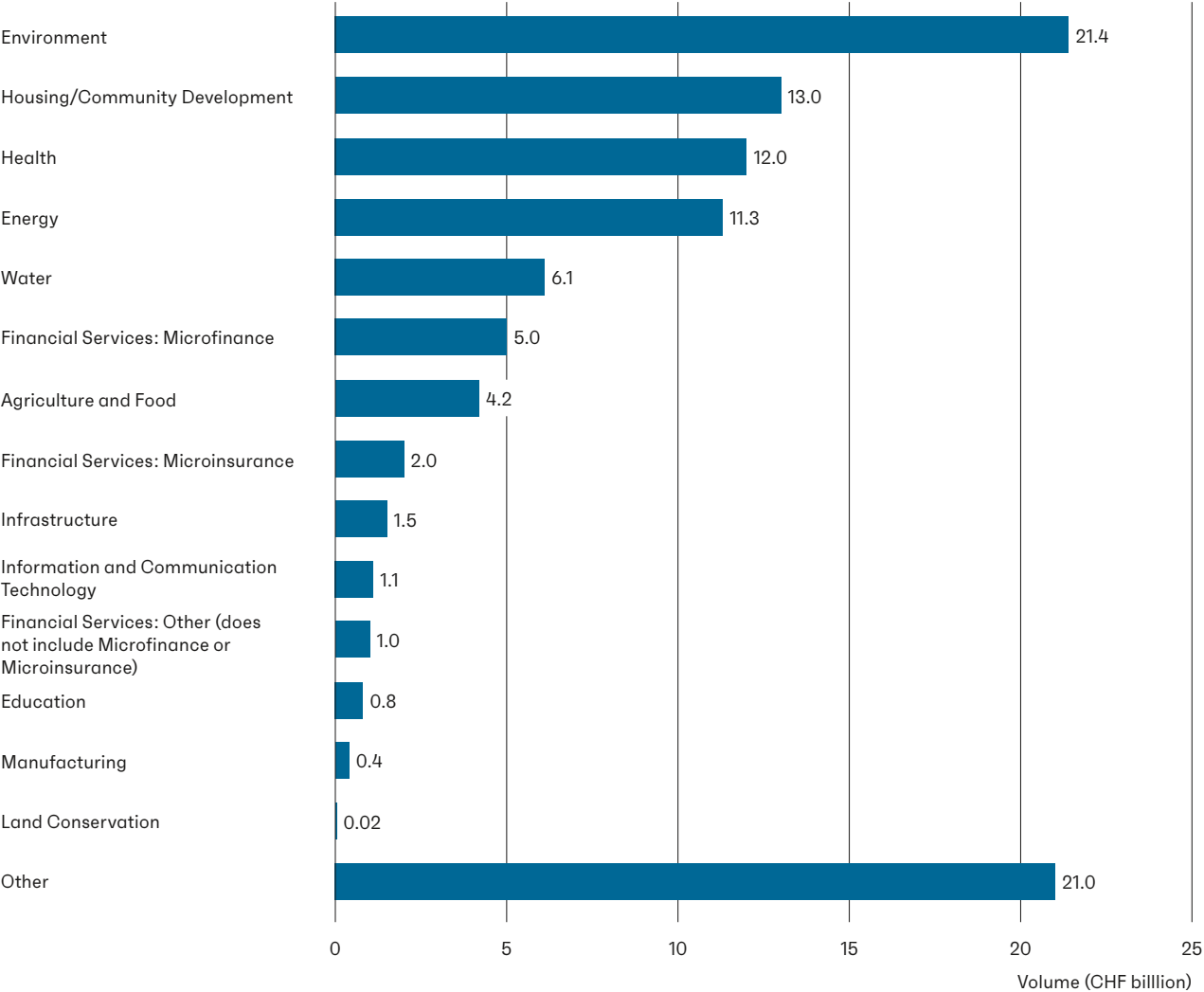


Figure 30: Impact investment by sector for asset managers and asset owners (in CHF billion) (n=20)

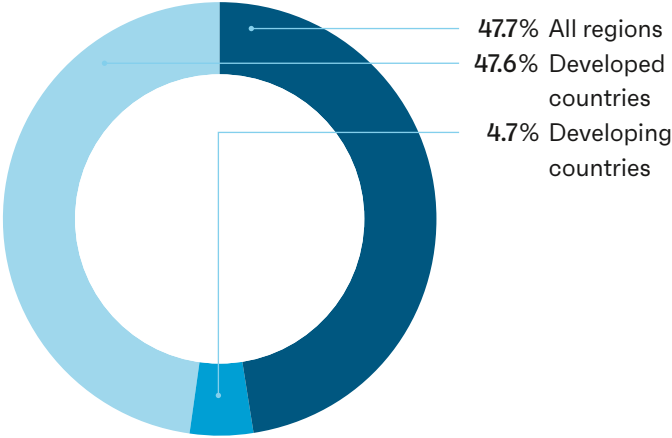


Impact investing

Impact investing shows a small decline compared to 2022 (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 impact investment topics are the environment, housing and community development, health, energy, and water (Figure 30). The category “other” includes mostly real estate and climate-related topics.

Figure 31 indicates that the Swiss impact investment market is focused mainly on strategies linked to all world regions (47,7%). Only 4,7% of Investments focused on developing countries. 86% of impact investment volumes apply publicly available impact investing guidelines, principles or frameworks. The most frequently mentioned principles impact investors adhere to are the IFC Operating Principles for Impact Management. Other guidelines or principles applied by impact investing products were individual green bond frameworks.

Figure 31: Impact investment in developed versus developing countries (in %) (n=29)



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. While equity and real estate have declined compared to 2022, the volume of corporate and sovereign bonds has increased slightly. Together these asset classes cover around 77% of the total volumes (Figure 33). All other asset classes are substantially smaller. Infrastructure, monetary/deposit, supranational bonds and commodities 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 investments managed by asset owners is allocated to bonds. It is not surprising that real estate ranks second with around 24%, 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=76)

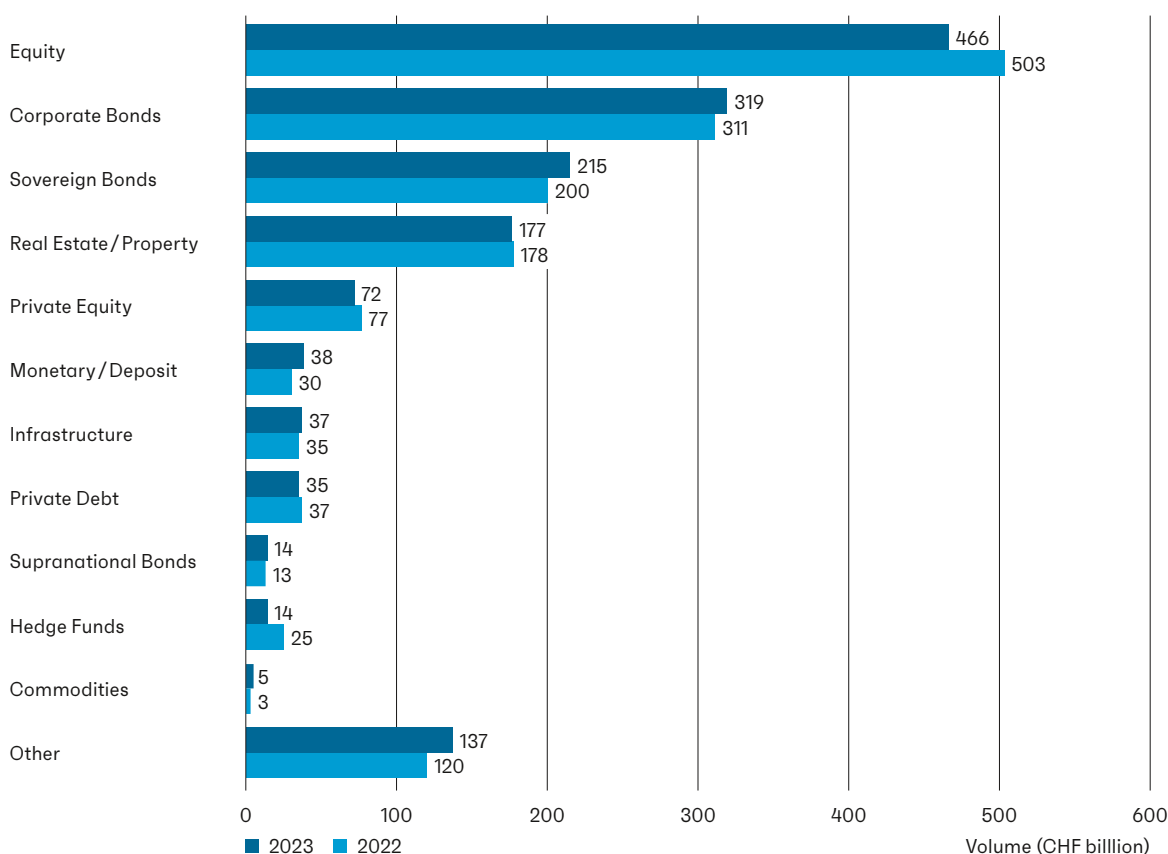


Figure 33: Asset class distribution for sustainability-related investments (in %) (n=76)

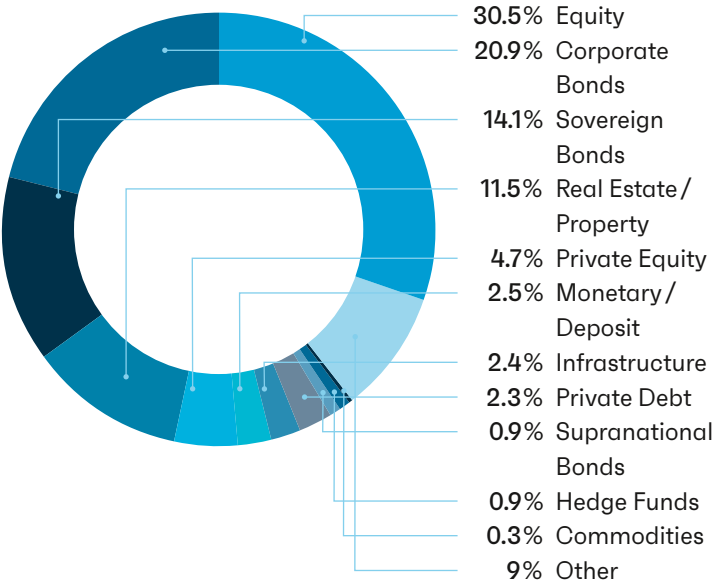
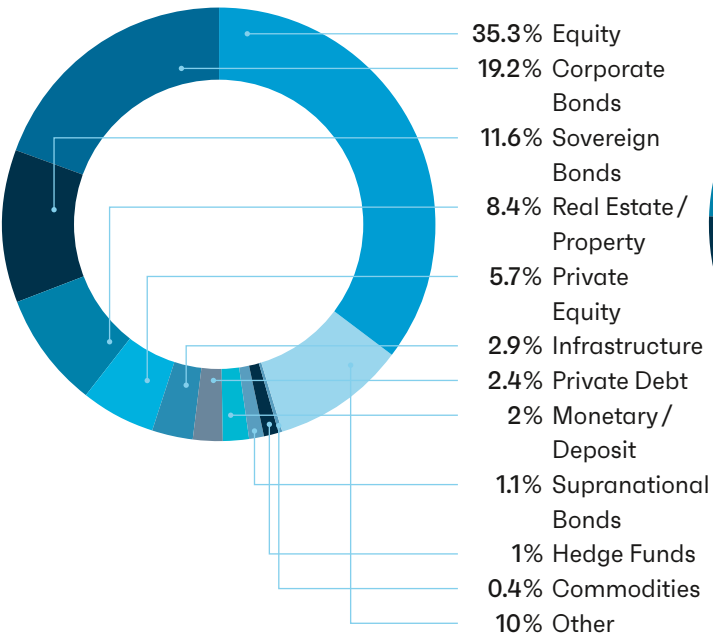
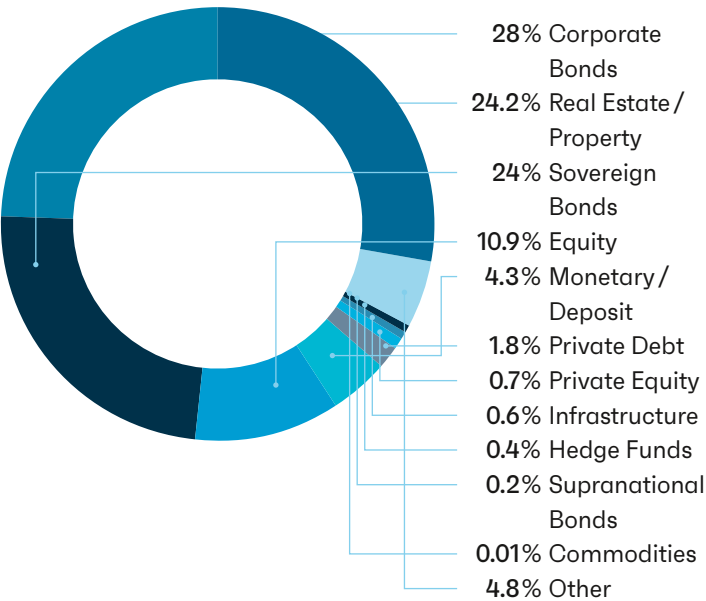


Figure 34: Asset class distribution for sustainability-related investments for asset managers and asset owners (in %) (n=76)

Asset Managers
(in %) (n=51)



Asset Owners
(in %) (n=25)

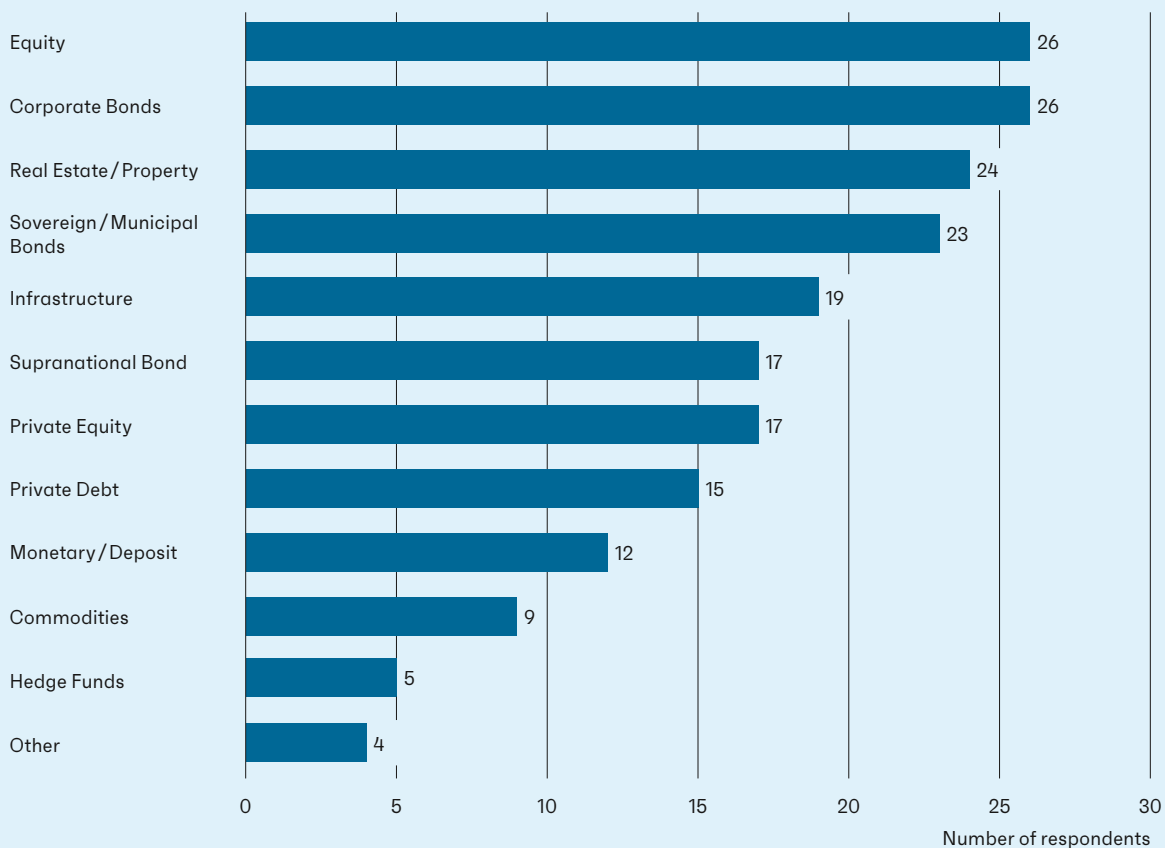


How Swiss asset owners integrate sustainability into their policies

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 have company-wide policies for their SI approaches in almost all cases, while asset owners have increased the number of standardised policies over the years. Figure 35 shows that asset owners set up company-wide ESG policies especially for their volume-leading asset classes. 26 of the 28 responding asset owners established an ESG policy for equities and corporate bonds. Real estate and sovereign bonds are close behind with 24 and 23, respectively.

