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# Sustainable Investing Capabilities of Private Banks

## Report #3: Assessment of 20 European Private Banks

## About the Center for Sustainable Finance and Private Wealth (CSP)

The Center for Sustainable Finance and Private Wealth (CSP) is a research and teaching unit at the Department of Banking and Finance of the University of Zurich in Switzerland. The CSP engages in multidisciplinary research to explore fundamental issues and current dynamics in sustainable finance and uses the insights from its research to advance the understanding of sustainable finance within the private wealth ecosystem. The goal of the CSP is to activate private wealth and sustainable finance, at scale, as a substantial driver for sustainable development.

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# Content

# Executive Summary

From late 2018 to early 2019, the Center for Sustainable Finance and Private Wealth (CSP) conducted its third round of research on the sustainable investing (SI) capabilities of private banks. That research includes six new private banks, which brings the total to 20.

## 1 Improvements in the SI offering

In comparison to 2018, banks' offerings have improved in terms of both range and depth. The average number of dedicated SI funds increased from 30 to 58; almost all banks have a dedicated discretionary SI mandate; the methodology of ESG integration has been much developed and refined. This trend is likely to continue, as client interest keeps growing and competition intensifies.

## 2 Significance of active ownership is increasing

With active ownership, through shareholder voting and engagement, becoming the norm within the investment industry (encapsulated by Principle 2 of the UNPRI), it is clear most private banks will need to enhance their capabilities in this area. Currently, during fund due diligence and selection processes, there is insufficient focus on how fund managers engage and vote, despite there being vast differences in capabilities and outcomes among fund managers. On the positive side, there is also an increasing use of shareholder engagement as an impact investing strategy in public equities, as engagement is perhaps the only mechanism through which investors can demonstrate measurable impact in that asset class.

## 3 SI service still lagging behind

Similar to 2018, the training and support that client-facing employees received in 2019 still falls short in comparison to client expectations. Non-financial reporting is still under development for at least half of the participating banks, and even for those banks which have such reporting, it tends to be limited to a simple look-through of the ESG ratings of the underlying investments. This reporting rarely includes detailed assessments of the impact or of the engagement and voting activities of the various sustainable investing strategies.

## 4 EU Action Plan and private banking

The EU Action Plan will affect the entire financial industry, and private banks are not immune. In particular, disclosing climate risk to clients (Action 7) will be an important fiduciary duty for private banks.
In addition, asking clients about their ESG preferences (Action 4) and integrating these into the investment process will also pose certain challenges to the industry. Anticipated regulations with regard to a standardized taxonomy (Action 1) have triggered a fear in practitioners that they may be too restrictive, even though they are envisioned not as limitations but rather as offering guidance to both the bank and clients.





# Foreword

When in 2018 CSP announced the intention of releasing this third report already within a year, many asked, ***"Why so soon?"*** After all, this report demands considerable resources from participating banks, let alone from our side.

The push really came from the industry: some of last year's participants were eager to show the changes they have implemented; others wanted to participate for the first time in order to highlight their efforts.

In general, we observe that the industry is moving at a fast pace. Compared to 2018, when very few banks had a dedicated discretionary mandate for clients interested in sustainable investing, by 2019 all but two of the participating banks had such a mandate. ESG integration in research has also progressed rapidly, incorporating learnings from asset management best practices.

For 2019, we followed the same framework, but added two special topics: the EU Action Plan and alignment of private banks to internationally agreed environmental goals (IAEGs). The Technical Expert Group (TEG) released its guidelines for implementing specific parts of the EU Action Plan in August 2019, and we felt it was a topic worthy of being reviewed in depth in the context of private banking. In line with the Action Plan, which is focusing on the environment first, we decided to bring the topic of the alignment of private banks with climate goals, such as the Paris Agreement, to the table.

While we as authors find the entire report interesting, there is no need for the individual reader to go through all sections. Each section has been written to be read independently, based on results from our own interviews and desk research as well as other published reports and papers. It contains current industry trends, implications, and best practices to inform practitioners.

The bank profiles at the end of the report serve as a foundation for clients to engage with their own banks and for banks to understand their strengths and to develop regarding areas where they can be considered as challenged.

We would like to thank all participating banks and their efforts, in addition to all sounding board members for their valuable input. We would also like to acknowledge Till Müller and Erin Duddy for their contribution to the special topic section.

Toward impact.

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Head of Wealth
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Managing Director

# Methodology

## 1. DEFINITION

We define sustainable investing as "integrating non-financial aspects, such as social, environmental, governance, and/or ethical questions, into the investment process." This definition is a *process* definition and not an *outcome* definition. Having a sustainable investing strategy does not necessarily lead to sustainable impact; achieving sustainable impact merely as a by-product of an investment does not necessarily mean the investor adopted a sustainable investing approach. What matters is the intent and the process of integrating environmental, social, and governance (ESG) factors and values into investment decision-making.

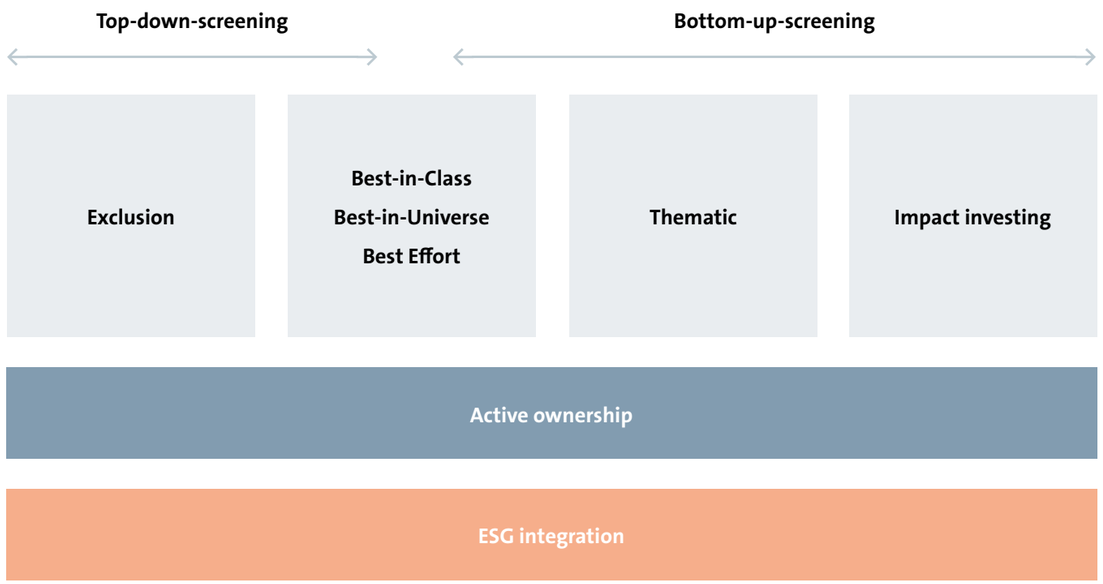
Industry bodies such as the Global Sustainable Investing Alliance (GSIA) or Eurosif have divided the different sustainable investing approaches into six categories: exclusion, best-in-class, ESG integration, active ownership, thematic, and impact investing. A detailed explanation can be found in Appendix 10.3.

These approaches are not mutually exclusive and many products make use of more than one approach.

As shown in Figure 1, exclusion and best-in-class are best understood as top-down screening approaches to defining the investment universe. Best-in-universe or best effort are variations of the best-in-class approach (for a detailed explanation see Section 5.1, on ESG Integration) and fit in more in the bottom-up selection process category, together with thematic and impact investing. Active ownership and ESG integration can each be seen more as an overlay approach than as a separate investment strategy, though there are now funds which are using engagement as their primary strategy for delivering impact.

One 2019 observation is that the terminology and definitions that private banks use to communicate on sustainable investing are still diverse and often confusing for clients (see Figure 3). The principal term alone ranges from responsible investing, to sustainable investing, to impact investing, and sometimes foregoes any reference to "sustainable" at all. Descriptions of SI are also rather high-level and not standardized, which makes it difficult to compare across banks.

Figure 1: Sustainable investing approaches




Source: The authors





## 2. SCOPE

The objective of this report is to provide guidance to private investors and private banks.

Thus, we included large players in order to have representative results as well as innovative players in order to demonstrate good practices and set standards. We have restricted the scope to private banks that:

- have their headquarters in western Europe (after all, more than half of the SI market is located in Europe (GSIA, 2017) and the similar regulatory and market environment allows clearer comparison and deeper understanding),
- service (ultra-) high-net-worth ((U)HNW) client segments[1],
- have a sustainable investment offering—to ensure a meaningful analysis, we selected banks that have at least a basic offering in sustainable investment.

Most participants from last year also participated this year and for the 2019 report we also onboarded six new banks. The list of the 20 participating private banks can be found in Figure 2.

Figure 2: List of participating banks

| # | Bank Name | HQ | AuM WM (bln USD) |
|---|---|---|---|
| 1 | ABN Amro | Netherlands | 202.50 |
| 2 | Barclays | UK | - |
| 3 | BNP Paribas | France | - |
| 4 | Credit Suisse | Switzerland | 764.00 |
| 5 | Danske Bank | Denmark | 234.79 |
| 6 | Deutsche Bank | Germany | 233.58 |
| 7 | Edmond de Rothschild | Switzerland | 120.71 |
| 8 | Globalance | Switzerland | - |
| 9 | HSBC | UK | - |
| 10 | J. Safra Sarasin | Switzerland | 166.95 |
| 11 | Julius Baer | Switzerland | 379.20 |
| 12 | LGT | Liechtenstein | 201.856 |
| 13 | Lombard Odier | Switzerland | - |
| 14 | Pictet | Switzerland | 214.08 |
| 15 | Triodos | Netherlands | 4.20 |
| 16 | UBS | Switzerland | 2,260.00 |
| 17 | Vontobel | Switzerland | 56.30 |
| 18 | ZKB | Switzerland | 295.19 |
| 19 | Bank A* | France | - |
| 20 | Bank B* | Switzerland | - |

1. We define HNW and UHNW clients as wealth owners with at least USD 1 million and USD 30 million of investable assets, respectively.
* Bank requested to remain anonymous

Figure 3: Definition of sustainable investing across private banks

| | ABN Amro | Barclays | BNP Paribas | Credit Suisse |
|---|---|---|---|---|
| **Term(s)** | Sustainable Investment | Responsible Investing;<br>Ethical Investing;<br>Impact Investing | Positive Impact;<br>Impact Investing;<br>Sustainable and Responsible Investment | Sustainable Investment;<br>Impact Investment |
| **Detail** | **Sustainable Investment**<br>No explicit definition<br>*"We offer sustainable investment products and solutions for clients who wish to invest in companies with financially sound business models that seek to have a positive impact on society."* | **Responsible Investing**<br>Focuses primarily on the risks and opportunities highlighted by ESG factors.<br><br>**Ethical Investing**<br>Applies predetermined criteria based on religious beliefs, broadly accepted global norms, or even an individual investor's personal values to decide whether an investment is appropriate to hold.<br><br>**Impact Investing**<br>Two main aims: tackling social and environmental challenges by investing in companies that generate positive outcomes and providing financial returns for investors. | **Positive Impact**<br>Integrate sustainable development into financial choices; select players with ESG best practices; focus on themes and sectors whose economic activity is linked to the UN SDGs; target international and positive impact in specific areas measurably; philanthropy.<br><br>**Impact Investing**<br>An Impact Investing solution must meet the following criteria:<br>1. The impact objective must focus on issues that are identified as sustainable and meet one or more SDGs;<br>2. The impact must be measurable, measured and subject to reporting<br><br>**Sustainable and Responsible Investment**<br>Sustainable investments are composed of solutions meeting the needs of investors seeking to combine financial performance with social & environmental performance. *"We also integrate traditional investments in our range of positive impact solutions, as we are making our range more sustainable as a whole, by expecting a minimum level of sustainability in all core asset classes."* | **Sustainable Investment**<br>Return-first investments where investors primarily seek to achieve financial returns consistent with traditional returns for a given asset class - combined with risk mitigation and portfolio diversification - while also taking into account ESG as well as impact criteria.<br><br>**Impact Investment**<br>Impact investing explicitly seeks to make a positive social or environmental impact in addition to generating a financial return. |
| **Source** | ABN AMRO | Barclays | BNP PARIBAS | Credit Suisse |

| | Danske Bank | Deutsche Bank | Edmond de Rothschild | Globalance |
|---|---|---|---|---|
| **Term(s)** | Sustainable Investment;<br>Impact Investing | Sustainable Investing;<br>Social Impact Investments | Responsible Investing;<br>Socially Responsible Investing | Fitness for the Future;<br>Positive Footprint |
| **Detail** | **Sustainable Investment**<br>*"Our sustainable investment approach is based on ESG integration, active ownership, collaboration, and disclosure and reporting, in line with the UN-supported Principles for Responsible Investment as well as the Danish Stewardship Code."*<br><br>**Impact Investing**<br>By investing in impact funds, you support a sustainable development without compromising the opportunity for a financial return. | **Sustainable Investing**<br>No explicit definition<br>*"Our Sustainable Investments team creates solutions for institutional investors, private investors, development banks, and governments that share common social and environmental investment objectives and seek attractive financial returns."*<br><br>**Social Impact Investments**<br>No explicit definition<br>*"Driving social change by creating well-structured, targeted investments as solutions to pressing social and environmental problems."* | **Responsible Investing**<br>A generic term referring to all ethical, socially responsible (SRI), solidarity investments, etc. Any form of investment which combines investors' financial objectives with a commitment to acknowledging ESG issues.<br><br>**Socially Responsible Investing**<br>*"An approach to investing which aims to combine financial performance and social/ environmental impact by funding companies and public bodies which contribute to sustainable development across all sectors."* (AFG and FIR definition.) | **Fitness for the Future**<br>Investments target new growth areas, such as mobility, viable megacities, products which save resources, and many other innovative business models.<br><br>**Positive Footprint**<br>Investments that make a valuable contribution to the economy, society and the environment. |
| **Source** | Danske Bank | Deutsche Bank | Edmond de Rotschind | Globalance |

Note: as of 1 September, 2019
Source: The authors

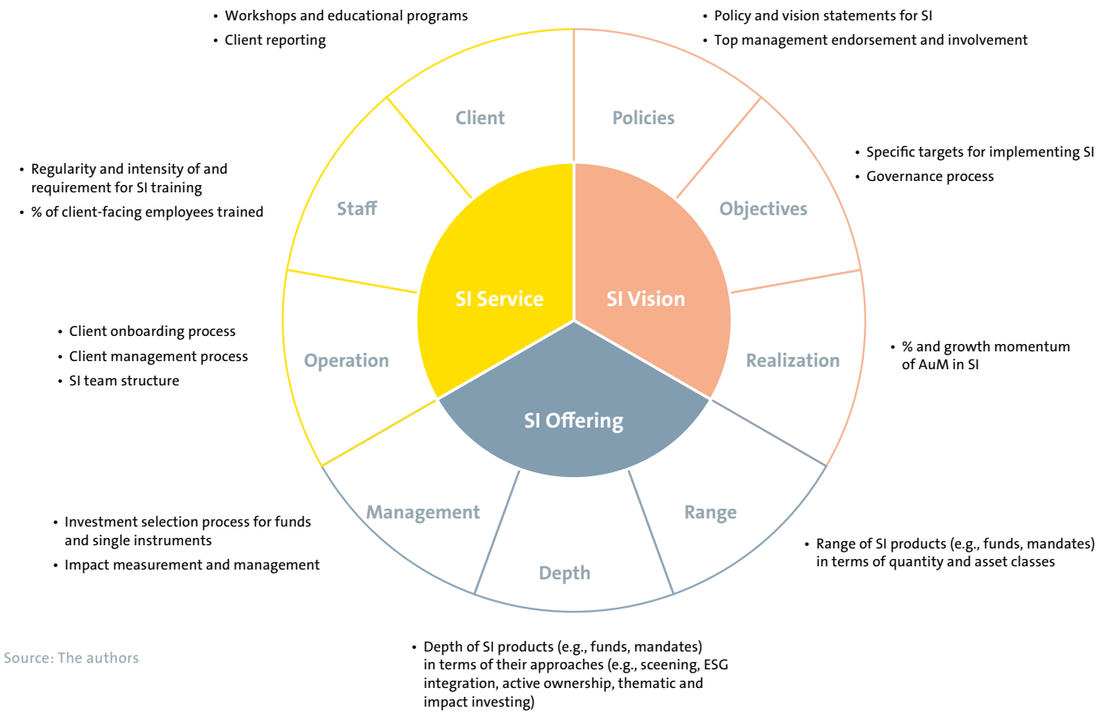
Figure 3: Definition of sustainable investing across private banks

| | HSBC | J. Safra Sarasin | Julius Baer | LGT | Lombard Odier |
|---|---|---|---|---|---|
| **Term(s)** | Responsible Investment | Sustainable Investment | Responsible Investment;<br>Sustainable Investment;<br>Next Generation;<br>Impact Investing | Sustainable Investments;<br>Impact Investing | Sustainability and Impact Investing |
| **Detail** | **Responsible Investing**<br>No explicit definition<br>*"We aim to incorporate ESG factors in our investment decisions to generate sustainable, long-term returns [...] We invest in, and engage with, companies committed to long-term returns: these are likely to focus on stewardship, take account of their broader impact on society and avoid excessive risk-taking."* | **Sustainable Investment**<br>Sustainable investing is defined as the incorporation of environmental, social and governance (ESG) criteria into investment decisions with the aim of raising the level of insights and generating better investment outcomes by reducing risks and harnessing opportunities in the long-term. J. Safra Sarasin integrates sustainability considerations across all asset classes and into every step of the investment process, employing various tools of sustainable investments such as norms-based exclusions, a best-in-class approach, ESG integration, sustainability-themed investments and active ownership (engagement and voting). While our responsible investments can use a number of tools, they require at least the use of standard exclusions and a worst-out selection process, while our Sustainable-branded investments ensure a robust ESG best-in-class selection process. | **Responsible Investment**<br>Responsible Investment ensures Julius Baer's overall investment process takes financial material ESG risks into consideration in order to achieve long-term economic benefits for our clients and raise awareness and transparency of these risks.<br><br>**Sustainable Investment**<br>Builds upon the Responsible Investment approach with a focus on best-in-class ESG companies alongside capturing financial returns.<br><br>**Next Generation**<br>Forward-looking investment philosophy that identifies the secular growth areas linked to global megatrends and seeks the winning companies of the future.<br><br>**Impact Investing**<br>Aims to generate specific social and/or environmental benefits in addition to potential financial returns. | **Sustainable Investments**<br>No explicit definition<br>*"LGT invests in companies, organizations and countries that have an outstanding track record for environmental and social criteria and corporate governance and generate long-term financial value."*<br><br>**Impact Investing**<br>Investment in companies whose primary goal is delivering social and/or environmental good, whilst also delivering attractive market returns. | **Sustainability and Impact Investing**<br>Sustainability is about investing in strong and efficient companies that respect their ecosystem of partners (regulator, shareholders, employees, customers, suppliers, resources, environment) and that will withstand the current changes in the world's economy (identified as megatrends). These companies will be able to participate in the emergence of a more sustainable societal model. These companies need to have sustainable financials, sustainable business practices and a sustainable business model. |
| **Source** | HSBC | J. Safra Sarasin | Julius Baer | LGT | Lombard Odier |

| | Pictet | Triodos | UBS | Vontobel | Zürcher Kantonalbank |
|---|---|---|---|---|---|
| **Term(s)** | Responsible Investing | Ethical Investments;<br>Impact Investing | Sustainable Investing | Sustainable Investment | Sustainable Investments;<br>Sustainability Impact |
| **Detail** | **Responsible Investing**<br>*"Responsible Investing aims to capture the growing awareness of the responsibility that everybody feels toward the society and environment in which we live."* | **Ethical Investments**<br>From impact investment funds to direct investment offers via our crowdfunding platform, and microfinance opportunities - all investment types we offer are working for social, environmental or cultural change.<br><br>**Impact Investing**<br>Impact investing connects investors with innovative entrepreneurs and businesses working to create a better world. | **Sustainable Investing**<br>Is an approach that seeks to incorporate ESG considerations into investment decisions. Strategies seek to achieve one or more of the following objectives:<br>1. achieve a positive environmental or social impact<br>2. align investments with an investor's personal environmental or social values<br>3. improve portfolio risk and return characteristics. | **Sustainable Investing**<br>The aim is for clients to be able to generate a financial return while also contributing to sustainable development. | **Sustainable Investments**<br>*"[...] is a term that covers a broad range of concepts and practices, from ESG integration, to best-in-class or impact investing."*<br><br>**Sustainability Impact**<br>Sustainability impact allows investors to contribute to sustainable development in addition to generate returns. According to Swisscanto Invest, companies that use their products, services or production methods to contribute to sustainable development in line with the SDGs have a sustainability impact. |
| **Source** | Pictet Wealth Management | Triodos Investment | UBS | Vontobel | ZKB Swisscanto Invest |

Note: as of 1 September, 2019
Source: The authors

Figure 4: Framework for analyzing sustainable investing capabilities of private banks




Source: The authors

## 3. FRAMEWORK

Based on feedback from banks, clients, and other industry experts, we have iterated the framework further. The list of people we have consulted in the process can be found in Appendix 10.1 and the updated framework is shown in Figure 4.

Changes to the framework include our categorization of the percentage of assets under management (AuM) invested in sustainable investing and that figure's growth rate into sustainable investing *realization*, and including it in the SI vision part of the framework. The rationale for this being that these figures represent how much a bank has achieved in driving and implementing its vision rather than the bank's offering.

Questions regarding the advisory process have been split into questions relevant to general client onboarding and servicing, and advisory mandates, and re-categorized accordingly. In addition, client-facing reporting has also been added to the service part, reflecting the feedback we have received from clients.

## 4. DATA COLLECTION

The interviews with each bank took place between December 2018 and March 2019, with the exception of a few banks. They were conducted face-to-face or via a conference call, which made it possible to clarify and understand the daily practices much better. While interview data are challenging to render comparable, interviews are necessary due to the complex and non-standardized nature of sustainable investing. The answers provided helped us to put diverse practices into comparable frameworks and to develop measurements for future evaluations.

In addition to the interviews, we collected answers to closed-ended questions between March and June 2019. The answers were submitted in an Excel file for more accurate data collection. These constituted more quantitative and comparable data, which is proof of a methodological improvement with regard to standardized measurement since last year.

The final analysis was cross-checked with publicly available material and reviewed by the banks themselves, thus allowing for updates and ensuring accuracy.

We aim to keep iterating the framework in order to ensure it is comprehensive and reflects industry practices, while ensuring its consistency, which allows us to compare results longitudinally. In addition, we would like to reflect client opinions more by adding a request for proposal (RFP) element to our future research.







# Overview

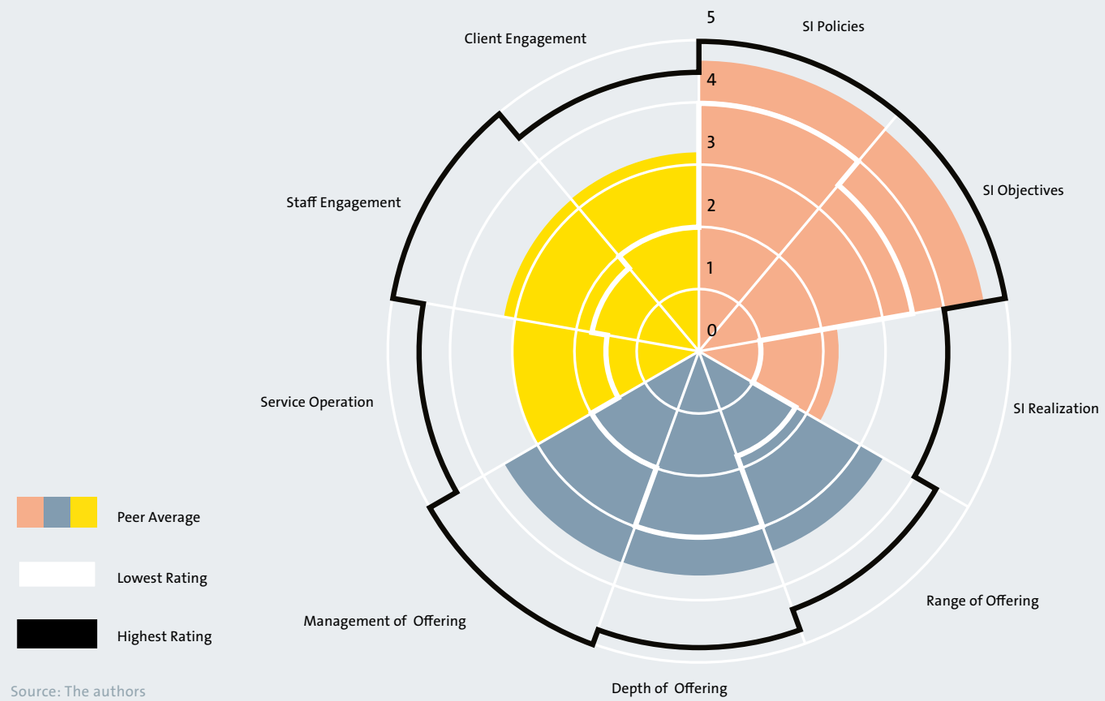
Similar to findings from the prior report in 2018, in 2019 the industry performs well in setting policies and objectives within the sustainable investing vision part, slightly less well on the sustainable investing offering side, and lags behind on the sustainable investing service side (see Figure 5).

