Swiss Sustainable Finance

SUSTAINABLE INVESTING: A UNIQUE OPPORTUNITY FOR SWISS PRIVATE WEALTH MANAGEMENT

Ten arguments and practical tools for client advisors

CONTENT

FOREWORD 3

1 EXECUTIVE SUMMARY 4

2 INTRODUCTION 5

3 TEN ARGUMENTS FOR SUSTAINABLE INVESTING 6

1 MEET GROWING CLIENT INTEREST IN SUSTAINABILITY
2 STRENGTHEN RELATIONSHIPS WITH CLIENTS
3 ATTRACT AND RETAIN THE NEXT GENERATION OF CLIENTS
4 COMMUNICATE "IMPACT" TO EXCITE CLIENTS
5 TURN CLIENT FOCUS TOWARD LONG-TERM PERFORMANCE
6 IDENTIFY WELL-MANAGED COMPANIES BASED ON GOOD ESG CREDENTIALS
7 MITIGATE RISKS RELATED TO COMPANY REPUTATION
8 BUILD BETTER CLIENT PORTFOLIOS
9 TAP INTO A BROAD VARIETY OF PRODUCTS AND SOLUTIONS
10 CHAMPION SWISS VALUES

4 PRACTICAL TOOLS 24

Sustainable investments are a natural core competence for Swiss banks.

FOREWORD

ZURICH, MARCH 2017

With CHF 6.6 trillion of assets under management and 25% of global cross-border assets, Switzerland clearly is a leading global centre for wealth and asset management. However, like all other financial centres the Swiss banking industry faces growing challenges due to higher costs caused by a tightening regulatory environment, technological progress in the fintech industry and ever increasing competition. No doubt, the financial industry has to adapt its services to this new environment in order to better and more efficiently serve the multitude of client needs and also to come up with up-to-date offerings that are commensurate with their pricing.

In such a situation, building on existing strengths is key: Switzerland's association with top-quality services, high global rankings in terms of innovation capacity and a stable political environment are decisive assets. These key strengths constitute the fundament of trust for clients and are a perfect match for sustainable investments, which also build on high quality, innovation and stability. For this reason sustainable investments are a natural core competence for Swiss banks, helping them to create a new USP for the Swiss Financial Centre.

This publication explains why an active offering of sustainable investments is an opportunity for the Swiss financial centre but also specifically for individual client advisors. With increasingly complex internal compliance procedures, many advisors have recently felt that their job was overloaded with administrative work, leaving insufficient time for quality client interaction. Moreover, in the current low interest-rate environment, discussions around the performance or asset allocation of client portfolios hardly offer much stimulating content. With client advisors as the main target group of this report, the ten arguments presented on the following pages illustrate how sustainable investments can open up new dimensions for more personal, interesting and long-term client relationships.

Globally, we see sustainable investing rapidly moving into the mainstream. While most banks already offer some sustainable investment solutions, certain important players have implemented sophisticated portfolio screenings or concrete ratings of the sustainability performance of portfolios. Notably, we can also count many Swiss banks among the first movers in this field. Yet large global players are quickly following suit – not least driven by recently revised regulations such as the EU Pension Fund Directive IORP II. It is therefore vital that further progress in this field does not grind to a halt.

Training in sustainable investing – for client advisors, product specialists and portfolio managers alike – is an important foundation for a solid offering and the further development of this field. It is encouraging to see the emergence of growing Swiss educational opportunities on this topic. Switzerland currently offers two Certificates of Advanced Studies (CAS) for professionals in the field of sustainable finance/sustainable investments. Most recently, the University of Zurich established the Center for Sustainable Finance and Private Wealth (CSP) at the Department of Banking and Finance. This specialist facility will develop research and specific training programmes for private wealth owners, foundations and firms looking to integrate sustainability into their wealth and asset management.

To accompany this in-depth report and make the arguments more accessible, the detailed arguments provided in this publication have been condensed into a short film. Furthermore, summary slides and other documents supporting client advisors seeking to include sustainable investment opportunities in their client meetings have also been prepared.

We hope you will enjoy watching, reading and experiencing how sustainable investing is a core competence of the Swiss financial centre. We are convinced that further developing and promoting such services will contribute to Switzerland's position as a leading global centre for wealth and asset management.

Jean-Daniel Gerber
President SSF

Sabine Döbeli
CEO SSF

1 EXECUTIVE SUMMARY

The 10 arguments developed throughout this report relate to three main themes: client engagement, financial performance and the Swiss market landscape.

The first set of arguments frame sustainable investing as an opportunity for advisors to engage with clients and to build productive relationships with them (arguments 1 to 5). In particular, the report advocates that considering sustainable investing helps advisors address clients' growing interest in including sustainability aspects not only in their daily life, but also in their investments (argument 1). Expanding the conversation to include clients' thoughts about sustainability trends, ethics, or the environmental, social and governance (ESG) performance of firms allows advisors to deepen relationships with their clients (argument 2).

Younger wealth creators or inheritors are particularly interested in these topics. Hence, sustainable investing provides a valuable tool to capture their interest and to engage with the next generation of clients, or "next gens" (argument 3). Another key advantage of sustainable investing is that it allows advisors to increase the engagement of their clients as they become excited about the positive impact that their wealth can have, as well as the negative impact that they can avoid (argument 4). Lastly, clients' deeper understanding of the decisions that led to the positions in their investment portfolio reduces the need for futile discussions about short-term performance. This allows advisors to align with clients on a long-term perspective (argument 5).

In addition, the fundamental business logic behind sustainable investing helps build strong investment portfolios (arguments 6 to 8). A body of research shows that good sustainability measures reflect the good quality of a firm's management. Such companies can be more profitable and less risky (argument 6). This becomes increasingly relevant financially due to the increasing importance of the intangible value of companies when measuring enterprise value (argument 7). In aggregate, and on the level of investment products and portfolios, sustainable investing can benefit the protection or improvement of the risk/return profile of portfolios (argument 8).

The final set of arguments show how today's well-developed sustainable investing market offers a broad opportunity-set and matches very well with the values and qualities that clients associate with Switzerland (argument 9 and 10). Advisors can point to the key role that innovative Swiss providers have played in developing today's broad range of sustainable investment solutions, and the substantial increase in invested assets (argument 9). Sustainable investing mirrors important Swiss values, such as high quality, innovation and stability. This gives Swiss advisors a unique edge in advising clients (argument 10).

Chapter 4 is dedicated to practical tools to help client advisors prepare for speaking about sustainable investments in meetings with clients.

- A taxonomy of events and situations that are specifically suitable for initiating the conversation about sustainable investing
- Where to get information for an in-depth conversation once client interest has been voiced
- A list of potential misconceptions that could come up, together with corresponding answers
- A collection of questions that might come up during client discussions related to the advisor's or bank's personal stance on sustainable investments

By compiling this comprehensive document, SSF aims to help client advisors better grasp the topic of sustainable investments, expand the pool of information on sustainable financial products and boost the flow of capital into such products.

2 INTRODUCTION

Swiss Sustainable Finance (SSF) promotes sustainability in the Swiss financial market and aims to strengthen Switzerland's position as a leading centre for sustainable finance.

As private wealth management is a core competence of the Swiss financial centre, SSF particularly champions the further integration of sustainable investment products into this segment. In particular, SSF aims to support the communication between client advisors and their clients.

Private investors are increasingly engaging with sustainable investing. They do so both for financial and non-financial reasons, through approaches such as a focus on certain industries (e.g., water, energy), the exclusion of others (e.g., weapons, tobacco), or the integration of environmental, social, and corporate governance (ESG) criteria into the selection and valuation of securities.

As outlined in this report, helping clients understand these opportunities, make optimal choices, and find appropriate sustainable investment solutions is an outstanding opportunity for client advisors. Advisors can realise the value of active advice to their clients, and build deep relationships that are strong both in good times and periods of volatility.

However, stakeholder discussions conducted by SSF with its members and analysis of research have identified important barriers hindering client advisors from raising sustainable investing with their clients.[1|2] Furthermore, a recent survey also showed that client advisors place less importance on ESG considerations than investors when it comes to choosing investments.[3]

SSF has therefore compiled this report to outline ten arguments for client advisors and intermediaries in banks to show that sustainable investing is an interesting opportunity for them. Included is a taxonomy of situations to initiate a conversation with clients, a list of common misconceptions and questions about sustainable investing and corresponding answers, and suggestions for further reading.

In terms of methodology, this report is based on the work of the Swiss Sustainable Finance workgroup "Sustainable Investments in Private Wealth Management", a comprehensive review of the academic and practitioner-oriented body of literature, and interviews with client advisors from large mainstream and sustainability-focused private wealth management firms in Switzerland. In addition, SSF has held a workshop with client advisors to test the arguments and the proposed tools.

This report is just one element to support the dialogue amongst investment professionals on the role of sustainable investments. SSF has further prepared a short teaser film, condensing the main messages of this report. The film and further supporting documents (i.e. the SSF Handbook on Sustainable Investments) are available at www.sustainablefinance.ch. SSF and the workgroup "Sustainable Investments in Private Wealth Management" will continue to support this dialogue and work on other tools to promote sustainable investments.

[1] Paetzold, F. & Busch, T. (2014). Unleashing the Powerful Few: Sustainable Investing Behaviour of Wealthy Private Investors. Organization & Environment, 27(4), 347–367.

[2] Paetzold, F., Busch, T. & Chesney, M. (2015). More than money: exploring the role of client advisors for sustainable investing. Annals in Social Responsibility, 1(1), 194–222.

[3] Schroders. (2016). Schroders Global Investor Study 2016.