Figure 35: **Formal sustainability-related investment policies of asset owners**
(in number of respondents) (n=28)



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 with the return expectations from their real estate portfolios. When respondents were asked about formal real estate policies linked to reported sustainability-related investments, 36% of asset managers vs. 80% 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, some 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 55 respondents who replied to these questions, 69% consider sustainability certificates of objects when developing/selecting real estate investments (Figure 37). Common certificates listed were: Minergie, SNBS, LEED, BREEAM,

Figure 36: **Formal ESG real estate policy for asset managers and asset owners** (in % of respondents) (n=42 asset managers, n=30 asset owners)

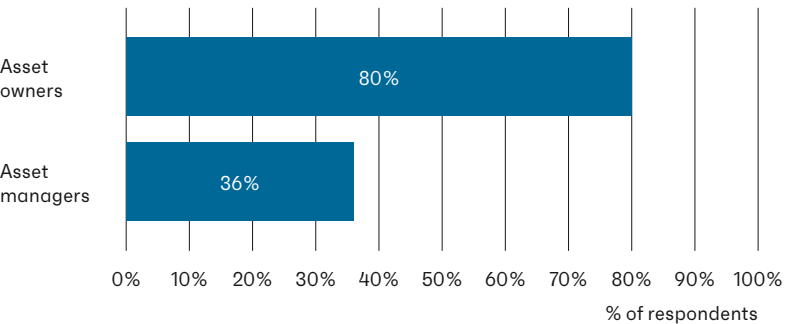


Figure 37: Aspects of sustainability-related real estate investments
(in %) (n=55)

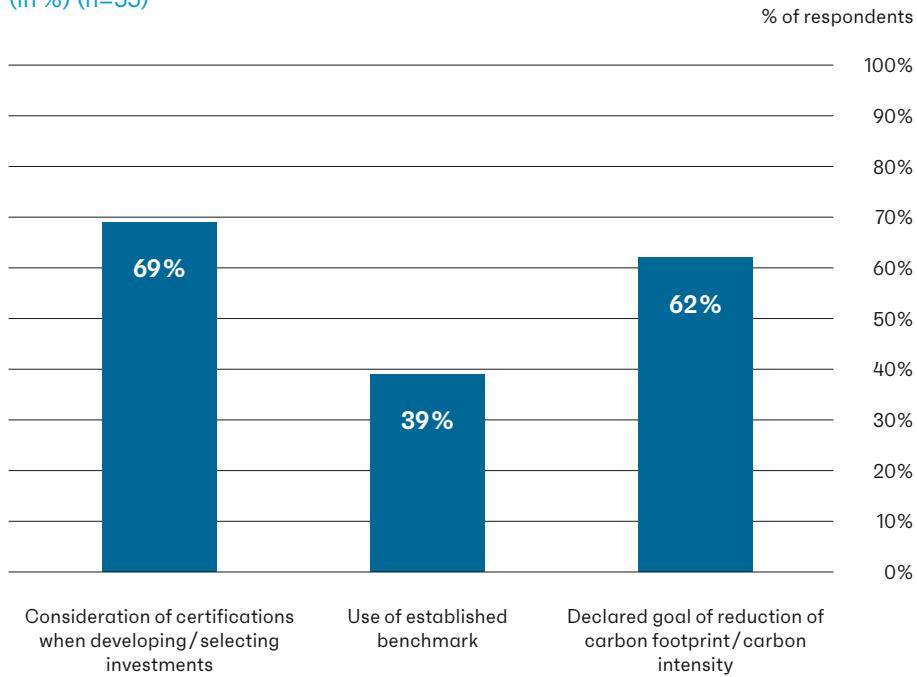
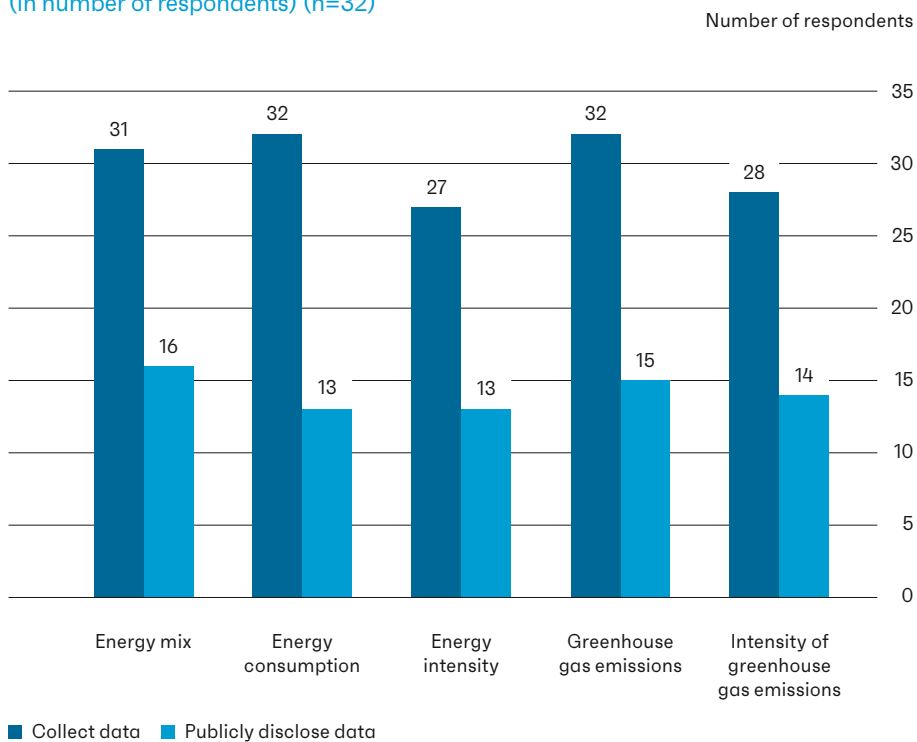


Figure 38: Application of AMAS real estate indicators
(in number of respondents) (n=32)



DGNB, SGNI, 2000 Watt, as well as proprietary quality labels. 39% of respondents indicated benchmarking their portfolios through established benchmarks such as GRESB, REIDA, ESI, or SSREI. In addition, a very positive result is that for 62% 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 2022.²⁸ The indicators are mandatory for AMAS members and represent an important

first step towards defining industry-wide real estate compatible environmental indicators. Of the 32 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.

²⁸ 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-linked debt
(in CHF billion) (n=35)

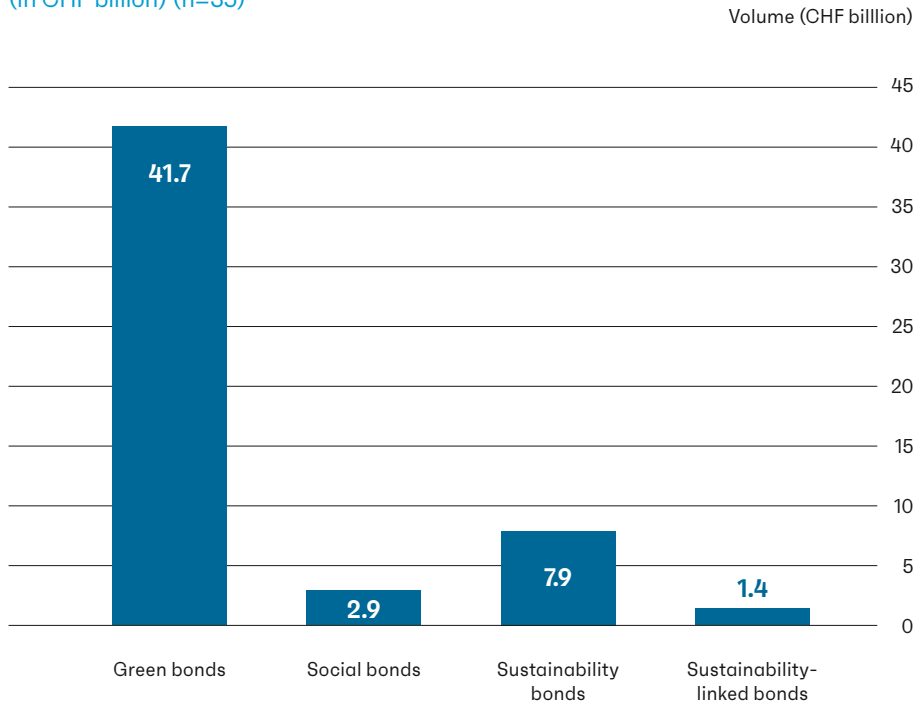
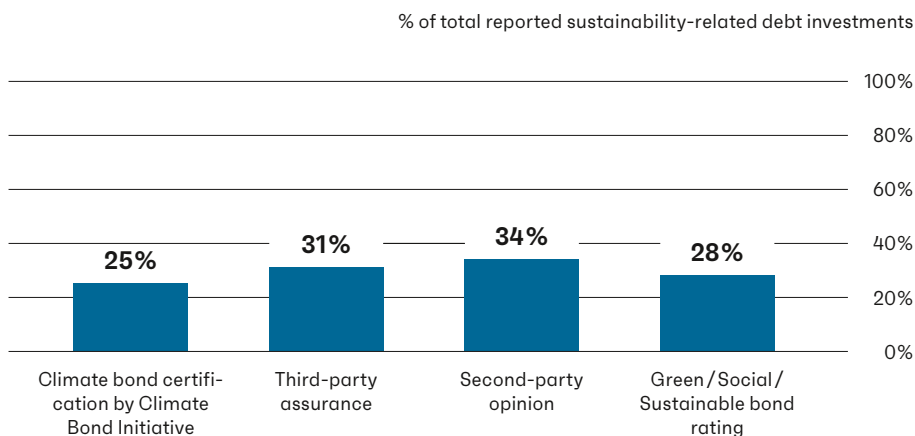


Figure 40: External reviews of sustainability-linked debt investments
(in % of total reported sustainability-related debt investments) (n=13)



Sustainability-related debt investments

On a global level, sustainability-related debt investments, such as green, social, sustainability and sustainability-linked bonds (GSS+), have grown significantly in recent years, peaking at USD 4.2 trillion in Q3 2023.²⁹ 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, 48 of the 75 respondents (64%) replied that they did invest in such instruments. Green bonds were listed as the most common investment (by volume), followed by sustainability bonds, social bonds and

sustainability-linked bonds (Figure 39). With a total of only around CHF 54 billion invested in such instruments, 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 (25%) or have third-party assurance (31%). 34% have a second-party opinion and 28% have a green/social/sustainable bond rating (Figure 40).

²⁹ Climate Bond Initiative (2023): *Global State of the Market Report Q3*. Available at: https://www.climatebonds.net/files/reports/cbi_susdebt-sum_q32023_01e.pdf

Figure 41: Strategies regarding climate change in 2022 and 2023
(in % of respondents) (n=75)

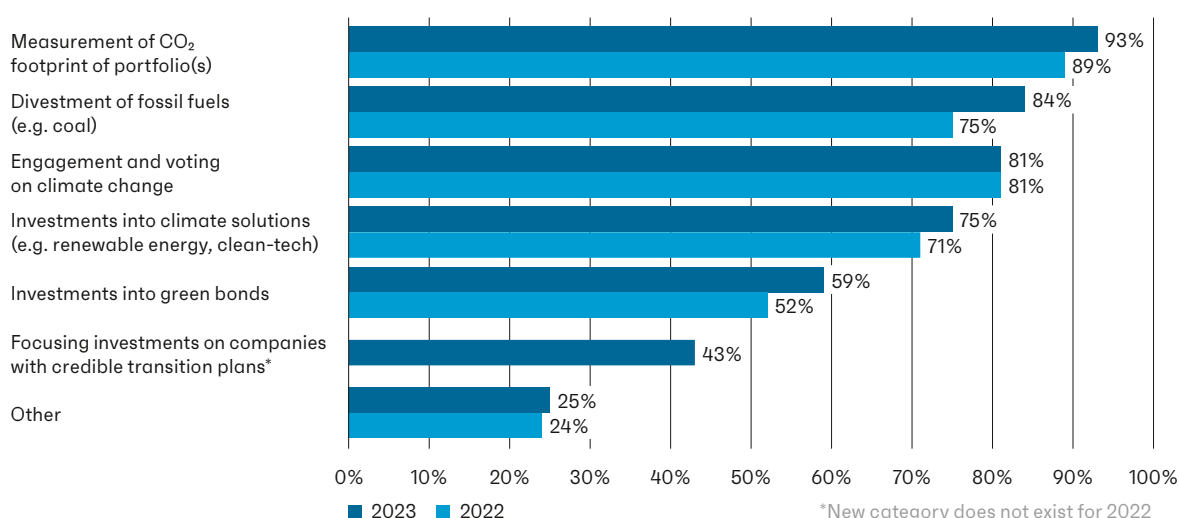
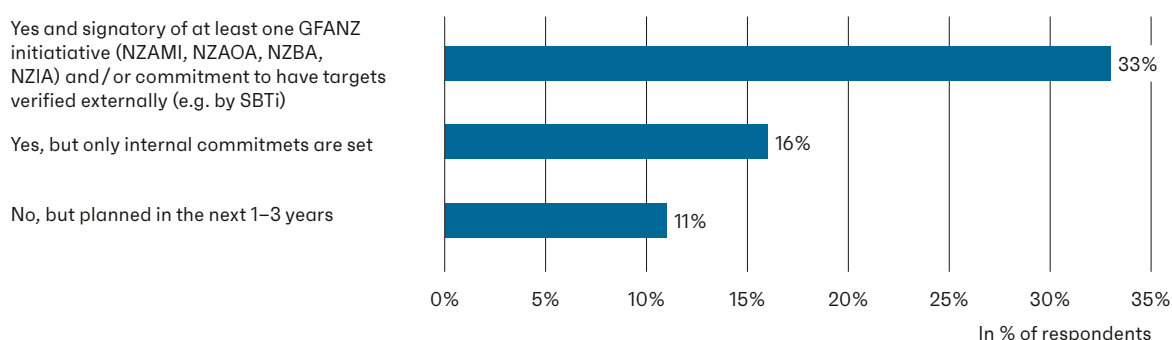


Figure 42: Formal pledge to a net zero commitment
(in % of respondents) (n=78)



Climate change

The goal of the Paris Agreement³⁰ – 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 to pave the way for new low-carbon technologies. This creates a range of risks and opportunities for financial market participants. Overall, 75 respondents (87% of the total) said they explicitly address climate change in at least some of their investments. 93% of those respondents measure the carbon footprint of their portfolios, and 84% divest from fossil fuels. About 81% engage and vote on climate change, and 75% invest in climate solutions. Finally, 59% of respondents report investing into green bonds and 43% focus on investments in companies with credible transition plans (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. Compared to 2022, the data for 2023

shows that all the strategies already mentioned in 2022 are used by more participants. "Engagement and voting on climate change" increased slightly from 80,7 to 81,3%.

Furthermore, both asset managers and asset owners were asked if they have made a formal pledge to a net zero commitment. 33% stated that they are signatories to at least one of the Glasgow Financial Alliance for Net Zero (GFANZ) initiatives (NZAMI³¹, NZAOA³², NZBA³³, NZIA³⁴) and/or have committed to having their targets externally verified (e.g. through SBTi). 16% stated that they have made internal commitments and 11% have not currently made net zero commitments, but plan to do so in the next one to three years (Figure 42).

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

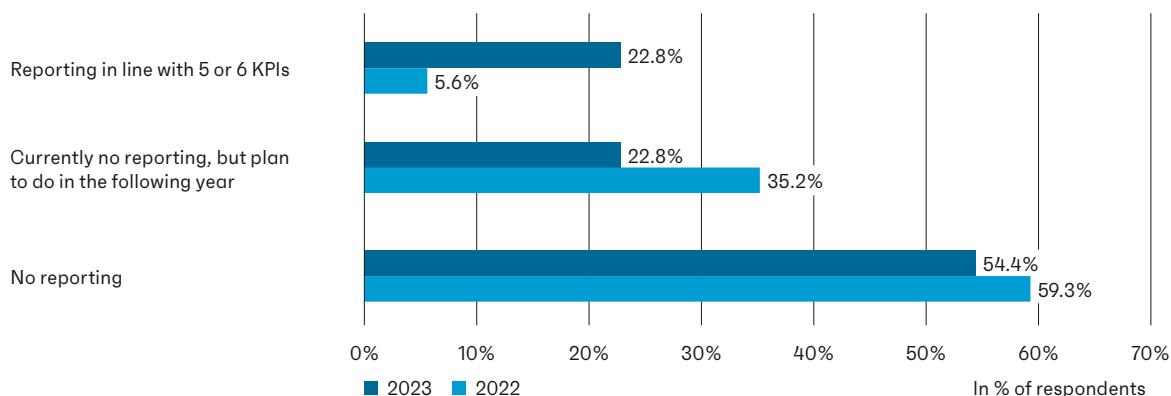
31 Net Zero Asset Managers Initiative (NZAMI)

32 Net-Zero Asset Owner Alliance (NZAOA)

33 Net Zero Banking Alliance (NZBA)

34 Net Zero Insurance Alliance (NZIA)

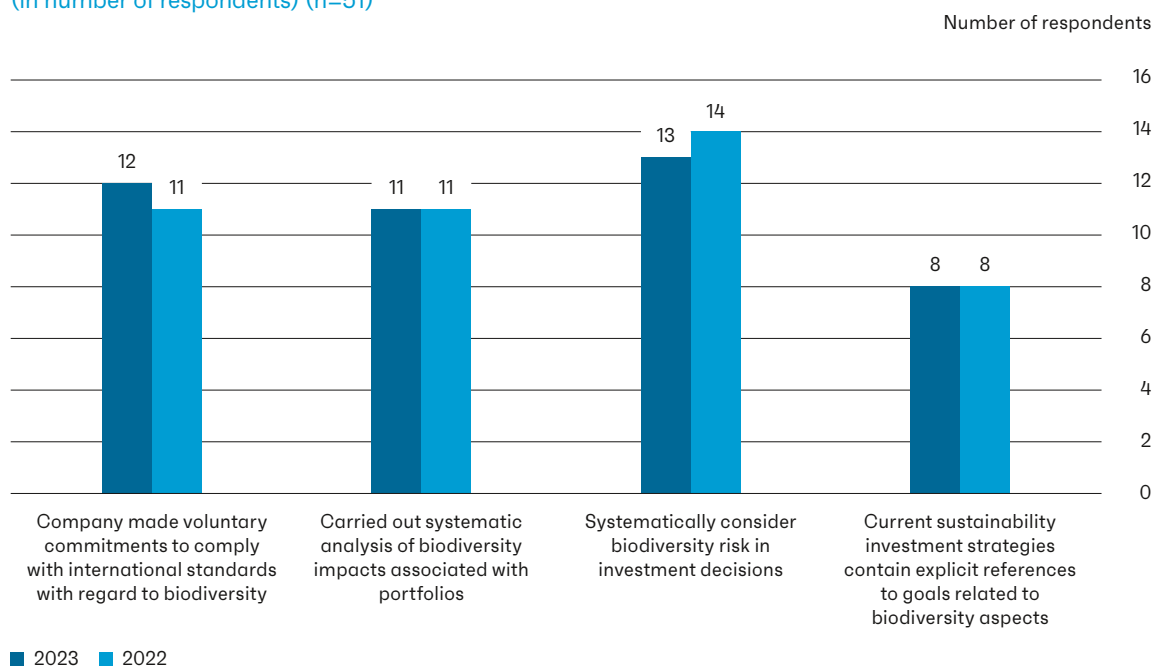
Figure 43: **Reporting of Swiss Climate Scores of asset managers** (in % of respondents) (n=55)



In the area of climate change, Switzerland has taken a step towards transparent reporting on climate indicators. The Swiss Climate Scores,³⁵ published by the Swiss Federal government in 2022, aim to establish a baseline for best-practice transparency on the Paris-alignment of financial investments. The implementation of the Swiss Climate Score is still ongoing, but progress has been made regarding the reporting of the Swiss Climate Scores. 23% of asset managers report in line with 5 or 6 KPIs compared to 5,8% last year. Nearly one fourth (22,8%) of respondents are not reporting yet, but plan to report in the following year. This share consequently decreased compared to last year (35,2%) (Figure 43). 54,4% of asset managers are currently not reporting and do not have respective plans for 2024, a decrease compared to last year (59,3%).

