



**University of
Zurich** ^{UZH}

Department of Banking and Finance
Center for Sustainable Finance and Private Wealth (CSP)

SUSTAINABLE INVESTING CAPABILITIES OF PRIVATE BANKS

REPORT #2: ASSESSMENT OF 15 EUROPEAN PRIVATE BANKS

Taeun Kwon
Dr. Falko Paetzold

CONTENT

EXECUTIVE SUMMARY	3
FOREWORD	4
INTRODUCTION	5
OVERVIEW	11
SUSTAINABLE INVESTING VISION	12
SUSTAINABLE INVESTING OFFERING	14
SUSTAINABLE INVESTING SERVICE	23
CONCLUSION	28
 BANK PROFILES	 29
APPENDICES	44

- 1 List of sounding board members
- 2 SI questionnaire for private investors to assess their bank
- 3 Best-in-class overview by bank
- 4 Bibliography and further reading

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

The Center for Sustainable Finance and Private Wealth (CSP) is a research and teaching unit at the Department of Banking and Finance (DBF) of the University of Zurich in Switzerland. The CSP (1) engages in multidisciplinary research to explore fundamental issues and current dynamics in sustainable finance and (2) 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.

More information at www.csp.uzh.ch

EXECUTIVE SUMMARY

In late 2017, the Center for Sustainable Finance and Private Wealth (CSP) published a pilot report on mapping the sustainable investing (SI) capabilities of private banks. This was the first effort to understand what it actually means to have SI capabilities as a private bank and what each bank can actually offer. Since then, we have extended our research from 4 to 15 private banks in western Europe, refined our analysis, and created the basis for greater transparency for both private investors and banks.

The pilot phase resulted in an iterated framework (see Figure 3) and questionnaire (see Appendix 2) that can be used to analyze individual banks to get a better understanding of their SI capabilities. Based on the developed framework, we have analyzed each bank and the results show a diverse range of practices with no one bank satisfying all the needs of private investors interested in SI.

While the industry on average has well-established SI policies and targets, only few banks have top management paying attention to SI initiatives and even this is a rather recent phenomenon.

In terms of SI offerings, private banks in this study offer a decent range of product offerings—30 dedicated SI products on average, with a minimum of five and a maximum of 108 products on the shelf. However, there is a lot of confusion surrounding the term “ESG” and the industry requires more transparency around ESG rating, best-in-class, and ESG integration. Compared to the high level of client interest, the offering for funds in active ownership and impact investing is rather thin. Banks need to put more efforts into reviewing funds with regard to their active ownership policies and into including impact funds in their offering.

For the SI service segment, private banks have mainly one of two advisory models—the integrated advisory and the non-integrated advisory model. While not all banks need to have a fully integrated model, those who take the other approach need to ensure that SI advisory is carried out from a holistic perspective and is not limited to product sales. Also, there needs to be more effort put into mobilizing relationship managers, since both academic research and empirical evidence points to RMs being the biggest barrier to mainstreaming SI.

FOREWORD

About 36 million people each control more than USD 1 million in wealth. Such high-net-worth individuals represent about 0.7 percent of the global population, yet control around USD 130 trillion, which is around 50 percent of the world's wealth. By contrast, the poorest 70 percent of the global population—that is to say, 3.5 billion people—control a combined total of around 3 percent of global wealth, or less than USD 10,000 each (Credit Suisse, 2017).

At the same time, humanity today faces dramatic social and environmental problems, to which the global poor are the most vulnerable.

The United Nations has defined the Sustainable Development Goals as a framework to tackle these challenges, yet outlines that around USD 2.5 trillion in investment capital is required, per year, to achieve these goals.

We see, in our research and training, that many wealth owners are aware and mindful of these challenges and want to be part of the solutions and opportunities that we see and hear of every day. Wealthy individuals want to move capital away from investments that worsen these issues, toward investments that help solve them.

However, we also see important barriers to wealth owners doing so—including private banks. Wealth owners often ask us what capabilities their private bank has, and other banks have, or should have, with regard to sustainable finance. Private banks ask us similar questions, wondering how to serve the substantially increasing interest among their clients in sustainable finance solutions.

Thus, we started the “Sustainable Investing Capabilities of Private Banks” project together with a panel of experts and wealth owners in the summer of 2017. The goal is to develop a robust framework to help private investors, and banks, understand the sustainable investing capabilities of private banks. The initial resulting framework, and pilot results from its application to four banks, were published in the report “Sustainable Finance Capabilities of Private Banks: Introducing the Framework”.

With the present report, we are now able, and glad, to publish the results of the application of the framework to 15 private banks in Europe. We present initial insights, both into individual banks and in aggregate, and a refined guide and questionnaire for wealth owners to use.

For private investors, this project provides a frame of reference, helping them to know what to expect from each bank, and tools that help them understand the relevant sustainable investment capabilities. For private banks, this project offers an overview of the industry and an opportunity to engage in the question of how to improve sustainable investment offerings specifically for private investors.

This report is part of a long-term project of the Center for Sustainable Finance and Private Wealth (CSP). We hope that this work proves valuable for you, welcome your feedback, and hope that you will join us in furthering this important research agenda.

Toward impact.



Taeun Kwon
Head of Wealth
Manager Programs



Dr. Falko Paetzold
Managing Director

METHODOLOGY

1. DEFINITION OF SUSTAINABLE INVESTING

One of the key questions that anybody interested in sustainable investing will ask is “What is sustainable investing?”

Starting with “ethical investing” through “social investing” to “green investing”, sustainable investing has no shortage of synonyms. Even for the relatively widely used initialism “SRI” there are variations regarding what it stands for, ranging from socially responsible investment to sustainable and responsible investment.

For the project, we have defined sustainable investing as integrating non-financial aspects, such as social, environmental, governance, and/or ethical questions, into the investment process (Sandberg et al., 2008; Capelle-Blancard & Monjon, 2012). What needs to be stressed here is the word process. Sustainable investing is not an outcome definition: simply exercising sustainable investing does not necessarily lead to sustainable impact; and if there has been sustainable impact, it does not necessarily mean the investor took a sustainable investing approach. What matters is the intent and the process of integrating environmental, social, and governance (ESG) and/or ethical aspects into investment decision-making.

The definition of sustainable investing includes a range of different approaches: exclusion, best-in-class, ESG integration, active ownership, thematic investing, and impact investing. These approaches largely follow the classification and definitions of industry organizations such as Eurosif. The detailed definitions we took for the project are as follows:

- a. Screening—exclusion: Exclusion (or negative screening) defines the investment universe by omitting sectors and products based on ESG information (e.g., no company with more than 10 percent of its energy produced using coal), values (e.g., no tobacco, gambling, or alcohol), or norms defined by international institutions such as the UN (e.g., no antipersonnel mines). While some organizations separate norms-based screening into a different category, we have included it in the exclusion approach due to the fact that the two approaches do not differ in principle.
- b. Screening—best-in-class: The best-in-class (or positive screening) approach is another screening method. It defines the investment universe by restricting it to the top ESG performers for each industry. Instead of excluding entire industries or product categories, this approach defines the investment universe as all industries, but only the top players in terms of their ESG rating (e.g., investing only in firms that have above-average ESG ratings).
- c. 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.

Figure 1: Range of sustainable investing approaches

Approach	Traditional Investment	SUSTAINABLE INVESTING						Venture Philanthropy	Traditional Philanthropy
		Exclusion	Best-in-Class	ESG Integration	Active Ownership	Thematic Investing	Impact Investing		
Definition	Investing for the sole purpose of generating financial return	Avoiding certain sectors or companies based on values, or norms defined by international institutions such as the UN	Including only the best ESG performers in each industry in the investment universe	Systematic and explicit inclusion of ESG risks and opportunities in the financial analysis; does not necessarily use ESG peer benchmarking	Entering into dialogue with companies on ESG issues and exercising ownership rights to effect change	Investment that is based on sustainability themes such as clean-tech or sustainable forestry	Investments made in firms/projects with the intention of creating social/environmental return without sacrificing financial return	Funding a range of philanthropic organizations through grants to build self-sufficient and catalytic organizations	Grant-based funding of philanthropic organizations without an explicit focus on the organizations becoming financially self-sufficient

Source: The authors

Figure 2: Different banks' definition of sustainable investing

	BNP Paribas	Credit Suisse	Edmond de Rothschild	Globalance	HSBC	LGT	Lombard Odier	Pictet
Terminology	Responsible Investment; Sustainable and Responsible Investment (SRI)	Sustainable Investment; Impact Investment	Responsible Investment	Future mover with positive impact	Sustainable Investment	Sustainable Investment	Impact Investing	Responsible Investing
Detail	Responsible Investment No explicit definition Sustainable and Responsible Investment (SRI) Investment that aims to reconcile financial return with a social and environmental impact by financing companies and public entities that contribute to sustainable development, regardless of their sector of activity. By influencing the actions and governance of these organisations, SRI promotes a responsible economy.	Sustainable Investment No explicit definition <i>"The main goal is financial returns with portfolio solutions and single investments that meet sustainability/ ESG (environmental, social and governance) criteria."</i> Impact Investment No explicit definition <i>"The main goal is social and environmental impact, combined with financial returns."</i>	[Responsible investment] refer[s] to our long-term investment approaches which integrate ESG factors in the process of research, analysis, active dialogue with issuers and selection of securities within a portfolio. Our responsible investment activities and offering cover ESG integration, positive selection and engagement, sustainability-themed investing and impact investing, each with a clear, specific definition.	Future mover with positive impact refers to assets that master the great challenges of our time. At the same time, these assets must have a positive footprint—that is to say, make a valuable contribution to the economy, society, and the environment.	Sustainable Investment aims to allocate capital to enable the global economy to prosper with due regard to financial returns and the environment and society and supports delivery of the Paris Climate Agreement and the UN Sustainable Development Goals.	No definition Relevant statement: <i>"LGT invests in companies, organizations and countries that have an exemplary track record in terms of environmental, social and corporate governance criteria and that add long-term value from a financial perspective."</i>	No explicit definition <i>"In our view, each and every investment should deliver not only strong financial performance, but also solutions to the world's most pressing social and environmental challenges. In fact, in efficient capital markets, the two should go hand-in-hand, and in order to achieve this, we must place impact at the heart of our investment processes, alongside risk and return."</i>	Responsible Investing We must consider new factors in our investment approach, incorporating environmental, social and governance (ESG) considerations. This will ultimately lead us to properly understand the externalities surrounding our investment, better manage them and ultimately generate sustainable, long-term returns.
Source	BNP Paribas website Link	Credit Suisse website Link	Edmond de Rothschild website Link	Globalance website Link	HSBC	LGT website Link	Lombard Odier website Link	Pictet Wealth Management Link

	de Pury Pictet Turrettini	Triodos	UBS	Vontobel	ZKB	Bank A	Bank B
Terminology	Not found	Impact Investment; Socially Responsible Investment (SRI)	Sustainable Investing (SI)	Sustainable Investing	Sustainable Investments; Socially Responsible Investments	Not found	Sustainable Investment; Responsible Investment
Detail	Not found	No explicit definition <i>"Impact investing connects investors with innovative entrepreneurs and businesses working to create a better world."</i> <i>"Triodos IM's SRI platform operates on the belief that the most successful companies, over the long term, will be those that offer solutions for a sustainable society."</i>	Sustainable Investing A set of investment strategies (exclusion; integration; impact investing) that incorporate material environmental, social and governance (ESG) considerations into investment decisions. SI strategies usually seek to reach one or several of the following objectives: 1. achieve a positive environmental or social impact alongside financial returns; 2. align investments with personal values; and 3. improve portfolio risk/return characteristics.	No explicit definition <i>"Since the day it was founded, Bank Vontobel has been committed to sustainability. This means above all that when we take action, it's with a long-term view in mind – and in the interest of our clients. It means that we are socially engaged as well."</i>	No explicit definition <i>"Swisscanto Invest is convinced that companies that provide a social benefit are more successful, as they have products and services that will generate above-average demand in the medium term. If the companies are protected from competition by barriers to entry, they can grow to become more profitable."</i>	Not found	Sustainable Investment No explicit definition Responsible Investment No explicit definition
Source	n/a	Triodos website Link 1 Link 2	UBS and Society website Link 1 (non-US) Link 2 (US)	Vontobel website Link	ZKB Swisscanto Invest Link	n/a	n/a

Note: as of 9 April, 2018

Source: The authors

- d. **Active ownership:** The active ownership approach is about exercising ownership rights to create change through using the right as a shareholder to vote at company meetings and the position as an investor to engage with management. Such engagement can range from a feedback meeting and discussions with the management of a firm one has invested in, both based on an ESG analysis, to collaborative shareholder actions on specific themes such as waste management or child labor.
- e. **Thematic investing:** The thematic investing approach picks a sustainability related theme and allows clients to invest accordingly. The majority of investments are deployed in themes such as energy, real estate, water, and waste. Green bonds, social bonds, microfinance, and gender-lens investing all fall under thematic investing, and the approach has an overlap with impact investing.
- f. **Impact investing:** While there is controversy with regard to defining impact investing, we define it as an approach that aims to create social and environmental impact first, without forgoing financial return in the nominal sense. Deployed capital should have an element of additionality, which means that the project in question would not have happened were it not for that particular investment capital, which no other investor would have provided. Thus, most products we have classified as impact investments are in private equity or debt. Impact investing can aim for above or par market rate return (as most commercial impact investing funds do); however, we have also included those products that aim for below market rate return but still offer capital preservation and moderate interest.

