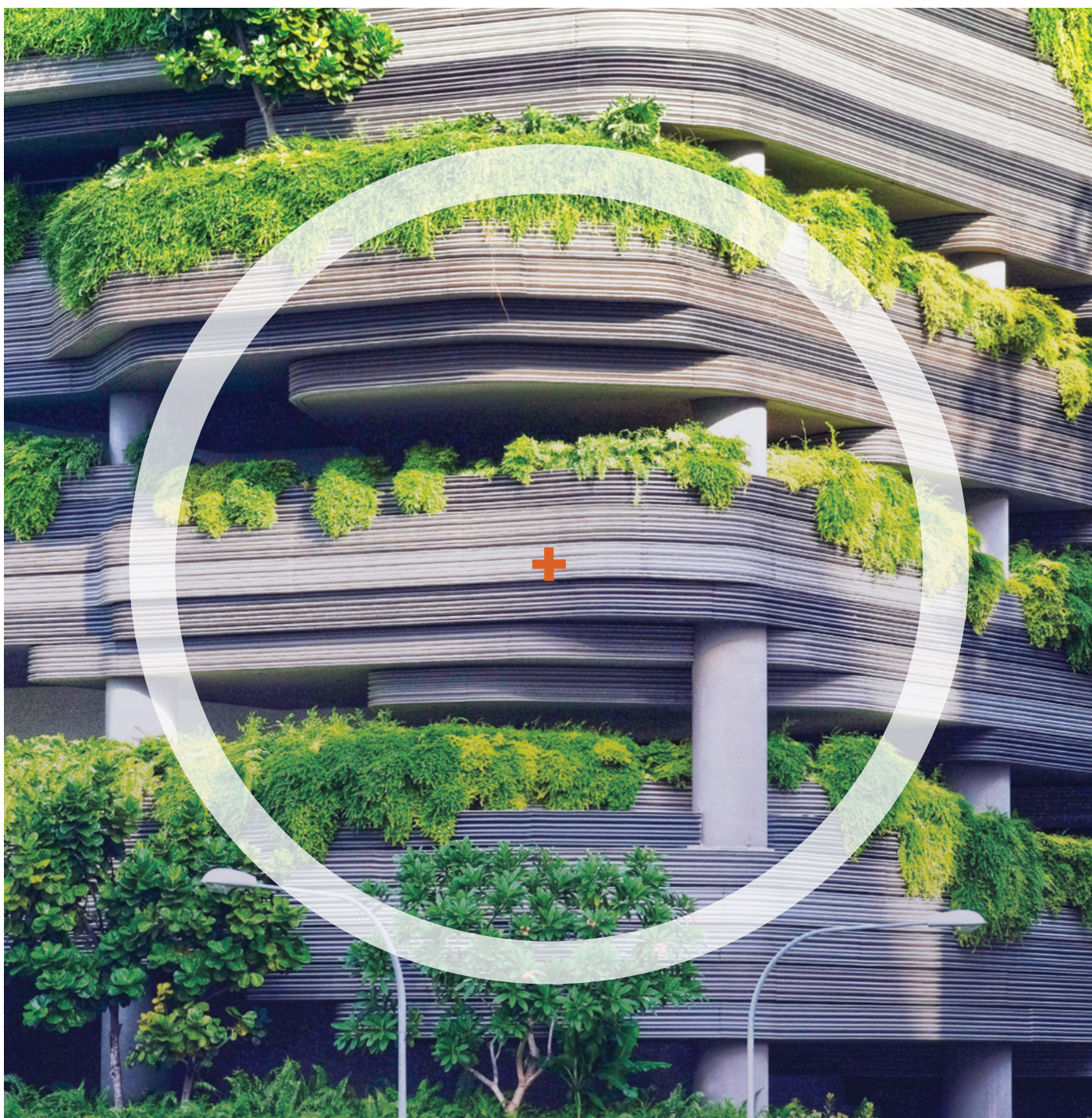




Sustainable Investing Capabilities of Private Banks

Report #4: Assessment of 20 Private Banks





**University of
Zurich** ^{UZH}

CSP Center for Sustainable
Finance & Private Wealth

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

The Center for Sustainable Finance and Private Wealth (CSP) Zurich 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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CSP Center for Sustainable
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Executive Summary



In 2021, the Center for Sustainable Finance and Private Wealth (CSP) at the University of Zurich together with PwC Switzerland conducted its fourth round of research on the sustainable investing capabilities of private banks.

In general, we see a lot of progress in sustainable investing practices among private banks. Especially on the governance side, **banks have started to develop concrete action plans** and establish relevant objectives related to sustainable investing. **All private banks have responded to mounting client demand by increasing both the depth and breadth of their product shelf**, as evidenced in the significant rise in the compound annual growth rate of AuM deployed in sustainable investing, which reached as much as 60% for some participating banks over the last three years.

ESG integration has also improved markedly since the last report in 2019, with a shift away from relying solely on market data provider ratings towards **more rigorous investment processes supported by specialist, in-house ESG analysts, proprietary data and security modelling**. This signals that sustainable investing is being institutionalized within organizations, and we can expect to see ESG integration continue to mature as better data become available and best practices emerge.

Regulation has been a driving force in banks' preparedness to offer and improve sustainable investing solutions, especially within European private banks. The EU Action Plan and the Sustainable Finance Disclosure Regulation (SFDR) are forcing all banks to recognize sustainable investing as a critical part of their operations. Furthermore, guidelines such as recommendations from the Task Force on Climate-Related Financial Disclosures and the Sustainability Accounting Standards Board (SASB) are bringing more clarity to the sector in terms of required climate metrics and what constitutes relevant material factors across industries and sectors.

At the same time, the increasing client demand has also led private banks to offer a broader range of products. **The product shelf of private banks has become wider, and banks have on average three sustainable investing mandates in comparison to almost none two years ago.** The diversity in sustainability-themed offering, ranging from water and clean air to health tech and gender equity, also indicates the momentum in product development and the breadth of offering within the industry.

Nevertheless, there is **still concern about impact washing and greenwashing**, with room for improvement regarding the depth of the sustainable investing offerings. Development in offering private market impact funds is still limited, and exploration of responsible stewardship through voting and engagement is a topic that not many private banks are addressing yet. While some leading private banks are trying to serve this gap through creative solutions, **we need the entire industry to commit more to impact investing and responsible stewardship if we want to create real-world impact through sustainable investing.**

Private banks have improved noticeably when it comes to interaction with clients. Many banks now ask clients to indicate their sustainable investment preferences in the onboarding process, often via innovative digital solutions, and some now even consider sustainable investing as the default option unless the client explicitly opts out. In addition, we see an increasing number of resources being dedicated to training internal staff and client advisors on sustainable investing, although **the depth of the training and knowledge acquired might not yet be sufficient to fully advise clients.**

Foreword CSP

Sustainable investing is coming of age. The portion of assets managed using sustainable approaches has markedly risen since our last report in 2019 to levels that have made sustainable investing an issue that cannot be ignored – either by any bank, or by regulators and investors alike.

We at CSP are deeply encouraged by these trends and continue our mission to assist both wealth managers and wealth owners with their sustainable investing journeys. Our hope for the future is the inevitable merging of traditional and sustainable finance – a future where banks consider the social and environmental impact of their investment activities, while rewarding companies that are run transparently for the benefit of their shareholders as well as stakeholders. We are seeing the first tentative steps in this direction, with some banks now offering sustainable investment configurations of their products as the default rather than waiting for clients to proactively ask for them.

With the advancement and increase in ESG integration and screening approaches, greenwashing and impact washing have become key topics to address. Impact investing in private markets and active ownership approaches hold great hope for unlocking private investors' impact potential, but are still relatively underrepresented. We also continue to see struggles from client advisors coming to terms with sustainable finance and in need of continuing education to become confident sparring partners with their clients looking to invest sustainably. Nevertheless, leading banks have demonstrated genuine innovation and progress, both in terms of product availability and embedding of sustainability criteria across the entire banking value chain.

Once again, the report's individual sections stand alone and can be used as a reference for topics of interest, and may be used by banks and clients to uncover best practices and industry trends. Similarly, the individual bank profiles provide an opportunity for banks to compare themselves against industry benchmarks and see where they might improve in future, while allowing prospects and clients to assess the bank's current sustainable investing capabilities.

We would like to thank the participating banks for their efforts in providing input and valuable discussion to enable this report to be created. We would also like to thank PwC for their tremendous efforts in undertaking the majority of the legwork required to produce the 4th edition of this report. We look forward to continuing this collaboration and leveraging the increased reach and breadth of expertise they bring to the table. As always, towards impact.



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Foreword PwC Switzerland

The legislative pressure regarding the integration of environmental, social and governance (ESG) factors into investment strategies and processes is growing every day. Around the globe, policymakers are heavily involved in shaping the sustainability agenda by increasingly introducing legally binding disclosure and reporting obligations.

The EU has already enacted new, ambitious legislation with the aim of supporting EU-wide, sustainable growth strategies – in which a sustainable financial system should play a key role. More measures are planned to further reinforce the Paris Agreement and the United Nation’s Sustainable Development Goals (SDGs).

Regulatory pressure is, however, not only growing in the EU: developments in Switzerland and all over the world are also gaining momentum. This year, the Swiss indirect counter-proposal to the Responsible Business Initiative (RBI) took effect, binding companies under public laws to report non-financial issues and ensure due diligence regarding conflict material and child labor. Moreover, the largest Swiss banks and insurers are already subject to climate reporting obligations based on TCFD, and TCFD-based reporting will be applicable to more businesses in the near future. Climate-related reporting is also introduced in further jurisdictions such as UK, Singapore, Hong Kong and others.

Apart from reporting obligations, increasingly more regulations also set a focus point on sustainability-related risks. As a consequence, for the first time, the report explores the sustainability risk management, doing justice to this relevant topic that will, in all likelihood, become even more important for financial institutions in the future. While the degree of consideration of sustainability risks differs extensively throughout a respective institution, the ESG risk management is a highly evolving topic and will be on the banks' agenda for years to come.

In this context of such a fast-paced regulatory landscape, the 4th edition of this report not only allows for conclusions concerning the business side of sustainable finance developments, but also provides a thorough

overview of the significant regulatory push that will unquestionably continue to accompany the financial sectors in the years to come.

With this in mind, we want to thank the University of Zurich’s Center for Sustainable Finance and Private Wealth (CSP) for its fruitful and productive teamwork and are looking forward to support them further in this journey. Furthermore, we also owe thanks to the participating banks, whose participation in the surveys are key for this report.



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Methodology & Key Findings



Definition

In line with our previous reports, we define sustainable investing as “integrating social, environmental and governance factors 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 has 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.

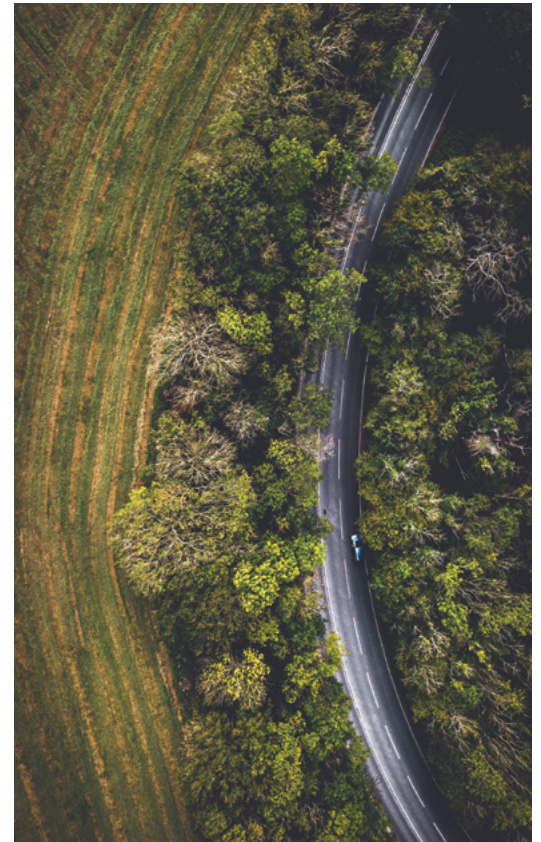
It is also important to note that the recent regulatory framework in the European Union differentiates between:

- broader investments aligned with environmental and/or social characteristics
- “sustainable investments”, defined under the EU Sustainable Finance Disclosure Regulation as investments in economic activities that explicitly contribute to environmental or social objectives, provided that the investments do not significantly harm other non-financial objectives and that the investee companies follow good governance practices. In contrast to our report definition, this can be considered rather as an outcome definition.

Industry bodies such as the Global Sustainable Investing Alliance (GSIA) or Eurosif divide sustainable investing approaches into seven non-mutually exclusive categories: exclusion, norms-based screening, best-in-class, ESG integration, active ownership, thematic, and impact investing, where one or more approaches can be utilized in a sustainable investing context. A detailed explanation can be found in Appendix 2.

We observe that the terminology and definitions that private banks use to communicate

sustainable investment concepts are not aligned between banks and are often a source of confusion for clients. Sustainable investing continues to be a vague, broad concept which is often used interchangeably with terms like *responsible investing* and *impact investing*. Sometimes the terminology referencing a sustainable investment forgoes any reference to sustainability at all (for an overview of different definitions used by the banks, see Table 8 in Appendix 1). Definitions regarding what constitutes a sustainable investment are not standardized, leading to difficulty in comparing investment options, goals and strategies across banks.



Scope & Data Collection

The objective of this report is to provide guidance to private investors and private banks in the rapidly evolving field of sustainable finance. For this reason, we included in our analysis both large, global private banks as well as smaller, innovative private banks to demonstrate good practices and provide guidance with regard to emerging standards.

For this year's report, we invited private banks to participate that:

- a) service high-net-worth and ultra-high-net-worth ((U)HNW) client segments
- b) have a substantial, basic sustainable investment offering – to ensure a meaningful analysis

A detailed list of the 20 participating banks can be found in Table 1 below.

The basis of the analysis was a questionnaire completed by the private banks that participated in the study.

In addition to the questionnaires, we cross-checked the analysis at different stages with publicly available material and by means of participant reviews, allowing for updates and ensuring accuracy.

Table 1: List of Participating Banks

#	Bank Name	HQ	WM AuM (USD bn)
1	ABN AMRO	Netherlands	119.8
2	Banca Mediolanum	Italy	-
3	BNP Paribas	France	434.6
4	Credit Suisse	Switzerland	921.2
5	Danske Bank	Denmark	212.0
6	DBS Bank	Singapore	-
7	Edmond de Rothschild	Switzerland	-
8	Globalance	Switzerland	2.0
9	HSBC	UK	800.0
10	J. Safra Sarasin	Switzerland	229.2
11	Julius Baer	Switzerland	433.7
12	LGT	Liechtenstein	-
13	Pictet	Switzerland	278.5
14	Triodos	Netherlands	4.5
15	UBS	Switzerland	3,100.0
16	Vontobel	Switzerland	78.0
17	Zürcher Kantonalbank	Switzerland	16.4
18	Bank A*	Switzerland	-
19	Bank B*	Italy	-
20	Bank C*	Singapore	-

*Bank requested to remain anonymous

Framework

Based on feedback from banks, clients, and industry experts, and considering current developments in sustainable finance topics, we have developed the framework further since previous reports. The updated framework is shown in Figure 1.

Changes to the framework include:

- refinement of the two parts “SI Vision” and “SI Offering”
- reframing and amendment of the third part from the previous “SI Service” to “Client Interactions”

- aggregation of factors under “Sustainability Risk”

Especially noteworthy is the addition of the new section “Sustainability Risk” to the analysis. This expansion allows us to compare banks across risk and compliance dimensions, a factor that is both important for their businesses’ survival and their ability to ensure that regulatory breaches do not occur. Moreover, regulators worldwide have increased their focus on sustainability risks, taking into account the growing application of the TCFD recommendations and the integration of sustainability risk disclosure within new EU regulations, for example.

Figure 1: Study Framework

The participating banks were assessed against all criteria shown in the framework, both quantitatively and qualitatively, to highlight their current progress in their sustainable investing capabilities.



Key Findings

The industry does well when it comes to establishing sustainability-related objectives. Compared to the last report in 2019, group-wide sustainable investing and reporting policies have seen significant overhauls, which relate to both increased regulatory disclosure requirements and voluntary commitments.

These include the signing of the Principles for Responsible Investment (PRI) and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). However, strategy review and progress-tracking mechanisms could still be improved.

On the offering side, we can see a stabilization to some extent, with most banks providing a basic SI offering in the conventional asset classes, such as funds along with discretionary and advisory mandates. At the same time the range of sustainable products is constantly emerging, as we are seeing a significant increase in SI funds and sustainable investing mandates being offered with different investment strategies, focuses, and approaches. Thematic investments, in particular, are becoming more present and diverse in terms of themes and sub-themes.

Participating banks are becoming more active with regard to sustainability in the client onboarding process, especially when it comes to asking clients for their sustainability preferences; this is also due to the upcoming MiFID II obligations in this regard. Client advisers,

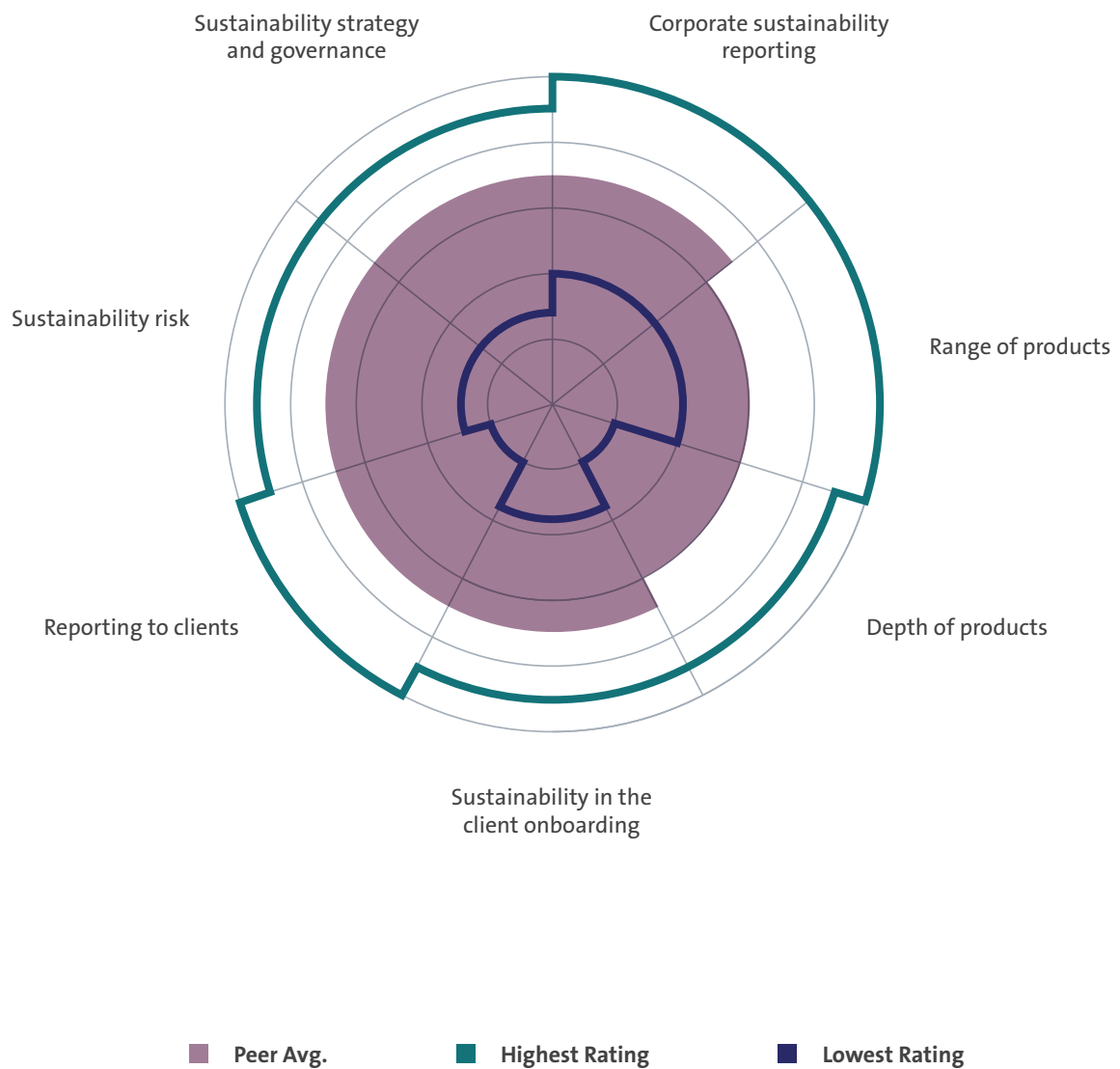
however, remain a bottleneck to a certain extent, as already found in 2019 when some shortcomings emerged between asking clients mandatory questions on their sustainability preferences and being able to translate these preferences into appropriate products. This is also linked to SI training for client staff: while internal training offerings have developed since the last report, clients may still find themselves needing to seek out specialists both within the bank or externally when the limits of their designated relationship manager's knowledge and skills are reached.

Although private banks have started to integrate sustainability risks and factors into the wealth management's internal control frameworks, the degree to which sustainability risks are considered within the organization varies considerably. Generally, wealth management occupies a rather passive role. Moreover, methods to identify and manage ESG risks are mostly still rudimentary. Accordingly, climate risk scenario analyses are not yet commonly applied in a wealth management context.



Figure 2: Peer Average of Sustainable Investing Capabilities

The quantitative framework used to assess all participating banks, see bank profiles for individual bank assessments.



Part I: Sustainable Investing Vision



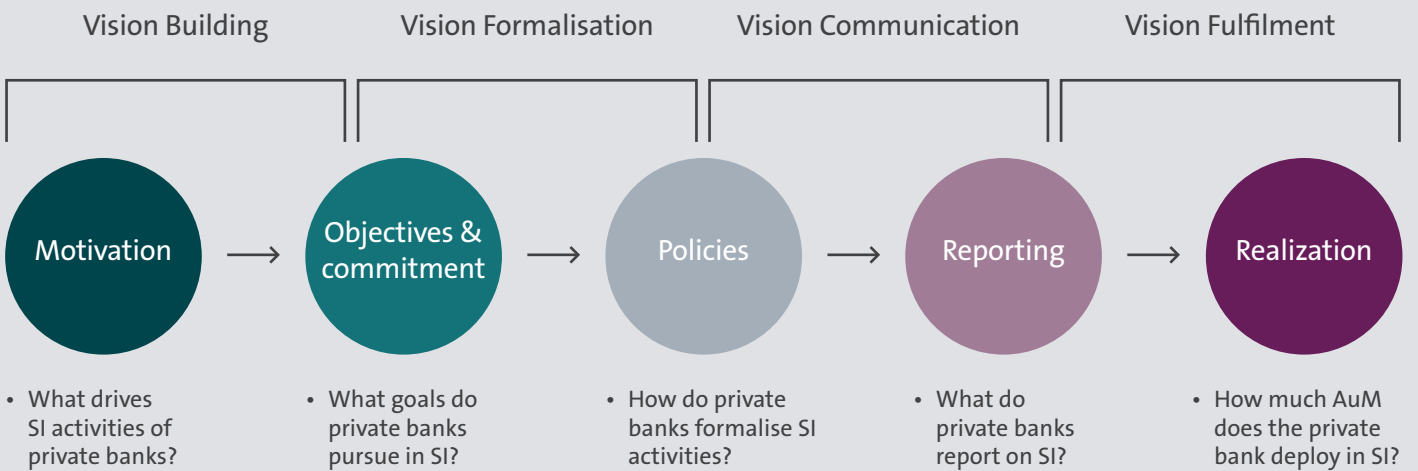
Part I: Key findings

- Participating banks performed well in establishing sustainability-related objectives but are still developing concrete strategic implementation plans and processes. Strategy review and progress tracking mechanisms are often lacking or insufficient.
- Participating banks' group-wide SI and reporting policies have seen significant overhauls, partially due to new sustainability disclosure requirements and partially due to client demand. Asset management is still the primary focus due to greater flexibility to apply SI measures to these assets, as opposed to wealth management, where client wishes have a greater influence.
- AuM in sustainable investing have seen an impressive growth since the last study, with the 3-year SI AuM growth rates having almost doubled since 2019. However, the lack of a common, standardized definition of sustainable investments reduces the reliability of self-reported figures.

The sustainable investing vision of private banks can be outlined as a process comprising the steps illustrated in Figure 3.

Figure 3: From Building to Fulfilling Sustainable Investing Visions

The process of internal and external motivations being translated into action and realized in AuM flowing into SI products.



Motivation to Increase Sustainable Investing

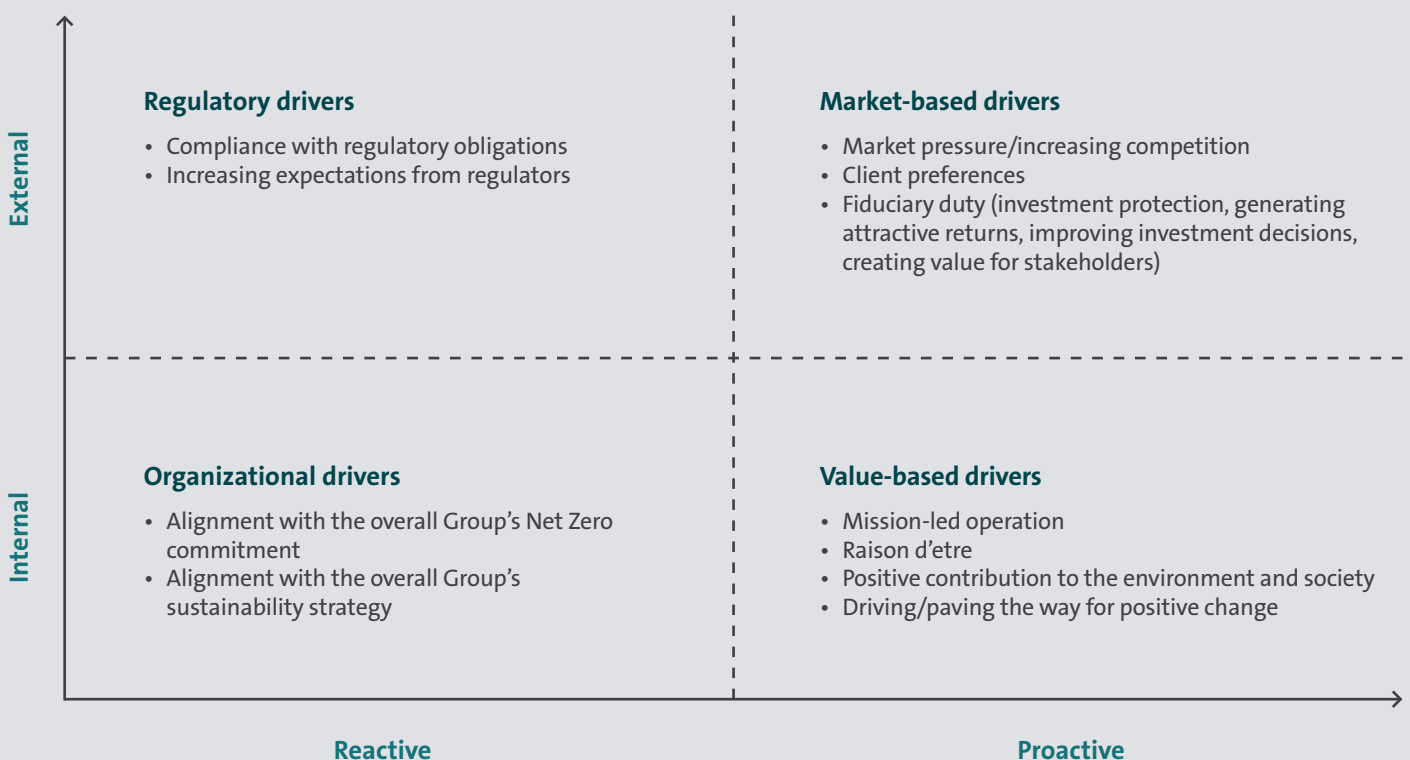
As Figure 4 indicates, the motivation to increase sustainable investments is derived from a combination of external and internal drivers. While market and client motivations were found to be the dominant factor, value-based strategy decisions, regulatory requirements and organizational goals also play an important role.

The predominance of market-driven and client-driven motivations to increase sustainable

investing can be explained mainly by changing client preferences and increasing public interest in sustainability topics such as climate change and the broader UN Sustainable Development Goals. It also reveals a certain degree of industry maturity and mainstreaming of sustainability topics, in that banks are actively aiming to increase market share in sustainable investing as opposed to just reacting to regulatory requirements.

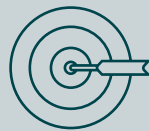
Figure 4: Motivation Matrix Driving Sustainable Investing

Breakdown of drivers that contribute towards banks' motivation to enhance their sustainable investing capabilities.



Objectives and Commitments

The diverse motivations for private banks to increase sustainable investing efforts – whether these are selling SI products more effectively, contributing to a climate-neutral future or presenting themselves well to the outside world – are reflected in the different sustainability objectives that banks set. All banks have defined goals in relation to their sustainable offering, upskilling staff on sustainable investing and improving sustainable investment reporting. The majority of private banks have committed to helping their clients shift towards sustainable investing, thereby increasing overall sustainable AuM.



Wealth Management-specific Goals

Banking groups generally communicate sustainability goals on a group level and often do not specify goals targeted at wealth management. This can be explained by the fact that SI in wealth management is often perceived as being driven by the clients, which emphasises the need for wealth managers to engage more with their clients on the SI topic.




Practical example:

One bank has established a quarterly monitoring of the percentage of client-invested AuMs in products rated BBB or above (ESG MSCI rating) and has committed to reaching 50% in 2023 from 41% in 2021.

While many banks aim to reduce greenhouse gas emissions in line with the Paris Agreement in order to limit global warming to 1.5°C for their own operations, some banks have already set objectives in relation to reducing emissions through their financing and their clients' investment activities. Danske Bank, for example, targets a 50% reduction in the weighted average carbon intensity of its investment products from 2020 to 2030. Moreover, the emergence of the numerous net zero initiatives within the financial industry, such as Net-Zero Banking alliances or Net Zero Asset Managers initiative, show a clear trend towards more concrete goals and objectives in this area.

While private banks continue to perform well in establishing sustainable investing objectives, with roles and responsibilities often clearly defined, they still lack concrete implementation plans and processes. Many banks only review their goals on an annual basis and have elementary progress measures for their sustainability objectives. Only a few perform a quarterly review and set up specific KPIs to track progress. Among sustainable, offering-related KPIs, the most common are percentage of sustainable AuM growth, tracking of average ESG rating of current sustainable investment offerings (e.g. on asset class or country level) or quantity of sustainable investment solutions offered to clients. Regarding training-related KPIs, we encountered indicators such as total training hours of client advisors on ESG issues or the total number of trained employees on ESG issues. When it comes to effectively monitoring sustainable objectives, we see a lot of room for improvement through the development of well-defined processes and systems being implemented to continually track progress and ensure regular reviews (see Table 2).