³⁵ 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 44: **Analysis of biodiversity impacts by asset managers**
(in number of respondents) (n=51)



The role of biodiversity for asset managers

This is the third year in a row that we have included questions related to investor action on biodiversity. Different biodiversity standards have been introduced 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 44 shows that only 12 of 51 asset manager respondents (24%) follow one or more of the biodiversity standards. 11 of 50 asset manager respondents (22%) have conducted a systematic analysis of the negative and positive biodiversity impacts associated with their investment portfolio. 13 of 51 asset managers (25%) consider biodiversity risk in their investment decisions. Only 8 out of 50 asset managers (16%) refer explicitly to biodiversity objectives in their investment strategies, which is not surprising given the emerging nature of the relevant frameworks. The results are very similar when compared to last year.

In 2022, SSF co-convoked the Swiss Consultation Group on the TNFD. The group has been working with members to provide feedback for the TNFD framework in 2023. This voluntary reporting framework was published in September 2023.³⁶

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 these activities, 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. The results in Figure 44 also show that measuring biodiversity impacts is not yet common practice.

³⁶ TNFD (2023): *Recommendations of the Taskforce on Nature-related Financial Disclosures*. Available at: https://tnfd.global/wp-content/uploads/2023/08/Recommendations_of_the_Taskforce_on_Nature-related_Financial_Disclosures_September_2023.pdf?v=1695118661

To provide clarity on different qualities and characteristics of sustainability-related investments, the SSF Market Study 2024 continues to use different perspectives on sustainability-related investments: (1) the combination of SI approaches, (2) the AMAS definition of “sustainable investments” as set out in its self-regulation³⁷ and (3) Eurosif’s transition-oriented methodology. The results of this year’s market study show that market participants are reacting to the ongoing discussions on what the term “sustainable investments” should stand for. Respondents increased the number of SI approaches applied, thereby broadening the scope of the different investor goals served. Participants also increased the share of “sustainable investments” as defined by AMAS, and the survey results generally reveal a strong focus on Impact-Generating investments.

Volumes in this study are all self-reported and, as such, are naturally subject to individual interpretations and judgements. Although SSF³⁸ has set out minimum standards and transparency requirements for all SI approaches, not all market players implement them with the same levels of understanding 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.

While it remains 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, results lead us to conclude that some participants took a more cautious approach in reporting sustainability-related investments than in previous years.

With regard to the rising expectations around investor impact, it remains important to state that Impact-Aligned investments do not result in direct investor contribution. Simply investing in companies which offer products that support the transition does not entitle investors to claim that they themselves are contributing substantially to this change. An active investor contribution requires more complex processes, such as actively encouraging change through engagement or providing additional capital to companies that provide solutions to environmental or social problems. This year’s results of the market study reveal that a growing number of respondents have reacted to this challenge by implementing and reporting on sophisticated engagement approaches, which is a great development.

The discussions about what the term “sustainable investment” stands for are ongoing and both the outcome of discussions on greenwashing regulation in Switzerland and

regarding the SFDR review will provide important input for these discussions. Collaboration between academics and practitioners can also support this process and bring guidance to the market with regard to best-practice transparency. The global convergence of standards should be fostered, although we need to acknowledge that this may be difficult to achieve. International players such as the PRI, CFA, GSIA and the International Platform on Sustainable Finance can play a role in creating a common language to reduce misunderstandings and conflicting views.

SSF market studies will continue to provide transparency on how the market deals with these developments in sustainability-related investments, reflect them and discuss how related challenges can be overcome. We are aware that keeping up with these regulatory developments and the stronger focus on transition finance entails additional burdens for the participants of such surveys: only based on more granular data covering additional aspects can new market insights be gained. On top of this, we perceive a certain level of questionnaire fatigue in the market, which does not come as a surprise given the many surveys and data requests from many different sides. In light of this, we are very pleased to see how many Swiss market players have continued to support the SSF Market Study and we thank all participants for their invaluable contribution.

37 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/download/lidjoajlpyxgeddxlwz-vcwhmxavtoollblk>

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

5.1 Developments in Switzerland

In summary, the majority of the current state regulation on sustainability-related topics, has been initiated by popular initiatives (e.g. Responsible Business Initiative, Glacier Initiative) and resulted in revised or new legal requirements on law and ordinance level. Parliament has been transposing the Paris Climate Agreement into national law with a net zero target for Switzerland by 2050. In parallel, Switzerland is going through a complex revision of the Swiss energy law, which is also linked to the fulfilment of the Paris Climate agreement and to reducing Switzerland's dependency on energy imports. All these regulatory measures will have an impact on the entire Swiss economy including the financial sector.

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 and Innovation Act (KIG) and the revised CO₂ Act constitute an important milestone for Switzerland's implementation of the 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,³⁹ as well as OECD⁴⁰ and ILO⁴¹ standards. These new regulations are also relevant to the financial industry.

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)⁴². These revisions provide 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

Public interest companies 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 of total CHF 20 million or sales revenues of CHF 40 million.

The report on non-financial matters must cover environmental matters, in particular CO₂ 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.⁴³ Large companies that base their report on the "Recommendations of the Task Force on Climate-related Financial Disclosures" (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. If a company does not make disclosures on climate issues in accordance with TCFD recommendations it must a) demon-

39 Task Force on Climate-Related Financial Disclosures.

40 Organization for Economic Co-operation and Development.

41 International Labour Organization.

42 Classified Compilation 220.

43 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 22/04/2024.

Figure 45: **Current application of TCFD recommendations by asset managers**
(in number of respondents) (n=28)



strate 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 entered into force on 1 January 2024.

In its press release of 22 September 2023⁴⁴, the Federal Council announced that it has taken note of the current developments in the EU regarding the corporate sustainability reporting, which will affect large and small Swiss companies. The Federal Council also announced key parameters for a consultation draft to amend the non-financial reporting obligations of the Code of obligations, which is expected by July 2024: the threshold value for these reporting obligations is expected to be lowered from 500 to 250 employees, an external audit of the report is expected to be required whereas the non-financial reporting may follow either the EU requirements or another equivalent standard. The Federal Council is also analysing the question if foreign companies operating in Switzerland will automatically be subject to Swiss law or not. In conjunction with the Climate and Innovation Act (KIG) and the implementing ordinance (KIV), the Ordinance on Climate Disclosure is also under revision to set minimum requirements for transitions plans for financial institutions (see also the section on KIG / KIV below).

Of the 55 banks and asset managers having taken part in the survey of the present market study, half are subject to this legal climate disclosure obligation and comply by following the TCFD recommendations (Figure 45). Figure 45 illustrates which of the 11 recommendations of the four thematic areas are currently in use by the companies currently using the TCFD recommendations, and to what degree. Overall, Swiss market players seem to be implementing the TCFD recommendations to a greater extent than last year. For each of the 11 recommendations between two to five additional institutions stated to implement them. Nearly all respondents (27 of 28 respondents) indicated that they have implemented the recommendations in the following areas: managements' role, risks and opportunities, climate-related metrics and scope 1-3 GHG emissions. Furthermore, the recommendation "Integration into Overall Risk Management" is now implemented by five additional respondents.

44 Federal Council (2023): *Reporting on sustainable reporting responsibility: Federal Council decides on key figures on 22 September 2023*. Available at: <https://www.admin.ch/gov/de/start/dokumentation/medienmitteilungen.msg-id-97782.html>, accessed 22/04/2024.

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 policy 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)⁴⁵ 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 CO₂ Emissions

On 16 September 2022, the Federal Council adopted the message on the revised Federal Act on the Reduction of CO₂ Emissions (CO₂ Act)⁴⁶ for the period from 2025 to 2030.⁴⁷ 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 CO₂ emissions. At the same time, the revised CO₂ Act strengthens the Swiss energy supply and reduces Switzerland's dependence on oil and natural gas. It was adopted by Parliament on 14 March 2024⁴⁸, after a long procedure for reconciling the version of the two chambers. As a measure in the financial sector, Art. 40d CO requests FINMA to regularly supervise the climate-related financial risks for supervised institutions and the SNB to regularly review the climate-related financial risks to the stability of the financial system. FINMA and SNB must not only report publicly on the results of these reviews of climate-related financial risks, but also report publicly on any measures taken. The revised CO₂ Act therefore increases the pressure on FINMA and the SNB. The law is still subject to optional referendum. If there is no referendum, the revised CO₂ Act is expected to enter into force on 1 January 2025. With the amendment of the CO₂ Act, the Swiss Parliament has also amended the Unfair Competition Act (UCA). Art. 3 Para. 2 UCA will be complemented: Anyone who makes statements about themselves, their works or their services in relation to the climate impact caused that cannot be backed up by objective and verifiable data is acting unfairly. Under current law, greenwashing could only be combated based on Art. 3 let. b UCA (misleading statements). The new provision provides that statements about climate impact that cannot be substantiated are now considered unfair (obligation to provide evidence or proof respectively the reversal of the burden of proof).

c) Climate and Innovation Act (KIG) and Ordinance on Climate Protection (KIV)

The Swiss electorate voted in favour of the KIG on 18 June 2023 after the act was adopted by Parliament on 30 September 2022 (as an indirect counterproposal to the Glacier Initiative) and the referendum of 2 February 2023. By this act, Switzerland transposes the Paris Climate Agreement into national law and sets the goal to become climate neutral by 2050. The intermediate reduction targets for greenhouse gas emission are a reduction of at least an average of 64% for the years 2030–2040, 75% by 2040, 89% for the years 2041–2050. The act also sets reduction targets for some individual sectors (buildings, transport and industry). If a company wants to receive financial assistance from the Confederation and benefit from innovative technologies, it must submit a transition plan. According to Art 1 let. c and Article 9 KIG financial flows must be aligned towards low-emission and climate-resilient development.

The public consultation of the implementing Ordinance (KIV) was open from 24 January to 1 May 2024.⁴⁹ It defines inter alia the minimum requirements of transition plans for companies. According to the draft Art. 26 KIV, the federal administration⁵⁰ provides the financial sector with a climate test at least every two years to review the climate compatibility of financial flows and the effective contribution of the financial sector to climate targets. The participation in the climate test is voluntary. Regarding transition plans for financial institutions, the Federal Council mandated the Federal Department of Finance (FDF) to define minimum requirements for transition plans for financial institutions in the Ordinance of Climate Disclosures, which ensure the implementation of climate targets in accordance with the KIG.⁵¹ The KIG and KIV are expected to enter into force on 1 January 2025.

45 Classified Compilation 221.433.

46 Classified Compilation 641.71.

47 Federal Council (2022): *Klimapolitik: Bundesrat verabschiedet Botschaft zum revidierten CO₂-Gesetz*. Available at: <https://www.admin.ch/gov/de/start/dokumentation/medienmitteilungen.msg-id-90389.html#:~:text=September%202022%20die%20Botschaft%20zum,in%20klimafreundliche%20LC3%B6sungen%20zu%20lenken>, accessed 22/04/2024

48 Parliament (2023): *Parlamentsbeschlüsse zum revidierten CO₂-Gesetz*. Available at: https://www.parlament.ch/de/services/news/Seiten/2024/20240314135404774194158159026_bsd119.aspx, accessed 22/04/2024. At this date, the final version was not yet published.

49 Federal Council (2024): *Bundesrat eröffnet Vernehmlassung zur Klimaschutz-Verordnung*. Available at: <https://www.admin.ch/gov/de/start/dokumentation/medienmitteilungen.msg-id-99780.html>, accessed 22/04/2024

50 Federal Office for the Environment (FOEN) and the State Secretariat for International Finance (SIF).

51 Federal Council (2024): *Bundesrat eröffnet Vernehmlassung zur Klimaschutz-Verordnung*. Available at: <https://www.admin.ch/gov/de/start/dokumentation/medienmitteilungen.msg-id-99780.html>, accessed 22/04/2024

d) Further measures of the Federal Council

The Federal Council has published the following key measures and reports so far:

- It launched the voluntary Swiss Climate Scores (SCS) on 29 June 2022⁵² and amended them on 8 December 2023⁵³. 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 AMAS created a template to guarantee standardised calculations of the various indicators and to uniformly display results. An updated template was published on 30 May 2024.⁵⁴
- The Federal Council published the latest report on Sustainable finance in Switzerland on 16 December 2022.⁵⁵ The government announced 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 conditions 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.⁵⁶ The Federal Council instructed a working group, including federal authorities, industry and non-governmental organisations. On 25 October 2023, the Federal Council announced that the FDF has decided to implement the Federal Council's position by proposing principle-based state regulation at ordinance level and submit a consultation draft to the Federal Council by end-August 2024 at the latest. If, however, the financial industry will present a self-regulation solution that implements the Federal Council's position effectively, the FDF will dispense with further regulatory efforts.⁵⁷

FINMA

In short, FINMA has published the following guidance and amended the following Circulars to date: Guidance 05/2021 on preventing and combating greenwashing (applicable to collective investment schemes), FINMA Circulars 2016/1 "Disclosure – banks" and 2016/02 "Disclosure – insurers", Guidance 03/2022 on the implementation of climate-related risk disclosures by category 1-2 institutions and Guidance 01/2023 on developments in the management of climate risk.

On 1 February 2024, FINMA launched a public consultation on the new FINMA-Circular on the management of nature-related financial risks, applicable to banks and insurers.⁵⁸ In its draft circular, FINMA specifies the extent to which nature-related financial risks must be considered in corporate governance and institution-wide risk management. In summary, the draft circular specifies criteria for assessing the materiality of risks and how scenario analyses are to be incorporated. It also sets out how the main nature-related

financial risks are to be embedded as risk drivers in the existing management of credit, market, liquidity and operational risks as well as in insurance activities. The new circular is expected to enter into force on 1 January 2025.

Conclusion

Parliament and Federal Council intensified their activities to transpose the Paris Climate Agreement into national law. These measures will affect the entire Swiss economy. However, regarding the financial sector, 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. Principle-based state regulation focussing on sustainability-specific transparency and reporting obligations would support the creation of a level playing field and a uniform understanding of sustainability-related financial services and products. In addition, the EU's sustainability regulation shows a strong trend towards extraterritorial effect, which means that the EU applies and enforces its law to matters and persons outside its borders (e.g. EU-CSR, EU-ESRS, EU-CSDDD) and introduces a third-country regime (e.g. EU-Regulation on ESG rating activities). The fact that each EU member state will transpose the EU sustainability-related directives into national law, will make market access for Swiss companies more difficult. Switzerland should aim for a legislative framework that helps protect investors and ensures the international competitiveness and reputation of the Swiss financial centre, thereby supporting the Swiss ambition to be a leader in this field.

- 52 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 22/04/2024
- 53 Federal Council (2023): *Federal Council decides on further development of Swiss Climate Scores*. Available at: <https://www.sif.admin.ch/sif/en/home/documentation/press-releases/medienmitteilungen.msg-id-99293.html>, accessed 22/04/2024
- 54 SSF (2024): *Swiss Climate Scores*. Available at: <https://www.sustainablefinance.ch/en/resources/climate-finance/swiss-climate-scores.html>, accessed 30/05/2024
- 55 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/newsd/message/attachments/74562.pdf>
- 56 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 22/04/2024
- 57 Federal Council (2023): *Further efforts to prevent greenwashing*. Available at: <https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-98351.html>, accessed 22/04/2024
- 58 FINMA (2023): *Nature-related financial risks: FINMA launches consultation on new circular*. Available at: <https://www.finma.ch/en/news/2024/02/20240201-mm-rs-naturbezogene-risken/>, accessed 02/05/2024

5.2 Developments in the European Union

Over the past year the EU continued to pursue 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 2023 and 2024 until the EU elections, starting with the election of the European Parliament from 6 to 9 June 2024 followed by the vote on the new President of the European Commission.

EU Taxonomy Regulation

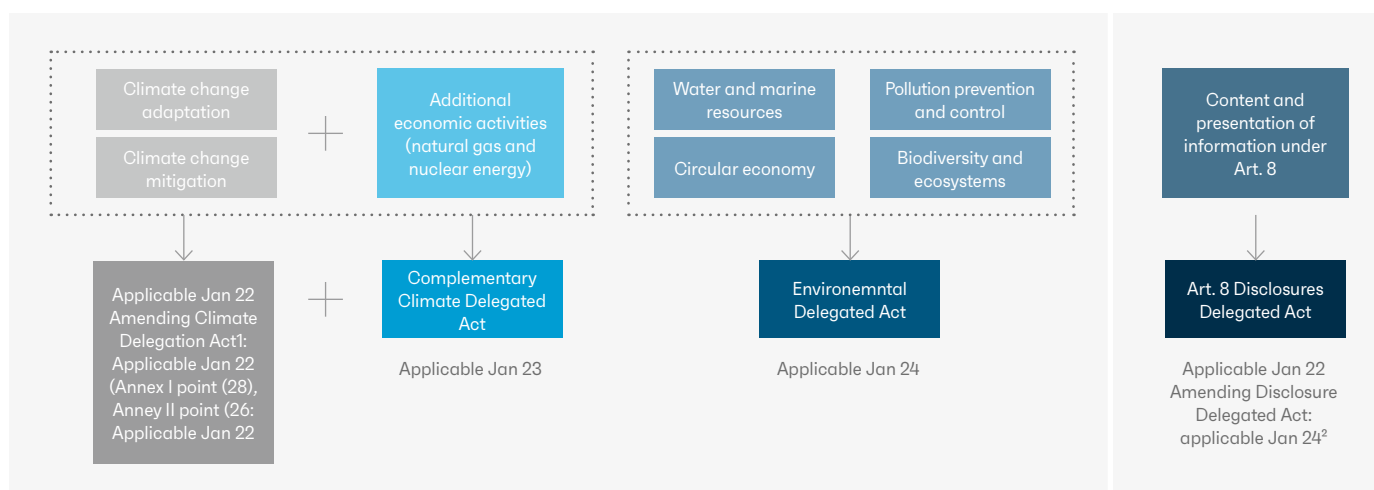
The EU Taxonomy Regulation (TR) is one of the key legal frameworks the Union is relying on to achieve the objectives of the European Green Deal. It sets out a system for classifying economic activities as “green” in relation to six environmental objectives: 1) climate change mitigation, 2) climate change

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 “environmentally sustainable” if it makes a substantial distribution to at least one environmental objective, does no significant harm (DNSH) to any other environmental objective and complies with minimum social safeguards.