The definition of each strategy is summarized in Figure 1, alongside traditional investing and philanthropy.

All these definitions still leave many unsatisfied, however, simply because it is difficult to know what they actually mean for one's own bank and investments. Yet the attempt to get a more concrete picture through the banks can lead to even more confusion. **Out of the 15 banks included in this study, all use terms that are a variable of sustainable investing, responsible investing, sustainable and responsible investing, or even impact invest-**

ing (Figure 2). There is rarely an explicit definition, and the related statements offer limited insight besides a sneak peek into the high-level approach these banks take.

When it comes to sustainable investing approaches, the lack of consistency with regard to information publicly available from banks is even more overwhelming. None of the private banks in the study outline the entire range of approaches, only mentioning some approaches selectively.

Given the obscurity of the high-level definition—how banks define sustainable investing—it is worthwhile taking a look at what they actually do instead of what they say. This is exactly what our study attempts to do: analyze what the banks do from top to bottom, map out different capabilities, and offer wealth owners a guidebook to help them navigate through and within banks with regard to sustainable investing.

2. SCOPE

Since the objective of the project is to provide guidance to private investors and private banks, it was important that we included large players in order to have representative results as well as innovative players in order to demonstrate good practices and set standards. We restricted the scope to private banks that:

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

Out of all banks that qualify against those conditions, we selected the largest players according to their assets under management (AuM) for wealth management and a few players known to be pushing the boundaries of

¹ We classify HNW and UHNW clients as wealth owners with at least USD 1 million and USD 30 millions of investable assets, respectively.

sustainable investing. Of the private banks we contacted, those that responded to our request have been included in the project, and the list of the 15 participating private banks, out of which two have requested to be anonymized, can be found in Figure 3.

While we realize that this is not an extensive list, the private banks included are representative enough to get a good market overview. Of course, the fact that these banks have decided to participate could indicate that their sustainable investing offering is better than those of their peers; thus, there might be a slight selection bias when it comes to industry results. Nevertheless, we hope that this report will serve as a trigger for more banks to participate in the project, and that we will be able to extend the list of banks significantly, already for the next phase. The ultimate goal of the project is to eventually have global coverage of all large players for each region.

3. FRAMEWORK

We developed a framework to analyze the sustainable investing capabilities of private banks with the help of private investors, industry experts, and researchers. A list of the sounding board participants can be found in Appendix 1. The framework underwent iterations during the pilot phase, ensuring that it is extensive and applicable. The first findings of the pilot phase can be found in our first written report, published last year.

To provide a holistic analysis of private banks, the framework looks into the banks from higher-level vision to execution level, across three main categories:

Each is comprised of several sub-categories that include questions to assess both quantitative and qualitative aspects of the bank (see Figure 4). The detailed questionnaire can be found in the appendices (see Appendix 2).

It should be pointed out that for the SI product offering, for the range and depth of products, only in-house products have been analyzed. This is due to the fact that

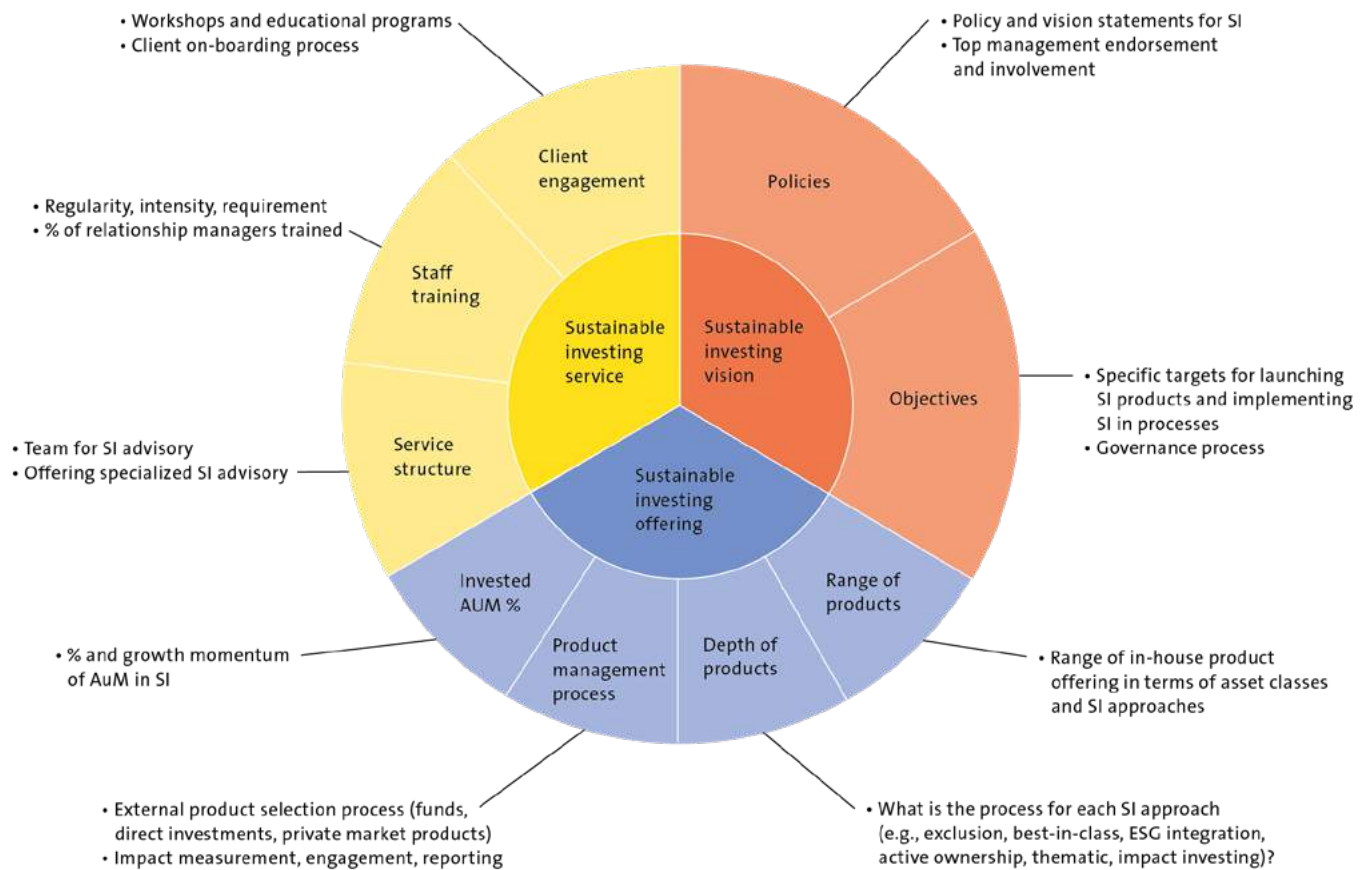
Figure 3: List of participating banks

INSTITUTIONS	WM AuM ³ (USD bn)	HQ	BREADTH OF SERVICES						
			Lending	Insurance	Retirement planning & trust	Life-cycle tax planning	Family office services	Non-financial asset acquisition	Philanthropic planning
BNP Paribas	421.18	France	✓	✓	✓	✓	✓	✓	✓
Credit Suisse	719.33	Switzerland	✓	✓	✓	✓	✓	✓	✓
Edmond de Rothschild	n/a	Switzerland	✓	✓	✓	✓	✓	✓	✓
Globalance	n/a	Switzerland					✓		
HSBC	298.00	UK	✓	✓	✓	✓	✓	✓	✓
LGT	n/a	Liechtenstein	✓	✓	✓	✓			✓
Lombard Odier	123.75	Switzerland			✓	✓	✓		✓
Pictet	246.32	Switzerland			✓	✓	✓	✓	✓
Triodos	1.29	Netherlands	✓						
de Pury Pictet Turrettini	n/a	Switzerland		✓	✓	✓	✓		✓
UBS	2,068.67	Switzerland	✓	✓	✓	✓	✓	✓	✓
Vontobel	48.67	Switzerland	✓	✓	✓	✓	✓		✓
ZKB	n/a	Switzerland							
Bank A	<25	Switzerland							
Bank B	>200	Switzerland			✓				

Note: For banks with global operations across different geographical regions (i.e., UBS and Credit Suisse) we include product offerings and services available in European operations. A limitation is the fact that these might not be available in each European market.

Source: Scorpio Partnership Global Private Banking Benchmark 2017 (UBS, Credit Suisse, Pictet); public data such as websites and annual reports (BNP Paribas, HSBC, Lombard Odier, Vontobel, Bank A, Triodos). All numbers are based on 2016.

Figure 4: Sustainable investing capability framework



Source: The authors

the line between asset management and wealth management is blurry, that we had limited resources with which to review all product offerings of wealth management, and that in-house products can still be an indicator for the product development capabilities of the entire organization. However, we do acknowledge these limitations and plan to improve the methodology for future research.

For each question, the response was given a score from 1 to 5 (1 being the lowest and 5 being the highest) against a predefined scoring scheme. The scores were then consolidated for each sub-category with an equal weight, resulting in a sustainable investing capability map.

While the aggregation of different aspects into one score can be too simplistic and misrepresentative, we tried to segment the sub-categories as consciously as

possible. Throughout the report, both for the overview and individual bank results, we complement the quantitative scores with qualitative analyses and case studies to give a holistic picture.

4. DATA COLLECTION

The project was initiated in August 2017 and the pilot phase took place with four initial private banks from August until October 2017. The second phase started in October 2017 and the data collection continued until March 2018. The primary data collection was conducted through desk research and conversations with the sounding board. The desk research included data sources that were publicly communicated (e.g., annual reports, CSR reports, policy documents, publications), the UN PRI reports, and other industry reports (e.g., Eurosif, Swiss Sustainable Finance, and World Wildlife

Fund). The most crucial data collection, though, took place through face-to-face interviews or conference calls with individuals responsible for sustainable investing at each bank. Mostly, this included the head of sustainable investing, the head of ESG research, and for some large private banks also somebody from the CIO's office. The interviews allowed us to dive into the details of the different practices, which were difficult to decipher relying solely on the publicly communicated materials and reports; however, we are also aware that the answers we received could potentially be biased and represent only the positive aspects for each bank. Thus, we combined open-ended questions with others that focus on quantitative facts, and supplemented the interviews with public data and desk research.

While the interview replies have been cross-checked with the desk research, we would like to further expand our sources in the future and add more interviews with different stakeholders within and outside of private banks (e.g., relationship managers and clients).