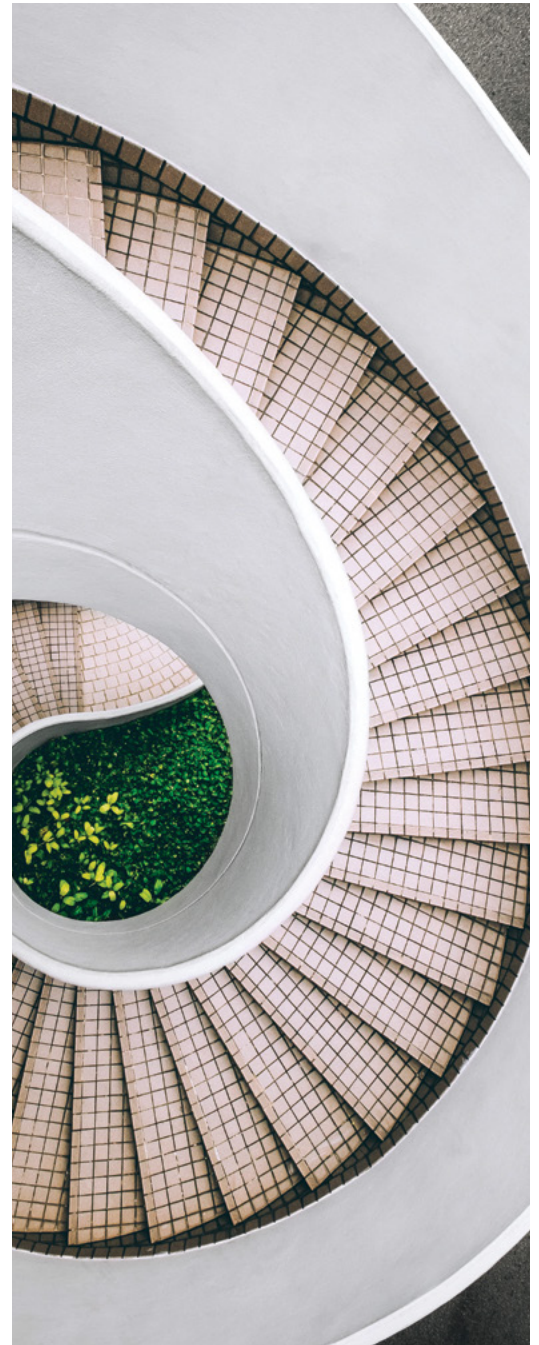
Table 2: Risks & Best-practice Parameters for Governance & Management of Sustainability Objectives

Approaches			
Governance and involvement of top management	No centralized/dedicated governance bodies, top management is not involved	Clear roles regarding responsibility, but top management is partly involved <i>Example: responsibilities for setting and monitoring sustainability objectives are not separated and/or top management is barely involved.</i>	Centralized/dedicated governance bodies, high involvement of top management <i>Example: a dedicated sustainability committee of the board is responsible for setting the sustainability objectives, while a dedicated position at executive board level is responsible for monitoring the objectives.</i>
Progress measurement	None: sustainability objectives are established but not tracked and therefore risk being seen as merely paying lip service	Basic: sustainability objectives are established but not sufficiently tracked in order to ensure their thorough and timely achievement <i>Example: they state that they have measures in place, but do not name a specific metric to measure progress.</i>	Sophisticated: sustainability objectives are established and thoroughly tracked, e.g. through KPIs, in order to ensure their thorough and timely achievement. <i>Example: science-based targets are measured by using specific metrics e.g. GHG emissions including scope 1, 2 and 3 related to suppliers, while other targets are measured against set milestones.</i>
Review frequency	None: sustainability objectives are set up once but there is no formal review frequency established or the objectives are not reviewed at all, rendering them unrealistic or outdated.	Low: sustainability objectives are set up but not reviewed regularly. This might lead to discrepancies between goals and strategic directions and decisions in relation to sustainability. <i>Example: the sustainability objectives are reviewed upon request but are not regularly on the agenda by default.</i>	Medium/high: sustainability objectives are set up and reviewed regularly. This ensures that the organization stays on track and does not lose sight of the sustainability objectives. <i>Example: the science-based targets are reviewed annually, while internal targets regarding the sustainable investing offering are reviewed quarterly.</i>
			
	Risk: unsubstantiated objectives	Risk: objectives with insufficient back-up	Opportunity: credible and realistic objectives

To underpin their ESG objectives and commitments, sustainability-related market initiatives are widely embraced by most private banks. Most banks participated in more than three initiatives, with Carbon Disclosure Project (CDP), TCFD, PRI, Global Reporting Initiative (GRI) and Principles for Responsible Banking (PRB) being the most common. However, we see a wide spectrum in the amount of influence that commitments to these initiatives have on the bank's sustainable investment practices.

The key motivations uncovered for being members of these initiatives were:

- improved perception and credibility of sustainable investing activities by clients and external stakeholders
- opportunity to network and share best practices in sustainable investing
- ability to exert influence on policy and provide/benefit from industry guidance.



Sustainability Policies

As financial institutions boost their sustainable investing activities and more mandatory sustainable finance regulations come into force, sustainability aspects are increasingly being integrated into banks' internal documentation and policies. We are therefore seeing that stand-alone, group-wide sustainable investment and exclusion policies are becoming the norm, especially since the policy-related Sustainable Finance Disclosure Regulation (SFDR) requirements became applicable on 10 March 2021. However, the depth and quality of these policies vary widely. While some banks address ESG topics thoroughly, providing details on a wide range of topics to foster transparency and educate investors on sustainable investing, others cover them on a superficial level, focusing mainly on mandatory disclosure topics such as sustainability risk, without being very specific. The box on the right highlights the contents of SI policies as found during our research. Asset class-specific and sector-specific SI guidelines are less common and mostly complement broader exclusion policies by providing sector or industry-specific exclusion guidelines.

Many banks' group-wide or asset management policies are said to apply to wealth management as well; however, not all of them cover it explicitly. In addition, very few banks have or are planning additional wealth management-specific policies. This might be explained by the fact that wealth management is more driven by client preference than asset management, and therefore enacting such policies may be difficult, unless the bank frames itself as a specialist sustainable investing bank. Nonetheless, a good practice in the advisory and discretionary mandate context is to state that no investments or recommendations will be made that violate the bank-wide exclusion policy.



Contents of SI Policies

Typical contents of SI policies:

- General commitments towards sustainability
- Governance structure (e.g. responsibility for ESG investing is allocated at a high management level)
- Sustainable investment definitions
- Sustainable investment process
- Sustainable investing approaches and implementation
- Integration of environmental and social consideration into risk management frameworks

Other contents of SI policies:

- Integration of ESG issue-related data into a broad array of investment decisions
- Investments are based on own, institutionally defined sustainability principles
- Monitoring of ESG progress based on a set of key performance indicators (KPIs)
- Taskforce/sustainability committee overseeing and promoting sustainable investing across the company
- Research and education for investors about sustainable investment practices

Public Sustainability Reporting

Banks have been communicating their sustainability commitments and activities to external stakeholders for over a decade. However, sustainability-related corporate reporting has gained a lot of attention from the industry and regulators in the last few years. Reporting on sustainability-related metrics and ESG performance is becoming increasingly complex and subject to various frameworks (e.g. GRI, TCFD) with different industry standards. Within sustainability reporting, climate mitigation and metrics have become a core element for most banks.

Most banks are currently planning to report on their climate risks and opportunities based on the recommendations given by the Taskforce on Climate-Related Financial Disclosures (TCFD), which has established itself as the best-practice standard. We find that TCFD disclosures are more specific and have a higher quality and broader scope than climate disclosures that are not TCFD aligned. It appears that banks that claim to report on climate-related issues that are

not TCFD aligned often mention some climate-related aspects but are not comprehensive in their approach, nor do they commit to concrete action items.

Few banks explicitly include wealth management in their climate-related reporting. This can again be explained by the wealth management business being driven by client preference. At the same time, having clear guidance on the climate risk and opportunities and how they are integrated into wealth management products would support banks in aligning with clients who actively care about the climate impact of their investments. With rising regulatory reporting requirements, a particular challenge for private banks in the future will be to balance the often very detailed and technical information required by reporting frameworks and regulatory requirements with clear, actionable information that is understandable to clients.



The Evolution of Sustainability Reporting

Sustainability reporting continues to gain importance globally and is becoming a regulatory requirement for large and listed companies in some regions.	
Triple Bottom Line	The Global Reporting Initiative (GRI) is an international, independent standard organization and was the first to take up the challenge of standardising sustainable reporting in 1997. GRI reporting is based on the Triple Bottom Line (people, planet and profit) approach and helps firms to evaluate and communicate their impact on issues regarding the economy, environment and society. The GRI reporting framework covers a wide range of ESG issues. Besides the general framework, the GRI has further developed and published sector-specific guidelines for sustainability reporting, such as the “Financial Services Sector Supplement”.
Materiality	The incorporation of the Sustainability Accounting Standards Board (SASB) in 2011 represented a shift in sustainability reporting towards financial-material ESG issues. SASB standards are industry-specific and map sustainability issues on the basis of materiality based on the likelihood of such issues affecting the financial health of a typical company in an industry or sub-industry.
Integrated reporting	In 2014, the International Integrated Reporting Council (IIRC) initiated the Integrated Reporting (IR) framework, representing a shift towards more holistic sustainability reporting. In contrast to traditional, separate annual and sustainability reporting, integrated reports connect financial, environmental, social and governance aspects and performance information and help organisations think more holistically about their strategy and risks.
Climate-related disclosure	In 2017, the ‘ Task Force on Climate-related Financial Disclosures ’ (TCFD) published recommendations for more effective, climate-related disclosures that promote more informed financial decisions. TCFD was founded after G20 saw the need for better reporting regarding the financial implications of climate change as its effects intensify. Previous sustainability disclosures lacked information regarding the financial implications of climate-related risks and opportunities. The TCFD issues industry-specific key performance indicators to help financial institutions evaluate existing and potential climate-related risks for their overall portfolio as well as identify hedging opportunities.
Nature-related disclosure	Nature is expected to become the next big sustainability issue to be addressed at scale after climate change. However, the financial industry is a long way from formally recognizing environmental issues in its business activities despite rising public concern and recognition. The Task Force on Nature-related Financial Disclosures (TNFD) was initiated in 2021. TNFD will develop a risk management and disclosure framework for nature-related risks addressing both the financial as well as the business sector. The TNFD framework is expected to be based on lessons learnt through implementing the TCFD framework and to become the industry standard on nature-related risk disclosure.

Sources: GRI & SASB (2021), EIAIfy & Weber (2019)



Sustainable Investing Realizations

Given that sustainable investing is a priority for most participating private banks, we observe a remarkable growth in the realization of the sustainable investing strategy. On average, the compound annual growth rate (CAGR) of AuM deployed in SI over the last three years has increased significantly, with some banks even reporting a CAGR of around 60%. Comparing the numbers of banks that participated both in this year's report and the last one, we see that the three-year SI AuM growth rate has almost doubled, rising from approx. 16% to 27%.

However, given the divergence in the definition of what constitutes sustainable investments for the individual banks, such comparisons and averages may lack methodological rigor. While some private banks define their sustainable products and sustainable assets based on

regulations such as SFDR, other terms are purely "self-defined" and may refer to minimum ESG ratings to meet the classification criteria. (See Appendix 1 for a table that summarizes some common terms and definitions). Moreover, several participating banks stated that they had changed their methodologies and redefined their understanding of sustainable investments within the last few years. We expect that this heterogeneity of terms will continue to exist, not least because of the regulatory refinements that are taking place with regard to sustainable investments in different jurisdictions (e.g. AMF provisions in France or BaFin guidelines planned in Germany).

Part I: Sustainable Investing Vision Findings - Implications for Clients and Banks

<p>Clients</p> 	<ul style="list-style-type: none"> • Both bank-wide information, and information on investment product sustainability is becoming more publicly available, concrete, and measurable. This is partially due to standards, regulation and industry convergence. Clients should make active use of this material to gain a comprehensive overview of banks' sustainability activities and offerings. • As banks publish more sustainability information, clients should continue to review this information critically. Involvement in market initiatives such as TCFD and PRI may not guarantee a bank's ability to enact sustainable investment strategies that enable it to achieve its stated goals, and impact/green-washing may still be leveraged to promote an increase in AuM. Differing terminology and definitions of what constitutes sustainable investing also need to be considered before clients, wanting to invest sustainably, entrust their assets.
<p>Banks</p> 	<ul style="list-style-type: none"> • While it is a welcome development that banks are setting numerous and diverse sustainability-related objectives, they should ensure that the goals are reviewed and tracked systematically with risk mitigation and opportunity-capturing processes to generate concrete actions, so that they are not regarded as merely paying lip service. • Overall, banks can improve their approach to sustainability in wealth management in the areas of goal setting, policies and reporting to gradually bring them into line with the prevailing focus on asset management.

Part II: Sustainable Offering



Sustainable Investing Product Offering

Part II: Key Findings on SI Product Offering

- Most banks provide a basic SI offering in the conventional asset classes, such as equity and fixed income products, discretionary and advisory mandates as well as thematic funds. In addition, many banks are diversifying into alternative asset classes (e.g. private markets, real assets, structured products and commodities).
- There has been a significant increase in SI funds being offered, but there are still limited alternative SI funds offered as these often require different sourcing and due diligence capabilities, and do not pass the strict size and track record requirements that many private banks have.
- There is a growing range of SI mandates being offered with different investment strategies, focuses and approaches (e.g. impact, thematic, ESG integration).
- Thematic investments are becoming more diverse both in terms of themes and sub-themes.

Private banks have significantly increased their SI offering over the last few years. Compared to our last study, the average number of SI funds offered increased from 58 in 2019 to 118 in 2021, constituting a growth of (203%)¹. While the SI offering of private banks is broad within the conventional asset classes, alternative

sustainable investments are not as common. Private banks are, however, expanding their SI offering in private markets and real assets, and are offering new, innovative SI products to their clients, ranging from SI structured products such as ESG Notes and ESG warrants to SI commodities such as sustainable gold (see Figure 5).

Figure 5: Examples of Emerging SI Product Classes

ESG Notes	ESG Warrants	Sustainable Gold
ESG note (e. g. DBS ESG Focus Note) invests in fixed income portfolios of global companies across different industries with good ESG ratings.	ESG outperformance warrant (e. g. DBS ESG Outperformance Trade) seeks to demonstrate the superior risk-return characteristics of an ESG portfolio by going long in ESG Leader Index while going short in the Index it is derived from.	Swiss Better Gold Association (SBGA) in partnership with the SECO is pioneering the creation of a responsible gold value chain from mine to market, thereby supporting the creation of sustainable gold investment products.

¹ Note that the sample set of banks is not the same for both studies.

Besides individual SI instruments, most banks offer sustainable, discretionary mandates for different risk profiles. Many private banks have more than one type of SI mandate in their SI offering, with an average of three. SI mandates can usually be tailored to suit conservative, balanced and growth risk profiles. In addition, SI

mandates can be further differentiated through their specific SI focus such as ESG integration or impact, or by having a thematic focus. Our analysis found that the more sophisticated the SI approach of a mandate is, the higher the minimum investment amount. Table 3 illustrates how different SI mandate types can be constructed.

Table 3: Examples of SI Mandate Types

Currency	CHF/EUR/USD		
Asset classes	multi-asset, equity, open fund		
Risk profiles	conservative, balanced, growth		
Min. investment size	50k-5m		
SI focus	ESG Integration	Thematic	Impact
	Focus on mitigating sustainability risks and harvesting opportunities, through investing in companies performing strongly against ESG criteria.	Focus on investments clustered around a specific theme such as climate, education or water.	Focus on investing in companies that have made positive, measurable contributions to the UN SDGs or other impact metrics.
Examples	Discretionary and advisory mandates, which actively manage the overall ESG ratings of their holding and/or systematically include ESG data (ratings and controversy data, for example) and criteria in their investment process.	The thematic Climate Focus mandate by Credit Suisse invests in climate leaders by focusing on five climate themes that seek out opportunities arising from climate change mitigation and adaptation.	The impact mandate by ABN AMRO only invests in companies with a measurable, positive, social and environmental impact and whose business activity contributes to the UN SDGs. However, ABN AMRO also highlights that this portfolio is only suitable for investors who value positive impact more highly than financial return.

Most banks offer additional exclusion possibilities either through tracking MSCI indices with pre-defined exclusions and/or the ability to exclude controversial/non-value-aligned business activities. Custom exclusions based on client wishes and the feasibility of execution

are available for single instrument mandates; however, these often come with additional fees that mean they are unviable for all but the largest portfolios. Table 4 shows examples of additional exclusion criteria for customizing mandates as found in our analysis.

Table 4: Additional Exclusion Criteria

Additional Exclusion Criteria for Customizing Mandates

Basic (most common)	Adult entertainment	Specialized	Abortion	Global sanctions
	Alcohol		Animal welfare/testing	Oil sands
	Armaments (military weapons and equipment)		Arctic oil and gas exploration	Palm oil
	Fossil fuel		Catholic, islamic and other religious values	Pork products
	Gambling		Contraceptives	Predatory lending
	Nuclear power		Corruption	Stem cells
	Tobacco		Death penalty	Unfree countries (lack of political rights and civil liberties)
	UNGC violations		Fur and speciality leather	

There is a growing range of thematic investments available to clients partially due to the ease of understanding of these themes and the attractive opportunities that certain ESG themes can offer. Environmental themes, such as renewable energy and water, are the most common among the study's participants,

followed by education, healthcare, and technology disruptors. Conversely, other social themes, such as human rights or good health, are not as well covered, partially due to the difficulties in constructing attractive investment universes around these themes.

CASE STUDY

Thematic Investments

Growing Diversity among Themes

Renewable energy	Food waste	Consumer brands	Food revolution	Circular economy
Energy efficiency	Microfinance	Agricultural yield	Waste management and recycling	Genetic therapies
Biodiversity	Fintech	Automation and robotics		Electric vehicles
Water	Drones		Clean air and carbon reduction	Smart cities
Healthcare	Smart mobility	Diversity and equality		Climate and environmental changes
Education	SDG engagement/ opportunities		Emerging markets infrastructure	
Affordable housing		Green planet		Ageing population
Gender and racial equality	Tech disruptors	Arising Asia		

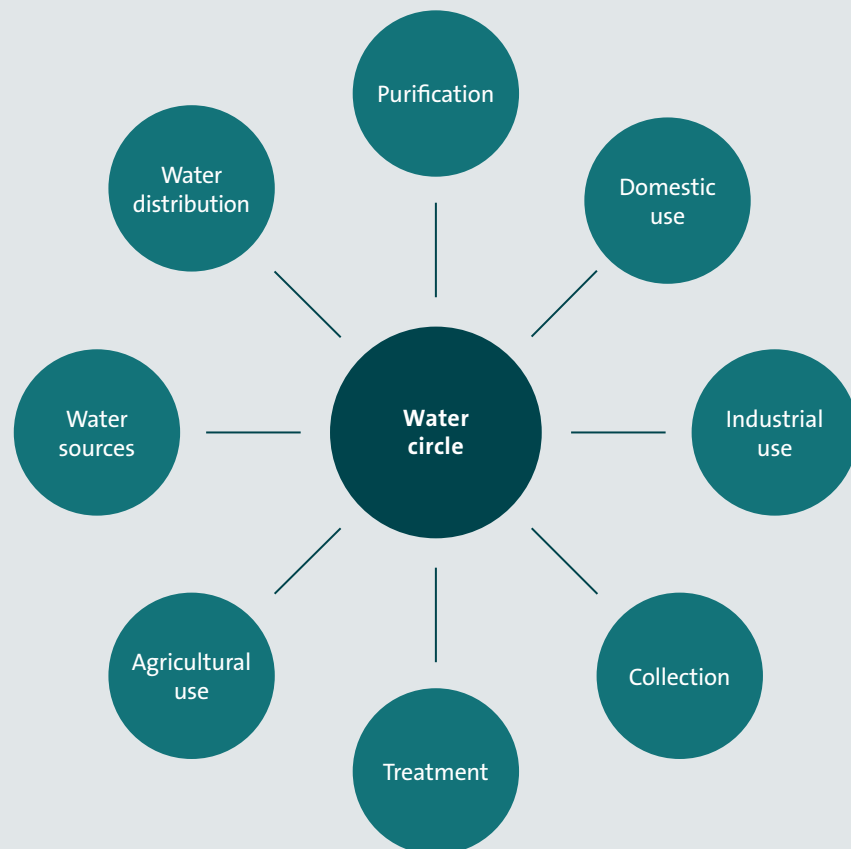
Growing Diversity within Themes

Water

While water is ubiquitous, global warming and environmental stress are putting increasing pressure on water resources, leading some financial experts to conclude that water will become as valuable as oil in the next decades. Banks are increasingly paying attention to this mega-trend and responding to it by packaging investments related to water (see

right) into investment products for their clients.

Such funds either contribute to or are aligned with reaching SDG 2 zero hunger, SDG 3 good health and well-being, SDG 6 clean water and sanitation, and SDG 14 life below water. Examples of underlying investments can be seen in the table below.



Selection of Water-related Investment Themes

Treatment	Water distribution	Several funds focus on companies whose activities are related to freshwater distribution and are also linked to utilities and water-related equipment necessary for the distribution of water. <i>(Example: RobecoSAM Sustainable Water Fund and BNP Paribas Aqua, Pictet Water Fund)</i>
Water scarcity		Some funds focus on the increasing water shortages in many parts of the world by targeting companies that are developing technologies to counteract water scarcity and allow for more efficient use and distribution of water resources.
Blue economy		Ocean focus funds, often labeled under the theme of ‘blue economy’, focus on companies that are related to opportunities in the sustainable use of ocean resources, such as eco-tourism, pollution prevention and ocean conservation. <i>(Example: BNP Paribas Easy ECPI Global ESG Blue Economy, CS Rockefeller Ocean Engagement Fund)</i>

Growing Diversity within the Biodiversity Theme

The biodiversity crisis has been receiving increasing attention as both an ESG risk and opportunity in sustainable investments. This is reflected in the emerging TNFD guidelines and collective market initiatives such as the Finance for Biodiversity Pledge, which aims to foster positive impact on biodiversity while limiting negative impact, through assessment of financing and investing activities, among other commitments.

The rising interest in biodiversity is also finding its way into product offerings. Lombard Odier offers a fund with a ‘natural capital’ focus, which it sees as an important field for both environmental impact as well as new growth opportunities. The fund includes companies

that leverage “the regenerative power of nature or access opportunities generated by climate-change mitigation and adaptation” in their portfolio. Credit Suisse offers opportunities in conservation finance by focusing on creating long-term, diversified sources of revenue that ensure both terrestrial as well as marine biodiversity.

Lack of high-quality data and standardised metrics to measure positive and negative biodiversity impact impede product development based on the biodiversity theme. Compared to the sectors based on technology and infrastructure, such as water, biodiversity is a more abstract, macro-environmental concept and is therefore harder to target individually.





On the Political Agenda

- Biodiversity preservation is one of the six environmental objectives of the EU classification system for green economic activities (the EU Taxonomy).
- The EU has recognised the importance of biodiversity financing: via ‘Invest EU’, a natural-capital and circular-economy initiative, at least €10 billion is to be mobilised over the next 10 years to strengthen biodiversity, based on public/private blended finance.

The EU has also issued its biodiversity strategy for 2030, which includes its long-term plan to protect nature and reverse the degradation of ecosystems.

- The UK parliament’s research department published a study focusing on the financial risks of nature loss in March 2022. The report outlines the type and scale of the financial risks of nature loss and looks at potential mechanisms to improve company level reporting and mitigation of both the financial risks of nature loss, and nature loss itself.

Part II: Sustainable Offering - Implications of SI Product Offering Findings for Clients and Banks

<p>Clients</p> 	<ul style="list-style-type: none"> • With an increasing range of SI products available, clients have more options than ever to fulfil their non-financial goals and invest in personal thematic interests via products that suit their individual investment style. • The increase in product availability means that clients may need more time to uncover the best product for their needs, and skilled advisors, who can help navigate these decisions, are more important than ever.
<p>Banks</p> 	<ul style="list-style-type: none"> • While private banks must continue to innovate and explore all avenues as regards fulfilling clients SI needs and uncovering new SI opportunities, with the current focus on ESG integration, negative and positive screening, a greater focus on measurable impact both in public and private markets is required in order to make quantifiable progress against sustainability criteria. • New regulatory initiatives (such as the EU Taxonomy) based on standardized definitions and higher-quality data offer some promise of greater clarity being brought to the market, enabling clients to make better decisions and relationship managers to provide clearer advice. • Accessibility is still a key issue for investors wishing to pursue impact investments and go beyond liquid, public asset classes, as they are often faced with high entry requirements and high fees for customization of off-the-shelf products.

ESG Integration

Part II: Key Findings on ESG Integration

- The level of ESG integration in the investment process differs widely depending on investment strategy, asset classes and the depth and breadth of the skills of ESG investment staff.
- ESG research capabilities and methodologies have become more sophisticated, with many private banks developing in-house capabilities to analyze and rate ESG products.
- Private banks rely heavily on generalist data providers for ESG ratings data, while complementing these data with more niche sources as well as in-house analysis. The non-convergence between data providers in their ratings and lack of a common framework are a persistent challenge, but also reflect the complexity involved in coming to an overall conclusion on the sustainability performance of underlying companies.

The sophistication of ESG integration processes relies on three pillars: the underlying data used, proprietary ESG analysis and the integration of ESG information within the investment process.

We identified five different levels of incorporation of ESG information as illustrated in Figure 6. These levels are not mutually exclusive and exhaustive, but indicate how advanced a bank's approach towards sustainable investing is.



Figure 6: Levels of Incorporation of ESG Information

The process of filtering the broad range of external and internal ESG data for integration into financial analysis and investment decisions.

	Level Description	Practical Application
ESG Dissemination	Providing ESG information to advisors and fund managers to incorporate into their investment decision	All investment managers have access to an extensive ESG data platform to integrate ESG information into their investment decisions
ESG information as a filter	Use of ESG information as a filter to build an initial sustainable investment universe (i.e., exclusion, positive & negative screening)	ESG Information is used as a filter to construct a list of recommended equities and fixed income sustainable investment products
ESG analysis as an initial layer	More profound analysis of ESG information as the first layer of the investment analysis to shape initial universe before the financial analysis	The analysis starts of with sustainable analysis to shape the initial universe followed by a several refining rounds optimizing financial and sustainable parameters alike
ESG analysis as an additional layer	Use of ESG information as additional layer of financial analysis to define sustainable investment universe and form recommendations for instrument selection	Sustainable and financial objectives have the same level of importance in the investment strategy within a sustainable mandate
ESG integrated in financial projection	Integration of ESG information into financial projection	ESG factors are fully integrated in company valuations instead of treating them as a separate factor

In contrast to the last report, almost all private banks in the sample perform in-house ESG analyses and some form of internal ESG rating. Overall, the analysis revealed that most ESG research capabilities and methodologies of private banks have become more sophisticated and incorporate more tools into their ESG due diligence (e.g. direct requests to investee companies, scenario analysis to integrate climate risk and opportunities).

A few examples of different ESG integration approaches in banks:

- Triodos assesses companies by their contribution to seven sustainable transition themes.
- Pictet ESG scorecard focuses on four pillars, namely corporate governance, products and services, operational risks, and controversies.
- Danske Bank's analytical tool mDASH focuses solely on financial, material ESG factors of a company in their sustainability assessment.
- Other, more specialized, sustainable investing banks such as Globalance do not rely on any external ESG ratings at all, and use only their proprietary ESG analysis and rating.

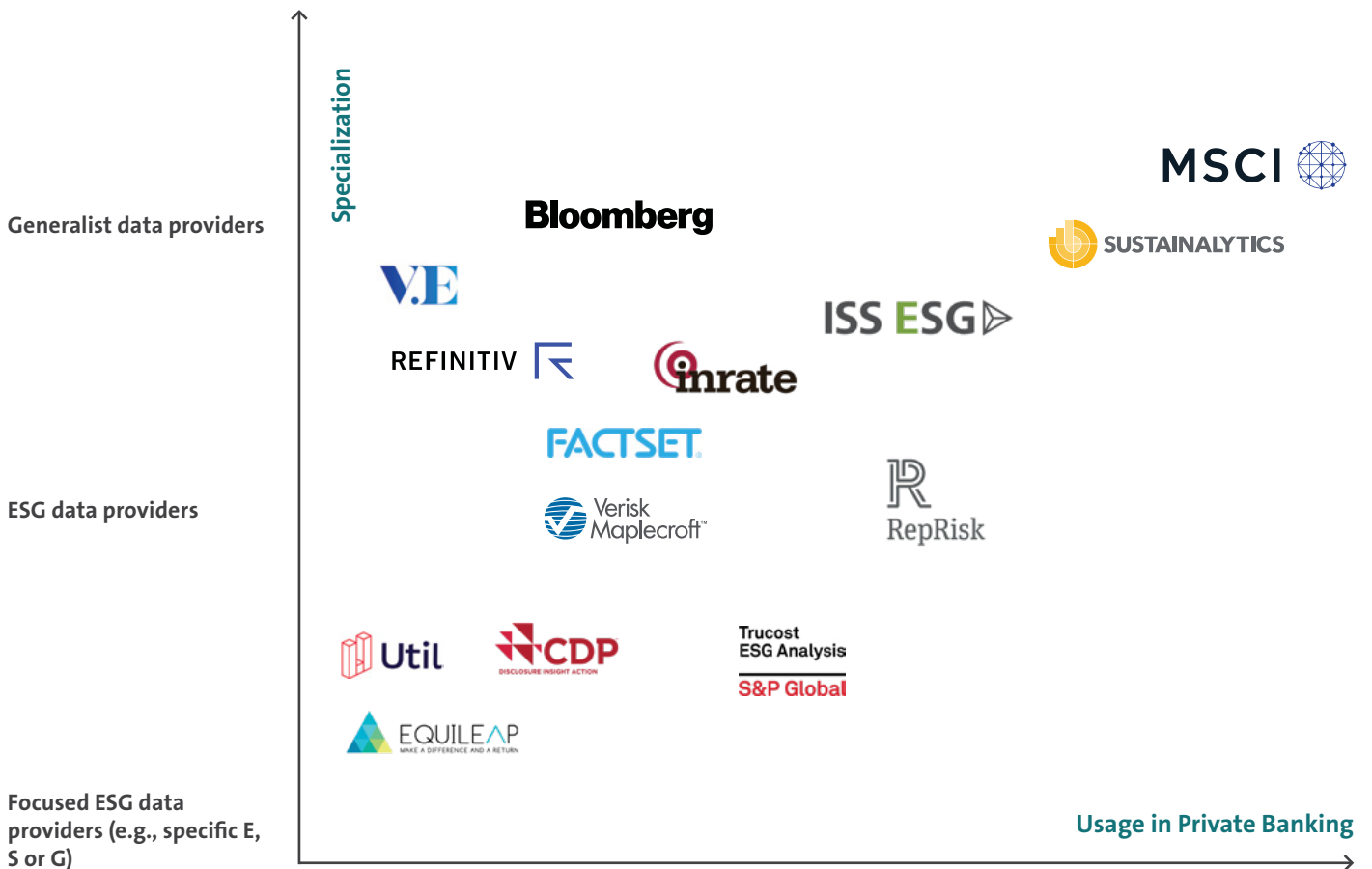
The number of sustainability-related rating and data providers is estimated to be around 150 globally. Start-ups and fintechs continue to enter the field, while existing global financial market players (e.g. credit rating, investment research and market indices providers) have expanded into the market either organically or through acquisitions.

Although private banks have cited the use of over 25 different ESG data providers, MSCI ESG and Sustainalytics are used the most, as seen in Figure 7. The analysis also showed that some banks do not share all of their accessed ESG data with their wealth management, or do so only in an aggregated form (e.g. through a proprietary ESG rating).

Other types of sustainability-related data providers include those that provide ESG data only (in comparison to general financial data) and focused ESG data providers that provide specific E, S, or G-related data such as gender equity data.

Figure 7: ESG Data Provider Map in Private Banking

A broad selection of ESG data providers mapped against their specificity and frequency of use by financial institutions.



Selection of named sustainability-related data providers only

A development in ESG data providers has been the release of new data sets, which enable financial product providers to monitor SFDR Principal Adverse Impacts Indicators, EU Taxonomy Data, TCFD guidelines, SASB standards, and 17 SDG goals. We see this as a positive development, as the ability of financial institutions to implement new regulations and

emerging guidelines effectively will be heavily reliant on the accessibility of high-quality data that conform to these standards.





Regulation of ESG Data Providers

ESG data providers are **currently largely unregulated**. To align the activities of ESG data providers and ensure transparency, comparability and reliability of ESG data, several organizations (e.g. the French and Dutch financial market authorities, the European Fund and Asset Management Association and the European Securities and Markets Authority) have called for the regulation of ESG data providers and

the introduction of minimum standards for ESG data.

