Sustainable investments

Investing responsibly and sustainably

In cooperation with: GlobalanceSelection

Economic, social and environmental criteria are increasingly important considerations for investors, as is the promotion of future technologies. A growing number of investors are keen to understand the impact an investment has on the economy, society and the environment. They also want to understand whether and how their investment portfolios are equipped to face the future. This poses challenges for the financial sector and hence for the Swiss financial marketplace.

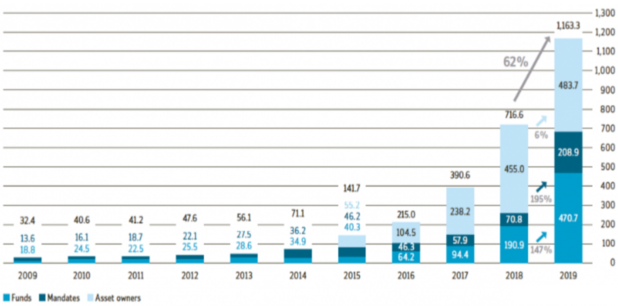
No let-up in the growth of sustainable investments

For many consumers, sustainability already plays an important part in the day-to-day purchasing decisions. This includes giving preference to suppliers of local products or seeking out recognized labels (e.g. "Fairtrade"). People are increasingly aware that such considerations can also be applied to their investments.

Sustainable investments are already very popular among Swiss investors. Figures published by Swiss Sustainable Finance show that investment strategies incorporating criteria such as environmental protection, social responsibility and good corporate governance (ESG) have been enjoying exponential growth rates. In Switzerland CHF 1.163 billion is currently invested sustainably, accounting for around one third of locally managed assets.

Growth of sustainable investments in Switzerland

(in CHF bn)



Source: Swiss Sustainable Investment Market Study 2020, Swiss Sustainable Finance

Unmistakable driving forces

In addition to personal convictions, one key driving force behind sustainable investment is the heated debate over climate protection. Mass protests around the world, such as the Fridays for Future (FFF) movement, are calling for global warming to be kept below 1.5 degrees Celsius compared to pre-industrial levels, in accordance with the Paris Climate Convention.

Society has recognized that this can only be achieved if we allocate our assets in a way that has a positive impact and a focus on future-oriented technologies. The Swiss financial marketplace is also increasingly feeling the effect of this: protest movements are calling on the big Swiss banks, for example, to scale back their financing of companies working with coal, gas and oil.

New regulations

New regulations, especially from the European Union (EU), are also have a growing influence on sustainable investments. Over the coming years, the EU's action plan can be expected to accelerate the trend towards sustainability within the European financial sector – and, by the same token, within the Swiss financial marketplace. Europe is to be made to serve as a catalyst for global investment in environmentally-friendly business practices and technologies.

The Swiss markets are also taking their lead from the emerging EU legislative proposals, with bodies such as the Swiss Federal Council, economiesuisse and the Swiss Bankers Association (SBA) all emphasizing the opportunities offered by a sustainable financial sector in Switzerland. The Swiss Federal Council intends to establish a framework that will enable the Swiss financial services industry to compete in the field of sustainable finance. Indeed, the SBA has taken this a step further and is aiming to make Switzerland a leading international hub for sustainable investment.[1]

[1] Source: SwissBanking, SBA position paper, Sustainable Finance, June 2020

Forms of sustainable investments

Sustainable investment options are currently available in all the usual asset classes, such as equities, bonds, real estate and low-correlation investments. More and more products – investment funds, ETFs and structured products, for example – are also taking a sustainable approach. It is worth looking more closely at these, however, as not everything that is labelled "sustainable" lives up to the description:

1. Approach: exclusion

Sustainable investments exclude shares in companies that make money from coal, oil, tobacco, gambling, weapons or alcohol, for example. These are referred to as "exclusion criteria". The exclusion approach involves the conscious exclusion of industries, business activities or products from an investment portfolio on the basis of certain values or ethical principles. Financial considerations may also play a part: if a given sector appears likely to suffer substantial losses due to an existing controversy, it may make sense to steer clear of that sector on financial grounds.

2. Approach: best-in-class

The best-in-class approach focuses on selecting comparatively responsible companies. The aim is to identify those companies within the individual sectors that are particularly active in meeting the challenges of sustainable development. To this end, companies are evaluated on the basis of a wide range of criteria relating to all areas of business activity. However, as the best-in-class approach basically considers all sectors – with the possible exception of the defence industry – this approach is also open to criticism. One key objection is that even choosing the "greenest" car manufacturer is of little use if its products are by their very nature environmentally incompatible.

3. Approach: thematic investing

Thematic investing means investing in companies shaped by megatrends such as digitalization, scarcity of resources, climate change or mobility. The aim is to identify companies that address global challenges with their business models and that ultimately benefit financially from such changes.

4. Approach: ESG

The most usual methodology at present is the ESG approach. The criteria of environmental protection, social responsibility and good corporate governance form an integral part of the financial analysts' investment process.

The above approaches can also be combined as desired – e.g. by applying an ESG filter with a number of exclusion criteria.

Performance of sustainable investments

"Green" investments do not necessarily mean forgoing financial returns; there is a persistent preconception among many investors and investment advisors that sustainability comes at the expense of lower returns. However, studies show that sustainable investments perform at least as well as their conventional counterparts.

The following chart compares classic market indices with sustainable MSCI indices. On top of the market return (or higher) that investors can expect from sustainable investments, they can look forward to an additional benefit: seeing their investments having a positive impact on the economy, society and the environment.

Performance comparison of SRI indices; annualized return since launch as of 31 May 2020

Market	Inception	Market Index	MSCI SRI Index
World (in USD)	11-Jan-10	7.89 %	9.95 %
USA (in USD)	28-Sep-07	6.32 %	7.09 %
Eurozone (in EUR)	28-Sep-27	1.60 %	2.61 %
Emerging Markets (in USD)	08-Dec-14	1.56 %	2.14 %
UK (in GBP)	28-Sep-07	3.16 %	5.32 %
Japan (in JPY)	28-Sep-07	1.45 %	2.28 %
Pacific (in USD)	01-Sep-10	5.01 %	8.72 %

SRI: Social Responsible Investment

Module "Equities Global Impact"

Invest with us in a sustainable future: through our Equities Global Impact focus module, which forms part of our innovative modular investment solution, we have responded to our clients' expectations in respect of sustainable investments. For the management of the Equities Global Impact focus module, we are trusting in the expertise of Globalance Bank. Specializing in future-oriented themes, this Zurich-based company is regarded as a pioneer in the area of sustainable asset management. We would be pleased to send you further information on request.

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Maerki Baumann & Co. AG
Dreikönigstrasse 6, CH-8002 Zurich
T +41 44 286 25 25, info@maerki-baumann.ch
www.maerki-baumann.ch