3 TEN ARGUMENTS FOR SUSTAINABLE INVESTING
ARGUMENT 1: MEET GROWING CLIENT INTEREST IN SUSTAINABILITY

Over the past decade, the interrelation of business with social and environmental aspects has become the new normal in many aspects of our everyday life. Similarly, private investors are increasingly interested in combining financial returns with sustainability aspects. Why?

From a financial viewpoint, a large body of research indicates that companies performing well on sustainability measures are more profitable.[1] Therefore, sustainable investing is an element of prudent investing and fiduciary duty, as confirmed by the law firm Freshfields Bruckhaus Deringer: "integrating social, environmental or governance (ESG) considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required."[2]

Furthermore, people like to feel that their investments do good. This phenomenon is known in behavioural economics as "warm-glow giving".[3] About half of the first private investors in sustainable investing did so for this "warm glow".[4]

More specifically, the need to do good is a cornerstone of cognition research, and has been for decades. People want to align their everyday beliefs with their actions. They strive to reduce "cognitive dissonance", which is the tension that comes from acting against personal beliefs.[5] Such dissonance would be, for example, to care about intergovernmental climate change negotiations, invest in a solar panel or buy an energy-efficient fridge, but not to think about the effect of these topics on financial assets.

As such, large-scale surveys indicate that the majority of private investors are willing to consider sustainability aspects in their investment decisions.[6|7|8] Cap Gemini surveys indicate that 92% of HNWIs want not only to achieve returns with their money, but also to have a positive impact – yet they turn to family members, and not to their advisors, to explore how to invest accordingly.[9|10] Additionally, female investors, who are becoming an important client group as the income gap narrows and wealth is transferred to the next generation, "are nearly twice as likely as male investors to consider both rate of return and positive impact when making an investment".[11]

Advisors, it seems, often underestimate client interest in this type of return,[12] and "surveys among private investors also show that the [sustainable investing] market potential is far from being realised".[13|14]

Research indicates that in particular wealthy private investors are interested in sustainable investing.[15] Therefore, sustainable investing is at a point where it provides an attractive solution for advisors to unlock latent demand from any client who considers environmental or social aspects in everyday life.

"Often our prospects in their first meetings say something like 'this is so much more interesting and satisfying than the usual investment discussions. I had no idea that this is possible. Why didn't someone tell me about this earlier?'"

Advisor from a sustainability-focused private bank

1 Friede, G., Busch, T. & Bassen, A. (2015). ESG and financial performance: aggregated evidence from more than 2000 empirical studies. Journal of Sustainable Finance & Investment, 5(4), 210–233.

2 Freshfields Bruckhaus Deringer. (2005). A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment. United Nations Environment Programme Finance Initiative, (October), 154.

3 Andreoni, J. (1990). Impure Altruism and Donations to Public Goods: A Theory of Warm-Glow Giving. The Economic Journal, 100(401), 464–477.

4 Nilsson, J. (2009). Segmenting socially responsible mutual fund investors: The influence of financial return and social responsibility. International Journal of Bank Marketing, 27(1), 5–31.

5 Festinger, L. (1957). A theory of cognitive dissonance. Evanston, IL: Row, Peterson.

6 Eurosif. (2016). European SRI Study 2014. Brussels.

7 Gallup. (2009). Europeans' attitudes towards the issue of sustainable consumption and production. European Commission – Flash Eurobarometer.

8 Wins, A. & Zwergel, B. (2016). Comparing those who do, might and will not invest in sustainable funds: A survey among German retail fund investors. Business Research 9(1), 51–99

9 CapGemini RBC. (2015). World Wealth Report. New York, USA.

10 CapGemini RBC. (2016). World Wealth Report. New York, USA.

11 Morgan Stanley Institute for Sustainable Investing. (2015). Sustainable Signals: The individual investor perspective.

12 Nilsson, J., Nordvall, A.-C. & Isberg, S. (2010). The information search process of socially responsible investors. Journal of Financial Services Marketing, 15(1), 5–18.

13 Schrader, U. (2006). Ignorant advice – customer advisory service for ethical investment funds. Business Strategy and the Environment, 15(3), 200–214.

14 Schroders. (2016). Schroders Global Investor Study 2016.

15 Eurosif. (2012). HNWIs & Sustainable Investment 2012. Brussels.

ARGUMENT 2: STRENGTHEN RELATIONSHIPS WITH CLIENTS

Private wealth management is highly dependent on strong and reliable personal relationships. Trusted relationships are the basis for retaining existing clients through good market conditions – and especially in times of volatility. In addition, referrals from satisfied clients are often key to attracting new clients.

However, trust in financial markets, banks and advisors suffered due to the financial scandals and crises of 2000 and 2008. At the same time, passive investment and advisory approaches challenge traditional advisory services and fee models, putting the benefit of advisors for clients under scrutiny.[1|2]

Sustainable investing is an opportunity for advisors to counter those developments. Advisors that broaden their conversations to include personal values or sustainability topics such as corporate governance or natural resources can speak about interesting, emotionally engaging topics with their clients, connecting with their clients on a personal and intellectual level. Hence, sustainable investing provides advisors with the opportunity to prove the value of their active advice, to justify their fees and to build strong client relationships.

While research indicates that client advisors often understand the value that sustainable investing could provide, it also finds that they seldom speak about it with their clients.[3|4] As a result, private investors lack the advice needed to navigate this new area, and those looking for sustainable investing mutual funds have been found to suffer from an overwhelming amount of information.[5] At the same time, other private investors lack professional advice to the degree that they do not receive any information on suitable investment products at all.[3|6|7]

This is both problematic and a missed opportunity, since the different choices that are associated with sustainable investing create a situation where professional investment advice plays a particularly important role for private investors.[8] This is because private investors engage in sustainable investing for financial and non-financial motives and the relative importance of financial return versus positive impact varies between individuals.[9|10] Different sustainable investing approaches have therefore been developed to allow investors to achieve their desired financial return and positive impact. It is in these situations that clients need the help of advisors to understand their options, find corresponding investment solutions and come to informed decisions.

Progressive advisors exploit this opportunity. As one advisor describes: "Talking about sustainability allows me to be much more client-centric, as I build a broad and deep consensus with my clients, and helps me provide more tailored solutions".

As such, sustainable investing provides advisors with two distinct advantages that lead to more meaningful client relationships:

— First, advisors gain a better understanding of the topics, trends and personal values that are dear to their clients. This builds key knowledge for a trusted relationship.
— Second, discussing topics and developing solutions related to sustainability that speak to a client's conviction from both a financial and non-financial perspective adds a new dimension of value to advisory services. Proving the value of active advice is key to justifying traditional in-person wealth management services and related fees.

Therefore, sustainable investing allows for more salient or meaningful client relationships that are reliable even through volatile times, while providing real value and contributing to clients being less cost sensitive.

[1] Hackethal, A., Haliassos, M. & Jappelli, T. (2012). Financial advisors: A case of babysitters? Journal of Banking & Finance, 36(2), 509–524.

[2] van de Venter, G. & Michayluk, D. (2008). An Insight into Overconfidence in the Forecasting Abilities of Financial Advisors. Australian Journal of Management, 32(3), 545–557.

[3] Paetzold, F. & Busch, T. (2014). Unleashing the Powerful Few: Sustainable Investing Behaviour of Wealthy Private Investors. Organization & Environment, 27(4), 347–367.

[4] Paetzold, F., Busch, T. & Chesney, M. (2015). More than money: exploring the role of client advisors for sustainable investing. Annals in Social Responsibility, 1(1), 194–222.

[5] Nilsson, J., Siegl, S. & Korling, F. (2012). The complex decision making environment of socially responsible mutual fund investors: Introducing a disclosure framework focusing on information quality (SIRP Working Paper 12-01; pp. 1-30). Retrieved from http://www.sirp.se/web/page.aspx?refid=41

[6] Eurosif. (2012). HNWIs & Sustainable Investment 2012. Brussels.

[7] Hummels, H. & Timmer, D. (2004). Investors in Need of Social, Ethical, and Environmental Information. Journal of Business Ethics, 52(1), 73–84.

[8] Inderst, R. (2011). Consumer protection and the role of advice in the market for retail financial services. Journal of Institutional and Theoretical Economics, 167(1), 4–21.

[9] Cheah, E.-T., Jamali, D., Johnson, J. E. V. & Sung, M.-C. (2011). Drivers of Corporate Social Responsibility Attitudes: The Demography of Socially Responsible Investors. British Journal of Management, 22(2), 305–323.

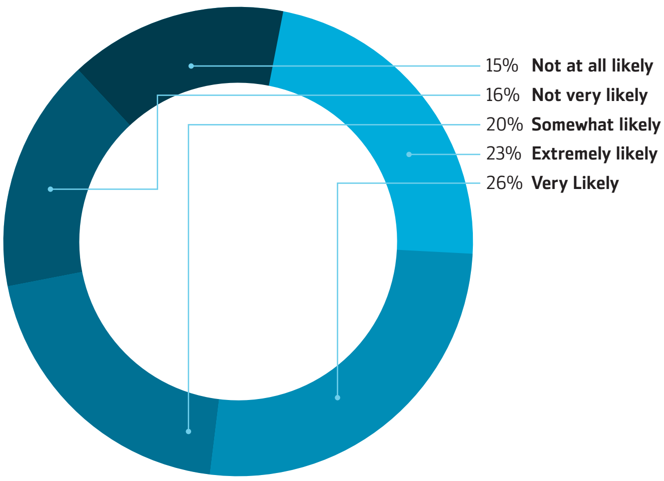
[10] Nilsson (2009). Segmenting socially responsible mutual fund investors: The influence of financial return and social responsibility. International Journal of Bank Marketing, 27(1), 5–31.