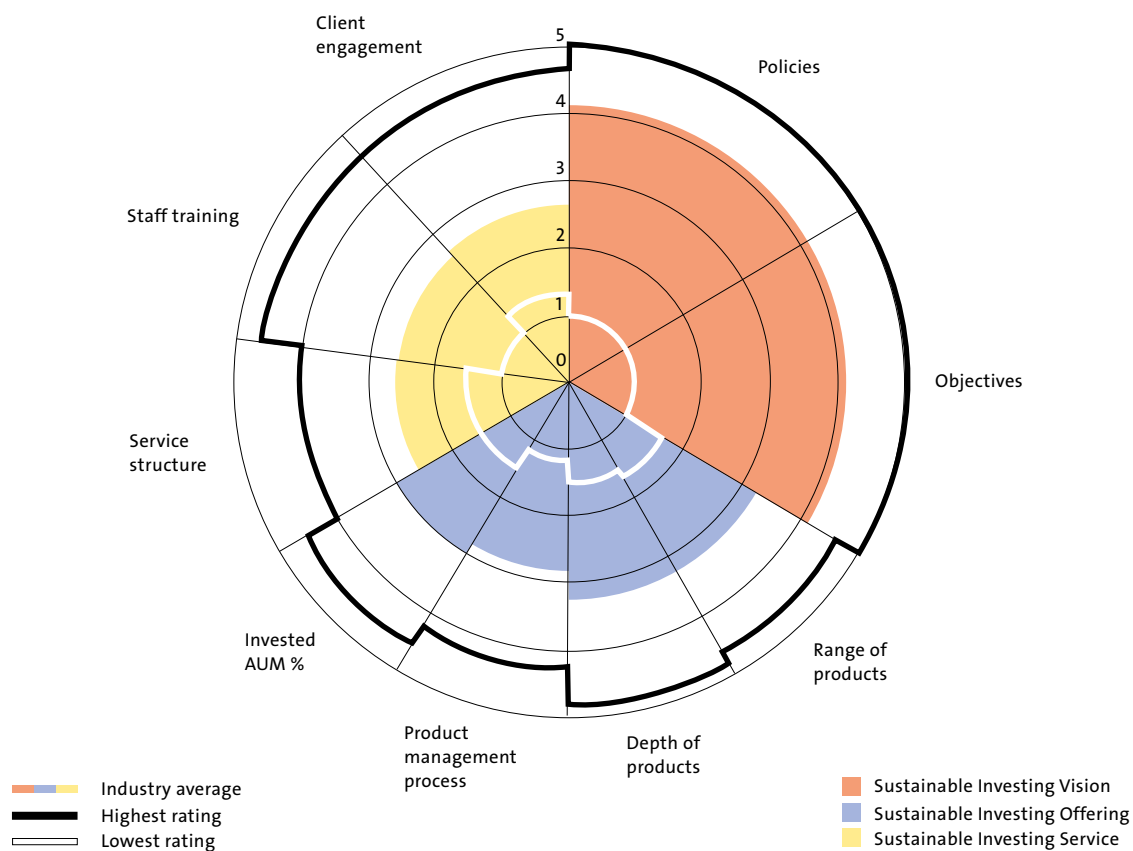
OVERVIEW

-  **Sustainable Investing Vision:** pages 12–13
-  **Sustainable Investing Offering:** pages 14–23
-  **Sustainable Investing Service:** pages 24–27

- All banks included in the study have well formalized sustainable investing policies.
- In total, the product ranges of banks were not too limited, but there was a gap between leading and following banks.
- The majority of banks had challenges integrating sustainable investing into their service—training and engagement for both relationship managers and clients were limited.

On average, the industry performs very well for the sustainable investing vision part, but lags behind in the SI product offering and the advisory process and execution parts (see Figure 5). As already observed in the first report from the project, there seems to be a disconnect between high-level policy making and execution. While the SI product offering is more diverse than private investors might expect, there is a wide gap between the leading banks and following banks; this holds especially true for the depth of the products that are offered. When it comes to the advisory process, the majority of banks have limited SI advisory services and efforts to train relationship managers and front-office staff are equally insufficient. A more detailed analysis for each section follows, below.

Figure 5: Industry average of sustainable investment vision



Source: The authors

SUSTAINABLE INVESTING VISION



SUSTAINABLE INVESTING AS A STRATEGIC PRIORITY IS A RECENT PHENOMENON.

- High level of formalization, regarding SI policy establishment and governance.
- Top management attention towards SI is little, and a recent phenomenon.
- SI targets are sometimes set for products and AuM, but rarely on implementation.

The industry on average performs well in establishing sustainable investing policies. High-level policy documents, for instance the sustainable investing philosophy, voting policy, and sector policy, are almost always available—whether published on the respective website or upon request. All banks included in the study have top management endorsement in one form or another. In banks with a sustainability committee—which means most of the banks in the study—the head is always a C-level executive and the sustainable investment policies are also signed off and endorsed by top management.

However, there is a difference between a policy gaining top management endorsement and it receiving top management attention. And when one looks into the question of whether sustainable investing has been a strategic priority, it becomes clear that a move in that direction is only a recent phenomenon for many banks. Analyzing the publicly available annual reports and corporate social responsibility reports from 2000 to 2017 shows that for many banks, corporate sustainability is strictly separated from strategic efforts. However, when many banks mention their long history of sustainable investing, this is mostly true. About half of the banks included in the survey offered sustainable investing products already in the 1990s. However, top management attention to sustainability does not appear until after 2008 and attention to sustainable investing even later. Besides BNP Paribas, Lombard Odier, and UBS, none of the banks in the study mention sustainable investing in the foreword to their annual report or in Letters to Shareholders (LtS)—including it, rather, as a section within their sustainability report.

Perhaps the lack of strategic prioritization explains why, while SI objectives do exist, they do so only on a su-

perficial level. When it comes to setting targets to push sustainable investing, many private banks do have internal KPIs and a governance system in place. Yet, these targets are usually only applicable to product development and assets under management (AuM), and only at the highest level. Process-related objectives, which are key factors regarding the implementation of sustainable investing throughout the organization, are not established on a higher level and not formalized: for instance, training relationship managers on SI is considered the responsibility of HR and not a high-level agenda item for the SI policy team. This might explain why the industry on average has not been able to integrate sustainable investing into the advisory process, and why private investors have the impression that the SI product offering is much worse than it actually is.

The act of formalizing and establishing SI policies has pushed the banks to move forward. SI is receiving more attention within banks and there are currently many SI initiatives ongoing. However, where these initiatives fail to receive enough top management attention and strategic prioritization, the process of implementation can be slow, especially for the end client.

WHAT DOES THIS MEAN FOR THE...

Investor | Offer the sustainability teams a helping hand in reaching out to senior management and emphasize the importance of SI for you as a client. By expressing interest in and a need for SI, investors can prove there is a demand for SI and show that SI is strategically relevant for the bank and requires top management attention. Nothing brings about change more effectively than proof of client demand.

Bank | The endorsement from top management needs to be explicit and actively communicated externally and internally. Research shows that leadership plays a critical role in corporate sustainability initiatives. For SI initiatives to be implemented successfully throughout the organization and not treated as a “good to have” side feature, top management needs to explicitly support them and strategically prioritize them.



CASE STUDY | EDMOND DE ROTHSCHILD—COMMITTING TO A SUSTAINABLE INVESTING VISION

Edmond de Rothschild has well-established sustainable investing (SI) policies and is noticeably transparent compared to its peers. It has group-wide SI policies that over-arch the bank's vision for sustainability, a sector- and asset-class-specific policy, an exclusion policy, and a voting policy, all of which are public. While many banks shy away from disclosing specific facts on their SI policies, either due to lagging practices or a fear of the complexity of the topic, Edmond de Rothschild discloses the different SI approaches that it offers and specific targets related to SI, and is one of the few banks that discloses its AuM for SI in its CSR document.

There is a strong and explicit top management drive—especially from Ariane de Rothschild, the President of Edmond de Rothschild—that is communicated throughout the organization. The SI policies are developed by a dedicated specialist team with active top management engagement, and the dedicated team is well connected throughout the entire organization. The consistent and vocal support from the top and the strong integration of the dedicated team enable Edmond de Rothschild resource deployment to develop its SI competency and have buy-in throughout the organization.



SUSTAINABLE INVESTING OFFERING

1. THE DEBATE ON IN-HOUSE PRODUCTS VS EXTERNAL PRODUCTS IS ALSO RELEVANT IN SI

- What matters more than an open architecture is the range of funds that are on the product shelf and the SI research team and selection process.
- Banks that offer more external products can provide more options and avoid conflicts of interest.
- Banks that put an emphasis on in-house products can offer more control over investments and alignment with the bank's investment philosophy.

The industry on average has a product range that is neither extensive nor too limited; there are a lot of gaps to fill, but the range is not as bad as some might expect. The 15 banks included in the study offer 448 products in total —on average, 34 products, the lowest number of products offered being 5 and the highest being 108.

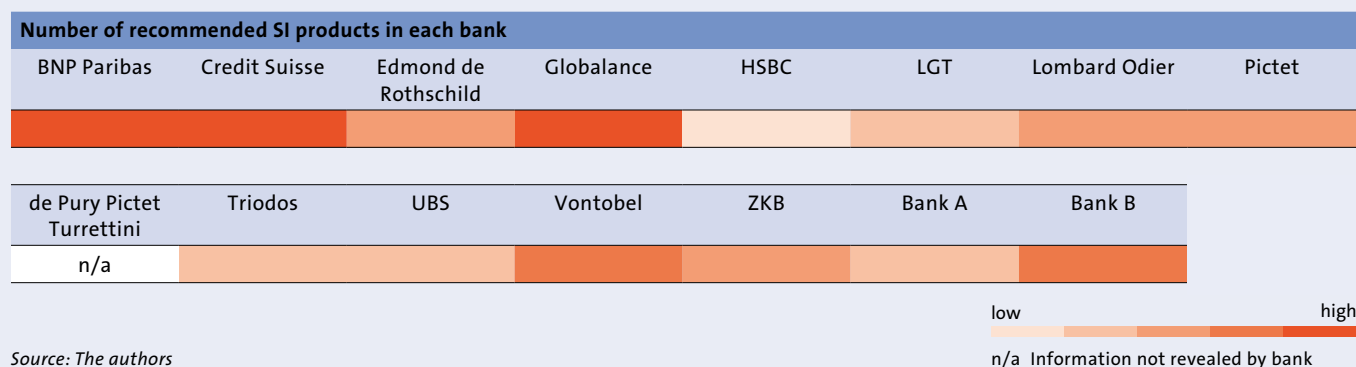
With the exception of Triodos, all banks in the study have an open architecture. This means that a client can choose from any product that is in the market, instead of being limited to in-house products, as long as there are no regulatory restrictions on that choice. However, an open architecture only guarantees access to the product—if a client with a discretionary mandate specifically asks for that product, the bank will execute that request. This does not mean that the product will necessarily be in a standard mandate or be recommended to the client, because for that to be the case the research team has to review it. This is why the number of funds reviewed by an SI research team and selected represents the range of

the offering more accurately than whether a bank has an open architecture or not. Figure 6 shows that while all banks besides Triodos have an open architecture, the number of products they recommend varies.

It needs to be pointed out that in addition to the quantity of products, it is important to also look into the research team and the product selection process. A greater quantity of products can offer more investment options for clients, but it can also indicate less stringent criteria for SI. For instance, some banks offer an extremely high number of funds, but include funds that only apply a basic screening approach. This means that the presence of only a small number of products may not necessarily be a negative thing, and that it could mean that there are stricter selection criteria. For instance, it should raise a red flag for the investor when a bank has over 100 funds on its SI product shelf while the SI research team is only five strong. On the other hand, a bank could have around 30 funds on its shelf, but if the SI research team is large enough this can indicate that the analysis is regular and is carried out in-depth, along the selection process.