Consequently, several governments are **considering bringing ESG data providers under regulation**. It remains to be seen how quickly such regulations will be implemented and what needs to be done ahead of such steps (e.g. clearer definitions and reporting guidelines).

Part II: Sustainable Offering - Implications of ESG Integration Findings for Clients and Banks

<p>Clients</p> 	<ul style="list-style-type: none"> • Clients should not blindly trust aggregated ESG scores as an indication of the quality of sustainability products and funds. While potentially a useful data point, they may also ignore or even detract from engagement and voting efforts, which are equally (if not more) important for investor impact. • Active dialogue with one's bank to fully understand their ESG integration processes and proprietary methodology is crucial for analyzing product fit and for clients to trust their bank to successfully execute their sustainable investing strategy.
<p>Banks</p> 	<ul style="list-style-type: none"> • Banks should promote transparency in their ESG investment processes by providing clear guidance to clients as well as examples of how their strategy is applied in individual holdings. Relying on aggregate ESG ratings to market products is not enough. • Banks should publicly declare which ESG data providers they use and for what purposes, as well as how their proprietary ESG analysis fits into their analysis. This strengthens their ability to prove that robust investment processes are in place for their sustainability investment activities.

Investor Impact

Part II: Key Findings on Investor Impact

- Active ownership services (proxy voting and shareholder engagement) have moved up the agenda of private banks, but there are still challenges.
- Private markets' SI offering is increasing significantly, and the industry is moving beyond micro-finance towards a diverse set of impact themes (e.g. climate change, healthcare, sustainable food).

The interest of many investors in sustainable investing is driven by the wish to have a positive, real-world impact through their investment. According to a recent study by Kölbel et al. (2020)², investors seeking to have an impact with their investment should either invest in private markets to support the growth of positive impact companies with otherwise limited financing capabilities, or pursue shareholder engagement and voting within their public equity investments.

Stewardship

The question remains as to how responsible ownership practices, also referred to as stewardship, are incorporated into investment products and services for private clients. Institutional investors such as pension funds or insurance companies, as asset owners, have more legal power to vote and engage with their investees. For private banks, which are not asset owners but the intermediary for their clients, practicing stewardship can be more complicated.

Nevertheless, stewardship practices are possible for private banks and we have seen a substantial positive development since our last report, as most banks include voting and engagement in their mandates in some way. The most common services offered by the banks in scope are facilitating client voting through

a voting interface or engaging with company managements on ESG issues through asset management for directly held shares. Moreover, stewardship is becoming an increasingly important factor in fund selection for many banks. A few banks even state that support for sustainability-related shareholder proposals and/or engagement capability and efficacy is a key factor for sustainable fund selection. For further details on current stewardship practices of private banks, we have included a deep dive at the end of the report (see Special Topic 3).

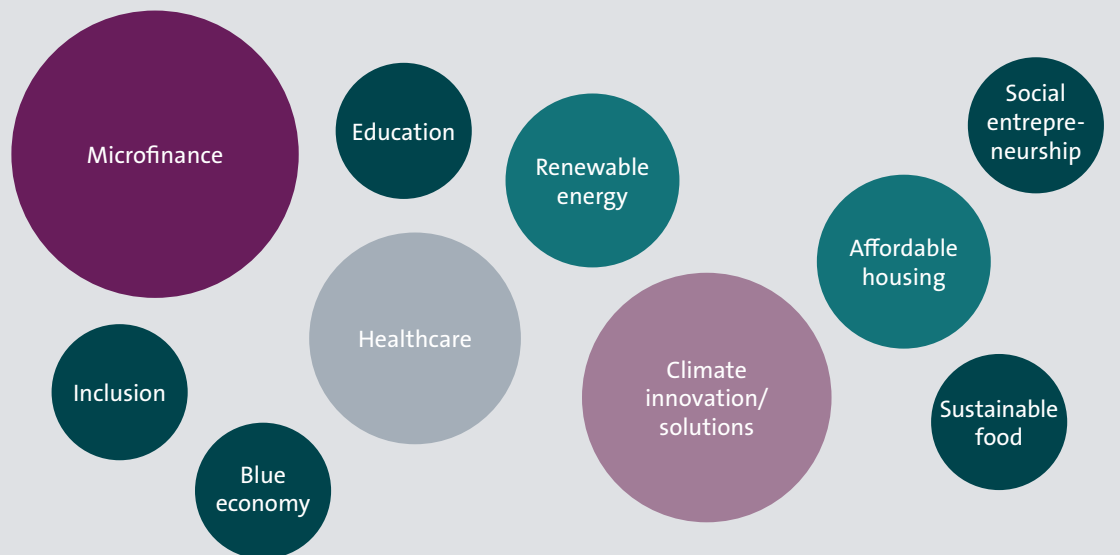
Private markets' SI offering

Several private banks in scope offer their clients a selection of private market impact funds. Private market funds are particularly effective as investment vehicles for impact as they fund companies that may not have received capital or would have a much higher cost of capital had such funds not existed.

The analysis further reveals that the impact investing offering has expanded to include social themes such as healthcare, education and affordable housing, as well as environmental themes such as climate innovation, sustainable infrastructure and renewable energy (see Figure 8). Microfinance is still the most prominent impact theme offered, largely due to maturity and breadth of opportunities available in this segment.

² For the practitioner's version of this academic research paper, see: https://www.csp.uzh.ch/dam/jcr:ab4d648c-92cd-4b6d-8fc8-5bc527b0c4d9/CSP_Investors%20Guide%20to%20Impact_23_9_2021_spreads.pdf

Figure 8: Impact Themes offered by Participating Banks



**bubble size represents number of offerings by impact theme*

Due to the often prohibitively large ticket sizes of institutional funds, private banks are increasingly using feeder fund³ structures to facilitate access for private clients, with minimum investments of around USD 100-250k. The feeder fund structure is commonly used for private equity impact funds to make smaller ticket sizes possible, and reduce the administrative burden associated with private equity investing due to the relationship of the fund being with the bank rather than with the individual client. This is a positive development as it increases the accessibility and attractiveness of impact investing for clients. In comparison to the feeder fund structure, the fund of fund⁴ structure of private market impact funds is still rare due to the limited investment

universe and nature of time-bound, closed investment funds; this could, however, be an area for development as the market matures.

Although more and more private banks are expanding their sustainable investing offering to private markets, the scale required to successfully launch private equity impact funds and the complexity of structuring them creates a high barrier to entry into this area of sustainable investing. At the current stage, only a few banks have comprehensive knowledge in various impact sectors and have created sector landscapes of PE/VC fund managers.

³ A **feeder fund** is an investment vehicle that pools capital from investors and invests all the investment capital into an overarching umbrella fund, known as the master fund, which thereafter directs and oversees all portfolio investments.

⁴ A **fund of funds** ("FoF") is an investment vehicle that pools capital to invest in other investment funds. In comparison to feeder funds, funds of funds make their own investment decisions.

CASE STUDY

Private Equity Fund of Funds

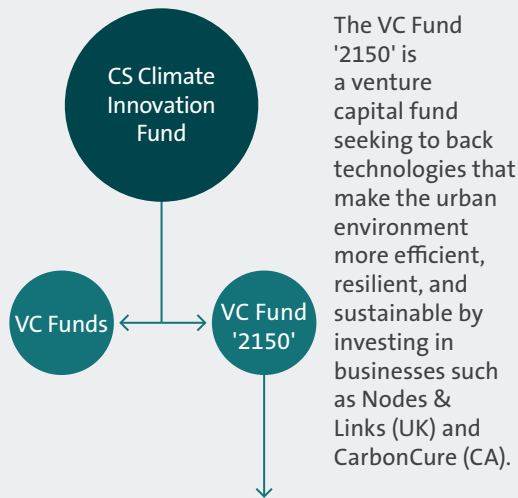
The Credit Suisse Climate Innovation Fund is a private market impact fund raised to mobilize capital towards tech-forward climate solutions. The capital is allocated to venture capital firms focused on disruptive technologies and active in facilitating the reduction of carbon emissions.

Size and Scope

The fund closed at US\$ 318m and will make ten investments to venture funds in North America, Europe, and Asia that are active in facilitating carbon emission reduction.

Structure

The CS Climate Innovation fund invests in 10 venture funds, one of which is the VC Fund '2150'



The VC Fund '2150' is a venture capital fund seeking to back technologies that make the urban environment more efficient, resilient, and sustainable by investing in businesses such as Nodes & Links (UK) and CarbonCure (CA).

Examples from the initial investments

Nodes & Links (UK)	CarbonCure (CA)
Deploys advanced algorithms to support complex infrastructure projects.	Helps mitigate carbon embodied in concrete.

The initial five investments of the '2150' alone have the potential to mitigate 1.6 gigatons of CO2.

Investment Opportunity

The sectors covered are food and agriculture, production and consumption, transportation and urbanisation. The CS Climate Innovation Fund attempts to unlock investment opportunities in new technologies and business models that accelerate transformation and changes in the way food is grown, construction materials are generated and energy-efficient modes of transportation are scaled.

Impact Measurement



The fund will report on its alignment with the UN SDGs and track the impact at both company and investor level ("Double Delta").

Sources: Credit Suisse, 2021 2150 VC, 2021

Moreover, our analysis showed that almost all banks in scope view private market impact funds as investment opportunities, seeking to generate at or above market returns while avoiding impact-first funds, which may generate below market returns, to facilitate high-impact,

focused investments. For more high-impact opportunities with expected concessionary returns, some banks refer their clients to their philanthropy divisions. This may be due to a desire not to erode the overall returns of their aggregated, sustainable investment activities.

Part II: Sustainable Offering - Implications of Investor Impact Findings for Clients and Banks

<p>Clients</p> 	<p>Clients seeking real-world impact through their investment should be aware of the effective mechanisms available to generate investor impact, such as private equity, and the distinction between company and investor impact.</p> <p>Clients should actively ask their relationship managers and product specialists how they are pursuing active ownership strategies and encourage them to strengthen these capabilities where they are inadequate. They can:</p> <ul style="list-style-type: none"> • Ask their bank(s) for information about their approach to engagement and voting and express their interest in using their shareholdings to take part in ESG-related company engagements and to vote on shareholder resolutions at annual general meetings (AGMs) • In cases where the portfolio holds equities directly, clients should ask banks to ensure that these stocks are voted on in accordance with sustainability principles. Similar actions can be taken for engagement, where shares can be pledged to support sustainability-related shareholder engagements. • In cases where voting and engagement is executed via funds, clients should ask for reporting regarding voting and engagement activities and push for active ownership strategies to be pursued through collective holdings.
<p>Banks</p> 	<ul style="list-style-type: none"> • As a minimum, all private banks should consider voting on and engagement in their fund selection and due diligence of SI investments. • Private banks should educate their clients on stewardship opportunities and look into offering collaborative engagement opt-in options. • Private banks should invest in expanding their expertise and offering within private market SI products to enable clients to increase their real-world impact. Banks should work on making private market investment more accessible to a wider client base by applying private equity structures, such as feeder funds or funds of funds, to reduce the minimum investment amount.

CASE STUDY

Measuring Impact

Measuring Positive Impact

Most private banks currently have a strong focus on measuring the positive impact of their investments. Many of them do so through multiple sustainability indicators, the most common of these being carbon footprint, human capital management and corporate conduct.

There is an ongoing trend towards measuring the positive impact of investment products through their contribution to the UN Sustainable Development Goals (UN SDGs).

Bank J. Safra Sarasin has identified four sustainability criteria based on the UN SDGs against which to measure their sustainable portfolio's non-financial performance.

Example sustainability criteria based on the UN SDGs

Natural Capital			
<p>6 CLEAN WATER AND SANITATION</p> 	<p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p> 	Proportion of holding offering solutions in the field of Natural Capital.	31%
<p>14 LIFE BELOW WATER</p> 	<p>15 LIFE ON LAND</p> 	Number of products and services offered by holdings to address challenges around Natural Capital.	22%
		Share of revenue from Natural Capital solutions for holdings exposed to this impact category.	20%

Sources: Bank J. Safra Sarasin, 2019

Measuring Negative Impact

The financial industry is moving towards a more holistic approach to impact measurement, by also considering the negative impacts of both

sustainable investments and non-sustainable investments.

UNEP FI defines a positive impact business as having “a positive contribution to one or more of the three pillars of sustainable development (economic, environmental and social), once any potential negative impacts to any of the pillars have been duly identified and mitigated.” (UNEP FI "Principles for Positive Impact Finance")

Within the EU SFDR financial market, participants must report on the negative impact of their investment decisions, known as principal adverse sustainability impacts, or PAIs for short. These are defined as “those impacts of investment decisions and advice that (potentially) result in negative effects on sustainability factors” (SFDR, Recital 20).

Our analysis showed that there is no universal understanding of the term ‘negative impact’ and that standardised processes to measure and mitigate the negative impact of investments are not yet in place.

UN Global Compact principles including human rights, labour, environment and anti-corruption. These checks can result in triggering engagement processes to mitigate potentially negative impacts.

ABN AMRO applies a Sustainability Risk Management Framework to ensure sustainability risks are adequately managed throughout the bank and in all portfolio and advisory products. ABN AMRO applies this framework through quarterly checks on their investment universe against the

Triodos, on the other hand, elaborates in detail on each adverse sustainability indicator proposed by SFDR. Reporting on negative impact data in standardized tables will become the norm in the EU with the introduction of the mandatory SFDR templates as of 2023⁵.

Example table inspired by SFDR templates

Adverse sustainability indicator		Metric	Data availability	Actions taken and/or planned
Greenhouse gas emissions	1) GHG emissions	Scope 1
		Scope 2		
		Scope 3		

⁵ See p.60 for more information on sustainable finance regulatory developments including SFDR

Part III: Client Interactions



Clients’ Sustainability Preferences

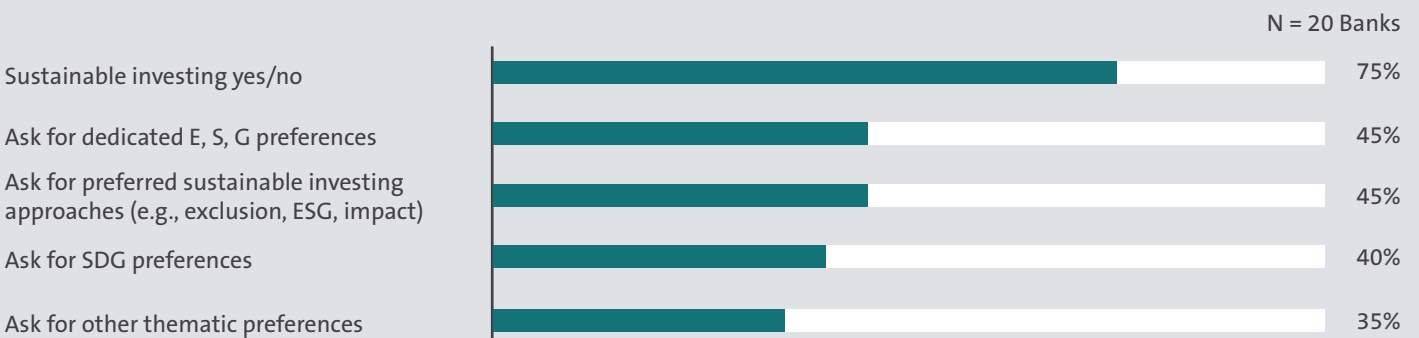
Part III: Key Findings

- Private banks are becoming increasingly active in asking their clients for sustainability preferences, partially due to upcoming MiFID II requirements in the EU. More thorough client profiling and sustainability preference capturing is emerging in some banks but should continue to be strengthened to enable clients to be matched to appropriate sustainable investments.
- Client advisors remain a key bottleneck for increasing SI in private banks, often due to a lack of knowledge and also the incentive to stick with the product range with which they are familiar. Lastly, misconceptions about SI persist, such as underperformance of traditional investments, and should be addressed through education.
- While there has been increasing SI training for client staff, the depth and breadth of training – as well as the cultural shift towards actively promoting SI – is still lagging, with strong potential for market leaders to emerge in this area.

The integration of clients’ sustainability preferences into the investment suitability process is currently gaining importance due to upcoming MiFID II provisions and the need to assess client product fit against sustainability criteria in the expanding SI product shelf. The regulation will have a significant effect on banks in view of the structural implications of assessing clients’ sustainability preferences, ranging from a suitable conceptual design to complex IT implementation efforts.

As can be seen in Figure 9, some banks currently limit their efforts to a simple yes-or-no question regarding interest in SI when asking clients for their sustainability preferences. Most banks, however, go a step further and ask about environmental, social or governance preferences. Sustainable Development Goals (SDG) preferences and preferred sustainable investing approaches, such as exclusion, ESG, impact and/ or other thematic preferences, were additional SI preferences that banks asked about. Other banks simply discuss SI preferences in client conversations.

Figure 9: Percentage of Participating Banks using Different Approaches to Record Client Sustainability Preferences*



**Multiple approaches possible*

CASE STUDY

BNP Paribas myImpact Questionnaire

BNP Paribas engages their clients on SI through a questionnaire called myImpact to determine their financial and/or impact goals. This questionnaire was co-developed with their clients and will be gradually rolled out in all wealth management

offices globally. myImpact guides clients and their advisors through a series of structured questions to pinpoint appropriate investment products and promote more open engaging dialogue between clients and their advisors.

BNP Paribas' 3-step journey

1 COMPLETE A QUESTIONNAIRE

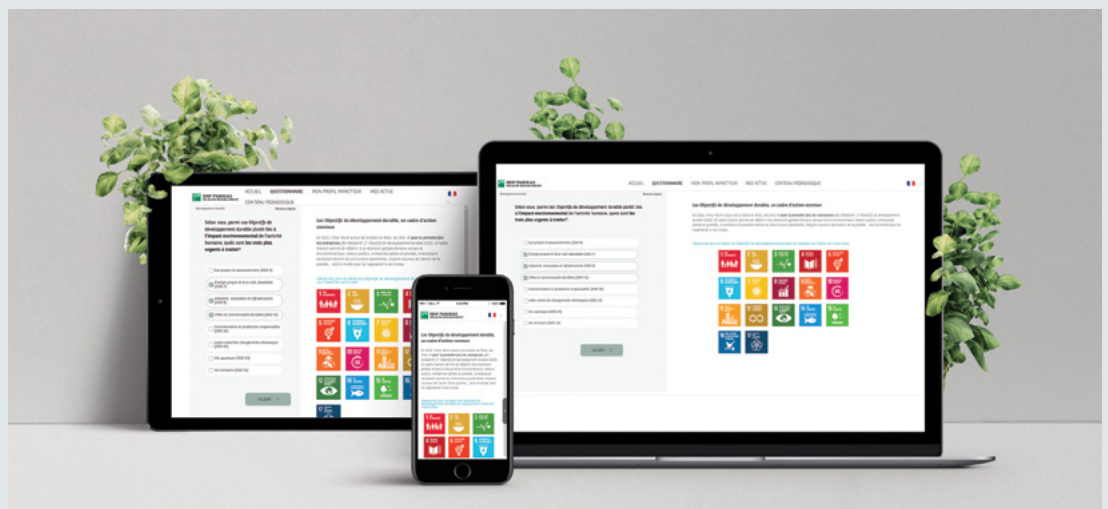
2 DISCOVER YOUR "IMPACTOR" PROFILE

3 STAY INFORMED

Complete a quick and easy questionnaire that comes with clear explanations about the key topics: the Sustainable Development Goals, ESG criteria, multi-sector and thematic approaches, impact investing, philanthropy....

Generate your personal profile, a summary that sets out your responsible investment and/or philanthropy preferences as well as positive impact approaches that are likely to interest you.

My news tab includes new information linked to your preferences and impactor profile to keep you abreast of all the topics addressed in myImpact.



Sources: BNP Paribas Wealth Management (2018)

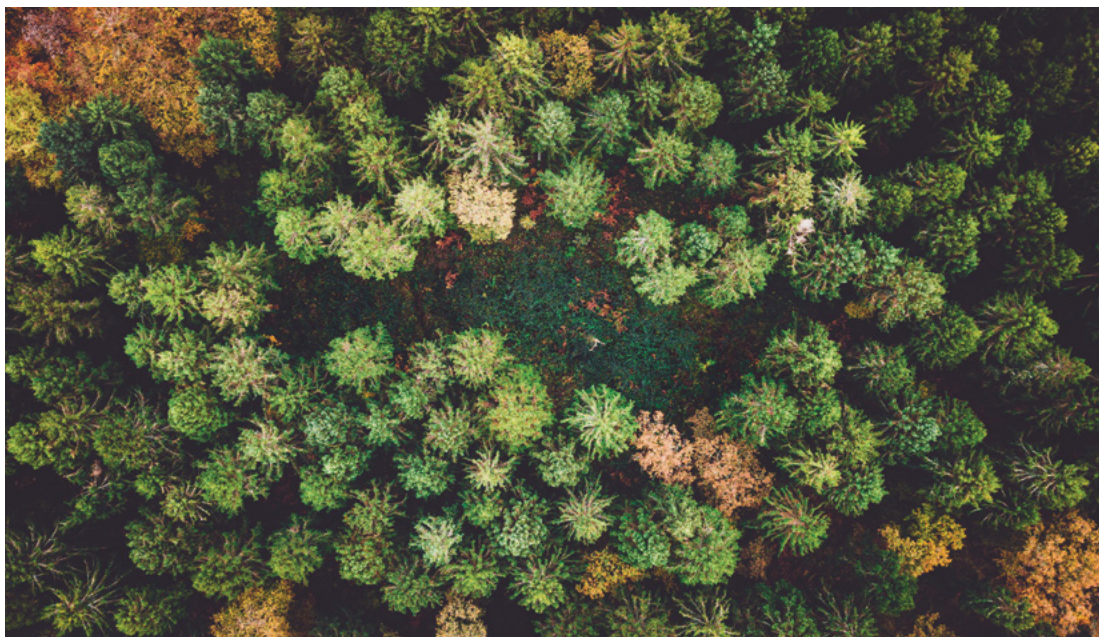
Banks need to have appropriate mechanisms in place to ensure that advisors can respond to their clients' sustainability preferences and suggest suitable investment products. In that regard, the banks' approaches differ: some banks capture client preferences on the basis of six sustainability topics, asking them which is preferred, while other banks stated that relationship managers simply 'discuss' the client's SI preferences with them. Most banks consider the provision of SI training, written guidelines and SI monitoring/tracking as adequate means to bridge the gap between preferences and products.

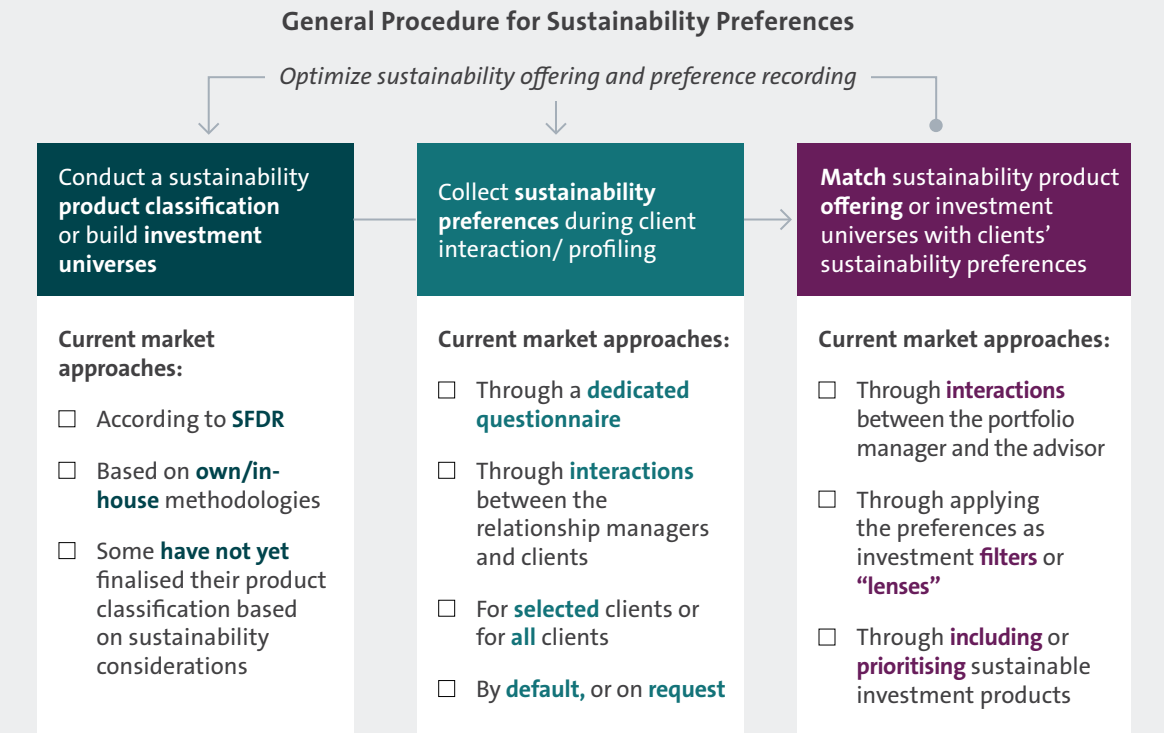
In contrast to previous years, some banks are becoming open to using remuneration to ensure that client advisors adhere to the stated sustainability preferences of clients and are evaluating this option. As with any new incentive scheme, it will be important to ensure that it is adhered to in the right spirit rather

than being a 'tick-the-box' exercise. Other banks cited high management attention and analysis of the client's books to identify the client's interest in SI products as mechanisms to ensure that advisors respond to the individual sustainability preferences.

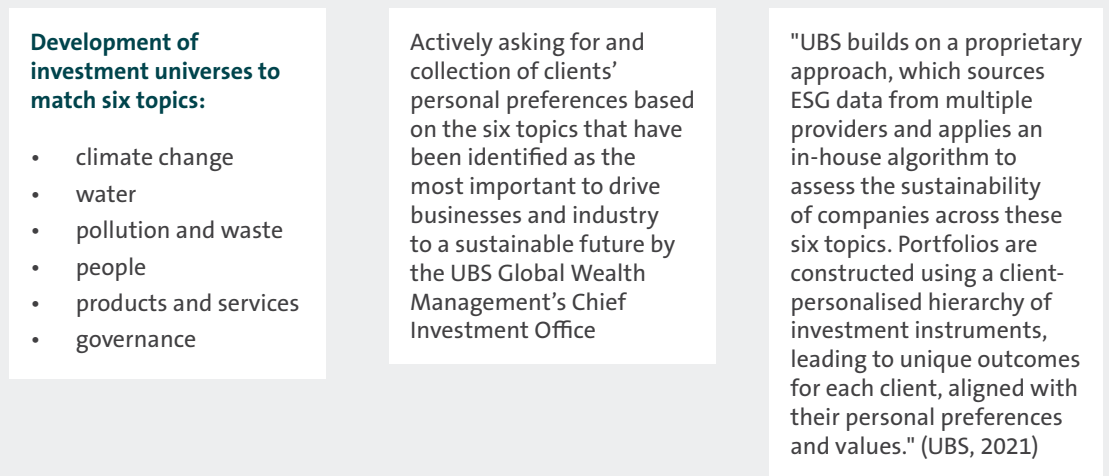
In general, we find that a combination of advisors' discretion supported by tools and processes represent the currently prevailing approach, and that product-matching methodologies are still maturing, with more sophisticated approaches slowly being developed.

Page 46 summarizes the general procedure for sustainability preferences, as well as current market approaches to collecting and matching preferences with the bank's product offering.





Example: USB tailored sustainability advice



Sources: UBS, 2021

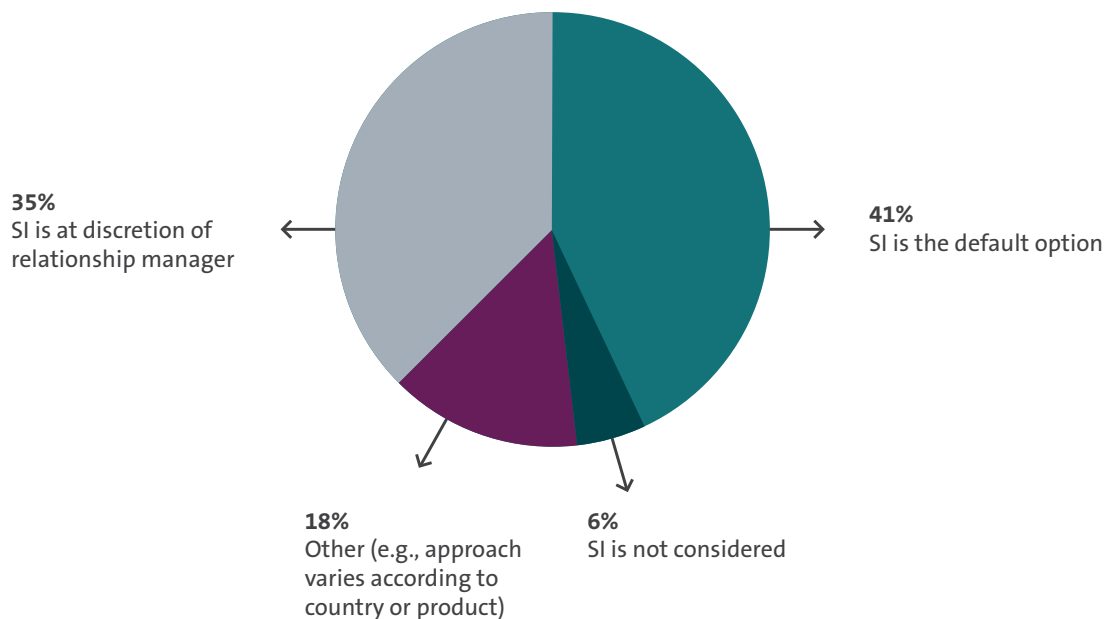
If the client does not have any specific sustainability preferences, we find that an increasing number of banks treat sustainable investing as the default option in certain cases. For example, some banks automatically follow this approach if the client invests globally, while others actively provide guidance to help clients learn about sustainable investing in general and of the different options in particular, if they do not have any specific ESG preferences. Other banks' SI default option comprises basic, sector-related exclusions. In other cases, a default SI default option is not an internal guideline, but the standard approach at the discretion of the private banker.

In any case, many more banks have a default SI option in place compared to two years ago. Moreover, some banks have set themselves goals for the future, for example by noting that SI will be the default option for discretionary mandates from 2024 onwards.

Figure 10 below shows the approaches taken by participating banks in eliciting client SI preferences.

Figure 10: Approach in the Absence of Clients' SI Preferences

Actions taken by the participating banks in the absence of clients sharing their SI preferences.



Clients' Sustainable Investing Interactions

Many banks offer due diligence services on sustainable investments brought in by clients proactively, provided they fulfil requirements such as the ones listed below:

- client's AuM (e.g. only possible from a minimum AuM)
- compliance with client's investment profile (e.g. expected risk-return, liquidity requirements, investment knowledge and experience)
- data availability (e.g. sufficient data available to screen a portfolio for a specific request)
- product potential (e.g. idea's ability to create sufficient demand for a feeder fund)
- advisor's discretion to accept a task

Some banks do not explicitly frame this service as being due diligence-related, but welcome a co-creation process with the clients and a discussion on how best to implement their sustainable investment ideas. One example seen in our analysis was a bespoke, PE impact discretionary mandate in which the client can define themes and bring fund ideas for inclusion.

Internal Training

Adequate training of client advisors in sustainable investing is crucial for the success of SI initiatives. Almost every bank in the sample provides client advisors with a dedicated training program on sustainable investing. Most banks cover a wide range of different topics in their training, such as the definition of sustainable investing, the bank's sustainable investment offering, sustainability risks and ESG regulation.

Banks themselves are highly confident that their training programs have been effective, with half of the banks surveyed stating that 80-100%



Client Education

Besides educating client advisors, most banks offer sustainable investing education for clients. The most common forms offered by private banks are:

White papers are often published by banks to educate clients and demonstrate thought leadership and innovation on the SI product side.