ARGUMENT 3: ATTRACT AND RETAIN THE NEXT GENERATION OF CLIENTS

The current generation of future inheritors of high net worth family members will eventually inherit the unprecedented amount of about US$ 41 trillion from the retiring generation.[1] Further, especially the rise of technology has benefited a substantial cohort of young professionals in creating significant personal wealth. These "next gens" or "millennials" are between 20 and 40 years of age and many may not continue their parents' advisor relationships (Figure 1).

Figure 1
LIKELIHOOD OF CONTINUING PARENTS' ADVISOR RELATIONSHIPS (n=87 US UHNW next gens)

Source: Morgan Stanley Private Wealth Management and Campden Wealth (2014)[2]



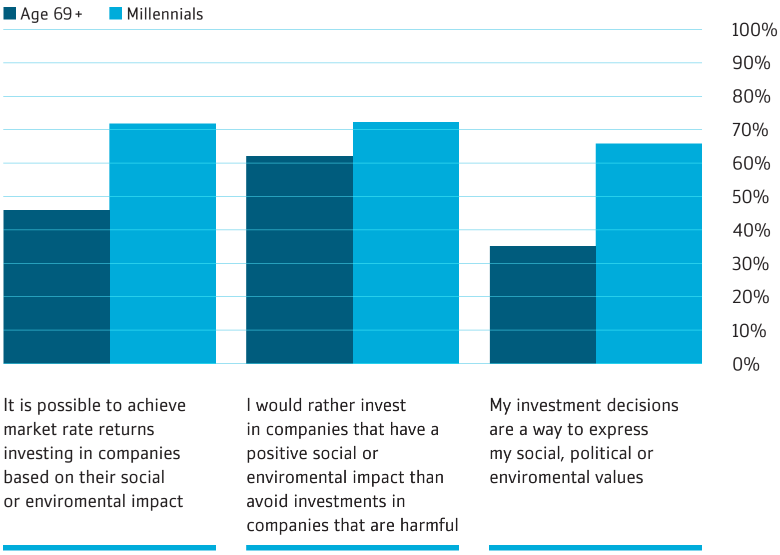
Advisors therefore need to successfully engage with this upcoming generation of wealth creators and inheritors, and sustainable investing is a unique opportunity to do so.

The current ongoing shift of private wealth from one generation to the next comes with an important shift in investment approach: the retiring generation often follows a separated approach to prioritising financial returns and considers contributions to social and environmental goals only through philanthropy. Next gens, however, were raised by the generation that founded the environmental movement and grew up in a time when environmental awareness entered the mainstream and communication technology and globalised peer networks started to thrive. Hence, a very prominent feature of younger family members tends to be an integrated mindset: seeking social and environmental returns in addition to market rate risk-adjusted returns and focusing on firms that provide solutions to sustainability challenges, rather than excluding laggards (Figure 2).

A Morgan Stanley survey of 800 private investors concludes that 84% of millennials are interested in sustainable investing and that "compared to the overall individual investor population, millennial investors are nearly twice as likely to invest in companies or funds that target specific social or environmental outcomes".[4]

Figure 2
DIFFERENCES IN ATTITUDES AND INVESTMENT APPROACHES BETWEEN GENERATIONS
(n=640 adult HNWIs & UHNWIs)

Source: adapted from U.S. Trust (2014)[3]



"A bank that combines a financial return with sustainability aspects offers a very compelling proposition for me, more so than offering tickets to some fancy events or such. I am looking for ways to engage more in my wealth management and would appreciate more support in exploring such avenues, really on a solution-level close to my interests and values. Not many banks try to combine investment interests with the passion or interest of the client."

40-year-old fourth-generation inheritor

However, some advisors might be concerned that this interest does not always translate into action. Indeed, Morgan Stanley and Campden found in a survey[2] that 77% of younger investors do not yet have investment experience in the "green" space and almost two-thirds have no experience of sustainable investing.

In that regard, it might be useful to consider the following three underlying drivers for the increasing engagement of the younger generation in sustainable investing:

First, by definition, younger investors have only recently started to engage with investing. On the one hand, this explains their relative hesitance in investing generally. On the other hand, this also means they are exposed more than their older peers to investment approaches that are new and discussed most today – including sustainable investing – and are naturally the ones who adopt these approaches first.

Second, older generations might not have had as viable solutions for embodying their views when they were learning about investments, a gap which only now is being filled by sustainable investing. This gap is ready to be filled by next gens, who are quick to share investment solutions through technology and peer-to-peer networks. Furthermore, the provision of attractive financial returns is matched with positive implications about one's status and self-worth, aspects that are dear to millennials in particular.

Third, sustainable investing also responds to much deeper changes in preferences. Younger generations are much more interested in the application of technology, key performance indicators and measures to obtain a clear picture of their non-financial interests, and want hands-on engagement with their investments.

Sustainable investing thus provides advisors with an opportunity to engage with next gens in a conversation about wealth and wealth management, before or during a wealth-transition period or a cash event. This allows advisors to build a relationship and to prove the worth of active advice to this otherwise technology-savvy and cost-conscious generation.

[1] World Economic Forum. (2013). From the Margins to the Mainstream: Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors. Geneva.

[2] Morgan Stanley Private Wealth Management and Campden Wealth. (2014). Next-Gen Report 2014. New York.

[3] U.S. Trust. (2014). U.S Trust Insights on Wealth and Worth 2014. New York.

[4] Morgan Stanley (2015). Sustainable Signals: The Individual Investor Perspective. New York.

ARGUMENT 4: COMMUNICATE "IMPACT" TO EXCITE CLIENTS

A key barrier for engaging private wealth owners in the investment processes related to their private wealth lies in the abstract nature of typical investments such as mutual funds or mandate solutions. It can be difficult for individuals without a financial background to follow investment processes, let alone find real interest in it. This becomes a threat for active wealth management: with the sharp uptake of passive investment and advisory services, generic private wealth management is coming under increasing pressure.

From a societal perspective, the passive stance of many investors also hinders innovation and upholds the status quo of financial markets and the economy. This partly explains why many firms behave in ways that most investors would reject. Individuals that are interested in sustainability issues are likely to have firms in their portfolio that work towards the opposite of that interest. Many of these investors do not yet consider, or actively manage, the impact of their own investments. Put differently, while every investment has an impact, it is only sustainable investments that have a process to avoid the worst and support the best impact that clients' wealth has in the real world.

The impact that sustainable investments have in the real world is manifold. As described by former Stanford law professor Paul Brest, investors can support a firm whose products or service are beneficial for society in its entirety. They can actively use their capital to drive specific beneficial activities of a firm, and investors can provide indirect benefits such as attracting other investors or fostering a business environment that is beneficial for the firm.[1] More specifically, asset managers and banks employ teams of sustainability analysts in assessing firms and questioning company management, which motivates and informs C-level executives. Sustainability-rating agencies regularly request sustainability-related data from firms, which creates demand within companies for such data and encourages good performance relative to peers. Most public equity sustainable investing products actively exercise their votes for the shares in their portfolio and collaborate with other investors to engage more forcefully with company management. They do so based on sustainability-oriented policies that require firms to take basic business-relevant aspects into account, such as board independence or climate change.[2] Such investor interventions have been proven to have a substantial impact on firms, since management typically follows the demands of their shareholders. An example is provided in the reporting of the sustainability rating agency oekom research in Figure 3.

As such, a key advantage of sustainable investing for advisors is that, next to financial performance, the so-called "impact" that these types of investments have compared to traditional investments can be quantified and reported to investors on a regular basis.

As a sustainability-oriented advisor puts it: "The eyes of my clients light up and they lean forward once I start talking about how the management of firms in the portfolio responded to our questions about aspects such as water risk management. For once, my clients feel a real interest and purpose of their wealth." Similarly, the official slogan of a sustainability-focused private bank is consciously chosen as "Moving more than money".

In summary, it is due to the underlying stories and impact that clients feel that they get more out of sustainable investing than 'only' traditional investing. Clients will be interested to hear success stories about their holdings related to the product's sustainability strategy both on a company and portfolio level (i.e. number of beneficiaries, tonnes of CO_2 reduction).

However, many advisors are not aware of this opportunity. Especially in the current low interest-rate environment, discussing their portfolio with clients can be tiresome. Offering clients additional benefits such as the sustainability dimension can make such conversations much more positive and interesting. Hence, it is up to advisors to leverage this key advantage of sustainable investing, and to lift the engagement of their clients to a higher level as they become excited about the positive impact that their wealth can have, and the negative impact that they can avoid.