When it comes to the discussion of in-house products and third-party products, the banks in the study are split in half in terms of their approaches (Figure 7). One half offers more products from external asset managers with an average of 84 percent of third-party products, while the other focuses more on in-house products with an average of only 20 percent of third-party products in their offering. Tapping into the entire fund universe not only gives more access to diverse products, it also leaves no room for conflicts of interest. From the opposite perspective, in-house products provide more control over invest-

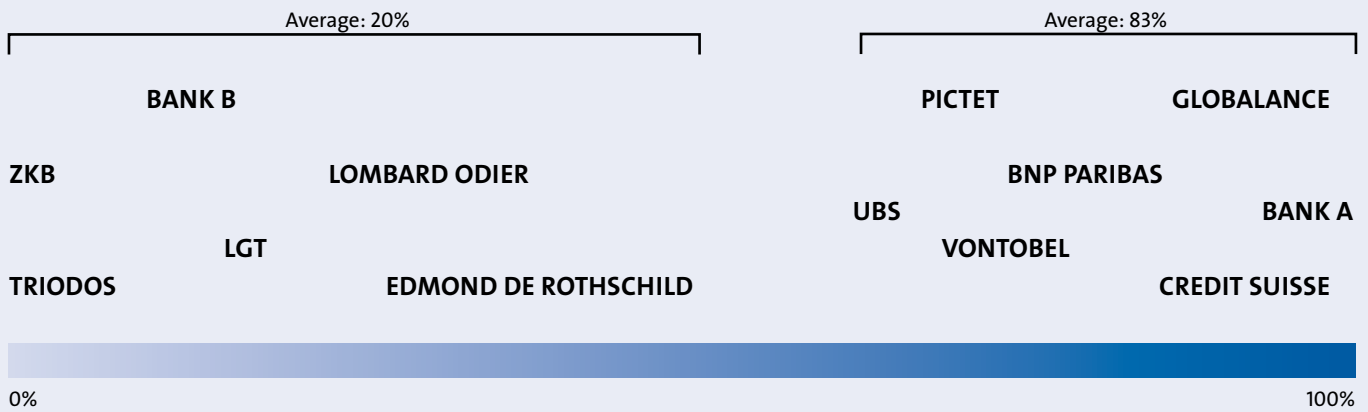
Figure 6: Number of recommended SI products in each bank



Source: The authors



Figure 7: Proportion of the number of external products



Source: The authors

ment decisions and alignment with the SI philosophy of the bank. Within our study, two banks, Globalance (external products only) and Triodos (in-house products only), provide an interesting example of these contrasting cases.

WHAT DOES THIS MEAN FOR THE...

Investor | In addition to the range of the product offering, look into the team and the selection criteria for investments. Ideally, you should see a reasonable number of products and a sizeable team with clear selection criteria. For a bank with more in-house products, it is important to look into the bank's investment process. For a bank with more external products, be sure to ask questions about the fund selection process—for instance, what makes that fund qualify as an SI fund?

Bank | Establish clear criteria regarding SI selection. These can be general criteria and position statements regarding various issues, but make them transparent. There is never a perfect answer as to whether an investment is sustainable or not, since different clients place different emphasis on diverse aspects. However, it is important that the bank can explain the decision, maintain consistency on the criteria, and communicate this to the client.



CASE STUDY | GLOBALANCE AND TRIODOS—100% THIRD-PARTY AND 100% IN-HOUSE

Globalance offers multi-asset strategies with direct equity combined with external funds. There are no in-house funds within those portfolios. The bank will invest directly whenever it can, and the rest will be with external funds when the bank sees the merits of a specialist team. For instance, for green bonds, microfinance, real estate, or sustainable infrastructure, Globalance works with partners and invests through funds.

“The business model, which is really free from any conflict of interest, is one cornerstone. And then our philosophy of long-term investment, where we say impact is integrated into everything we do, is [the other] crucial cornerstone.”

Peter Zollinger, Globalance

The only two exceptions are a fund that mirrors one of Globalance’s multi-strategies and a fund for German investors. The first allows retail investors to invest according to the house view at a low cost. The second is a global equity fund that has been created to overcome the skepticism of German investors toward stocks.

Besides these two funds, Globalance focuses on direct investments and external funds, selecting only the best partners, leaving no room for conflicts of interest.

Triodos is a universal bank that started sustainable investing more than 30 years ago and has maintained a strong investment philosophy that fully integrates sustainability. It serves retail clients for their banking and lending needs, in addition to its asset and wealth management services. Triodos also offers a fully sustainable investment portfolio, but has the opposite approach: it offers only in-house products. It has 10 in-house products across various themes such as financial inclusion, renewable energy, and real estate.

For Triodos, it is crucial that all investments meet stringent criteria—the Triodos criteria—to ensure that impact is genuine. It can be challenging to guarantee that all external funds apply and maintain the same sustainability criteria. This is why Triodos holds control over all investment decisions and sustainability analyses, and offers only in-house products.



2. MORE CLARITY ON ESG IS NEEDED

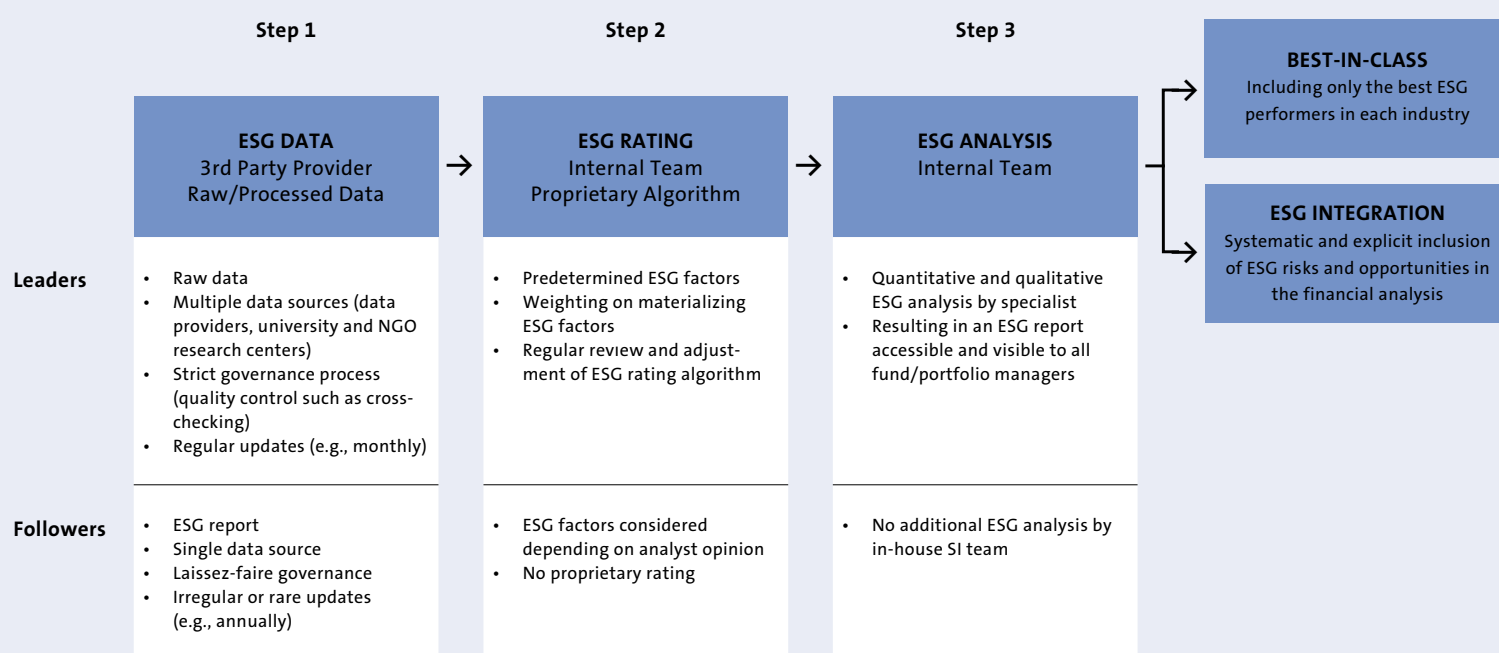
- An ESG rating is a rating scheme that evaluates companies or countries based on their ESG (environmental, social, governance) performance, and serves as a basis for implementing a best-in-class or ESG integration approach.
- When reviewing a fund with a best-in-class approach, it is important to look into the quality of data it uses, the rating process, the cutoff point, and whether the approach is complemented with any other approaches.
- There is still very little consensus on what ESG integration entails in practice, but we present a few cases in order to offer a clearer understanding of different practices.

The term ESG, which stands for environmental, social, and governance issues, is used prevalently in the context of sustainable investing. [Terms such as ESG rating, ESG integration, and ESG investing are constantly used interchangeably or to express different meanings, which causes a lot of confusion.](#) Thus, we would like to clarify

what the general industry consensus is on certain terms around the concept of ESG.

The first step is to understand what an ESG rating is. [Many banks that offer sustainable investing have an ESG rating scheme. As the term suggests, it is a rating scheme that evaluates investments based on their ESG practices and rates how well they perform.](#) To come up with the rating, the bank receives data from third-party providers—some buy ESG data processed into reports, but most buy raw data—and then it puts the data through a proprietary rating algorithm. This can result in a score, five-star/clover rating scheme, an alphabetic scheme (AAA to CCC), or a color code (green to red). The rating can be complemented by an additional ESG analysis, but only few banks go that additional mile. [This rating serves as a basis for a best-in-class or ESG integration approach for funds. It can also be used in wealth management to select better SI funds based on analyzing their individual holdings.](#) Some banks, such as LGT or Global-ance, use it to communicate the ESG rating of private clients' portfolios. An overview of how banks process ESG data and analysis and examples of leaders and laggards for each step are outlined in Figure 8.

Figure 8: ESG rating process



Source: The authors



For the best-in-class approach, each bank and/or fund determines a cutoff point to determine the investment universe. Some banks choose to have a low cutoff point—selecting the top 90 percent—for most of their funds in order to eradicate the worst performers without limiting the investment universe too much. Other banks have a higher cutoff point but for dedicated SI funds only. While there is a case for both approaches, the term best-in-class can often be misleading for clients.

Thus, three aspects are key when looking into this approach: the quality of the data (e.g., who is the data provider and what is the governance process), the rating scheme (e.g., is it a predetermined algorithm or an analyst's opinion), and the cutoff point (e.g., is it the top 90 percent or the top 50 percent). Each bank's cutoff point and the scope of its best-in-class strategy is shown in Appendix 3.

For the ESG integration approach, there is still little consensus on what the term means in terms of investment execution. When we questioned banks on their approach to ESG integration, the majority asked in return, "What do you mean exactly by ESG integration?" Eurosif, the leading European association for sustainable investing, also states in its SRI report that there is a lack of clarity regarding what ESG integration entails and that it is challenging to determine the exact concept. The term is loosely defined around integrating ESG aspects into the financial analysis, but the extent and the

process varies across regions and asset managers. In this study, we attempt to understand how ESG integration could look by presenting some concrete cases.

WHAT DOES THIS MEAN FOR THE...

Investor | Review the details of ESG ratings and how they influence the investment process. For instance, if the bank or fund only looks into CO2 emissions for the environmental factor or only a RepRisk report, that should raise a red flag. CO2 emissions is not the only factor with which to assess environmental practices, and reputational risk does not capture positive impact. SI funds with a "best-in-class" approach that only applies a screening of excluding the bottom 10 percent could also be seen as green-washing. In most cases, asking why the fund decided to buy or sell a specific investment can lead to a good understanding of the investment process.

Bank | Provide more transparency. Provide ESG ratings or the SI analyses of funds so that clients can understand why these SI funds are recommended and be assured that this is not a case of green-washing. Funds should also include non-financial reporting and why investments were bought or sold based on ESG performance. By way of a further step, also report on changes in the ESG performance of investments.

CASE STUDY | EDMOND DE ROTHSCHILD—BEST-IN-UNIVERSE

The bank Edmond de Rothschild applies a best-in-universe approach, which is a variation of the best-in-class approach; it considers both industry and individual company ESG performance to define the investment universe. For instance, IT companies are generally not exposed to a lot of ESG risk compared to manufacturing. Including the upper half of IT and the upper half of manufacturing in the portfolio would exclude companies in IT who might not be in the upper half but are still better ESG performers than some of those included from manufacturing.

With a best-in-universe approach, more companies from the IT sector are included in the investment universe compared to manufacturing.

This is a way of addressing the criticism levelled at best-in-class approaches: that one might take the best players from the oil industry, but it is still investment in oil. While there is less diversification risk, exposure to ESG risk can still be an issue for a best-in-class approach if industries' ESG performance is not taken into consideration.