Speeches are used by private banks to garner exposure to their sustainable investing activities and demonstrate the quality of their sustainable investing staff, including senior management.

Workshops are offered to clients to accelerate their understanding of SI and enable them to make more informed SI decisions, due to weaker levels of SI literacy compared to financial literacy. Workshops are often anchored in key interest topics such as impact investing and portfolio decarbonisation.

Newsletters are frequently used to educate clients and provide regular updates on the evolving SI product shelf and general SI market.

Digital media such as webinars, blogs, vlogs, social media and podcasts to educate clients on sustainable investing.

of their advisors are qualified to advise clients on sustainable investing. However, in view of our experience and our direct discussions with clients, this result should be approached with skepticism as we still see a lack of knowledge and skills on the part of advisors as being a key bottleneck to increasing sustainable investing, particularly in wealth management.

While 80-100% of advisors may have gone through some type of SI training, the depth and rigor required as well as the cultural shift needed to promote SI products with the same confidence and enthusiasm as traditional investments are not always evident.

To properly train client advisors in SI, a multi-step learning journey, as seen in Figure 11, is required. This starts with the basics of what sustainable finance is and what it is not, followed by the different approaches to sustainable finance and

the dispelling of various misconceptions related to sustainable finance, such as their being less likely to perform than traditional investments. Advisors also need to be trained in how to profile clients, understand their investment preferences and have enough knowledge to be able to counter their arguments based on misconceptions that persist in their clients' thinking (see Figure 12). From this foundation, advisors need a deep understanding of both their full SI product shelf on offer and how to translate it to their clients' financial and non-financial needs. Finally, advisors need to be well versed in SI regulation and in how to spot green/impact-washing, and know how to follow up with clients who have decided to invest sustainably through them.

The quality factors for training on sustainable investing are summarized in Figure 13 (page 52).



Figure 11: Example of CSP’s Front Staff Learning Journey to becoming a Skilled Sustainable Finance Advisor

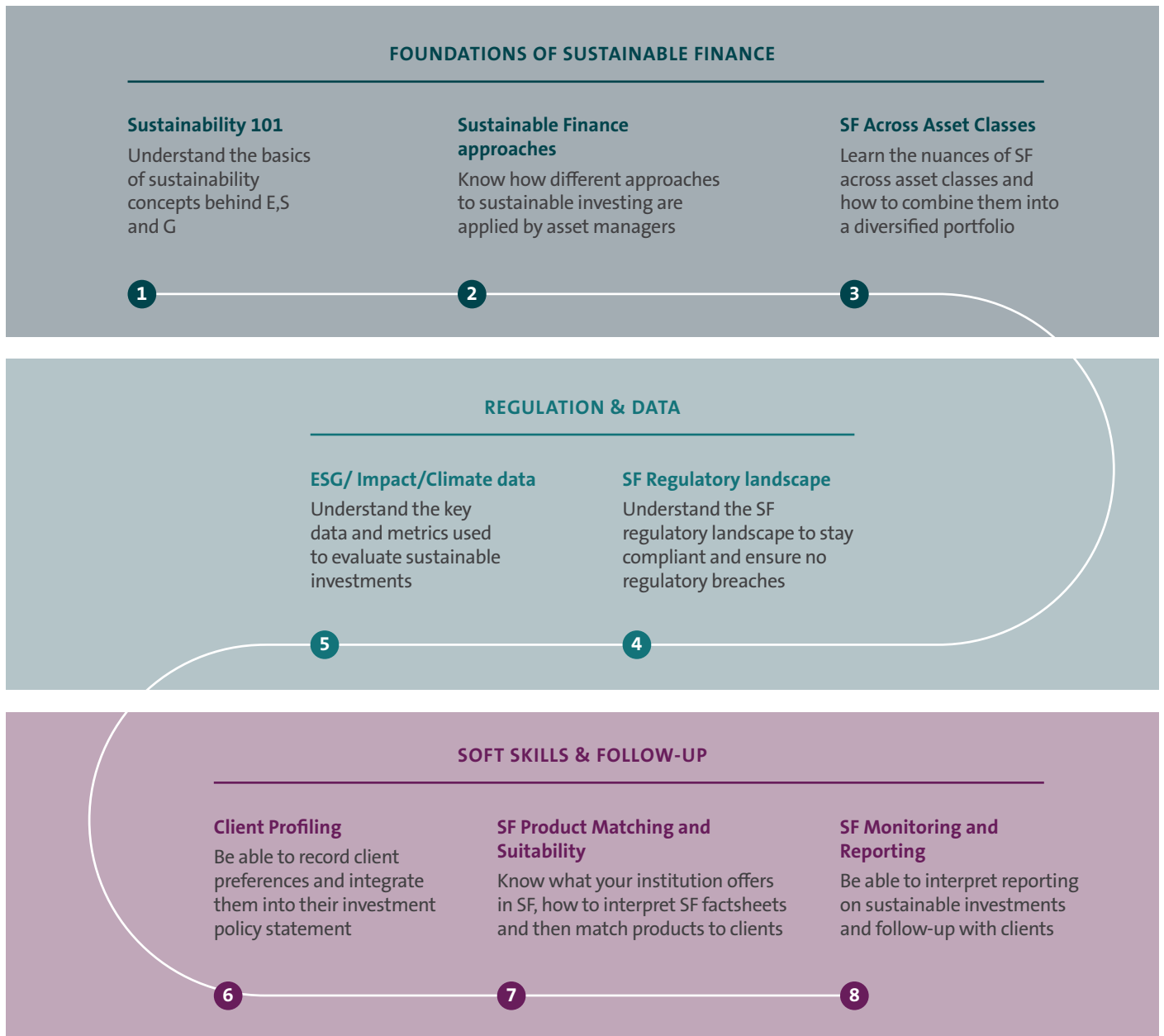


Figure 12: Myths and Challenges Related to SI Advice

The key challenges inhibiting further inflows to SI products from the perspective of banks, clients and a general perspective.

Challenges












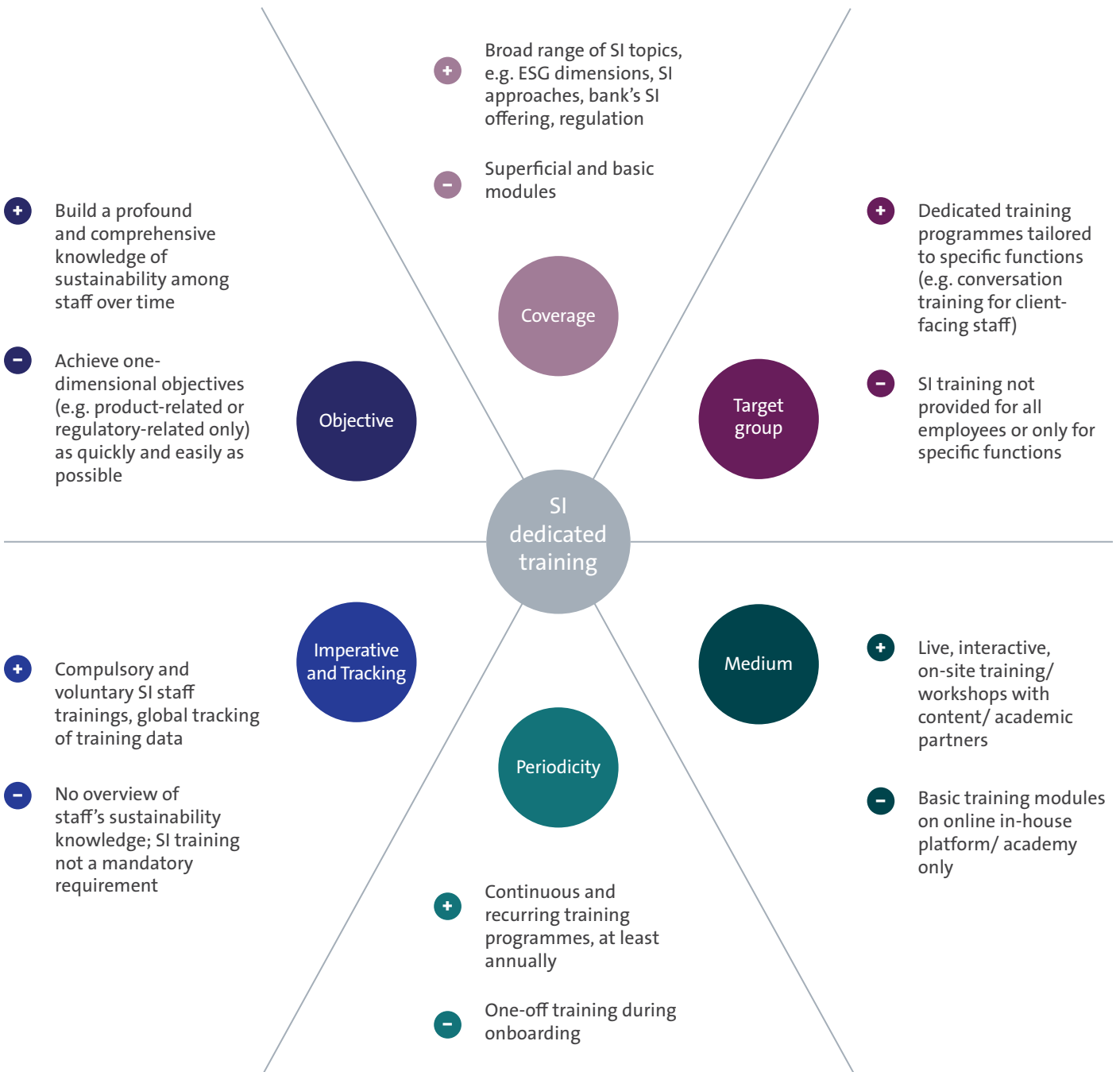


BANK-SIDE CHALLENGES	CLIENT-SIDE CHALLENGES	GENERAL CHALLENGES
<p>Clear challenge</p> <p> Client advisors often exhibit insufficient expertise/familiarity with SI, and lack information about the bank's position and handling of SI activities.</p> <p> Banks are targeting this challenge via education (e.g. internal training platforms) and theme-based training. They are also providing the advisors with new tools to ensure provision of data. Governance of SI is being improved via new roles (e.g. "ESG Ambassadors") and processes to initiate dialogue with clients.</p>	<p>Myth</p> <p> SI products underperform compared to mainstream products, and have higher fees.</p> <p> Clients must be made aware of the positive financial performance of SI products via more intense client engagement and education (e.g. client-based webinars).</p>	<p>Significant Challenge</p> <p> While the quantity and quality of ESG data is increasing, lack of ESG data availability, coverage and plausibility is still a significant challenge</p> <p> Research on ESG data, e.g. by a dedicated sustainability team, is key to improving data quality. Banks are continuously refining the basis for their data, e.g. by engaging with relevant stakeholders and using new tools.</p>
<p>Moderate challenge</p> <p> The banks' SI product offering is inadequate, there is a lack of product fulfilments and the impacts of the products are often unclear.</p> <p> The SI offering and approaches can be improved via cooperation with external partners to focus on product innovation and by enhancing internal SI methodologies and data. Other possible solutions include regular assessment of engagement opportunities and the benefits of regular exchange with stakeholders.</p>	<p>Myth</p> <p> Clients are utterly enthusiastic about SI and relegate issues related to financial return.</p> <p> Clients accept SI, but financial return is still a key factor in their investment decisions. Transparency regarding performance is essential.</p>	<p>Myth</p> <p> There are many SI terms; this can be confusing and opaque.</p> <p> There is by now a clear catalogue of SI terminology, which offers appropriate comparability for financial products.</p>

Figure 13: Developing High-quality, SI-dedicated Training Courses



Part III: Client Interactions Findings - Implications for Clients and Banks

<p>Clients</p> 	<ul style="list-style-type: none"> • Clients should be conscious of the depth of questions they are asked regarding their sustainability preferences and non-financial goals when onboarding with their bank and exploring SI solutions. • Clients should continually assess their advisor's ability to have meaningful discussions on SI and recommend suitable products based on both their sustainability needs and their financial needs. • It may be necessary to switch advisors or banks if discussions and product suggestions do not fit the requirements.
<p>Banks</p> 	<ul style="list-style-type: none"> • Banks should develop intuitive tools and questionnaires for clients to elicit sustainable investing preferences and goals as a starting point for discussion with their advisor. • Banks should ensure that the results of client profiling can be matched to relevant SI products and dedicate resources to both product development and advisory tools to facilitate a smooth onboarding process and ensure that products are truly suitable for the client's needs. • Significant investment in SI training for advisors is required in order to be successful in the SI market. Without continual upskilling of client advisors and fostering of a bank-wide, cultural shift towards the promotion of SI, little progress can be made despite the good intentions of senior management and an innovative product shelf. • Banks might consider financial incentives as another lever for increasing SI, with the caveat that these should be designed with the client's interests at heart rather than primarily benefitting advisors.



Success factor: Transparency

When it comes to private clients, it is even more important to provide transparency on the ESG strategy and targeted impact of the product. One PwC study, which examined the sustainability foundations and disclosures of more than 220 ESG funds, found that current ESG

disclosures vary vastly between different providers and have still a long way to go. Therefore, banks should focus on engaging with clients to make sure the sustainability elements of the products are well understood.⁶

⁶ Find more information here: <https://www.pwc.ch/en/insights/fs/greening-your-financial-products.html>

Part IV: Sustainability Risk



Sustainability Risk Governance

Part IV: Key Findings

- The degree to which sustainability risk is considered throughout the organization and offering varies considerably, with wealth management generally assuming a rather passive role
- Methods for identifying and managing ESG risks are mostly still basic and seldom include climate scenario analysis in wealth management
- Private banks have started integrating sustainability risk and ESG factors into their wealth management's internal control framework

Sustainability risks are environmental, social or governance outcomes, which may have significant negative impacts on the assets, financial standing and reputation of a financial institution, as well as on the value of the bank's and their clients' investments. Sustainability risks need to be efficiently addressed through a sound sustainability risk management framework integrated into the bank's overall strategy, governance, risk management and disclosure processes. Most banks formally consider sustainability risk throughout their organization and offerings; however, the degree to which this takes place varies considerably.

While some banks that participated in the study limit their efforts to integrating sustainability risk into existing processes at a basic level, others have comprehensive governance structures and policies in place including dedicated roles, procedures and guidelines. Internal governance of sustainability risks typically involves one or more of the units illustrated in Figure 14.



What are Climate Risks?

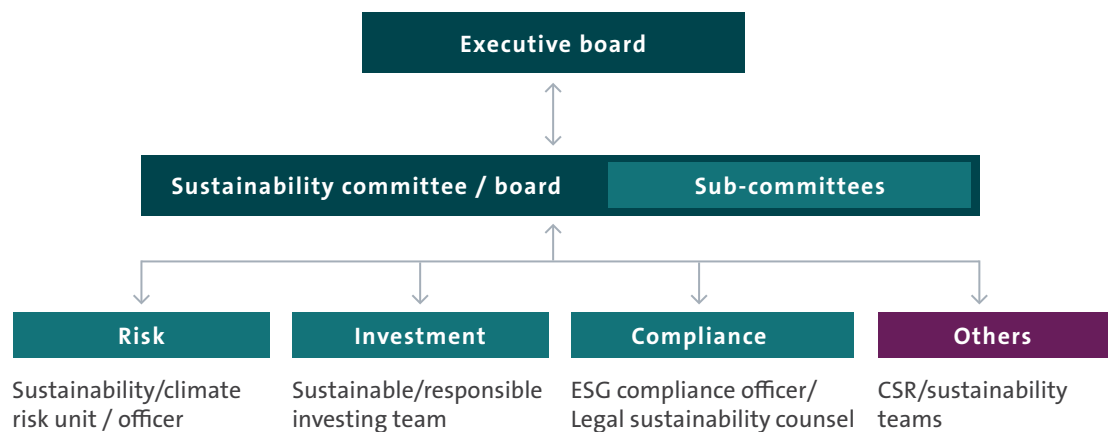
The most prominent sustainability risks are climate and environmental risks, commonly understood to comprise the following main risk drivers: physical, transition and litigation. The importance of climate adaptation measures has risen in recent years.

Physical risk: the financial impact of a changing climate (acute and chronic) and environmental degradation. The need to adapt to the changing climate arises from the increase in and realization of physical risks.

Transition risk: financial loss that can result directly or indirectly from the process of adjustment towards a lower-carbon and more environmentally sustainable economy. The goal is to reduce climate change through mitigation.

Litigation risk: financial loss that can result in exposure to climate-related and environmental-related litigation.

Figure 14: Internal Governance of Sustainability Risks



The executive board is generally accountable for managing sustainability risk in the organization. As such, it has overall responsibility for sustainability and integrates ESG matters into the organization's strategy, determining what constitutes material ESG matters and providing guidance on their management and monitoring. The board also defines the nature and level of risk that is compatible with the strategic objectives of the organization (ESG risk tolerance), including in its assessments all risks that may be relevant to sustainable development. In some cases, the board is also explicitly responsible for promoting corporate social responsibility.

In most cases, a specialized sustainability committee or board assists the executive board in its execution of the sustainability strategy. It ensures compliance with ESG risk tolerance levels set by the executive board and alignment between different stakeholders and business lines. There are often also sub-committees dedicated to more specific topics, such as a sustainable investment committee or a risk and governance committee.

Risk management is generally responsible for identifying and managing sustainability risks and monitoring compliance in the integration of sustainability risks into the investment process. Risk management closely interacts with the investment unit, which integrates sustainability risks into the investment decision-making process, investment recommendations and compliance frameworks. Some banks establish dedicated sustainability risk units, which evaluate the nature of transactions as well as client identities and activities from a sustainability perspective. While some banks have comprehensive methodologies for each of the E, S and G dimensions, others apply the same approach to all three categories. Moreover, risk management is also charged with risk modelling. A few banks employ climate risk scenarios, which we see as a key tool in understanding how physical and transitional climate change risks affect bank-wide portfolios and investee companies (see "Scenario analysis" overview for an example of a six-step approach).



Linking Sustainability Risk and Remuneration

To properly manage and mitigate sustainability risks, banks are increasingly linking remuneration policies to sustainability outcomes. The EU Sustainable Finance Disclosure Regulation mentions the following in this regard:

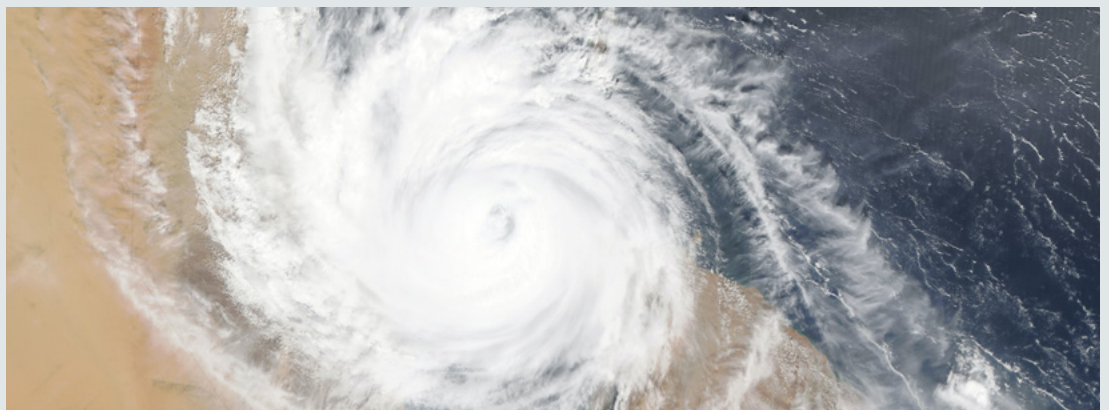
“[The regulation] is, however, appropriate to achieve more transparency, in qualitative or quantitative terms, on the remuneration policies of financial market participants and financial advisers, with respect to their investment or insurance advice, that promote sound and effective risk management with respect to sustainability risks whereas the structure of remuneration does not encourage excessive risk-taking with respect to sustainability risks and is linked to risk-adjusted performance.”

Most banks in our study have integrated the consideration of sustainability risk into their remuneration policies, including for senior management, and ESG targets are becoming more prevalent in remuneration policies.

By way of example, ABN AMRO’s performance criteria for its executive board members include a “KPI Sustainability” linked to the Dow Jones Sustainability Index (DJSI), which is positively recognised as a sustainable indicator for the bank.

Only a small number of participants have not adjusted their remuneration schemes accordingly, but some indicated that they will do so in the future. On the other hand, we find that most banks establish sustainability criteria only as a guiding value and professional standard, without specifically linking sustainability goals and metrics to performance and remuneration outcomes.

Overall, a lot more could be done to link compensation to sustainability outcomes across all levels to promote SI. Besides sustainability risk considerations, for example, establishing a link between advisor compensation to SI goals would be a particularly valuable way of encouraging advisors to take SI seriously, actively learn about the topic and promote SI solutions to their clients.



TCFD Scenario Analysis

The purpose of a scenario analysis is to analyse a bank’s robustness in responding to various climate change outcomes in the future on the basis of its current positioning. Climate-related scenarios enable an organisation to develop an understanding of how the physical and transitional risks of climate change could affect its business and to formulate mitigating actions.

Organisations should include scenario analysis as part of their strategic planning and enterprise risk management processes through the following 6 steps:

1 Governance should be in place to oversee the integration of scenario analysis into strategic planning and risk-management processes.

2 Assess materiality of climate-related risks

Main risk categories in practice

Market and Technology Shifts	Reputation
Policy and Legal	Physical Risks

Organisations should quantify the current and expected climate risks and opportunities and determine their material impact on their business and stakeholders.

3 Identify and define the range of scenarios

Scenarios should contain a number of transitional and physical risks that are relevant to the organisation.

Work out which reference scenarios should be used as well as the range of potential scenarios under different assumptions

4 Evaluate business impacts

- Impact on:
- Input costs
 - Operating costs
 - Revenues
 - Supply chain
 - Business interruption
 - Timing

Assess potential impact on the strategic and financial position of the organisation under each scenario.

Identify key potential difficulties and weaknesses in the organisation.

5 Identify potential responses

- Responses might include
- Changes to business model
 - Changes to portfolio mix
 - Investments in capabilities and technologies

The identified risks and opportunities feed into the banks response, which should detail what actions will be taken to mitigate risks and harvest opportunities depending on which scenario ultimately plays out.



6 The process and response plan are then **documented** and **communicated** to relevant parties.

Source: TCFD (2017)

Established legal and compliance teams also play a role in enforcing the sustainability risk framework and sustainability regulation of banks. As sustainability risk is integrated into the broader organization and when regulations come into force, existing bank teams must adopt and understand these measures as well as how to respond when breaches occur. It was found that voluntary sustainability commitments are

often not as well integrated into existing legal and compliance teams as regulatory ones are, with monitoring and accountability often left to sustainability teams. Moreover, few banks have integrated sustainability considerations into their wealth management’s internal control framework, but many are starting or planning to do so.

Part IV: Sustainability Risk Findings - Implications for Clients and Banks

<p>Clients</p> 	<ul style="list-style-type: none"> • Consider the strength of your bank’s internal risk control framework and how deeply they are integrating sustainability risk and opportunities , for example, by applying climate risk scenario analyses. • Stay informed about the bank’s overall sustainability policies and check if these align with your values – a bank can have a strong, innovative SI product shelf while still being heavily exposed to climate risks through its financing of coal and gas infrastructure projects.
<p>Banks</p> 	<ul style="list-style-type: none"> • Carefully select and consider robust, sustainability risk-management methods across all investment processes. • Design sustainability risk-governance arrangements in a way that facilitates information flows, regular reporting and stakeholder alignment. Consider establishing dedicated roles and bodies and involve the executive board in defining the bank’s ESG risk appetite. • Ensure that all functions affected by or involved in sustainability risk are properly educated, and respond to them through policies, guidelines and remuneration. • If not already done so, follow TCFD guidelines to perform climate risk scenario analyses for the bank’s entire asset base including wealth management.

SPECIAL TOPIC 1

Regulatory Developments in the Area of Sustainable Finance

The legislative pressure to integrate environmental, social and governance (ESG) factors into investment strategies and processes is growing every day. Regulators around the world are heavily involved in shaping the sustainability agenda, challenging financial institutions with the introduction of mandatory disclosure obligations on environmental performance and environment-friendly products, and bringing attention to the risk of 'greenwashing'. Private banks are no exception.

European Union

Since the European Commission (EC) issued its "Action Plan on Financing Sustainable Growth" in 2018, efforts to connect finance with the specific needs of the European and global economy for the benefit of the planet and society are growing at a fast pace. The EC identified numerous sets of measures to mainstream sustainability into risk management and to consider ESG factors across the financial sector.

Since 10 March 2021, wealth managers providing discretionary portfolio management and investment advice in the EU have been subject to the new and extensive reporting requirements of the Sustainable Finance Disclosure Regulation (SFDR), both at legal entity and product level. With transparency being an essential aspect of sustainable investing and a perpetual concern among EU regulators, the SFDR requires disclosures to be made to clients and investors on the integration of sustainability into products and services. For this purpose, the SFDR provides for a classification of financial products with regard to their consideration of sustainability aspects:

- products that promote environmental or social characteristics, also referred to in the market as "light green" products or article 8 products
- products that have a sustainable investment objective, also referred to in the market as "dark green", or article 9 products

- all SFDR products that do not qualify as either art. 8 or art. 9 products, also referred to in the market as "mainstream" products

The ESG disclosure requirements vary depending on the individual product's characteristics as described in the SFDR (mainstream, light green or dark green). Moreover, the SFDR stipulates disclosure of how sustainability risks are integrated into the provision of services such as portfolio management and investment advice, regardless of whether the mandate or product is classified as ESG or mainstream. Additionally, implementation of a due diligence process to consider the 'principal adverse impacts' on sustainability is required.

The legal obligation to comply with SFDR can also be extended to non-EU firms and is triggered when an EU or non-EU product is marketed to EU investors. Starting in 2023, (prospective) clients for products and services classified as "light green" and "dark green" will be provided with detailed disclosures on their ESG characteristics based on a standardized mandatory template. This increased transparency and enhanced comparability should help investors gain a better understanding of the solutions on offer and make an informed decision on which solution best suits their view on sustainability.

The process of matching the client's sustainability preferences with suitable solutions will also in future be an obligation for wealth managers providing discretionary portfolio management and investment advice under the MiFID II regime

in the EU. From August 2022, the suitability process already in place will include mandatory questions to determine the preferences of the client on the inclusion of financial instruments with different ESG ambitions based on pre-defined concepts. Clients will be able to determine their preferences on the following:

- consideration of the principal adverse impact on sustainability factors
- inclusion of a proportion of 'sustainable investments', i.e. investments that contribute to environmental and social objectives without significantly harming any other objectives and on condition that the investee companies follow good governance
- inclusion of a proportion invested in Taxonomy-aligned investments that comply with the new EU classification system for green activities

The last point directly references the newly established, unified green classification system

of environmentally sustainable economic activities (EU Taxonomy). It sets technical standards and science-based thresholds for a defined set of economic activities to determine their material contribution to six environmental objectives. The standards also include defined qualitative and quantitative criteria to test whether the said economic activity is significantly harmful to any of the other objectives, as well as minimum safeguards from a social perspective (structured around internally recognized norms).

The Taxonomy has large implications for sustainable mandates and funds. Depending on the separation into dark green and light green products, private banks will be required to provide information on the environmental objective of the investment according to the Taxonomy as well as details on what proportion of the investment is in environmentally sustainable economic activities.

To fulfil these obligations, banks will rely on the mandatory disclosures of their investee companies. Large companies reporting under the NFRD are obliged to report on the proportion



of their Taxonomy-aligned activities based on turnover, CapEx and OpEx. Large financial institutions will also have to report on their own Taxonomy-aligned activities, expressed as special indicators centered around their financing and investment activities.

In light of the new measures introduced by the EUAP, amendments to major existing regulatory frameworks such as MiFID II, AIFMD and UCITS were also needed to ensure that ESG is effectively integrated into the financial business. EU asset and wealth managers will therefore be required to incorporate sustainability risks within their organizational requirements, including processes, systems and internal controls. This also includes appropriate risk tolerance levels and ESG risk governance, knowledge and competence. Furthermore, potential conflicts of interest that may arise from the integration of sustainability or of a client's sustainability preferences will have to be identified and managed properly.

On the topic of enhanced corporate transparency and availability of ESG data from investee companies, the proposed Corporate Sustainability Reporting Directive (CSRD) will also be an important tool in meeting the growing demand from investors and other stakeholders for consistent and comparable corporate sustainability information. Its intention is to revise and reinforce the rules already established by the Non-Financial Reporting Directive, the NFRD, and it imposes mandatory requirements on companies to use common EU reporting standards when reporting on their sustainability performance.

In terms of scope, the CSRD also introduces a notable extension to all large companies, and all companies listed on EU-regulated markets except listed micro-companies. As a result, its scope is

expected to include companies not established in the EU that are listed on EU-regulated markets, and the EU subsidiaries of non-EU companies. Moreover, companies under the scope of the current NFRD, and later under the CSRD, will be required – according to the Taxonomy Regulation – to calculate and disclose the extent to which their activities substantially contribute to one of the EU environmental objectives as defined by the Taxonomy.

For further information, see the official website on sustainable finance of the European Union.⁷

Switzerland

Within its borders, Switzerland, propelled by both European and international ESG developments, has also already taken specific steps to make its financial system greener and more resilient. A notable development was observed when FINMA partially revised Circulars 2016/1 and 2016/2, exposing banks and insurers to the subject of climate-related financial risks by heavily relying on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

With effect from July 2021, as part of their annual reporting, affected institutions will describe the main, climate-related financial risks and their impact on the business strategy, business model and financial planning (strategy). They must also disclose the process for identifying, assessing and addressing climate-related financial risks (risk management) and quantitative information (including descriptions of the methodology used). Finally, institutions must describe the key features of their governance structure in relation to climate-related financial risks.

As regards green funds and investor protection, FINMA issued its Guidance 05/2021 on preventing and combating greenwashing,

⁷ https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en

in which it sets out expectations for the management and distribution of funds marketed as sustainable. It focuses on the provision of transparent, sustainability-related information to (prospective) investors and expectations of the organizational structure of institutions that manage sustainability-related, collective investment schemes, and addresses greenwashing at the point of sales. Moreover, it includes a set of exemplary use cases that FINMA considers to be “greenwashing”.

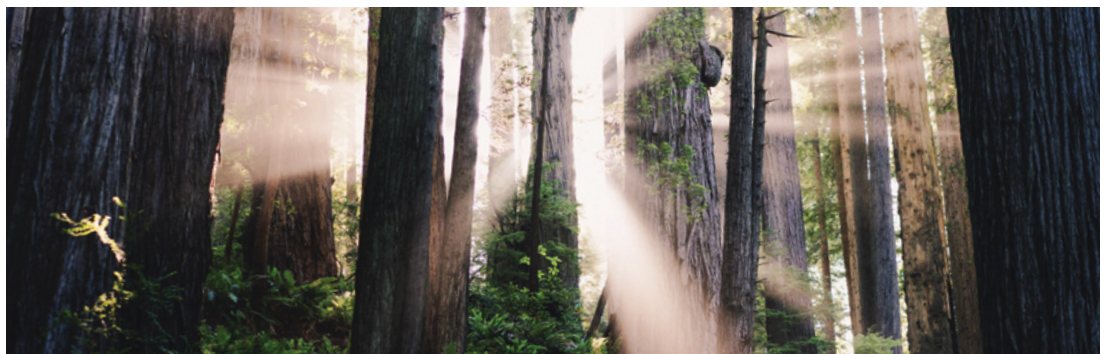
Further planned measures in line with the European Union’s approach, announced by the Federal Council in August 2021, are also expected to revolve around future mandatory, TCFD-based climate reporting for companies (including banks) fulfilling certain criteria. This could have a pervasive impact on financial products and services. As a result, businesses and investors will have a better grasp of the financial implications of climate change, allowing markets to direct investment towards sustainable and resilient solutions, opportunities, and business models.