This year, we collected better data on the sustainable investing realization part, consisting of the ratio and growth momentum of AuM in sustainable investing. **The dent in Figure 5 shows a clear discrepancy between what private banks have set themselves to achieve and how far they have actually come in terms of realization.**

On the offering side, there has been an overall improvement in terms of the range, depth, and management of offerings. For instance, the number of funds that a private bank offers is on average 58, in comparison to 30 in 2018. Almost all banks participating in the study have a discretionary sustainable investing mandate. There has also been a lot of development in terms of how banks integrate ESG data and analysis into their investment process.

While private banks are increasing their efforts to improve their service side as well, there is still much to be desired. Sustainable investing is often not part of the client onboarding process (e.g., client profiling), let alone ongoing conversation with clients. The training and support client-facing employees receive is also insufficient, which leads to situations **where clients are interested but the advisor is the biggest bottleneck, despite the bank having a good offering.** Client-facing reporting for non-financial aspects is also largely underdeveloped, but it seems that at least half of the participants have some form of non-financial reporting and many are working on developing this further, based on better ESG integration.

Figure 5: Industry average of sustainable investment vision




Source: The authors

# Sustainable Investing Vision

## Organizational governance regarding sustainable investing has seen improvements.

- → **All banks have a centralized governance body for aligned and long-term SI objectives and policies.**
- → **Despite progress, SI is still not a strategic priority for top management, reflected in the low ratio of SI assets under management.**

Much like in 2018, the private banks that participated in the study have performed well when it comes to establishing sustainable investing strategies, implementation objectives, and sustainable investing policies. The alignment of these activities has been happening at group level, not being confined to mere divisional efforts. All of the participating banks had a group-level governance body, be it an executive committee, board, or a dedicated CSR team.

Having a centralized team allows not only cross-divisional strategic alignment, but also learning and knowledge dissemination. Sustainable finance related initiatives were, in the past, limited to investment banking or asset management. The existence, however, of a group-level team that consists of experts with diverse backgrounds allows everyone to tap into the different expertise and help accelerate sustainable investing for all divisions. For instance, experts from the asset management side can support implementing ESG integration on the wealth management side.

In addition, such a team allows banks to practice long-term planning for their sustainable finance strategy, instead of being limited to yearly divisional targets. For instance, LGT has established a 2025 sustainability strategy that was built thanks to multiple workshops, encompasses and aligns all divisions, and has been approved by the owner of the bank. Edmond de Rothschild has laid out a long-term strategic roadmap that includes sustainable investing as part of the group's sustainability strategy, and publishes specific objectives and yearly progress in its corporate sustainability report. Such long-term planning allows sustainable finance to be integrated into the group's strategy and holds top management accountable for its implementation.

Nevertheless, sustainability, let alone sustainable investing, is not one of top management's priorities for all banks. While growth and financial performance is discussed at length in the letters to shareholders, sustainability does not appear in all such letters. Out of 20 banks, 12 have mentioned sustainability as part of their letter to shareholders, its inclusion indicating that the topic receives top management attention; for the remaining eight, this was not the case. In addition, banks still shy away from publicly communicating their sustainable investing strategy—let alone objectives and progress—making it difficult for stakeholders to hold them accountable.

Sustainable investing being a relatively new topic for private banks as pointed out in last year's report, the realization of the sustainable investing vision has not reached the level of ambition observed in target setting and top management commitment. On average, the participating banks have 17.2% of assets under management (AuM) in sustainable investing; when excluding the two specialized banks, this proportion falls to 4.46%. Given that nearly half (48.8%) of all European assets are in sustainable investing[2], this indicates that private banks still have a long way to go.

### Implications for the...

**Client |** Centralized SI teams make it easier for clients to reach out and provide feedback regarding their needs and desires. Clients interested in SI should engage with these teams to ensure that SI becomes a strategic priority for top management and to encourage organizational change.

**Bank |** While many banks state that top management endorses SI, there is a clear difference between approving SI initiatives and prioritizing them. Top management prioritization of SI needs to be explicit and communicated both internally and externally. Better internal communication will bring faster organizational change, while active external communication will bring transparency and accountability, incentivizing and encouraging banks to improve their practices.

2. Global Sustainable Investment Alliance (GSIA), "2018 Global Sustainable Investment Review."





Case Study | Edmond de Rothschild

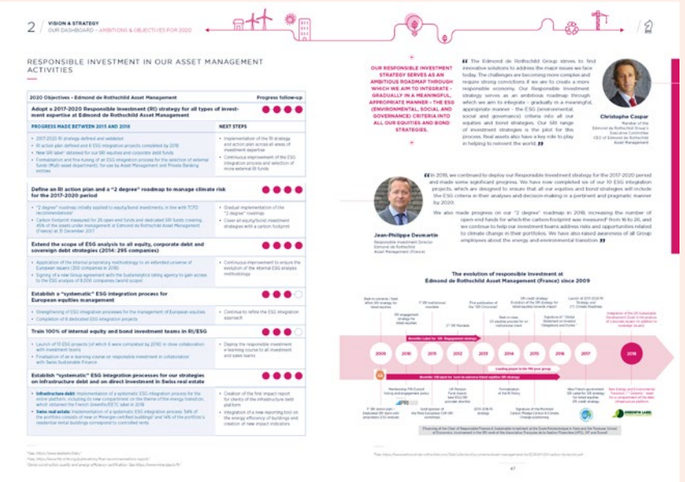
# Commitment and Transparency for a Sustainable Investing Vision

Edmond de Rothschild practices a high level of transparency regarding its sustainability strategy, which includes sustainable investing as well as other corporate social responsibility (CSR) aspects. The bank lays out its long-term strategy roadmap in its CSR report, a strategy that does not stop at high-level commitment but includes specific targets, both qualitative and quantitative.

On top of this, each year the report shows how much has been achieved in terms of progress and milestones. The sustainable investing vision of Edmond de Rothschild is not limited to creating more products, but encompasses its operational process.

The strategic commitment to a consistent and holistic SI vision is enabled by explicit top management support. In particular, the President of Edmond de Rothschild, Ariane de Rothschild, has been endorsing sustainable investing for many years, both internally and externally. This has allowed the bank to grow necessary capabilities regarding SI and hold top management accountable in the eyes of its stakeholders.

Figure 6. Sustainability report of Edmond de Rothschild



Source: Edmond de Rothschild

# Sustainable Investing Offering

## 1. ESG Integration

- → **Private banks developing and refining their ESG integration processes leads to diverse practices within the industry.**
- → **ESG integration processes range from ESG dissemination, best-in-class, and best-in-universe to best efforts.**
- → **Banks are learning to understand and maneuver ESG data better.**

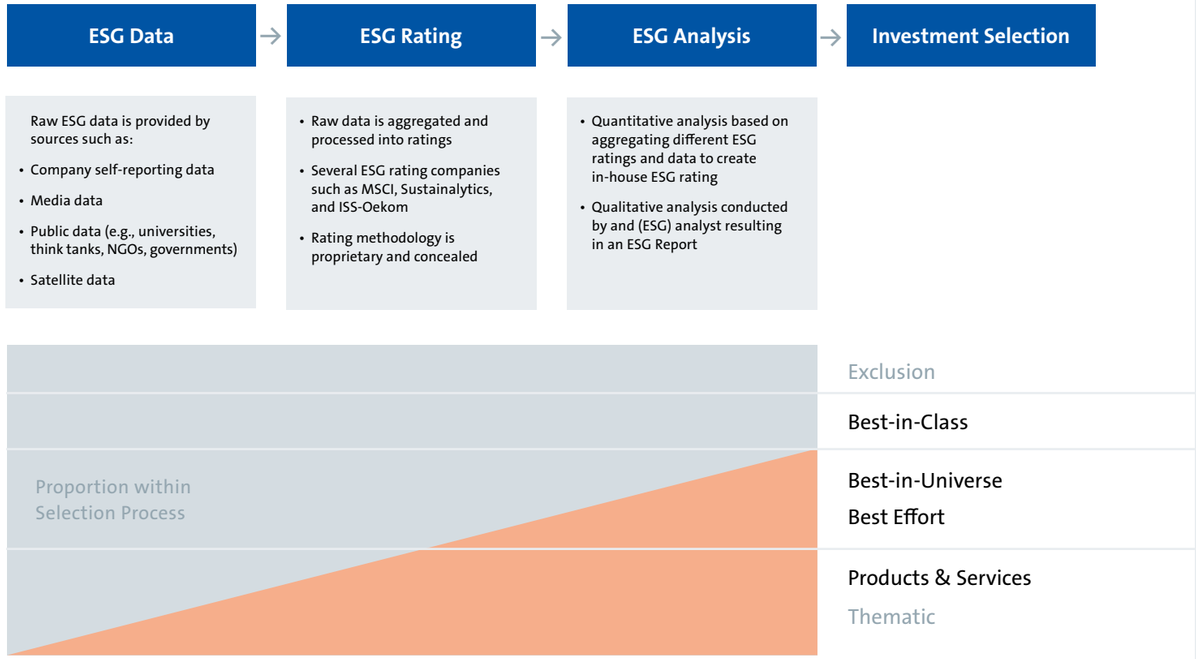
ESG integration (in the broader sense) is where we have seen the most change within private banking in comparison to last year. Private banks have started building up proprietary ESG research capabilities and methodologies and establishing guidelines instead of depending on their asset management division.

A typical ESG integration process starts with collecting ESG data on countries and companies through multiple sources such as ESG data providers, public sources, or companies themselves. This data is turned into an ESG rating that makes investees comparable.

Despite the quality of ESG data improving continuously, there are still limitations to it, which is why this step should be complemented by a holistic and qualitative ESG analysis. Based on this information, the final investment selection takes place (see Figure 7).

Banks approach ESG integration and make use of this data in different ways. These approaches are not mutually exclusive and can be employed together. It is important for the client to understand the approach of an offering—be it a fund, a portfolio, or a mandate—and to see whether it fits his or her idea of sustainability, because all of these approaches are described as ESG integration. **For banks, it is important to be able to communicate clearly to the client how their ESG integration process works—what type of data is used, how does it enter the decision process, what are the exceptions and what level of analyst discretion is possible—and how this supports the investment thesis.** The different methodologies within ESG integration are laid out in Figure 8.

Figure 7. ESG integration process




Source: The authors

The quality of ESG integration depends heavily on the quality of the data. The good news is that the quality and quantity of available data has been increasing sharply in recent years in response to the demands of various stakeholders: according to IBM, an estimated 90 percent of all data in use today has been created in the last two years[4]. There are a number of ESG data providers as well as alternative data that can contribute to better ESG integration. Among participating banks, there are 27 data sources (Appendix 10.4) on aggregate and most banks use more than one (Figure 9).

The catch with ESG data provided by vendors is that each vendor will have a different methodology. While some focus on analyzing ESG policies, others place more importance on compliance and a few look for ESG incidents. **Studies show that the ESG ratings of different vendors are inconsistent. On average, MSCI and Sustainalytics, the two largest ESG vendors, have a correlation of 0.5, for instance[5], and this divergence can be observed across all major ESG rating agencies[6].** The lowest consistency is for governance, despite being based on more objective data such as independent directors.

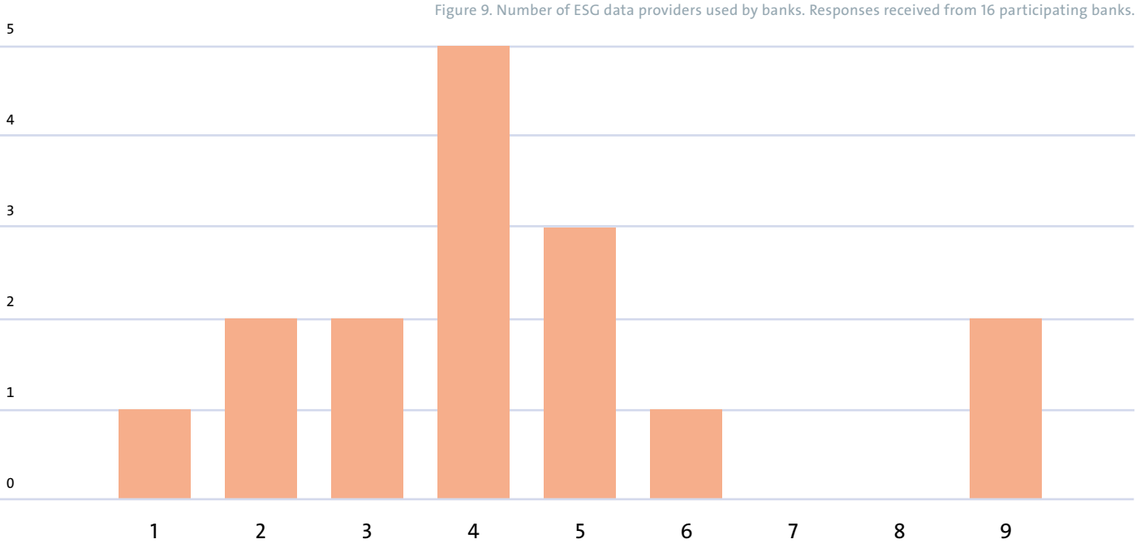
Figure 8. Categories of ESG integration methodology

| Approach | Explanation | Advantages | Shortcomings |
|---|---|---|---|
| **ESG Dissemination** | Making ESG data and reports available to analysts in the research team. Ideally accompanied by training and education to encourage analysts to integrate it into their research. | First step for all banks that would like to fully integrate ESG. | Arguable whether this approach can be considered truly ESG "integration". Relying on analysts' discretion. |
| **Best-in-Class** | Screening countries and companies that have the best ESG rating within a sector—or rather, screening out those who have the worst ESG performance. The cutoff point can vary from the top 33% to the top 90% and can be used to construct the investment universe before the financial analysis or as a passive strategy. | Helps avoiding controversies and risk caused by bad practices. | Does not include absolute ESG performance as it includes all sectors (e.g., the best performer in tobacco is still a tobacco company). |
| **Best-in-Universe** | Screening countries and companies that have the best ESG rating in general and not restricted by sector. Used mostly to construct the investment universe before the financial analysis or hand in hand with it. | Mitigates shortcomings of the best-in-class approach by taking the ESG performance of the sector into consideration. | Does not consider improvement in ESG practices, but rather the current state. Could result in tracking errors. |
| **Best Effort** | Selecting countries and companies that have the biggest improvements in their ESG practices. Investing in future sustainable leaders rather than those who are already there. Also associated with terms such as "forward-looking" or "ESG delta". | Improvement in ESG practices could be a good proxy for better management and long-term financial performance. | Results in a lower ESG rating and footprint of the current portfolio (e.g., includes oil and gas companies that are preparing for the energy transition). |
| **Consider Products & Services** | Considers the ESG footprint of products and services and the business model of the company, and is not limited to the ESG footprint of the operation (e.g., a fast fashion company with great supply chain management will have a high ESG rating, but is still responsible for a lot of textile waste). Also associated with terms such as "SDG integration" or "scope 3"[3]. Mostly used for bottom-up analysis and selection. | Considers the holistic impact of the company's impact on the real world and whether it contributes to solving societal problems. | Challenging to find quality data and relies largely on analysts' research. |

Source: The authors

3. Mainly used for greenhouse gas tracking, but increasingly also for ESG data. Scope 1 refers to sources directly controlled by the company, scope 2 Includes indirect sources that have been purchased by the company, and scope 3 accounts for all other sources, such as the use of products and services.
4. IBM Marketing Cloud, "10 Key Marketing Trends for 2017 and Ideas for Exceeding Customer Expectations."
5. Furdak et al., "ESG Data: Building a Solid Foundation."
6. Berg, Kölbel, and Rigobon, "Aggregate Confusion."

Figure 9. Number of ESG data providers used by banks. Responses received from 16 participating banks.




Source: The authors

One explanation for this is that not all ESG ratings aim to achieve the same goal, which leads to different methodologies and, eventually, uncorrelated ratings. For instance, Sustainalytics deems disclosure and transparency to be important, and has a more absolute rating. MSCI, on the other hand, focuses on exposures by industry and makes use of a lot of alternative data, such as satellite images and publicly available regional data, resulting in a normalized ESG rating. However, such differences do not indicate that data quality is low or that one vendor is correct and the other wrong; rather, they show that vendors are measuring different components, and the bank needs to understand how the data behaves and know how to manipulate it when building its own system and research.

## Implications for the...

**Client |** Clients should review the details of the ESG integration process and see whether the bank's process suits their investment thesis. Depending on the client's objective, some integration procedures might fit better than others. Ask which data is being used, at which point it enters the investment decision, and how much is left to the analyst's discretion. Requesting examples of investments that have been removed or included due to ESG integration can be helpful to understanding the process.

**Bank |** The process needs to be presented more transparently, going beyond stating—for example — "we integrate quantitative and qualitative ESG data into the investment process". Banks need to make an effort to communicate the process in a clear and understandable way, even to clients who do not have a finance background. Using specific examples can be a good way to do this. More transparency and clarity regarding data providers and the process will help preclude clients from believing the bank to be green-washing.





Case Study | Edmond de Rothschild, Lombard Odier, ABN Amro, UBS

# Different Usage of Data for Better ESG Integration

### FORWARD-LOOKING

One criticism regarding the majority of current ESG analysis practices is that in comparison to the financial analysis, ESG analysis has a tendency to focus on historic data and past practices instead of prediction and expectation. To overcome this, both Edmond de Rothschild and Lombard Odier take a forward-looking approach in their ESG integration process. Edmond de Rothschild takes a "best-effort" approach for some strategies and selects issuers that have demonstrably improved their ESG practices over time. Lombard Odier has developed a proprietary ESG-CAR model, which integrates not only ESG information, but also the consciousness (C) of the companies on sustainability issues, their actions (A) to address the issue, and the result (R) of those actions, in addition to SDGs. These approaches enable both banks to capture risk and opportunities effectively.

### INTEGRATING PRODUCTS & SERVICES

In the selection process, ABN Amro takes the SDGs into consideration, meaning that companies that contribute to reaching the SDGs usually end up with a larger allocation in the investment portfolio. The bank uses an external data provider that evaluates the company's activity and determines how much it contributes to which SDG. Thus, the analysis results in integrating not only the operational side of the company (e.g., how much energy the company produces or how many women it has on its board), but also the sustainability of the business model and products and services (e.g., Does the company offer a renewable energy solution? Do the company's products empower women?)

### ALIGNING PREFERENCES AND INVESTMENTS

UBS has developed a proprietary methodology that generates ESG scores across six sustainability topics identified by the bank: pollution & waste, climate change, water, people, products and services, and governance (Figure 10). The data is sourced from multiple best-in-class ESG data providers chosen based on their area of expertise, and evaluates how well companies and governments are managing the six topics, which allows room for customization depending on client interest.

Figure 10. Topics in UBS' proprietary ESG analysis

**Pollution & Waste**
Companies that have good environment management policies and systems; reduce packaging, recycle materials, manage hazardous waste, limit toxic emissions, and governments that manage their air and land resources well.

**People**
Companies that retain, develop and promote wellbeing among their employees, encourage diversity and protect human rights throughout their operations; and governments that invest in education and health.

**Water**
Companies and governments that manage their water consumption and resources efficiently and transparently.

**Climate change**
Companies that manage their carbon footprint and their energy use effectively; and governments that manage energy resources effectively.

**Products & Services**
Companies that have sourced raw materials responsibly, with strong social and environmental supplier standards, and policies to promote safe and sustainable products; governments who facilitate this through regulation and infrastructure.

**Governance**
Companies that are fair and transparent on issues such as executive pay, board independence, tax and anti-corruption, and governments that promote strong institutions and rule of law and commit to international treaties on environmental and social issues.

Source: UBS

## 2. Impact Investing

→ **While there are unique challenges for private banks seeking to offer impact investing, the market is finding ways to meet growing client demand.**

Impact investing has seen significant growth over the past few years. Research by the Global Sustainable Investment Alliance (GSIA, 2019) reports USD 444.26 bn in assets in impact and community investing at the end of 2018, 79 percent up from 2016[7]. The European Sustainable Investment Forum (Eurosif) reports USD 108,575 bn in assets in impact investing for 12 European markets in 2017, with a 6-year CAGR of 52 percent[8].

Impact investments made specifically by private wealth owners are also growing. Respondents in the Global Impact Investing Network's (GIIN) Investor Survey reported a total of USD 35 bn invested into impact investments during 2018, with a total of 13,303 reported deals and an average deal size of USD 2.6 m[9]. Predicted growth in capital invested and number of deals for 2019 are 13% and 14%, respectively. As this trend continues, private banks have the potential to play an increasingly important role in mobilizing private wealth toward sustainable development.

However, mobilizing private banks to offer more impact investing comes with challenges. Private banks face the same general challenges with regard to impact investing as other intermediaries, including illiquidity, low awareness and demand, impact washing, and a lack of adequate products. Some challenges, however, are unique to private banks:

- **Difficult business case.** Impact investments are primarily in private markets, and are expensive to conduct due diligence on and to structure, as most require a feeder structure. Most funds are not well known, and therefore are difficult to market in a wealth management context, with hundreds or thousands of client advisors and relationships managers as gatekeepers.

- **Diverse thematic interests of clients.** Finding eligible and interested clients for impact investing is already challenging enough—meeting the wide variety of thematic interests and values even more so. Some products are discarded by clients because the impact themes simply do not resonate with them.

- **Limited in-house expertise.** Performing due diligence on the impact side has historically not been part of the expertise of private banks. It is challenging for them to source interesting and eligible funds and conduct a thorough impact due diligence on top of their financial due diligence. Funds are often located in, or investing into, unfamiliar countries and themes, which is also an obstacle for many typical private market diligence teams.

- **Mixed client signals.** There is a split in many families between those interested in impact investing and those controlling the family wealth. Next generation wealth owners are often eager to participate in impact investing but rarely make the final investment decisions on behalf of the family.

Clients also question whether private banks are the appropriate platform to turn to when it comes to impact investing. According to Peter Wüthrich, Head of Investment Consulting at VALUEworks, an independent multi-family office focusing on value-based wealth advisory, **clients often find private banks unreliable and take impact investment decisions into their own hands, or use banks simply as custodians of their investments. Private banks should be aware that more experienced clients can easily spot "impact washing". Nevertheless, clients state that they still depend on the expertise and network of the bank, which they as families and individuals would not be able to build up easily.**

Despite all the associated challenges, there are private banks that do offer impact investing possibilities. They can be largely put into four categories: in-house and external fund development as well as in-house and external fund selection (Figure 11).

### Implications for the...

**Client |** As the impact investing trend continues, clients would benefit if they increased their demand for legitimate impact investing products. The greater the demand, the more developed and diverse the product offering will be. Clients should scrutinize impact investing products to ensure that these fund managers are actually having a measurable impact on society and the environment, and avoid investing in products that cause negative externalities or that are falsely labeled. Smaller clients should take advantage of impact investing products that have been tailored to suit the needs of this particular client size.

**Bank |** As growth in impact investing increases, private banks may profit from expanding their impact investing product offering. Raising awareness on the client and advisor side would support this expansion. Impact funds should undergo not only financial but also thorough impact due diligence that looks into impact measurement and into management that prevents negative externalities. Banks should also promote the democratization of impact investing by offering products that increase the participation of a wider group of clients.

Figure 11. Categorization of how private banks extend their impact investing offering

| Category | Fund Development | | Fund Selection | |
|---|---|---|---|---|
| | In-house | External | In-house | External |
| **Description** | Develop impact funds in-house through a dedicated team. This allows for direct reporting and control, and shows a high commitment from the bank, since the practice can be resource intensive. | Develop impact funds with a third-party partner who has the relevant capabilities. This can result in white label funds, funds with exclusive distribution, or a fundraising commitment for part of the fund. | The fund selection team conducts the financial and impact due diligence for impact funds. | The bank works with external experts (e.g., independent impact advisors) in cases where clients show an interest in impact investing, either through mandating or by a simple introduction. |
| **Banks** | Edmond de Rothschild, LGT, Triodos | UBS, Credit Suisse, Lombard Odier | ABN Amro, BNP Paribas | Globalance |

Source: The authors

7. Based on European, US, Canadian, Japanese, Australian, and New Zealand markets. Global Sustainable Investment Alliance (GSIA), "2018 Global Sustainable Investment Review."
8. Eurosif, "European SRI Study 2018."
9. Global Impact Investing Network (GIIN), "Annual Impact Investor Survey 2019."

Case Study | BNP Paribas, Triodos, ABN Amro, Barclays

# Democratization of Investing in Impact

Impact investing has historically been limited to large investors due to its complexity and capital requirement. However, banks are increasingly looking for ways to make impact investing accessible to a wider group of clients.

**FUND STRUCTURE**

- BNP Paribas's Social Business France fund offers a 90/10 fund that invests 90 percent according to a flexible and diversified SRI approach. The remaining 10 percent is invested directly in solidarity companies in France. This fund structure offers increased liquidity, enabling participation from clients of all sizes.
- Triodos's Fair Share Fund holds a reasonable amount of the portfolio assets in cash, which was a conscious decision of the Bank. This fund structure offers relatively high liquidity and enables access to impact investing at the retail level.
- ABN Amro's Privium Sustainable Impact Fund invests in several private equity and debt funds, but also in microfinance funds. The fund-of-fund structure and the added liquidity mean the fund is available to a wider client group.