CASE STUDY | LOMBARD ODIER, TRIODOS—HOW ESG INTEGRATION CAN BE DONE

Lombard Odier is one of the few banks that integrate a forward-looking approach to ESG rating. On top of the regular ESG data, which is mostly investment footprint data, the bank adds its CAR (consciousness, action, result) layer, which analyzes the ESG targets each company has set and observes the change over time. Thus, the ESG/CAR analysis tool can capture ESG risk and opportunities depending on how companies have pledged to address corporate sustainability and translated those changes into action. This enables Lombard Odier to implement different SI approaches and monitor the impact results. The rating and its components are updated daily and reported regularly to clients through monthly, quarterly, and biannual reports, indicating good governance with regard to ESG data sources and transparency toward clients.

Triodos is a front-runner in the industry and determines its ESG rating by analyzing 70+ indicators, both

general and sector specific, taking only the top 50 percent into its investment universe for all Triodos products. The bank has a fully integrated rating and impact measurement system; for instance, for renewable energy, Triodos measures figures such as CO2 emissions avoided over time and per-unit carbon output instead of the usual absolute carbon footprint. This shows the amount of CO2 emissions that has been avoided through a company's actions in relative terms, which is more meaningful than the size of a company's carbon footprint when one is assessing impact achieved. Only companies that derive over 50 percent of their revenues from sustainable activities (clean planet, climate protection, healthy people, CSR pioneers) are selected for investment. Thus, the investment universe and company selection process identify ESG-driven companies and integrate ESG factors into the financial analysis by default.



3. ACTIVE OWNERSHIP NEEDS TO BE EXERCISED MUCH MORE.

- In SI, there is a general focus on ex ante ESG ratings rather than ex post ESG performance, which is not an effective focus when it comes to implementing change in sustainability practices.
- Active ownership uses voting and engaging with companies to improve their ESG performance.
- As a private investor interested in creating change, it is important to choose the right funds—ones with a proactive ownership approach and that show ex post progress.

One discussion arising in SI is the criticism aimed at the ex ante focus in terms of ESG assessment and the lack of attention paid to ex post ESG performance. Many screening strategies, [for instance, focus on the past ESG performance of companies in order to make an investment decision \(ex ante analysis\)](#). While roughly 61 percent of asset managers carry out some form of ESG assessment after investment takes place, [very few actively engage in companies on ESG issues to create positive impact \(ex post performance\)](#).

This is where the active ownership approach plays a role and is a reason why it is attracting more attention. Active ownership activities include voting according to an ESG guideline, filing shareholder proposals alone or

GOOD PRACTICE: TRIODOS, DE PURY PICTET TURRETTINI & CIE SA—ACTIVE OWNERSHIP AS A DIFFERENTIATOR

The active ownership approach is one of Triodos's unique strengths. The bank defines sector-specific ESG issues that should be discussed and leverages its contacts with companies, sector specialists, and the government to monitor and implement initiatives.

The majority of Triodos's engagement activities involve assessment and monitoring, following its strict investment policies and sustainability evaluation scheme. Each company is provided with a written analysis of their sustainability performance. On top of that, Triodos also defines a number of topics each year in its efforts to influence company performance. For instance, in 2016, Triodos focused on themes such as arms, climate change, animal testing, factory farming, and basic labor rights; as a result, it was able to improve at least two companies on animal welfare and started a collaborative engagement regarding the living wage with 16 companies from the textile and apparel industry (Triodos, 2017).

All of its engagement activities and results are reported in the SRI report each year, which provides a lot of transparency. For investors, it shows that Triodos is acting in their best interests to improve sustainability practices in invested companies; for banks, it provides good case studies that can be benchmarked and followed, in terms of both engagement and reporting.

The small private bank de Pury Pictet Turrettini & Cie SA offers active ownership focused funds. It has a formalized engagement process in place, executed by a dedicated team and external partners. The partners include BHP – Brugger & Partners, which conducts the sustainability assessment, and Kois Invest, Kite, and Sattva, which advise on creating impact and drive partnerships in impact investing. Besides the dedicated team, portfolio managers also attend the shareholder meetings with companies, which improves their understanding of ESG issues and long-term value creation.

Similar to Triodos, de Pury Pictet Turrettini & Cie SA conducts a detailed assessment of companies and provides them with results regarding how well sustainability is integrated into their strategy and reporting. It also provides actionable recommendations on how to create impact, including by developing partnerships with social enterprises.

For each active ownership fund, de Pury Pictet Turrettini & Cie SA invests in about 30 to 40 companies long term, with a 25 percent turnover rate. In this way, the fund has a longer relationship with and stronger influence over each company, making engagement activities more effective.



together with other shareholders, and directly engaging with company leadership on ESG issues. Activist funds have been using this approach since the 1960s, but only recently has active ownership received attention from the mainstream industry as a means of improving the ESG performances of companies.

“Capitalism is built on the logic that investors drive economic activities by deciding for or against projects through their means as investors. Capitalism today is broken by the fact that so many investors do not do that—do not engage with management of their investees and do not vote their shares.”

Falko Paetzold, Managing Director of the Center for Sustainable Finance and Private Wealth (CSP)

One challenge for private investors is that most of these activities are carried out by fund managers. **About half of the banks in the study did not offer voting services on direct investments and for Swiss banks voting was limited to Swiss companies for most banks.** The resources allocated to engagement are also limited. This means an investor interested in an active ownership approach needs to vote him- or herself for direct investments, but more importantly choose the right asset manager and a fund that has an active ownership approach.

In general, there are very few banks and asset managers that actively engage on ESG issues with companies. While 67 percent of the banks included in the study have their own voting guidelines, most guidelines are on governance factors and there is very little on environmental and social issues. This reflects the fact that **voting agendas are dominated by governance issues and there is not enough engagement on E and S issues.** ESG engagement is rarely on the agenda and there is a lack of reporting on such activities if they do take place.

Similar to the exclusion approach, active ownership is mostly an overlay policy and there are very few products with a special focus on active ownership. However, the industry is becoming more aware of the potential positive impact that the approach can have, and **there are funds to be found that have a more proactive approach such as initiating or joining shareholder proposals.** Funds with a thematic focus or expertise in certain

areas can be very effective in terms of active engagements, while representing a larger number of shares.

WHAT DOES THIS MEAN FOR THE...

Investor | Ask banks whether they offer voting services on direct investments, executed either via an internal team or through a specialized provider such as Hermes EOS or ISS. What is important is to have global coverage, since voting and engagement matter everywhere. For other investments, choose funds that have a focus on ex post ESG performance and actively engage on behalf of the investor.

Bank | Push SI funds for active engagement on ESG issues and more reporting on ex post ESG performance. Most funds conduct a sustainability analysis on the company and know where the company could potentially improve. Some thematic funds have in-depth knowledge of the industry and can offer companies excellent feedback. On behalf of their clients, banks should require reporting and ask funds to further utilize their expertise. More importantly, offer voting and engagement as an option for mandates and have global coverage.



4. VERY FEW OFFERINGS FOR IMPACT INVESTING LIMIT PRIVATE INVESTORS.

Impact investing has received a considerable amount of interest in recent years. Despite being the smallest SI approach in terms of capital deployed, it is the fastest growing one, showing 146 percent growth from 2014 to 2016 according to GSIA. While the majority of investors have so far been institutional investors, via our training activities and contacts we also notice a growing interest among private investors. Despite such interest, the offerings of private banks remain limited. Out of the private banks included in the study, only nine offered the option (Figure 9), and this is within a sample of banks that have a sustainable investment offering.

When questioned as to why there was no impact investment offering, many respondents stated that the products were too risky due to the asset class and very few clients fit the risk profile. While many impact funds invest in developed countries such as the United States and Canada, there is a general misconception that impact funds invest primarily in developing countries and, thus, must be risky by default. There is very little effort to include more impact funds in the offering or to lower the risk of impact investment products or offer deal matching as part of the advisory service, where the client risk profile is less of a constraint. However, some banks express a strong conviction to “democratize impact” and have been trying to find ways to offer impact investing opportunities to more clients.

WHAT DOES THIS MEAN FOR THE...

Investor | While direct impact investing can be engaging and fulfilling, it is usually not the most effective option for a private investor. Many funds have a team with deep industry knowledge, local presence, and experience in investing that a private investor alone does not have. Thus, as an investor, look for impact funds and ask the bank to expand its impact fund offering. Further, ask your bank to advance options for accessing direct investments through the bank's infrastructure, and engage with relevant networks.

Bank | Expand impact investing offerings. Despite common belief, most impact funds target a market rate financial return, have a long enough track record, and are a good option for portfolio diversification. The banks must be willing to, and capable of, reviewing these funds and make more effort to put them on the shelf for interested clients, instead of hiding behind the regulatory environment.

Figure 9: Banks offering impact investment funds

Banks offering impact investment funds							
BNP Paribas	Credit Suisse	Edmond de Rothschild	Globalance	HSBC	LGT	Lombard Odier	Pictet
✓	✓	✓	✓	n/a		✓	✓
de Pury Pictet Turrettini	Triodos	UBS	Vontobel	ZKB	Bank A	Bank B	
n/a	✓	✓	✓				

Source: The authors

✓ Impact Investment products
 No Impact Investment products
 n/a Not revealed



GOOD PRACTICE—DEMOCRATIZING IMPACT

Deal matching: While offering impact investment deals directly to investors is becoming more challenging due to tightening regulation, some banks have been doing matchmaking, leveraging third-party partners, and depending on the bank charging an advisory service fee for doing so. For instance, de Pury Pictet Turrettini & Cie SA carries out matchmaking through their close relationship with Blue Orchard. Triodos offers another solution, providing a platform for direct impact investment. This allows the bank to be in charge of execution only, while still enabling capital deployment in much-needed sectors.

Fund-of-funds/asset allocation: Banks such as BNP Paribas, Triodos, and Globalance offer investors exposure to impact investing without the usual hurdles of impact investment. By mixing a microfinance fund with other SI funds with a lower risk, the final fund-of-funds has a lower risk profile and can be offered to more investors. In other cases, SI funds are mixed with direct investment, which allows the investor to deploy capital into multiple sustainable investments without having to use a large

amount of assets to buy shares in each individual company or to invest capital in each individual fund.

Liquidity: Lombard Odier has in-house expertise in impact investing but focuses specifically on green bonds and microfinance. The two areas have been around for a while and are debt products; thus, there is growing liquidity in the market with different players entering to fill the liquidity gap, which lowers the required risk profile for investing in the funds.

Feeder vehicle: Creating feeder vehicles has been a fairly common practice for traditional private equity, and the same expertise can be leveraged to create feeder vehicles for impact investment products. Banks such as BNP Paribas and Edmond de Rothschild have impact investment products for institutional clients or family offices but are ready to create a feeder vehicle for clients with a smaller ticket size. However, creating a feeder vehicle could require a lot of additional effort for banks without in-house expertise and thus is subject to a higher fee.



SUSTAINABLE INVESTING SERVICE

1. BANKS HAVE DIFFERENT ADVISORY TEAM STRUCTURES—INTEGRATED VS SPECIALIZED.

- Specialized banks with a smaller organizational size have fully integrated advisory models in which there is no separation between an SI advisory team and a non-SI advisory team.
- The majority of private banks have non-integrated advisory models in which a specialized SI team is in charge of the explanation and sale of SI products but does not offer holistic advisory.

Specialized banks such as Triodos and Globalance have sustainable investing fully integrated into their regular advisory process (Figure 10). Asking questions about sustainable investing is a natural part of the client on-boarding process and meetings.

The separated advisory model offers SI advisory as a separate service, in a similar way to how independent financial advisors operate. This can include more in-depth advice for some sectors such as impact investing or sustainable investing inclusive of venture philanthropy, or extensive services such as family workshops. While there is currently no private bank that promotes such an offering actively, several banks that we have talked to are currently working on one. This can be an attractive interim option for banks of a larger organizational size, for whom integrating SI fully would take a long time.

The majority of private banks have not integrated SI into the advisory process and neither do they have a specific offering for it (Figure 11). For a private investor, it is a question of chance whether he or she gets the right relationship manager (RM), which is even harder when there is already a family RM. To address this issue, banks have specialized internal teams that RMs can turn to in cases in which the client shows an interest in SI. At best, the RM calls in the team and it has significant knowledge and expertise in advising for SI; alternatively, the RM may not know about the team or may be hesitant to call the team in as doing so would require additional effort for no additional revenue; in most cases, the team comes in to explain the concept of SI to the client and RM, but offers no in-depth investment advice. Thus, thanks to

our close contact with (U)HNWIs, we have observed a good number of clients leaving banks with SI offerings due to RMs being unaware of those offerings.