1 Brest. P. & Born. K. (2013). Unpacking the Impact in Impact Investing. Stanford Social Innovation Review (August).

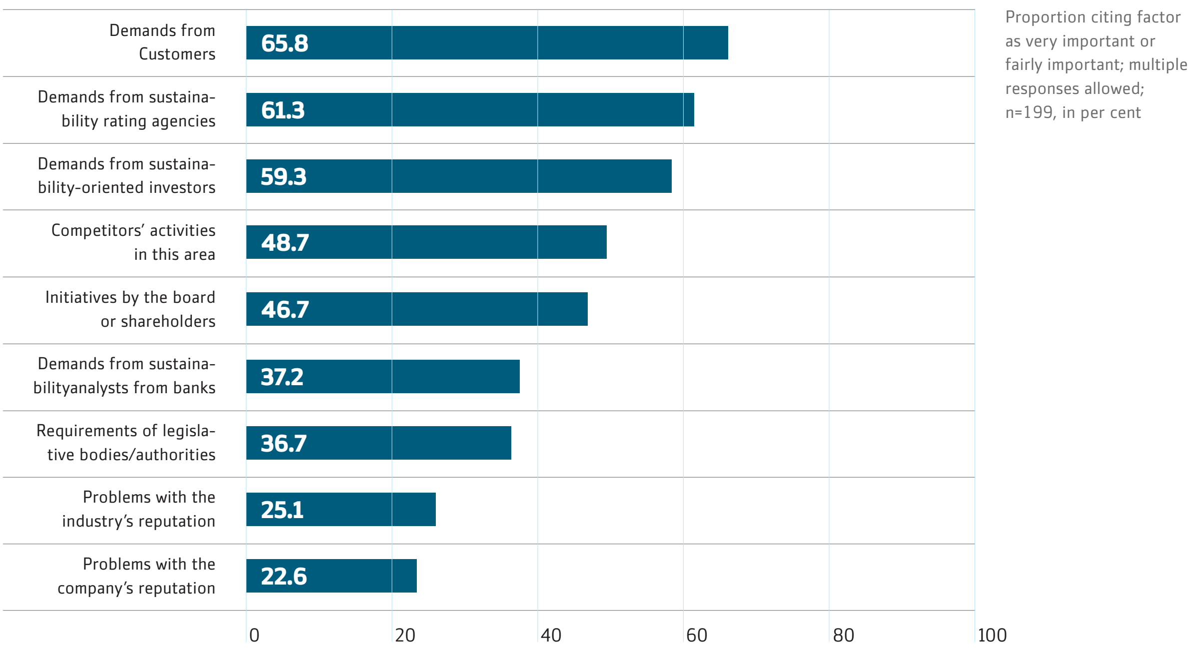
2 PRI. (2016). Principles for Responsible Investment – Annual Report 2016. London.

3 oekom research. (2013). The Impact of SRI. Munich.

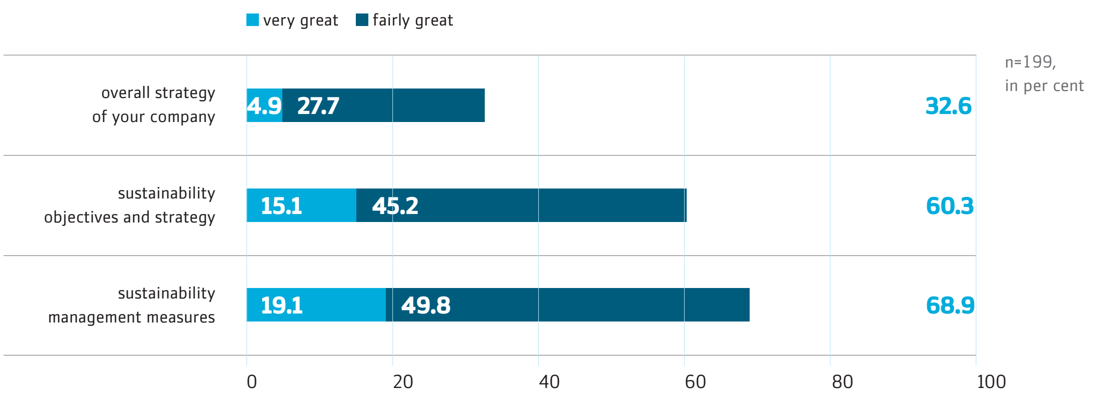
Figure 3
IMPACT OF SUSTAINABLE INVESTING ON FIRMS

Source: oekom research (2013)[3]

What factors prompted your company to tackle the issue of sustainability?



What influence do enquiries from sustainability analysts have on the …



ARGUMENT 5: TURN CLIENT FOCUS TOWARD LONG-TERM PERFORMANCE

Time horizons are an oxymoron in private wealth management. On the one hand, most private wealth management firms put a strong emphasis on their long history and their long-term perspective in relationships with clients and staff, and in their assessment of financial markets. The same applies to the communication by many family offices and wealth holders.

On the other hand, advisors often perceive a discrepancy between the proclaimed long-term perspective and the short-term demands of their managers and clients. As one advisor at a large bank puts it: "Everyone says 'we are thinking long-term', but really they want it today, and then differently again tomorrow."

Sustainable investing provides a potential counterpoint to this situation. Many sustainability topics relate to long-term trends such as climate change and resource scarcity. These pressures on economies and firms will increase in intensity[1] and can be predicted with much more certainty than any econometric modelling of, e. g., foreign exchange rates or national GDP developments.

Importantly, especially the owners of private wealth "are typically long-term investors whose aim is to preserve capital for the next generations to come".[2] A recent survey of high net worth individuals (HNWIs) by Barclays indicated that when thinking about sustainability aspects, wealthy clients in particular are willing to commit to multi-year lock-in periods for their capital (Figure 4). Hence, serving these clients with longer-term investment solutions could add substantial value to these conversations, while the potential to increase the share of less liquid investments can also improve the risk-return quality of these portfolios.[3]

In addition, sustainable investing encourages clients to think long term. Clients are more 'sticky' in investments that are based both on financial and non-financial considerations.[4|5]

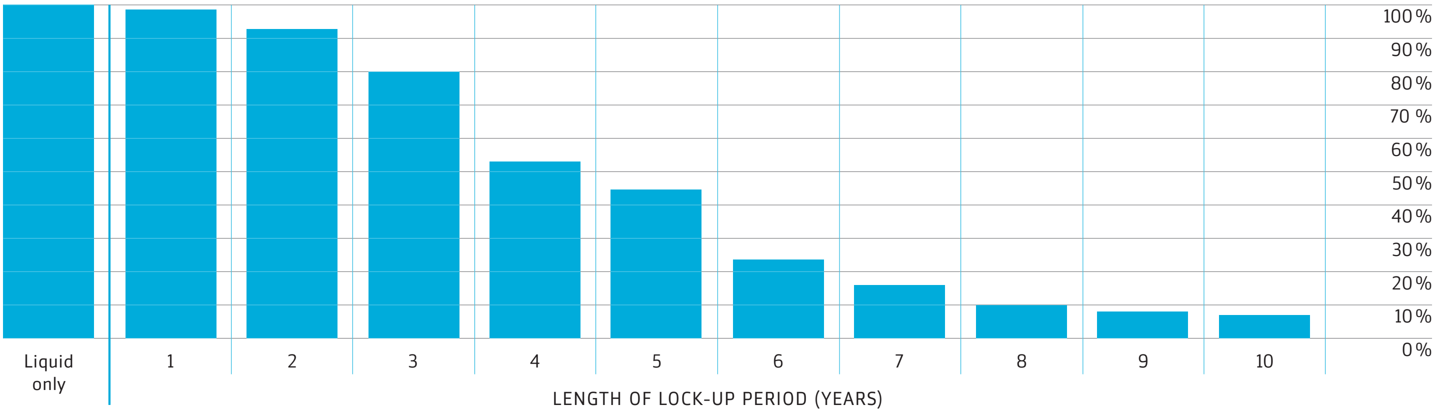
An advisor at a sustainability-focused private bank gives the following explanation for this behaviour: "The client is reminded what the investment and we as advisors actually stand for, and hence is more committed to stick with that decision in good times and in times of volatility". At the same time, investors with a long investment horizon tend to be more interested in sustainable investing,[6] and it has been shown that long-term thinking of individuals positively relates to their pro-environmental behaviour.[7|8]

Hence, sustainable investment can provide advisors with an opportunity to better align investments with the long-term interests of their clients. This opens up room for innovative products, long-term opportunities and thinking about the competitive advantages of firms and economies in the future, rather than value-diminishing short-term reactions.

Figure 4

PERCENTAGE OF HNWIs WILLING TO LOCK UP CAPITAL IN SUSTAINABLE INVESTMENTS FOR DIFFERENT LENGTHS OF TIME (n=206 HNWIs)

Source: Barclays (2015)



[1] Pachauri, R. K. (2014). Climate Change 2014 Synthesis Report. IPCCC.

[2] Eurosif. (2012). HNWIs & Sustainable Investment 2012. Brussels.

[3] Barclays. (2015). The Value of Being Human: A Behavioural Framework for Impact Investing and Philanthropy. London.

[4] Renneboog, L., Ter Horst, J. & Zhang, C. (2008a). Socially responsible investments: Institutional aspects, performance, and investor behavior. Journal of Banking and Finance, 32, 1723–1742.

[5] Renneboog, L., Ter Horst, J. & Zhang, C. (2011). Is ethical money financially smart? Nonfinancial attributes and money flows of socially responsible investment funds. Journal of Financial Intermediation, 20, 562–588.

[6] Jansson, M. & Biel, A. (2011). Motives to engage in sustainable investment: a comparison between institutional and private investors. Sustainable Development, 19(2), 135–142.

[7] Milfont, T. L. & Gouveia, V. V. (2006). Time perspective and values: An exploratory study of their relations to environmental attitudes. Journal of Environmental Psychology, 26(1), 72–82.