**DIRECT DEAL PLATFORMS**

- UBS collaborates with Align 17, which uses the SDGs as a framework for their digital impact investing marketplace. The fund and direct deal platform offers low minimum ticket sizes into venture capital and private debt opportunities, reduced transaction times, and third-party vetting to help ensure impact.
- Barclays' Smart Investor Platform is a direct deal platform enabling access to thematic impact funds over a range of ticket sizes. This includes access to a multi-impact growth fund, a fund of funds managed by specialists investing in funds across six asset classes targeting different impact themes.
- Triodos's Ethical Crowdfunding Platform allows investors to choose direct investment opportunities that cover a range of types of impact and ticket sizes. The platform still starts at a relatively large ticket size, but allows investors to independently find organizations that resonate with their values.





## 3. Active Ownership

→ **Voting and engagement is a way to generate impact at scale and offer a wider client based the ability to generate impact.**

→ **It is important that banks provide clients with options to invest in those managers which undertake robust engagement and voting, and offer engagement and voting across single instrument portfolios.**

→ **Developments in digital infrastructure can enable the rescuing of "lost" votes for single equities directly held in a client portfolio.**

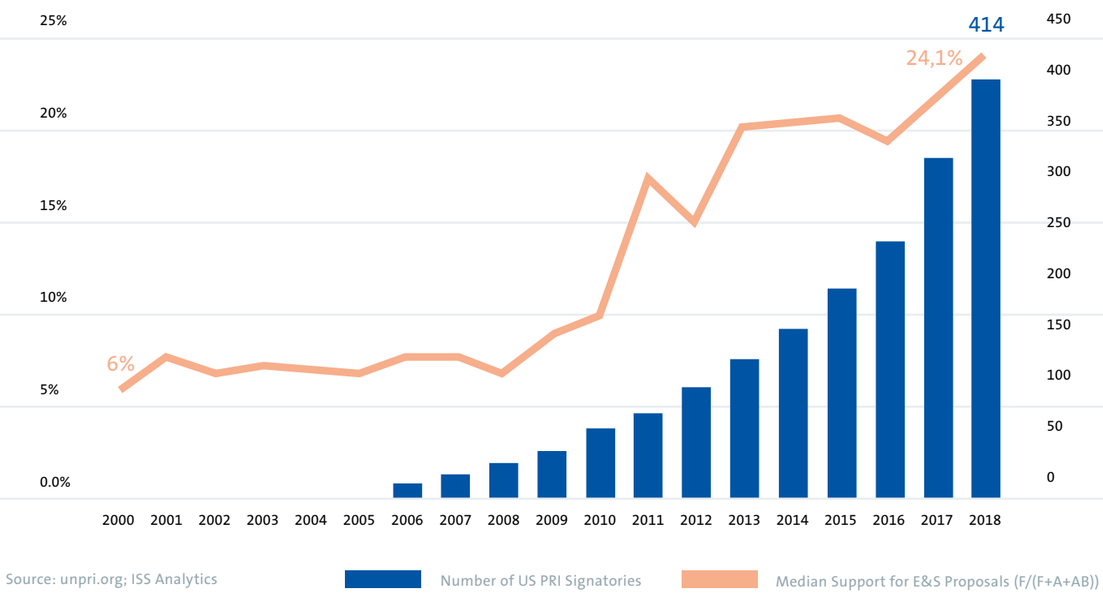
Active ownership is the umbrella term for shareholder engagement and voting in public markets, and the full range of ownership activities in private equity and venture capital (participation in governance, capacity building, internal consulting, engaging with management, etc.). Active ownership in public equities, where markets are highly liquid and relatively efficient, is one of the only ways to generate real and measurable impact in this asset class. It therefore offers a wider client base, including retail investors, access to a concrete mechanism of impact.

While shareholder proposals have traditionally been focusing largely on corporate governance (e.g., board structure, strategy, remuneration), environmental and social shareholder proposals have come to outnumber governance resolutions in the last three years[10]. This signals an increase in shareholders' interest in these topics. Investors no longer treat environmental and social issues separately from corporate governance, but recognize that managing environmental and social issues well is essential to the financial future of most corporations.

Support for environmental and social shareholder proposals at company annual general meetings (AGMs) has been increasing consistently over recent years. While only 1 in 10 environmental and social shareholder proposals received more than 30 percent support before 2010, this percentage is at 48 percent so far in 2019[11]. Figure 12 shows that the median percentage for these proposals has also been increasing significantly in the last decade.

Many banks see impact investing as limited to private equity and real assets, which are challenging to conduct due diligence on and distribute, and limited to larger,

Figure 12. Median support for E&S shareholder proposals and number of US PRI signatories




Source: unpri.org; ISS Analytics

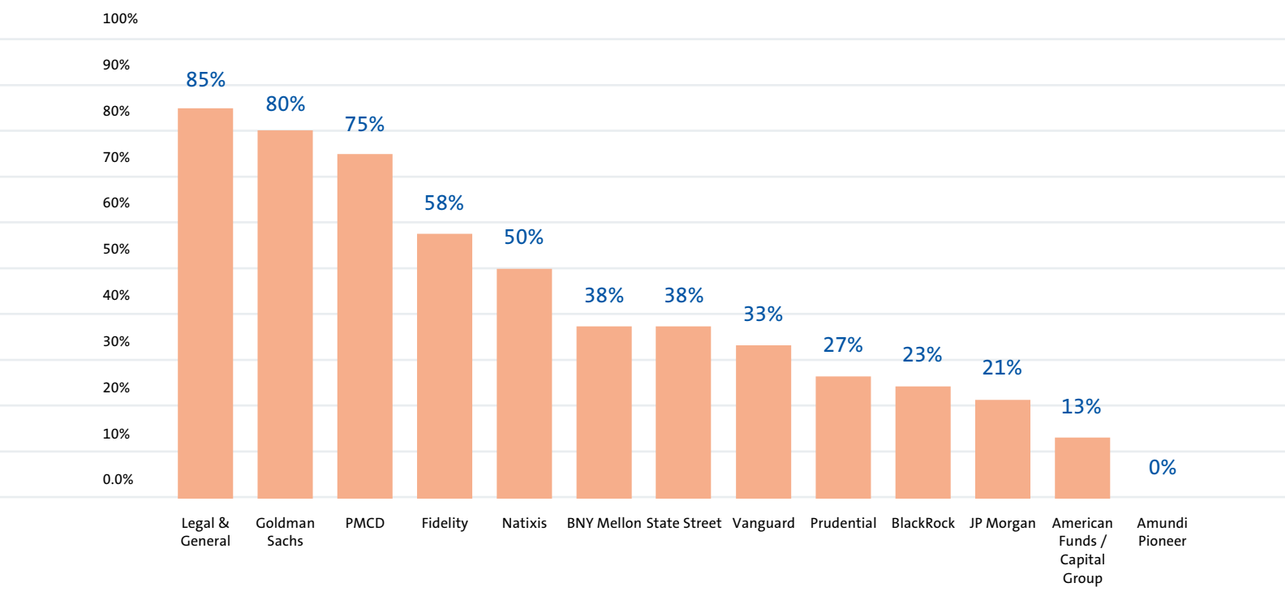
10. ISS, "The Long View: US Proxy Voting Trends on E&S Issues from 2000 to 2018."
11. ISS. "Early Review of 2019 US Proxy Season Vote Results."

professional clients. However, if private banks wish to enable a wider base of clients to achieve impact with their investments, a powerful strategy would be to enhance their voting and engagement capabilities and onboard funds which are already demonstrating impact through active ownership. These strategies can potentially attract new clients because, like private market investments, these funds can tangibly influence responsible business practices.

For clients of private banks, there are two levels at which active ownership can be practiced. The first level is the equities directly invested in, and for these the clients themselves need to do the voting. Some banks offer the services of their asset management division where these individual equities are also part of an asset management portfolio. Only a small number of banks offer bespoke voting services, on single stocks. There are several challenges for private banks seeking to offer voting services for single equities:

- **Domicile.** Depending on the domicile of the client, there are different requirements in force to be able to vote on shares. This makes offering a scalable voting solution difficult.
- **Paperwork.** Even when service providers such as ISS or Glass Lewis inform private banks of the existence of all relevant documents, it is the responsibility of the bank to share these with the client and secure the signature for each of them. There is a lack of IT integration that could ease the process.
- **Voting decision.** Clients have to subscribe to the voting policy of the bank, since split voting is difficult for some markets and is inefficient. Representing diverse client interests is difficult in such a case.

Figure 13. Level of support for climate change reporting by each asset manager




Source: 50/50 Climate Project

While the standardization of voting regulations for markets could help smooth the process, digitalizing has also been a solution. **A small number of banks are now providing bespoke voting services for clients with single stock portfolios by building up supporting digital infrastructure. One bank plugs in single stocks held by clients into the systems of voting advisory companies, which offer recommendations on how to vote in line with the client's sustainability preferences. Another bank is setting up an online platform that allows clients to easily pool their shares to an institutional account and enables the bank to vote and engage on behalf of its clients.**

The second level for active ownership involves sustainable investment funds, where the fund manager is responsible for engaging with companies and voting according to the fund's voting policy. Since a large portion of private banks' clients will be invested in sustainable investment funds and exercise their ownership via fund managers, voting and engagement activities need to be an important criterion when selecting these funds. However, less than half of the banks that participated do not assess or monitor the sustainability voting and engagement capabilities of third-party managers.

**This results in the selection of funds that may invest in companies with strong ESG ratings, but which also may not support environmental and social shareholder proposals, or actively vote against them.** For example, BlackRock, which announced that it will start measuring the ESG impact of companies, has supported only 23 percent of climate-related proposals and voted against 100 percent of proposals demanding greater disclosure of corporate political expenditures[12] (Figure 13).

## Implications for the...

**Client |** Clients need to understand how their shares are being voted and have access to the results. In cases where voting and engagement is executed via funds, clients should ask for reporting regarding voting and engagement activities and push for more progressive practices related to active ownership. In cases where the portfolio holds equities directly, clients should ask banks to ensure these stocks are voted in accordance with sustainability principles. Better still, clients should seek to implement a bespoke voting service which plugs into the systems of a well-respected voting advisory firm to advise on and execute votes.

**Bank |** Banks need to ensure active ownership capabilities, sustainable voting policies and engagement outcomes are prioritized in the fund selection process. This includes more transparency and reporting around active ownership, not just to the banks but also to the end clients. Banks that have a large proportion of single equities in their client portfolios should establish the systems to ensure they can be voted in accordance with sustainable voting policies, and ultimately, offer clients the ability to easily vote on their own shares according to their own preferences.

12. 50/50 Climate Project, "Asset Manager Climate Scorecard 2018."

# Sustainable Investing Service

- → **There is a big gap between what clients need and how banks are serving them.**
- → **Training for client-facing employees on sustainable investing is still insufficient.**
- → **There is a big discrepancy between banks and clients with regard to what is deemed as being qualified to advise on sustainable investing.**
- → **Client reporting is being developed, but needs to go further than just ESG rating.**

Awareness of the necessity of training employees has undeniably increased in comparison to last year; during interviews, many banks mentioned the training of employees as a key milestone for the coming years. Nevertheless, only 9 out of 20 participating private banks have or aim to have mandatory sustainable investing training rolling out in 2019.

Many private banks include a 1–3 hour session as part of the onboarding process of new relationship managers or investment advisors. This is not sufficient, especially for client-facing employees, to feel comfortable with discussing sustainable investing with clients. Also, since the onboarding mostly targets junior employees, this also limits the training's influence on client interaction.

The training sessions are offered in diverse ways. Besides mandatory sessions, banks also make use of e-learning tools that have been developed in-house, by content partners such as Swiss Sustainable Finance or Oxford University, or by tool providers such as MSCI. Some also invest in intensive, off-site training that take 1–3 days and allows for more in-depth knowledge transfer. Large banks that have in-house academies encourage employees to participate in sustainable investing training by offering several modules on the topic that are relevant specifically for relationship managers or investment advisors.

A surprising result of our research is the coverage with regard to relationship managers that have received training and are qualified to advise clients on sustainable investing. Private banks on average stated that 61 percent of their relationship managers meet those requirements. However, with the exception of LGT, none have a qualification process to ensure that relationship managers have understood and are capable of advising on sustainable investing. While we were unable to conduct a client survey on this point, the anecdotal evidence of client experiences we collected seems to contradict the stated high percentage of qualified relationship managers. One explanation for this is the existence of a perception gap between the bank and the client on what constitutes a "trained and qualified" relationship manager.

Another key area in sustainable investing service is client reporting. Two out of three private banks participating in our research have ESG reporting in place, where the ESG rating is shared on the product (fund or single instrument) and aggregated on a portfolio level. While until last year this had been largely reserved for clients who proactively asked for it, it seems that many banks have now decided to include ESG rating as part of regular client-facing reporting.

However, current reporting often lacks an explanation of how the ESG rating and footprint relates to the investment thesis of the product. Reporting on carbon intensity in comparison to a benchmark does not reveal much about the investment process and how ESG factors influence the final investment decision. While quantitative factors are important, banks should also consider including cases or qualitative descriptions, especially given that not all ESG related practices are translated into data and quantified.

## Implications for the...

**Client |** Clients need to be aware that the likelihood of advisors being knowledgeable with regard to sustainable investing is low. This means that clients should proactively ask for an SI offering and a meeting with the SI team. Demanding better reporting is also an effective way to hold the bank accountable. Given that client-facing SI reporting is under development in many banks, giving feedback on what clients would want to see in it can help shape that reporting to take a more client-friendly form.

**Bank |** Private banks should realize that product training sessions are not sufficient and that sitting down with clients to talk about sustainable investing can pose challenges that go beyond product description. Banks should encourage and incentivize their employees to educate and train themselves through both internal and external programs, just like they do for traditional finance programs. At the same time, banks should also see reporting as a way to engage clients further on the topic of sustainable investing and should reflect client needs and wants that go beyond ESG ratings.





# Regulatory Change: The EU Action Plan and its Impacts on Private Banking

In March 2018, the European Commission published its Action Plan on Financing Sustainable Growth[13]. Based on the recommendations of the High-Level Expert Group on Sustainable Finance (HLEG), the Action Plan defined three sustainability objectives in order to align the EU and its financial industry with the Paris Agreement and the Agenda 2030:

1. Capital flows should be reoriented toward sustainable investments;
2. The capacity to manage financial risks caused by climate change and environmental degradation should be enhanced;
3. Transparency and long-termism in economic and financial activities should be fostered.

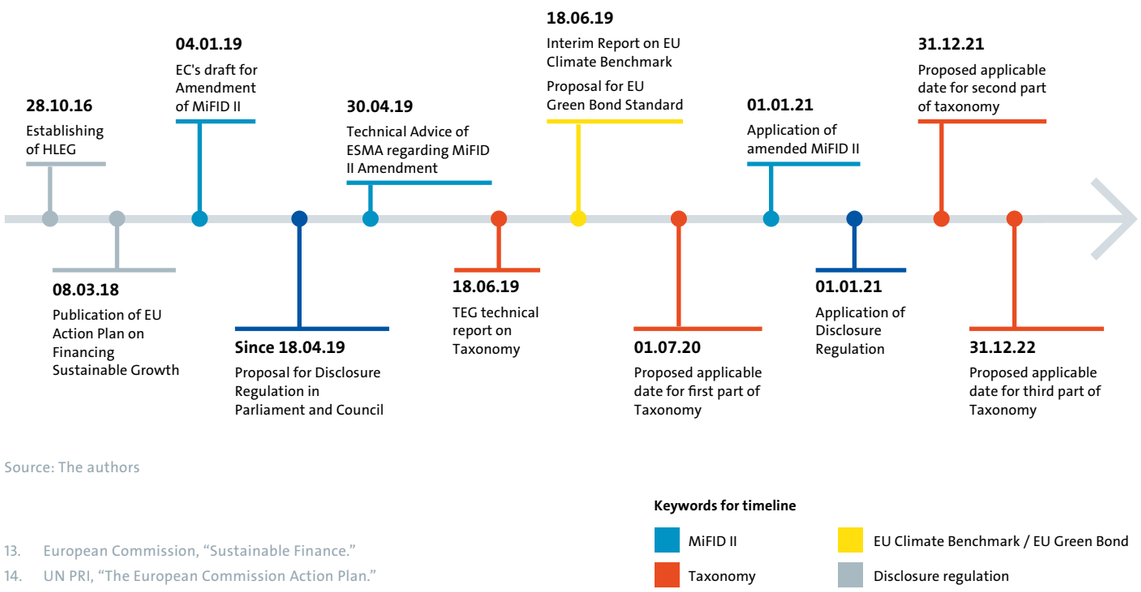
Within the plan, ten measures are defined via which to accomplish these goals. In May 2018, the Commission announced its first legislative proposals. Additionally, the Technical Expert Group on Sustainable Finance (TEG) was set up in July 2018 in order to assist in the development of certain actions. In January 2019, drafts for regulations and final reports were published, and these have been followed by various other publications until the time of writing. Figure 14 shows a timeline of the Action Plan's implementation so far and important dates to follow.

The Action Plan is supposed to affect the entire financial industry significantly, including private banking and wealth management. Although this regulatory framework will only be established in the EU, it will certainly have substantial consequences for the financial sector in Switzerland as well. By focusing on the most relevant topics for private banking so far—Actions 1, 4, and 7—this section will present the current state of the Action Plan and outline its effects on private banks.

## Action 1: Taxonomy

Action 1 of the Action Plan will introduce a unified classification system for sustainable investments and pursues the objective of bringing consistency and harmonization to terms such as "sustainable investments". By creating a common language for the actors of the financial system, this taxonomy is an attempt to counter greenwashing. However, rather than providing the user with a standard for investment products, the taxonomy will clarify which economic activities within a given sector can be considered as climate-friendly and which not[14]. Therefore, it is

Figure 14. Timeline of the EU Action Plan




Source: The authors

13. European Commission, "Sustainable Finance."
14. UN PRI, "The European Commission Action Plan."

designed as a list of economic activities across different sectors that are defined as climate-friendly by the TEG. The taxonomy is supposed to build the basis for the upcoming EU Green Bonds and the potential EU Ecolabel for financial products.

Under the proposed regulation, asset managers and institutional investors are still allowed to label their investments climate-friendly or sustainable without applying the taxonomy. Alternative sustainable investing approaches can still be used but explanations will be expected on how the methodology relates to the taxonomy[15]. Nonetheless, once the EU Ecolabel is established, expectations from the market and clients will increase pressure to classify sustainable products accordingly and thus apply the taxonomy. Ivo Mugglin, Sustainable Finance Advisor from WWF Switzerland, states, "the EU Ecolabel for financial products will be reserved exclusively for sustainable investments using the EU Taxonomy".

By applying the taxonomy, it can be determined whether an economic activity of a company can be considered sustainable. The taxonomy is constructed as a list of so far 67 economic activities across eight sectors that are defined as climate-friendly by the TEG. It will represent a list of green activities that contribute substantially to one of six environmental objectives defined in the taxonomy regulation and do not significantly harm the other objectives. However, not only green activities but also investments contributing to the transition of companies to more sustainable business practices as well as climate adaptation practices are included. It should be mentioned that the activities included so far address the first two of the environmental objectives of the Paris Agreement and thus only relate to climate change. Other dimensions of "sustainability" will be included later on as the Technical Expert Group is expected to continue its work and further expand the taxonomy. Once the TEG's mandate has expired, it is planned to establish a Platform on Sustainable Finance consisting of different experts to review, revise, and further develop the taxonomy[16].

The taxonomy is sometimes criticized for limiting investment opportunities. Asset managers have raised the concern that reserving the taxonomy for only certain environmental objectives would limit the investment universe. Nevertheless, the taxonomy is not a mandatory requirement for all investments, but rather a guide and facilitator for environment-friendly investments.

Another challenge concerns the creation of a taxonomy that all stakeholders can accept. The definition of "climate-friendly" seems to always engender discussion. However, the taxonomy does not aspire to be exhaustive and will develop gradually over the coming years. Taking another approach, Ivo Mugglin observes that, "instead of defining the greenness of economic activities, it could have been easier and more useful from a risk-perspective to focus on defining a brown taxonomy". Some experts in the field of sustainable finance also criticize the "catalogue" approach of the taxonomy. Having created the taxonomy as a narrowly defined list, it might be difficult to follow up on technical and economic progress. As the investment universe changes so rapidly, concerns have been raised that keeping the taxonomy up to date will prove to be challenging.

Further, the taxonomy so far only refers to environmental objectives. It is questionable whether it is an appropriate tool with which to address social and governance issues. Although the integration of S and G factors is intended, implementation may prove challenging. "Defining economic activities that have positive effects on social or governance factors is very difficult and thus complicated to include," according to Sabine Döbeli, Head of Swiss Sustainable Finance (SSF).

Last but not least, it should be mentioned that the taxonomy very much depends on reliable data. Data availability and transparency—issues that will be addressed under other actions—are therefore crucial for the taxonomy's success[17].

### IMPLICATIONS FOR PRIVATE BANKS

Private banks will have to use the taxonomy if they want to build or offer sustainable products that comply with regard to the EU. Furthermore, for existing sustainable products, they should describe how their chosen approach relates to this new taxonomy. This review process could be resource intensive and demands intense exchange with the corresponding asset managers. Taxonomy expertise must be built up if new sustainable products aligned with the taxonomy are to be offered. Additionally, once the EU Ecolabel comes into effect, many clients will certainly be asking for those products that are labeled. Know-how regarding the EU taxonomy will thus also be expected in client consultation meetings.

15. EU Technical Expert Group of Sustainable Finance, "Using the Taxonomy."
16. EU Technical Expert Group of Sustainable Finance, "Taxonomy Technical Report."
17. EU Technical Expert Group of Sustainable Finance, "Taxonomy Technical Report."





### NEXT STEPS

On June 18, 2019, the final report of the TEG was published, accompanied by a guideline for the use of the taxonomy. After the current feedback period, the taxonomy and its regulation will be negotiated in the legislative institutions of the EU and will probably be adopted by beginning of 2020. By July 2020, the first part of the taxonomy is expected to become effective. The second and third parts, which address other environmental objectives, will probably enter into force by the end of 2021 and 2022, respectively. A proposal for EU Green Bond Standards was published by the TEG in March 2019 and is currently under discussion in the Commission. The introduction of the EU Ecolabel should not be expected any time soon[18].

## Action 4: Integration of clients' ESG preferences when providing financial advice

Action 4 targets the integration of clients' environmental, social, and governance (ESG) preferences into the investment decision process and does this by adding the obligation to ask clients about their ESG preferences to the Markets in Financial Instruments Directive (MiFID) II and Insurance Distribution Directive (IDD). With technical advice provided by the European Securities and Markets Authority (ESMA), MiFID II is going to be amended by the Commission with regard to this aspect.

ESG preferences will have to be part of financial institutions' client-suitability assessment and thus enhance a client's risk profile. In view of such profiles, investments will need to respect clients' ESG preferences. In addition, financial advisors are also asked to clearly disclose how advice given is aligned with these ESG considerations[19 20].

Most financial institutions have only recently adapted to the initial requirements of MiFID II and built up the corresponding capacities for its implementation. Introducing further regulations with regard to the advisory process will be challenging as it places additional demands on the compliance function.

Furthermore, advisors are asked to balance clients' sustainability preferences with other suitability criteria, such as risk tolerance and investment objectives. This may be especially demanding for private banks given that implementing these additional requirements will have to be preceded by an evaluation of clients' ESG preferences and that the criteria for such an evaluation are not yet clearly defined[21].

### IMPLICATIONS FOR PRIVATE BANKS

As part of MiFID II, the integration of sustainability preferences will be mandatory for cross-border businesses in private banking. Therefore, sustainable products and a suitable risk process that allows recommendations regarding investments to be matched to the preferences of clients, will have to be in place. Reports for clients need to include ESG information and a comparison of the client's ESG preferences and other targets of the investment[22]. Thus, private banks will have to obtain both ESG data on financial products and tools with which to evaluate the sustainability of investments. Financial advisory processes have to be revised and restructured in accordance with new regulations in MiFID II. Advisors will have to acquire ESG expertise, as ESG considerations will be part of the standard advisory process. Building up this expertise may mean hiring new staff or further training for employees. Financial institutions are expected to have adequate policies in place to guarantee and demonstrate expertise in this field[23].

### NEXT STEPS

At the beginning of January 2019, the Commission published a draft Delegated Regulation on amending MiFID II, and ESMA reported its final technical advice on this amendment on April 30, 2019. Following the recent feedback period the regulation is currently under discussion and the directive will enter into force 18 months after the adoption of the regulation, which is supposed to take place in the first half of 2021.

18. EU Technical Expert Group of Sustainable Finance. "Taxonomy Technical Report."; European Commission, "Proposal for a Regulation of the European Parliament and of the Council on the Establishment of a Framework to Facilitate Sustainable Investment."
19. European Commission, "Commission Delegated Regulation (EU) Draft Amending Delegated Regulation (EU) 2017/565 as Regards the Integration of Environmental, Social and Governance (ESG) Considerations and Preferences into the Investment Advice and Portfolio Management."
20. European Securities and Markets Authority (ESMA), "Final Report: ESMA's Technical Advice to the European Commission on Integrating Sustainability Risks and Factors in MiFID II."
21. Cound and Fisher, "Regulatory Developments in Europe: 2019 Outlook."
22. PwC and WWF, "Paradigm Shift in Financial Markets."
23. European Securities and Markets Authority (ESMA), "Final Report: ESMA's Technical Advice to the European Commission on Integrating Sustainability Risks and Factors in MiFID II."
24. European Commission. "Guidelines on Non-Financial Reporting: Supplement on Reporting Climate-Related Information."