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

There are several delegated acts to supplement the TR (see Figure 46). The Climate Delegated Act (CDA) addresses the first two objectives⁵⁹ of the TR and has been applicable since January 2022. It defines a list of technical screening criteria (TSC) that is used to determine whether an economic activity substantially contributes to climate change mitigation or to climate change adaptation. The amending CDA, applicable since January 2024, establishes TSC for additional activities. The Complementary Climate Delegated Act (CCDA) entered into force in July 2022 and became applicable in January 2023. It amended the CDA and includes nuclear energy and natural gas as transitional activities.

Figure 46: EU Taxonomy Regulation



¹Establishes technical screening criteria (TSC) regarding economic activities that make a substantial contribution to the climate objectives (climate change mitigation and climate adaptation) which have not been previously included in the taxonomy (e.g. manufacturing activities to key component for low carbon transport and electrical equipment).

²Amendment due to the Environmental Delegated Act, to clarify the disclosure obligations for additional activities and to supplement the requirements in Art. 10 of the Disclosures Delegated Act.

59 Climate change mitigation and climate change adaptation.

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. The Amending Disclosure Delegated Act has been applicable since January 2024. It clarifies the disclosure obligations for additional activities and supplements the requirement of Article 10 of the Disclosure Delegated Act.

On 5 April 2023, the Commission launched a consultation on its draft of the long-awaited delegated act for the four remaining taxonomy objectives (water and marine resources, pollution prevention and control, circular economy, biodiversity and ecosystems). The Environmental Delegated Act has been applicable since January 2024. In December 2023, the EC published a FAQ document on EU-Taxonomy disclosures for financial institutions under Article 8. The document provides further guidance to the financial sector by replying to FAQs from stakeholders subject to the reporting requirements, the EU Platform on Sustainable finance and the European supervisory authorities (ESAs).⁶⁰

Sustainability-related disclosure requirements of the TR, CSRD and SFDR

The TR, CSRD⁶¹ and 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 SFDR⁶², 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 and opportunities 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 informa-

tion 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 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.

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 have been applicable since 10 March 2021⁶³ 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 (Article 6), its promotion of environmental and /or social characteristics (Article 8), or the sustainable investments it makes (Article 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 (Article 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 ESAs⁶⁴.

60 Official Journal C 211/2023. Available at: Official Journal C 211/2023 (europa.eu), accessed 24/04/2024

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

62 SFDR applies to financial market participants and financial advisers.

63 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.

64 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 of the TR. Products which make sustainable investments that contribute to environmental objectives must identify in their pre-contractual and periodic disclosures which environmental objective the product contributes to, as well as the extent to which the economic activities the product invests in are aligned with the taxonomy. The 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 Developments

To acknowledge some of the concrete implementation issues of SFDR, the EU Commission (EC) mandated the ESAs to review and propose amendments to the RTS under the SFDR. They published their final report on reviewing the RTS on 4 December 2024.⁶⁵ The draft RTS provides some changes to the PAI indicators and clarification regarding the relation between PAIs and the "do no significant harm" principle under the SFDR. It also proposes some modifications to the current SFDR templates. The modifications will subsequently have to be approved by the Parliament and the member states. The application of the amended SFDR Delegated Regulation is expected to start in 2025. The ESAs also published a document that consolidates all the Q&As on the SFDR and SFDR Delegated Regulation on 12 January 2024.⁶⁶

In addition, the EC published a consultation on a comprehensive assessment of the SFDR framework between September and December 2023. Respondents put forward diverse recommendations as to the precise shape of the next framework. The SFDR review is expected to be published in 2025, after the EU elections and once the next EC has settled in.

The CSRD and the European Sustainability Reporting Standards (ESRS)

The CSRD (see also section above) entered into force on 5 January 2023 and has been applicable to selected entities since 1 January 2024. Member states are required to transpose the CSRD by 6 July 2024 and are expected to set penalties for non-compliance within their regulation.

Companies in scope of the CSRD⁶⁷ must publish annual ESG reports aligned with the European Sustainable Reporting Standards (ESRS). In July 2023, the EC adopted the delegated act which contains the first 12 sector-agnostic standards, which have been applicable since 1 January 2024 for a first reporting

in 2025. They include two cross-cutting-standards, five environmental, four social and one governance standards⁶⁸ and must be part of the entity's management report. Entities must disclose information on their material impacts (environment, people) as well as material risks and opportunities across the whole value chain. The objective of the ESRS is to ensure that the reports are comparable and accurate. According to the EC, the ESRS also provide consistency with global ESG reporting frameworks, such as those of the Task Force on Climate-related Financial Disclosures, the International Sustainability Standards Board (ISSB) and the Global Reporting Initiative (GRI). Going forward, the EC will adopt additional delegated acts for 8 sector specific standards⁶⁹, SMEs (listed and voluntary) and non-EU companies by June 2026.

65 ESAs (2023): *Final Report on draft Regulatory Technical Standards on the review of PAI and financial product disclosures in the SFDR Delegated Regulation*. Available at: JC 2023 55 – Final Report SFDR Delegated Regulation amending RTS (europa.eu), accessed 23/04/2024

66 ESAs (2024): *Consolidated questions and answers (Q&A) on the SFDR (Regulation (EU) 2019/2088) and the SFDR Delegated Regulation (Commission Delegated Regulation (EU) 2022/1288)*. Available at: JC 2023 18 - Consolidated JC SFDR Q&As (europa.eu), accessed 23/04/2024

67 The CSRD applies to the following entities in particular: 1) Large undertakings (including EU subsidiaries of non-EU parent companies): entities with annual balance sheets exceeding at least two of the three following criteria: i. balance sheet total of EUR 20 million [new: EUR 25 million]; ii. net turnover of EUR 40 million [new: EUR 50 million]; and/or iii. an average of at least 250 employees during the financial year. 2) Listed medium-sized undertakings (including EU subsidiaries of non-EU parent companies): entities with securities (i.e. debt or stocks) listed in an EU market with annual balance sheets that do not exceed the limits of at least two of the three following criteria: i. balance sheet total of EUR 20 million [new: EUR 25 million]; i. net turnover of EUR 40 million [new: EUR 50 million]; and/or iii. an average of 250 employees during the financial year. 3) Listed small undertakings (including EU subsidiaries of non-EU parent companies): listed entities with annual balance sheets that do not exceed the limits of at least two of the three following criteria: i. balance sheet total of EUR 4 million [new: EUR 5 million]; ii. net turnover of EUR 8 million [new: EUR 10 million]; and/or iii. an average of 50 employees during the financial year.

68 Cross-cutting standards: General requirements (ESRS 1) and General disclosures (ESRS 2). *Environmental information* (ESRS E1-E5): Climate change, Pollution, Water and marine resources, Biodiversity and ecosystems, Resource use and circular economy. *Social information* (ESRS S1-S4): Own workforce, Workers in the value chain, Affected communities, Consumers and end-users. *Governance information* (ESRS G1): Business conduct.

69 Priority sector-specific standards are: oil and gas, mining, road transport, agriculture and fisheries, motor vehicles, energy production and utilities, food and beverages, textiles/accessoires/ footwear/ jewelry.

EFRAG⁷⁰ published a first set of technical explanations answering questions about the ESRS' application.⁷¹ It also launched a consultation on digital tagging for ESRS datapoints until 8 April 2023⁷² as well as a consultation on standards for listed SMEs and non-listed (voluntary) SMEs until 21 May 2024⁷³. Finally, EFRAG launched a consultation on the draft implementation guidance (materiality assessment, value chain, detailed ESRS datapoints) until 2 February 2024.⁷⁴ The final guidance is expected to be published by June 2024.

Regarding the financial sector, the EFRAG Financial Institutions Advisory Panels (Banking, Capital Markets, Insurance) were established on 28 February 2023 to provide the EFRAG Sustainability Reporting Technical Expert Group (EFRAG SR TEG) with expert input on the sector-specific standard for financial institutions.⁷⁵ EFRAG is expected to draft the sectoral standards for the financial sector by 2026.

Corporate Sustainability Due Diligence Directive (CSDDD)

The directive requires companies to mitigate their negative impact on human rights and the environment. It establishes minimum requirements for companies to integrate due diligence into their policies and risk management systems. Companies under scope must identify, assess, prevent, mitigate, bring an end to and remedy their negative impact and that of their upstream and downstream partners in the value chain. They must also implement a climate transition plan making their business model compatible with the Paris Agreement's 1.5-degree Celsius target, adopt remediation measures (monitoring, complaint procedures) and provide meaningful engagement with stakeholders.

The new due diligence obligations apply not only to the company's direct actions, but also to its subsidiaries and the supply chain. Companies based in the EU and non-EU companies that do a certain extent of business in the EU could be held liable for the actions of their suppliers. Financial institutions are in scope of the transition plans requirements but are exempted of the due diligence requirement for their downstream value chain.

The Directive was formally adopted on 24 May 2024.⁷⁶ Originally, the CSDDD impacted companies with 500 employees and a turnover of EUR 150 million (final draft of 30 January 2024). In the final votes, those numbers have been raised to 1,000 employees and a turnover of € 450 million. The Directive will be phased in over five years. Companies with 5,000 employees and EUR 1,500 million turnover will be impacted three years after its entry into force. Companies with 3,000 employees and EUR 900 million turnover will be impacted four years after the entry into force of the CSDDD.

Companies with 1,000 employees and EUR 450 million turnover will be impacted five years after its entry into force. The directive will become effective 20 days after it is published in the Official Journal of the European Union (OJEU). Member states will have two years to transpose it into national law.

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

The EU amended the AIFMD, UCITS Directive, 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 OJEU in August 2021. Most of the sustainability-related amendments became applicable as from August 2022.⁷⁷ 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 2022.⁷⁸ In May 2023, the EC tabled a retail investment package and proposed amending these directives. The aim of this Package

⁷⁰ European Financial Reporting Advisory Group (EFRAG).

⁷¹ EFRAG (2024): *EFRAG ESRS question and answer platform releases first set of technical explanations*. Available at: News – EFRAG, accessed 24/04/2024

⁷² EFRAG (2024): *Public consultation on the draft XBRL Taxonomy for ESRS Set 1*. Available at: News – EFRAG, accessed 24/04/2024

⁷³ EFRAG (2024): *EFRAG's public consultation on two exposure drafts on sustainability reporting standards for SMEs*. Available at: News – EFRAG, accessed 24/04/2024

⁷⁴ EFRAG (2023): *Implementation guidance documents*. Available at: Implementation guidance documents – EFRAG, accessed 24/04/2024

⁷⁵ EFRAG (2024): *Launch of the EFRAG financial institution advisory panels (FIAPS) – Advising EFRAG SR TEG on the related sector standards*. Available at: News – EFRAG, accessed 24/04/2024

⁷⁶ Council of the EU (2024): *Corporate sustainability due diligence: Council gives its final approval*. Available at: Press releases – Council, accessed: 27/05/2024

⁷⁷ 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.

⁷⁸ 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.

is to strengthen the protection and confidence of private investors in the EU's Capital Markets Union and to make the EU a safe place for long-term investments.⁷⁹ The AIFMD and UCITS Directive have been revised by the amending Directive published in the Official Journal on 26 March 2024. Based on these amended directives, ESMA developed the following guidelines on funds' names using ESG or sustainability-related terms.

ESMA-Guidelines on funds' names using ESG or sustainability-related terms

On 14 May 2024 the European Securities and Markets Authority (ESMA) published the final report on Guidelines on funds' names using ESG or sustainability-related terms.⁸⁰ They were published under new ESMA mandates deriving from the revised AIFMD and UCITS Directive, whose amending Directive was published in the OJEU on 26 March 2024, entered into force on 15 April 2024 and will apply from 16 April 2026.⁸¹ The new mandates request ESMA to develop guidelines specifying the circumstances where the name of an AIF or UCITS is unclear, unfair, or misleading.⁸² The Guidelines apply to UCITS management companies, AIFMs and competent authorities and become applicable three months after the date of their publication on ESMA's website in all EU official languages (transitional period of six months for existing funds). ESMA identified the following categories of terms: transition-, environmental-, social, governance-, impact-related and sustainability-related terms. For each category, the Guidelines provide a short non-exhaustive list of examples. "ESG" and "SRI" abbreviations are considered as environmental terms.

The use of such terms in a fund's name will result in the fund being subject to mandatory quantitative investment requirements and exclusions. Regarding quantitative investment requirements, this means that 80% of the funds' investments should be allocated to meeting the environmental or social characteristics or sustainable investment objectives in accordance with the binding elements of the investment strategy, which are to be disclosed in the SFDR pre-contractual disclosure templates.⁸³ Regarding exclusions, these funds should also exclude investments in accordance with the exclusions for Climate Transition Benchmarks (CTBs)⁸⁴. In addition to the aforementioned exclusions, the use of environmental-, impact- and sustainable-related terms will also trigger exclusions for Paris-aligned Benchmarks (PABs)⁸⁵.

It is important to note that the mandates of ESMA refer to funds' names in general, not only those with sustainability-related names. In due course, ESMA will consider other situations than sustainability-related ones. In case of any update of the legislation, ESMA will review the guidelines.

Regulation on the Transparency and Integrity of ESG Rating Activities

On 25 April 2024, Parliament adopted the Regulation on the Transparency and Integrity of ESG Rating Activities for rating providers. The proposal aims to enhance the integrity, transparency, governance and independence of ESG ratings provided in the EU and is aligned with the existing EU Benchmark regulation (BMR). A RTS is expected to be developed by ESMA to detail the finalised regulation. In scope are ESG rating providers operating in the EU as well third country ESG rating providers operating within the EU. EU entities in scope will need an authorisation by ESMA and be listed in a register of ESMA, which will be publicly accessible. ESG rating providers are prohibited from offering consulting, credit ratings, benchmarks, investment, audit, banking, insurance, or reinsurance services. The proposed regulation will continue to move through the EU legislative process. The final regulation will apply six months after its publication in the OJEU. The regulation is expected to start applying in Q1 / Q2 2026.

79 European Parliament (2023): *Briefing, EU Legislation in Progress, Retail investor package*. Available at: [https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/749795/EPRS_BRI\(2023\)749795_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/749795/EPRS_BRI(2023)749795_EN.pdf)

80 ESMA (2024): *Final Report, Guidelines on funds' names using ESG or sustainability-related terms*. Available at: ESMA34-472-440 Final Report on the Guidelines on funds names (europa.eu), accessed 22/05/2024

81 Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L_202400927, accessed 16/05/2024

82 Art. 23(7) AIFMD, Art. 69(6) UCITS Directive

83 In addition: For funds using transition-related terms, assets to meet the 80% threshold should also be on a clear and measurable path to social or environmental transition; for funds using impact-related terms, asset used to meet the 80% threshold should also be made with the objective to generate a positive and measurable social or environmental impact alongside a financial return; funds using sustainability-related terms should also commit to invest meaningfully in "sustainable investments" referred to Article 2(17) SFDR (there is no further guidance on the interpretation of the term "meaningfully").

84 They relate to controversial weapons, tobacco, violation to the United Nations Global Compact (UNGC) principles or the Organisation for Economic Cooperations and Developments (OECD) Guidelines for Multinational Enterprises, see Commission Delegated Regulation 2020/1818, Article 12(1)(a)-(c)

85 They relate to hard coal and lignite, oil fuels, gaseous fuels and electricity generation, see Commission Delegated Regulation 2020/1818, Article 12(1)(d)-(g).

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 47 shows, two thirds of bank and asset manager respondents indicate that they have a legal obligation to implement the EU sustainable finance regulation. The value has decreased compared to 2023. 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 (see Figure 48). The value has slightly decreased compared to 2023.

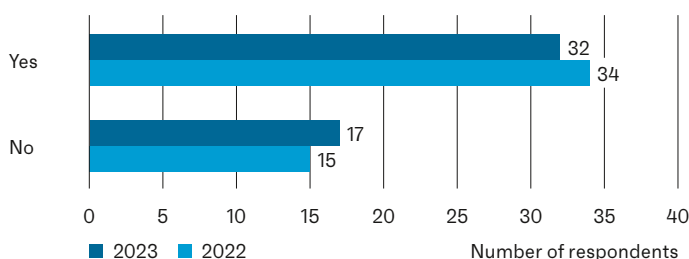
As already mentioned, the EU's sustainability regulation shows a strong trend towards extraterritorial effect, which means that the EU applies and enforces its law to matters and persons outside its borders (e.g. CSRD, ESRS, CSDDD and the Regulation on the Transparency and Integrity of ESG Rating Activities). It is important to note that the CSRD applies to companies and/or groups based in the EU, regardless of the origin or domicile of the parent company (see Fn 67). 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 fulfilled.⁸⁶ According to Figure 49, only a mi-

nority of banks and asset managers see themselves as subject to the reporting requirements. Yet the fact that 27 companies did not answer the question may indicate that the market is still analysing the extraterritorial effects of the CSRD.

As mentioned, the EC will also adopt additional ESRS for non-EU companies by June 2026. Regarding the CSDDD, non-EU companies that do a certain extent of business in the EU are also under scope of this directive.⁸⁷ Furthermore, the Regulation on the Transparency and Integrity of ESG Rating Activities sets requirements for third country ESG rating providers operating within the EU. The regulation provides three options: 1) Third-country ESG rating providers may provide ESG ratings in the EU if their national legislation is deemed equivalent to the EU's, 2) If the annual net turnover of the third-country ESG rating provider is below EUR 12 million it may apply to be recognised by ESMA to offer ESG ratings in the EU, and 3) An EU-authorised ESG rating provider affiliated with a third-country provider may endorse the ESG rating of the latter provided that the EU affiliate obtains the authorisation of ESMA to act as an endorser.