[8] Rabinovich, A., Morton, T. & Postmes, T. (2010). Time perspective and attitude-behaviour consistency in future-oriented behaviours. British Journal of Social Psychology, 49(1), 69–89. 4)

ARGUMENT 6: IDENTIFY WELL-MANAGED COMPANIES BASED ON GOOD ESG CREDENTIALS

The economic viability and financial return of investments remains the cornerstone of any investment decision. Increasingly, this includes good performance in environmental, social and governance (ESG) aspects. According to United Nations Global Compact and Accenture, ESG performance is perceived by 93% of the executives of the world's 1000 largest firms as important for their organisation's future success (Figure 5).[1]

Whether – and how – ESG performance relates to corporate profitability and risk has been the subject of much attention in research over the past two decades. The foundation of the "it pays to be green" argument commonly evolves from societal demands, limitations on the availability of natural resources, or climate change. These aspects trigger changes to the business sphere and provide firms with pressing challenges and promising opportunities.[2|3|4|5|6]

On the level of individual firms, the financial performance implications of executives considering sustainability aspects in their business decisions have been shown to be neutral or positive.[7|8|9] A positive link has been identified directly with regard to improved financial performance,[10] as well as for underlying aspects such as increased customer loyalty and satisfaction,[11|12] or for the "insurance-like" properties of good ESG performance in light of adverse events.[13|14]

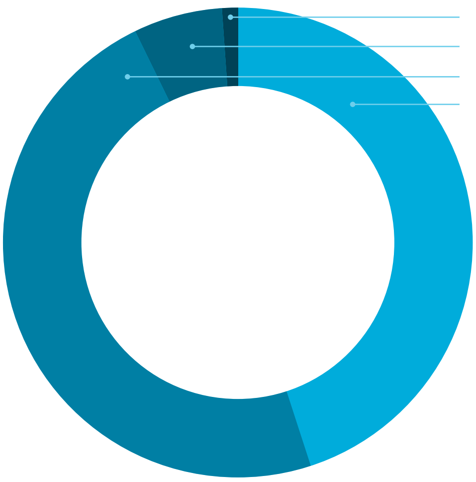
Good ESG performance has also been identified as a vehicle that has a positive influence on a variety of stakeholders which are collectively crucial for the company's future success.[15] This, in turn, can reduce the costs of a firm's equity financing.[16] A 'dual directionality' has been shown for this relationship, meaning that firms which are doing well invest more to achieve better ESG performance ("doing good by doing well"),[17] while other firms obtain better financial results after they improve their ESG performance ("doing well by doing good").[16]

Critics are often concerned that, first, the studies cited are cherry-picked by the author to support a predetermined case. Second, the performance of more sustainable firms could be based on a "fad": the public's passing interest in ESG aspects.

With regard to the first point, it is helpful to note a recent meta study summarising the results of more than 2200 studies published

Figure 5
IMPORTANCE OF SUSTAINABILITY TO FUTURE BUSINESS SUCCESS AS PERCEIVED BY CEOs (n=1000)

Source: UN Global Compact & Accenture (2013)



in the 1970s through to the recent past, which assessed the relationship between ESG aspects and a firm's financial performance. More than 90% of the studies did not indicate a negative relationship between sustainability performance and financial performance, and more than 50% indicated a positive relationship. Hence, the positive relationship is firmly established. This is equally valid for the separate elements of sustainability performance – environmental, social and governance aspects – and for the aggregate effect of the ESG rating, which did not diminish over time.[18]

Second, it is notable that the underlying drivers for the positive relationship between a firm's ESG performance and financial return are becoming stronger as time progresses. This is due to increasing resource constraints, from CO_2 emission regulation to water scarcity in many regions. At the same time, the exponential increase in information availability and global transparency that comes with the spread of the Internet and smartphones adds to the need for good management throughout entire supply chains, as scandals are more difficult to hide: a key aspect that is explored in greater depth in the following section.

With this in mind, advisors might consider the intuitive logic and strong research evidence behind the argument that those firms whose managers consider environmental, social and governance aspects can perform better financially and be less risky. This rationale is natural to many analysts and investors, and sustainable investing is, simply put, a development that takes these important aspects more explicitly into account in a systematic manner.

1 UN Global Compact & Accenture. (2013). The UN Global Compact-Accenture CEO Study on Sustainability – Architects of a Better World. UN Global Compact Reports (Vol. 5). New York.

2 Hart, S. L. & Milstein, M. B. M. (1999). Global Sustainability and the Creative Destruction of Industries. Sloan Management Review, 41(1), 23–33.

3 Orlitzky, M. & Swanson, D. (2008). Toward Integrative Corporate Citizenship: Research Advances in Corporate Social Performance. Palgrave Macmillan. New York.

4 Porter, M. E. & Kramer, M. R. (2006). Strategy & society: The link between competitive advantage and corporate social responsibility. Harvard Business Review, 48(12), 78–92.

5 Russo, M. & Fouts, P. (1997). A resource-based perspective on corporate environmental performance and profitability. Academy of Management Journal, 40(3), 534–559.

6 Shrivastava, P. (1995). Environmental Technologies and Competitive Advantage. Strategic Management Journal, 16(1995), 183–200.

7 Albertini, E. (2013). Does Environmental Management Improve Financial Performance? A Meta-Analytical Review. Organization & Environment, 26(4), 431–457.

8 Orlitzky, M., Schmidt, F. L. & Rynes, S. L. (2003). Corporate Social and Financial Performance: A Meta-Analysis. Organization Studies, 24(3), 403–441.

9 Surroca, J., Tribó, J. & Waddock, S. (2010). Corporate responsibility and financial performance: The role of intangible resources. Strategic Management Journal, 31(5), 463–490.

10 Flammer, C. (2015). Does corporate social responsibility lead to superior financial performance? A regression discontinuity approach. Management Science, 61(11), 2549-2568.

11 Luo, X. & Bhattacharya, C. B. (2006). Corporate social responsibility, customer satisfaction, and market value. Journal of Marketing, 70, 1–18.

12 Lev, B., Petrovits, C. & Radhakrishnan, S. (2010). Is doing good good for you? How corporate charitable contributions enhance revenue growth. Strat. Mgmt. J., 31, 182–200.

13 Godfrey, P. C. (2005). The Relationship Between Corporate Philanthropy And Shareholder Wealth: A Risk Management Perspective. Academy of Management Review, 30(4), 777–798.

14 Kölbel, J. F., Busch, T. & Jancso, L. M. (2017). How media coverage of corporate social responsibility increases financial risk. Strategic Management Journal, Accepted Author Manuscript.

15 Hawn, O. (2013). How social legitimacy helps overcome low home country legitimacy: Corporate social responsibility and emerging market multinationals. In Academy of Management Annual Meeting, Orlando, Florida.

16 Cheng, B., Ioannou, I. & Serafeim, G. (2014). Corporate social responsibility and access to finance. Strategic Management Journal. 35 (1), 1–23.

17 Hong, H., Kubik, J. D. & Scheinkman, J. A. (2012). Financial constraints on corporate goodness. Technical report, National Bureau of Economic Research.

18 Friede, G., Busch, T. & Bassen, A. (2015). ESG and financial performance: aggregated evidence from more than 2000 empirical studies. Journal of Sustainable Finance & Investment, 5(4), 210–233.

ARGUMENT 7: MITIGATE RISKS RELATED TO COMPANY REPUTATION

Many of today's largest firms importantly rely on their reputation vis-à-vis different stakeholders such as customers, regulators, employees and suppliers. Regulators, society and the media increasingly expect public and private entities to be transparent and accountable. Significant costs are incurred for violations, as shown by the dramatic fines and losses in market capitalisation that were experienced by, for example, BP following the 2010 Macondo/Gulf of Mexico oil spill, or VW in the wake of the 2016 emissions scandal. Reputation takes a long time to build up, but can be quickly destroyed. Intellectual property is lost as disgruntled employees leave. Public outcry can reduce critical political capital with key regulators. Overall, given the increasing importance of such intangible assets, this aspect of sustainable investing also stands for good risk management from an investment perspective.

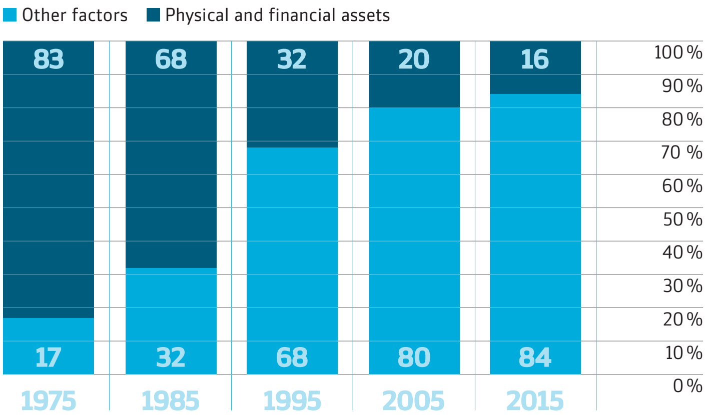
More specifically, sustainable investing, through its explicit incorporation of ESG aspects, includes risks and opportunities that stem from legitimacy, or – more broadly defined – from the licence-to-operate. To gain and maintain legitimacy has been identified as a key reason why firms care about their ESG performance.[1|2|3] Legitimacy has been shown to be an important determinant of the riskiness of firms.[4|5] More specifically, financial market players perceive firms that perform well on measures related to sustainability as less risky.[6|7|8|9] This view is strongly supported by large-scale quantitative research which identified that media coverage of a firm's corporate social irresponsibility, i.e. scandals, significantly increases the financial risk.[10]

However, critics might argue that scandals might not be favourable, but that intangible assets do not matter much in regard to a company's valuation compared with its physical and financial assets. While this was true in the past, the rise of technology and service industries since the 1990s led to intangible assets substantially overtaking physical and financial assets as the main determinant of a firm's market capitalisation (Figure 6).

Examples of intangible aspects of a firm's value can be found in the three ESG dimensions of sustainable investing: aspects such as efficient environmental risk management, successful human talent attraction and retention practices, and sound corporate governance structures. Such aspects will not be found in a company's reported

Figure 6
INTANGIBLE VALUE AS SHARE OF TOTAL MARKET CAPITALISATION IN S&P500

Source: Ocean Tomo LLC (2015)[11] data as of January 1, 2015



quarterly earnings or its book value. But these intangible ESG aspects substantially and increasingly contribute to the overall value of a company.