## Action 7: Disclosure regulations for financial services and products

The desire to increase transparency with regard to the integration of sustainability risks and impacts into the investment decision-making process is one of the key aspects of the EU Action Plan. Action 7 aims to drive the incorporation of sustainability risks when investing, asking for appropriate disclosure by amending and supplementing existing EU directives. This is not, however, to be confused with the amendment of the guidelines for climate-related reporting[24], which are based on the recommendations of the Task-Force on Climate-Related Disclosure (TCFD) and addressed in Action 9. The measures related to Action 7 should not be seen as a redefinition of the fiduciary duty per se, but rather as a consequence of a new understanding of the fiduciary's role. In accordance with this, a fiduciary has to consider sustainability risks and their financial impacts when investing and fully disclose those considerations accordingly. Consensus on this interpretation of the fiduciary duty was already achieved between the various stakeholders in the field of sustainable finance and underlies several of the Actions. Therefore, "a redefinition of fiduciary duty is not a part but rather a precondition and basis for the EU Action Plan," states Sabine Döbeli.

The disclosure regulations aim to increase transparency with regard to the end investor. As part of pre-contractual disclosure, advisors will be asked to explain how they integrated sustainability risks and the impact of those risks on the return of an investment. Information on adverse sustainability impact may also need to be integrated. Furthermore, information regarding the sustainability targets, employed sustainable indices, and the methodology used will have to be embedded into pre-contractual meetings. Additionally, financial market participants will be asked to share on their websites written sustainability risk policies, sustainable targets of their green products, and the methodologies used to target, monitor, and measure the impact of those products. Finally, the financial product's overall impact on the environment needs to be published in periodical reports on the website and information on remuneration policies and their consistency with the integration of sustainability risks have to be publicly available[25].

Although the disclosure regulations are expected to pass the legislative bodies of the EU soon, many uncertainties remain as guidelines for their implementation are missing. Standards for disclosure are yet to be defined, which leaves space for arbitrary reporting. In addition, a method for determining the financial impact of sustainability risks is also yet to be defined. And there are uncertainties about how to approach the disclosure of how remuneration is related to sustainability risks. According to Sabine Döbeli, "It is very much left to the industry how these regulations should be interpreted and implemented". Given this lack of standards, it is very difficult to precisely forecast the impact of the regulation.

### IMPLICATIONS FOR PRIVATE BANKS

The disclosure regulations require a considerable effort on the part of the private banks and will require a lot of resources. By asking the banks to provide information on sustainability risks and to disclose the sustainability impacts of their financial products, the regulation will change the advisory process significantly. Furthermore, the disclosure obligations regarding sustainable products will inevitably require a revision of already existing sustainable products. Guidelines on disclosure and on methods of calculating financial impacts stemming from environmental risks have to be developed. Websites need to be supplemented with information on sustainability matters and periodic reports have to be amended regarding the environmental impacts of financial products. Finally, mechanisms and positions have to be established in order to regularly monitor and update all this information.

### NEXT STEPS

Currently the disclosure regulation is in the European Parliament and Council for a first reading and is supposed to be adopted soon. Application of the regulation is then expected at the beginning of 2021[26].

25. Cound and Fisher, "Regulatory Developments in Europe: 2019 Outlook."
26. European Commission, "Commission Delegated Regulation (EU) Draft Amending Delegated Regulation (EU) 2017/565 as Regards the Integration of Environmental, Social and Governance (ESG) Considerations and Preferences into the Investment Advice and Portfolio Management."





# Private Banking and Its Alignment to Internationally Agreed Environmental Goals

Efforts to assess the alignment of banking activities to internationally agreed environmental goals (IAEGs) need a broader scope than mere investments. Structures, products, and processes of banks also risk accelerating the rate of global warming even further. However, it is not yet clear how these other activities are impacting climate change.

Our survey results show that **private banks are failing to proactively implement environmental risk assessment and management of their banking activities**. Their focus tends to be on portfolio-based climate risk exposure rather than alignment with international environmental targets. Measuring the alignment of private banking activities with international climate goals beyond portfolio risk assessment seems complex and challenging.

Nevertheless, to create a private banking industry that is aligned with reaching IAEGs, we need to move beyond portfolio risk assessments and adopt a more holistic framework for evaluating banking activities in relation to environmental impact. Frameworks already exist to guide, identify, and benchmark sustainable practices in banking and finance. These can be used as a basis for the development of an evaluative framework assessing alignment with international goals, such as those of the Paris Agreement, and the SDGs.

## Methodological frameworks

The ten methodological frameworks identified as helpful for such a review can be categorized into three types—evaluative, empirical, and normative[27] (Figure 15).

Figure 15. Categories of frameworks and standards for evaluating financial organizations with regard to environmental sustainability

**Evaluative Frameworks**

- KPMG & WWF (2012)—Environmental Performance of Swiss Banks
- WWF & InRate (2017)—Sustainability in the Swiss Retail Banking Sector
- ShareAction (2017)—Climate Risk and General Banking Practices
- 2-Degree Investing Initiative (2016)—2° Invest Award Project

**Empirical Frameworks**

- World Resources Institute (2018)—Multilateral Development Banks and the Paris Agreement[28]
- UNEP (2016)—Environmental Risk Analysis by Financial Institutions

**Normative Frameworks and Standards**

- UN Principles for Responsible Banking
- UN Principles for Positive Impact Finance
- UN Principles for Responsible Investing
- ISO 14097: Framework and Principles for Assessing and Reporting Investments and Financing Activities Related to Climate Change[29]

Source: The authors

27. The frameworks have been chosen based on the following criteria: a) their relevance to finance, b) their relevance to IAEGs, c) not older than 2010.
28. The framework elements related to the first of four research questions were excluded due to being Multilateral Development Bank (MDB) specific. The guiding research question was: How are MDBs supporting Nationally Determined Contributions (NDCs) and long-term climate-related planning? The essence of this question is, however, important for all banks in that they should be aligned with national climate strategies and not work against them.
29. ISO 14097 is scheduled for completion in 2020. Elements in this framework were identified based on the preliminary objectives of the project to create the standard, as described in the scoping report by European Commission LIFE (2017).

**Evaluative frameworks** are methodological frameworks developed to benchmark organizations based on specified criteria. The organization conducting the evaluation assigns weights to the benchmarking criteria in order to produce a ranked list. The criteria used to evaluate organizations as explained in the methodological sections of these reports were considered in this review to be the framework element.

**Empirical frameworks** used focused research questions to conduct a stocktake of existing sustainability practices in banking and finance without applying a normative evaluation. These reports were relatively narrow, based on the industry (e.g., banking), IAEGs (e.g., the Paris Agreement), or the scope of framework elements (e.g., solely risk analysis). The outcome of these empirical reports was a list of commonly used practices considered in this review to be the framework elements.

**Normative frameworks** prescribe both aspirational principles and potential actions to take in order to fulfill those principles. These principles and potential actions were considered to be the framework elements for this review. One exception is ISO 14097, which provides a set of prescriptive industry standards, but was included in the normative framework category due to its intention to steer industry practice.

## Focus areas

The focus areas of each framework range from environmental sustainability to climate change and the low-carbon transition to promoting industry transparency. Figure 16 presents an overview of how focus areas differ between frameworks.

There is no one comprehensive methodological framework that covers all focus areas. The World Resources Institute's (2018) report on Multilateral Development Banks (MDBs) and the Paris Agreement comes the closest, although it focuses primarily on climate change and the low-carbon transition.

Focus areas identified as gaps should be included in building the framework to evaluate private banks, especially *alignment*, *sustainable behavior change*, and *environmental* and *holistic sustainability*. *Alignment* is especially important in terms of climate change mitigation targets and their corresponding adaptation and resiliency measures. *Sustainable behavior change* should be emphasized particularly for private banks. They play a pivotal role in influencing investor behavior on the demand side and industry behavior on the supply side.

## Framework elements

Twelve framework elements were identified in the review (Figure 17). Like the focus areas, no single framework comprehensively covers all twelve framework elements, although WWF and Inrate's (2017) report on sustainability in Swiss banking comes close. *Client and customer interactions*, including activities like due-diligence processes, discussing ESG risks and preferences with clients, and active shareholder engagement, is a framework element of particular relevance for private banking. Further, *sustainable products and services* has relatively little coverage but is crucial to develop as a framework element for private bank alignment.

Other gaps in framework elements are the promotion of academic *research*, *industry collaboration*, and *industry engagement*. These topics are all externally focused framework elements that promote progress at the financial ecosystem level. Indicators of alignment should be developed for these framework elements; ones that exemplify how private banks are driving system-level progress. This will also make banks' own internal alignment with international environmental goals easier, because it will create a harmonious industry environment supported by research, and will minimize perverse incentives in the industry to conduct business that inhibits progress.

Figure 16. Focus area of different frameworks

| Type of Framework | Organization(s) | Focus area | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Environmental Sustainability | Holistic Sustainability | Climate Change & Low-Carbon Transition | Financial Risk | Risks & Opportunities | Transparency | Alignment | Adaptation/ Resilience | Sustainable Behavior Change |
| Evaluative | KPMG & WWF (2012) | ✓ | ✓ | | | ✓ | | | | ✓ |
| | WWF & InRate (2017) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | | |
| | ShareAction (2017) | | | ✓ | | ✓ | | | | |
| | 2° Investing Initiative (2016) | | | ✓ | | ✓ | | ✓ | | |
| Empirical | World | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| | UNEP | ✓ | | | ✓ | ✓ | | | | |
| Normative | UN PRB | | | | | ✓ | ✓ | ✓ | | ✓ |
| | UN Principles for Positive Impact Finance | | | | | ✓ | ✓ | | | |
| | UN PRI | | ✓ | | | | ✓ | | | ✓ |
| | ISO 14097 | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |

Source: The authors

Figure 17. Elements of different frameworks

| Type of Framework | Organization(s) | Focus area | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Governance | Strategy | Integration | Products & Services | Risk Assessment | Targets | Measurement/ Performance | Reporting | Industry Collaboration | Research Promotion | Client Interactions | Political Engagement |
| Evaluative | KPMG & WWF (2012) | ✓ | ✓ | ✓ | ✓ | ✓ | | | | ✓ | ✓ | ✓ | |
| | WWF & InRate (2017) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ |
| | ShareAction (2017) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | | | | ✓ | ✓ |
| | 2° Investing Initiative (2016) | | ✓ | ✓ | | ✓ | | | | | | ✓ | |
| Empirical | World | | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | | | ✓ | |
| | UNEP | | | | | ✓ | | ✓ | | | | | |
| Normative | UN PRB | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | | | ✓ | ✓ |
| | UN Principles for Positive Impact Finance | | ✓ | ✓ | | ✓ | | ✓ | ✓ | | | | |
| | UN PRI | ✓ | | ✓ | | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| | ISO 14097 | | | | | ✓ | ✓ | ✓ | ✓ | | | | |

Source: The authors

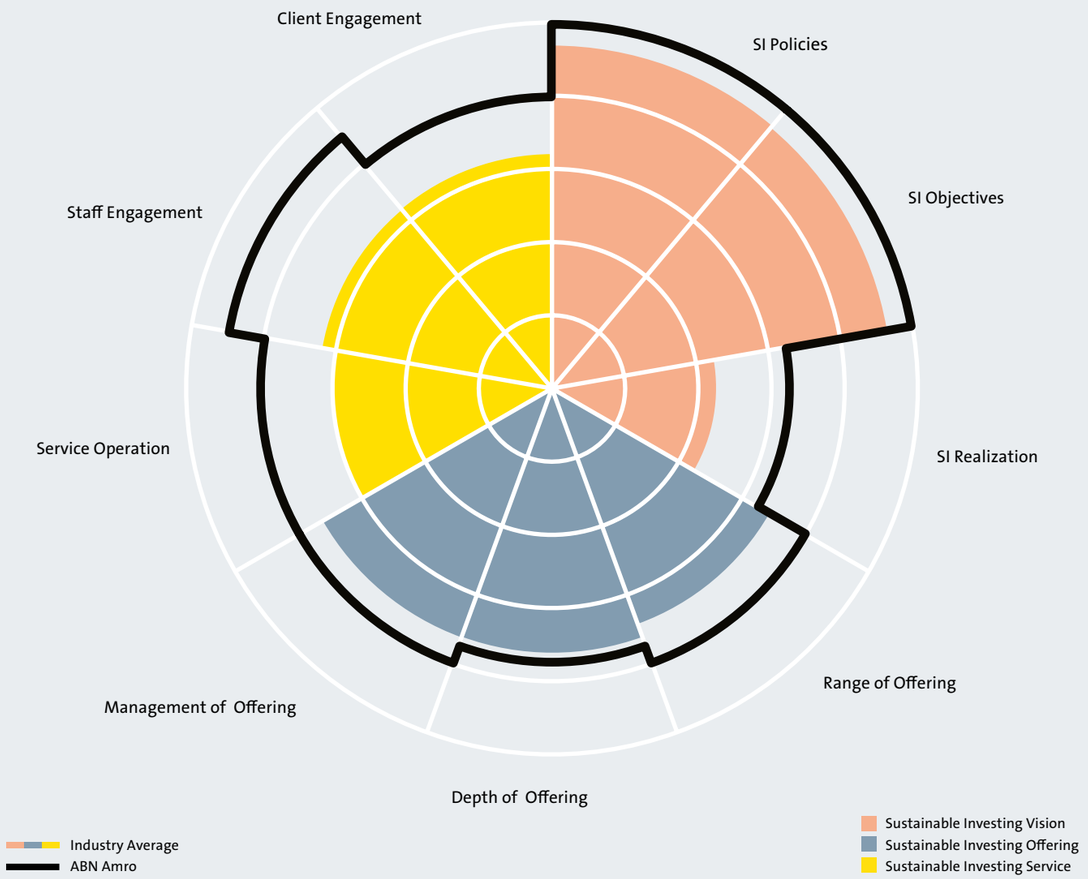
# Bank Profiles

# Bank Profile: **ABN Amro**

| | |
|---|---|
| HQ | **NL** |
| 2018 AuM WM (USD bn)[1] | **202.50** |
| # of Employees[2] | **18,830** |

## Sustainable Investing Information

| Exclusion | Best-in-Class | ESG Integration | Active Ownership | Thematic | Impact Investing |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Listed Equity** | **Listed Fixed Income** | **Private Equity/Debt** | **Real Estate** | **Infrastructure** | **Multi-asset** |
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |




| | Strengths | Challenges |
|---|---|---|
| **SI Vision** | • **Sustainable investing objectives and guidelines established and governed through Global Sustainability Board.**<br>» Inputs from local sustainability advisory boards in Germany, France, the Netherlands, and Belgium.<br>» Global Sustainability Board consists of representatives from the executive committee, including the CIO.<br>» Local sustainability advisory boards consist of sector experts from different backgrounds.<br>• **SI commitments and guidelines publicly shared.**<br>» Clear internal objectives on implementing SI.<br>• **High ratio of AuM in SI and high level of momentum in growth.** | |
| **SI Offering** | • **Industry leading in terms of quantity of funds in offering.**<br>• **Offers a discretionary SI mandate:**<br>» Standard mandate—single instrument or fund-focused (>500k[3]).<br>» Tailor-made mandate (>2.5 m).<br>• **Advanced ESG integration.**<br>» Applied to all investment research (equities, fixed income, fund) since 2012 (limited application already since 2005).<br>» Integrates business model and its contribution to SDGs into selection process for SI.<br>• **ESG integration and active ownership as part of all fund due diligence processes.** | • **No voting service for single instruments.**<br>» Voting and engagement when invested in in-house fund. |
| **SI Service** | • **SI preference is part of the client onboarding process.**<br>• **SI is the standard offering of ABN Amro and client needs to opt out if SI is unwanted[4].**<br>• **Training on SI is mandatory for all employees at the front office.**<br>» E-learning system.<br>» Additionally, in-depth training conducted by Oxford (2 days online, 1 day on-site).<br>» High ratio of RMs trained and qualified to advise on SI.<br>• **Client engagement starting with client conversation on values.**<br>» Additionally, publishes whitepapers and blogs.<br>» Conducts workshops upon request.<br>• **Client facing reporting includes:**<br>» ESG rating and footprint on product and portfolio level.<br>» Engagement and voting activities on in-house investments.<br>» SDG reporting (under development). | • **SI preferences of clients not yet integrated into client onboarding or ongoing conversations.**<br>» Planned to be integrated in 2020.<br>• **No mandatory SI training or workshops for employees, including RMs and advisors.** |

1. ABN Amro Annual Report 2018
2. ABN Amro Annual Report 2018
3. Depending on region.
4. Depending on region (implemented in the Netherlands and Belgium, in process for France and Germany).

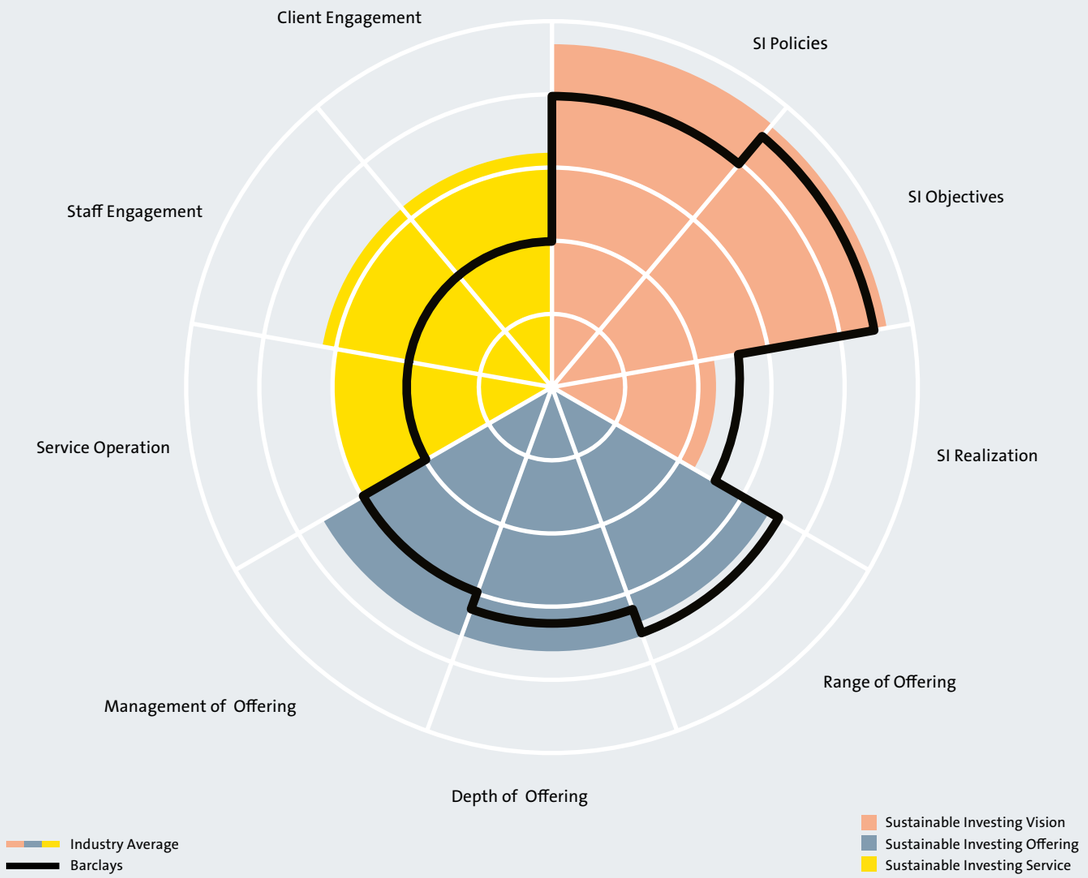
# Bank Profile: **Barclays**

| | |
|---|---|
| HQ | **UK** |
| 2018 AuM WM (USD bn) | **n/a** |
| # of Employees[1] | **83,500** |

## Sustainable Investing Information

| Exclusion | Best-in-Class | ESG Integration | Active Ownership | Thematic | Impact Investing |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

| Listed Equity | Listed Fixed Income | Private Equity/Debt | Real Estate | Infrastructure | Multi-asset |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |




| | Strengths | Challenges |
|---|---|---|
| **SI Vision** | • **Sustainable investing objectives established at divisional wealth management level.**<br>» Operational targets set for implementing SI within division.<br>• **Sustainable investing policies approved in 2017 and reviewed by a specialist in 2018.**<br>» High-level policy shared publicly. | • **No public communication on SI strategy and objectives.**<br>• **Less transparency on detailed ESG guidelines and sector policies.**<br>• **No explicit top management support.** |
| **SI Offering** | • **Offers a discretionary SI mandate:**<br>» Mix of single instruments and funds (>5 m).<br>» Excludes fossil fuels in addition to ethical screening (e.g., tobacco, pornography).<br>» Integrates alignment with SDGs in investment selection.<br>• **ESG integration and active ownership as part of all fund due diligence processes.**<br>• **Efforts to expand impact investing offerings.**<br>» Additional due diligence for impact investing funds (e.g., theory of change, implementation, impact management).<br>» Creating open platform for direct investments in impactful companies and funds (pilot phase). | • **ESG integration in the institutionalization process.**<br>» ESG data provided to analysts across asset classes for materiality assessment.<br>» Currently, insufficient training but ESG integration underway to be consistently applied across all investment strategies. |
| **SI Service** | • **Training on SI for new employees as part of onboarding process.**<br>» Additional training through product sessions.<br>» In-depth sessions with individual teams upon request.<br>• **Client engagement starting with client conversation on values.**<br>» Additionally, publishes whitepapers and blogs.<br>» Conducts workshops upon request.<br>• **Client education through roadshows and thematic events, in addition to monthly publications.** | • **SI preference is not part of the client onboarding process.**<br>» Client interest noted when actively expressed.<br>» Tool for client profiling regarding SI preference under development.<br>• **Client-facing reporting not fully implemented yet.**<br>» ESG rating reported upon client request.<br>» First annual impact report for multi asset impact fund published this year. |

1. Barclays Annual Report 2018

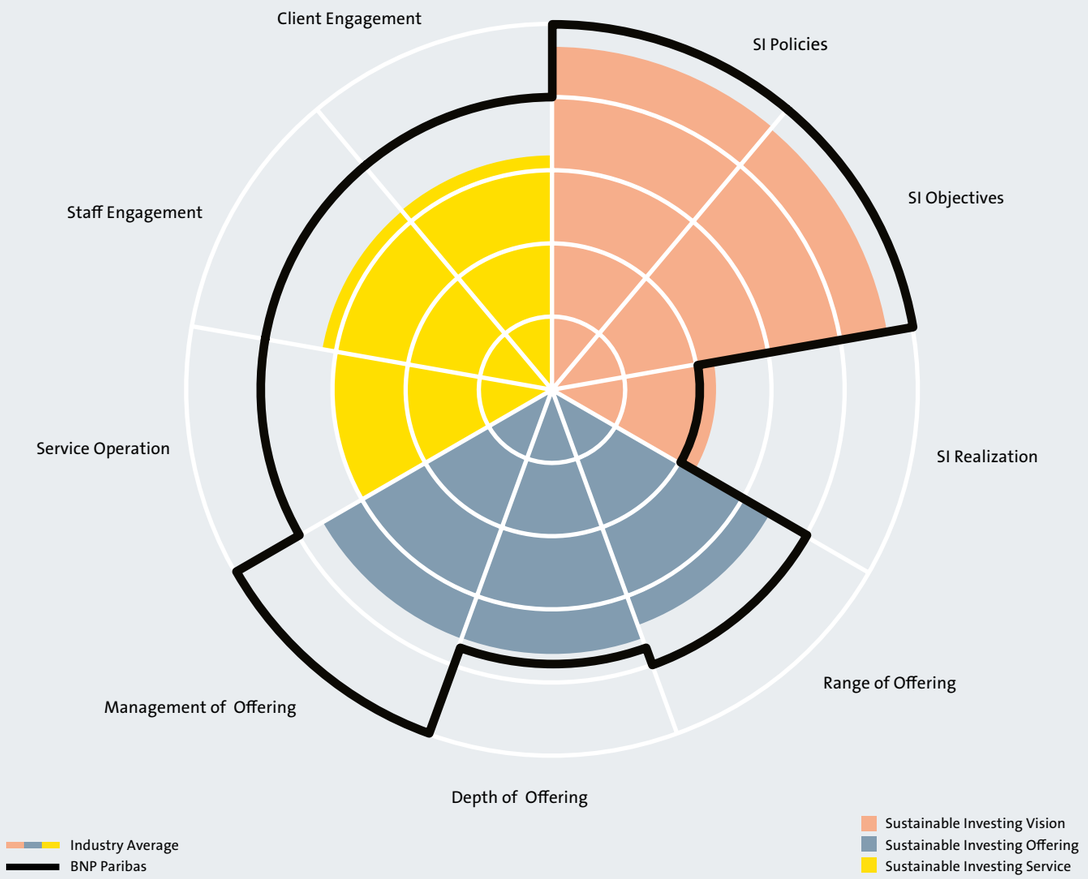
# Bank Profile: **BNP Paribas**

| | |
|---|---|
| HQ | **FR** |
| 2018 AuM WM (USD bn)[1] | **402.30** |
| # of Employees[2] | **192,419** |