In summary, the fact that the EU's sustainability regulation shows a strong trend towards extraterritorial effect, introduces a third-country regime and that each EU member state will transpose the EU sustainability-related directives into national law, will make market access for Swiss companies more difficult.

Figure 47: Organisation under legal obligation to implement the EU sustainable finance regulation in 2022 and 2023
(in number of respondents) (n=49)



⁸⁶ Non-EU parent undertakings that have a subsidiary or branch in the EU: the CSRD's applicability to non-EU parent companies depends on a couple of factors. First, the consolidated, group-level net turnover generated in the EU must be more than EUR 150 million for each of the previous two consecutive financial years; and second, any of the following thresholds must be met: i. at least one subsidiary in the EU is considered a "large company" under the CSRD; ii. at least one subsidiary has debt or stock securities listed in an EU market (excluding microenterprises); or iii. it has a branch in the EU that generated a net turnover of more than EUR 40 million in the preceding financial year (regardless of the branch's number of employees, listed status, or balance-sheet total).

⁸⁷ The CSDDD also addresses non-EU companies, non-EU parent companies, non-EU franchisees and non-EU ultimate parent companies of a franchising group.

Figure 48: Development of contributing factors hindering implementation of EU regulations from 2022 to 2023 (in level of contribution) (n=33)

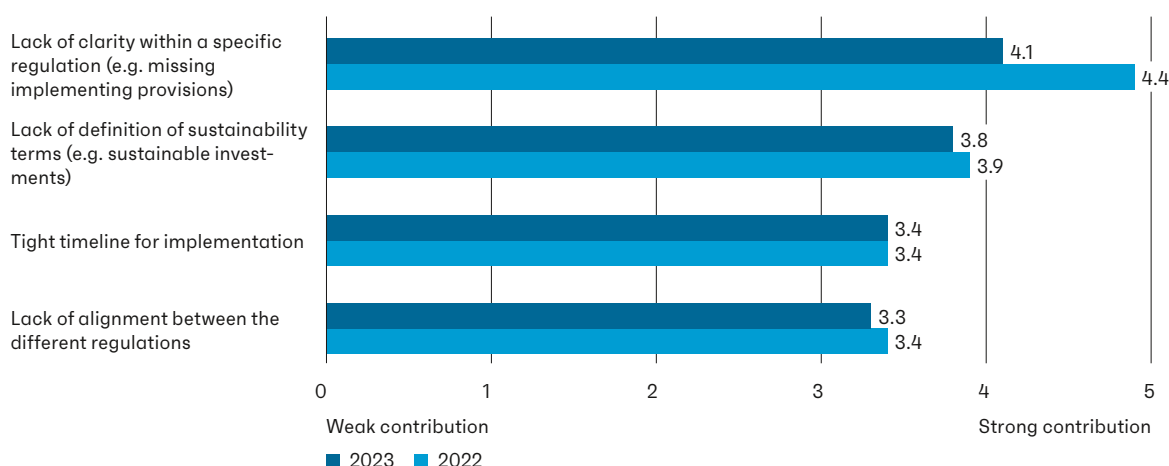
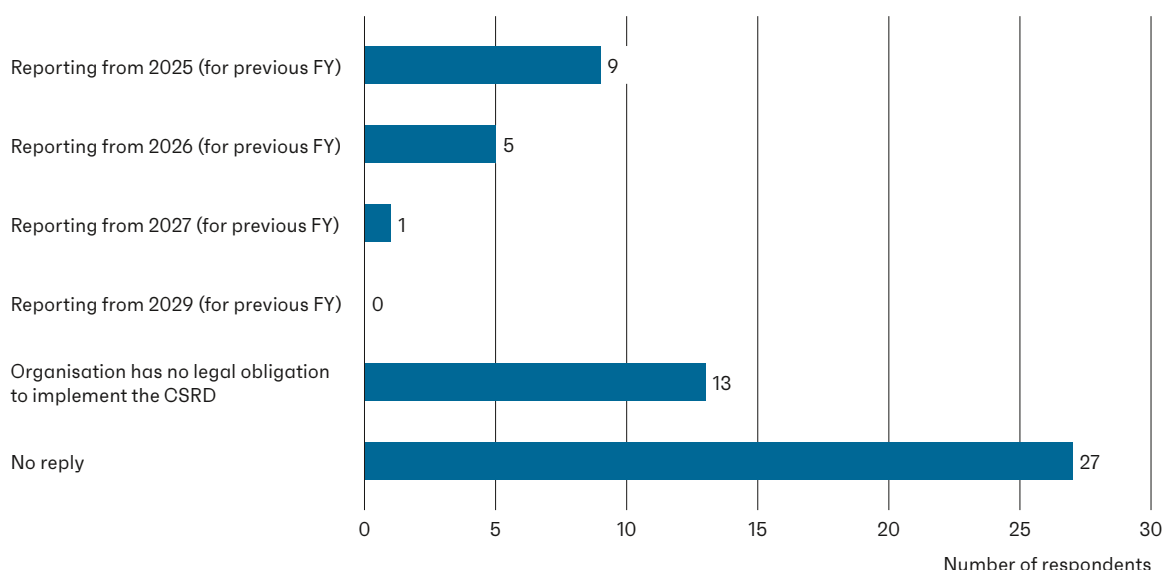


Figure 49: Relevant timelines for obligatory CSRD reporting (in number of respondents) (n=55)



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 still facing many challenges to fulfilling the disclosure and reporting obligations under these regulations. With the wide-ranging consultation on the SFDR, the EC seeks to capture views on the usefulness and compatibility of the current requirements. Despite these difficulties, the EU environmental policies and the regulations have sent a strong signal to the market about the need to address the topic of sustainability and set in motion continuous improvement regarding transparency.

With the approvals of the CSDDD and the Regulation on ESG rating activities on 25 April 2024, the outgoing parliament added another key element to the many regulations around

sustainability it put in place over the past 5 years. The election of the new EU Parliament will take place from 6 to 9 June 2024, followed by the vote on the new President of the EU Commission. Before and after the EU elections we expect intense discussions around the further evolvement of the Green Deal and how it should be implemented on a local level. It remains to be seen if these elections will change the direction of the EU's climate and energy policy and how they will influence the sustainable finance strategy, including the initiated reviews of the existing sustainable finance regulation. Yet, as the new Commission needs to first take up its work, no news on the details of next steps is to be expected before September. The objective to bring about the necessary changes for a transition to a sustainable economy remains key.

5.3 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 habitats. It has developed a risk management and disclosure framework for organisations to report and act on evolving nature-related risks.⁸⁸ In 2022 and 2023, it 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 provided feedback on these beta versions. The final TNFD framework was published in September 2023 and was updated in March 2024.⁸⁹ The TNFD also published additional guidance: In October 2023, it published a guidance on the identification and assessment of nature-related issues⁹⁰ and in March 2024 it published a Guidance on getting started with the TNFD recommendations.⁹¹

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). On 26 June 2023, the final versions regarding the general requirements for disclosure of sustainability-related financial information and climate-related disclosure were released.⁹² The ISSB status report on progress in corporate disclosures is expected to be published in October 2024. As of 2024, the ISSB has taken over the monitoring responsibilities from TCFD.⁹³

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

89 TNFD (2023): *Taskforce on Nature-related Financial Disclosures (TNFD) Recommendations*. Available at: <https://tnfd.global/publication/recommendations-of-the-taskforce-on-nature-related-financial-disclosures/>, accessed 23/04/2024

90 TNFD (2023): *Guidance on the identification and assessment of nature-related issues: the LEAP approach*. Available at: https://tnfd.global/wp-content/uploads/2023/08/Guidance_on_the_identification_and_assessment_of_nature-related_Issues_The_TNFD_LEAP_approach_V1.1_October2023.pdf?v=1698403116

91 TNFD (2024): *Getting started with adoption of the TNFD Recommendations*. Available at: <https://tnfd.global/publication/getting-started-with-adoption-of-the-tnfd-recommendations/#publication-content>, accessed 23/04/2024

92 ISSB (2023): *ISSB Sustainability Disclosure Standards*. Available at: <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/>, accessed 23/04/2024

93 IFRS (2023): *IFRS Foundation welcomes culmination of TCFD work and transfer of TCFD monitoring responsibilities to ISSB from 2024*. Available at: <https://www.ifrs.org/news-and-events/news/2023/07/foundation-welcomes-tcf-responsibilities-from-2024/>, accessed 08/05/2024

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 2021.⁹⁴ 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)⁹⁵ for a new sustainability disclosure and investment labelling regime and published its final respective policy statement on 28 November 2023 (PS23/16).⁹⁶ This policy statement introduces a package of measures to help consumers navigate the market for sustainable investment products (anti-greenwashing rule, naming and marketing rules for investment products, four labels, consumer-facing information, pre-contractual on going-product-level and entity-level disclosures 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.⁹⁷ In April 2024, the FCA opened a public consultation, running until June 2024, to extend the Sustainability Disclosure Requirements (SDR) regime to Portfolio Management.⁹⁸

At COP26, the UK government announced the UK Transition Plan Taskforce (TPT) to establish the gold standard for transition plans. The Taskforce has engaged with financial institutions, real economy companies, policymakers, regulators and civil society. As a result of these discussions, the TPT released comprehensive material on the development of transition plans (frameworks, guidance, technical mappings, comparison to other regulations and standards, legal considerations etc.) between October 2023 and April 2024. In particular, it published the final TPT Disclosure Framework (October 2023) and the final sector guidance for Asset Owners, Asset Managers, Banks, Food & Beverage, Electric Utilities & Power Generator, Metals & Mining, and Oil & Gas (April 2024).⁹⁹

An important development regarding climate-related financial risks also took place in the United States. On March 2022, the Securities and Exchange Commission (SEC) proposed rules to enhance and standardise climate-related disclosure for investors.¹⁰⁰ After consultation, the SEC adopted Climate Disclosure Rules on 31 March 2024.¹⁰¹ The entering into force was planned to be effective as of 28 May 2024, but has been delayed for an indefinite period.¹⁰² The rules require registrants to provide certain climate-related information in their registration statements and annual reports. It requires information about a registrant's climate-related risks that have materially impacted or are reasonably likely to have a material impact on its business strategy, results of operations, or financial condition. In addition, under the final rules, certain disclosures related to severe weather events and other natural conditions will be required in a registrant's audited financial statements.

94 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

95 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>

96 FCA (2023): *PS23/16: Sustainability Disclosure Requirements (SDR) and investment labels*. Available at: [PS23/16: Sustainability Disclosure Requirements \(SDR\) and investment labels | FCA](https://www.fca.org.uk/publication/discussion/dp21-4.pdf), accessed 24/04/2024

97 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>

98 FCA (2024): *Extending the Sustainability Disclosure Requirement (SDR) regime to Portfolio Management, CP24/8***. Available at: <https://www.fca.org.uk/publication/consultation/cp24-8.pdf>

99 Transition Plan Task Force (TPT): Available at: <https://transitiontaskforce.net/about/>, accessed 08/05/2024

100 SEC (2022): *SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors*. Available at: <https://www.sec.gov/newsroom/climate-related-disclosure>, accessed 24/04/2024

101 SEC (2023): *SEC Adopt Rules to Enhance and Standardize Climate-related Disclosures for Investors*. Available at: <https://www.sec.gov/news/press-release/2024-31>, accessed 24/04/2024

102 US Federal Register (2024): *The Enhancement and Standardization of Climate-Related Disclosures for Investors; Delay of Effective Date*. Available at: [https://www.federalregister.gov/documents/2024/04/12/2024-07648/the-enhancement-and-standardization-of-climate-related-disclosures-for-investors-delay-of-effective#:~:text=On%20March%2028%2C%202024%2C%20the,1933%20\(%E2%80%9CSecurities%20Act%E2%80%9D\)](https://www.federalregister.gov/documents/2024/04/12/2024-07648/the-enhancement-and-standardization-of-climate-related-disclosures-for-investors-delay-of-effective#:~:text=On%20March%2028%2C%202024%2C%20the,1933%20(%E2%80%9CSecurities%20Act%E2%80%9D),), accessed 25/04/2024

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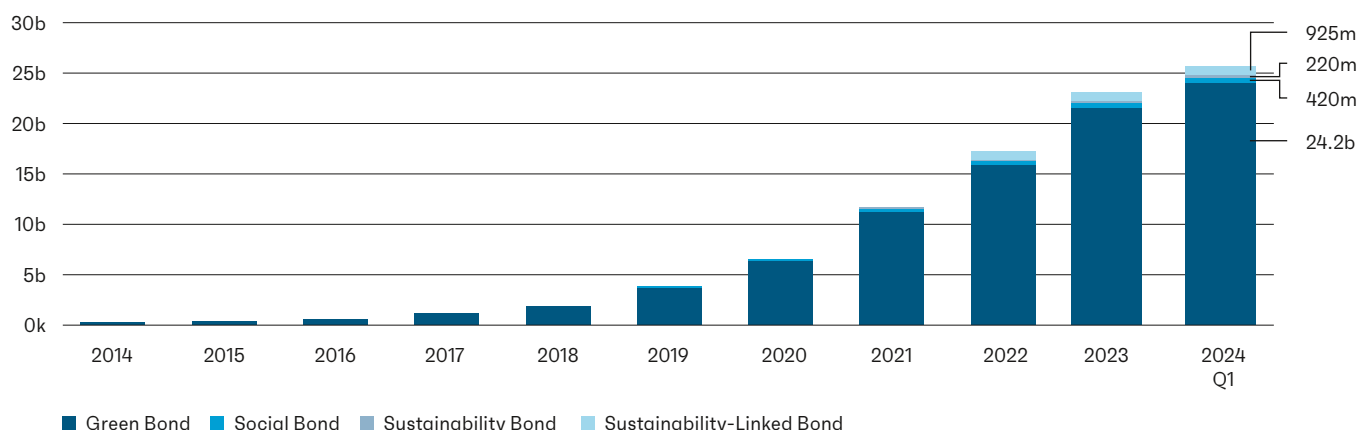
Different types of bonds related to sustainability

Sustainable debt is an important lever to direct financial flows towards sustainable activities. Green, Social, Sustainability and Sustainability-linked Bonds, also called GSS+ bonds, are fixed-income instruments serving environmental or social purposes and can be categorised as (i) activity-based or (ii) behaviour-based. Activity-based debt instruments, such as green, social and sustainability bonds, fund specific environmental projects, social projects or both, e.g. the issuer of a green bond must invest the proceeds in a predetermined green activity. Behaviour-based debt instruments, such as sustainability-linked bonds, link firm-level Environmental, Social or Governance (ESG) targets to the instrument's financing characteristics. For example, a cement company may issue a sustainability-linked bond where the coupon rate paid to investors would increase by +1% if the company does not

reduce its carbon emission intensity to 500 kg of CO₂ emitted per tonne of cement produced by 2030.

Green bonds are used to finance projects with a positive environmental impact and are the predominant sustainable-debt security worldwide and in Switzerland. While green bonds still represented a relatively small portion of global bond issuances in 2023 (7.7%¹⁰³) [1], the global market size for green bonds reached CHF 1,778 billion¹⁰⁴ in the first quarter of 2023, accounting for 57.9% of the GSS+ bond market [3]. Figure 50 displays the cumulated amount issued by type of GSS+ bonds in Switzerland and shows that the issuance of green bonds has significantly increased in recent years. Swiss CHF-denominated green bonds raised around CHF 24.2 billion for a total of 124 CHF-denominated green bonds trading at the end of the first quarter of 2024 (dark blue bars in Figure 50). In addition, the SIX Swiss Exchange registered an increase in the number of green bonds issued, with 33 new issuances of CHF-denominated green bonds in 2023 compared to 11 in 2019. Our study shows that these green bonds are mostly issued by banks, and real estate and energy firms. These firms are usually larger and better performing than their peers, and often in need of financing. The proceeds from these green bonds are invested in projects across a wide array of sectors, with the largest shares in sustainable buildings and sustainable energy.

Figure 50: GSS+ bonds – Cumulative amount issued (in CHF) in GSS+ bonds in Switzerland ¹⁰⁵

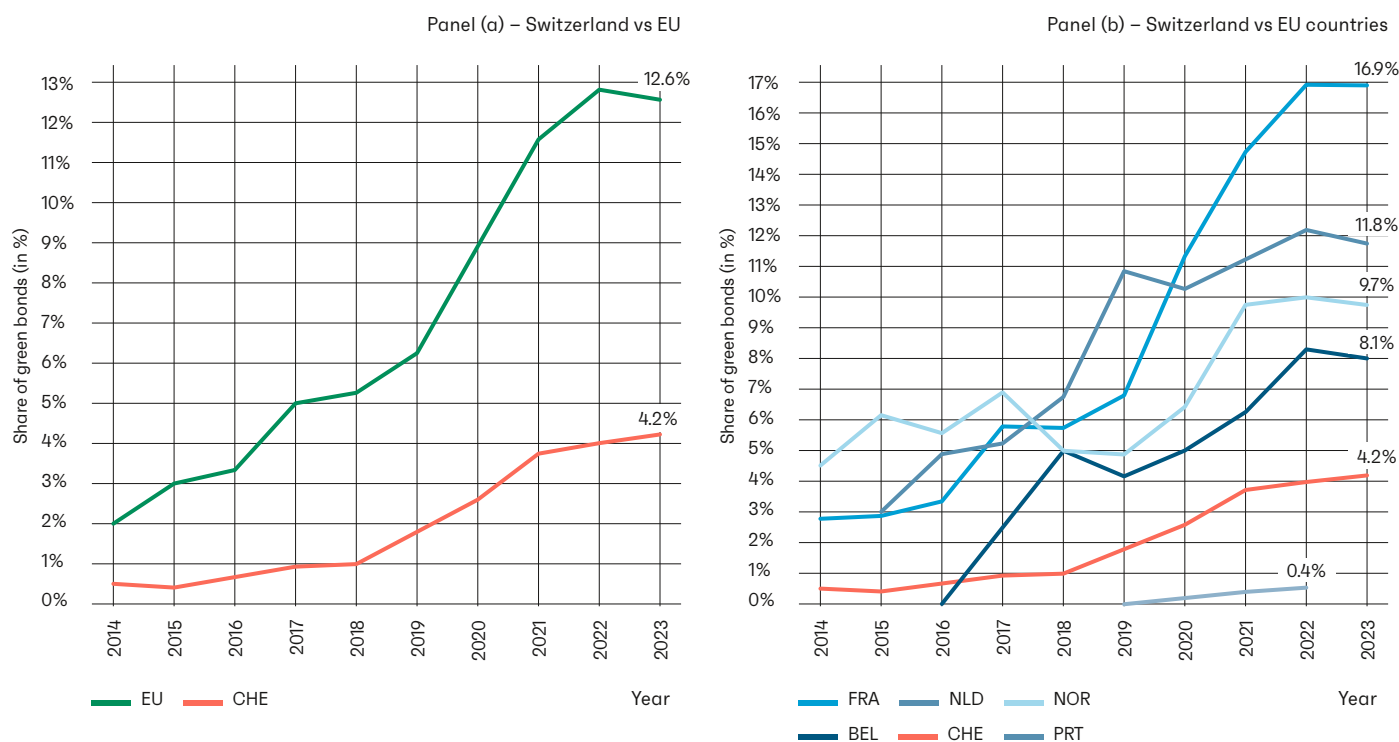


¹⁰³ The GSS+ bond market represented 13% of total bond issuances in 2023, of which 59% were of green bonds

¹⁰⁴ USD 1,921 billion converted at the monthly average of the USD/CHF exchange rate at end of Q1 2023, equal to 0.9255 [2]

¹⁰⁵ Notes. This graph shows the total cumulated annual amount issued in billion CHF of CHF-denominated GSS+ bonds trading on the SIX Swiss Exchange as of March 25, 2024. Source: SIX Bond Explorer.