In sum, advisors might consider that many ESG aspects relate to the intangible value of firms, which is a key determinant of firms' overall valuation. Such aspects are routinely integrated in sustainable investing, which bolsters the argument in its favour from an economic and risk management perspective. Clients might not appreciate being invested in firms that lose both value and legitimacy due to poor ESG performance, especially if that risk was foreseeable.

Advisors who consider ESG data and engage their clients in a dialogue about the legitimacy and intangible value of firms can hence protect financial value, build a closer rapport and showcase their thinking behind investment decisions.

1 Brammer, S., Jackson, G. & Matten, D. (2012). Corporate social responsibility and institutional theory: New perspectives on private governance. Socio-Economic Review, 10(1), 3–28.

2 Campbell, J. L. (2007). Why would corporations behave in socially responsible ways? An institutional theory of corporate social responsibility. Academy of Management Review, 32(3), 946–967.

3 Chiu, S.-C. & Sharfman, M. P. (2011). Legitimacy, visibility, and the antecedents of corporate social performance: An investigation of the instrumental perspective. Journal of Management, 37(6), 1558–1585.

4 Dowling, J. & Pfeffer, J. (1975). Organizational legitimacy: Social values and organizational behavior. The Pacific Sociological Review, 18(1), 122–136.

5 Zuckerman, E. W. (1999). The categorical imperative: Securities analysts and the illegitimacy discount. American Journal of Sociology, 104(5), 1398–1438.

6 Bansal, P. & Clelland, I. (2004). Talking trash: Legitimacy, impression management, and unsystematic risk in the context of the natural environment. The Academy of Management Journal, 47(1), 93–103.

7 Chava, S. (2014). Environmental externalities and cost of capital. Management Science, 60(9), 2223–2247.

8 El Ghoul, S., Guedhami, O., Kwok, C. C. Y. & Mishra, D. R. (2011). Does corporate social responsibility affect the cost of capital? Journal of Banking & Finance, 35(9), 2388–2406.

9 Sharfman, M. P. & Fernando, C. S. (2008). Environmental risk management and the cost of capital. Strategic Management Journal, 29(6), 569–592.

10 Kölbel, J. F., Busch, T. & Jancso, L. M. (2017). How media coverage of corporate social responsibility increases financial risk. Strategic Management Journal, Accepted Author Manuscript.

11 Ocean Tomo LLC. (2015). Annual Study of Intangible Asset Market Value. Data as of January 1, 2015.

ARGUMENT 8: BUILD BETTER CLIENT PORTFOLIOS

As with corporate performance, investment products must prove their worth to investors in terms of risk-adjusted financial returns. The same applies to sustainable investing products, such as public equity or debt funds, mandates or ETFs. As outlined above, a body of research indicates positive relationships between ESG performance aspects and financial return on a firm level. The same applies to sustainable investment products.

On the level of investment products, findings with regard to the financial implications of considering ESG aspects vary across different sustainable investment approaches.[1] Yet the financial performance achieved by the investment managers of public equity funds who consider sustainability aspects appears to be, at the very

"If I think of diversification and risk/return, then I must also think about diversification across investment approaches. If I consider all types of approaches, sustainable investing is a natural component of any portfolio for me, especially since I can have "normal" investment solutions that simply consider more data, as well as those that cover strongly performing topics that I would otherwise not have in the portfolio at all, such as microfinance."

Advisor at a large private bank

Figure 7
LOW CORRELATION OF MICROFINANCE WITH MAINSTREAM ASSET CLASSES
Symbiotics Microfinance Debt Index in USD (SMX-MIV) compared to other asset classes, 2003–2015)
Source: Symbiotics (2017)

ASSET CLASS	CORRELATION WITH SMX-MIV
Cash (Libor 3 Months USD)	0.56
Bonds (JPM Hedged USD GBI Global)	0.03
Stocks (MSCI World Index)	- 0.11
Hedge Funds (HFRX Global Hedge Fund Index	- 0.14
Commodities (Bloomberg Commodity Index)	0.01

least, "not statistically different from the performance of conventional funds".[2]

Critics tend to question whether sufficient products exist to serve clients' needs for suitable and financially attractive investment products, and whether the notion of similar or better risk-adjusted returns of investment products is a passing fad. It is important to consider in this regard that a very wide range of sustainable investing solutions exists, across all asset classes, and that these investment opportunities can be effectively integrated into client portfolios to improve the overall risk-return profile.

For example, research points to improvements in the diversification and the risk/return profile of portfolios that incorporate microfinance, thanks in part to low correlations with traditional asset classes (Figure 7).[3|4] Other reports that assess the effect of different forms of sustainable investment approaches find that taking ESG factors into account in portfolio construction can lead to enhanced risk-adjusted returns.[5] Further, beyond assessments of past performance, the decisions of investors should depend on their expectation of developments that are material to their investments in the future. After all, the intensity of predictable pressures on economies and firms that stem from environmental issues are deemed to increase further.[6]

As such, the financial rationale for sustainable investing has gained support and legitimacy in financial markets: Besides academic research, there is also a growing body of practitioner publications outlining the current and future relevance of topics such as climate change for financial investments.[7|8|9|10|11]

Taken together, a broad body of evidence can encourage advisors to consider sustainable investing as a valuable enhancement to protect or increase the value provided to clients in the form of well-balanced and performing portfolios.[12]

1 Orlitzky, M., Siegel, D. S. & Waldman, D. a. (2011). Strategic Corporate Social Responsibility and Environmental Sustainability. Business & Society, 50(1), 6–27.

2 Renneboog, L., Ter Horst, J. & Zhang, C. (2008b). The price of ethics and stakeholder governance: The performance of socially responsible mutual funds. Journal of Corporate Finance, 14(3), 302–322.

3 Galema, R., Lensink, R. & Spierdijk, L. (2009). International diversification and microfinance. University of Groningen Working Paper.

4 Symbiotics SA. (2017). From Micro-Credit to Financial Inclusion: 10 Years of Microfinance Funds.

5 Trunow, N. A., Linder, J. (2015). Perspectives on ESG Integration in Equity Investing. White Paper, Calvert Investments.

6 Pachauri, R. K. (2014). Climate Change 2014 Synthesis Report. IPCCC.

7 GSIA. (2015). Global Sustainable Investment Review 2014.

8 Mercer. (2009). Shedding light on responsible investment: Approaches, returns and impacts. New York.

9 Mercer. (2012). Through the looking glass: How investors are applying the results of the climate change scenarios study. New York.

10 Principles for Responsible Investment. (2014). Report on progress 2014. London.

11 Task Force on Climate-Related Financial Disclosures (TCFD). (2016). Recommendations of the task force on climate-related financial disclosures.

12 Kleine, J., Krautbauer, M., & Weller, T. (2013). Nachhaltige Investments aus dem Blick der Wissenschaft: Leistungsversprechen und Realität, Analysebericht. Research Center for Financial Services der Steinbeis Hochschule Berlin, Berlin.

ARGUMENT 9: TAP INTO A BROAD VARIETY OF PRODUCTS AND SOLUTIONS

A key challenge in the context of sustainable investing is that it is sometimes little known how far developed the theme already is. The substantial turmoil of financial markets over the last decade has at times blocked the realisation that sustainable investing has grown into a theme with substantial assets under management, clear definitions and a broad offering that can comfortably accommodate clients' different needs. Today, sustainable investing has developed into a theme that can provide advisors with a well-defined and broad offering to support their work.

This includes solutions with very different investment rationales: on the fixed income side, today's broad offering includes bond funds that consciously consider sustainability-related risks, microfinance, SME lending, and social-impact bonds. On the public and private equity side, numerous sustainable investing products consider the sustainability performance of firms to improve the risk/return profile of the fund. Other products focus on specific investment themes such as fair trade or water, while "green real estate" funds participate in the improved economics and high demand for energy-efficient buildings. Products tracking sustainability indices exist as well, as do ETFs and specialised derivatives.

However, especially advisors at large mainstream banks often fear that talking about sustainable investing with clients takes too much time. Such advisors often perceive sustainable investing as poorly defined, too complicated or "a nuisance". Similarly, advisors and clients often have a very limited and at the same time patchy understanding of what sustainable investing actually is.[1|2] As such, many private investors have not yet made the connection between sustainability in their everyday life on the one hand, and their investments on the other hand, or they only know about smaller sub-themes such as investments in renewable energy or water.[1]

In this regard, advisors might consider how much sustainable investing has developed, and the future growth that can be expected. Looking back to the past decade, sustainable investing has developed rapidly. Total sustainable assets in Switzerland alone rose from CHF 11 billion in 2005 to over CHF 190 billion by the end of 2015 (Figure 8), of which CHF 48 billion were invested by private investors and CHF 144 billion by institutional investors*.