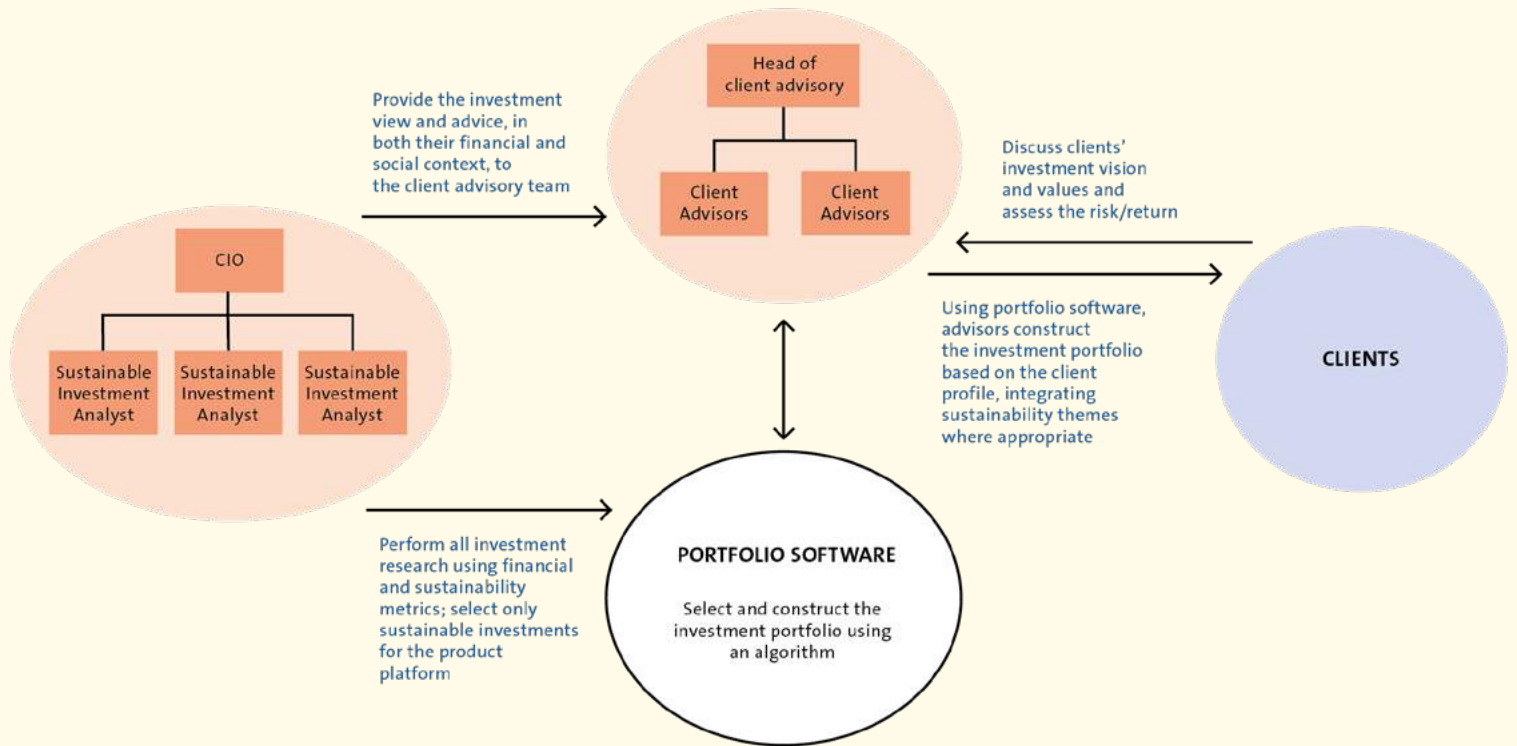
WHAT DOES THIS MEAN FOR THE...

Investor | For investors at the beginning of their journey, actively request meetings with the SI team and ask questions regarding the concept and the products. It is unlikely that all RMs are well informed on SI and, for now at least, banks do not apply additional charges for meeting the SI team. We encourage investors to review the bank profiles that precede the appendices to understand the bank in question (Appendix 0) and to use the questionnaire provided to engage further (Appendix 2). For investors looking for a more holistic advisory service, specialized banks will offer more depth. These banks can offer SI advisory that takes into consideration the right asset allocation, the role of each investment, and personal values on top of their knowledge of SI products.

Bank | While a fully integrated advisory model is not always the right choice for all private banks, those that have a specialized SI team need to guard against SI advisory stopping at merely presenting an SI product or mandate. SI advisory should have a holistic perspective that considers the entire wealth of the client, the entire portfolio and its asset allocation, and the role of SI within that portfolio.

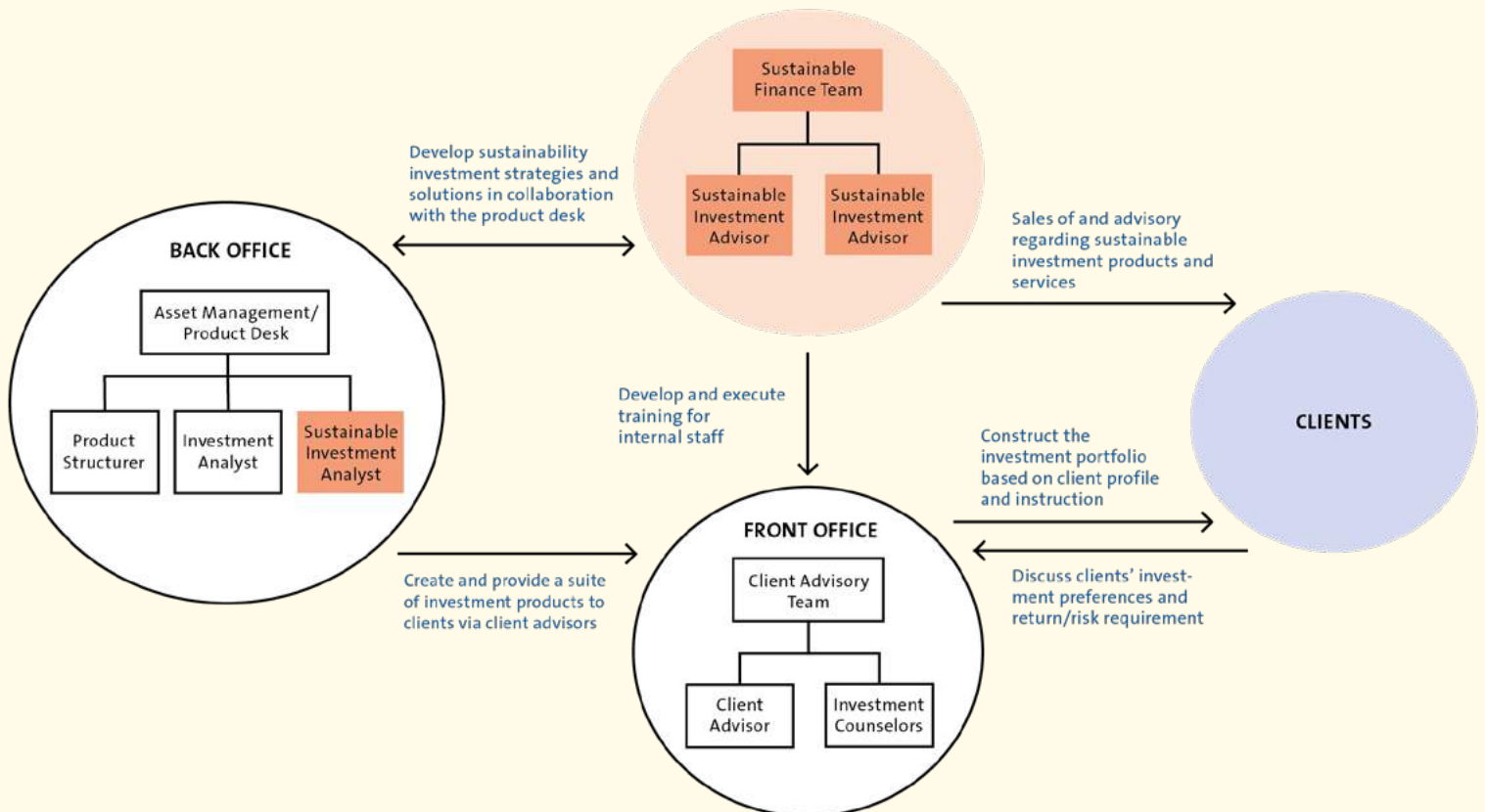


Figure 10: Organizational structure of an integrated bank



Source: The authors

Figure 11: Organizational structure of a non-integrated bank



Source: The authors



2. THERE ARE MANY BARRIERS TO RELATIONSHIP MANAGERS OFFERING SI TO THEIR CLIENTS

- The SI service is the area where banks in this study show on average the lowest capabilities.
- There are a lot of disincentives for RMs to offer SI products to their clients, including a lack of targets for SI products and the longer time it takes to explain the product.
- Many RMs find SI an uncomfortable topic to bring up with clients due to its complexity and their own lack of knowledge, the latter a result of their limited education and training on SI.
- Banks do not have the organizational support necessary to lower these barriers for RMs. Measures such as systemic integration into the client on-boarding process or front-office tool would help.

While a significant number—75 percent²—of private investors wish to invest in a sustainable manner, that wish does not seem to translate directly into capital deployment to SI. Research shows that one of the biggest bottlenecks in mainstreaming SI in private wealth is relationship managers (RMs)³. This is in line with the findings of the recent Swiss Sustainable Finance (SSF) study, which indicates that RMs' lack of conviction is the biggest bar-

rier to the growth of SI⁴. This is also in line with our own results, which reveals that banks' lowest capabilities, on average, are in sustainable investing service. The present study reveals a few reasons why there is such reluctance regarding SI from RMs.

First of all, **there are no incentives for RMs to sell more SI products, while there are a lot of incentives not to**. While there are sales targets on new products, almost no bank has targets for SI products, even on a team or divisional level. It is unlikely that an RM will prioritize SI products that have no relevance to the targets he or she needs to reach. On top of that, since SI can be a new concept for the client, it takes more time for the RM to explain the product. Thus, RMs end up recommending products from on the shelf for which they have targets and that require less time to explain to a client, because that is how they are currently incentivized.

Another reason for the aforementioned reluctance is the general discomfort RMs feel around the topic of SI. Sustainability can be a complex topic to talk about for RMs, and not all banks provide training on SI. Out of the 15 banks in the study, training on SI is compulsory for RMs in only half. Out of that half, only four provide dedicated, mandatory training on SI, the rest including SI as a 2-hour

² Morgan Stanley (2017).

³ Paetzold and Busch (2014).

⁴ Swiss Sustainable Finance (2018).

Figure 12: Banks that have mandatory and/or stand-alone training programs for SI

Banks that have mandatory and/or standalone training programs for SI								
	BNP Paribas	Credit Suisse	Edmond de Rothschild	Globalance	HSBC	LGT	Lombard Odier	Pictet
Mandatory	✓	[✓]		✓		✓		[✓]
Stand-alone			✓	✓				✓

	de Pury Pictet Turrettini	Triodos	UBS	Vontobel	ZKB	Bank A	Bank B
Mandatory		✓	✓	✓			
Stand-alone		✓					

✓ Yes □ No

Notes: 1. Credit Suisse: Training on SI is part of the mandatory training for all new employees.

2. Pictet: Training on SI is mandatory for all new all new employees.

3. Edmond de Rothschild: Edmond de Rothschild has developed standalone e-learning on SI that is available to all SSF members and will eventually be available to a global audience free of charge.

4. PPT: Training is less necessary because the partner in charge of SI has extensive experience in SI and the organization is small.

Source: The authors



session in their RM training. Unless the RM receives additional training or conducts further research alone, this is not enough for an RMs to feel comfortable enough to strike up a professional conversation on the subject. However, none of the banks incentivize their RMs to receive training or education on SI.