Figure 51: Shares of green bonds across markets¹⁰⁶



Moderate overall market size

Despite a growing interest around green bonds in Switzerland, the market size remains relatively small compared to other markets. Considering the size of the green-bond market relative to the overall bond market, Switzerland remains below EU average. Our study shows that at the end of Q2 2023, green bonds represented only 4.2% of the SIX Swiss Exchange's bond market (by issued amount). This market share is low when compared to the average 12.6% in European markets (Figure 51 Panel (a)), which all have a higher market share of green bonds than Switzerland, but for Portugal (Figure 51 Panel (b)).

106 Notes. These graphs show the time series of the share of green bonds in the overall bond markets, across countries. The share is computed with the cumulated amount issued with green bonds denominated in local currency over the total cumulated amount issued with all other bonds denominated in local currency by year, until end of Q2 2023. The local currency is CHF for the Swiss market, NOK for Norwegian market, and EUR for all other markets. In Panel (a), the EU is the aggregate sum of the markets available on Euronext, namely Amsterdam (NLD), Paris (FRA), Brussels (BEL), Oslo (NOR) and Lisbon (PRT). Panel (b) shows the split between these markets and Switzerland (CHE). Source: Euronext, SIX, authors' calculations.

Four market barriers identified

Four market barriers prevent the Swiss green bond market from reaching scale. Our study reports insights from Swiss market stakeholders, gathered during a workshop. The stakeholders identified four main barriers that prevent the Swiss green bond market from scaling. In our study, we propose an analysis to test these barriers, with a focus on CHF-denominated bonds outstanding on the SIX Swiss Exchange as of Q2 2023.

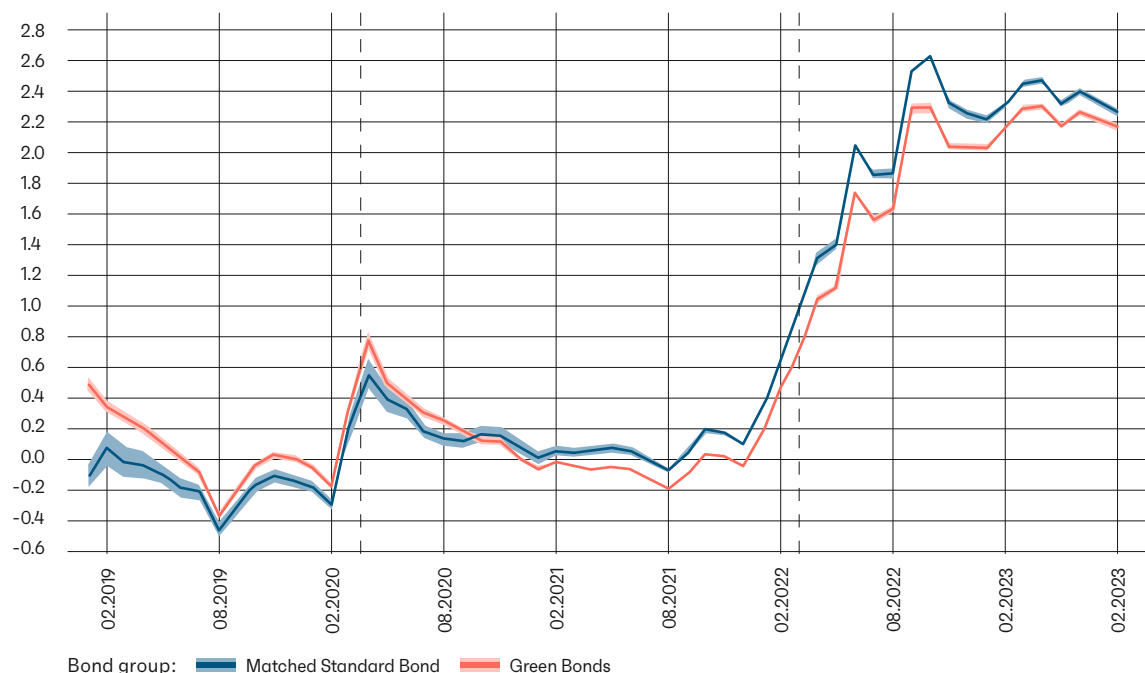
1. **High costs of issuance.** Issuance costs for green bonds can be divided between internal costs to cover issuance and monitoring, and external costs to pay third parties for certification¹⁰⁷ [5]. The former includes identification of strategic proceeds, development and review of a green bond framework, and liaison with second-party opinions [6]. The latter is usually negotiable and, in the case of US bonds, falls between CHF 9,255 (USD 10,000) and CHF 46,275 (USD 50,000) [5]. Considering that certifying the bond with the Climate Bonds Standard Board requires a further fee of one-tenth of a basis point of the bond principal, the overall additional certification fee may amount to around CHF 92,550 (USD 100,000).¹⁰⁸ Academic research suggests that such costs are more than offset by the increase in the issuer's stock price following the green-bond issuance [7] and benefits of lower yields for green bonds vis-à-vis standard bonds [5], [8]. However, Swiss issuers of green bonds reported that issuance costs remain high, and the mentioned cost offsetting does not always materialise. This is an issue, especially in a context of low demand where yields of green bonds are not low enough to compensate for the high issuance costs. To support issuers, the Swiss regulatory bodies could put in place incentive schemes tackling issuance costs, as it is done in Singapore¹⁰⁹. Furthermore, the SIX Exchange could lower the ticket for green bonds to be listed on the Swiss Bond Index – which is presently at CHF 100 million.

107 Through their voluntary labelling schemes, certification providers such as CBI provide an endorsement of green credentials using science-based eligibility criteria [4].

108 The certification under the Climate Bonds Standard is a labelling scheme for green bonds, which requires additional reporting on top of what international market standards require [4].

109 Until end of 2028, the Monetary Authority of Singapore is offering a Sustainable Bond Grant Scheme for offsetting up to S\$125,000 (about CHF 84,000) for the expenses related to external reviews at pre-issuance and post-issuance and for taxonomy alignment [9].

Figure 52: Yields of green and standard bonds on the secondary market in times of crisis¹¹⁰



2. **Lack of incentives to receive lower yields.** The lack of incentives for green bond investors to bear the financial burden of potentially lower yields can contribute to “scare investors away”. In this regard, the data suggests that yields at issuance of green bonds are in fact slightly higher than those of standard bonds. Such an aspect reflects a relatively low demand for green bonds, as issuers must offer high returns to convince investors to hold green bonds. The ecological contribution of green bonds is therefore in question. Considering the secondary market, Figure 52 shows that, as the Covid crisis started in 2020, the yields for CHF-denominated green bonds became higher than the ones for CHF-denominated standard bonds, and this “discount” remained the

¹¹⁰ Notes. This figure reports the monthly means for bid yields over time by groups of CHF-denominated green bonds and matched standard bonds on the SIX Swiss Exchange (secondary market). The first vertical dashed line represents the beginning of the COVID period (2020-03-16). The second vertical dashed line represents the beginning of the invasion of Ukraine (2022-02-24). The matching is done within issuers, following Flammer (2021). The shaded areas around the monthly means are the confidence intervals at the 95%-level for the monthly means. A higher bid yield for green bonds (red) than for matched standard bonds (blue) indicates that bond holders need to offer higher yields than usual to sell their bonds (high supply, or low demand). If the confidence intervals for the green bonds do not cross the confidence intervals for the matched standard bonds, then the difference in means is statistically significant at the 5%-level. Note that the fact that data for bid yields are available for a specific month does not necessarily imply that transactions took place on the exchange. Source: Eikon, Datastream, authors' calculations.

same ever since. This trend shows that, while in the past investors were willing to receive lower yields from green bonds, as Covid hit investors went back to more standard bonds, and since then the demand for green bonds remained relatively low.

3. **Lack of uniform post-issuance reporting.** From a regulatory perspective, Switzerland follows a market-based approach for green-bond issuance and reporting. Indeed, legally speaking, green-bond issuers are subject to the same legal requirements at issuance as when issuing standard bonds and no legal definition of green bonds exists. The SIX Swiss Exchange has thus developed its own requirements for what classifies as green bonds, namely bonds have to be (1) aligned with the Green Bond Principles of the International Capital Market Association and (2) listed on the Green Bond Database of the Climate Bonds Initiative. However, contrary to that of other jurisdictions¹¹¹, these market-based standards currently do not allow for comparability across the post-issuance disclosures of green bonds, as such disclosures are generally non-mandatory. Our study proposes a preliminary analysis of public post-issuance reports of issuers, which shows that the information on the financed green projects is indeed reported in very heterogeneous ways across issuers. Overall, we suggest that, at minimum, all issuers should homogeneously report proceeds spent and GHG emissions avoided. Interviewed market stakeholders confirmed that the set of information that is currently disclosed by issuers – investor reports, issuance documents, etc. – is not enough. They would support more ways of sharing information between issuers and investors. Some platforms to increase such interactions are currently being developed for other markets, such as the Nasdaq Sustainable Bond Network (not public) and the Green Bond Transparency Platform by the Inter-American Development Bank (public).
4. **Low climate impact of underlying projects.** The academic literature remains ambiguous on whether the projects financed by green bonds contribute to reducing emissions at the issuer level. On the one hand, Ehlers et al. (2020) find out that the current labelling system for green bonds does not necessarily imply reductions in emissions related to the issuance [8]. On the other, Flammer (2021) shows that, after issuance, issuers of certified green bonds

have higher environmental ratings, less CO₂ emissions, and more long-term and greener investors [11]. In addition, it is not always the case that the proceeds of green bonds are allocated to projects that are relevant to the firm's activities. With a preliminary analysis, we show that issuers of green bonds on the Swiss market do not necessarily improve their ESG and emission scores after issuance.

Discussions with market actors, policy makers and academia brought forward three avenues of action that would help address these barriers: 1) building a centralised open-source database with non-financial information on green bonds issued in Switzerland, 2) testing decentralised financing solutions for reducing issuance costs, and 3) creating a stakeholder-policy maker platform, or supporting existing ones, to promote a policy and legislative agenda for lowering the barriers to growth for sustainable debt in Switzerland. A collaboration between market actors, policy makers and academic institutions is essential to advance the Swiss green bond market.

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111 Other jurisdictions, such as the EU through its EU Green Bond Standard, are trying to standardise the type of reports and their frequency post issuance (EU GBS Art. 9-10) but do not necessarily provide mandatory impact metrics to report on (EU GBS Annex III, 2023) [10].

Sponsor Contributions

Portfolio Decarbonization

Christopher Greenwald,
Head Sustainable Investing

Investors interested in addressing climate change through their investment strategies generally focus on aligning their portfolios with the Paris Agreement, which will require reducing CO₂ intensity across portfolio holdings by 50% compared to 2019 levels by 2030. The following three approaches enable a decarbonization of portfolios:

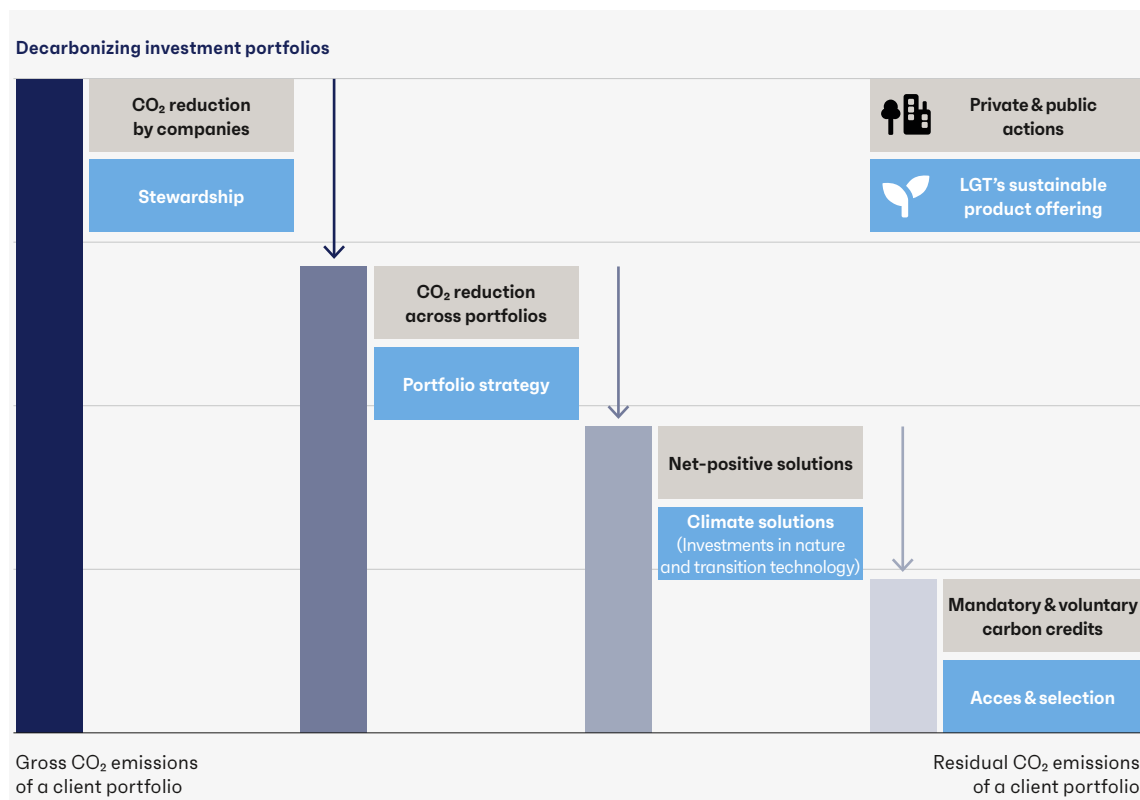
First, it is important to recognize that a significant portion of CO₂ emissions reductions in client portfolios must come through the reduction of CO₂ by investee companies themselves. Investors can ensure that investee companies follow through with these reductions through stewardship, which includes both proxy voting as well as active engagements with investee companies.

A second key step in aligning portfolios with the Paris agreement will involve decarbonizing investment strategies themselves. This does not require excluding carbon intensive industries, but it can be accomplished by shifting holdings to less carbon intensive companies within industries and using low-carbon benchmarks as a means for managing low-carbon strategies.

A third important strategy for reducing the overall emissions intensity of portfolios will be net negative investment opportunities which can counter-balance CO₂ emissions in investment portfolios. Nature-based investment strategies are an emerging asset class which can have a positive effect on the carbon footprint of client portfolios.

While these strategies will help clients reduce the carbon intensity of their investments, there will always remain residual CO₂ emissions in portfolios throughout and well beyond 2030. Though these residual emissions cannot be reduced to zero in the near-term LGT Private Banking will develop opportunities for clients to participate in the growing carbon credit markets, which can help to achieve positive climate impacts, beyond the investment portfolio. LGT Private Banking is committed to working with clients to help them find opportunities through all of these strategies and thereby mitigate climate change through investment strategies.

How to decarbonize a portfolio?



Scan to see more



Sustainability preference: from obligation to opportunity

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

Sustainable investing is constantly developing. 100 years ago, the idea of “ethical” investing took centre stage, but nowadays it is increasingly expected that sustainable investment solutions will have an ecological and /or social impact. Providing evidence of such an impact in the real world is anything but trivial and it is common to hear accusations around motives for sustainable investing.

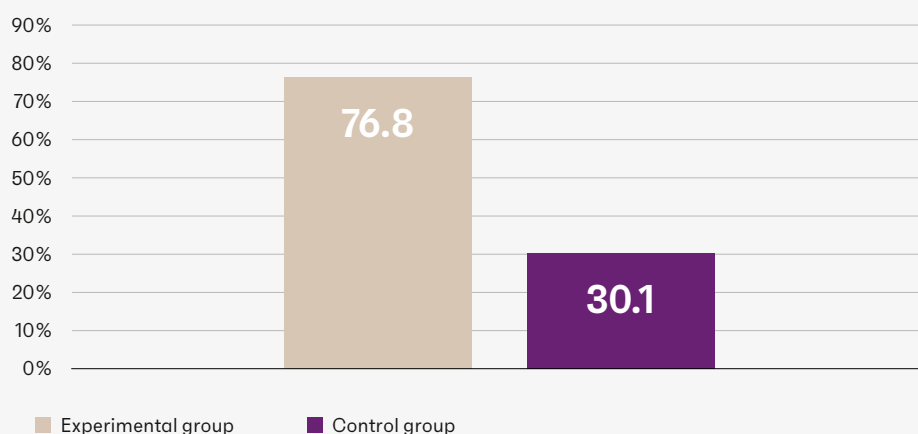
With the support of Raiffeisen Switzerland, an experimental study conducted in 2023 by the universities of Zurich, St. Gallen and MIT in Boston, was able to debunk these accusations. According to the study, sustainable investments are not being used as a substitute for political engagement. In addition, the study confirmed there was a widespread preference among investors for sustainable investment solutions – even if returns are lower. For example, 76.8% of the experimental group in which participants received information on

the carbon footprint of the fund in addition to key financial indicators chose the climate fund. On the other hand, in the control group in which only the financial information was shown and it was known that the performance was slightly higher, it was just 30.1%.