For further information, see the official website on Sustainable Finance FINMA.⁸

Asia

The transition to sustainable finance is also gaining increasingly high priority among Asian regulators, in particular financial market supervisory authorities. The Monetary Authority of Singapore (MAS), for example, issued guidelines last year on Environmental Risk Management, which require banks to disclose environmental financial risks every year, and in doing so it refers directly to the TCFD recommendations.

In Hong Kong, the Securities and Futures Commission (SFC) issued an updated circular to asset managers outlining heightened disclosure standards for funds that use ESG elements as a primary investment aim or strategy, known as ESG funds. These funds must disclose how they include ESG considerations, and must publish and reference ESG criteria, exhibit portfolio measurement methodologies and release periodic assessments annually with effect from January 2022.



⁸ <https://www.finma.ch/de/dokumentation/dossier/dossier-sustainable-finance/>

SPECIAL TOPIC 2

Value-aligned Advisors

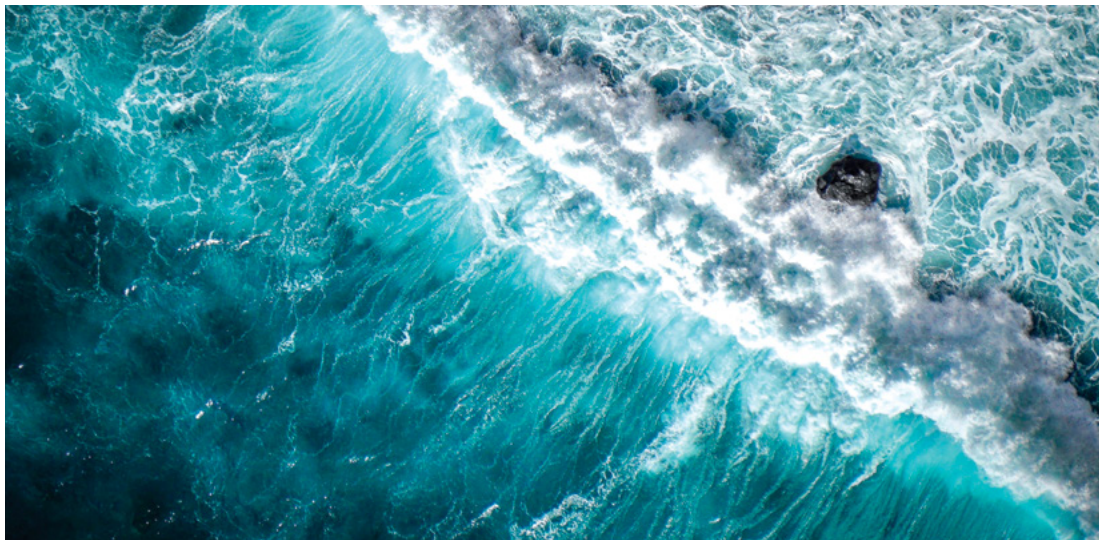
Value-aligned advisors play the role of a useful ally and sparring partner, who can translate their clients' non-financial goals and personal values into investable actions. Their services range vastly, and they can be classified mainly into two categories:

- independent investment consultant
- specialized wealth manager

Independent investment consultants are usually responsible for defining the overall investment strategy and help to implement the strategy by working with the clients' existing managers or by selecting suitable managers instead of managing the assets directly. They offer a range of services for fees that are either charged by the hour or at regular intervals, or based on the services provided. This contrasts with advisors working for a bank, who are compensated on the basis of their clients' assets under management.

Specialized wealth managers are fully fledged service providers like any other private bank, but with a focus on sustainable investing. They provide services such as client profiling and value-aligned investment strategy development, and their investments are primarily focused on sustainable investing with the aim of having a positive measurable impact. A value-aligned wealth manager might be their client's only wealth manager; however, they are more often engaged by clients to advise on a carve-out of their portfolio that is focused on impact, rather than the full spectrum of their wealth.

When seeking to execute a sustainable investing strategy, identifying an appropriate advisor is often the first hurdle. Services such as Value Advisors, an online platform for finding value-aligned wealth advisors, may help to identify a shortlist of potential advisors. A list of value-aligned advisors is provided below as a reference point.⁹



⁹ Note that this list is not exhaustive and is intended to provide examples, not recommendations.

Table 5: Sample list of Value-aligned Advisors

Name	Description	HQ
Abacus	<ul style="list-style-type: none"> • Impact-focused wealth manager (with clients entirely or partially impact-focused) • Founded in 1996 by Brent Kessel, now a firm with 60+ employees • Investment advisory and management across all asset classes • No proprietary products 	USA
Align Impact	<ul style="list-style-type: none"> • Fully value-aligned investment consultancy with a team of 30 • Bespoke impact investing consulting with a focus on private market impact funds • Offers co-creating services such as impact strategy development 	USA
Beyond Family Office	<ul style="list-style-type: none"> • Impact-focused wealth manager (with clients entirely or partially impact-focused) • Founded in 2014, a team of 4 • Investment advisory and management across all asset classes 	Israel
Caprock	<ul style="list-style-type: none"> • Impact-focused, multi-family office (with clients entirely or partially impact-focused) • Founded in 2005, now a firm with 30+ employees • Investment advisory and management across all asset classes with strength in private market impact funds • No proprietary products 	USA
Phenix Capital	<ul style="list-style-type: none"> • Fully value-aligned investment consultancy • Founded in 2012, now with 15 employees • Bespoke impact investing consulting with a focus on private market impact funds • Offers services such as impact framework and measurement development 	Netherlands
Sonen Capital	<ul style="list-style-type: none"> • Fully value-aligned wealth manager • Founded in 2011, now a firm with 10+ employees • Investment advisory and management across all asset classes 	USA
Tribe Capital	<ul style="list-style-type: none"> • Fully value-aligned wealth manager with 15+ employees • Investment advisory and management across all asset classes • No proprietary products 	UK
VALUEworks	<ul style="list-style-type: none"> • Fully value-aligned, multi-family office • Founded in 2004, now with 10+ employees • Family advisory, wealth management structure and investment advisory • No proprietary products 	Switzerland
Veris	<ul style="list-style-type: none"> • Fully value-aligned wealth manager • Founded in 2007 by 5 founders, now a firm with 20 employees • Investment advisory and management across all asset classes • No proprietary products 	USA

Additional Services of Value-aligned Advisors

Setting non-financial goals and policies

While conversations around financial goals are relatively straightforward, formulating non-financial goals is a reflective and complex exercise that requires experience and capabilities in order to translate them into a portfolio. Often, value-aligned advisors have tools and processes for structuring these initial conversations with regard to what investors want to achieve by creating a sustainable investing strategy, and they dedicate more time to the initial conversation than a traditional advisor.

Investment policy statements (IPS) are the industry standard for formalizing the expectations of clients with their wealth managers. However, specialist advisors often go beyond the standard requirements of an IPS, creating a separate or integrated impact policy statement. The impact policy statement details which non-financial goals are relevant for the portfolio and how these should be measured and monitored.

CASE STUDY

Value Advisor: an online platform to seek out value-aligned advisors

As part of our research for this special report, we used the Value Advisor online platform (www.valuesadvisor.org). This tool has been created to enable HWNI to seek out specialist value-aligned advisors. The tool allows users to sort advisors by region, focus and other relevant criteria to narrow down their search for the right value-aligned advisor. We would like to highlight this tool as a starting point for investors considering seeking out these types of advisory services.

Sourcing sustainable investing opportunities

Being able to conduct due diligence on sustainable investing funds in order to determine the credibility of the funds' investment strategy and whether these funds are reaching their non-financial goals is another key skill required for the proper execution of a sustainable investing strategy. Some value-aligned advisors such as Phenix capital are specialized in this area,

giving wealth owners access to their database of pre-screened potential investments and offering services to perform due diligence on investments brought to them by their clients.

Many of the most exciting opportunities for investors seeking to achieve impact goals may be found in private markets. Specialist advisors may be able to provide an advantage in private markets compared to larger financial institutions, in that they are able to access smaller funds

with under USD 100-150m AuM, new funds seeking seed funding, and funds expecting below-market returns but with high impact potential – all of which may be less attractive or unfeasible for larger financial institutions. Specialist advisors may also be more flexible in providing due diligence and investment structuring services for private market and direct investments brought to them by their clients.

However, larger private banks may still be required when accessing institutional impact funds, as their large ticket sizes mean that wealth owners can only access them if a private bank has created a feeder fund to reduce the ticket size to a more manageable, minimum investment of USD 250k.

ESG and impact reporting

Reporting capabilities vary between value-aligned advisors and is another consideration for wealth owners when selecting an advisor. Wealth owners should decide from the outset how great their need for quality reporting is, and what it should cover. Some value-aligned advisors may pass on the ESG and impact reporting from funds and other investments,

while others may aggregate reports and use their own data sources. Alternatively, reporting and monitoring can be outsourced to larger financial institutions with greater reporting capabilities, leaving the advisor to focus on investment strategy and investment selection.

With the development of service providers, ESG data aggregation can be carried out on a portfolio level for public market investments and many advisors, traditional and value-aligned alike, offer such reporting. The challenge mostly lies in private market ESG and impact reporting, due to the less standardized nature of the reporting and – in the case of impact funds – whether it is meaningful at all to aggregate impact data across funds.

Even though banks and international wealth managers have come along in leaps and bounds with their sustainability-focused products and services, as long as the majority of wealth advisors lack specific knowledge on the processes and nuances of sustainable investing and incentives are tied to basis point fees, value-aligned advisors will have an essential role to play in accelerating wealth owners' journey towards impactful, value-aligned portfolios.



SPECIAL TOPIC 3

Stewardship

“Stewardship,” referring to investors practicing active ownership incorporating environmental, social, and governance (ESG) factors, has traditionally been overlooked as a strategy for sustainable investors. However, it is now widely understood to be one of the few ways to generate material and measurable impact, primarily in public equities, but it can also be extended to other asset classes as well.

Company Engagement

Engagement in stewardship practices refers to the interactions driven by investors on ESG topics. Engagement processes can be individual but are often collaborative, where a single investor (e.g. through the UNPRI Collaborative Engagement Platform¹⁰) or a service provider (e.g. Climate Action 100+¹¹) takes the lead on behalf of a group of investors who pledge their shares in order to have more leverage to change a company’s practices. Although collaborative engagement is seen as the most effective way of creating change, individual engagements can also create change in companies.

While stewardship activities have the potential to create large-scale, meaningful change, this does not always happen in practice. The engagement activities must be intentional, with a clear goal to seek change in corporate practices or disclosure. Interactions with companies for data collection or investment research, or attendance at investor calls and annual general meetings (AGMs) without any interactions seeking change, should not be deemed as engagement.¹²

(Proxy) Voting

Voting refers to the act of shareholders casting their votes on resolutions proposed at the AGM. The resolutions can be proposed by management or the board of the company, or even by shareholders themselves. (Proxy) voting generally

follows the process illustrated in Figure 15.

In addition to the scale of the many items and shares being voted on, there are additional regulatory complexities that add to the challenge. These include:

- Investor domicile: different requirements can apply for investors with different domiciles.
- Company domicile: depending on the company domicile, regulators can have additional requirements.
- Share-blocking: some regions require shareholders to deposit their shares shortly before the AGM, which blocks them from being sold.
- Voting requirements: power of attorney or mandatory physical attendance to vote can make it difficult to outsource voting.
- Share registration: sometimes shares are required to be registered in the name of shareholder. For instance, under the Shareholder Rights Directive II (SRD II), the EU requires shareholders to identify themselves if they vote and own more than 0.5% of the outstanding shares.

Such requirements are a hurdle especially for private banks, which are custodians of the shares rather than the shareholders themselves when it comes to executing voting rights.

¹⁰ <https://collaborate.unpri.org/>

¹¹ <https://www.climateaction100.org/about/>

¹² <https://www.unpri.org/stewardship/about-stewardship/6268.article>

Figure 15: Voting Process at the Annual General Meeting

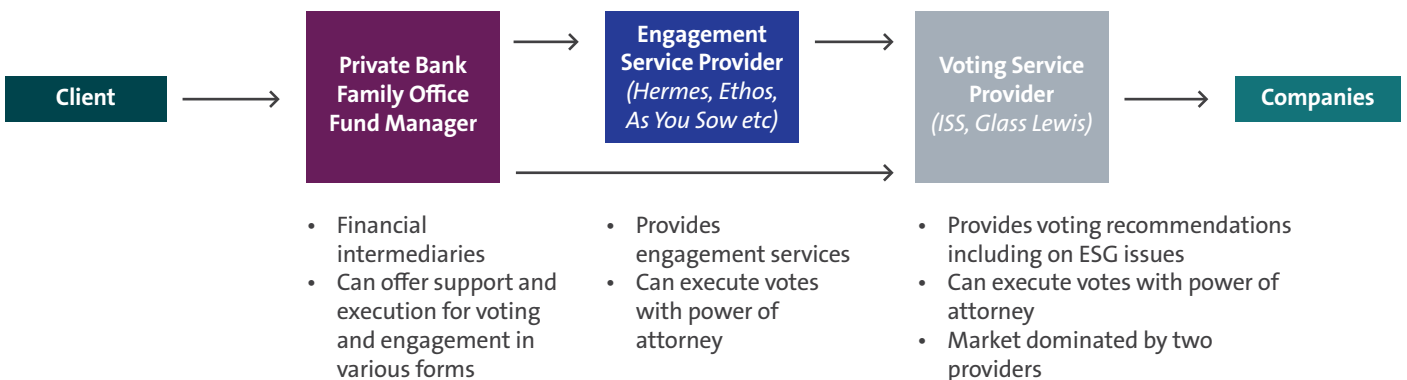


While this right is reserved for the shareholder and can be exercised directly, the research and expertise required to make voting decisions can be extensive and costly. Large institutional investors such as pension funds or asset managers like BlackRock can absorb the cost, but many smaller investors instruct service providers to vote on their behalf. This explains the demand for proxy advisory firms that conduct research and execute engagement and voting activities. A typical (proxy) voting process is illustrated in Figure 16.

The majority of the proxy voting market is dominated by the two service providers ISS and Glass Lewis, which account for approximately 97% of the market and have a material influence over the voting behaviors of investors.¹³ However, there are more specialized advisors, such as Federated Hermes, that are based on an investment manager and have a wider coverage, and non-profit organizations with a regional focus such as As You Sow (US), Ethos (Switzerland), and Ownership Matters (Australia), which provide ESG-focused voting advice and facilitate collective shareholder engagement with the intention of having material impact through stewardship.

Figure 16: Voting and Engagement Value Chain

Process of translating engagement actions from clients and financial intermediaries into the voting agenda



¹³ <https://corpgov.law.harvard.edu/2018/06/14/the-big-thumb-on-the-scale-an-overview-of-the-proxy-advisory-industry/>

Implementation Strategy for Private Banks

Develop and publish a stewardship policy

At company level, each private bank that commits to be a responsible investor should have a stewardship policy that covers its approach. In line with the UN PRI recommendations¹⁴, a good stewardship policy would include the following factors:

- Key principles, priorities, overall goals and objectives that govern stewardship activities
- Approach for prioritizing topics
- Stewardship tool usage across the organisation
- Approach to collaborative engagement
- Conflicts of interest
- Scope of policy and implementation guide

The box on the right illustrates an example of Pictet's stewardship policy.



Pictet Wealth Management Responsible Investing Policy (Excerpt)¹⁵

Proxy voting

“Whenever both local regulations and client contractual documentation allow us, we intend to vote on behalf of our Discretionary clients for the stocks we cover where disclosure of shareholder’s identity is not requested or when such disclosure has been duly authorized by the clients. It does not include indirect investments through third-party funds, where we expect those managers to exercise their votes according to their own policy and report accordingly.” (p. 3)

Engagement

“The scope of corporate engagement is all corporate issuers holdings from Pictet Wealth Management Investment Universe, approved and actively covered by our analysts.” (p. 4)

¹⁴ UNPRI Reporting Framework 2021 indicator ISP 12, https://dwtyzx6upklls.cloudfront.net/Uploads/f/r/z/02_isp_jan2021_255409.pdf

¹⁵ <https://www.group.pictet/wealth-management/aiming-be-responsible/active-ownership-policy>

Implementing stewardship in investment products and services

For private banks, there are multiple layers between the private clients and their

investments, and – depending on the layer – the complexity of implementing stewardship practices can vary. The various options are summarized in Table 6.

Table 6: Layers between private clients and their investments

Product/service	Description
External fund offering - Engagement	Select external funds that use their holdings in collaborative engagements (with/without guidance on topics the bank deems appropriate) – then monitor progress and report on this to clients.
External fund offering - Voting	Select external funds that use their voting rights on holdings, directly or through a third-party proxy voting service provider. These could be funds that follow the advice of a proxy advisor or simply use their in-house voting policy, or a voting approach in line with the private bank's policy – then monitor progress and report on this to clients.
In-house fund offering	Implement a stewardship policy in line with the general approach to engagement and voting. Additionally, clearly indicate the voting and engagement approach used by different funds, in client materials.
Discretionary mandates	Offer customized engagement and/or proxy voting services as part of a discretionary mandate by: <ul style="list-style-type: none"> • working with clients to define their engagement and voting policy • agreeing to give the portfolio managers complete discretion
Discretionary mandates	Integrate the house-view voting and/or engagement approach into discretionary mandates.
Advisory mandates and execution-only - Engagement	Offer opt-in options to engagements that the bank either manages or participates in.
Advisory mandates and execution-only - Voting	Offer a voting platform through which the client can individually cast their vote for their shareholdings.


In view of the many clients that private banks represent, it would be unrealistic to ask for customized voting and engagement solutions unless the client is of institutional size. However, setting up progressive ESG voting policies and engagement activities for the entire bank and asking clients to opt in would be a reasonable

approach. In general, private banks seem to be overwhelmed by the bureaucratic requirements and cost involved in proxy voting and overlook the potential of engagement. In the section below, we set out what can and should be done to promote stewardship in private banking.

Table 7: Private Bank Stewardship Approaches per Product Type

Activity	Description	Resource Intensity
Stewardship criteria for external fund offering	<p>When selecting external (active) funds for clients, stewardship should be one of the key evaluation criteria. The process should entail:</p> <ul style="list-style-type: none"> • stewardship-related questions as part of the fund onboarding questionnaire • clear criteria for evaluating the engagement activity of the fund • a review of the voting policies and past voting activities of the fund • an internal decision-making guideline for selection • disclosure to clients of the stewardship level of selected funds • regular monitoring and engagement with the fund for accountability 	Already implemented by most banks
Stewardship for in-house fund offering	<p>Private banks should have stewardship practices in place for their in-house (active) funds. The UN PRI sets out best practices and guidelines for asset managers on stewardship, and a few key elements that should be in place are:</p> <ul style="list-style-type: none"> • a voting policy on matters including environmental and social topics • execution and monitoring of voting policy • an engagement framework and process with clear responsibilities, including considerations for (co)filing of shareholder resolutions • reporting of stewardship activities for investors 	Already implemented by most banks
Opt-in engagement for all mandates	<p>While voting comes with bureaucracy and regulation, engagement activities can be much less complicated, since they do not require formal reporting of share ownership, but a pledge of client holdings. For instance, private banks could allow clients of different mandates to opt into all engagement activities the bank is conducting, and execute engagement through outsourcing or partnership with organizations such as As You Sow, Ownership Matters, and Ethos.</p>	Low
Facilitate voting for all mandates	<p>As demonstrated by the result of our research, in which 41% of all participating banks offer facilitation of voting for discretionary, advisory, and execution-only mandates, it is possible to offer this service to private clients. The voting is operated through a voting platform that often provides recommendations and context, and allows clients to cast their votes individually. However, this is a recent development and still involves high cost. So far, only clients with larger portfolios (on average, more than 20 million euros) would have access to such a service, and in many cases are charged an additional fee.</p>	Low
Education and disclosure on voting	<p>Private banks can disclose their voting policy and positions on ESG matters in advance, so that clients can use it as a guide for their own voting. Alternatively, on key issues, banks can host educational events such as webinars or distribute newsletters that help clients to decide and to exercise their shareholder rights directly.</p>	Medium
Execute customized voting for all mandates	<p>Unlike facilitating direct voting, executing voting on behalf of clients is somewhat challenging. As mentioned above, the domicile of a client and/or of the company are both relevant factors for determining the process, and once the different opinions of all clients are added, the complexity multiplies. This makes offering a scalable solution rather difficult. Clients of institutional size can be set up with a proxy voting advisor for execution, but this would still incur costs for the client and not be economical for many of the private banking clients.</p>	High
Execute opt-in voting for all mandates	<p>If clients could opt in to vote according to the house view of the bank, it would remove the complexity of having to deal with the different opinions of all clients. While the bureaucracy depending on domicile and the regulatory requirements of registering and voting shares still remains, technological advancement and change in regulation could advance the voting of private banks on behalf of their clients in the future.</p>	Medium-high

Special Topic 3: Stewardship Finding - Implications for Clients and Banks

<p>Clients</p> 	<p>Clients can play a major role in achieving greater adaptation of investment stewardship services in private banking by:</p> <ul style="list-style-type: none"> • asking their bank(s) for information about approaches to engagement and voting • inquiring about criteria on stewardship when it comes to fund selection • expressing an interest in voting on proposals at AGMs and participating in ESG-related engagements for shares held directly • accepting additional costs that come with voting (mainly executed through third party providers), whilst demanding transparency for these costs and disclosure on activities • demanding reporting on voting and engagement activities and pushing for more progressive practices for the overall portfolio
<p>Banks</p> 	<p>Private banks with a credible, sustainable investment offering must have effective stewardship activities, given that this is one of the main levers for having material impact at scale through sustainable investing. In addition to having stewardship as a critical criterion when it comes to fund selection and in-house funds, they can:</p> <ul style="list-style-type: none"> • explore possibilities for engagement activities through in-house teams, third party providers or partnerships • seek digital solutions that facilitate voting platforms for private clients on a scalable level • offer educational events or material to provide guidance on decision-making for upcoming AGMs <p>It is understandable that most private banks remain conservative about executing voting services for their mandates, especially for those below the size of an institutional client. However, as clients are increasingly demanding stewardship activities, private banks wanting to be credible in the sustainable investment market will have to start budgeting for these activities.</p>

Bank Profiles



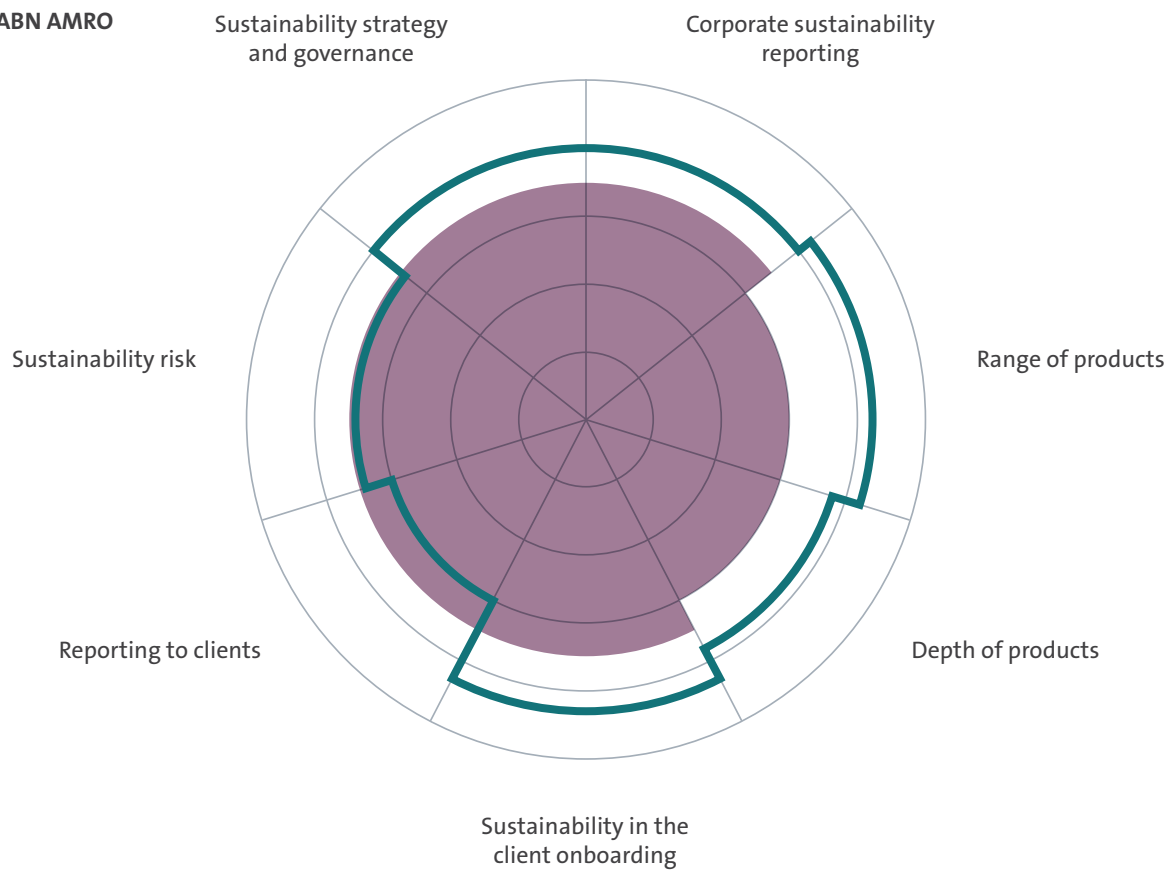
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HQ	2021 AUM WM	# of Employees	SI offering
Netherlands	EUR 113bn USD 119.8bn	19'957	Discr. portfolio management, Investment advice, Incl. structured products and private markets

- Peer Avg.
- ABN AMRO



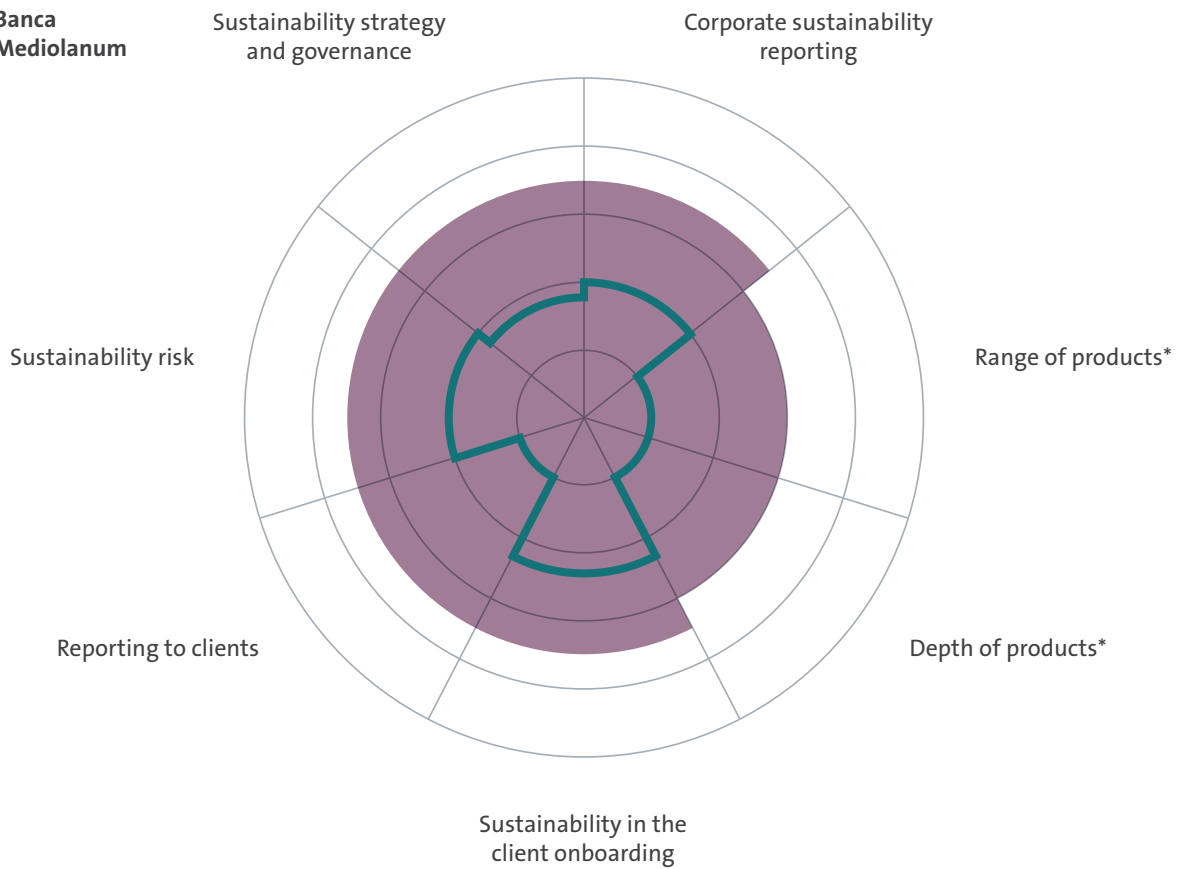
Exclusion	Best-in-class	ESG integration	Active ownership	Thematic	Impact Investing
✓	✓	✓	✓	✓	✓
Listed equity	Listed Fixed Income	Private equity/debt	Real Estate	Infrastructure	Multi-asset
✓	✓	✓			✓

	Strengths	Challenges
Sustainable investing vision	<ul style="list-style-type: none"> • Ambitious set of group-wide sustainability-related objectives applicable to WM, including targets to reduce greenhouse gas emissions for AuM • Active participation and involvement in sustainability market initiatives and working groups • Publication of separate non-financial data and engagement report • Reporting on climate-related risks and opportunities based on TCFD and PCAF*, incl. GHG emissions of client assets <p><i>* Partnership for Carbon Accounting Financials</i></p>	
Sustainable offering	<ul style="list-style-type: none"> • Offers 3 discretionary SI mandate (sustainable investment mandate, sustainable fund mandate and impact mandate) • Wide range of SI offering incl. private markets funds and structured products • Comprehensive ESG investment due diligence • Engagement with companies through collaboration with EOS at Federated Hermes in a proxy engagement programme 	<ul style="list-style-type: none"> • Private market impact fund offering focused mainly on Microfinance
Client interactions	<ul style="list-style-type: none"> • All clients are actively asked whether they want to invest sustainably • Internal KPI or front staff, that SI options have been discussed with all clients • Offer ESG investing as the 'default option' for clients across all Private Banking operations • Training on SI with different modules and depths (incl. UN PRI and Oxford training), two of which are mandatory for all investment staff and additional trainings for client facing staff. • Client investment reports for advisory and discretionary mandates include sustainability metrics such as carbon emissions and other ESG factors to track alignment with the Paris Agreement and the SGDs 	<ul style="list-style-type: none"> • Currently no systematic way to capture clients' sustainability preferences (but in development, MiFID II ESG)
Sustainability risk	<ul style="list-style-type: none"> • Public and transparent information on sustainability risk management • Separate sustainability risk standard for investment procedures • Monitoring of environmental risks and UN Global Compact non-compliances • Reporting on legal risk, including ESG laws and regulations 	<ul style="list-style-type: none"> • Climate-risk scenario analysis not used in WM mandates



HQ	2021 AUM WM	# of Employees		SI offering
Italy	n/a	n/a	n/a	

Peer Avg.
Banca Mediolanum



* a lower score on range and depth of products is due to data not being shared

Exclusion	Best-in-class	ESG integration	Active ownership	Thematic	Impact Investing
Listed equity	Listed Fixed Income	Private equity/debt	Real Estate	Infrastructure	Multi-asset