BNP PARIBAS

## Sustainable Investing Information

| Exclusion | Best-in-Class | ESG Integration | Active Ownership | Thematic | Impact Investing |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Listed Equity** | **Listed Fixed Income** | **Private Equity/Debt** | **Real Estate** | **Infrastructure** | **Multi-asset** |
| ✓ | ✓ | ✓ | – | – | ✓ |




| | Strengths | Challenges |
|---|---|---|
| **SI Vision** | • **Centralized sustainability team at group level, CSR team, responsible for aligning all divisions.**<br>» Sustainability Committee establishes ESG and sector policies, publicly communicated.<br>» CSR sponsors on each executive committee for implementation.<br>» Group level strategy and objectives publicly communicated.<br>• **Clear strategy and objectives set long term also for wealth management, with group level governance.**<br>• **Explicit top management support.** | • **Ratio of AuM in SI below peer average.** |
| **SI Offering** | • **Industry leading quantity of funds in offering.**<br>» Encompasses all SI approaches.<br>• **Offers discretionary SI mandates, varying by region:**<br>» Fund-focused SRI mandate, single-instrument SRI mandate, single-instrument SDG mandate.<br>» Mandate offered since 2009.<br>• **Introducing minimum SI standards for all mandates, and stricter standards for dedicated SI mandates.**<br>• **Detailed group-wide exclusion policy across several sectors.**<br>» Exclusions linked to companies who do not meet the minimum criteria of the following 7 sector policies: defense, palm oil, wood pulp, nuclear energy, coal fired power generation, agriculture, mining.<br>» Two exclusion policies: tobacco and unconventional oil and gas industry as well as asbestos and drifting nets.<br>• **Comprehensive ESG integration approach:**<br>» Further developed every 2–3 years.<br>» ESG analysis based on multiple data providers and in-house research for all investments.<br>» ESG data integrated into front office tool.<br>• **Efforts to "democratize impact":**<br>» Multiple liquid or semi-liquid impact investing funds (e.g., green bonds, microfinance).<br>» Private equity impact investing funds.<br>• **Fund selection system enables selection based on ESG.**<br>» ESG integration as an important part of due diligence, including aspects of governance and ESG management.<br>» Active ownership an important element.<br>» Engages with excluded fund managers to improve their ESG practices for future inclusion. | • **Impact measurement and reporting limited to footprint data for most products**<br>» Impact creation and positive externalities reporting both to be developed. |
| **SI Service** | • **Interactive tool, myImpact, available to help understand SI preferences of clients.**<br>» Questionnaire regarding knowledge of and preference regarding ESG and SDGs.<br>» Fosters conversations between RM and client on SI.<br>• **Diverse SI training for all employees:**<br>» Group-level 3-day training on sustainability (e.g., financial inclusion, energy transition, impact measurement).<br>» SDG training through e-learning.<br>» 2–3 hours training for wealth management complemented by an equivalent afternoon session on philanthropy.<br>» SI as part of the onboarding process, and also part of RM certification process for some regions.<br>• **Numerous events and educational programs for clients, especially active in Belgium.**<br>• **Client-facing reporting includes ESG rating on a product to be communicated by the RM.** | • **SI preference of clients not fully integrated across all regions yet.**<br>» MyImpact rolled out only in some regions. |

1. BNP Paribas Annual Financial Report 2018
2. BNP Paribas Integrated Report 2018

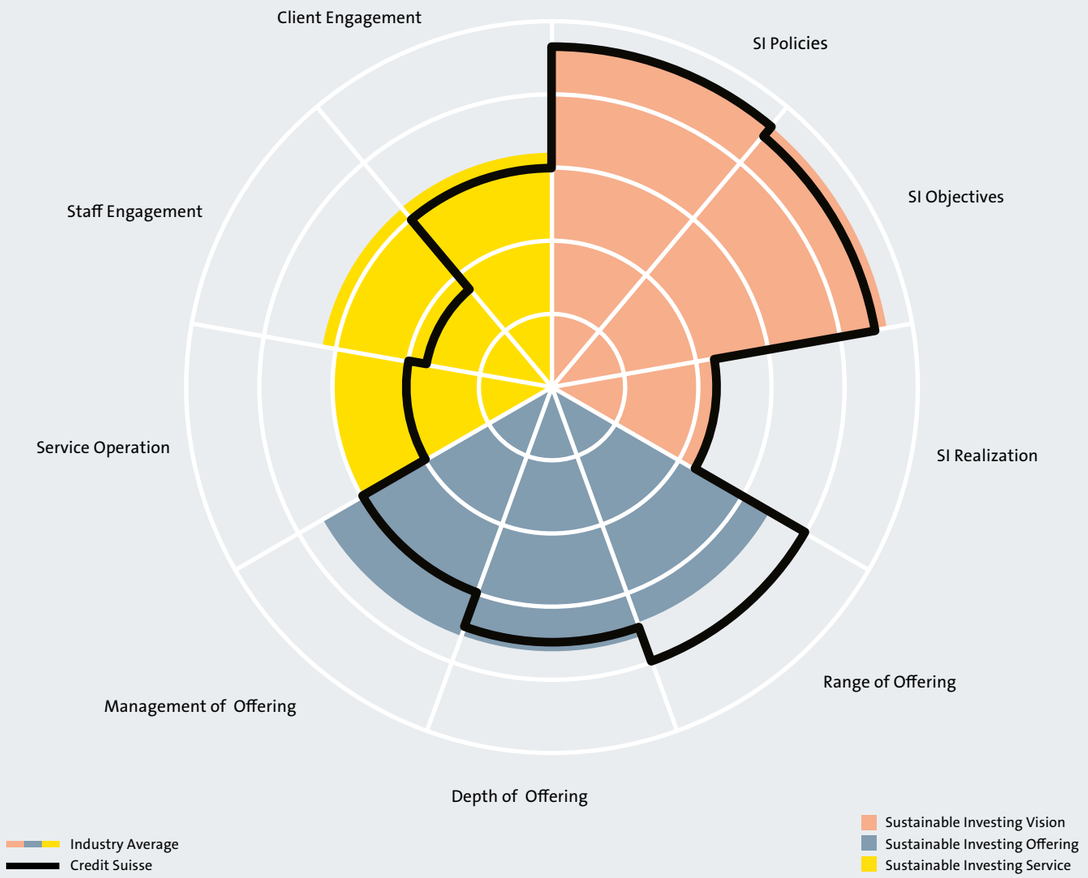
# Bank Profile: **Credit Suisse**

| | |
|---|---|
| HQ | **CH** |
| 2018 AuM WM (USD bn)[1] | **764.00** |
| # of Employees[2] | **45.680** |

## Sustainable Investing Information

| Exclusion | Best-in-Class | ESG Integration | Active Ownership | Thematic | Impact Investing |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

| Listed Equity | Listed Fixed Income | Private Equity/Debt | Real Estate | Infrastructure | Multi-asset |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | ✓ | – | ✓ |




| | Strengths | Challenges |
|---|---|---|
| **SI Vision** | • **Centralized team, Impact Advisory and Finance (IAF) department, reporting directly to group CEO responsible for establishing and driving sustainable finance.**<br>» Sector policies and guidelines established in cooperation with Investment Solutions and Products, and Asset Management.<br>• **Group-level policies established and publicly communicated.** | • **Established SI objectives not publicly communicated.** |
| **SI Offering** | • **Comprehensive range of SI funds in offering:**<br>» Fund offering covers all SI approaches including impact investing.<br>» Covers diverse asset classes including PE/PD and real estate.<br>• **Offers discretionary SI mandates:**<br>» Standard mandate—fund-focused (>250k).<br>» Premium mandate—fund-focused with some customization (>10 m).<br>• **Platinum mandate—full customization.** | • **Limited best-in-class and ESG integration approach.**<br>» Investment selection based on quantitative ESG screening.<br>• **Voting service for single instruments only for institutional clients, not private clients.** |
| **SI Service** | • **SI training session as part of the onboarding of new RMs.**<br>• **Client education and engagement through workshops on SI and themes, as well as newsletters and white papers.**<br>• **Client-facing reporting includes ESG rating on product and portfolio level, controversies rating, and business involvement.**<br>» Carbon metrics are in development and soon to be launched.<br>• **Carried out upon request.** | • **SI preferences of clients not yet integrated into client onboarding or ongoing conversations.**<br>» Planned to be integrated in 2020.<br>• **No mandatory SI training or workshops for employees, including RMs and advisors.** |

1. Scorpio Partnership Global Private Banking Benchmark 2017
2. Credit Suisse Company Profile 2016

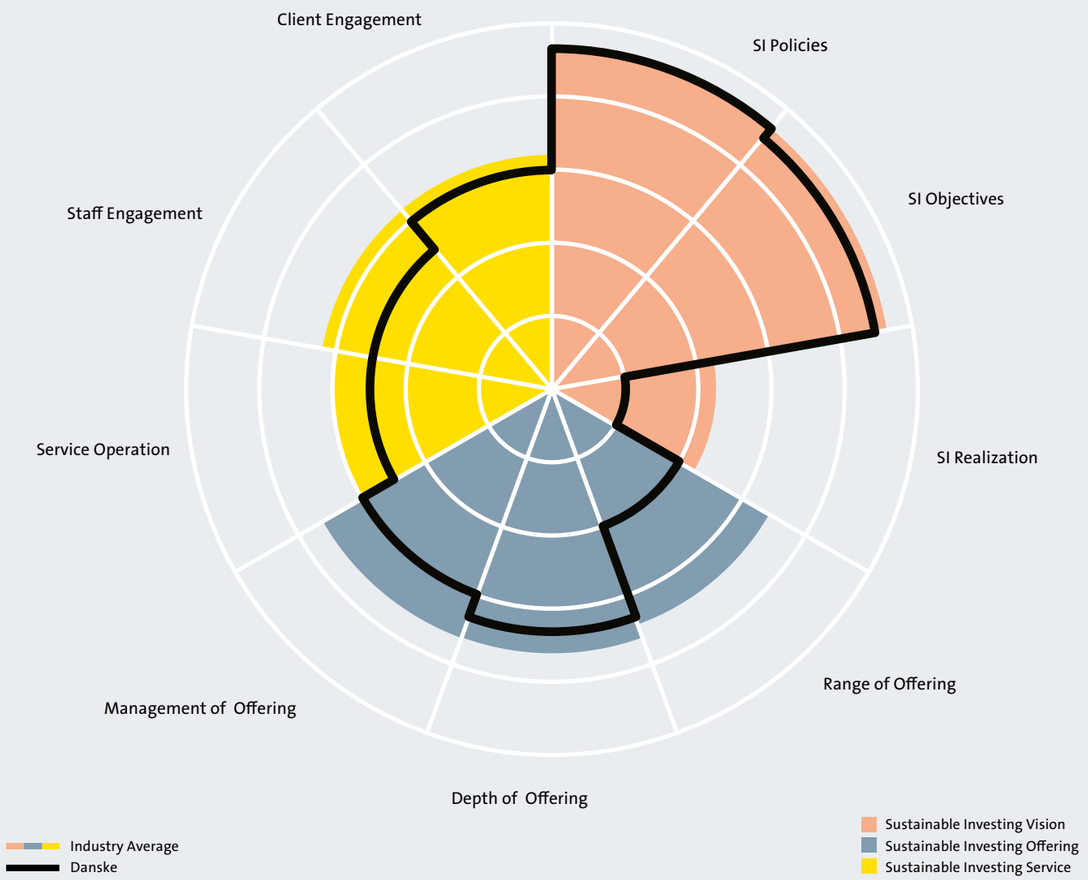
# Bank Profile: **Danske Bank**

| | |
|---|---|
| HQ | **DK** |
| 2018 AuM WM (USD bn)[1] | **234.79** |
| # of Employees[2] | **20,683** |

## Sustainable Investing Information

| Exclusion | Best-in-Class | ESG Integration | Active Ownership | Thematic | Impact Investing |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

| Listed Equity | Listed Fixed Income | Private Equity/Debt | Real Estate | Infrastructure | Multi-asset |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | – | – | ✓ |




| | Strengths | Challenges |
|---|---|---|
| **SI Vision** | • **Sustainability Committee to govern sustainable finance initiatives.**<br>» Consists of representatives from asset management, wealth management, and group communication.<br>• **ESG Integration Council within wealth management driving implementation on operational level:**<br>» Consists of heads of strategies and investment teams.<br>» Discusses ESG materiality and investment policies and guidelines.<br>• **Transparency on ESG integration process, and group-wide ESG and sector guidelines.** | |
| **SI Offering** | • **Group-wide exclusion of controversial weapons, tar sands, and thermal coal (>30%).**<br>• **ESG analysis available for all investment research (listed equity, fixed income, mandates) in private banking.**<br>» Targeting ESG integration by all analysts by 2020.<br>» Analysis based on nine ESG data providers.<br>• **ESG and active ownership as part of all fund due diligence.** | • **No dedicated SI discretionary mandate.**<br>• **No voting service for single instruments.**<br>• **Fund ESG mapping is still in process.** |
| **SI Service** | • **Training on ESG integration aspects (e.g., ESG data platform, materiality framework, engagement, and voting).**<br>• **Quarterly workshop and product sessions for clients, in addition to white papers.**<br>• **Voting and engagement report and carbon footprint report available on the group level.** | • **No mandatory SI training for client-facing employees.**<br>» Below peer average ratio of advisors that are trained and qualified to advise on SI.<br>• **SI preferences not yet integrated into the client onboarding process.**<br>» ESG integration mentioned as part of Danske's offering.<br>• **Limited client-facing reporting.**<br>» Currently limited to ESG rating on the portfolio and product level only upon request. |

1. Danske Bank Group Annual Report 2018
2. Danske Bank Group Annual Report 2018

* Information regarding SI Realization (ratio and growth of AuM in SI) has not been disclosed and is not reflected in the Capabilities Map

# Bank Profile: **Deutsche Bank**

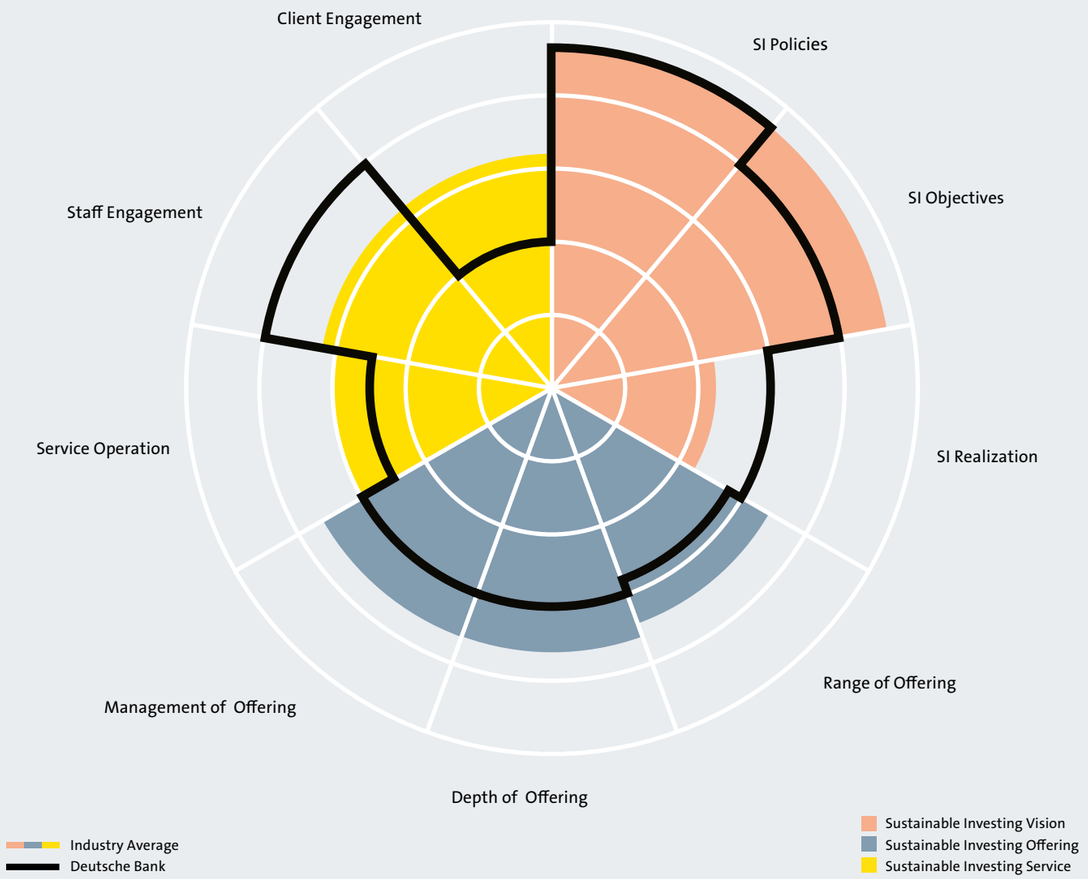
| | |
|---|---|
| HQ | **DE** |
| 2018 AuM WM (USD bn) | **233.58** |
| # of Employees[1] | **91.737** |

Deutsche Bank

## Sustainable Investing Information

| Exclusion | Best-in-Class | ESG Integration | Active Ownership | Thematic | Impact Investing |
|---|---|---|---|---|---|
| – | ✓ | ✓ | ✓ | ✓ | ✓ |

| Listed Equity | Listed Fixed Income | Private Equity/Debt | Real Estate | Infrastructure | Multi-asset |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | – | – | ✓ |




| | Strengths | Challenges |
|---|---|---|
| **SI Vision** | • **Centralized sustainability team on the group level—Deutsche Bank Group Sustainability.**<br>» Alignment and consistency of sustainable finance strategy across divisions.<br>» High level of transparency on strategy and objectives.<br>» Implementation through relevant divisions (e.g., wealth management CIO responsible for ESG integration in WM).<br>• **ESG and sector policies established by CIO.**<br>» Input from Regulatory Affairs and COO department on the regulatory side.<br>» Input from CIO's research as a basis for policies.<br>• **High level of transparency on policies, publicly communicated.**<br>• **Fast growing momentum of AuM in SI.** | • **Low ratio of AuM in SI.** |
| **SI Offering** | • **Offers a discretionary sustainable investing mandate:**<br>» Standard mandate—fund-focused, 100% ESG compliant based on MSCI.<br>» Tailor-made mandate—single instruments.<br>• **ESG integration for sustainable investing for 10+ years.**<br>» ESG analysis based on multiple data providers for both discretionary and advisory mandates. | • **Limited SI funds offering.**<br>» Below peer average quantity of SI funds offering.<br>• **No voting services for single equities directly held in portfolio.**<br>• **Limited impact investing offering.**<br>» Offers green bonds. |
| **SI Service** | • **Several training offerings for staff on sustainable investing in place.**<br>» Online trainings on sustainable investing.<br>» MSCI ESG ratings platform training mandatory for all relevant employees.<br>» ESG training including evaluation and integration of ESG for product specialists, portfolio managers, and advisors in Germany.<br>» Cooperation with external providers such as Candriam SRI Academy and the European Federation of Financial Analysts Societies (EFFAS).<br>• **Workshops and white papers on sustainable investing for client education and engagement.** | • **Ratio of trained and qualified RMs to advise on SI not tracked.**<br>• **SI not fully integrated into the client onboarding or advisory process.**<br>• **Lack of client-facing reporting on non-financial factors (e.g., ESG rating on portfolio and product level, ESG footprint, case studies).** |

1. Deutsche Bank Annual Report 2018

# Bank Profile: **Edmond de Rotschild**

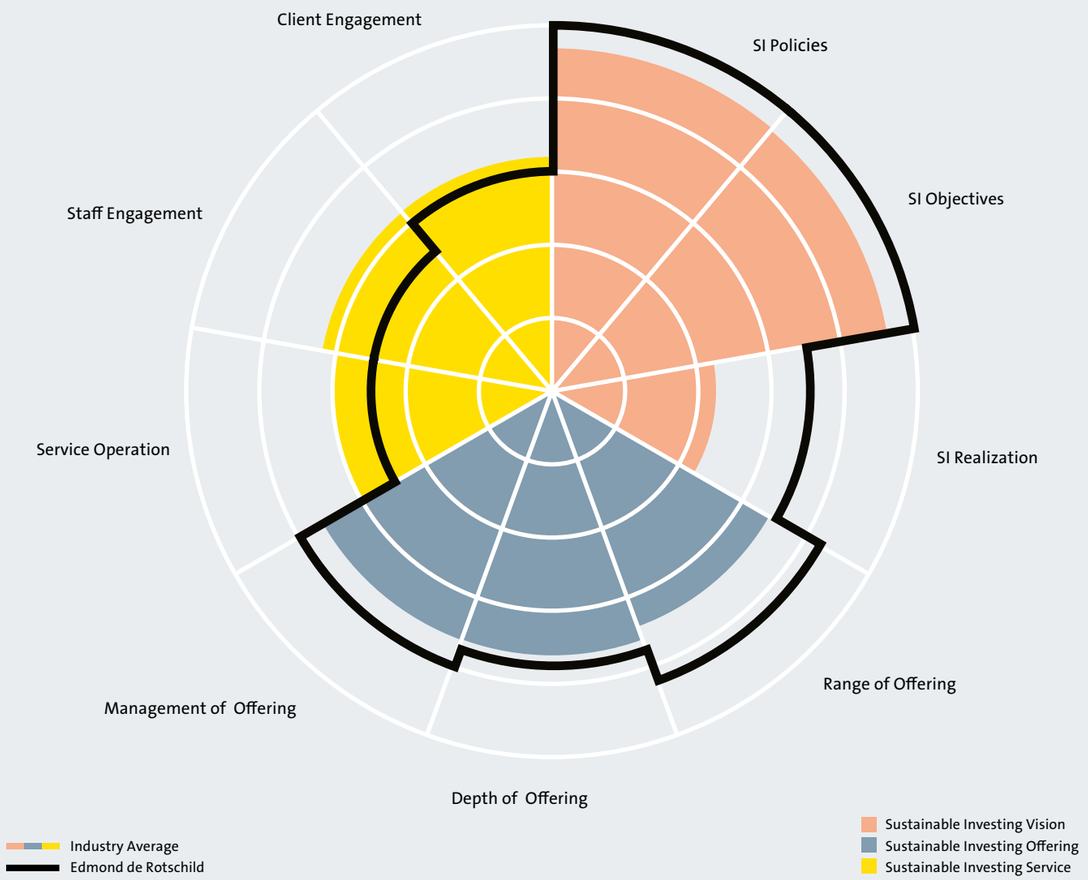
| | |
|---|---|
| HQ | **CH** |
| 2018 AuM WM (USD bn) | **n/a** |
| # of Employees[1] | **2,558** |

EDMOND DE ROTHSCHILD

## Sustainable Investing Information

| Exclusion | Best-in-Class | ESG Integration | Active Ownership | Thematic | Impact Investing |
|---|---|---|---|---|---|
| ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |

| Listed Equity | Listed Fixed Income | Private Equity/Debt | Real Estate | Infrastructure | Multi-asset |
|---|---|---|---|---|---|
| ✔ | ✔ | ✔ | ✔ | ✔ | ✔ |




| | Strengths | Challenges |
|---|---|---|
| **SI Vision** | • **Sustainable investing objectives and guidelines established and governed by a group-level team.**<br>• **All key SI policies (e.g., group-wide, sector, asset class) established and publicly communicated.**<br>• **High level of transparency regarding SI objectives and targets.**<br>• **Strong and explicit top management endorsement.**<br>• **Above average ratio of AuM in SI, growing at a fast rate.** | |
| **SI Offering** | • **Offers a discretionary SI mandate.**<br>• **Broad range of SI funds.**<br>» Covers all SI approaches including impact investing.<br>» Covers all asset classes including PE/PD, real estate, and infrastructure.<br>» In-house fund offering for PE (93% of all assets with ESG integration; 13% considered as impact investing).<br>• **In-house fund offering for real estate and infrastructure with full ESG integration.**<br>• **ESG integration for most investment research (European and US equities, fixed income, and funds).**<br>» Best-in-class, best-in-universe, and best effort approach for selection.<br>» ESG questionnaire as mandatory for all fund due diligence.<br>• **Formalized voting and engagement for all in-house funds and in-depth engagement for specified active ownership funds.** | • **No voting services for single equities held directly in the portfolio.** |
| **SI Service** | • **Dedicated and detailed SI training developed into e-learning specifically for relationship managers.**<br>» 2-year development process.<br>» Available to the general public, all Group's employees, and all SSF members.<br>• **Tools (e.g., client value mapping, presentation, educational publication for RMs) to support RMs in client engagement.**<br>• **Client-facing reporting includes ESG rating on product and portfolio level and KPIs for in-house SI funds.** | • **SI not yet fully integrated into the client onboarding process.**<br>• **No mandatory SI training for the Group to respond to limited coverage of trained RMs.**<br>• **Regular educational events or workshops for clients.** |