What does this mean for customer advice? While it is true that performance is important to investors who are sensitive when it comes to climate change, it is no more important than the greenhouse gas emissions associated with investments. Since the beginning of the year, the Swiss Bankers Association has made questioning all clients about their sustainability preferences mandatory. To be able to make such an informed decision based on preferences, meaningful sustainability reporting containing data on both performance and greenhouse gas emissions is necessary. This study demonstrates that this obligation is in fact more of an opportunity.

Percentage of those questioned who chose the climate fund

Only the participants in the study who were in the experimental group received climate-related information about the two funds available to choose from.



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Impact investing: Asia's role in tackling the climate crisis

Ewout van der Molen,
Head of Climate Finance, responsAbility

By 2030, mankind wants to reduce global CO₂ emissions by 50% compared to 1990 levels. Yet, since 1990, CO₂ emissions have increased by 60%. With just six years left to reach this interim target, mankind is facing an epochal challenge.

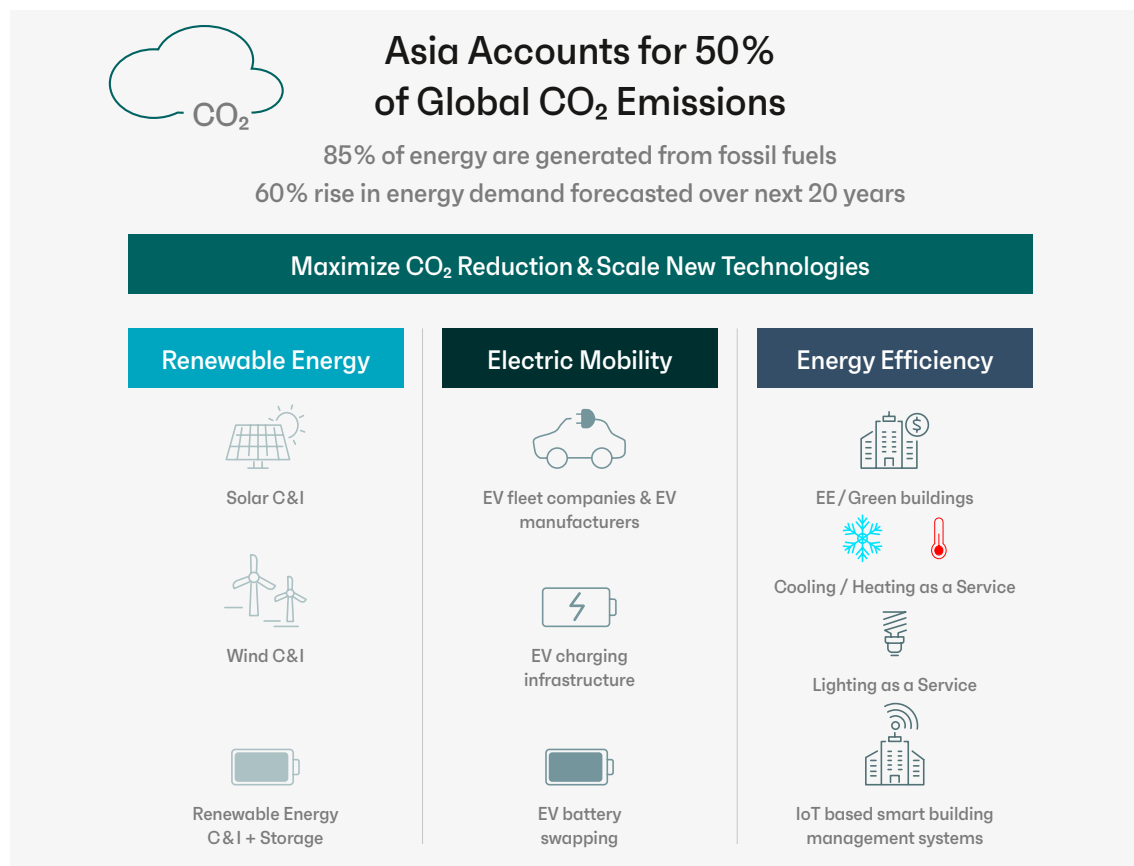
Asia, currently the largest CO₂ emitter, is both the centre of this challenge and the solution. With 85% of its power coming from coal and gas-fired power plants, electricity consumption is projected to increase by almost 60% over the next two decades. The region is on the brink of a massive increase of CO₂ emissions, a trend that will be exacerbated by population growth and the socio-economic rise from poverty.

Blended finance can offer the solution to meeting these challenges. By mixing commercial and concessional finance, blended finance reduces investment risks for private investors, thereby mobilising private capital for climate protection. This leverage effect can achieve a broad scaling of investments. The focus should be on maximising CO₂ reduction and supporting the scaling of new technologies:

- Renewable energies such as photovoltaics, wind power and electricity storage for commercial and industrial applications to promote the spread of decentralised energy generation.
- Electromobility, including EV manufacturing, battery exchange systems and charging infrastructure, to support the entire electromobility value chain.
- Energy efficiency through services and technologies such as green buildings, cooling/heating as a service and smart building management systems to cut corporate energy consumption.

With the urgent challenge of tackling the climate crisis, Asia offers a unique opportunity. Investors have the chance to actively participate in the global transition to a more sustainable and low-carbon economy through targeted investments, making a positive impact and financial return.

Figure 1



Sustainability integration into SAA?

Olivier Tinguely, Intermediary Sales

Willem Schramade, Head of Sustainability Client Advisory, Schroders, and Professor of Finance, Nyenrode Business University

Pension funds increasingly include sustainability in their investment beliefs. But the next logical step is often missing: inclusion in their SAA (strategic asset allocations).

Sustainability related investment beliefs are most often of a single materiality nature, that ESG issues are relevant to financial risk and return. A minority of pension funds take a double materiality approach, which also aims to improve the way their investments affect outcomes for nature and society. For example, Dutch pension fund PFZW* says that “as a long-term investor we can make a valuable contribution to a more sustainable world. We call this 3D investing.”

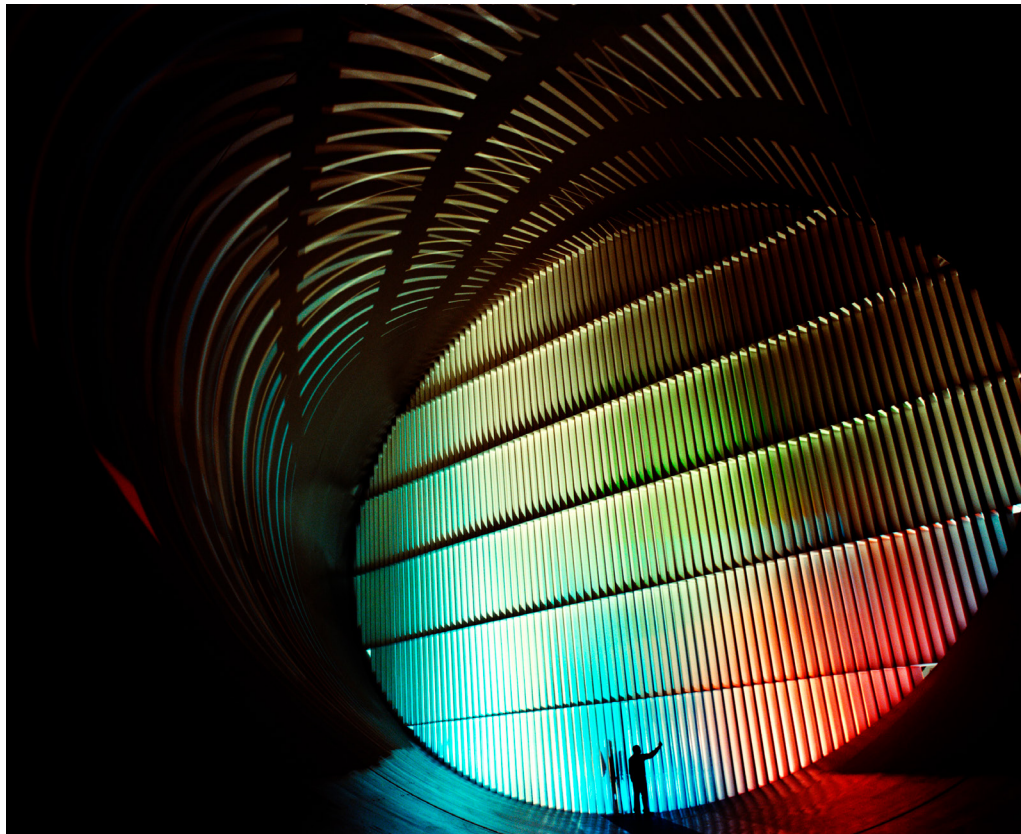
Clearly, the aspiration is there but it is not clear how those investment beliefs result in different long-term risk-return assumptions and allocation choices. Roor, Maas and Schoenmaker (2024) wrote an interesting article on this. In a seminar

at the Schroders Amsterdam office, we discussed the challenges with the authors and with pension fund representatives.

A major challenge is the use of models: long-term models on climate risk are not fit for purpose and it will take years to make them work well. In the meantime, pension funds need to make assumptions. A Nordic client does this by means of stress testing of extreme events; by considering which countries are hit harder; and then adjusting exposures.

Approaching it at a strategic level is crucial: the initiative must be top-down—board, CIO or head of SAA. One cannot expect selection teams to act without a mandate; and even if they have the mandate, they may lack the models and mind-sets, which take years to develop. Integrating sustainability in investment beliefs is a start, but the proof of the pudding is in the eating: integration into long-term assumptions and SAA.

Figure 1



* Source: Annual_report_PFWZ_2022.pdf

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Actively shaping a specific climate policy geared toward net zero by 2050

Fabio Oliveira, CESGA, Senior ESG Officer, Zurich Invest Ltd
Peter Bezak, CESGA, Economist and Investment Expert, Zurich Invest Ltd

Achieving net zero emissions by 2050 undeniably requires specific and active climate policy measures from governments and companies. The necessary transformation of the economy and the energy sector requires emission reductions, renewable energies, energy efficiency and sustainable practices in all areas. The basis of the general corporate strategy of Zurich Invest Ltd, as the manager of the Zurich Investment Foundation, is a climate policy geared toward net zero by 2050.

Expansion of the active ownership approach

In addition to the engagement activities, the active ownership approach enables the investors of the Zurich Investment Foundation to influence the business decisions of companies by exercising voting rights at shareholders' meetings. Such active ownership ensures that climate and sustainability goals are reflected in business practices.

In order to exert more influence here, Zurich Invest Ltd formulated and implemented new, additional corporate governance principles focusing on climate change. Among other things, they emphasize reducing greenhouse gas emissions and transitioning to renewable energies.

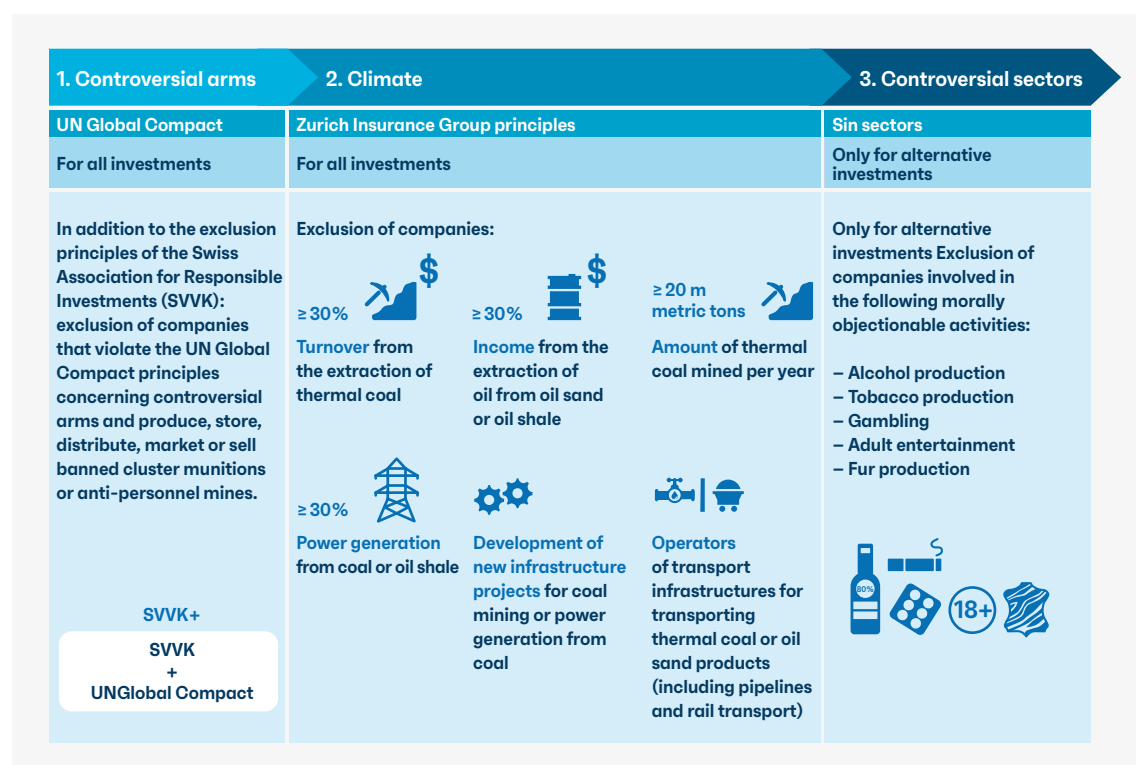
New interim targets for corporate bonds

New interim targets for corporate bonds in 2023 aim to reduce carbon dioxide emissions by 2030. Carbon dioxide emissions are to be reduced by 50 percent by 2030 compared to 2019. These targets are in line with the target-setting protocol of the Net Zero Asset Managers Initiative and contribute to global efforts to limit global warming to 1.5 degrees Celsius.

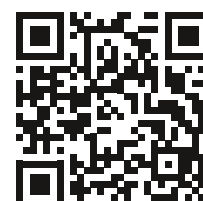
Extension of the exclusion approach

In addition, Zurich Invest Ltd expanded its three-stage exclusion approach last year. All real estate and mortgage investment vehicles were included in the sustainable investment concept. In this way, the strategic focus on climate change can be given greater consideration in these investment solutions.

Figure 1



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One concern, several risk profiles

René Nicolodi, Head of Equities & Themes in Asset Management at Zürcher Kantonalbank.

While the demand for water is increasing, the precious liquid is increasingly being lost due to global warming. In Europe, annual losses due to drought amount to EUR 9 billion. For companies and investors alike, safeguarding this resource presents opportunities through the lens of water and through the lens of climate.

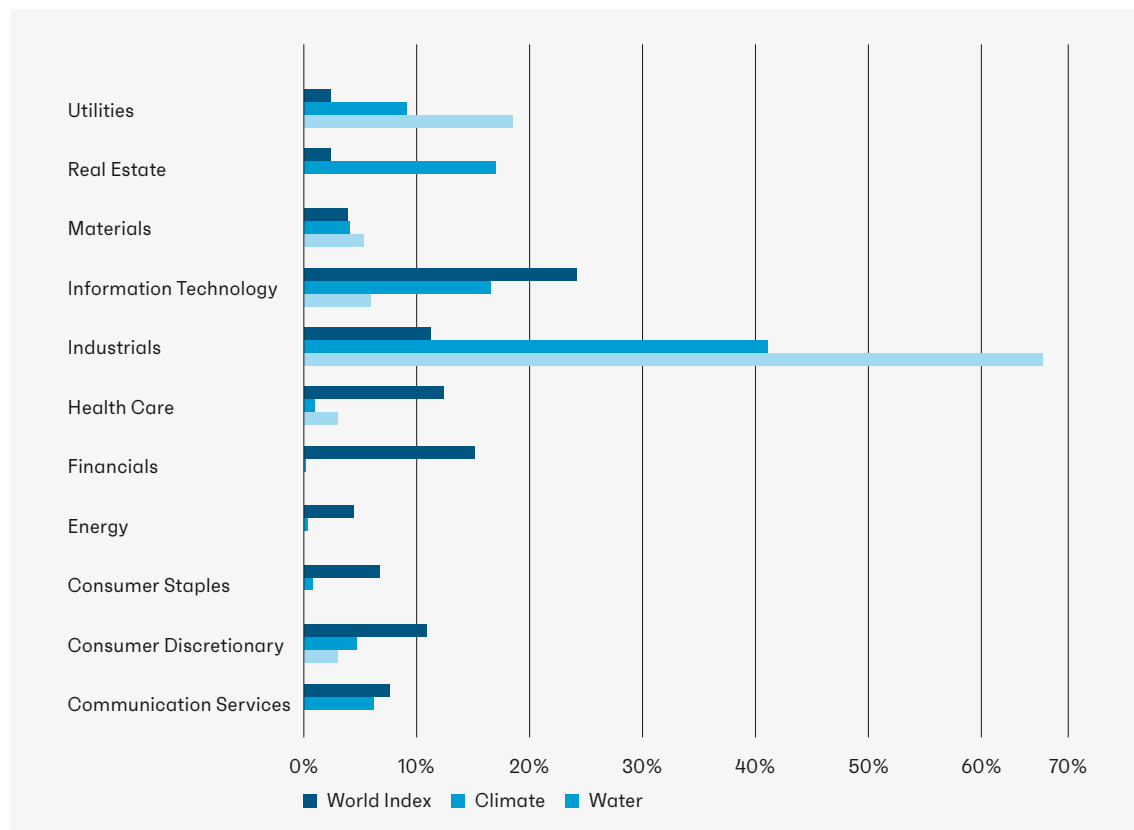
A key difference between a focus on water and a focus on climate with regard to the risk-return profile is the substitutability: water is not interchangeable, whereas fossil fuels could be replaced. Furthermore, water companies are hardly threatened by technological disruption, as their technologies have been established and functioning for decades. In addition, there is often strong customer loyalty, which represents a high barrier to entry. Climate protection technologies, on

the other hand, often differ only slightly and are experiencing enormous growth in demand, but also high price pressure. Due to their interchangeability, there are hardly any barriers to market entry. The expected growth rates up to 2030 also differ: the water market is forecast to grow by around 4%, while the decarbonization market is expected to grow by a good 9%.