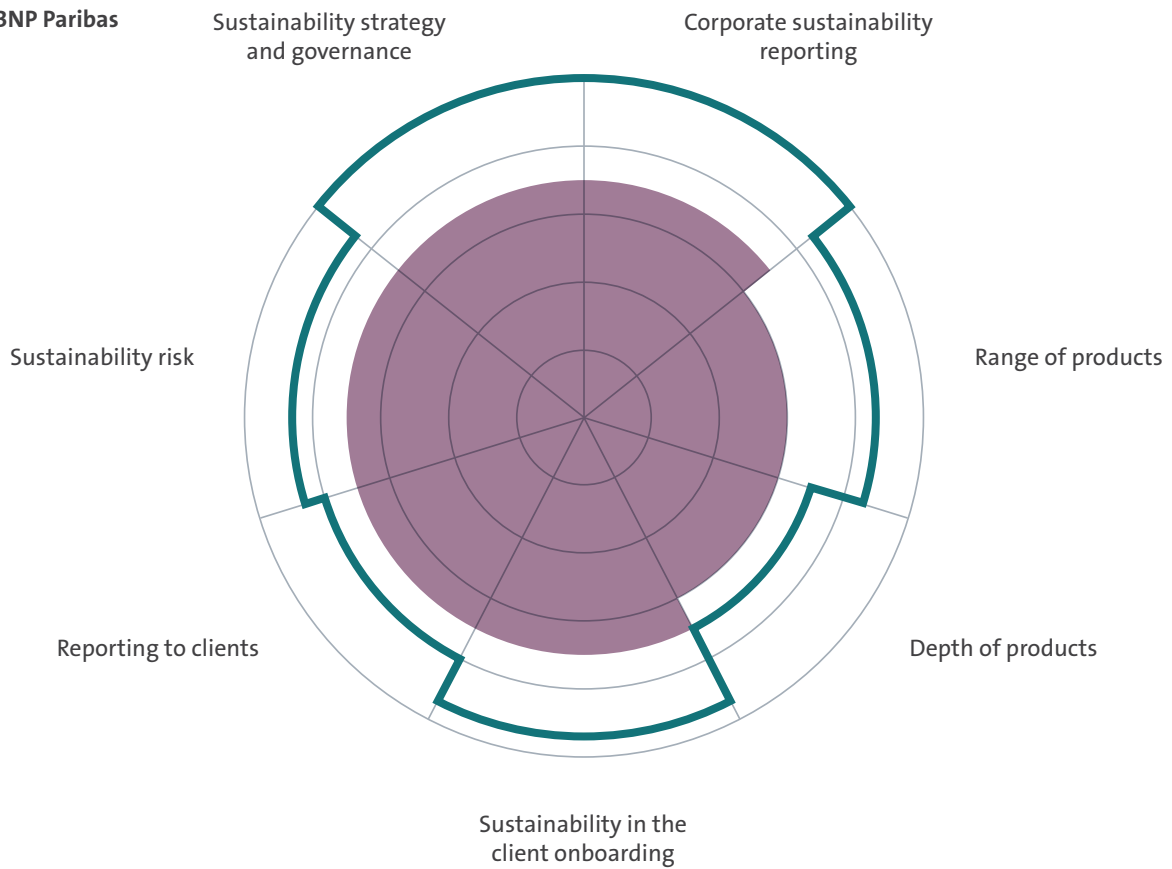
	Strengths	Challenges
Sustainable investing vision	<ul style="list-style-type: none"> • Several sustainability-related objectives, especially in relation to SI offering • CEO involved in setting sustainability-related objectives • High frequency of sustainability objectives reviews (monthly) • Responsible investing policies for each entity • Non financial report includes group carbon footprint 	<ul style="list-style-type: none"> • No objectives related to carbon footprint or alignment with Paris Agreement • Participation in few market initiatives • Limited public transparency on sustainability policies
Sustainable offering	<ul style="list-style-type: none"> • ESG integration based on: <ul style="list-style-type: none"> - Evaluation of ESG rating and scoring of investments - Due diligence carried out to ensure all financial partners adopt sustainability guidelines that are compatible with the bank's approach - Constant monitoring of ESG positioning of investments 	<ul style="list-style-type: none"> • ESG offering limited to ESG funds
Client interactions	<ul style="list-style-type: none"> • Written guidelines and training to ensure adequate response to clients' proactively express sustainability preferences • SI-dedicated training program for client advisors • Sustainability preferences are asked through customer's personal profiles 	<ul style="list-style-type: none"> • No client education on SI • No dedicated reporting of ESG information
Sustainability risk	<ul style="list-style-type: none"> • Formal consideration of sustainability risk in WM • Written guidelines on sustainability risk management • Compliance with sustainability-related regulation and voluntary commitments are monitored internally and with the support of external providers 	<ul style="list-style-type: none"> • Rather basic governance around sustainability risks • Still in the process of defining detailed methods for ESG risk considerations in WM • Sustainability risks and factors not yet integrated in WM's internal control system



BNP PARIBAS WEALTH MANAGEMENT

HQ	2021 AUM WM	# of Employees	SI offering
France	EUR 410bn USD 434.6bn	6'733	Discr. portfolio management, Investment advice, White label funds, Structured products, Private markets products, Philanthropy advisory

- Peer Avg.
- BNP Paribas



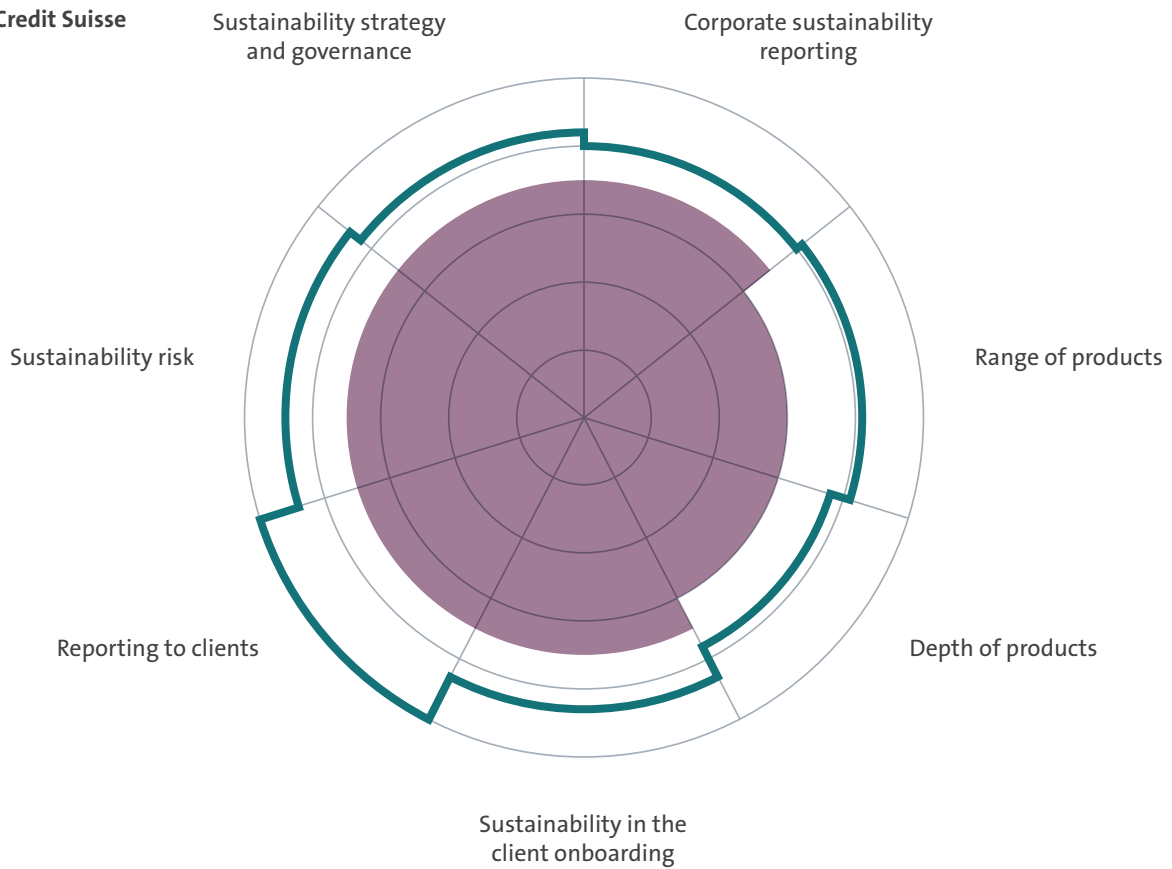
Exclusion	Best-in-class	ESG integration	Active ownership	Thematic	Impact Investing
✓	✓	✓	✓	✓	✓
Listed equity	Listed Fixed Income	Private equity/debt	Real Estate	Infrastructure	Multi-asset
✓	✓	✓	✓	✓	✓

	Strengths	Challenges
Sustainable investing vision	<ul style="list-style-type: none"> • Ambitious sustainability objectives (incl. Paris alignment), with regular review of objectives and progress measurement • High participation and active involvement in various sustainability-related initiatives, incl. Net-Zero Banking Alliance Initiative, Net Zero AM Initiative, Net Zero Asset Owner Alliance • Sustainability and TCFD reporting, consideration of wealth management in climate reporting 	
Sustainable offering	<ul style="list-style-type: none"> • Investment offering for wealth management clients in a broad range of markets (developed and emerging markets) and asset classes (e.g. alternatives) • Best in class approach based on sophisticated internal sustainability rating methodology (10-clover rating) • Systematic feedback to asset managers on the level of sustainability of their financial instruments • Voting and engagement considered thoroughly in the sustainability rating of funds 	<ul style="list-style-type: none"> • Limited active ownership service offering
Client interactions	<ul style="list-style-type: none"> • Clients are proactively asked about their impact preferences through an interactive pedagogical questionnaire (myImpact); relationship managers also receive training on the use of the tool • Numerous offering of client education in SI, including on client request <ul style="list-style-type: none"> - Events and webinars offered - SI is included in the regular bank newsletter - Client workshops on SI available on request • Provides quarterly tailor-made SI portfolio reports for HNWI clients, with content adapted to the clients preferences • In-depth internal trainings on SI, will implement tracking of staff percentage trained through by aggregating data from voluntary and compulsory training in all WM countries 	<ul style="list-style-type: none"> • Limited indicators in the standard reporting on portfolio level <ul style="list-style-type: none"> - High focus on BNPP's internal "clover" sustainability rating of products and portfolios - Some indicators indirectly reported through stewardship activities and by asset management • Systematic reporting on non-financial data for all portfolio yet to be implemented (but planned as part of an internal development plan with first mock-ups already in discussion)
Sustainability risk	<ul style="list-style-type: none"> • Consideration of sustainability risk in wealth management through internal ESG ratings and sector policies • Specific compliance roles for sustainability risks checks • Advanced methods to identify and manage ESG risks, incl. use of PACTA methodology • Compliance with sustainability-related laws and regulations is ensured through ESG adaption committee and Steering Committee 	<ul style="list-style-type: none"> • No use of scenario analyses for mandates yet, but implementation is planned for wealth management



HQ	2021 AUM WM	# of Employees	SI offering
Switzerland	CHF 853bn (Q2)	48'770	Discr. portfolio management, Investment advice

- Peer Avg.
- Credit Suisse



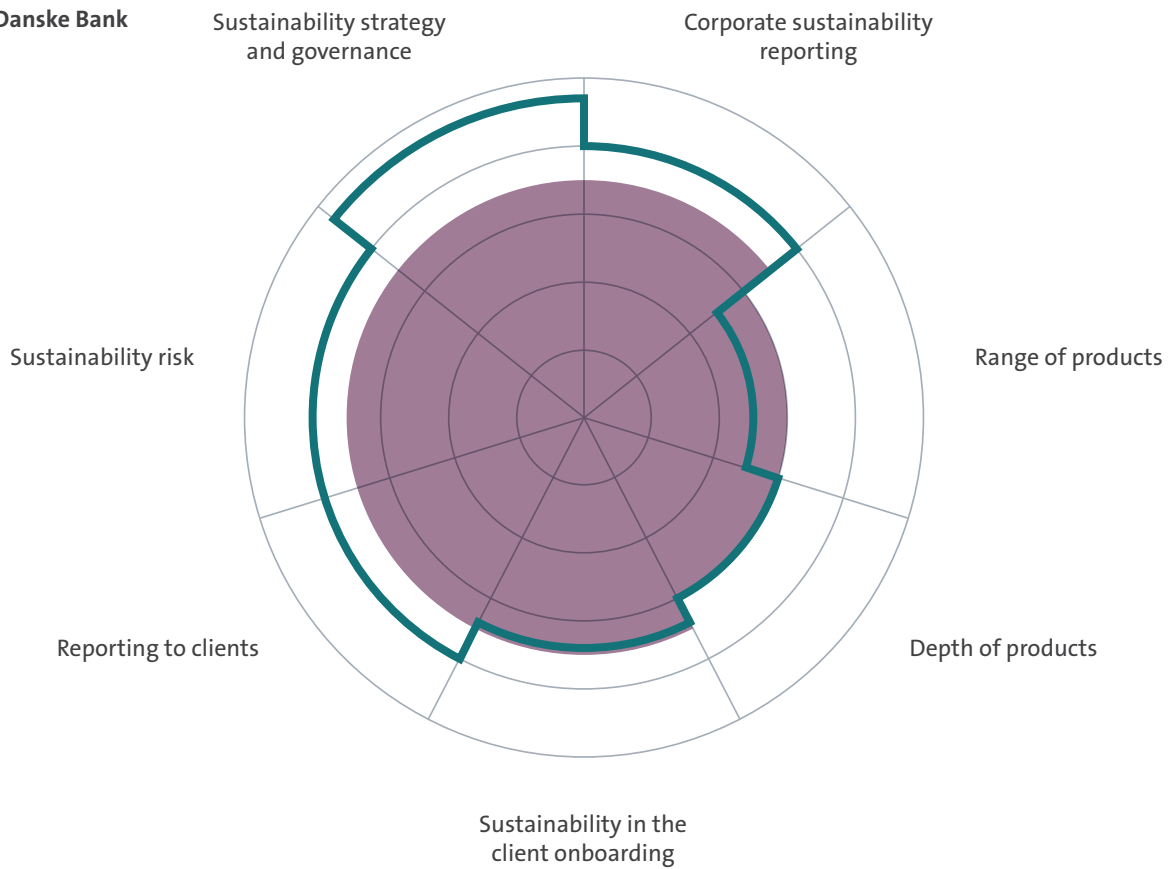
Exclusion	Best-in-class	ESG integration	Active ownership	Thematic	Impact Investing
✓	✓	✓	✓	✓	✓
Listed equity	Listed Fixed Income	Private equity/debt	Real Estate	Infrastructure	Multi-asset
✓	✓	✓	✓		✓

	Strengths	Challenges
Sustainable investing vision	<ul style="list-style-type: none"> • Transparent objectives, currently in the process of setting science-based targets • Explicit ambition to considerably expand AuMs invested in sustainable strategies, in every parts of the bank • Active participation in numerous sustainability market initiatives and working groups, including the Net-Zero Banking Alliance • Formal internal Impact Investing Policy applicable to all product manufacturers and onboarding teams within the bank • CEO of Sustainability, Research & Investment Solutions (SRI) at executive board level 	<ul style="list-style-type: none"> • Paris alignment for AuM currently not an explicit target • TCFD report does not include wealth management
Sustainable offering	<ul style="list-style-type: none"> • Market leading quantity of SI funds offered along various SI approaches and asset classes (incl. private debt + real estate) • Wide range of SI mandates offered: Sustainability Mandates, Climate Focus Mandates and bespoke private equity impact fund mandates; • Impact measured based on indicators incl. impact reporting; specialized KPIs on impact investing strategies • Additional sustainability due diligence processes in the selection of mutual funds & ETFs classified as sustainable and impact-based peer groups, quantitative and qualitative analysis • Range of active ownership services for all types of mandates (e.g. voting dashboard, offerings that facilitates client voting, client workshops and shareholder resolutions are featured in client education) • Numerous private market impact funds covering different markets and themes and several sector landscapes 	<ul style="list-style-type: none"> • Currently not explicitly tracking the negative impact of investment decisions on ESG factors in traditional (non-SI) offering
Client interactions	<ul style="list-style-type: none"> • Clients are actively asked for their sustainability preferences through a dedicated sustainability profile questionnaire (Sustainable Investment Framework) which is being implemented for all clients • Comprehensive reporting on non-financial return of SI offering; report can be customized based on client preferences • Reporting of ESG information also on traditional (non-SI) portfolios 	<ul style="list-style-type: none"> • Sustainable offering is currently not the default option in case the client has no sustainability preferences
Sustainability risk	<ul style="list-style-type: none"> • Specific and comprehensive governance around sustainability risk, including a dedicated sustainability risk unit • Thorough monitoring of compliance with both regulation and voluntary commitments (including an SRI regulatory oversight forum and compliance testing) • Integration of sustainability risk in wealth management's internal controls system ongoing (inclusion in Non-Financial Risk taxonomy, with annual risk assessment) 	<ul style="list-style-type: none"> • Methods not specific according to risk type (E, S, G)

Danske Bank

HQ	2021 AUM WM	# of Employees	SI offering
Denmark	EUR 200bn USD 212bn	200	Discr. portfolio management, Investment advice, White label funds

- Peer Avg.
- Danske Bank



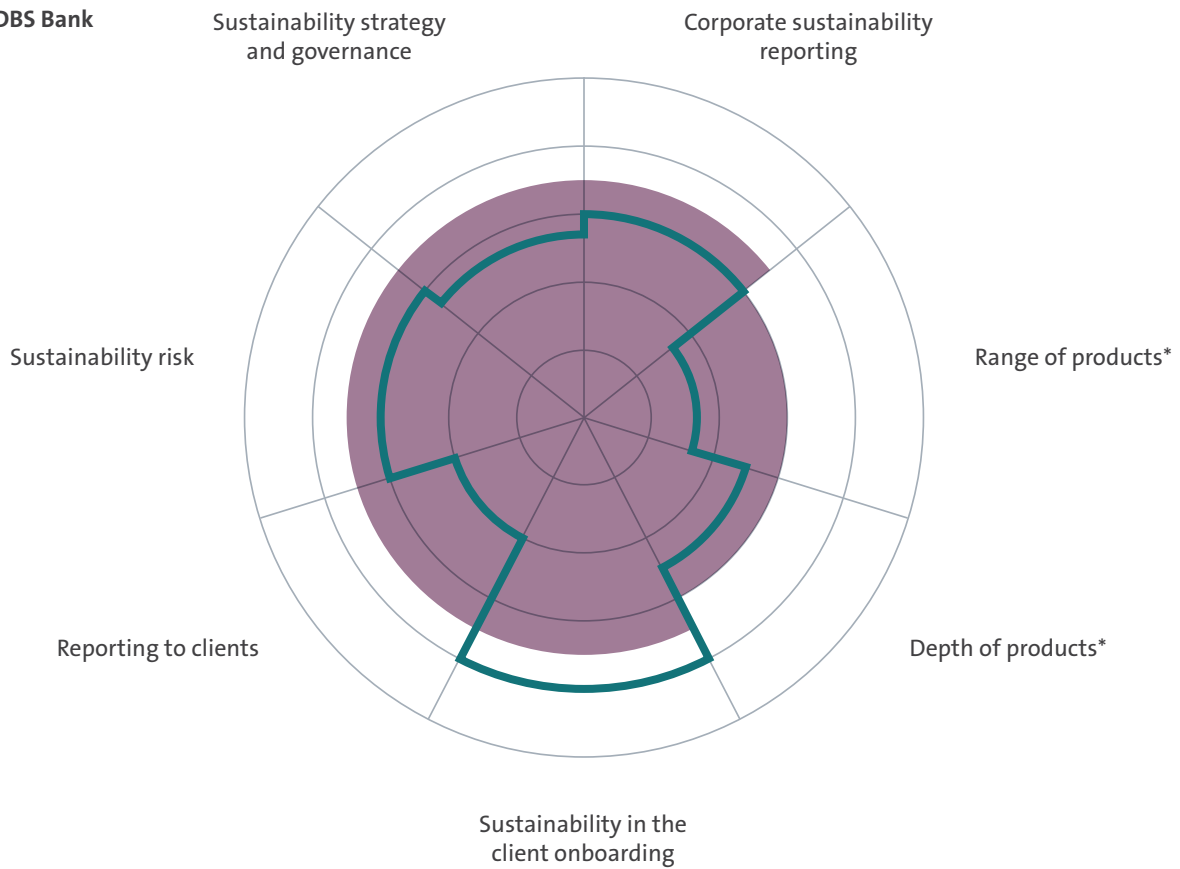
Exclusion	Best-in-class	ESG integration	Active ownership	Thematic	Impact Investing
✓	✓	✓	✓	✓	
Listed equity	Listed Fixed Income	Private equity/debt	Real Estate	Infrastructure	Multi-asset
✓	✓				✓

	Strengths	Challenges
Sustainable investing vision	<ul style="list-style-type: none"> Numerous sustainability-related objectives with clear responsibilities of setting and monitoring objectives <ul style="list-style-type: none"> Planned to set sector targets related to net-zero as part of its commitment to the Net Zero Asset Manager Initiative Have set a target for weighted average carbon intensity of investment products (50% reduction from 2020 to 2030) Specific targets for ESG products aligned with the European SFDR regulation Active participation in many sustainability market initiatives and working groups, including the Net-Zero Asset Manager Alliance Group-wide sustainability policies are applicable to WM and publicly available, e.g. <ul style="list-style-type: none"> Detailed list of investment restrictions for ESG products Detailed sectoral position statements incl. covering screening criteria and implementation principles 	<ul style="list-style-type: none"> TCFD report does not cover wealth management
Sustainable offering	<ul style="list-style-type: none"> ESG investment due diligence through a proprietary analytical tool mDASH (based on raw ESG data from companies, third-party data and ratings) External fund manager due diligence based on individual assessment on five focus areas (sustainability risk integration in investment analysis and investment decision-making processes, Active Ownership, SFDR, Reporting and Promoting RI) Votes on all holdings of both active and passively managed funds 	<ul style="list-style-type: none"> Limited SI fund offering regarding quantity and covered asset classes No dedicated SI discretionary mandate No offering of SI private market impact funds for WM
Client interactions	<ul style="list-style-type: none"> Sustainable investment products are the default option in case the client has no sustainability preferences Systematic SI dedicated training program for client advisors Workshops, newsletters and quarterly events on SI Provision of ESG information to clients of traditional non-ESG offering on request 	<ul style="list-style-type: none"> SI preferences not integrated into the client onboarding process (planned for 2022)
Sustainability risk	<ul style="list-style-type: none"> Formal consideration of sustainability risk in investment advice and products Proprietary “Sustainability Risk Challenger” framework to generate sustainability risk alerts for investments and trigger reviews Written guidelines on sustainability risk management integrated in the responsible investing policy Thorough monitoring of compliance with both regulation and voluntary commitments (including via internal Sustainability Risk Challenger) Plan to have TCFD report for funds incl. climate scenario analysis 	



HQ	2021 AUM WM	# of Employees	SI offering
Singapore	SGD 291Bn	33'000	n/a

- Peer Avg.
- DBS Bank



* a lower score on range and depth of products is due to data not being shared

Exclusion	Best-in-class	ESG integration	Active ownership	Thematic	Impact Investing
✓	✓	✓	✓	✓	
Listed equity	Listed Fixed Income	Private equity/debt	Real Estate	Infrastructure	Multi-asset
✓	✓	✓			

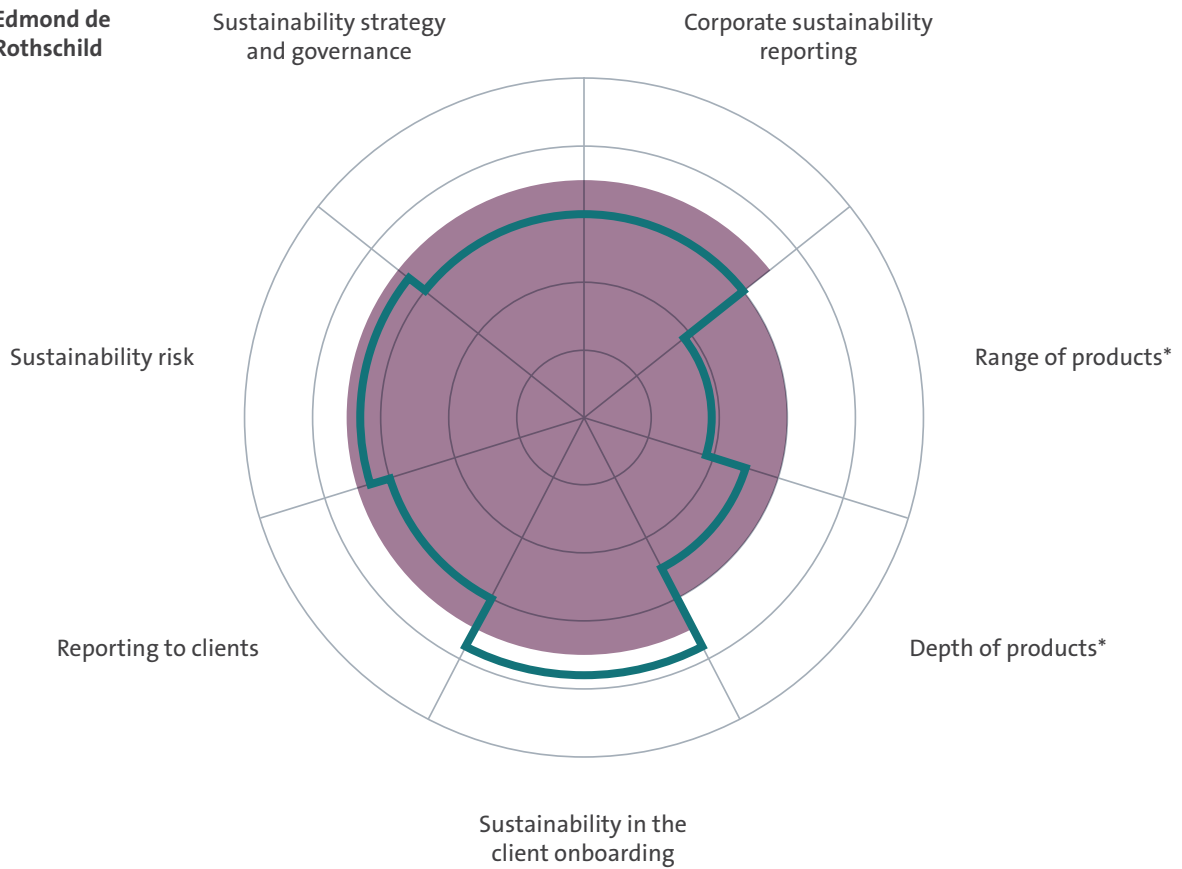
	Strengths	Challenges
Sustainable investing vision	<ul style="list-style-type: none"> • DBS Private Bank set a specific objective to grow sustainable investment (defined as those with MSCI ESG-ratings of BBB and above) AUM to >50% by 2023 with quarterly monitoring of the AUMs' rating and % of clients' invested AuMs. It successfully achieved this target ahead of time • Climate Steering Committee on group level responsible for further strengthening climate risk management • Active participation in several sustainability market initiatives and working groups and part of the Net-Zero Banking Alliance to realize a net-zero future by 2050 or sooner • Dedicated corporate and social responsibility (CSR) report including climate-related risks/opportunities based on TCFD 	<ul style="list-style-type: none"> • Not participating in the Principles for Responsible Investment (UN PRI) and Principles for Responsible Banking (UN PRB) • No transparency on the responsible investing policy • Climate reporting currently only focuses on the corporate lending portfolio
Sustainable offering	<ul style="list-style-type: none"> • Wide range of asset classes covered in SI offering including ESG notes, ESG warrants, ESG thematic unit trusts and private placements • All discretionary portfolio management portfolios rated above a defined average ESG MSCI rating • Few private markets impact funds offered 	<ul style="list-style-type: none"> • SI mandate strategies oriented around exclusions and min. rating only (but all portfolio mandates have min. ESG rating) • Reliance on one ESG data provider
Client interactions	<ul style="list-style-type: none"> • Clients are actively asked for their sustainability preferences through individual engagement and a survey • Sustainable investment products are the default option in case the client has no sustainability preferences • Several mechanisms to ensure client advisors respond to the clients' sustainability preferences • training courses to educate RMs, investment consultants and product managers on the full suite of sustainable investments offered • Numerous ways offered to educate clients on SI • Reporting of ESG rating for products and portfolios and recommendation of alternatives if rating is low 	<ul style="list-style-type: none"> • No detailed disclosure on ESG reporting indicators for mandates
Sustainability risk	<ul style="list-style-type: none"> • Formal consideration of sustainability risk in WM • Consideration of sustainable risk in remuneration through a balanced scorecard • Monitoring of compliance with both regulation and voluntary commitments through frequent engagement with regulators and relevant stakeholders 	<ul style="list-style-type: none"> • No transparency on use of climate scenario analysis in WM



EDMOND DE ROTHSCHILD

HQ	2021 AUM WM	# of Employees	SI offering
Switzerland	n/a	2'500	Discr. portfolio management

- Peer Avg.
- Edmond de Rothschild



* a lower score on range and depth of products is due to data not being shared

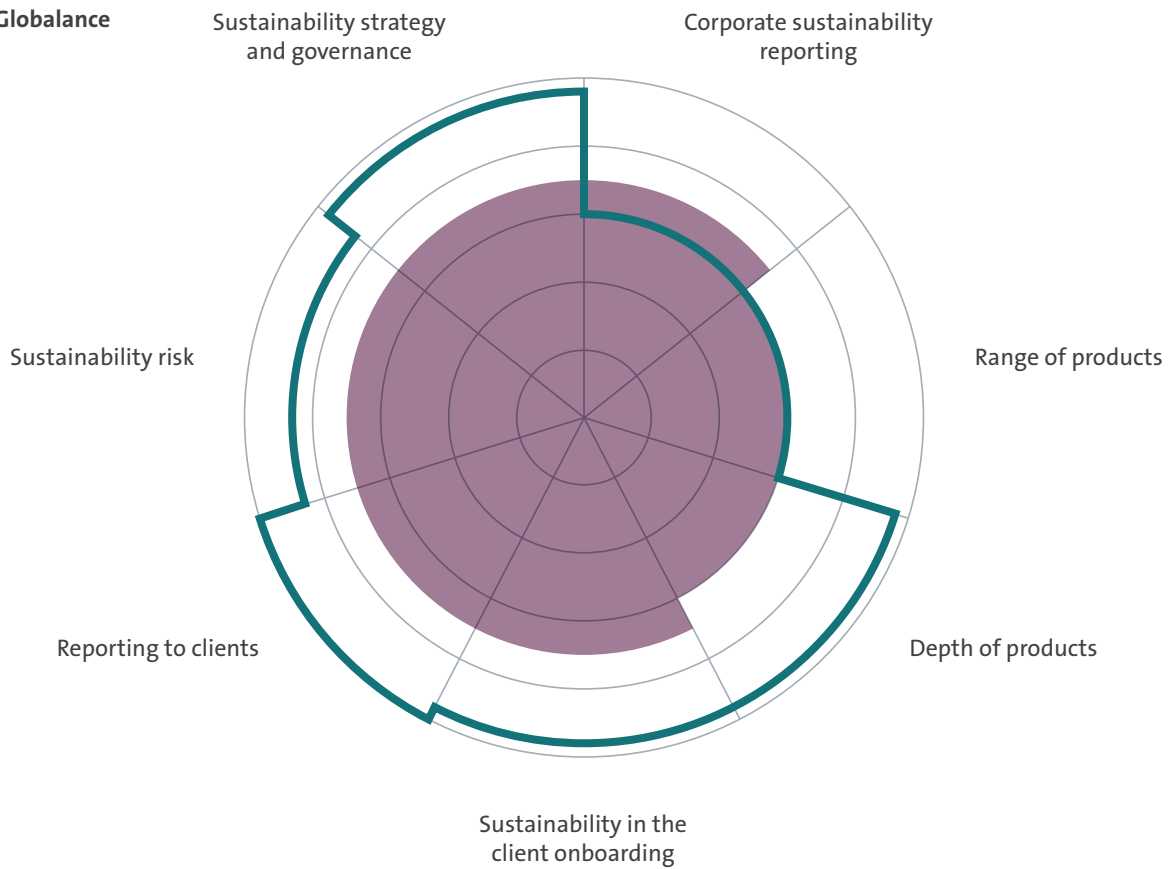
Exclusion	Best-in-class	ESG integration	Active ownership	Thematic	Impact Investing
✓	✓	✓		✓	✓
Listed equity	Listed Fixed Income	Private equity/debt	Real Estate	Infrastructure	Multi-asset
✓	✓	✓	✓	✓	✓