1. Edmond de Rothschild Annual Report 2018

# Bank Profile: **Globalance**

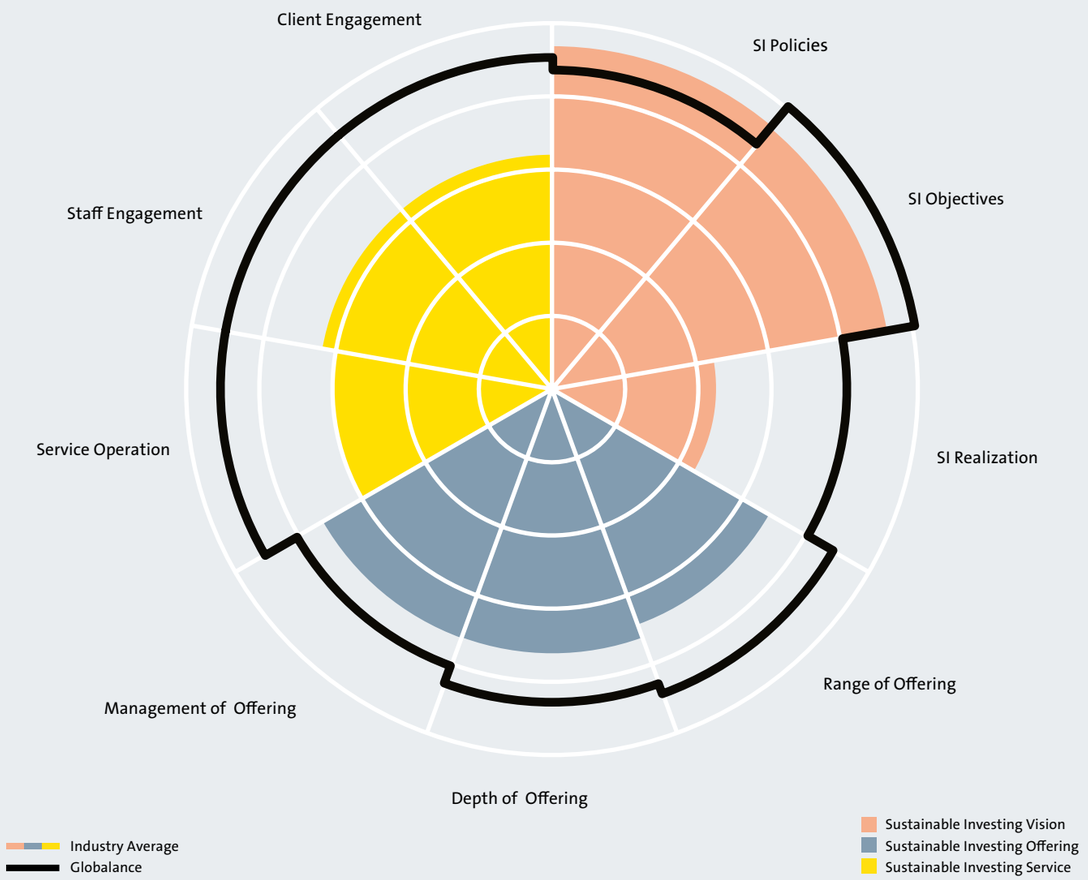
| | |
|---|---|
| HQ | **CH** |
| 2018 AuM WM (USD bn) | **n/a** |
| # of Employees[2] | **n/a** |

Swiss banking with a mission
GlobalanceBank

## Sustainable Investing Information

| Exclusion | Best-in-Class | ESG Integration | Active Ownership | Thematic | Impact Investing |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

| Listed Equity | Listed Fixed Income | Private Equity/Debt | Real Estate | Infrastructure | Multi-asset |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |




| | Strengths | Challenges |
|---|---|---|
| **SI Vision** | • **Pure player private bank, founded with the mission to promote sustainable investing.**<br>» Sustainable investing integrated into all aspects of strategy and objective setting.<br>» Strong and explicit top management endorsement.<br>• **Key policies (e.g., sector policies, ESG guidelines) established.** | • **Low level of public communication (documents available only upon request and through meetings).** |
| **SI Offering** | • **Above average quantity of SI fund offerings.**<br>» Covers all SI approaches and asset classes.<br>• **Offers multiple SI discretionary mandates:**<br>» Standard—fully ESG integrated portfolio, fund, and single instrument mix.<br>» Megatrend Strategy—based on proprietary Megatrend Footprint Exposure Model and its eight identified megatrends.<br>» 2-Degree Climate Portfolio—based on 2-degree alignment in collaboration with Carbon Delta.<br>• **ESG integration for all investment research.**<br>» ESG integration is a key capability of the bank.<br>» Proprietary ESG research based on multiple raw data sources (e.g., OECD, WHO, IAE, World Bank).<br>» Clear selection policy and stringent process.<br>• **Active ownership for Swiss and global equities.**<br>» Engagement with companies on better product impact disclosure and data quality.<br>» Proxy-voting system allowing voting for all global equities.<br>• **Offers liquid impact investing (e.g., green bonds, microfinance).**<br>» For illiquid impact investing possibilities, collaborates with external specialists. | • **Limited depth of engagement due to lack of resources and scale.** |
| **SI Service** | • **SI preference of client integrated into client onboarding and ongoing conversations.**<br>» Part of client profiling.<br>• **Formal and informal training on SI for all employees.**<br>• **Client education and engagement through monthly workshops on sustainable investing and themes, in addition to newsletters, blogs, and white papers.**<br>• **Globalance Footprint tool for client-facing reporting and engagement.**<br>» Provides ESG data and product/service-level impact for all investments.<br>» Web-based and interactive tool, applied to entire portfolio. | |

# Bank Profile: **J. Safra Sarasin**

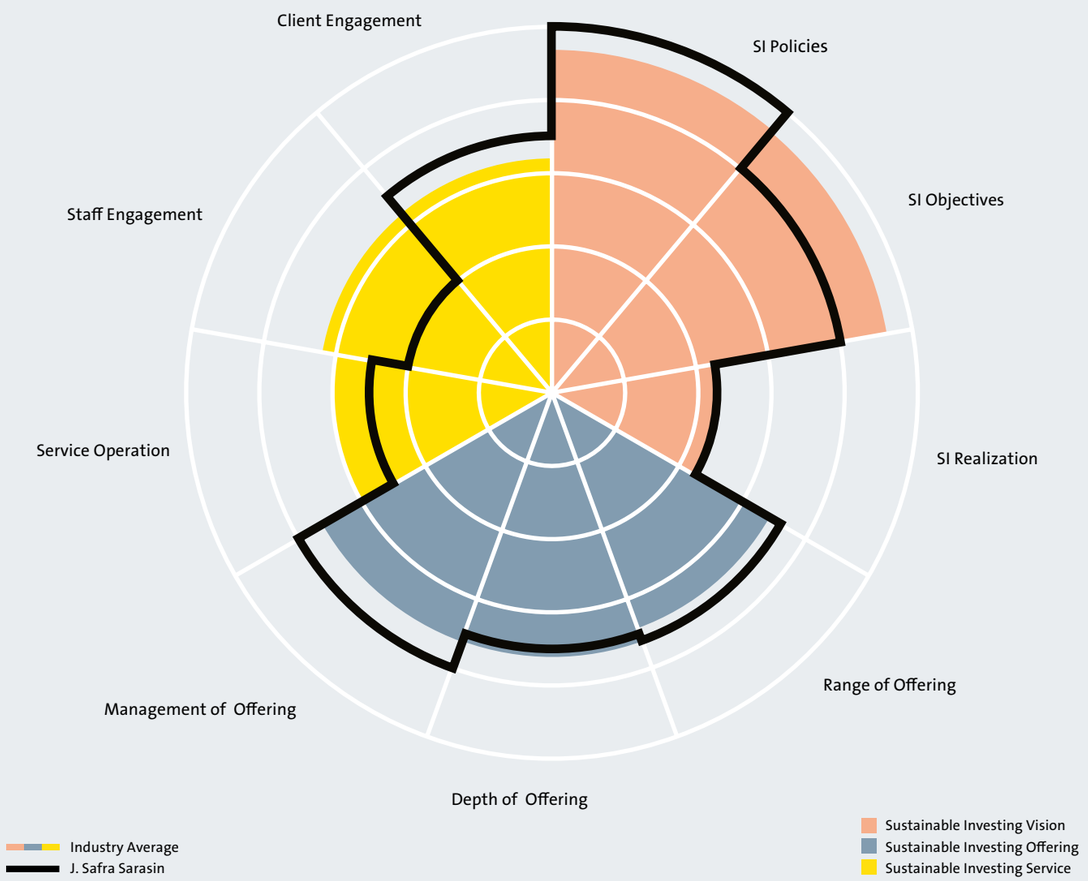
| | |
|---|---|
| HQ | **CH** |
| 2018 AuM WM (USD bn) | **166,946** |
| # of Employees[1] | **2,151** |

J. SAFRA SARASIN
Sustainable Swiss Private Banking since 1841

## Sustainable Investing Information

| Exclusion | Best-in-Class | ESG Integration | Active Ownership | Thematic | Impact Investing |
|---|---|---|---|---|---|
| ✔ | ✔ | ✔ | ✔ | ✔ | – |

| Listed Equity | Listed Fixed Income | Private Equity/Debt | Real Estate | Infrastructure | Multi-asset |
|---|---|---|---|---|---|
| ✔ | ✔ | – | ✔ | – | ✔ |




| | Strengths | Challenges |
|---|---|---|
| **SI Vision** | • **Corporate Sustainability Board in charge of establishing SI policies and objectives:**<br>» Consists of executive committee and top managers from all divisions<br>» Responsible for governance of SI implementation.<br>• **High level of transparency on SI policies (e.g., ESG guidelines, sector policies).**<br>• **Clearly defined SI objectives for implementation.**<br>• **SI as part of the brand identity.** | • **Low growth rate of AuM in SI.** |
| **SI Offering** | • **Offers discretionary SI mandates:**<br>» Classic Sustainable—single instruments.<br>» Pure Sustainable—mix of single instruments and funds.<br>» Premium Sustainable—full customization.<br>» All mandates available with defensive, balanced, dynamic strategies.<br>• **A number of dedicated SI research teams supporting SI advisory mandate.**<br>• **Sophisticated ESG integration process for SI research across asset classes.**<br>» Proprietary and patented Sustainability Matrix as basis for ESG analysis.<br>» Sustainability analysis combined with financial analysis to further identify ESG risk and opportunities.<br>» Sustainability parameters used on the portfolio level for monitoring risk.<br>• **All in-house SI funds have formalized engagement processes in place, executed in-house.**<br>• **Systemic ESG integration into external fund research process.** | • **Limited impact investing offerings:**<br>» Impact investing limited to green bonds.<br>» No private equity/debt products offered. |
| **SI Service** | • **Multiple events and roadshows for client engagement.**<br>» Close to 100 events per year.<br>» Sustainability related publications.<br>» Sustainability analysts present in client meetings.<br>» New sustainability section on website.<br>• **Client-facing reporting includes ESG rating on product and portfolio level, ESG risks, carbon footprint and its drivers, key themes of the portfolio, and impact of products and services when relevant and available.** | • **Limited integration of SI into client onboarding process.**<br>• **No mandatory SI training for RMs and advisors.**<br>» Mandatory training only for new employees.<br>» In form of product sessions and videos.<br>» Currently under development. |

1. J. Safra Sarasin Annual Report 2016

# Bank Profile: **Julius Baer**

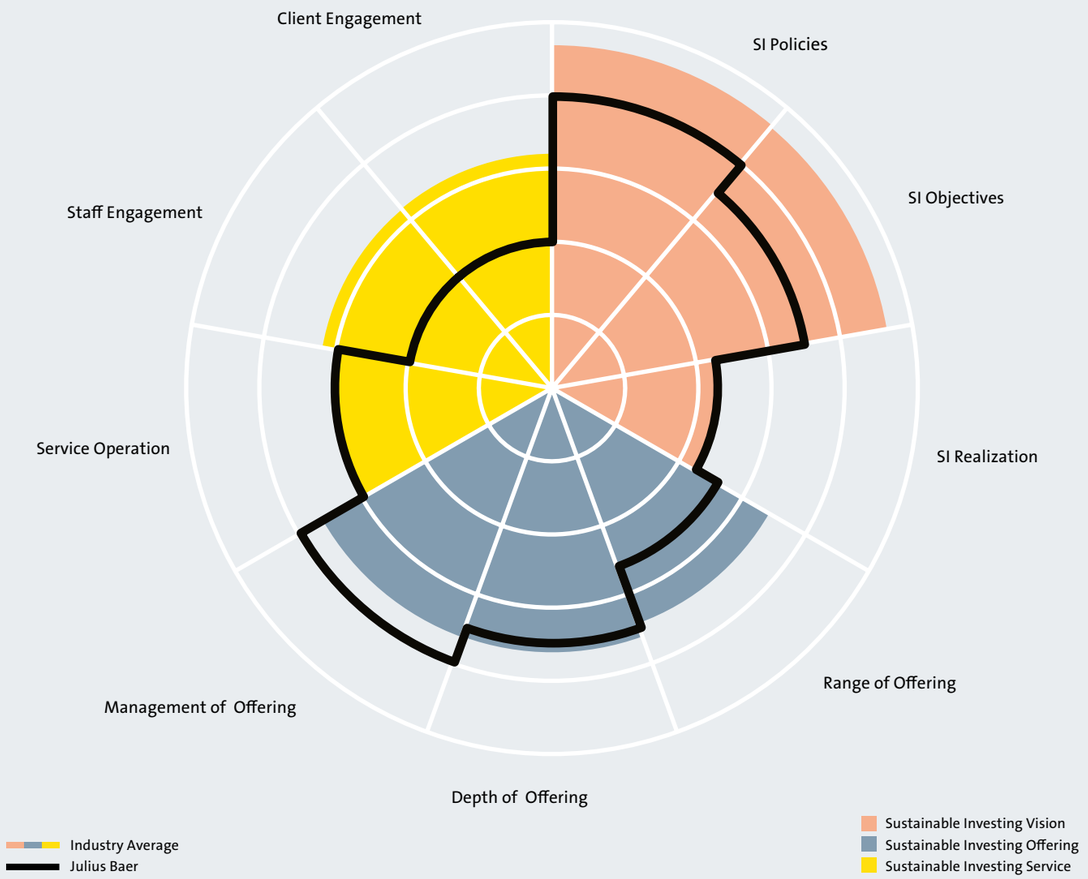
| | |
|---|---|
| HQ | CH |
| 2018 AuM WM (USD bn)[1] | 379,2 |
| # of Employees[2] | 6,693 |

Julius Bär

## Sustainable Investing Information

| Exclusion | Best-in-Class | ESG Integration | Active Ownership | Thematic | Impact Investing |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | – | ✓ | ✓ |

| Listed Equity | Listed Fixed Income | Private Equity/Debt | Real Estate | Infrastructure | Multi-asset |
|---|---|---|---|---|---|
| ✓ | ✓ | – | ✓ | – | ✓ |




1. Julius Baer Business Review 2018
2. Julius Baer Business Review 2018

| | Strengths | Challenges |
|---|---|---|
| **SI Vision** | • **Centralized sustainability team in charge of oversight and alignment of corporate responsibility and sustainable investing.**<br>• **Sustainability board consisting of executives leading operational issues relevant for sustainable investing.**<br>• **Above average growth momentum of AuM in sustainable investing.** | • **Sustainable investing targets not externally communicated.** |
| **SI Offering** | • **Offers discretionary sustainable investing mandate, a multi-asset mandate with 10–12 sustainability themes.**<br>» Early mover in offering discretionary mandate (since 2006).<br>» Customizable according to client interest when above certain asset size.<br>• **ESG analysis included in all investment research for equity and fixed income.**<br>» ESG and controversy rating provided by MSCI.<br>• **Internal ESG fund rating based on material ESG factors and investment process and fund strategy, which includes topics such as active ownership (since 2015).**<br>• **Research conducted by a specialist team focusing on ESG mandates.** | • **Basic exclusion policies for discretionary SI mandate:**<br>» Controversial weapons, nuclear sectors (mining, energy, etc.), human rights.<br>• **ESG analysis more used as a screening approach.**<br>• **No voting service for single instruments.** |
| **SI Service** | • **Multiple events and client conferences for clients interested in SI.**<br>• **Regular publications related to SI.** | • **No mandatory SI training.**<br>» Basic e-learning on ESG integration on a voluntary basis.<br>• **No tracking of trained and qualified relationship managers to advise on SI.**<br>• **No extra-financial reporting on sustainability issues for clients and their investments at this moment.** |

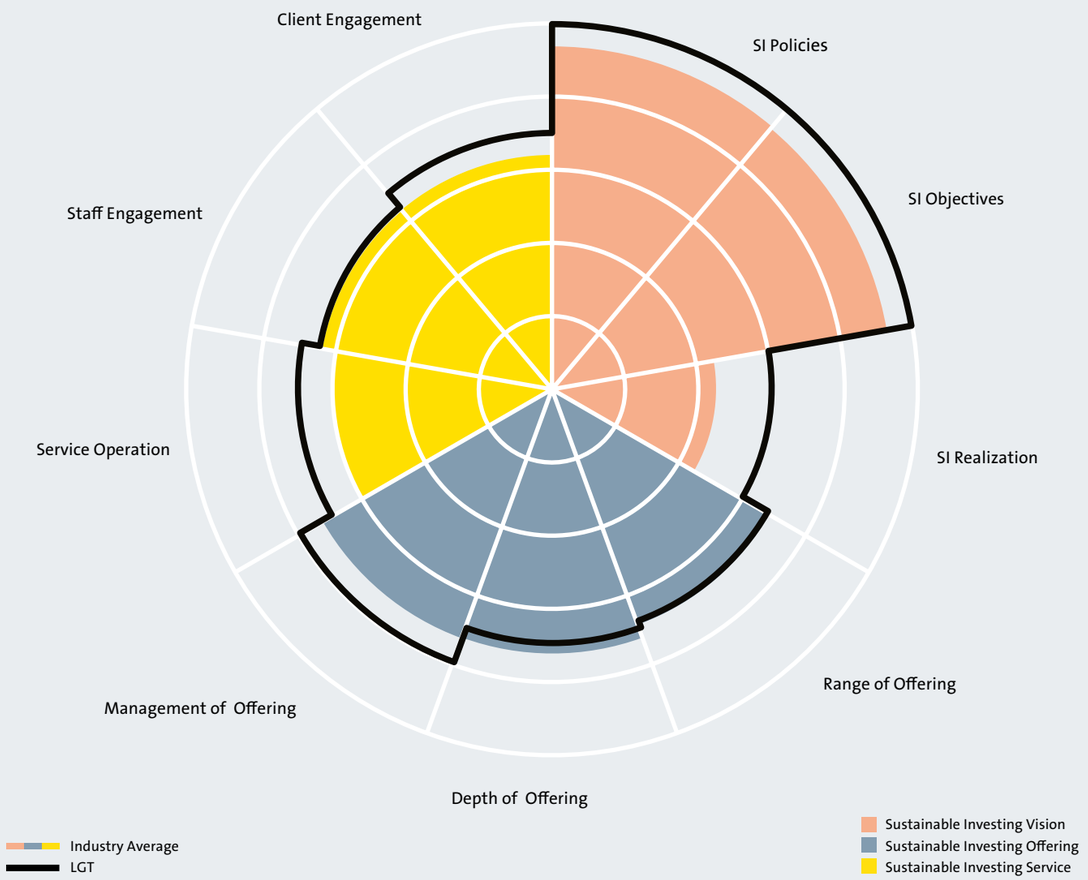
# Bank Profile: **LGT**

| | |
|---|---|
| HQ | **CH** |
| 2018 AuM WM (USD bn) | **n/a** |
| # of Employees[1] | **3,405** |

## Sustainable Investing Information

| Exclusion | Best-in-Class | ESG Integration | Active Ownership | Thematic | Impact Investing |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

| Listed Equity | Listed Fixed Income | Private Equity/Debt | Real Estate | Infrastructure | Multi-asset |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | – | – | ✓ |




| | Strengths | Challenges |
|---|---|---|
| **SI Vision** | • **Group-level sustainability strategy established by CEO and senior management, and publicly communicated.**<br>• **Strong and explicit top management endorsement.**<br>• **Separate Sustainability Think Tank responsible for establishing and implementing SI guidelines.**<br>• **High level of transparency: all key SI policies (e.g., group-wide, ESG guideline) publicly communicated.**<br>• **Above average ratio of AuM in SI.** | • **Sustainable investing targets not externally communicated.** |
| **SI Offering** | • **Offers a discretionary sustainable investing mandate:**<br>» Standard mandate—single instrument and fund mix (>1 m).<br>» Customized mandate—single instruments and customized above a certain asset size.<br>• **Strong ESG integration in place.**<br>» ESG integration for all equity investments (not only SI).<br>» Proprietary ESG rating.<br>• **In-house impact investing organization LGT Lighthouse.**<br>» Launch of an in-house PD fund in 2018.<br>» Plan to extend offerings in PE impact space.<br>• **Rigorous external fund selection and communication on ESG.**<br>» Reporting on ESG integration for external AMs including hedge funds. | • **Limited range of offering in terms of asset classes and SI approaches.**<br>» Products mainly in listed equity and fixed income.<br>» Organizational efforts being made to extend offering for impact-driven strategies (e.g., onboarding of green bond fund).<br>• **No voting service for single instruments.** |
| **SI Service** | • **SI aspect (environmental, social, and reputation check) as part of "know your client" (KYC) process.**<br>• **Dedicated SI training to become mandatory for all employees.**<br>» RMs and investment advisors required to pass a test.<br>» Additionally offers advanced trainings—modules on client onboarding and profiling, constructing an ESG portfolio, and available tools.<br>• **Several educational events (e.g., NextGen Academy) as well as articles and white papers to educate and engage clients.**<br>• **LGT Sustainability Rating for client-facing reporting.**<br>» ESG rating and footprint data (e.g., carbon footprint) on product and portfolio level. | • **Limited coverage of RMs and advisors qualified to advise clients on SI.**<br>» Training and qualification process in rollout phase. |

1. Portrait LGT 2018

# Bank Profile: **Lombard Odier**

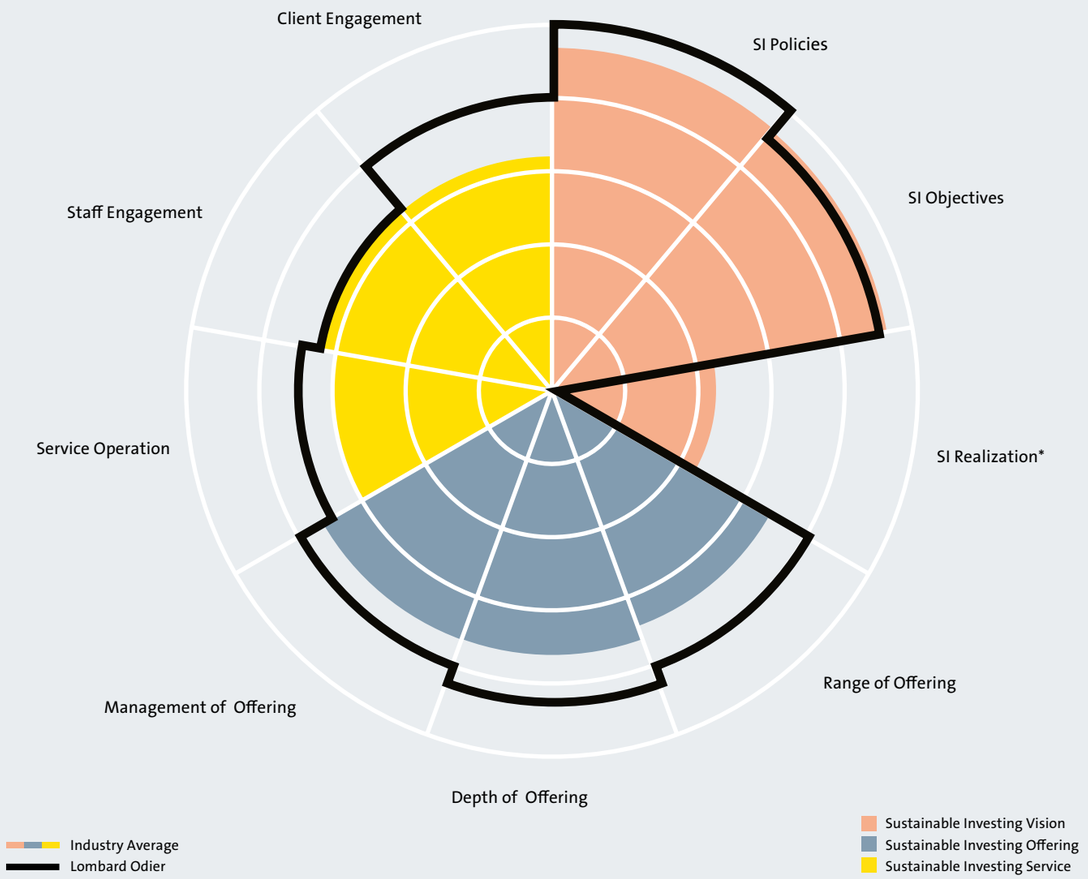
| | |
|---|---|
| HQ | **CH** |
| 2018 AuM WM (USD bn) | **N/A** |
| # of Employees[1] | **2,294** |