This results in different risk profiles for investors. Water funds are less risky, but offer high barriers to entry, while climate funds can benefit from a high risk and high return profile.

Whether you are a risk-taker or a conservative investor, thematic funds around climate and water funds offer exciting alternatives in the area of sustainability.

The different sector allocation of the Climate and Water theme funds compared to a global equity index.



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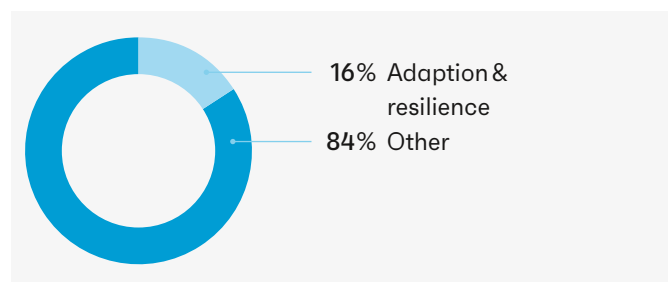


Adapt to survive – fixed income uniquely positioned to deliver climate resilience

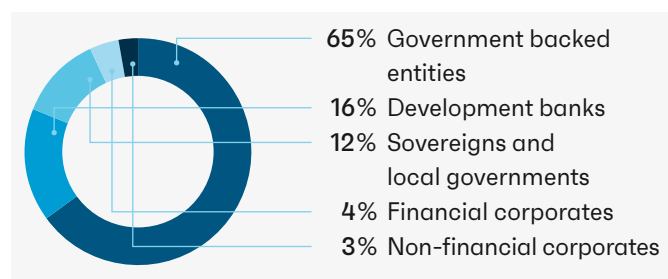
Thomas Leys,
Investment Director, Fixed Income Research, abrdn

As climate change causes increasingly frequent and severe weather events globally, the urgency to build resilience to physical risks becomes more acute. Currently, there is a vast gap between the funding required to adapt to this new reality and the actual money being deployed. Fixed income investors can play a pivotal role in addressing this underfunded issue due to the breadth of issuers of bonds – from countries to private companies. Green bonds with specific funding for climate adaptation can be particularly impactful. Chile, Romania and the Netherlands have all issued such instruments. Research indicates that every dollar invested in climate adaptation, could yield a net economic benefit to society ranging from \$2 to \$10.* Through selective investments, bondholders have a unique opportunity to support the growing need for climate adaptation in the real world.

Green Bonds – Use of Proceeds



Adaptation UOP bond issuers by type



Source: Green Bonds for Climate Resilience (gca.org)

* Adaptation Finance and Investment |
World Resources Institute (wri.org)

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Circular building

Daniel Gussmann,
Chief Investment Officer, AXA Switzerland

Lise & Lotte in Köniz (canton Bern)



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Real estate is responsible for around 26% of the carbon emissions and 40% of the energy consumption in Switzerland. AXA has therefore set the goal of achieving net-zero carbon emissions for its properties by 2050.

The construction sector is responsible for a significant amount of the raw materials required and waste produced in Switzerland. Since the sustainable use of resources is important to us, the real estate experts of AXA IM signed the “Circular Building Charta” in the summer of 2023. Together with private and public players, we are aiming to find new ways to pursue circular building and to establish such practices. A successful example of circular building is the Lise & Lotte development in Köniz. With this project, existing construction elements such as glass partitions, radiators, window frames, and other building installations were reused and integrated into the new development.

We firmly believe that using all resources sustainably adds value over the long term.



The strategic minerals conundrum

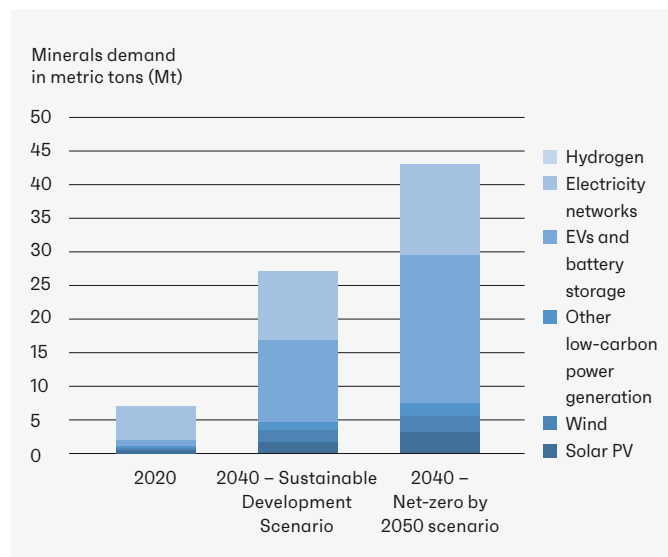
Dr. Daniel Wild,
Chief Sustainability Officer

Demand for metals for clean technologies is set to quadruple by 2040, creating further growth opportunities for the sector, but also significant ESG challenges. Sustainability-minded investors can help resolve the dilemma between strategic metal demand and their ESG concerns by being selective in their investments, working with companies on their ESG performance and supporting transformative solutions. Mining can become more sustainable through operational improvements such as responsible waste handling and social safeguards.

Companies that promote recycling and alternative technologies are also playing a role in the green transition. For well-informed investors who understand the risks and rewards of sustainability, this comes with plenty of opportunities.

Bank J. Safra Sarasin is committed to contribute to this important development through thought leadership and compelling solutions for clients.

The overall demand for strategic minerals is expected to multiply due to the rise of clean energy technology

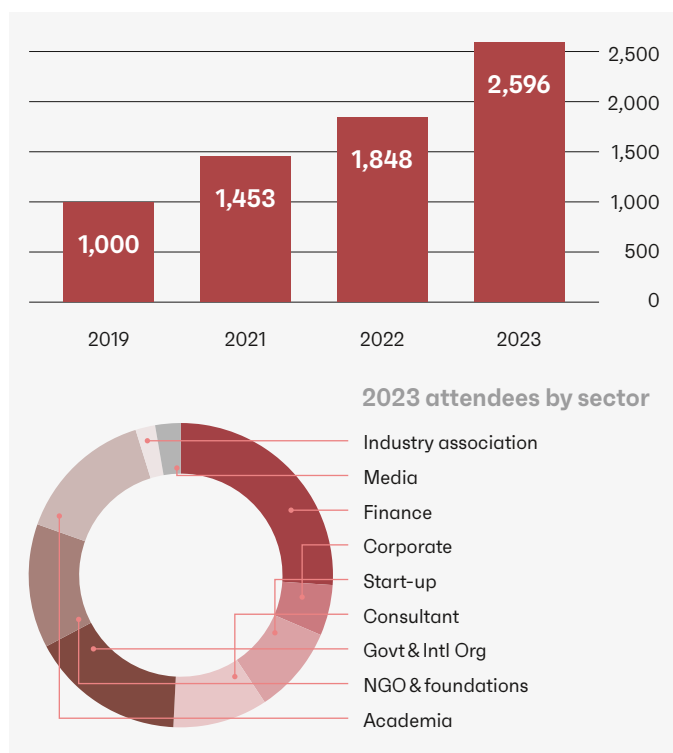


Source: IEA, Total mineral demand for clean energy technologies by scenario, 2020 compared to 2040, 2021 (Link)

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Building Bridges attendees more than doubled since its launch in 2019



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Building Bridges

Melanie Larkin,
Senior Sustainability Development Manager

Since 2019, Building Bridges, a joint initiative launched by Swiss public authorities, the finance community, the UN and others, aims to accelerate the transition to a global financial system aligned with sustainable development. At its core is the recognition that the scale and complexity of the transition require “building bridges” between multiple stakeholders. This is aligned with Pictet’s convictions around engagement to drive change in our communities and beyond. Building Bridges provides a forum for engagement among these stakeholders who do not otherwise convene to solve for common challenges. As a strategic partner to the Geneva-based initiative since its founding, Pictet has continued to deepen its collaboration and participation. In 2023, nearly 100 Pictet colleagues and clients participated in the Building Bridges week. The 2024 edition will take place 9–12 December in Geneva.

ESG Investing as fuel for growth

Marion Leslie,
Head Financial Information, SIX

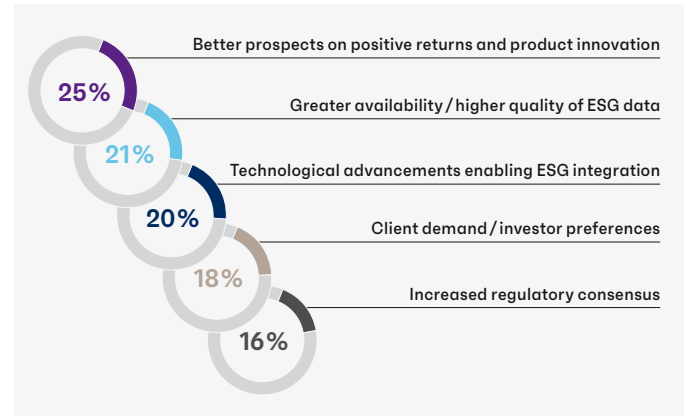
Although the integration of ESG considerations into investment strategies is nothing new, the pace and scale at which this is now happening across the global investment space is unprecedented.

25% of investment managers worldwide indicated that ESG guided investment would be driven by improved opportunities to deliver positive portfolio performance and product innovation. In the US (34%) and the UK (31%) companies said that increased availability and higher quality of ESG data were the main enablers to support growth. This reflects the slightly more advanced nature of these two markets.

Different regions are at different stages of development, but as volumes rise, the strain on operational and analytical processes will intensify everywhere, resulting in a need for greater automation, quality, and access to expertise.

What Do You See as the Key Driver for Growth in the ESG Investing Space?

For the global Cornerstones for Growth study, part of the Future of Finance series, Censuswide on behalf of SIX surveyed investment managers across 300 international financial institutions.



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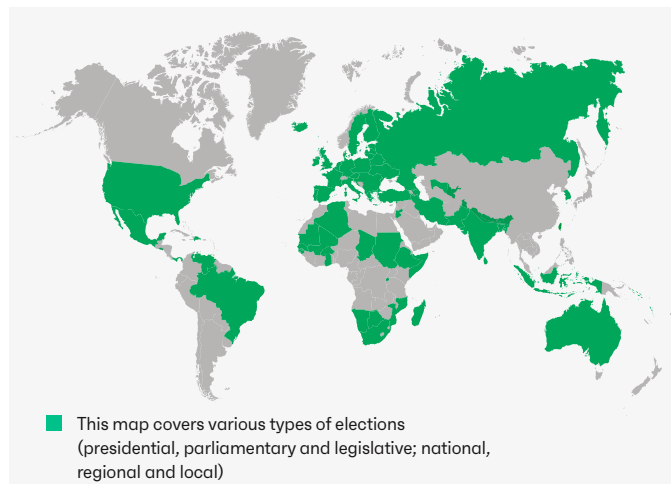


UNION BANCAIRE PRIVÉE

Monitoring the impact of policy on the sustainability transition

Nicolas Barben,
Global Head of ESG Solutions, Union Bancaire Privée

Overview of 2024 elections



Sources: UBP, WRI, Le Monde, Les Echos

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2023 broke all air and ocean temperature records and ended with governments agreeing – at the Dubai climate summit – to speed up transition measures in response to the intensifying climate crisis. 2024 will be crucial in determining who will guide us through the upcoming critical decade of climate change mitigation, with 4.1 billion people, or half of the world's population, due to elect their leaders and policymakers.

Policy and regulations play a decisive role in the trajectory and timing of the economic transition. This is why UBP's ESG specialists are closely monitoring and analysing political developments around the world, such as the potential impacts of subsidies or regulations like the US Inflation Reduction Act and the European Green Deal on industrial value chains and the pace of transition.

Appendix

Details on Eurosif methodology

Box 2: Defining characteristics of the four sustainability-related investment types¹¹²

Dimension	Definition
Main objective	The investment objective describes the explicit, sustainability-related goal of an investment. The investment objectives defined for this methodology describe how different categories of investments use the sustainability-related information reported by investees in their investment processes and product design. The methodology differentiates between four types of sustainability-related investment objectives: (1) integration of ESG factors, (2) Systematic analysis & incorporation of ESG factors, (3) Alignment with positive impacts on environment and/or society, and (4) Having a measurable contribution to positive real-world impacts. The first two objectives focus on ESG risk and/or opportunities, while the latter two objectives focus on sustainability-related impacts.
Investment process	SI approaches
	Performance measurement
Ambition level	
Investment focus	

Details on the update of the Eurosif methodology

During 2023, Eurosif, the University of Hamburg, and Advanced Impact Research (AIR) updated the Eurosif methodology based on discussions in Eurosif’s SRI Study Group (SSG), leading to a final report in January 2024.¹¹⁵ This development strongly benefited from the experiences gained in the SSF Market Study 2023. The update of the methodology also considered extensive practitioners’ feedback and led to important changes. Hence, it is important to note that while there’s a degree of comparability between last year’s results derived from the Eurosif white paper and this year’s findings, they are not entirely comparable. The most important changes to this methodology include, first, the reduction of the five categories to four categories (the category “Exclusions-Focused” was integrated into Basic ESG). A second important change is that all four categories now require either binding selection processes or engagement strategies with an impact focus (engagement policy, impact objectives for engagement and monitoring of engagement results). Therefore, from the perspective of the Eurosif methodology, ESG integration is not sufficient for an investment to be classified into one of the

four categories. One reason is that ESG integration is not considered a binding sustainability-related selection process. For the SSF Market Study 2024, SSF decided to include ESG integration volumes into Basic ESG investments due to their small share of overall volumes.

112 Busch et al. (2024): *Final Report: Methodology for Eurosif Market Studies on Sustainability-related Investments. Measuring progress of capital flows to support the sustainable transition of the real economy.* Available at: https://www.eurosif.org/wp-content/uploads/2024/02/2024.02.15-Final-Report-Eurosif-Classification_2024.pdf

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

114 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>

115 Busch et al. (2024): *Methodology for Eurosif Market Studies on Sustainability-related Investments. Measuring progress of capital flows to support the sustainable transition of the real economy.* Available at: https://www.eurosif.org/wp-content/uploads/2024/02/2024.02.15-Final-Report-Eurosif-Classification_2024.pdf

List of abbreviations

AFM	Authority for Financial Markets
AIFMD	Alternative Investment Fund Managers Directive
AMAS	Asset Management Association Switzerland
AuM	Assets under Management
BMR	Benchmark Regulation
BREEM	Building Research Establishment Environmental Assessment Methodology
CODA	Complementary Climate Delegated Act
ODA	Climate Delegated Act
CFA	Chartered Financial Analyst
CHF	Swiss franc
CO	Code of Obligations
CO₂ Act	Federal Act on the Reduction of CO ₂ Emissions
OSDDD	Corporate Sustainability Due Diligence Directive
OSRD	Corporate Sustainability Reporting Directive
CTB	Climate Transition Benchmark
DDTrO	Ordinance on Due Diligence and Transparency in Relation to Minerals and Metals from Conflict-Affected Areas and Child Labour
DGNB	Deutsche Gesellschaft für Nachhaltiges Bauen
DNSh	Do No Significant Harm
EC	European Commission
EFRAg	European Financial Reporting Advisory Group
EFRAg SR TEG	EFRAg Sustainability Reporting Technical Expert Group
ESAs	European Supervisory Authorities
ESG	Environmental, Social and Governance
ESI	Economic Sustainability Indicator
ESMA	European Securities and Markets Authority
ESRS	European Sustainability Reporting Standards
ETF	Exchange-Traded Fund
EU	European Union
EUR	Euro
Eurosif	European Sustainable Investment Forum
FCA	Financial Conduct Authority
FDF	Federal Department of Finance
FINMA	Financial Market Supervisory Authority
G7	Group of Seven
GONSL	UN Global Compact Network Switzerland & Liechtenstein
GfANZ	Glasgow Financial Alliance for Net Zero
GHG	Greenhouse Gas
GRESB	Global Real Estate Sustainability Benchmark
GRI	Global Reporting Initiative
GSIA	Global Sustainable Investment Alliance
QSS+	Green, Social, Sustainability and Sustainability-linked Bonds
IDD	Insurance Distribution Directive
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards

ILO	International Labour Organization
ISSB	International Sustainability Standards Board
ITF	Impact Taskforce
KIG	Climate and Innovation Act
KIV	Ordinance on Climate Protection
KPIs	Key Performance Indicators
LEED	Leadership in Energy and Environmental Design
MIFID	Markets in Financial Instruments Directive
NGO	Non-Governmental Organisation
NSBA	Net Zero Banking Alliance
NZAMI	Net Zero Asset Managers Initiative
NZAOA	Net-Zero Asset Owner Alliance
NZIA	Net Zero Insurance Alliance
OECD	Organisation for Economic Co-operation and Development
OJEU	Official Journal of the European Union
PAB	Paris-aligned Benchmark
PAI	Principal Adverse Impact
PRI	Principles for Responsible Investment
REIDA	Real Estate Investment Data Association
RTS	Regulatory Technical Standards
SASB	Sustainability Accounting Standards Board
SBTI	Science Based Targets initiative
SOS	Swiss Climate Scores
SDG	Sustainable Development Goals
SDR	Sustainability Disclosure Requirements
SDS	Sustainability Disclosure Standards
SEC	US Securities and Exchange Commission
SFDR	Sustainable Finance Disclosure Regulation
SGNI	Schweizer Gesellschaft für Nachhaltige Immobilienwirtschaft
SI	Sustainable Investment
SMEs	Small and medium-sized enterprises
SNB	Swiss National Bank
SNBS	Standard Nachhaltiges Bauen Schweiz
SRI	Sustainable & Responsible Investment
SSF	Swiss Sustainable Finance
SSG	Eurosif's SRI Study Group
SSREI	Swiss Sustainable Real Estate Index
TCFD	Task Force on Climate-related Financial Disclosures
TNFD	Taskforce on Nature-related Financial Disclosures
TR	Taxonomy Regulation
TSC	Technical Screening Criteria
UCA	Unfair Competition Act
UCITS	Undertakings for Collective Investment in Transferable Securities
UK	United Kingdom
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
USD	US dollar

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Study participants

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