	Strengths	Challenges
Sustainable investing vision	<ul style="list-style-type: none"> Publicly available responsible investment and sustainability risk integration policy with details on each business line incl. private banking Publicly available formal group exclusion policy for all investments regarding anti-personnel mines and cluster bombs (chemical and biological weapons), thermal coal and tobacco High level of transparency regarding SI objectives and targets 	<ul style="list-style-type: none"> No climate-related reporting yet Participation in relatively low number of market initiatives (plan to participate in more)
Sustainable offering	<ul style="list-style-type: none"> Offers a discretionary SI mandate with 5 profiles ESG due diligence questionnaires for all types of funds and asset management companies integrating quantitative and qualitative indicators; alternative fund managers also included through simplified questionnaire Additional exclusion criteria on client's request is possible according to a feasibility framework Own in-house ESG ratings system, called BUILD, complemented by external provider ESG ratings 	<ul style="list-style-type: none"> No voting services for single equities held directly in the portfolio
Client interactions	<ul style="list-style-type: none"> Active discussion with clients on ESG preferences through individual engagement, the outcomes of which are matched to products by advisors who have been trained on this process In-depth internal SI training and specific training on philanthropy Client investment reporting includes ESG rating on portfolio level and GHG emissions / carbon footprint Customization of ESG reporting to client preferences is possible 	<ul style="list-style-type: none"> Limited reporting on ESG KPIs to clients
Sustainability risk	<ul style="list-style-type: none"> Sustainability risk is considered in WM within its investment approach Sustainability risk management is integrated in the group's risk policy, remuneration policy and formalized as risk and compliance employee objectives Regular monitoring and a working group to follows up on ESG laws and regulations 	<ul style="list-style-type: none"> Limited details on ESG risk governance and strategy publicly available



HQ	2021 AUM WM	# of Employees	SI offering
Switzerland	CHF 2bn USD 2.0bn	35	Discr. portfolio management, Investment advice, White label and own branded funds

Peer Avg.
Globalance



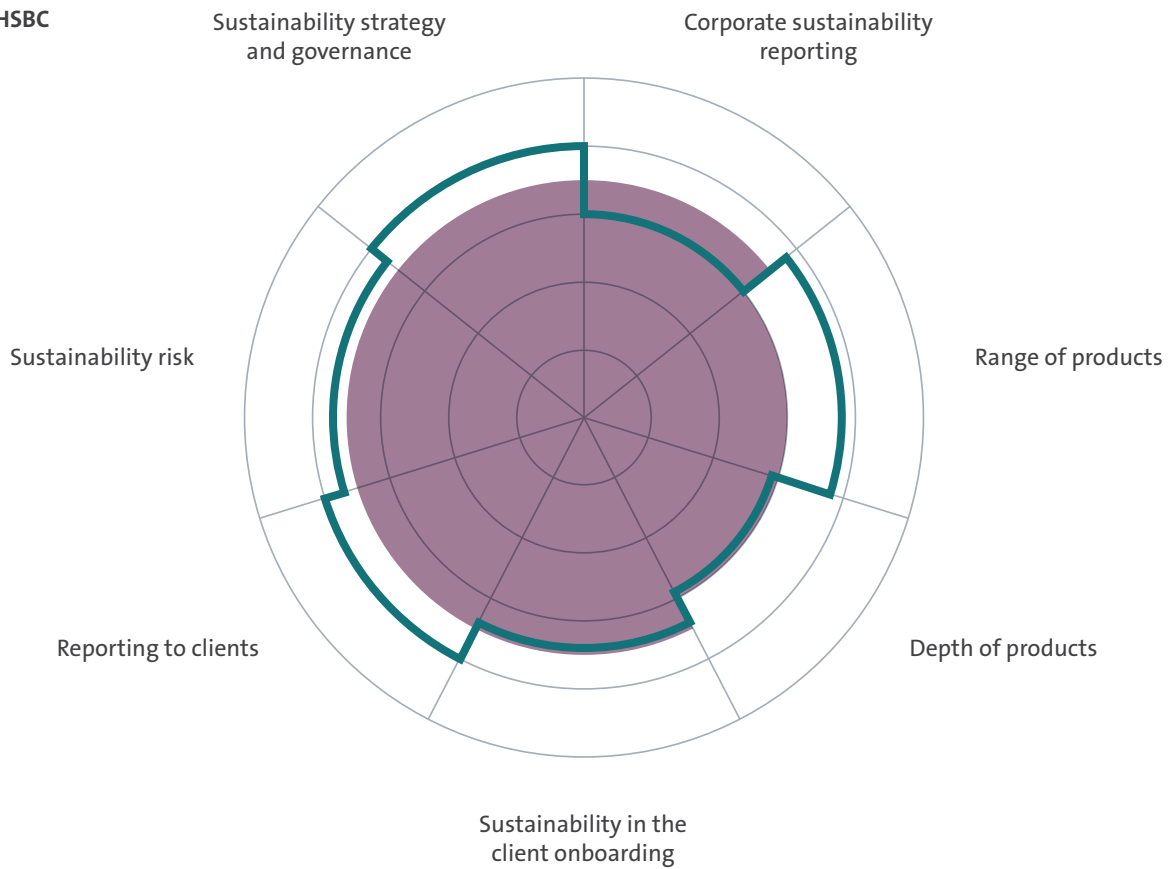
Exclusion	Best-in-class	ESG integration	Active ownership	Thematic	Impact Investing
✓	✓	✓	✓	✓	✓
Listed equity	Listed Fixed Income	Private equity/debt	Real Estate	Infrastructure	Multi-asset
✓	✓	✓	✓	✓	✓

	Strengths	Challenges
Sustainable investing vision	<ul style="list-style-type: none"> • Sustainability-focused wealth-management boutique, founded with the mission of promoting sustainable investing. • Strong objectives with regular review and progress measurement as well as explicit top management endorsement • Active participation and involvement in several sustainability market initiatives (e.g. founding member of UN PRB) • Key policies (e.g., sector policies, ESG guidelines) established • First B Corp-certified Bank in Switzerland in 2015 	<ul style="list-style-type: none"> • Some sustainability policies only available for clients, not the general public • No public aggregated climate report (e.g. TCFD) but transparency on individual portfolios
Sustainable offering	<ul style="list-style-type: none"> • All AuM are invested sustainability • SI fund offering along various asset classes including private debt, real estate and infrastructure • Comprehensive set of positive impact indicators measured continuously • All common exclusion criteria applied, 18 additional exclusion criteria available to the client • Proprietary footprint method that goes beyond a best-in-class approach (higher threshold) • Inclusion of climate warming potential as well as proprietary megatrend-exposure-methodology • Proprietary "Globanace Footprint"-framework assessing ESG impacts of all assets • Wide range of active ownership services offered for mandates at no extra cost (e.g. vote on behalf of client for all global equities, annual engagement report) • Range of private market impact funds covering various themes 	<ul style="list-style-type: none"> • Rather low number of SI funds offered
Client interactions	<ul style="list-style-type: none"> • Sustainability is an integral part of the client interaction process • "Co-creation" of customized offering together with clients • Clients receive customized "magazines" presenting all facts and figures, including SI metrics, in an attractive, accessible fashion • Personalised digital world map for clients and offered as an open-source platform for real-time accountability and reporting of investment portfolios 	
Sustainability risk	<ul style="list-style-type: none"> • Sustainable risk integrated in internal governance through risk management and compliance functions including real-time monitoring • Use of Climate Warming Potential data for single assets and portfolios • Controversy-monitoring combined with E, S and G scores 	<ul style="list-style-type: none"> • No written guidelines on sustainability risk management



HQ	2021 AUM WM	# of Employees	SI offering
England	USD 800bn	3'176	Mutual funds, Bonds, Alternatives, Equities, Discr. portfolio management, Investment advice, Structured products, Fixed income, Hedge funds

- Peer Avg.
- HSBC



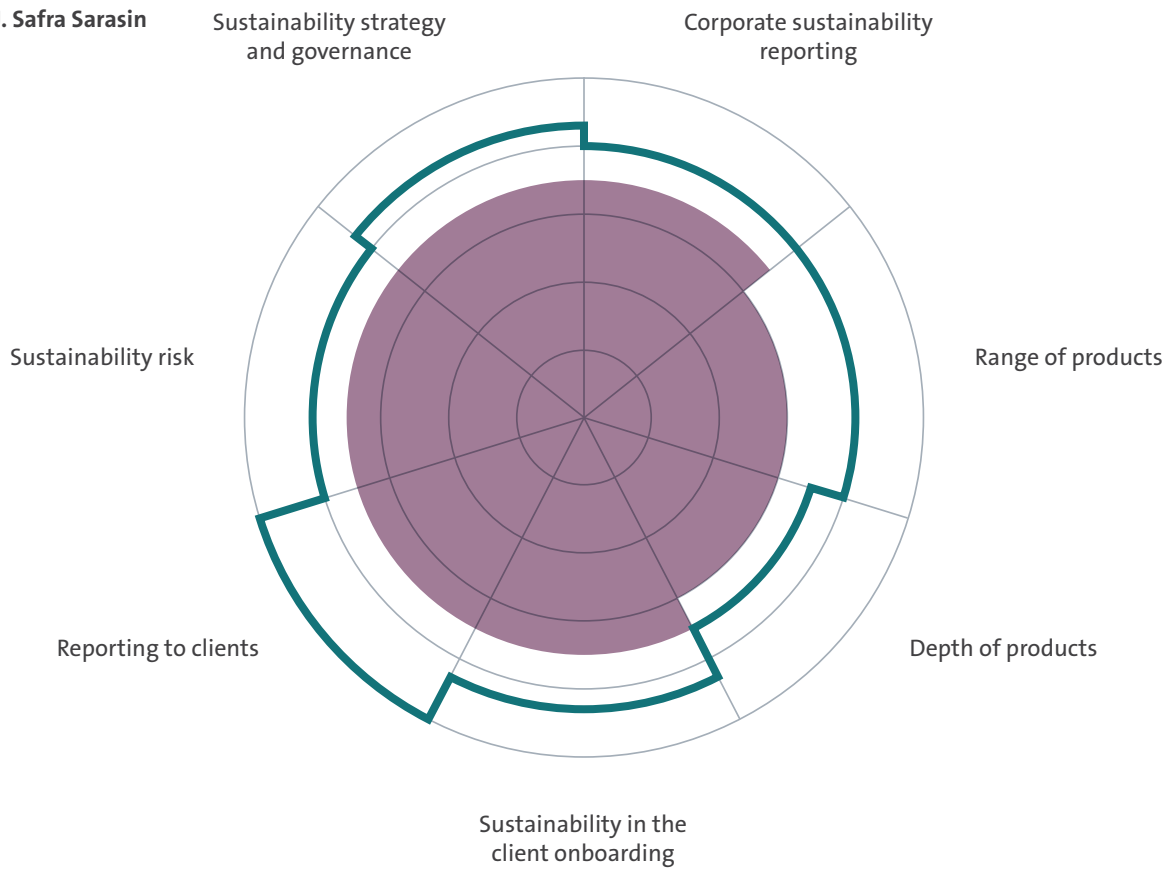
Exclusion	Best-in-class	ESG integration	Active ownership	Thematic	Impact Investing
✓	✓	✓		✓	✓
Listed equity	Listed Fixed Income	Private equity/debt	Real Estate	Infrastructure	Multi-asset
✓	✓	✓		✓	✓

	Strengths	Challenges
Sustainable investing vision	<ul style="list-style-type: none"> • Ambitious set of group-wide sustainability-related objectives, incl. targets on the reduction of GHG emissions in line with the Paris Agreement for both own operations and AuM <ul style="list-style-type: none"> - GHG emissions are measured based on scope 1, 2 and upstream scope 3 related to suppliers - Measurement of financed and facilitated emissions as per industry guidance (e.g. PCAF) - Client feedback and surveys to expand and improve SI offering • Active participation in numerous sustainability market initiatives and working groups, including the Net-Zero Banking Alliance (founding member) and Net Zero Asset Manager Alliance • Specific WM policy under development • Comprehensive climate-related reporting on group level based on TCFD 	
Sustainable offering	<ul style="list-style-type: none"> • Wide range of SI funds offered along all six SI approaches, mostly best-in-class and thematic investments • Three tailored SI mandates: UHNW mandates, multi-asset mandates, and best in class US equity mandate • Private market impact funds (and fund-of-funds) offered covering developed and developing markets through four primary sectors - Education, Energy, Financial Services and Healthcare - and three secondary sectors - Food and Agriculture, Technology and Growth Infrastructure • First ESG hedge fund launched 2022 	<ul style="list-style-type: none"> • For discretionary mandates currently not able to provide voting services due to custody arrangements; changes planned for some of the markets
Client interactions	<ul style="list-style-type: none"> • Client's sustainability preferences are part of the advisory process in some European countries; currently enhancing the sustainability preference questionnaire, incl. different styles and thematic preferences • Client reporting: clients can view their Sustainable Investment contribution per portfolio • SI dedicated training platform and modules for client advisors (e.g. SI Academy, proprietary SI eLearning module, mentoring sessions) as well as a number of learning materials on sustainability are available on HSBC University • Selective education possibilities offered for clients on SI (e.g. client newsletters, white papers through their “#WhyESGMatters” and “Learning about ESG” series, ESG Central, events) 	<ul style="list-style-type: none"> • Currently no standardized global approach to capture and assess client's SI preferences (this is planned based on a sustainability preferences questionnaire) • Planned enhanced client reporting, such as ESG metrics such as ESG Score/Rating (MSCI), Carbon Intensity, UN SDG Impact, UNGC Violations, Portfolio temperature and Controversial Business Involvement
Sustainability risk	<ul style="list-style-type: none"> • Specific and comprehensive governance around sustainability risk, including a dedicated sustainability risk and climate risk officer, an oversight forum and climate risk steering committee • Integration of sustainability risk in wealth management's internal control system ongoing (through regulatory compliance risk framework covering product governance, sales, controls and more) • Use of basic ESG scenario analysis and plan to provide clients with climate scenario analysis 	<ul style="list-style-type: none"> • Comprehensive ESG risk assessment currently being introduced



HQ	2021 AUM WM	# of Employees	SI offering
Switzerland	CHF 224.7bn USD 229.2bn	2'339	

- Peer Avg.
- J. Safra Sarasin



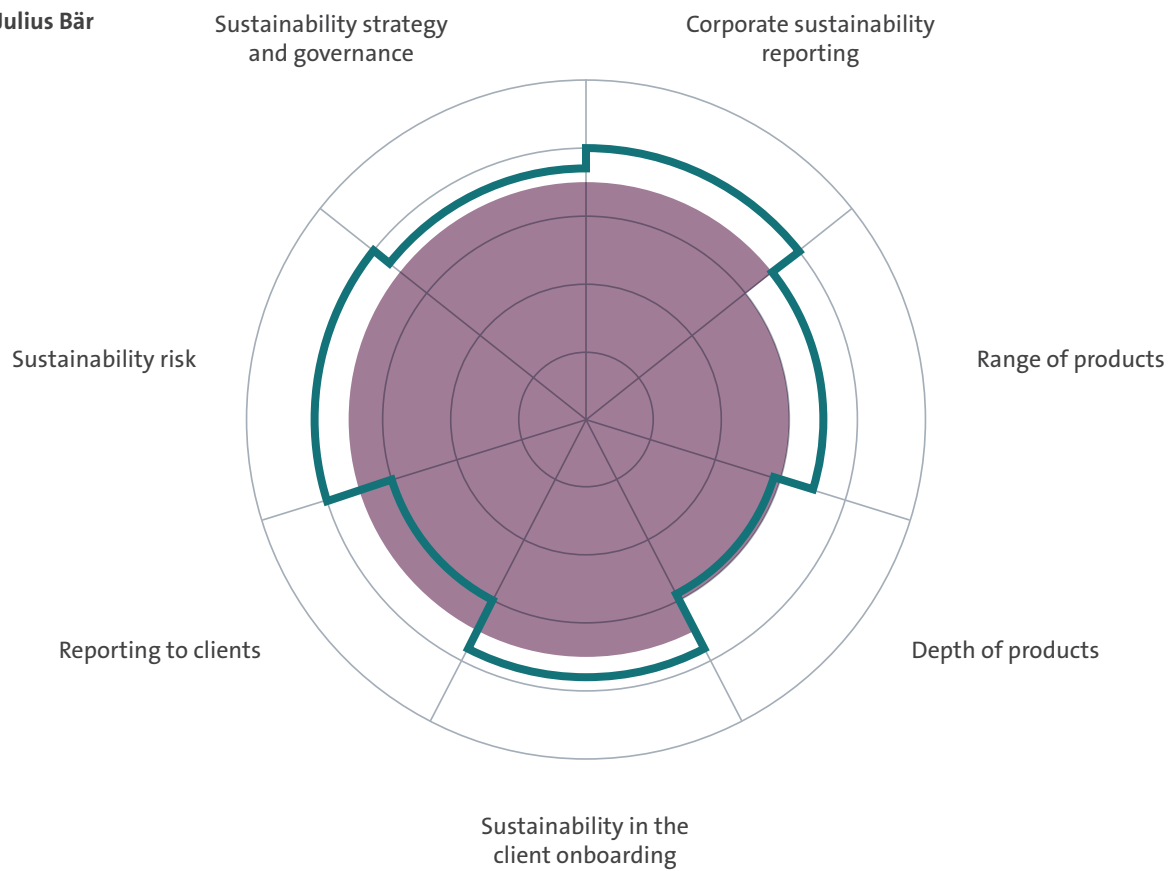
Exclusion	Best-in-class	ESG integration	Active ownership	Thematic	Impact Investing
✓	✓	✓	✓	✓	
Listed equity	Listed Fixed Income	Private equity/debt	Real Estate	Infrastructure	Multi-asset
✓	✓		✓		✓

	Strengths	Challenges
Sustainable investing vision	<ul style="list-style-type: none"> • Many sustainability-related group objectives, incl. targets on the reduction of GHG emissions in line with the Paris Agreement for both own operations and AuM (i.e. Climate Pledge) • Active participation in numerous sustainability market initiatives including net-zero initiatives <ul style="list-style-type: none"> - Founding member of UN PRI and PRB, as well as the Finance for Biodiversity Pledge - Member of, amongst others, Net Zero Asset Managers and Science Based Targets Initiative • Group-wide sustainability policies are all applicable for WM and publicly available with the aim to continuously improve and expand reporting • Reports on climate-related risks and opportunities in line with TCFD 	<ul style="list-style-type: none"> • No specific WM SI objectives or policies
Sustainable offering	<ul style="list-style-type: none"> • Comprehensive SI offering <ul style="list-style-type: none"> - Range of SI funds offered along all six SI approaches - Market leading quantity of specific SI mandates • Monthly measurement of numerous positive impact indicators, such as carbon footprint, water efficiency, disposal of waste, and health and safety • Incorporation of ESG considerations throughout the entire investment process, from universe definition via investment analysis to portfolio construction and risk management and monitoring • Wide range of active ownership services for all types of mandates (discretionary and advisory mandates), including voting on behalf of clients and shareholder resolution support • Comprehensive ESG investment due diligence including also direct requests to investee companies 	<ul style="list-style-type: none"> • Strong focus of SI offering on traditional asset classes (Equity, Fixed Income) • No offering of SI private market impact funds
Client interactions	<ul style="list-style-type: none"> • Ability to discuss with clients specific requirements across a broad spectrum of SI approaches and criteria, enabling the provision of customised client solutions • Several mechanisms in place to ensure advisors adequately responds to the clients' sustainability preferences, including strong linkages to remuneration • Sustainable investing offering is the default option • Comprehensive reporting on non-financial return of both SI offering (report can be customized based on client preferences) and of traditional (non-SI) portfolios 	<ul style="list-style-type: none"> • Unclear whether sustainability is discussed with all clients and whether specific guidance or a questionnaire is used
Sustainability risk	<ul style="list-style-type: none"> • Proprietary ESG and Carbon Risk Tool used for ESG risk identification • Written guidelines on sustainability risk management included in annual sustainability report and sustainable investment policy • Remuneration structures and performance management incentivize the consideration of sustainability wherever possible (e.g. during risk assessments and when completing duties) • Several bodies are responsible for monitoring compliance with sustainability-related regulations and commitments 	<ul style="list-style-type: none"> • No scenario analysis used for WM mandates

Julius Bär

HQ	2021 AUM WM	# of Employees	SI offering
Switzerland	USD 433.7bn	6'606	Discr. portfolio management, Investment advice, White label funds

Peer Avg.
Julius Bär



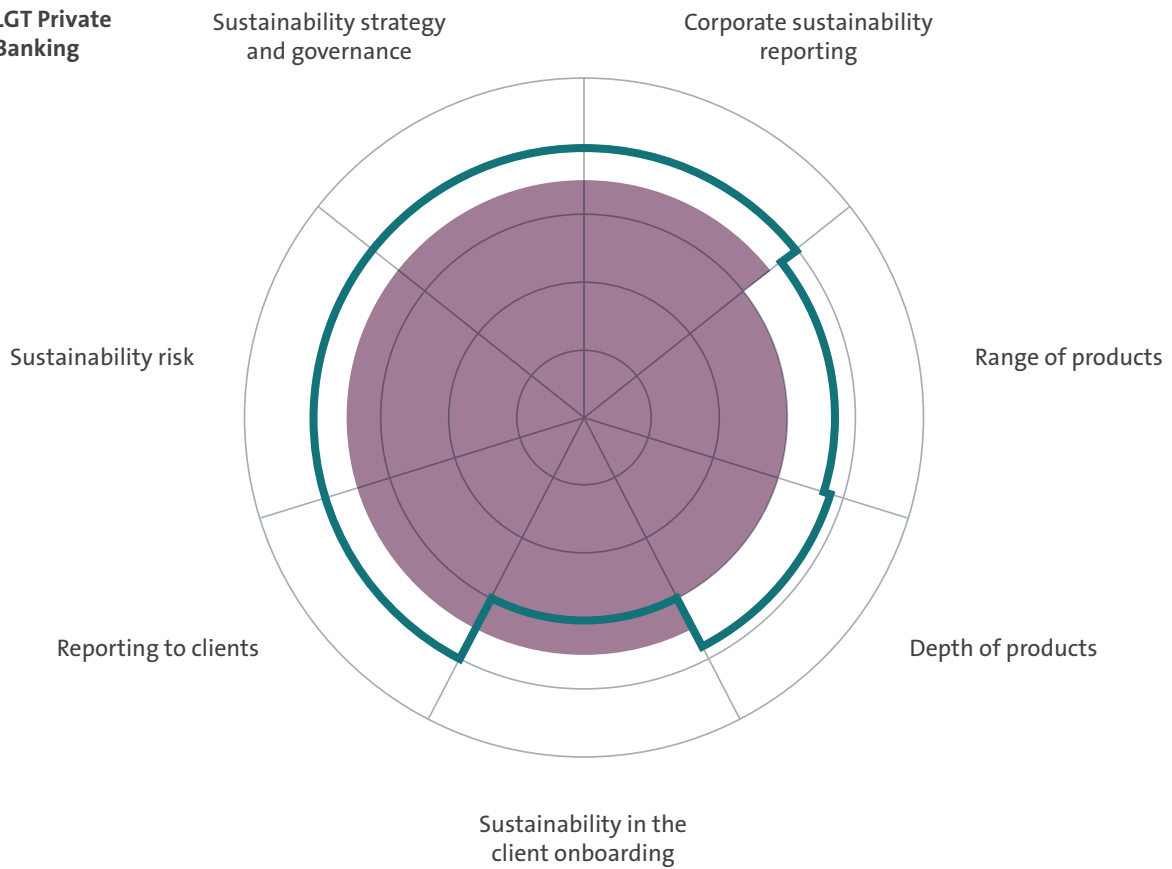
Exclusion	Best-in-class	ESG integration	Active ownership	Thematic	Impact Investing
✓	✓	✓		✓	✓
Listed equity	Listed Fixed Income	Private equity/debt	Real Estate	Infrastructure	Multi-asset
✓	✓	✓			✓

	Strengths	Challenges
Sustainable investing vision	<ul style="list-style-type: none"> • Ambitious set of group-wide sustainability-related objectives applicable to wealth management, with clear responsibilities including a dedicated Sustainability Board, a committee of the ExB, Head of Sustainability, Responsible Investment committee and Sustainability risk committee • Publicly communicated strategic targets and ambitions on responsible wealth management incl. transparency on progress • First TCFD statement was published in 2020, comprehensive climate-related reporting based on TCFD started in 2021 • SASB, GRI and PRB Reporting 	
Sustainable offering	<ul style="list-style-type: none"> • SI investment offering in a wider range of discretionary mandates as well as advisory mandates: <ul style="list-style-type: none"> - SI universe includes equity and fixed income instruments as well as private market funds - SI fund offering covering all SI investment approaches (eg best-in-class, impact investing) - Best-in-class approach in discretionary mandates defines high thresholds on equity and fixed income instruments • Internal ESG investment rating methodology based on screening, scoring and validation, and alignment, with the strategic goal for further development • Offering in philanthropy investment • Comprehensive ESG investment due diligence including many different external and internal elements 	<ul style="list-style-type: none"> • Active ownership related to ESG is currently not systematically pursued with companies and / or bond issuers however active ownership will be an explicit part of Julius Baer's climate strategy incl. engagement and proxy voting facilitation
Client interactions	<ul style="list-style-type: none"> • Clients in sustainable discretionary mandates and sustainable advisory mandates are actively asked for their sustainability preferences (planned to be expanded to all clients in 2022) covering topics such as E, S or G preferences as well as SDG preferences • Dedicated SI training program for client advisors covering a wide range of topics • Rolled out first next generation philanthropy training for wealth planners, with wider rollout planned in 2022 • Comprehensive client education program in place by, for example, establishing a dedicated client community on sustainability topics at COP26 "Sustainability Circle" 	<ul style="list-style-type: none"> • Reporting on SI KPIs (non-financial return) currently limited and available only upon request, however a gradual global roll-out of ESG client reporting is a strategic priority with climate metrics becoming available to all clients where possible by the end of 2023 • No reporting of ESG information on traditional (non-SI) portfolios yet
Sustainability risk	<ul style="list-style-type: none"> • Comprehensive risk management framework including clearly defined responsibilities and roles around sustainability risk on a group level as well as at the portfolio level, incl. a dedicated sustainability risk committee • Comprehensive climate strategy including scenario analysis based on NGFS scenario to evaluate Climate value at risk of investment • Dedicated program established to monitor the compliance with sustainability-related regulations and voluntary commitments (e.g., UN PRI, UN PRB, TCFD) 	



HQ	2021 AUM WM	# of Employees	SI offering
Liechtenstein	n/a	n/a	Discr. portfolio management, Investment advice, Structured products, Lightrock private impact evergreen fund

Peer Avg.
LGT Private Banking



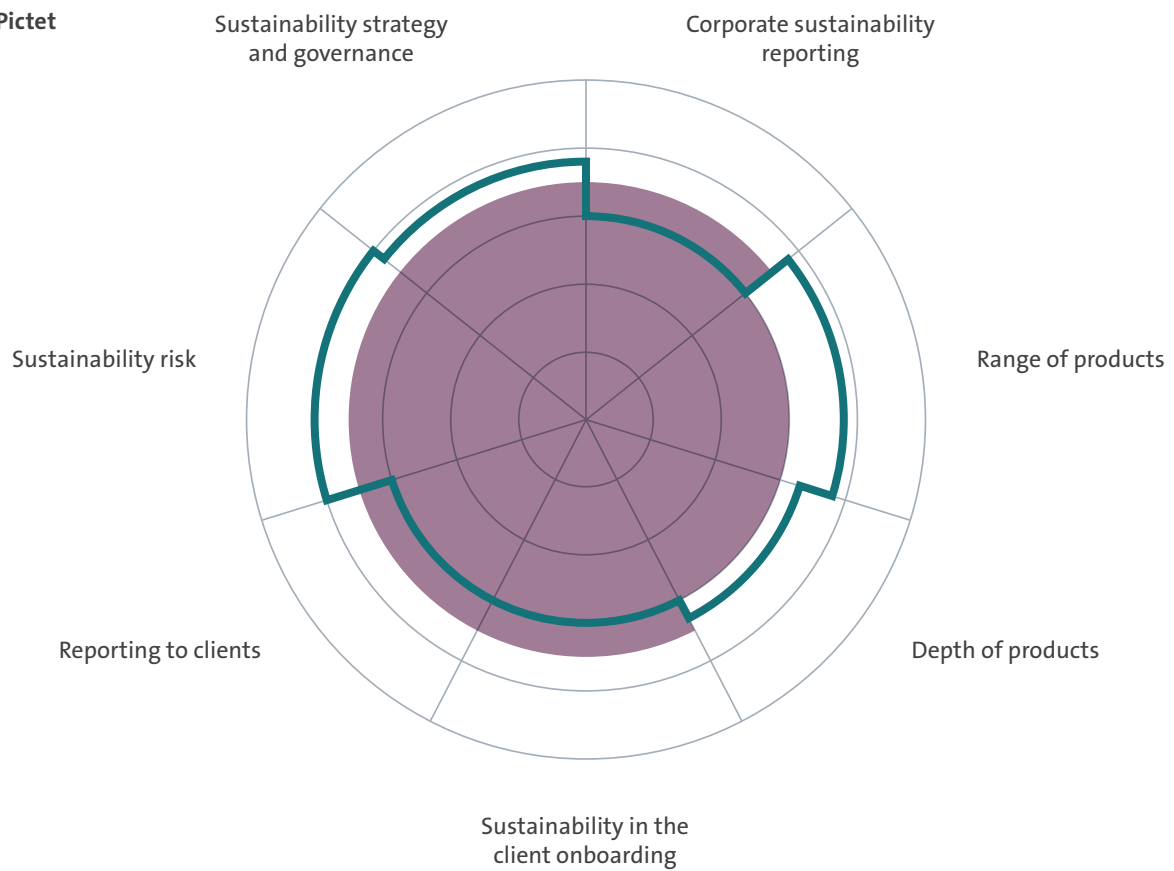
Exclusion	Best-in-class	ESG integration	Active ownership	Thematic	Impact Investing
✓	✓	✓	✓	✓	✓
Listed equity	Listed Fixed Income	Private equity/debt	Real Estate	Infrastructure	Multi-asset
✓	✓	✓			✓