The last reason identified by the study is the lack of organizational support for lowering barriers. For only four of the banks in the study was enquiring of the client with regard to SI in some way integrated into the client on-boarding process. Asking clients whether they are interested in SI or not would mostly require additional effort from RMs. Despite most banks having a standardized SI offering, almost none have integrated SI into front-office procedures such as the portfolio health check or simulation. This means that on top of all the barriers that RMs face when it comes to bringing SI up with their clients, they also do not have the tools that could support them in the advisory process.

WHAT DOES THIS MEAN FOR THE...

Investor | Be proactive in mentioning SI to the RM. Make the RM feel comfortable about not having the perfect answer yet. Let the RM inform themselves regarding what the bank is currently offering because most banks have a decent offering to start with. For information on individual banks, make use of the bank profiles in the appendices (Appendix 0) and the questionnaire provided (Appendix 2) to engage further.

Bank | Offer more incentives for RMs to get educated on and engaged in SI. Impose divisional targets and showcase success stories on SI. Provide RMs with enough training, so that they feel comfortable leading a professional conversation on SI—2 hours is rarely enough. Integrate SI into the system to reduce the amount of extra effort required.

CASE STUDY | LOMBARD ODIER—TOOLS SUPPORTING SI INTEGRATION FOR CLIENT ON-BOARDING

Specialized banks such as Triodos or Globalance do not need to inquire whether the client is interested in SI or not; by definition, these banks offer only sustainable investment products and that is also the reason why clients seek out these banks. However, for banks that have both SI and non-SI products, initiating a conversation with the client can be challenging for RMs.

Lombard Odier uses its client reporting tool to trigger the topic. While it is not mandatory to inquire whether clients are interested in SI, the client reporting tool inclu-

des information on, for example, controversies, carbon intensity, and sector exposure. This helps RMs to sense the potential interest of clients and in the case of interest steer the conversation toward SI. The tool also helps guide the conversation with regard to what the client is comfortable with in terms of investment, rather than jumping into a talk about values, where an RM without specific training could feel out of place.

CONCLUSION

Summarizing our results, the industry on average shows a mismatch between high-level vision and on-the-ground execution. Private banks in this study are rather advanced with regard to the formalization of investing policies and objectives. However, when it comes to SI product offerings, more effort is required. It is in its SI service offering in particular that the industry scores lowest on average and where the gap between the front-runner and those lagging behind is the widest.

As described in the report, the SI landscape in private banking is a diverse one. There is no “one size fits all” solution for SI. Instead of one bank fulfilling all needs for all clients who want to engage in SI, banks, rather, have particular aspects that provide one or two out of many features that the client is looking for.

Thus, for private banks the report should give a good overview of where each player stands and how it could improve its offering. There is a lot of confusion surrounding “ESG”, be it regarding the use of the term or

the ESG rating scheme, and the subject requires more transparency from the banks’ side. Also, there is a lack of products with an active ownership approach that focuses on ex post ESG progress. In addition, the offering for impact investing products is rather thin. The advisory service needs to be improved and a lot more action is required to mobilize relationship managers. We hope that the good practices highlighted in this report will serve as valuable insights for other private banks.

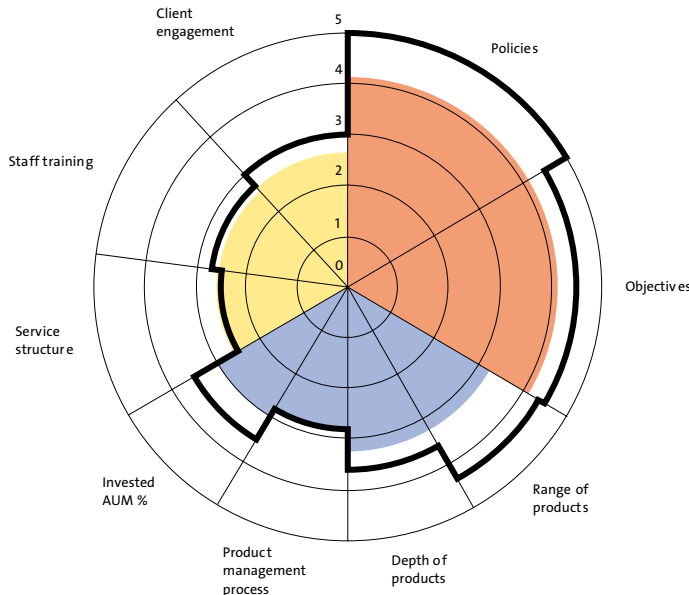
For private investors, this means that they need to take the time to define exactly what it is they are looking for in sustainable investing—is it positive impact, risk management, or value alignment—and choose banks accordingly. Investors need to be more proactive and actively ask for SI products and reporting. To help in this process, we have attached the full questionnaire we used for interviewing the banks, which can be used as a handbook for questioning other banks.

BANK PROFILES

BNP Paribas
Credit Suisse
Edmond de Rothschild
Globalance
LGT
Lombard Odier
Pictet
de Pury Pictet Turrettini
Triodos
UBS
Vontobel
Zürcher Kantonalbank

BANK PROFILE: BNP PARIBAS

General Information								
 BNP PARIBAS					HQ	FR		
					2016 AuM (USD bn)	n/a		
					2016 AuM WM (USD bn) ¹	421.18		
					# of Employees ²	192,419		
Breadth of Services ³								
Non-SI	SI	Lending	Insurance	Retirement Planning & Trust	Life-Cycle Tax Planning	Family Office Services	Non-Financial Asset Acquisition	Philanthropic Planning
✓	✓	✓	✓	✓	✓	✓	✓	✓
Sustainable Investing Information								
Exclusion	Best-in-Class	ESG Integration	Active Ownership	Thematic	Impact Investing			
✓	✓	✓		✓	✓			
Listed Equity	Listed Fixed Income	Private Equity/Debt	Real Estate	Infrastructure	Multi-asset			
✓	✓	✓			✓			



Industry Average

BNP Paribas

Sustainable Investing Vision

Sustainable Investing Offering

Sustainable Investing Service

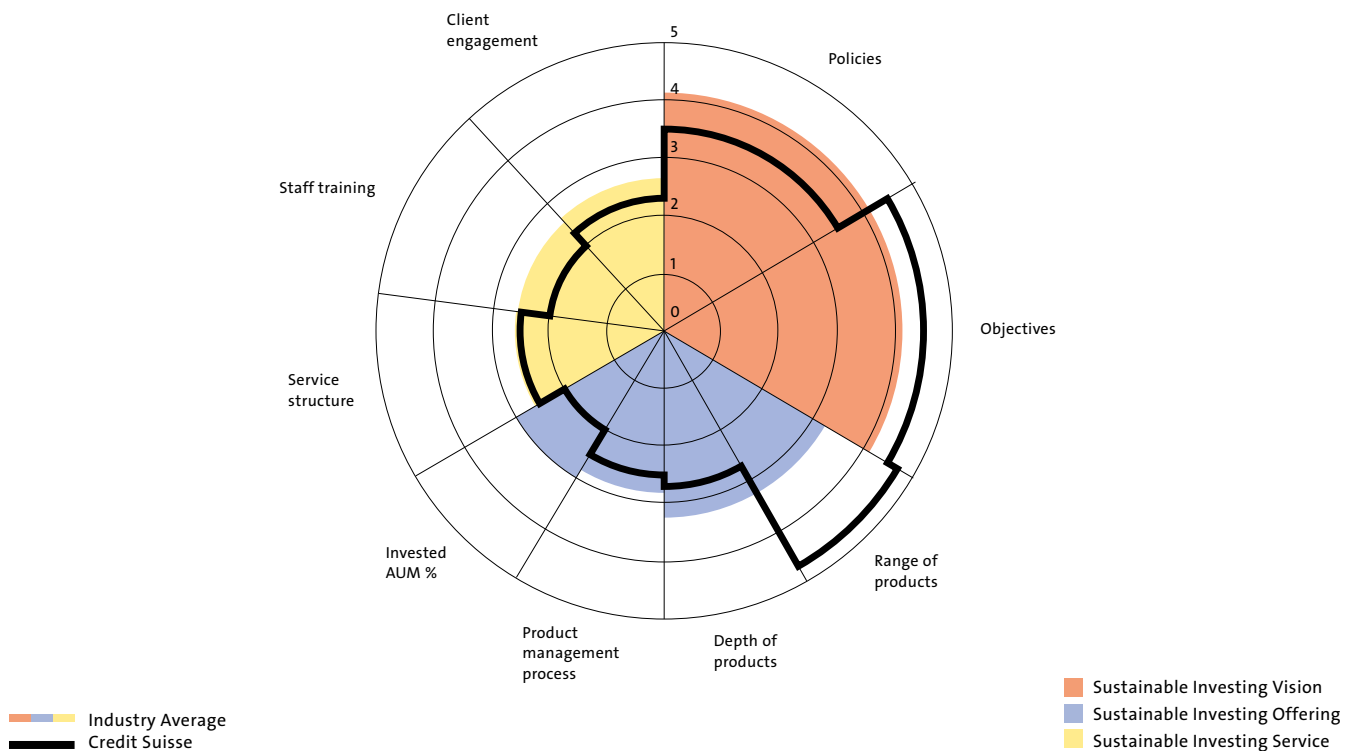
Strengths		Challenges
SI Vision	- Centralized sustainability team on the group level (CSR team) - Well-established policies, all publicly communicated - Overall policy, sector policy, and ESG guidelines - Exclusion and voting and engagement policies - Clearly defined product and process targets with governance system in place	
SI Offering	- Industry-leading product range for both asset classes and SI approaches - Detailed, group-wide exclusion policy across several sectors - Sophisticated best-in-class and ESG integration approach - ESG rating based on multiple data vendors, supplemented by qualitative in-house research - ESG data integrated into front office tool - Engagement activities on multiple topics (e.g., climate change; textiles) - Efforts to “democratize impact” - Fund-of-funds including impact investing fund in private equity/debt - Impact measurement and reporting for dedicated impact fund - Fund selection system enables selection based on ESG criteria - Clover rating and explanation available on extra financial fact sheet	- Impact measurement and reporting limited to footprint data for most products - Impact creation and positive externalities reporting both to be developed
SI Service	- SI training included in mandatory relationship manager training - Additional specialist training for teams with more knowledge - Numerous events and educational programs for clients; especially active in Belgium - SI products included in the regular offering - Increased familiarity of RMs with SI products - Part of regular offering to all clients	- No standalone, compulsory SI training for relationship managers - Regional differences in training for RMs - No dedicated SI advisory yet - SI not yet fully and systematically integrated into the client on-boarding process

¹ BNP Paribas Annual Report 2016
² BNP Paribas Annual Report 2016

³ For banks with global operations across different geographical regions (i.e., UBS and Credit Suisse) we include product offerings and services available in European operations. A limitation is the fact that these might not be available in each European market.