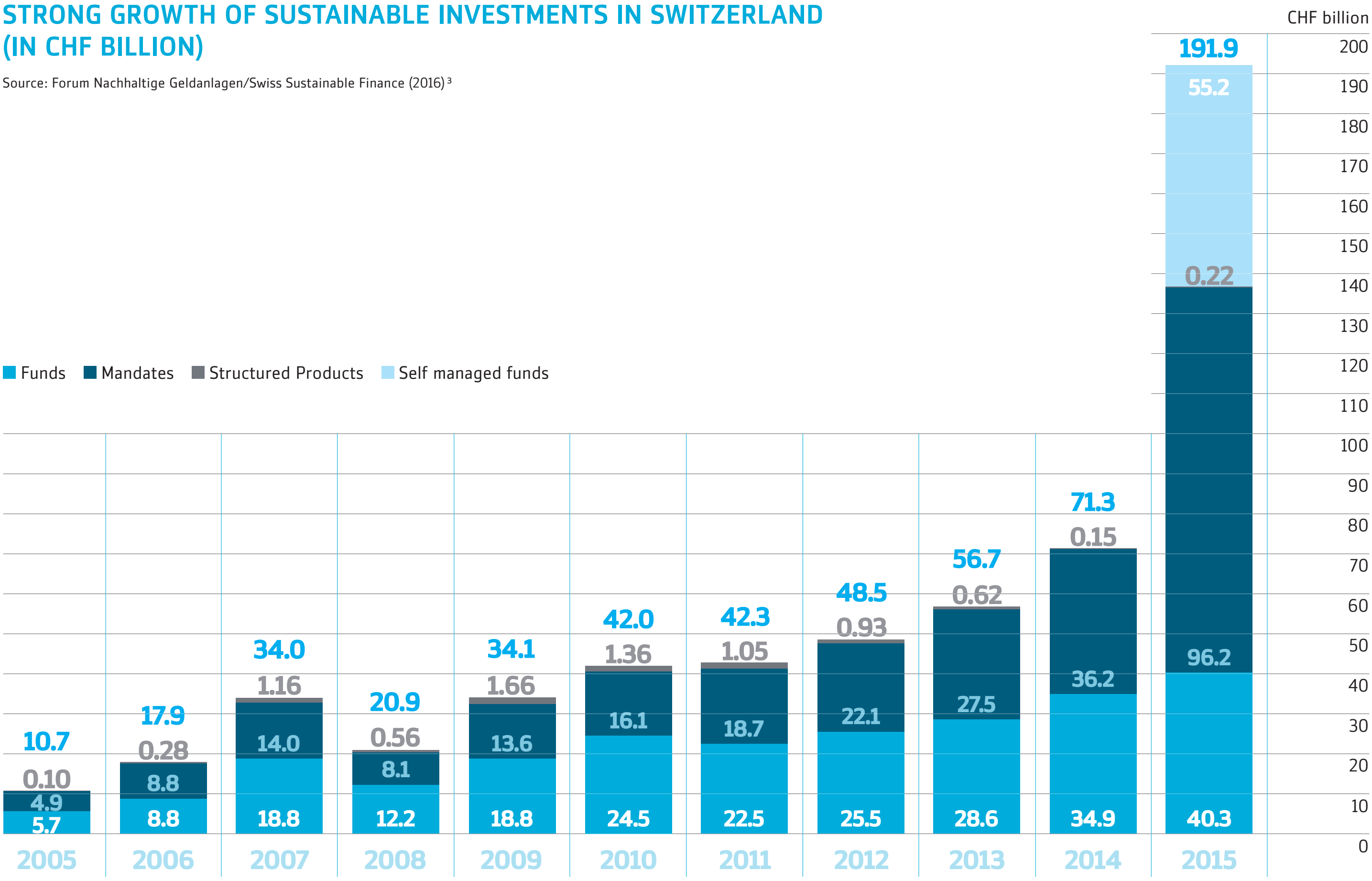
Looking ahead, volume growth is set to remain strong and accelerate: the public debate about climate change and resource scarcity is likely to intensify, as seen by the media attention given to the COP21 negotiations in Paris in late 2015, and the broad international push for climate action from players such as China in the face of the current U.S administration. As Per Borlund, Swedish Minister for Financial Markets and Consumer Affairs, puts it: "A quiet revolution is taking place in the financial industry ... sustainable development is increasingly being integrated into financial decision-making".[4] Furthermore, sustainable investing in some regions has probably reached a tipping point where private investors are likely to hear about it and make the connection to their own financial assets.

In this regard, advisors might consider that the Swiss investment industry has been a global leader in sustainable investing for many years. Yet many advisors do not yet know about this compara-

> "Sustainable investing has reached a point in its development where I feel that a broad range of advisors can utilise it to support their client relations, beyond just specialists or frontrunners. I see that many of our managers and clients have come to expect that, implicitly or explicity."
>
> **Advisor at a large private bank**

Figure 8
STRONG GROWTH OF SUSTAINABLE INVESTMENTS IN SWITZERLAND (IN CHF BILLION)

Source: Forum Nachhaltige Geldanlagen/Swiss Sustainable Finance (2016)[3]



tive strength. As outlined by Eurosif, Europe's main sustainable investing interest group, Switzerland is "widely acknowledged as a strong player in sustainable and responsible finance".[5] Most Swiss private banks offer sustainable investing products. Switzerland also hosts some of the leading specialists in sustainable investing and has a strong track record as an innovative hub for sustainable investing solutions, some of which are described in the recent publication "Swiss investments for a better world".[6]

Beyond the legitimacy of sustainable investing based on growing volumes and the broad availability of sustainable investment products, several organisations have developed a coherent taxonomy of definitions and a broad range of support vehicles, training programmes and publications. This includes the United Nations Principles for Responsible Investment on a global level, Eurosif on a European level, and specifically Swiss Sustainable Finance, which is developing a comprehensive range of information and training opportunities for advisors.

1 Paetzold, F. & Busch, T. (2014). Unleashing the Powerful Few: Sustainable Investing Behaviour of Wealthy Private Investors. Organization & Environment, 27(4), 347–367.

2 Paetzold, F., Busch, T. & Chesney, M. (2015). More than money: exploring the role of client advisors for sustainable investing. Annals in Social Responsibility, 1(1), 194–222.

3 Forum Nachhaltige Geldanlagen and Swiss Sustainable Finance. (2016). Sustainable Investment in Switzerland. Berlin/Zurich.

4 World Economic Forum; author: Per Borlung. (2015). Is finance finally embracing sustainable development? Retrieved from: http://www.weforum.org/agenda/2015/12/is-finance-finally-embracing-sustainable-development

5 Eurosif. (2014). HNWIs & Sustainable Investment 2014. Brussels.

6 Swiss Sustainable Finance (2016). Swiss Investments for a Better World. Zurich.

* The large increase from 2014 to 2015 can be attributed to two factors. The first being that various players – from the federal government to institutional investors, banks and asset managers – are increasingly focusing on this issue and that a growing number of investors are investing sustainably. Secondly, the most recent survey became more comprehensive with the inclusion of asset owners and their self-managed funds for the first time.

ARGUMENT 10: CHAMPION SWISS VALUES

Switzerland is "one of the world's leading financial centres and plays a particularly important role with respect to cross-border private wealth management, where it is number one in the world".[1] A total of about 266 banks manage USD 6.6 trillion in assets, of which 50% originate from abroad.[2] Swiss private wealth management stands for high quality and unprecedented stability. However, the "Swiss premium brand" has, to some degree, been harmed by the upheaval around tax evasion. With the rise of technology and automatic data exchange schemes, the Swiss private wealth management industry today competes much more than in the past with other advanced markets such as London, Hong Kong, Singapore and New York.

Yet here is a key advantage that only Switzerland-related advisors have: they can speak about sustainable investing from a position of substantial strength. As outlined above, Switzerland has a long history as a leader in the development of innovative and successful sustainable investing products. However, critics might wonder in what way sustainable investing might specifically support advisors in Switzerland, or relate to a Swiss wealth management firm, compared to advisors elsewhere.

With this in mind, it is thus important to remember that the theme fits incredibly well with the values that clients associate in particular with Switzerland: a focus on high-quality work, above-average capacity for innovation, stability, fairness and equal opportunity. Such values exactly mirror the considerations and activities that underlie the investment process of sustainable investing products: fundamental financial analysis, together with the deep understanding of future developments, the mindful and meticulous gathering and integration of firms' environmental, social and governance (ESG) credentials, the creation of innovative investment products and also the consideration of good ethics.

As outlined in the comprehensive report "Proposals for a roadmap towards a sustainable financial system in Switzerland",[3] it is these aspects of sustainable investing that provide a number of ways to leverage the specific strengths of Switzerland that can support client conversations and the development of a strong and trusted client relationship, locally and abroad. Sustainable investing is a way for the financial industry to display how Swiss values and quality are integrated into wealth management.

In terms of specific arguments, Switzerland is unique in that sustainability is explicitly engrained in its constitution. Article 73 states: "The Confederation and the Cantons shall endeavour to achieve a balanced and sustainable relationship between nature and its capacity to renew itself and the demands placed on it by the population". Comparatively low income-inequality and a high level of political freedom, including the unique direct democracy model, coupled with high educational standards, form the basis of Switzerland's success as a society and economy, and these values and beliefs are reflected in sustainable investing. In addition, Switzerland ranks no. 1

"In a way, sustainable investing encapsulates many reasons why private clients think of Switzerland as the private wealth management destination of choice. Once we talk about sustainability, I find that many clients are surprised to hear that not all Swiss advisors take sustainability aspects into account naturally."

Advisor at a sustainability-focused private bank

in the Global Competitiveness Index,[4] and achieves high scores in "Government Effectiveness" in the World Bank's "Worldwide Governance Indicators".[5]

Such aspects illustrate the high stability, security and reliability of Switzerland as a private wealth management destination. These aspects also create a substantial comparative advantage as they provide advisors with the credibility needed to speak about sustainable investing from a position of legitimacy and strength. Together with the leadership in product development, these aspects of Switzerland as a trustworthy and stable wealth management hub position Swiss advisors very favourably. Other countries strive to develop similar positions. In particular, the governments of the UK and Singapore have launched very strategic campaigns to advance sustainable investing. However, these countries have not yet succeeded in attaining as strong a position as Switzerland's.