LOMBARD ODIER
LOMBARD ODIER DARIER HENTSCH

## Sustainable Investing Information

| Exclusion | Best-in-Class | ESG Integration | Active Ownership | Thematic | Impact Investing |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

| Listed Equity | Listed Fixed Income | Private Equity/Debt | Real Estate | Infrastructure | Multi-asset |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | – | – | – |




| | Strengths | Challenges |
|---|---|---|
| **SI Vision** | • **Top management (partners and heads of divisions) have established clear objectives to implement SI throughout the organization.**<br>» Strong and explicit top management endorsement.<br>• **Centralized Sustainable and Impact Investment Committee in charge of daily implementation.**<br>» High level of transparency regarding SI policies and investment process (all publicly available).<br>» Clear internal objectives and cross-divisional correspondence. | • **SI objectives not published.** |
| **SI Offering** | • **Offers a discretionary SI mandate:**<br>» Standard, fund, and single-instrument mixed mandate (>3 m).<br>» Customized mandate (>10 m).<br>» Substitutes traditional alternatives with appropriate development and climate finance products—high-impact portfolio.<br>» In-house capabilities for full customization.<br>• **Broad range of SI approaches and asset classes for funds.**<br>» Covers all SI approaches including impact investing.<br>» Includes diverse asset classes including private debt, hedge fund, and convertible.<br>• **Best-in-class and ESG integration approach applied to most products and not just dedicated SI:**<br>» Applied to equity and fixed income, being rolled out to fund selection as well.<br>» Based on unique, proprietary ESG rating system (ESG-CAR) of tracking change and results, not only footprint.<br>» ESG research built on multiple data providers including public organizations.<br>• **Innovative thematic and impact investing offering.**<br>» Close partnerships to develop private market products (e.g., Blue Orchard, the Global Fund). | • **Industry average quantity of dedicated SI funds.**<br>• **Discretionary mandate accessible only with a certain asset size.**<br>• **No voting service for single instruments.** |
| **SI Service** | • **SI preferences integrated into the client onboarding and ongoing conversations.**<br>» Detailed preferences on values and thematic (SDG) level.<br>• **Mandatory SI training for all employees in different formats for RMs, investment solutions, as well as independent asset managers.**<br>• **Client engagement through SI workshops, product sessions (upon request), and written material such as blogs and white papers.**<br>• **Client-facing reporting is based on proprietary ESG-CAR methodology as well as SDG mapping.**<br>» Includes ESG rating and analysis (e.g., carbon intensity, water intensity) applicable for all products and portfolios.<br>» SDG mapping based on business practices (not products and services). | • **Coverage of RMs trained and qualified to advise on SI below peer average.**<br>» Training still in the rollout phase. |

1. Lombard Odier Annual Report 2018
* Information regarding SI Realization (ratio and growth of AuM in SI) has not been disclosed and is not reflected in the Capabilities Map

# Bank Profile: **Pictet Wealth Management**

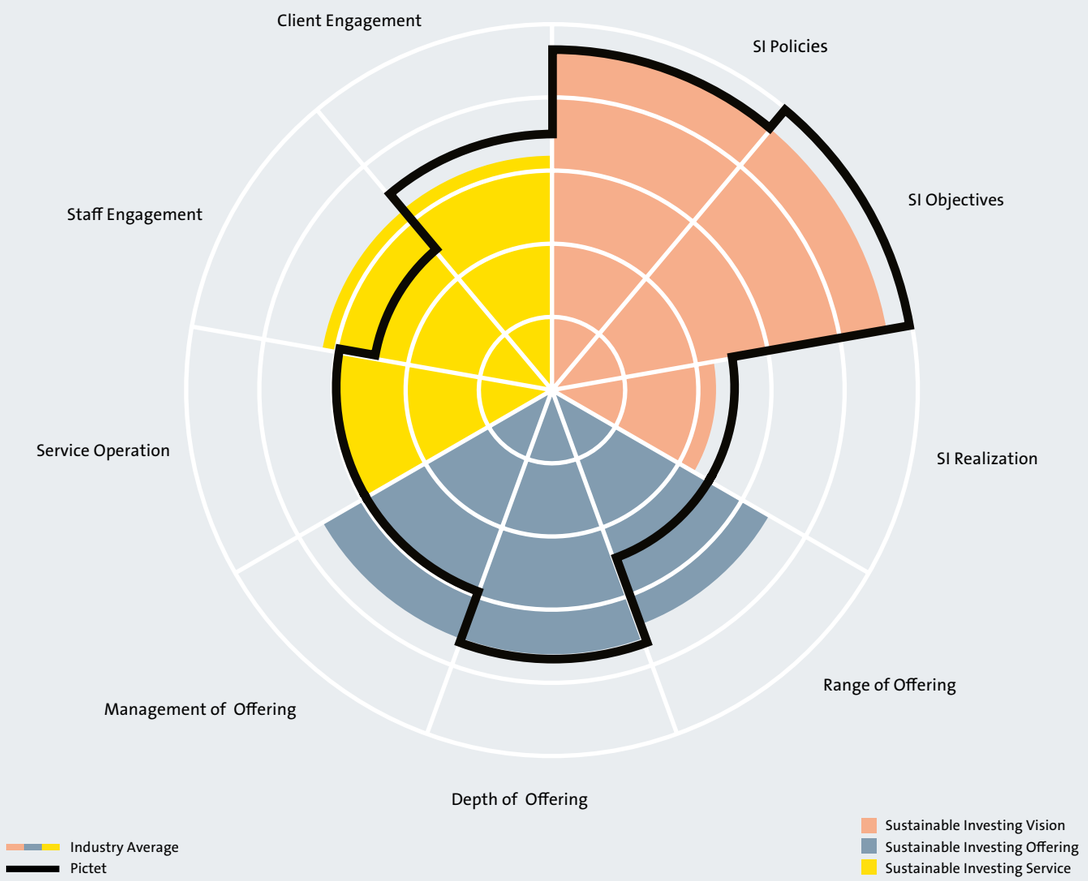
| | |
|---|---|
| HQ | CH |
| 2018 AuM WM (USD bn)[1] | 214.08 |
| # of Employees[2] | 4,358 |

PICTET 1805

## Sustainable Investing Information

| Exclusion | Best-in-Class | ESG Integration | Active Ownership | Thematic | Impact Investing |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

| Listed Equity | Listed Fixed Income | Private Equity/Debt | Real Estate | Infrastructure | Multi-asset |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | ✓ | – | ✓ |




| | Strengths | Challenges |
|---|---|---|
| **SI Vision** | • **Centralized group-level sustainability board in charge of oversight and alignment of the sustainable investing strategy.**<br>» Sustainability board consisting of experts from all business areas, including asset management, wealth management, logistics, CSR.<br>• **Clear objectives set to implement sustainable investing.**<br>• **Above average growth momentum of AuM in sustainable investing.** | • **Some key policy documents (e.g., sector and ESG guidelines) are not communicated publicly.**<br>• **Basic exclusion policies: Controversial weapons.** |
| **SI Offering** | • **Offers a fund-focused discretionary sustainable investing mandate.**<br>» Combines SI approaches such as screening, ESG integration, thematic, and impact investing (through microfinance).<br>» In-house capabilities for full customization.<br>• **ESG integration and active ownership are fully integrated into fund due diligence process (equity, FI, alternatives).**<br>» Fund portfolio gets screened on underlying level for quality control. | • **SI covering mainly public equity and public fixed income.**<br>• **Voting service for single instruments on client request.**<br>• **ESG data/reports available to all analysts but not yet systematically and fully integrated.** |
| **SI Service** | • **Mandatory SI training for new joiners and deep dive sessions for analysts on sector and industry specific topics.**<br>• **Client education and engagement through:**<br>» SI sessions in all our key client events.<br>» Publication on specific thematic.<br>• **Client-facing reporting with ESG ratings for the RI offering.** | • **No mandatory SI training for RMs but workshop on RI products.**<br>• **SI preferences will be part of the client onboarding process in the course of 2020.** |

1. Pictet Group Annual Review 2018
2. Pictet Group Annual Review 2018

# Bank Profile: **Triodos**

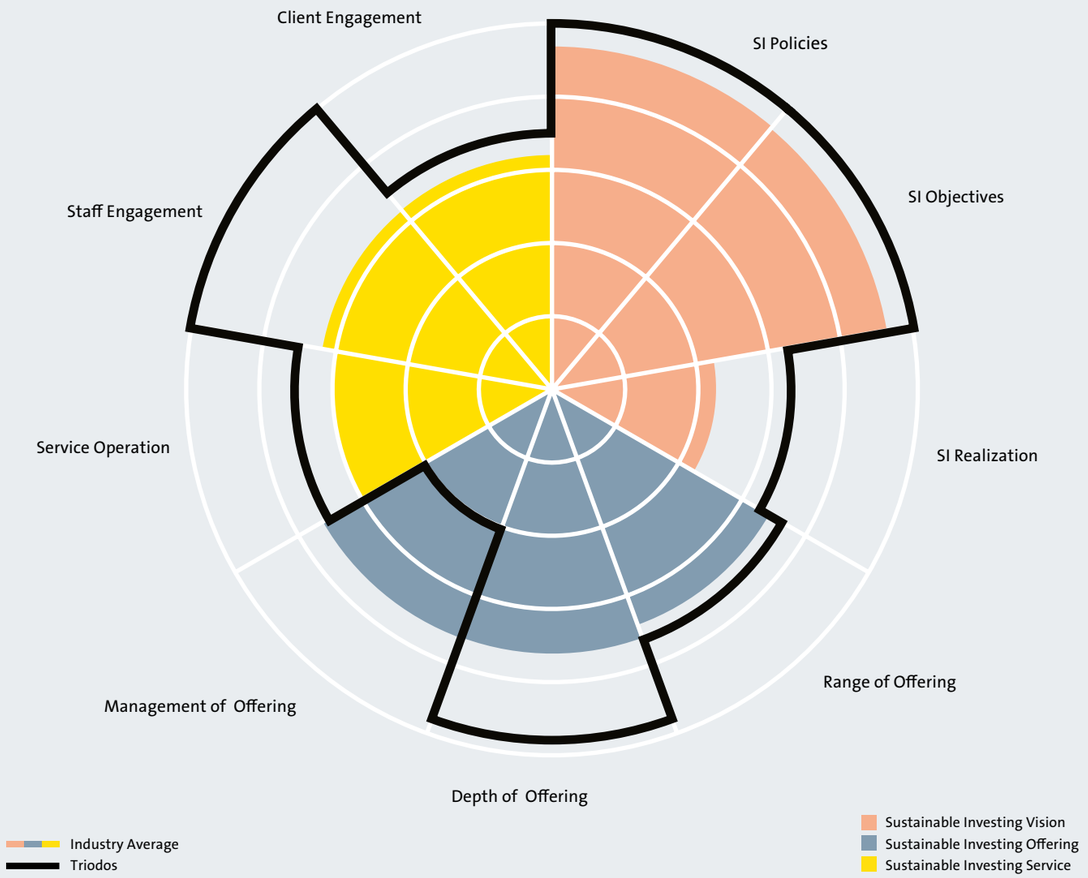
| | |
|---|---|
| HQ | **NL** |
| 2018 AuM WM (USD bn)[1] | **4.20** |
| # of Employees[2] | **1,317** |

Triodos Bank

## Sustainable Investing Information

| Exclusion | Best-in-Class | ESG Integration | Active Ownership | Thematic | Impact Investing |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

| Listed Equity | Listed Fixed Income | Private Equity/Debt | Real Estate | Infrastructure | Multi-asset |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | – | – | ✓ |




| | Strengths | Challenges |
|---|---|---|
| **SI Vision** | • **Fully sustainable bank, founded with the mission to promote sustainable finance.**<br>» Sustainable investing integrated into all aspects of strategy and objective setting.<br>» Strong and explicit top management endorsement.<br>» Clear internal targets to achieve mission.<br>• **All key SI policies (e.g., group-wide, sector, asset class) established and publicly communicated.**<br>» Policies governed by Sustainability Management System, overseeing entire investment process from due diligence to impact management.<br>» High level of transparency regarding SI policies and investment process. | • **Higher growth momentum.** |
| **SI Offering** | • **Offers a discretionary SI mandate:**<br>» Mix of single instruments and in-house funds.<br>» ESG integration approach applied to entire portfolio according to Triodos's criteria and philosophy.<br>» Mandate covers all SI approaches including impact investing and active ownership.<br>• **Offering has comprehensive range of SI approaches and asset classes:**<br>» Offering covers all SI approaches.<br>» In-house funds also in private equity/debt.<br>» Diverse thematic and impact investing products (e.g., food, renewable energy, microfinance).<br>• **Active ownership for all investments:**<br>» Formalized engagement process and responsibilities managed in-house.<br>» Proxy voting service for public equities.<br>» Sophisticated ESG analysis as basis for engagement.<br>• **Offers an impact investing crowdfunding platform.** | • **No open architecture, leading to limited quantity of funds offering.**<br>• **Limited customization possibilities and advisory mandate offering.** |
| **SI Service** | • **SI preferences integrated into client onboarding process and ongoing conversations.**<br>• **Compulsory, standalone SI training and further development in specialized knowledge for all employees.**<br>• **Client facing reporting carried out:**<br>» ESG rating on product and portfolio level.<br>» ESG engagement report (also communicated publicly).<br>» Impact report for impact investments (also communicated publicly). | • **No formal education program or workshop for clients.** |

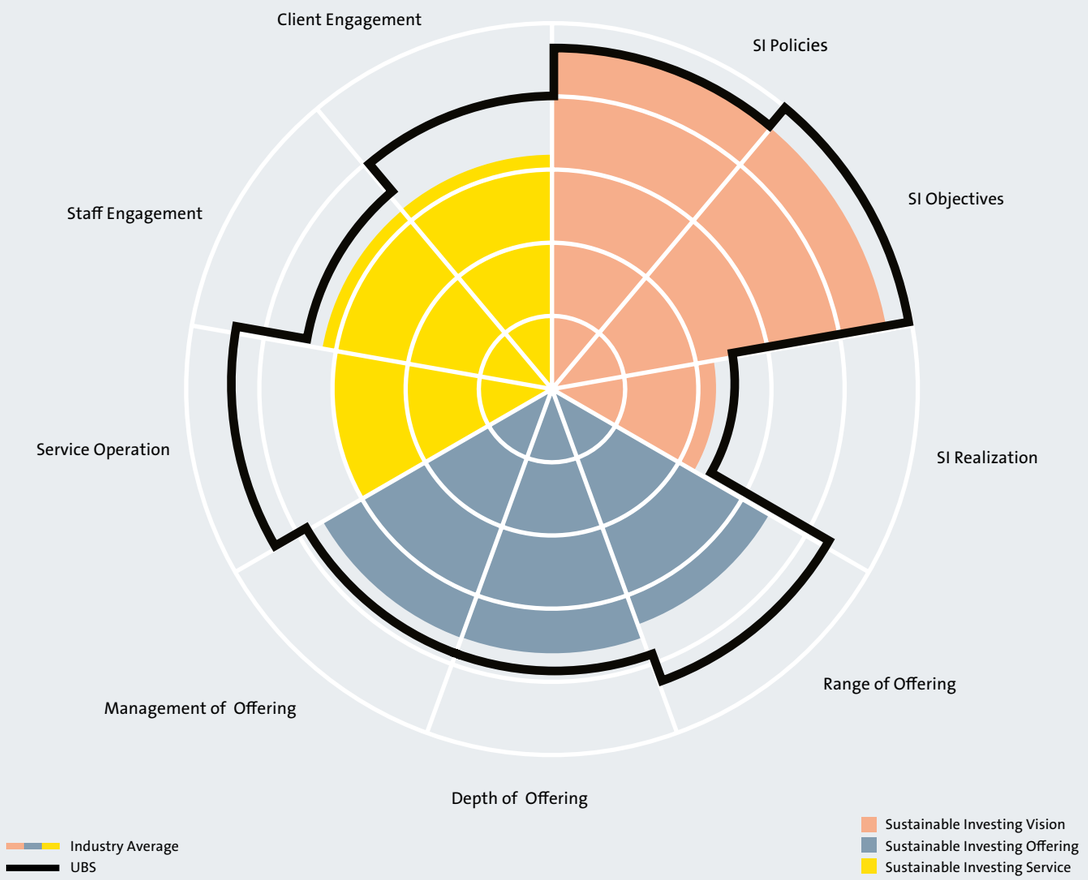
1. Triodo
2. Triodos Annual Report 2018

# Bank Profile: **UBS**

| | |
|---|---|
| HQ | **CH** |
| 2018 AuM WM (USD bn)[1] | **2,260.00** |
| # of Employees[2] | **66,888** |

## Sustainable Investing Information

| Exclusion | Best-in-Class | ESG Integration | Active Ownership | Thematic | Impact Investing |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Listed Equity** | **Listed Fixed Income** | **Private Equity/Debt** | **Real Estate** | **Infrastructure** | **Multi-asset** |
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |




| | Strengths | Challenges |
|---|---|---|
| **SI Vision** | • **Centralized sustainability team (UBS and Society) at group level.**<br>» Consistent policy making and alignment across divisions.<br>» Interacts with senior steering committee in wealth management for strategic direction and operation.<br>» Combines SI expertise from CIO and CSR expertise from group-level team.<br>• **SI objectives and milestones defined and publicly communicated in the GRI report.** | • **Multiple policies and guidelines are established but not publicly communicated.**<br>» Asset class or sector-specific guidelines. |
| **SI Offering** | • **Comprehensive range of fund offering in terms of asset class and SI approaches.**<br>» Offers PE/PD funds in impact investing.<br>• **Offers a discretionary sustainable investing mandate.**<br>» Substitutes conventional strategies and instruments with fully sustainable equivalents.<br>» Comes in various levels of customization depending on asset volume, as well as in a retail version as a stand-alone strategy fund with small ticket size.<br>» ESG integration with multiple data providers and thematic analysis.<br>» ESG analysis capture also focuses/"inclination" for six large themes (e.g., climate change, people, products and services, pollution and waste).<br>» ESG assessment applied to all fund due diligence processes.<br>» For single instruments, universe defined by IB analysts and selected by WM analysts based on materiality ESG factors.<br>• **PE/PD impact investing funds.**<br>• **Voting and engagement as important criteria for fund selection and offering includes engagement-focused fund.**<br>• **Voting for single instruments through an asset servicing solution allowing clients to vote their holdings across multiple wealth managers.** | • **Basic group-wide exclusion policy for controversial weapons.**<br>» Further exclusion for SI mandates and carried out upon client request.<br>• **ESG integration approach in transition from simple screening to holistic.**<br>• **Voting service for single instruments through an external partnership.** |
| **SI Service** | • **SI preferences is part of the client onboarding process.**<br>• **SI training included in mandatory advisor training.**<br>» Additional specialist training through product deep dives.<br>» Part of qualification process for junior staff.<br>» SI sessions offered as part of internal accredited Master's program.<br>• **Regular small-scale workshops and educational events for clients.**<br>• **Reporting on SI includes:**<br>» ESG rating on product and portfolio level.<br>» Voting and engagement report.<br>» Qualitative reporting (e.g., case studies in World Bank).<br>» Business activity reporting according to the six themes for advisory/ tailor-made mandates. | • **Average coverage of advisors that have received training and are qualified to advise clients on SI.** |

1. UBS Annual Report 2018
2. UBS Annual Report 2018

# Bank Profile: **Vontobel**

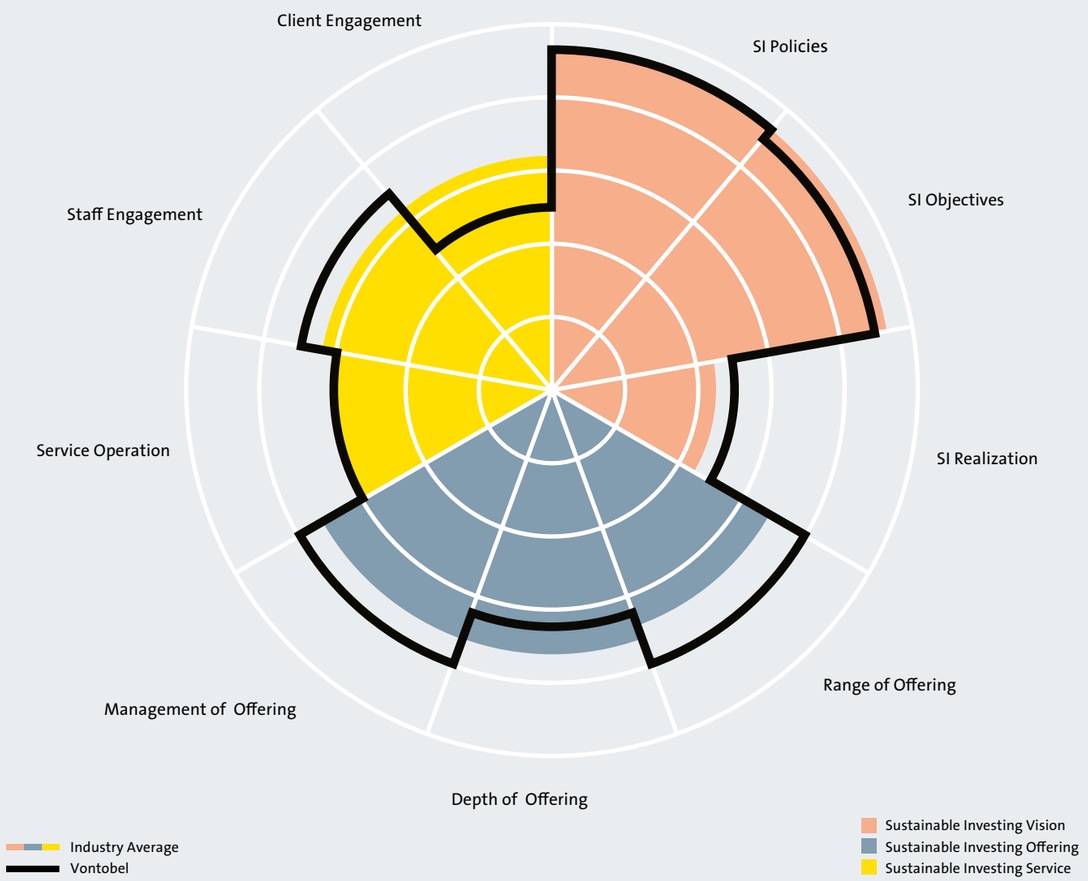
| | |
|---|---|
| HQ | CH |
| 2018 AuM WM (USD bn)[1] | 56.3 |
| # of Employees[2] | 1,996 |

Vontobel

## Sustainable Investing Information

| Exclusion | Best-in-Class | ESG Integration | Active Ownership | Thematic | Impact Investing |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

| Listed Equity | Listed Fixed Income | Private Equity/Debt | Real Estate | Infrastructure | Multi-asset |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | ✓ | – | – |




| | Strengths | Challenges |
|---|---|---|
| **SI Vision** | • **Centralized Sustainability Committee in charge of establishment and approval of SI policies.**<br>• **Sustainability Committee consisting of specialists from asset management, wealth management, investment banking, and CSR team, headed by the CEO.**<br>• **Above average growth momentum of AuM in sustainable investing.** | • **SI objectives internally defined, but not yet publicly communicated.** |
| **SI Offering** | • **Comprehensive range of SI funds in terms of asset classes and SI approaches.**<br>» Funds with diverse SI approaches including multiple impact investing funds in private debt and engagement funds.<br>• **Offers discretionary sustainable investing mandate.**<br>» Fund-focused mandate across asset classes and SI approaches.<br>» Single-instrument mandate with customization above a certain asset size.<br>• **Offers advisory mandates with access to a dedicated person for SI.**<br>• **In-house ESG research team acquired in 2017.** | • **ESG integration is limited to the selection process for SI strategies and not all investments**<br>• **No voting service for single instruments.** |
| **SI Service** | • **SI training as part of the compulsory training for RMs:**<br>» Sessions on SI initiatives that also function for sharing client feedback.<br>» Presentations/roadshows on SI across regions.<br>» High ratio of RMs trained and qualified to advise clients on SI.<br>• **Client engagement through:**<br>» Workshops on SI and specific themes.<br>» Product sessions upon request.<br>» White papers and news blog. | • **SI preferences of clients not part of the client onboarding process.**<br>• **Reporting on voting and engagement and ESG information limited to in-house investments (funds, single instruments).** |

1. Vontobel Full Year Results 2018
2. Vontobel Full Year Results 2018

# Bank Profile: **Zürcher Kantonalbank**

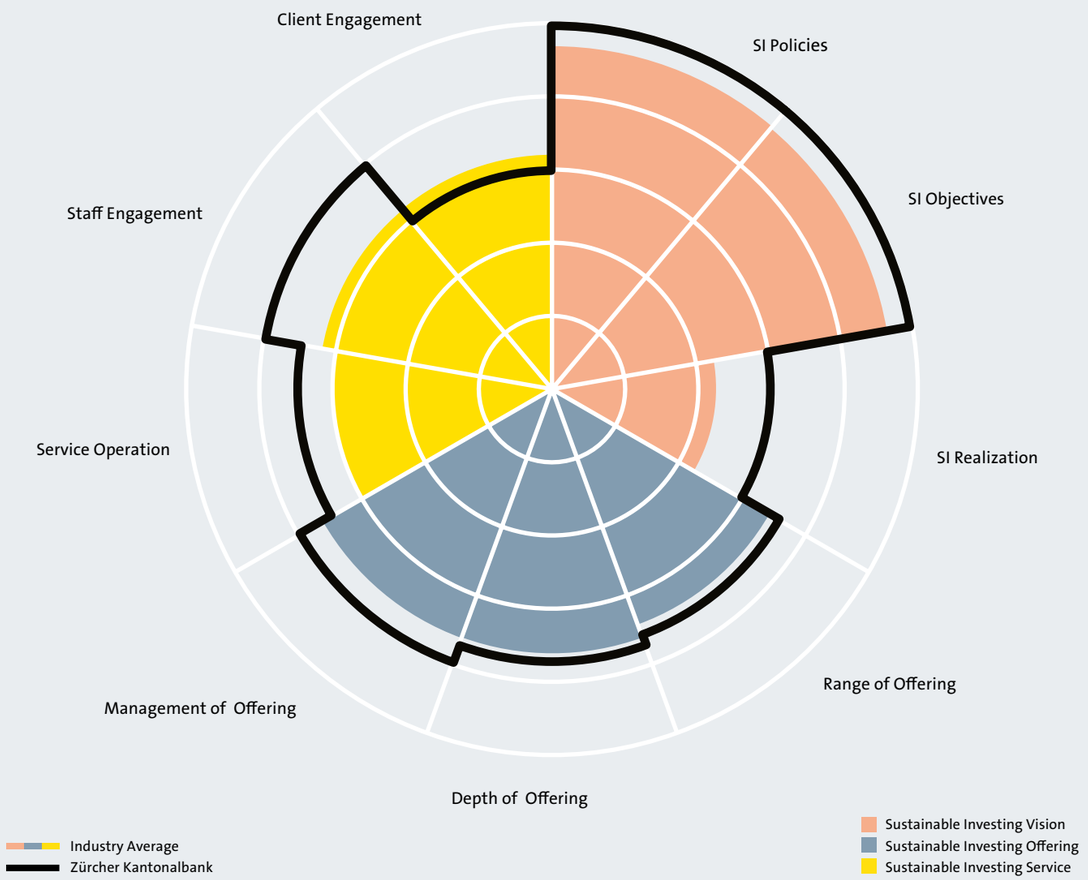
| | |
|---|---|
| HQ | **CH** |
| 2018 AuM WM (USD bn)[1] | **295,19** |
| # of Employees[2] | **5,087** |