	Strengths	Challenges
Sustainable investing vision	<ul style="list-style-type: none"> • Strong sustainability-related commitments with clear responsibilities of setting and monitoring objectives, • Strong and explicit top management endorsement • Ambitious commitment to reduce net emissions from its operations and investments to zero by 2030 • Currently developing harmonized reporting standards for the assessment of investment-related CO2 emissions in collaboration with the Partnership for Carbon Accounting Financials (PCAF) • Planned to issue first TCFD report covering WM in 2022 	<ul style="list-style-type: none"> • Measurement of sustainability objectives not yet publicly communicated • For Private Banking, only exclusion policy is publicly available
Sustainable offering	<ul style="list-style-type: none"> • Offers SI discretionary portfolio management mandate with four risk profiles <ul style="list-style-type: none"> - ESG strategy includes assessment of aggregated contribution to SDGs of investee companies • Extensive offering of SI funds along many different SI approaches, <ul style="list-style-type: none"> - Through the LGT Capital Partners' Sustainability fund family, which encompasses 14 funds (equity, fixed-income, multi-asset and market neutral) - Wide range of third-party SI fund offering based on rigorous selection process • Use of internal proprietary analysis tool, the LGT ESG Cockpit, <ul style="list-style-type: none"> - For assessing corporate governance, environmental and social aspects of issuers - Sources raw data from multiple ESG data providers - Application of own LGT Sustainability Rating (using a 5-star approach) to assess the sustainability quality of companies, countries and supranational organizations (equities, bonds, funds and ETFs) • Active ownership services to facilitate client voting planned in 2022 for SI mandates • In-house impact private equity fund for private clients, the Lightrock Evergreen Fund, launched in 2021 <ul style="list-style-type: none"> - Directly invest in the growth equity of rapidly growing, innovative and sustainable businesses in Europe, LatAm and India • Dedicated sustainable advisory offering covering clients' different ESG preferences will be launched in summer 2022 	
Client interactions	<ul style="list-style-type: none"> • SI dedicated training program for client advisors covering a wide range of topics • Customized offering on client's request possible (also through collaboration with LGT Group Members: LGT Capital Partners, LGT Venture Philanthropy, Lightrock (Private Equity and Impact Investing)) • LGT Sustainability Rating for client-facing reporting • Comprehensive ESG reporting for all clients incl. metrics such as PAI considerations, environmental footprint, SDG contribution etc. 	<ul style="list-style-type: none"> • Process for asking the client's ESG preferences not yet formalized (but currently being revised and implemented in 2022)
Sustainability risk	<ul style="list-style-type: none"> • Enhanced governance structures around sustainability risk including dedicated Sustainability Committees • Holistic approach on sustainability risk beyond climate, currently in implementation of various methods including KPI setting 	<ul style="list-style-type: none"> • No climate scenario analysis for WM mandates yet (but planned)



HQ	2021 AUM WM	# of Employees	SI offering
Switzerland	CHF 273bn USD 278.5bn	4'900	Discr. portfolio management, Investment advice

- Peer Avg.
- Pictet



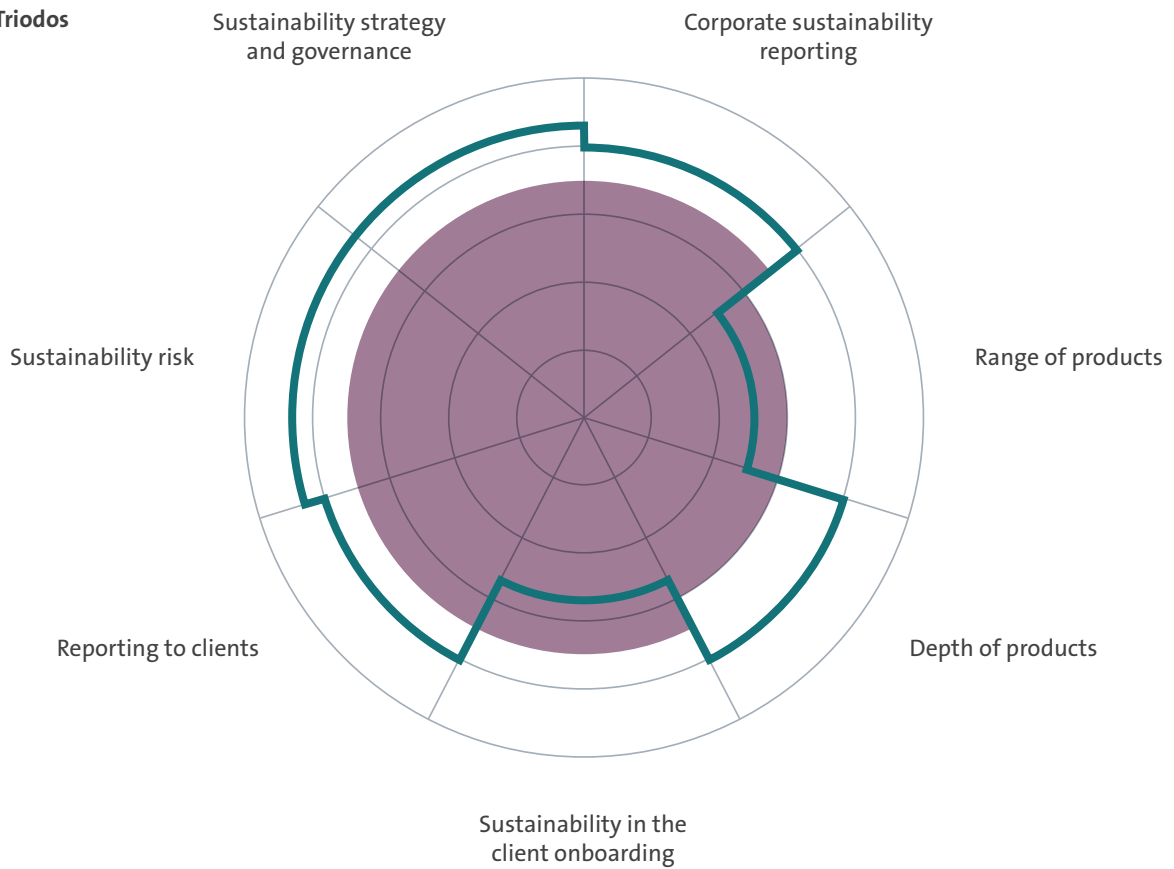
Exclusion	Best-in-class	ESG integration	Active ownership	Thematic	Impact Investing
✓	✓	✓	✓	✓	
Listed equity	Listed Fixed Income	Private equity/debt	Real Estate	Infrastructure	Multi-asset
✓	✓	✓	✓		✓

	Strengths	Challenges
Sustainable investing vision	<ul style="list-style-type: none"> Numerous sustainability-related objectives with regard to both own operations and AuM, incl. <ul style="list-style-type: none"> Significant reduction the environmental impact of own activities and investments Full integration of ESG factors and active ownership into all investment processes Clear responsibilities of setting and monitoring objectives involving board members and dedicated responsible investment staff, who review the progress quarterly to annually 	<ul style="list-style-type: none"> No reporting on climate-related risks and opportunities but planned for this year
Sustainable offering	<ul style="list-style-type: none"> Wide range of SI fund offerings, most prominent investment approaches are exclusions, ESG integration, thematic and active ownership Several SI discretionary mandates, incl. multi-assets funds only, multi-assets funds & single lines, and equity mandates Fund selection based on a proprietary ESG Due Diligence questionnaire for funds which is based on ESG at the firm level, ESG in the Investment Process, Active Ownership & Engagement and Monitoring & Reporting Developed a proprietary ESG Scorecard based on a variety of different ESG data providers Specialist ESG team form voting recommendations for delegated client votes as well as in engagement meetings Voting as well as engagement policy and transparency are a key factor for ESG fund due diligence 	<ul style="list-style-type: none"> Concentrated on SI equity and fixed income, launch of Real Estate and Private Equity solutions planned for 2022
Client interactions	<ul style="list-style-type: none"> SI dedicated training program for client advisors covering a wide range of topics <ul style="list-style-type: none"> Mandatory awareness training for all staff with support of third party education and certification Numerous initiatives to educate clients on sustainable investing <ul style="list-style-type: none"> Produce and share sustainability materials such as articles, podcasts and white papers Periodically distribute an extra-financial reporting based on current portfolios, which triggers related questions SI customization of clients' investment reports are possible ESG-related information available to clients for traditional portfolios by the end of the year by including, e.g. ESG Risk Ratings, Controversies, Exposure to High Risk Activities, and Quality of Corporate Governance 	<ul style="list-style-type: none"> Will only start to actively ask clients on their sustainability preferences during 2022 Reporting of ESG information for traditional portfolios planned for 2022
Sustainability risk	<ul style="list-style-type: none"> Responsible investing policies include sustainability risk management for business lines and internal procedures and controls to ensure compliance within WM Analysis of climate risk scenarios (e.g., transition and physical risks) within macro-economic research Comprehensive compliance monitoring (e.g., through watcher groups) Monthly checks by investment risk & compliance on overall assets in terms of sustainability risks 	

Triodos Bank

HQ	2021 AUM WM	# of Employees	SI offering
Netherlands	USD 4.5bn	1'400	Discr. portfolio management

- Peer Avg.
- Triodos



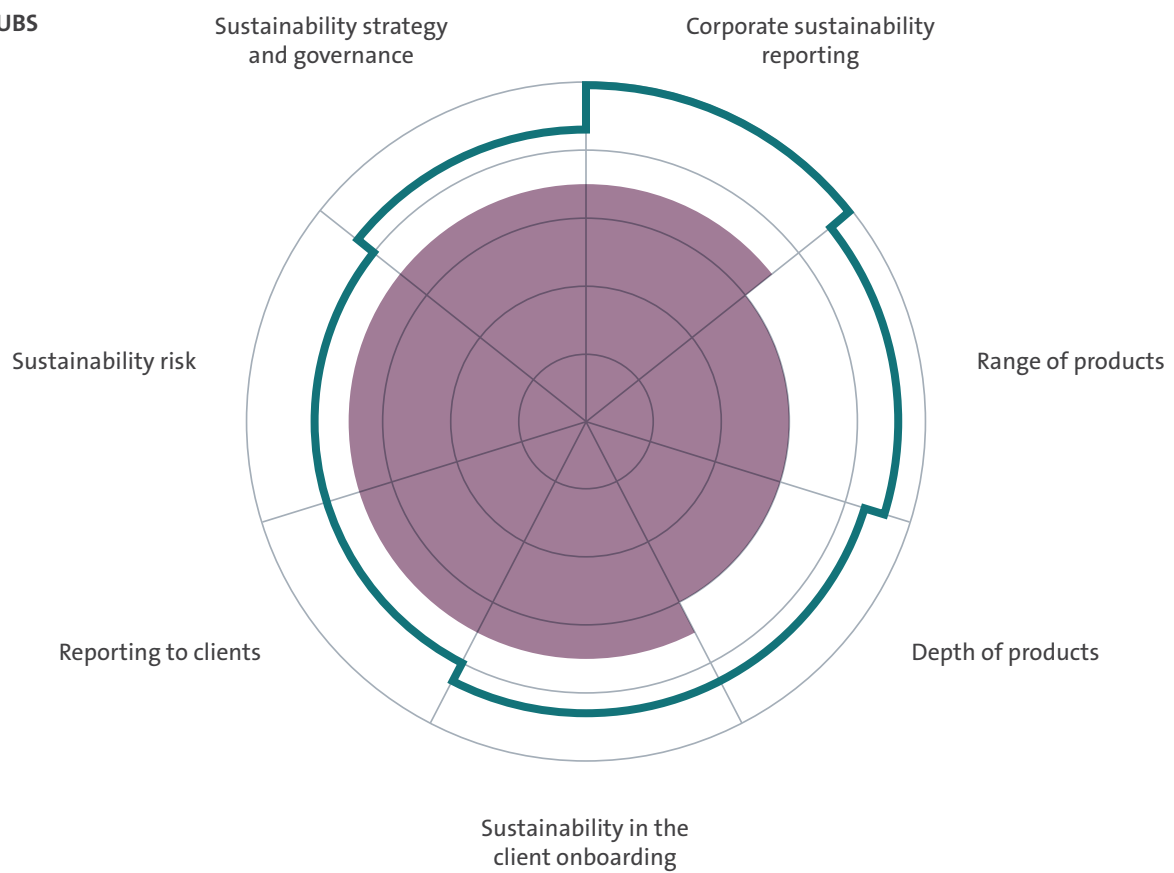
Exclusion	Best-in-class	ESG integration	Active ownership	Thematic	Impact Investing
✓	✓	✓	✓		✓
Listed equity	Listed Fixed Income	Private equity/debt	Real Estate	Infrastructure	Multi-asset
✓	✓	✓			✓

	Strengths	Challenges
Sustainable investing vision	<ul style="list-style-type: none"> • Mission-led bank specialized in sustainable investment products • Aim to engage as much capital as possible SI offering • Commitment to net-zero for all loans and funds' investments by 2035 or sooner • Comprehensive sustainability policies, incl. asset class-specific or sector-specific guidelines on ESG in investment management, are all applicable to WM and publicly available 	<ul style="list-style-type: none"> • Climate reporting is not yet based on TCFD (but alignment with TCFD in risk management is in development)
Sustainable offering	<ul style="list-style-type: none"> • All assets are invested sustainably • SI fund offering covering a variety of asset classes including private equity and private debt • Offers SI mandate with 5 risk profiles • Integration of impact through seven sustainable transition themes aligned with the UN SDGs • Publicizes own Greenhouse Gas accounting methodology (own operations & investments per sector) • Every new investment is screened to minimize negative impact through minimum standards categorized as: human dignity, planet awareness, governance • Range of private market impact funds offered, incl. microfinance, renewables, green funds • Transparent, detailed rules on active engagement and stewardship (within AM) • Triodos Impact Equity and Bond funds with the highest possible scores from major European sustainable investment labels (e.g. FNG-Siegel, Nordic Swan Ecolabel, 3D Investing and others) 	<ul style="list-style-type: none"> • Limited quantity of SI funds offered • Strategically decided not to offer advisory mandates
Client interactions	<ul style="list-style-type: none"> • Clients' preferences are matched with investment advice through "financial goal play", incorporating only SI funds and investees • Advanced and regular reporting (incl. semi-annually) on non-financial return of SI offering, incl. carbon footprint, comprehensive engagement-related information and realized impact 	<ul style="list-style-type: none"> • Limited customization possibilities based on a specific request or ideas of the client • Limited client education offered
Sustainability risk	<ul style="list-style-type: none"> • Written guidelines on sustainability risk management within SFDR • Sustainability risk not explicitly considered in remuneration policy, but seen as fundamental part of senior managements role • Use of climate risk scenario analysis in line with Dutch Central Bank's requirements in WM • Monitoring of compliance with sustainability-related regulations and commitments integrated in all three lines of defense 	



HQ	2021 AUM WM	# of Employees	SI offering
Switzerland	USD 3'100bn	70'000	Discr. portfolio management, Investment advice, Private markets, Investment funds, Hedge funds

Peer Avg.
UBS



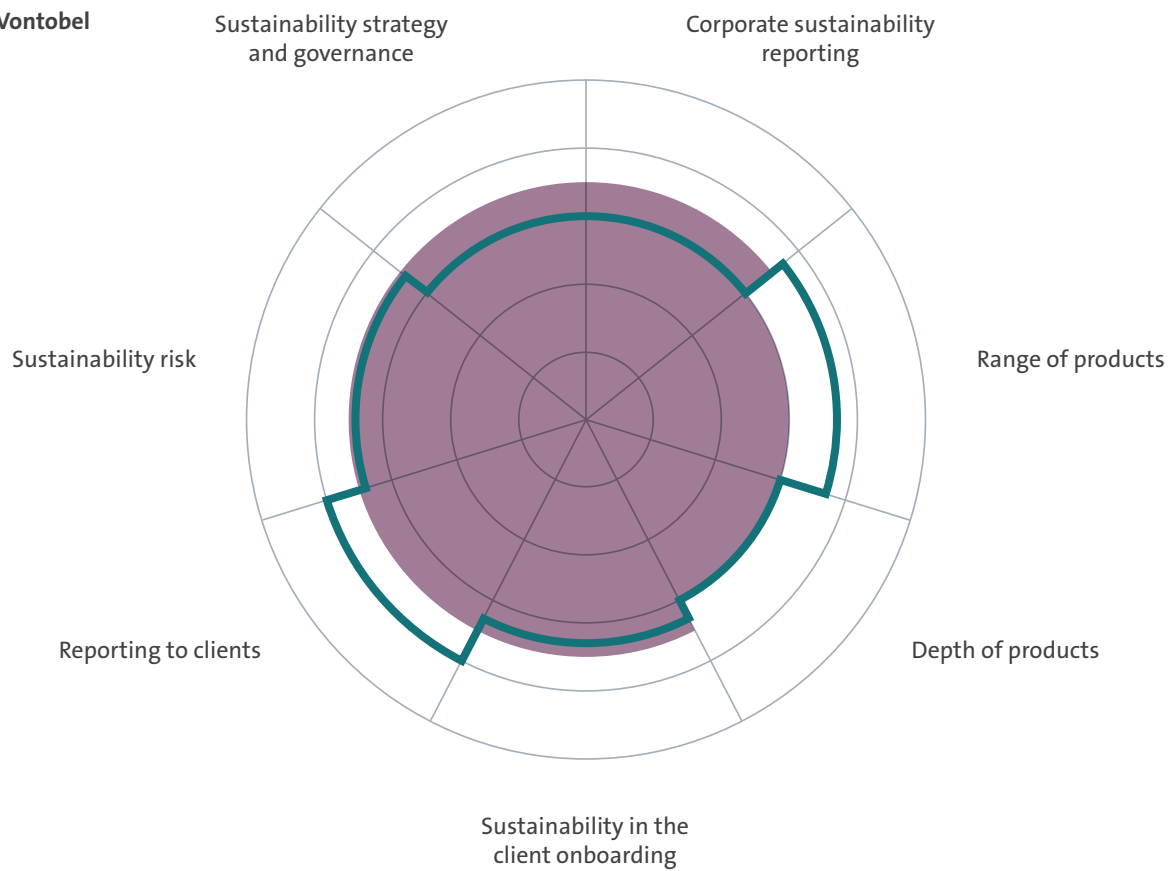
Exclusion	Best-in-class	ESG integration	Active ownership	Thematic	Impact Investing
✓	✓	✓	✓	✓	✓
Listed equity	Listed Fixed Income	Private equity/debt	Real Estate	Infrastructure	Multi-asset
✓	✓	✓	✓	✓	✓

	Strengths	Challenges
Sustainable investing vision	<ul style="list-style-type: none"> Active participation in numerous sustainability market initiatives and working groups, including the Net-Zero Asset Manager Alliance <ul style="list-style-type: none"> Dedicated Net zero action plan is being developed Group-wide sustainability policies are all applicable for WM and publicly available, specific WM objectives to improve sustainable investing offering Comprehensive climate-related reporting based on TCFD with explicit consideration of WM 	
Sustainable offering	<ul style="list-style-type: none"> Comprehensive range of SI offering in terms of markets and asset classes <ul style="list-style-type: none"> Including SI alternatives, direct investments in impact private companies and sustainable gold in partnership with Swiss Better Gold Association Flagship SI discretionary mandate is available in 4 variations, 6 risk profiles and a number of reference currencies to all clients globally; strategy is also provided as a cross-asset investment fund Active ownership services through provision of guidance if requested and client voting facilitation (if through UBS AM) First large wealth manager to make sustainable investing the preferred solution for private clients investing globally Wide range of private markets impact fund offering based on several sector landscapes of PE/VC fund managers (topics include oncology, affordable housing, climate solutions) 	<ul style="list-style-type: none"> No own voting facilities, only if SI mandate in partnership with UBS AM, AM voting facilities can be used
Client interactions	<ul style="list-style-type: none"> Clients are asked for their sustainability preferences on six topics in SI advisory mandates; tailored methodology to match them with different investment universes SI offering is the default option for clients investing globally Numerous ways offered to clients to learn about SI, including workshops and product trainings Advanced reporting on non-financial return of SI offering; reports can be customized in dedicated SI advisory mandates 	<ul style="list-style-type: none"> ESG reporting in traditional portfolios currently under development, to include ESG ratings, GHG emissions, benchmark comparisons
Sustainability risk	<ul style="list-style-type: none"> Advanced internal governance with respect to sustainability risk with an environmental risk team and committees on group level and integration into investment risk process Continuous improvement of existing sustainability risk management guidelines Climate risk scenario analysis under development for WM Advanced compliance for sustainability-related regulations, incl. audits and automated checks 	<ul style="list-style-type: none"> Integration of sustainability risks in WM's internal control system currently under review

Vontobel

HQ	2021 AUM WM	# of Employees	SI offering
Switzerland	USD 78bn	1'669	Discr. portfolio management, Investment advice, White label funds, Structured products

Peer Avg.
Vontobel



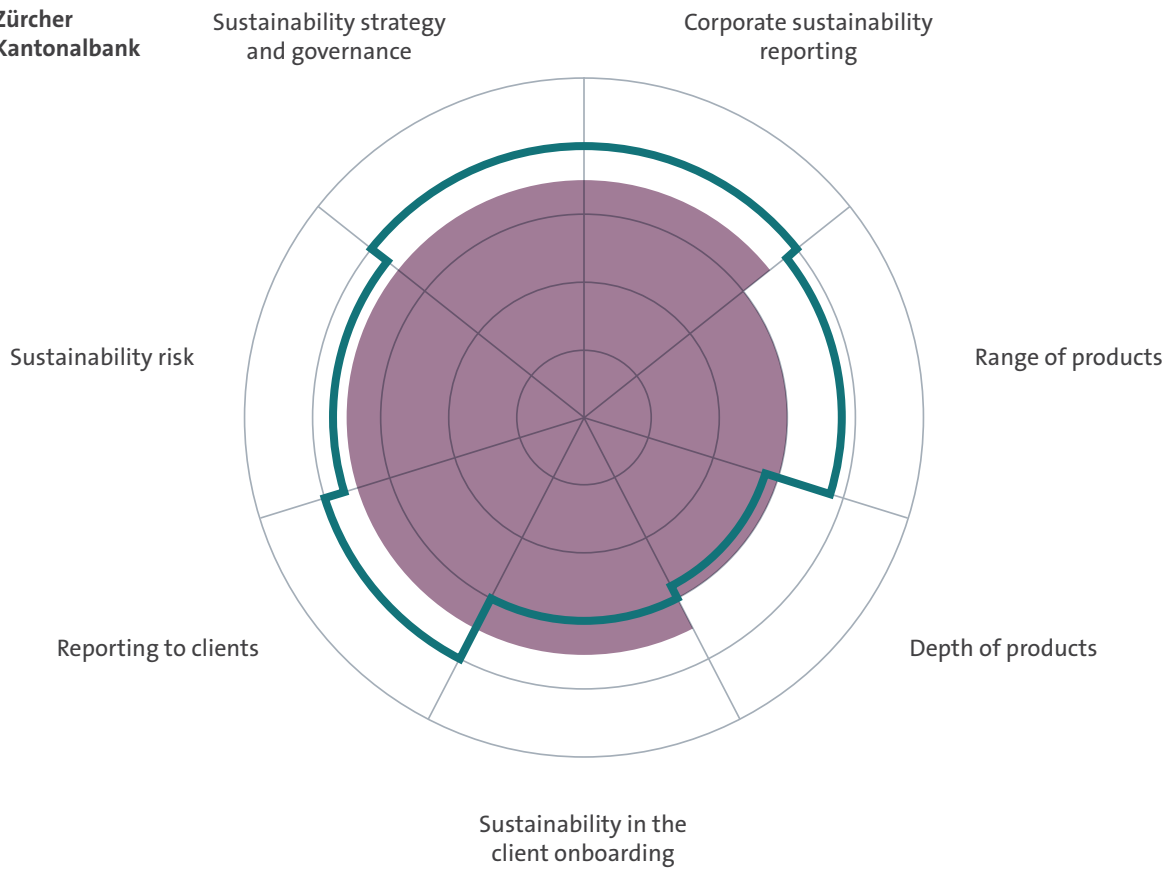
Exclusion	Best-in-class	ESG integration	Active ownership	Thematic	Impact Investing
✓	✓	✓	✓	✓	✓
Listed equity	Listed Fixed Income	Private equity/debt	Real Estate	Infrastructure	Multi-asset
✓	✓	✓	✓		✓

	Strengths	Challenges
Sustainable investing vision	<ul style="list-style-type: none"> Numerous group-wide objectives on expanding and improving SI offering Several group-wide sustainability policies with general applicability to wealth management <ul style="list-style-type: none"> High transparency on policies, all are publicly available Climate-related risks/opportunities reporting based on TCFD planned (but WM not yet explicitly included) 	<ul style="list-style-type: none"> Group-wide exclusion policy limited to controversial weapons
Sustainable offering	<ul style="list-style-type: none"> Comprehensive range of SI funds in terms of SI approaches and asset classes, including private debt and real estate Several discretionary SI mandates offered, e.g., Vontobel Conviction Sustainable, Vontobel Custom Plus Sustainable Application of an integrated ESG approach (incl. exclusions, norm-based screening and min. ESG rating) on standard equity mandates Annual measurement of numerous positive impact indicators, including carbon footprint, water efficiency, health and safety Range of private market impact funds offered (Microfinance funds) that facilitate smaller ticket sizes due to feeder fund structure and allowing onboarding also at below market rate 	<ul style="list-style-type: none"> Active ownership services to facilitate client voting limited to Swiss securities
Client interactions	<ul style="list-style-type: none"> Matching of investment advice with sustainability preferences are enabled through RM discussions and access to ESG specialists, addressing different topics such as ESG risks and sustainability themes Possibility to provide bespoke due diligence and tailored mandate solutions according to the client's specific sustainable investment guidelines Comprehensive reporting on non-financial return of SI offering; report can be customized based on client preferences 	<ul style="list-style-type: none"> Process for asking the client's ESG preferences not yet formalized (but currently being revised and implemented in 2022) SI education for clients only offered on request or on internal initiative
Sustainability risk	<ul style="list-style-type: none"> Aware of the importance of governance arrangements (e.g. two central bodies, the Investment Performance Forum and the Operational Risk Committee meeting monthly/quarterly) Sustainability risks considered in internal control framework Corporate Sustainability Management monitors compliance with voluntary sustainability commitments 	<ul style="list-style-type: none"> Comprehensive integration of sustainability risk into WM offering limited to selected mandates Climate risk scenario analysis not used for WM



HQ	2021 AUM WM	# of Employees	SI offering
Switzerland	USD 16.4bn	5'180	Discr. portfolio management, Investment advice, Structured products

Peer Avg.
Zürcher Kantonalbank



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
Sustainable investing vision	<ul style="list-style-type: none"> • Targets to reduce GHG emissions with regard to both own operations and AuM <ul style="list-style-type: none"> - Use of VfU Tool for Carbon Accounting / Partnership for Carbon Accounting Financials (PCAF) - CO2 equivalent targets are checked in the portfolio management system - 1.5 degree Target is applicable to the majority of the sustainable product line of Swisscanto invest by ZKB • Specific targets on educating clients and also the general public (non clients) on sustainable financial literacy, especially family matters, incl. programmes for youth and children, women and retirees • Involved in many impactful initiatives (e.g. Net-Zero AM Initiative) with active participation, as a SSF Board representative, AMAS presidency, Sustainable Finance Working Group of Swiss Banking Association, Board of VSKB, Board of SFI 	<ul style="list-style-type: none"> • Formal review of sustainability objectives only performed annually
Sustainable offering	<ul style="list-style-type: none"> • Great variety of markets and asset classes, incl. alternatives & other financial instruments, such as: <ul style="list-style-type: none"> - SI asset allocation instruments; SI commodity instruments, SI money market instruments, SI structured products • Daily calculation of carbon footprint (measured by scope 1+2 CO2 equivalent intensity) and UN Global Compact violations for all reference portfolios (whether SI or not); information is provided to clients on request • Best-in-class approach with comparably high transparent threshold for SI and non-SI portfolios • Selective active ownership services for all mandates <ul style="list-style-type: none"> - Engagement and active ownership capabilities are a mandatory part of SI fund selection process and evaluated in detail (engagement agenda, collaborative engagement, direct engagement, engagement process incl. reporting etc.) 	<ul style="list-style-type: none"> • Limited range of active ownership services • Private market / impact offering is in development (first launch in 2022)
Client interactions	<ul style="list-style-type: none"> • Clients are actively asked for their sustainability preferences • Numerous ways for clients to be educated (e.g. SI is a regular part of the monthly client newsletter) • Advanced disclosure and ESG reporting on SI and traditional portfolios <ul style="list-style-type: none"> - ESG ratings on product and portfolio level are visible in eBanking and eMobile 	<ul style="list-style-type: none"> • Education for clients is mostly offered upon request
Sustainability risk	<ul style="list-style-type: none"> • Consideration of sustainability risk in WM with advanced governance and guidelines in place • Climate risk scenario analysis is being enhanced further • Compliance monitoring of sustainability-related regulation integrated in general regulatory monitoring activities • Sustainability risk and ESG monitoring is part of portfolio controlling for WM 	

Appendices



Appendix 1

Definitions and terms as provided in the questionnaires

Although it is important for banks to be able to differentiate their products and procedures from those of their peers, the ongoing disparities related to sustainable investing terminology may be problematic as this is highly likely to cause confusion among customers, especially when

they are trying to compare banks' offerings and their handling of different sustainability aspects. Table 8 summarizes some common terms and definitions and underpins the lack of common definitions used by the participating banks.

Term	Related terms	Definitions (examples)
Responsible	Investing, investment, policy	<ul style="list-style-type: none"> • ESG risks and opportunities are taken into account in all the investment activities carried out for the bank itself and on behalf of the clients. • Simply having ESG integration or corporate engagement without clear intent and outcomes is considered merely to be responsible investment rather than sustainable investment. • 'Responsible' describes a way of doing things. Specifically, it entails a thorough, comprehensive, and holistic approach. In terms of investing, all aspects and perspectives are taken into account. What matters is that these also include the ESG toolset. A 'responsible' investment process thus makes it easier to understand the risks and opportunities within an investment universe. • Encompasses both 'ESG binding' and 'positive impact'.
Sustainable	Investing, investment, products	<ul style="list-style-type: none"> • Articles 8 and 9 SFDR products • Investment in an economic activity that contributes to <ul style="list-style-type: none"> - an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy - a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labor relations, or an investment in human capital or economically or socially disadvantaged communities, - provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance. • 'Sustainable' describes an outcome; it is the consequence of a responsible action. From an investment perspective, those businesses and companies that score well in terms of ESG criteria can be called sustainable. • The term 'sustainable investing' (SI) is used, and is broadly defined as, "any investment approach integrating ESG (Environmental, Social and Governance) factors into the selection and management of investments." • One bank defines sustainable products as being rated by MSCI as BB and above.

Term	Related terms	Definitions (examples)
Impact	Investing, positive impact	<ul style="list-style-type: none"> • ‘Investing’ means delivering an intentional, positive and measurable impact to society and/or the environment alongside financial returns. • ‘Impact’ describes a set of goals; something we measure. Impact is a key pillar of a framework used to align, track, and readjust a strategy, putting data into action. There are certain investments that come with a predefined impact, corresponding measurement, and reporting tools. • ‘Positive impact’: those solutions that consider sustainability risks and ‘target’ an environmental or social objective and positive impact (Art. 9). • In one bank’s view, all investments, whether in listed securities or funds investing in private loans and private equity, have to demonstrate an actual and tangible impact on the real economy.
Thematic	Investing	<ul style="list-style-type: none"> • Intentionally selecting and investing in ESG-related growth areas and trends by seeking out companies or sectors that align with specific, sustainable outcomes and/or themes.
ESG integration	Integrated	<ul style="list-style-type: none"> • ‘ESG-integrated’: those solutions that merely ‘consider’ sustainability risks, but those considerations do not drive the investment decision (art.6)
Further investing terms	ESG-enhanced, ESG-binding, sustainability focus	<ul style="list-style-type: none"> • ‘ESG-enhanced’: this covers the spectrum of approaches to intentionally investing in companies based on relative ESG performance or momentum. Approaches include positive screening, tilting or focusing on ESG improvers. • ‘ESG-binding’: those solutions that consider sustainability risks and ‘promote’ environmental and/or social characteristics (Art. 8).
Further terms	Sustainability risk, principal adverse impacts	<ul style="list-style-type: none"> • ‘Sustainability risk’ means an environmental, social or governance event or condition which, if it occurs, could cause a negative material impact on the value of the investment. • ‘Principal adverse impact’ means the most significant impacts of investment decisions and advice, which result in negative effects on sustainability factors (i.e. environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters).

Appendix 2

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% 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 anti-personnel mines). While some organizations separate norms-based screening into a different category, we have included it in the exclusion approach since 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 including 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 by 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 in which one has invested, 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 some overlap with impact investing.
Impact investing:	While there is controversy over 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 that we have classified as impact investments are in private equity or debt. Impact investing can aim for an above-market 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, yet still offer capital preservation and moderate interest.

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