As sustainable investing is forcing its ways into clients' attention, advisors in Switzerland, in particular, can draw from the many strengths of this exciting market to develop solutions and provide lasting value.

1 Eurosif. (2014). HNWIs & Sustainable Investment 2014. Brussels.

2 Swiss Bankers Association. (2017). The Financial Centre: Engine of the Swiss Economy. Basel.

3 FOEN. (2016). Proposals for a Roadmap towards a Sustainable Financial System in Switzerland. Bern.

4 World Economic Forum. (2016). The Global Competitiveness Report 2016–2017. Geneva.

5 World Bank. (2016). Worldwide Governance Indicators. Retrieved from: http://info.worldbank.org/governance/wgi/index.aspx#reports

4 PRACTICAL TOOLS

Clients are interested in sustainable investing, but where to start as an advisor? In an effort to support this journey, four tools are outlined below: (1) A taxonomy of events and situations that are specifically suitable for initiating the conversation about sustainable investing; (2) Where to get information for an in-depth conversation once client interest has been voiced; (3) A list of potential misconceptions that could come up, together with corresponding answers; (4) A list of questions that might come up during client discussions related to the personal stance of the advisor or bank on sustainable investments.

Step 1: How to initiate the topic with clients – Initial questions and discussion points

As outlined above, a large majority of clients are likely to have either a latent or explicit interest in sustainable investing. However, the specific aspects of interest vary from person to person. The following taxonomy of three types of events present situations that are especially suitable for initiating the conversation about sustainable investing with clients.

External events

— **Success stories** such as the rapid ascent of firms like Tesla create an opportunity to speak about **trends** that provide material opportunities for firms that proactively develop solutions in an increasingly resource-constrained and transparent world, a topic covered especially by **thematic** sustainable investing products. Similarly, firms like Novo Nordisk are highly successful because of their focus on sustainability (see, for example, Harvard Business Review, 2014, "The best-performing CEOs in the world").

— **Events related to megatrends,** like storms or drought, point to environmental challenges, including climate change or water scarcity. Additionally, socio-economic aspects, such as rapid urbanisation and population growth, can lead to problematic situations. Such events regularly receive substantial media attention, and provide opportunities to point out that **sustainable investing processes are built on the logic that these megatrends matter and** explicitly include these themes in their coverage of firms and investment portfolios.

Client (or advisor)-specific events

- **Purchases** such as cars, but also simply grocery shopping and meal plans, increasingly trigger conversations about energy efficiency, e-mobility, fair trade, and resource scarcity.
- **New family members,** such as newborn grandchildren or weddings of clients' children, often raise considerations about long-term wealth preservation, and hence can open up clients' investment time horizon to think and speak about the trends that underlie sustainable investing, many of which are much more predictable over the long run than, for example, foreign exchange rates or GDP growth across geographies.
- **Execution of wills,** in connection with an inheritance, tend to be situations where clients think about investing in funds with a purpose or positive impact. Clients that feel fortunate to have received additional wealth may be interested in considering long-term aspects, society and the natural environment in their investment decisions.
- **Private pension plans** are usually invested with a long-term perspective. It therefore makes sense to offer clients sustainable pension products.

Bank-specific events

- **Product launches** usually come with specific publications and events that can be shared and discussed. In particular, documents relating to sustainable investing can be very useful for arousing and testing clients' interest.
- **Annual reports** of most banks include a substantial sustainability or corporate social responsibility (CSR) report, as well as related statements by top management, both of which can be mentioned and discussed with clients, with the next logical step being the bank's sustainable investing offering.
- **News stories and interviews** that relate to the sustainability performance or product offering of the bank can easily be shared so as to trigger or support a conversation similar to the above points.

Step 2: Prepare a client conversation

Most banks provide substantial information on their rationale for sustainable investing and related approaches and products.

Further, substantial information on sustainable investing is provided by Swiss Sustainable Finance. For instance, the handbook on sustainable investments (available in German and French) provides a comprehensive overview of different sustainable investment approaches and their specificities. See www.sustainablefinance.ch for this publication and other supporting documents.

Importantly, advisors should consider the personal background of their clients, which is often the most important determinant of their clients' interest in specific topics related to sustainability. As outlined in examples and quotes from private banking clients provided by Paetzold & Busch (2014), for example, an energy executive will be interested in the developments in the e-mobility and energy market, while a former diplomat to Africa is likely to be keen on aspects related to water usage and management, as well as corruption. Hence, such basic considerations can be a natural starting point for a conversation about sustainable investing not as something new or radical, but as an approach that simply makes sense and ties in perfectly with the client's interests.

Step 3: Keep answers for common misperceptions in mind

Sustainable investing is a fairly new topic to many advisors and clients, and various investment approaches exist to consider financial as well as non-financial aspects.

As a result, some clients or advisors confuse different aspects, and many know only sub-topics of sustainable investing, unaware of the breadth of the theme and its approaches, and the high level of refinement and definition over the past decade.

Table 1 summarises such common misinterpretations or partial interpretations of sustainable investing, together with the corresponding clarification.

Step 4: Be prepared for nasty questions

Some advisors fear they may be confronted with nasty questions in the following fields:

Talking about sustainability: What is the bank's sustainability performance?

— How sustainable is the bank?
— What is the bonus culture of the bank?

Personal questions regarding the lifestyle of the advisor, i.e.:

— What kind of car do you drive?
— Where are you going for your next holiday?

Financial performance:

— How long is the track record of the product?
— How does the product perform in a different economic cycle?

Costs of products:

— What is the management fee for sustainable mandates vs. regular mandates?

Advisor's personal investments/bank's investments:

— How do you invest? Would you also buy the fund?
— Does the bank invest in this product?

These (and other questions) might be raised by clients in the course of the conversation on sustainable investing. Advisors best prepare answers to such questions based on their respective situation.

We hope that the above toolkit is helpful to any advisor looking to proactively respond to client demand for sustainable investing.

Beyond this report, SSF offers further information and manifold events and opportunities for advisors, management and investors to engage in sustainable investing.

Table 1
COMMON MISPERCEPTIONS ABOUT SUSTAINABLE INVESTING AND CLARIFICATIONS

MISINTERPRETATION	CLARIFICATION
Sole focus on ethics	Some sustainable investing approaches cover ethics, especially the very first funds that were launched in the 1980s and 1990s that focused on the exclusion of industries such as weapons or tobacco. The majority of sustainable investing today is focused on the pragmatic integration of environmental, social and governance (ESG) data and trends with a material impact on firms' financial returns.
Focus on themes	"Thematics" such as water or energy funds have received substantial media attention, but represent only a small share of assets in sustainable investing. The majority of sustainable products are broadly diversified across different sectors.
Focus on small cap firms	The majority of sustainable investing products, and deployed capital, concern mainstream mid- or large/mega cap firms. Sustainable investing is not primarily about private equity or venture capital investments, although a broad selection of such offerings exists.
Poor performance (risk/return)	Sustainable investing is a broad field, and scientific research shows that the consideration of ESG data can produce higher returns and less risk on a firm level. In addition, the underlying drivers for the future significance of sustainability are strong and well documented; e.g., resource scarcity, transparency or good corporate governance.
High complexity	Sustainable investing is about better understanding firms and their competitive environment, and as such is an approach with intuitive logic, or a "back to the roots" investment approach.
Few sustainable products exist	Over the past decade, the product landscape has developed significantly and caters for almost any investors' individual preference, across all asset classes and return expectations.
No data exists to determine the sustainability performance of firms	A deep ecosystem has developed and highly sophisticated structures that aggregate hundreds of sustainability measures for firms have been developed and are available from various specialists as well as from the largest mainstream data providers, including MSCI, Thomson Reuters, Bloomberg and Datastream.
Sustainable investing is a modern fad	Sustainable investing approaches have been applied for many decades, with a substantial uptake from investors in the 1990s. The underlying drivers are increasingly coming into effect, e.g. resource scarcity (water, CO_2 absorption capacity, etc.), transparency and accountability driven by technology (smartphones, internet) and societal expectations. Capitalism and investing develop constantly, and sustainable investing is likely to become the "new normal" as these pressures increase and the understanding of how to integrate them in investments matures.
Low investor interest	Surveys show a high interest amongst most investors due to financial and extra-financial benefits, yet this is underestimated by finance professionals.
Business case to engage with clients questionable	— Assets that are invested under sustainable considerations are particularly "sticky": usually, clients do not pull out of accounts as fast. — The need to explore sustainable investing options strengthens the case for active management and advisory and related costs. — Personal engagement of clients supports client retention and referrals. — Expertise in sustainable investing is closely aligned with the value systems and expectations of younger wealth creators and inheritors.
No need for Swiss banks to consider the theme	Sustainable investing offers a valuable opportunity for Swiss banks to position their worth and the comparative advantage of Switzerland in the face of globalisation, tax evasion controversies and the rise of passive investment and advice approaches.

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Swiss Sustainable Finance (SSF) strengthens the position of Switzerland in the global marketplace for sustainable finance by informing, educating and catalyzing growth. The association, founded in 2014, has representation in Zurich, Geneva and Lugano. Currently SSF unites over 90 members and network partners from financial service providers, investors, universities and business schools, public sector entities and other interested organisations.

This report was prepared by the Swiss Sustainable Finance workgroup "Sustainable Investing in Private Wealth Management". The ten arguments were collected and defined by the workgroup and the refined and explicated by the lead author and the supporting authors. Swiss Sustainable Finance then held a workshop with client advisors with the objective to test the ten arguments with advisors, to evaluate best opportunities to start a conversation about sustainable investing and to collect nasty questions advisors face in their client interactions.

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