Zürcher Kantonalbank

## Sustainable Investing Information

| Exclusion | Best-in-Class | ESG Integration | Active Ownership | Thematic | Impact Investing |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

| Listed Equity | Listed Fixed Income | Private Equity/Debt | Real Estate | Infrastructure | Multi-asset |
|---|---|---|---|---|---|
| ✓ | ✓ | ✓ | – | – | ✓ |




| | Strengths | Challenges |
|---|---|---|
| **SI Vision** | • **Sustainable investing strategy and objectives integrated into the regular strategic process (establishment and governance).**<br>» Sustainability included in a legal mandate as a cantonal bank.<br>» SI long part of the organization (more than 20 years).<br>• **SI guidelines established by ESG Solutions Team and publicly communicated.** | • **AuM of SI not tracked for private banking specifically.** |
| **SI Offering** | • **Offers a discretionary SI mandate:**<br>» Multi-asset discretionary mandate with standard "responsible" instructions, invested based on best-effort approach and ZKB sustainability indicator (>100k).<br>» In-house capabilities for customization (>5 m).<br>• **Best-in-class and ESG integration based on proprietary rating:**<br>» Proprietary ESG indicator based on ESG footprint data from multiple providers, established over 8–9 years.<br>» Complemented by in-house qualitative research.<br>» Applied to all investment research (equities, fixed income, fund).<br>» Funds are screened on underlying level for quality control.<br>• **ZKB Incubator offers possibilities for direct investments after first screening carried out by ZKB (not limited to social ventures).** | • **Offering range in terms of asset classes mostly limited to equity and fixed income.**<br>» Limited offering in impact investing (including microfinance).<br>• **No voting service for single instruments.**<br>» Voting and engagement when invested through in-house fund or portfolio.<br>» Possible to buy into ZKB voting guidelines. |
| **SI Service** | • **SI preference is part of the client onboarding process (but not explicit).**<br>» Part of ZKB's offering.<br>» RMs have no targets—ZKB has eliminated "management by objectives" (MBO)—and face no conflict of interest.<br>• **Training of RMs and investment advisors on SI highly encouraged (technically not mandatory, but corporate culture is enforcing).**<br>» Additionally offers e-learning tool by SSF.<br>» High coverage of trained and qualified RMs to advise on SI.<br>• **Client-facing reporting on SI through ZKB Indicator report.**<br>» ESG rating and footprint reporting on product and portfolio level.<br>» Engagement and voting on in-house products. | • **Limited educational and engagement events for clients.**<br>» Client education carried out through product sessions (upon request) or in written form (white papers, newsletters). |

1. Zürcher Kantonalbank Annual Report 2018
2. Zürcher Kantonalbank Annual Report 2018

# Appendices

APPENDIX 1

## List of Sounding Board Members/ Individuals Consulted

| | | |
|---|---|---|
| **Peter Wüthrich** | Head of Investment Consulting | VALUEworks |
| **Amandine Favier** | Head of Sustainable Finance | WWF Switzerland |
| **Claude Amstutz** | Senior Advisor Sustainable Finance | WWF Switzerland |
| **Ivo Mugglin** | Advisor Sustainable Finance | WWF Switzerland |
| **Sabine Döbeli** | CEO | Swiss Sustainable Finance |
| **James Gifford** | Head of Impact Advisory | Credit Suisse |

# Sustainable Investing Questionnaire for Clients

## STEP 1: LISTENING

**Does your wealth manager understand, respect, and listen to your interests in impact investing?**

Whether a firm can hear, understand, and respect the impact investment interests of a client and translate those into an impact investment strategy—or incorporate those meaningfully into a general investment strategy—is the foundation of a firm's impact investment capabilities.

### QUESTIONS

**Offering Process:** How does the firm talk to its clients about impact investing?

- Is discussion of impact investing an integral component of client onboarding and ongoing client service?
- Does the firm have tools to help clients identify their personal or family values and desired social and environmental impact?
- Does the firm have a standard process for translating client values and impact goals into investment policy?

**Wealth Manager Education:** Does your relationship manager have a background or training related to impact investing?

- What internal or external training on impact investing did your relationship manager receive?
- Does the firm provide your relationship manager with ongoing training (voluntary or mandatory) related to impact investing?

**Client Education:** Does the firm support its clients in learning about impact investing?

- Does the firm offer client workshops related to impact investing?
- Does the firm regularly share publications or other educational resources related to impact investing?

### CHECKLIST

- ☐ The discussion of impact investing is an integral component of client onboarding and ongoing client service.
- ☐ The firm has tools to help me identify my personal or family values and desired social and environmental impact.
- ☐ The firm's client services clarify my thinking about impact and generate new ideas.
- ☐ The firm has a standard process for translating my values and impact goals into investment policy and investment recommendations.

### BEST PRACTICE

- Your relationship manager has received formal training to facilitate impact investing and has 5+ years experience supporting clients' impact investment interests.
- The firm organizes in-depth educational offerings on impact investing.
- The firm proactively shares educational resources such as workshops or publications on impact investing as part of general client education support.

## STEP 2: OFFERING

**Does the firm's impact investment offering match your needs and interests?**

It is important to assess whether the firm has the range of services and offerings to match your impact investment needs and interests. Wealth management offerings take the form of either discretionary mandates or advisory mandates.

### QUESTIONS

**Discretionary Mandate:** Does the firm offer a discretionary impact investing mandate?

- How is the mandate designed and constructed? Does it contain impact investments across multiple asset classes?
- What is the minimum investment to access the mandate?
- Can the firm customize the discretionary mandate to match your values and impact interests? If so, what is the minimum investment to access customization?

**Advisory Mandate:** Does the firm offer an advisory impact investing mandate?

- What is the background and expertise of the advisory team?
- Does the firm's advisory services also cover philanthropic investment?
- What is the minimum investment to access the advisory mandate?

**Investment Funds:** What is the range of third-party impact investment funds that are available to clients (i.e. funds not created by the firm itself)?

- In what asset classes does the firm enable clients to make third-party impact investments—public equity, fixed income, private equity/debt, real assets (e.g., real estate, infrastructure)?
- How deep and diverse (by geography and impact theme) are the firm's investment offerings in each asset class?

### CHECKLIST

- ☐ The offering of the firm—discretionary or advisory—matches my financial means and needs.
- ☐ Discretionary mandate: the mandate matches my values and desired impact and offers room for customization.
- ☐ Advisory mandate: the mandate covers all investment areas I would like to be advised on.
- ☐ The firm's range of investment offering is diverse enough to match my financial needs, values and desired impact.

### BEST PRACTICE

- The firm offers a discretionary impact investing mandate that can be customized to your values and desired impact.
- The customization focuses on your desired impact and thematic interest, and not merely exclusions. This may include investments across several asset classes (including private funds), impact sectors, and geographies.
- The firm offers an advisory mandate with a team that has training and expertise in impact investing.
- The firm enables "impact-first" investments in addition to impact investments that prioritize commercial rates of financial return.
- The firm's mandates cover a broad range of asset classes that are appropriate for your investor profile—for sophisticated and risk-taking investors, the firm should be able to offer private equity and debt and real assets investments.
- The range of investment funds offered by the firm is diversified by sector and geography.

## STEP 3: BUILDING

**How does the firm build its impact investment offering for clients?**

It is important to assess the processes the firm employs to design and construct its impact investment offering. What policies, standards, and processes does the firm employ to create its offerings or select funds to recommend to clients?

### QUESTIONS

**Exclusions:** How does the firm approach exclusionary investment strategies (also known as "negative screens" or "ethical investments")?

- What are the firm's exclusion policies in terms of sectors, products, and practices?
- Does the firm allow you to have your own exclusionary criteria for your investments?
- How does the firm make sure that the exclusionary criteria is enforced?

**ESG Integration & Screening:** How does the firm integrate Environmental, Social, and Governance factors (ESG) into its investment decisions?

- What are the firm's ESG policies and guidelines?
- What ESG data sources does the firm use?
- Does the firm analyze ESG data related to risks as well as positive impact?
- How does the firm integrate ESG data into the investment decision-making process? Can the firm give an example?
- Is there a team or analyst dedicated to ESG research within the firm?

**Impact Funds:** How does the firm select impact investment funds?

- How does the firm source impact investment fund opportunities?
- What is the firm's due diligence process for impact investment funds?
- Does the firm's due diligence process differ for impact investment funds versus conventional funds?

### CHECKLIST

- ☐ The firm can explain clearly how it approaches impact investing in a systematic way (e.g. presentations, printed material).
- ☐ The firm demonstrates rigor in its integration of ESG into their investment decisions; for example, they can point to companies they have not invested in for ESG reasons.
- ☐ The firm's research and fund selection processes match my impact investing needs.

### BEST PRACTICE

- The firm has baseline exclusionary policies on certain sectors, products, and practices that the firm applies uniformly across its offerings.
- The firm has readily available exclusionary categories for specific client interests.
- The firm has a governance system in place to ensure excluded investment will not be in your portfolio.
- The firm integrates ESG in all investment analyses.
- The firm understands the different methodologies of ESG data providers and uses multiple sources to construct its own ESG analysis.
- The firm's ESG analysis is not simply used to identify investment risk, but also to surface investment opportunities and positive impact.
- The firm can provide clear examples of how some investments were eliminated or included after integrating ESG analysis into the investment process.
- The firm has a dedicated team that creates in-house ESG research.
- The firm has the network and expertise to source quality impact investment funds, even when these are new to the market.
- The firm includes ESG integration in its fund due diligence process and only selects those with rigorous practices.
- The firm has the capability and expertise to evaluate and compare diverse ESG integration practices among fund managers.

## STEP 4: MANAGEMENT & REPORTING

**How well does the firm manage and report on impact investments?**

An investment may be branded as an "impact investment", but is the impact measured, managed, and reported to investors? The best impact investors are active owners; they participate in shareholder engagements and work with their investees to secure consistent and detailed impact reporting. A wealth management firm's approach to monitoring and reporting on the impact of client investments is a good measure of the seriousness of their approach to impact investment.

### QUESTIONS

**Active Ownership:** How does the firm approach shareholder engagement?

- Does the firm enable the clients to cast proxy votes for companies in which the clients are shareholders?
- Does the firm assess funds' shareholder engagement policies as part of its due diligence process?

**Impact measurement:** What standards for impact measurement and reporting does the firm maintain for funds it recommends or invests in on behalf of clients?

- Does the firm require all impact investment funds to report on their impact?
- What kind of impact data does the firm collect?

**Impact Funds:** How does the firm select impact investment funds?

- How does the firm source impact investment fund opportunities?
- What is the firm's due diligence process for impact investment funds?
- Does the firm's due diligence process differ for impact investment funds versus conventional funds?

### CHECKLIST

- ☐ I receive reporting on how funds I am invested in participated in shareholder votes or engaged with investee companies.
- ☐ My wealth manager receives impact reports from funds I am invested in and makes those available to me.
- ☐ I receive reporting of my investments regularly and collectively on a portfolio level.

### BEST PRACTICE

- The firm enables you to vote your shares for stocks you own directly.
- All impact investing funds in your portfolio have a voting and engagement policy.
- The firm proactively collects impact data from its investees.
- The firm provides both quantitative (numeric metrics) and qualitative (case studies) impact reporting to clients.
- The report states transparently how the ESG and impact data have been collected and how it influenced firm investment decisions.

## STEP 5: ALIGNMENT

**Does the firm practice what it preaches?**

Sometimes, a firm will offer great impact investments to its clients but not follow the same values for its other business lines or internal operations. Looking into how seriously the firm takes sustainability and impact is helpful to determine how aligned its activities are with your values.

### QUESTIONS

**Policy Alignment:** How aligned are other activities of the firm with impact investing principles?

- Does the firm maintain ESG integration or exclusionary policies (sector, product and practices) across its business lines?
- Does the firm lend to businesses or projects that might contradict your values?
- Does the firm actively support regulatory changes conducive to sustainable, long-term behavior by all market actors?

**Operations:** Are the firm's own operations aligned with sustainable principles and practices?

- How diverse is the firm's senior leadership?
- Are the firm's compensation policies fair and do they incentivize long-term behavior by bank employees and executives?
- How are incentives paid out to firm employees who are responsible for client investments? On what investment time horizon do firm employees receive perfomance-based compensation?

### CHECKLIST

- ☐ Impact investing and sustainability are mentioned in the firm's annual letters to clients and shareholders.
- ☐ There is a senior-level body for establishing impact investing policies within the firm.
- ☐ Senior executives of the firm have publicly committed to increasing its impact investment activities.

### BEST PRACTICE

#### Questions section

- The firm has a consistent ESG integration and exclusionary policies across its business lines (e.g. asset management, investment banking).
- The firm does not lend to businesses or projects that might contradict your values.
- The firm supports and proactively engages in establishing sustainable, long-term behavior for all market actors.
- The firm has a diverse senior leadership.
- The firm has a fair compensation policy that fosters long-term behavior by all members of the bank.
- Relationship and portfolio managers are incentivized not only on financial but also impact performance, over long-term and not just short-term performance.

# Sustainable Investing Definitions

**Screening—exclusion:** Exclusion (or negative screening) defines the investment universe by omitting sectors and products based on ESG information (e.g., no company with more than 10 percent of its energy produced using coal), values (e.g., no tobacco, gambling, or alcohol), or norms defined by international institutions such as the UN (e.g., no antipersonnel mines). While some organizations separate norms-based screening into a different category, we have included it in the exclusion approach due to the fact that the two approaches do not differ in principle.

**Screening—best-in-class:** The best-in-class (or positive screening) approach is another screening method. It defines the investment universe by restricting it to the top ESG performers for each industry. Instead of excluding entire industries or product categories, this approach defines the investment universe as all industries, but only the top players in terms of their ESG rating (e.g., investing only in firms that have above-average ESG ratings).

**ESG integration:** The ESG integration approach is an investment process that considers ESG factors and reflects them in the financial analysis. For instance, the risk of potential stranded assets should be considered and factored into the future cash flow projection of fossil fuel companies. This approach aims to avoid risk and capture future opportunities by analyzing investments from a holistic perspective.

**Active ownership:** The active ownership approach is about exercising ownership rights to create change through using the right as a shareholder to vote at company meetings and the position as an investor to engage with management. Such engagement can range from a feedback meeting and discussions with the management of a firm one has invested in, both based on an ESG analysis, to collaborative shareholder actions on specific themes such as waste management or child labor.

**Thematic investing:** The thematic investing approach picks a sustainability related theme and allows clients to invest accordingly. The majority of investments are deployed in themes such as energy, real estate, water, and waste. Green bonds, social bonds, microfinance, and gender-lens investing all fall under thematic investing, and the approach has an overlap with impact investing.

**Impact investing:** While there is controversy with regard to the definition of impact investing, we define it as an approach that aims to create social and environmental impact first, without forgoing financial return in the nominal sense. Deployed capital should have an element of additionality, which means that the project in question would not have happened were it not for that particular investment capital, which no other investor would have provided. Thus, most products we have classified as impact investments are in private equity or debt. Impact investing can aim for an above- or par-market rate of return (as most commercial impact investing funds do); however, we have also included those products that aim for a below-market rate of return but still offer capital preservation and moderate interest.





# List of ESG providers

## ESG rating agencies

### MSCI ESG RATINGS
MSCI ESG Ratings provides insights into ESG risks and opportunities within multi-asset class portfolios. It rates companies according to their exposure to industry-significant ESG risks and their ability to manage those risks relative to industry peers.
https://www.msci.com/esg-ratings

### SUSTAINALYTICS' ESG RISK RATINGS (MORNINGSTAR)
Sustainalytics is an ESG and corporate governance research and ratings firm, supporting investors around the world with the development and implementation of responsible investment strategies. Purchased by Morningstar in 2017.
https://www.sustainalytics.com/

### ISS-OEKOM CORPORATE RATING
ISS ESG offers scientifically based rating for a clear, sector-specific focus on the materiality of non-financial information. The methodology is constantly reviewed and developed to cover all relevant environmental, social, and governance related topics. Oekom joined ISS in 2018.
https://www.issgovernance.com/esg/ratings/

### REFINITIV
Formerly the Financial and Risk business of Thomson Reuters, the latter having acquired Asset4 in 2009, Refinitiv created its own brand in 2013 and since then has been an ESG ratings provider; its approach is based on 226 KPIs and covers over 4,600 companies worldwide.
https://www.refinitiv.com/en/financial-data/company-data/esg-research-data

### TRUCOST (S&P)
Trucost is part of S&P Global. A leader in carbon and environmental data and risk analysis, Trucost assesses risks relating to climate change, natural resource constraints, and broader environmental, social, and governance factors.
https://www.trucost.com/

### VIGEO-EIRIS (MOODY'S)
As a rating and research agency, Vigeo Eiris evaluates organizations' integration of social, environmental, and governance factors into their strategies, operations and management—with a focus on promoting economic performance, responsible investment, and sustainable value creation. Purchased by Moody's in 2019.
http://www.vigeo-eiris.com/

### INRATE
Inrate AG is an independent sustainability rating agency based in German- and French-speaking Switzerland. It was formed in 2010 from the merger of Inrate and CentreInfo.
http://www.inrate.com

## ESG research & data aggregators

### BLOOMBERG
Bloomberg makes ESG data relevant and actionable for financial market participants by collecting, verifying, and sharing data from more than 11,500 companies in 83 countries. It distributes ESG data primarily through the Bloomberg Terminal, displaying it alongside fundamental financial data on the same screens.
https://www.bloomberg.com/impact/products/esg-data/

### CFRA
CFRA provides independent and actionable research and analytics to its global subscribers to improve their investment and business decisions. CFRA's global subscribers include the world's leading institutional investors, wealth advisors, corporations, academics, and governments.
https://www.cfraresearch.com/

### REPRISK
RepRisk is a global leader and pioneer in data science, specializing in premium ESG and business conduct risk research and quantitative solutions. It is the only ESG research provider to cover private companies, as well as emerging and frontier markets.
https://www.reprisk.com/

**MAPLECROFT**
Maplecroft is a global risk and strategic consulting firm based in Bath, UK. Its work includes analyzing key political, economic, social, and environmental risks affecting global business and investors.
https://www.maplecroft.com/

**CDP**
CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states, and regions to manage their environmental impacts.
https://www.cdp.net/en

**SASB**
SASB was founded in 2011 to develop and disseminate sustainability accounting standards. SASB aims to integrate its standards into the Form 10-K, which must be filed by public companies with the US Securities and Exchange Commission; in this sense it differs from initiatives such as the GRI, by working within the current system of financial regulation.
https://www.sasb.org/

**Carbon Delta**[30]
Carbon Delta's Climate Value-at-Risk (VaR) measure is a forward-looking risk measure for analyzing the climate-related risks and opportunities of companies. It is closely aligned with the TCFD recommendations and provides true insight into how climate change is affecting the future business model and operations of companies. The big data software model is highly scalable and currently covers 22,000 companies linked to 60,000 investable securities.
https://www.carbon-delta.com/

## Financial intermediaries

**ARABESQUE**
Founded in 2013, Arabesque has pioneered a new approach to asset management by integrating ESG big data with quantitative investment strategies.
https://arabesque.com/

**ODDO**
An independent Franco-German financial services group, with a history stretching back over 150 years. ODDO BHF operates in three main businesses, based on significant investment in market expertise: private banking, asset management, and corporate and investment banking.
https://www.oddo-bhf.com/

**KEPLER CHEUVREUX**
Kepler Cheuvreux is a leading independent European financial services company specialized in research, execution, and advisory services
https://www.keplercheuvreux.com/

**NATIXIS**
Natixis is a French corporate and investment bank created in November 2006 from the merger of the asset management and investment banking operations of Natexis Banque Populaire and IXIS. Natixis provide financial data for the "Markets" section on the news channel Euronews.
https://www.natixis.com

## Public organizations

**OECD**
The mission of the Organisation for Economic Co-operation and Development (OECD) is to promote policies that will improve the economic and social well-being of people around the world.
https://www.oecd.org/about/

**WHO**
WHO works worldwide to promote health, keep the world safe, and serve the vulnerable.
https://www.who.int/

**UN-IPCC**
The Intergovernmental Panel on Climate Change (IPCC) is the United Nations body for assessing the science related to climate change.
https://www.ipcc.ch/

**SIGWATCH**
SIGWATCH tracks NGO campaigns and the emerging issues driven by activists nationally and globally so its customers can stay ahead of reputational problems and market liabilities.
https://www.sigwatch.com/

**GLOBAL FOOTPRINT NETWORK**
Global Footprint Network bridges science, policy, and economics to change how the world manages its natural resources and create a sustainable future.
https://www.footprintnetwork.org/

**WRI WORLD RESOURCES REPORT**
The World Resources Report is the flagship publication of World Resources Institute. Subsequent editions have been published at regular intervals and have provided in-depth analyses of issues ranging from human health and the environment to climate change, ecosystem services, and environmental governance.
https://www.wri.org/our-work/project/world-resources-report/wrr

**GLOBESCAN**
GlobeScan is an insights and strategy firm that helps companies, NGOs, and governmental organizations build the trust they need to create enduring value for themselves and for society.
https://globescan.com/

**ILO**
The International Labour Organization (ILO) is a United Nations agency whose mandate is to advance social justice and promote decent work by setting international labour standards.
https://www.ilo.org

**WORLD BANK**
With 189 member countries, staff from more than 170 countries, and offices in over 130 locations, the World Bank Group is a unique global partnership: five institutions working for sustainable solutions that reduce poverty and build shared prosperity in developing countries.
http://www.worldbank.org/

Notes: 30. Acquisition by MSCI under discussion (September 10, 2019).

# Heatmap of the EU Action Plan

| | Taxonomy (Action 1) | Disclosure (Action 7) | ESG Preferences (Action 4) | Benchmarks (Action 5) | Standards/ Labels (Action 2)* |
|---|---|---|---|---|---|
| **Website/Public Reporting** | Review financial products on website for consistency with taxonomy. | Disclose on website: written policies on sustainability risk integration; due diligence policies regarding negative impact on sustainability factors at the entity level; product-related information on sustainability targets; information on methodologies and data used to measure/assess sustainability impact of product; consistency of remuneration policy and sustainability risk integration.<br>Public reporting on overall sustainability-related impact of financial products. | | | |
| **Marketing/Product Disclosure** | When marketing product as sustainable, disclose the proportion of taxonomy-eligible activities or explain alternative methodology. | Pre-contractual disclosure (general): Procedure to integrate sustainability risks, impact of sustainability risk on return, and information on impact of a product.<br>Pre-contractual disclosure for green products:<br>Information on sustainability targets, index, methodology. | | Consider reference to new EU benchmarks when offering sustainable products. | (Long-term) use of labels for SI products, such as potential EU eco label. |
| **Advisory Process** | | Consider and disclose risk factors that influenced product selection. | Amend suitability questionnaire to integrate ESG preferences into the client onboarding and advisory process. | | |
| | | Disclose to clients alignment of remuneration with sustainable targets. | Show alignment of advice and ESG preferences. | | |
| **Compliance** | Verify if products are consistent with taxonomy. | Ensure fit between client risk profile and recommendation of product; ensure marketing information on products does not contradict disclosed information; ensure disclosed information is kept up-to-date. | | | |
| **Products** | Review current sustainable products and separate SI and non-SI.<br>Offer new products aligned with taxonomy. | Investigate sustainability impact of product in order to disclose information. | Collect information on ESG factors on the holding level. | New EU benchmarks as reference or investment opportunity. | Include EU Green Bonds as investment opportunity. |
| **Investment Process** | Use taxonomy criteria for mandates and portfolio compilation.<br>Taxonomy a consideration for product selection/market research. | Disclosure will enforce integrating sustainability risk into investment process. | Integrate ESG preferences of client into investment process.<br>Conduct ESG research (consistent with taxonomy ). | Sustainability benchmarking of portfolio performance. | Consider EU Green Bonds investment. |
| **Relation to Asset Managers** | Demand for sustainable products aligned with taxonomy. | Demand disclosure of sustainability risks and sustainability impacts. | Demand ESG information on products. | Revise the sustainability benchmarks used so far and consider asking for EU benchmarks. | EU Green Bonds as investment opportunity. |
| **Client Reporting** | | | Show alignment of ESG performance and clients' ESG targets; comparison of ESG performance and other investment targets. | | |
| **Employee Training** | Taxonomy expertise; training and qualification/ requirements. | | ESG expertise: in product research team advisors. | EU benchmark expertise. | |

* so far only "EU Green Bond" developed as a new label/standard.

No impact | Low impact | Medium impact | High impact

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