BANK PROFILE: CREDIT SUISSE

General Information											
					HQ		CH				
					2016 AuM (USD bn) ¹		1,300.93				
					2016 AuM WM (USD bn) ²		719.33				
					# of Employees ³		47,170				
Breadth of Services ⁴											
Non-SI	SI	Lending	Insurance	Retirement Planning & Trust	Life-Cycle Tax Planning	Family Office Services	Non-Financial Asset Acquisition	Philanthropic Planning			
✓	✓	✓	✓	✓	✓	✓	✓	✓			
Sustainable Investing Information											
Exclusion		Best-in-Class		ESG Integration		Active Ownership		Thematic		Impact Investing	
✓		✓		✓		✓		✓		✓	
Listed Equity		Listed Fixed Income		Private Equity/Debt		Real Estate		Infrastructure		Multi-asset	
✓		✓		✓		✓				✓	



Strengths		Challenges
SI Vision	- Overall policies well developed and publicly communicated - Group-level policy - Sector-specific policy - Recently established a group-level policy governance body for SI	No engagement or voting policy established
SI Offering	- Above average range of products - Various thematic in-house product offerings (e.g. education, conservation) - Detailed and well-established exclusion policies - Above average impact investing opportunities leveraging long-standing in-house experience (15 years) and partnerships (e.g., responsAbility)	- Limited best-in-class and ESG integration approach - Limited ESG data and rating system, not widely utilized - No active ownership approach - No strategic and formal voting and engagement activity
SI Service	All Swiss-based relationship managers have received SI training	- No official SI training or workshops for clients - SI not integrated into the client on-boarding or advisory processes

1 Credit Suisse Company Profile 2016

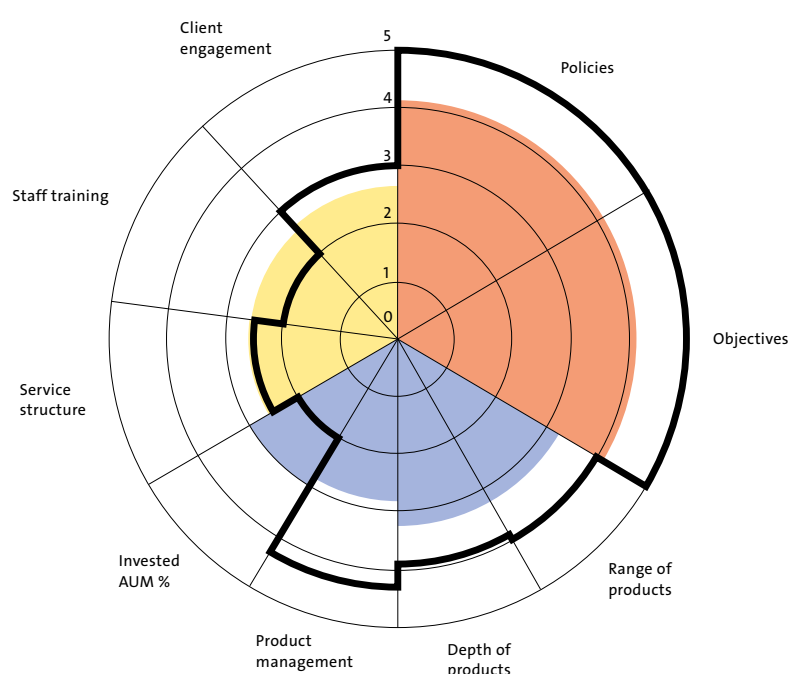
2 Scorpio Partnership Global Private Banking Benchmark 2017

3 Credit Suisse Company Profile 2016

For banks with global operations across different geographical regions (i.e., UBS and Credit Suisse) we include product offerings and services available in European operations. A limitation is the fact that these might not be available in each European market.

BANK PROFILE: EDMOND DE ROTHSCHILD

General Information									
 EDMOND DE ROTHSCHILD					HQ	CH			
					2016 AuM (USD bn) ¹	122.85			
					2016 AuM WM (USD bn)	n/a			
					# of Employees ²	2,666			
Breadth of Services ³									
Non-SI	SI	Lending	Insurance	Retirement Planning & Trust	Life-Cycle Tax Planning	Family Office Services	Non-Financial Asset Acquisition	Philanthropic Planning	
✓	✓	✓	✓	✓	✓	✓	✓	✓	
Sustainable Investing Information									
Exclusion	Best-in-Class	ESG Integration	Active Ownership	Thematic	Impact Investing				
✓	✓	✓	✓	✓	✓				
Listed Equity	Listed Fixed Income	Private Equity/Debt	Real Estate	Infrastructure	Multi-asset				
✓	✓	✓	✓	✓	✓				



Client engagement

Staff training

Service structure

Invested AUM %

Product management process

Depth of products

Range of products

Objectives

Policies

5

4

3

2

1

0

Industry Average

Edmond de Rothschild

Sustainable Investing Vision

Sustainable Investing Offering

Sustainable Investing Service

Strengths		Challenges
SI Vision	- All key SI policies (e.g., group-wide, sector, asset class) established and publicly communicated - High level of transparency regarding SI policies and targets - Strong and explicit top management endorsement	
SI Offering	- Broad range of dedicated in-house SI products - Best-in-universe approach applied to some in-house SI products based on proprietary ESG rating - Formalized voting and engagement for all products and in-depth engagement for specified active ownership products - Basic ESG integration for all EU & US listed equity and fixed income and in-depth ESG integration for dedicated SI funds, real estate, and infrastructure 95% of private equity funds have a formalized ESG integration process - ESG rating and KPIs included in client reports for SI funds - Innovative thematic and impact investing offering - Dedicated specialist PE team “Do good” impact measurement, engagement, and reporting	Basic group-wide exclusion policy
SI Service	- Dedicated SI team supporting SI advisory - Dedicated SI training developed into e-learning specifically for relationship managers 2-year development process - Available to the general public and all SSF members - Tools (e.g., client value mapping, presentation, educational publication for RMs) to support RMs in client engagement	- No mandatory SI training for RMs - Limited educational events or workshops for private investors - SI not yet fully integrated into the client on-boarding process

¹ Edmond de Rothschild Annual Report 2016

² Edmond de Rothschild

For banks with global operations across different geographical regions (i.e., UBS and Credit Suisse) we include product offerings and services available in European operations. A limitation is the fact that these might not be available in each European market.

BANK PROFILE: GLOBALANCE

General Information								
Swiss banking with a mission GlobalanceBank			HQ	CH				
			2016 AuM (USD bn)	n/a				
			2016 AuM WM (USD bn)	n/a				
			# of Employees	n/a				
Breadth of Services ¹								
Non-SI	SI	Lending	Insurance	Retirement Planning & Trust	Life-Cycle Tax Planning	Family Office Services	Non-Financial Asset Acquisition	Philanthropic Planning
	✓					✓		
Sustainable Investing Information								
Exclusion	Best-in-Class	ESG Integration	Active Ownership	Thematic	Impact Investing			
✓	✓	✓	✓	✓	✓			
Listed Equity	Listed Fixed Income	Private Equity/Debt	Real Estate	Infrastructure	Multi-asset			
✓	✓	✓	✓	✓	✓			

Legend:

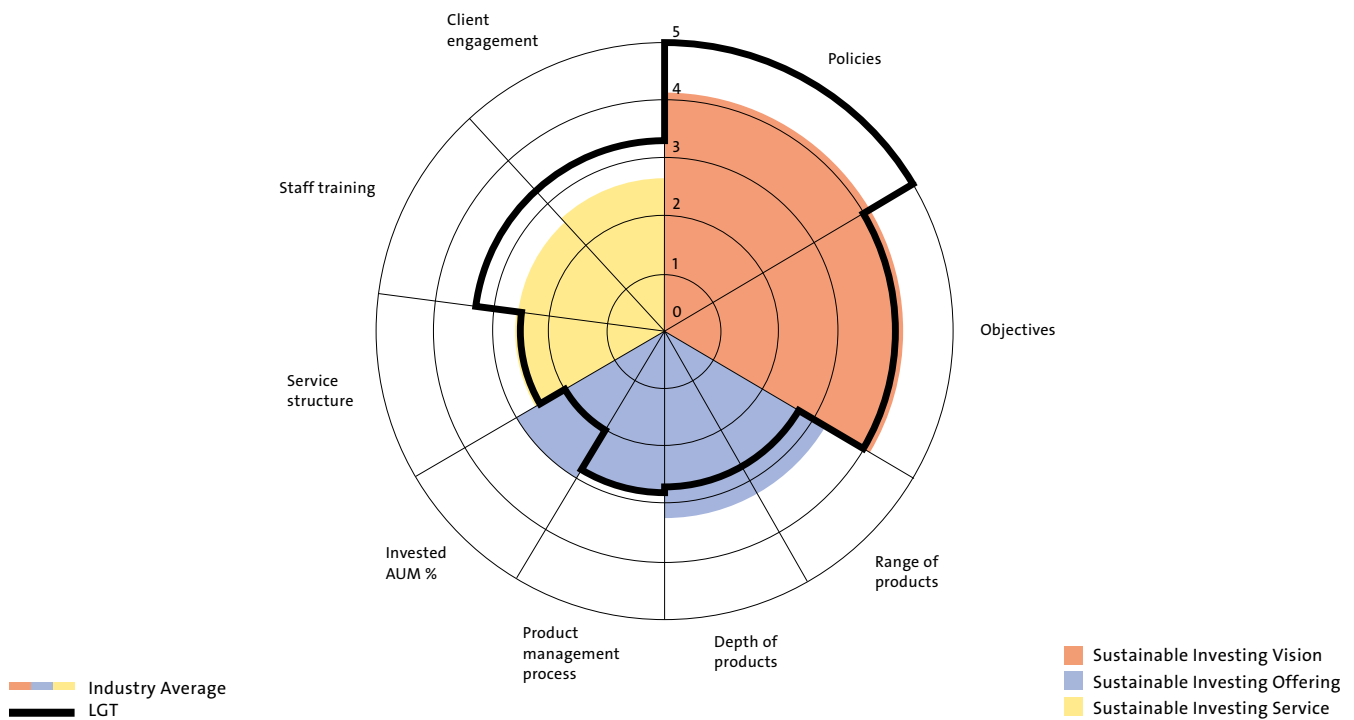
- Industry Average (thin grey line)
- Globalance (thick black line)
- Sustainable Investing Vision (orange sector)
- Sustainable Investing Offering (blue sector)
- Sustainable Investing Service (yellow sector)

Strengths		Challenges
SI Vision	- Well-established policies defining approach and investment process - Managing partner actively engaged and driving SI - SI as the core identity of the bank - Clearly defined targets and governance process	Low level of public communication (documents available upon request and during meetings)
SI Offering	- SI fully integrated into equity, and fixed-income selection processes - SI research is a key capability of the bank - Clear selection policy and stringent process - Impact measurement across economic, societal, and environmental based on SDGs and other global goals - ESG footprint data used as a checklist - Extensive range of SI products # of recommended SI products is one of the highest - Covering most SI approaches and asset classes	- Limited in-house capabilities to structure private equity/debt investments - Specific private equity/debt investments offered through partners upon request - Limited impact review and engagement due to limited resources
SI Service	- The entire advisory service focuses on SI by default - Formal and informal training on SI for RMs - SI integrated into client on-boarding process - Globalance Footprint tool for client engagement - Provides impact measurement and reporting for clients - Web-based and interactive tool, applied to entire portfolio	

For banks with global operations across different geographical regions (i.e., UBS and Credit Suisse) we include product offerings and services available in European operations. A limitation is the fact that these might not be available in each European market.

BANK PROFILE: LGT

General Information								
					HQ		CH	
					2016 AuM (USD bn) ¹		158.17	
					2016 AuM WM (USD bn)		n/a	
					# of Employees ²		2,632	
Breadth of Services ³								
Non-SI	SI	Lending	Insurance	Retirement Planning & Trust	Life-Cycle Tax Planning	Family Office Services	Non-Financial Asset Acquisition	Philanthropic Planning
✓	✓	✓	✓	✓	✓	✓		✓
Sustainable Investing Information								
Exclusion	Best-in-Class	ESG Integration	Active Ownership	Thematic	Impact Investing			
✓	✓	✓	✓	✓	✓			
Listed Equity	Listed Fixed Income	Private Equity/Debt	Real Estate	Infrastructure	Multi-asset			
✓	✓					✓		



Strengths		Challenges
SI Vision	- All key SI policies (e.g., group-wide, ESG guidelines) established and publicly communicated - Strong and explicit top management endorsement	- Lack of specific targets for SI (e.g., product development, training, integration into IT) - Limited governance process for policy implementation
SI Offering	- Industry leading quantity of dedicated in-house SI products - Best-in-class approach applied to all in-house SI products based on proprietary ESG rating - ESG integration for all equity investments (not only for dedicated SI products) - Rigorous external fund selection and communication on ESG aspects - Reporting on ESG integration for external AMs - Communication of proprietary ESG rating for external funds and client portfolios	- Limited range of offering in terms of asset classes and SI approaches - Products mainly in listed equity and fixed income - No engagement policy - Limited impact investing offering
SI Service	- A number of dedicated SI research teams supporting SI advisory - Dedicated SI training as part of the mandatory RM training process - Pressure from top management encourages RMs to integrate SI - Several educational events (e.g., NextGen Academy) as well as tools (e.g., LGT Sustainability rating) for client engagement	SI not fully integrated into the client on-boarding process

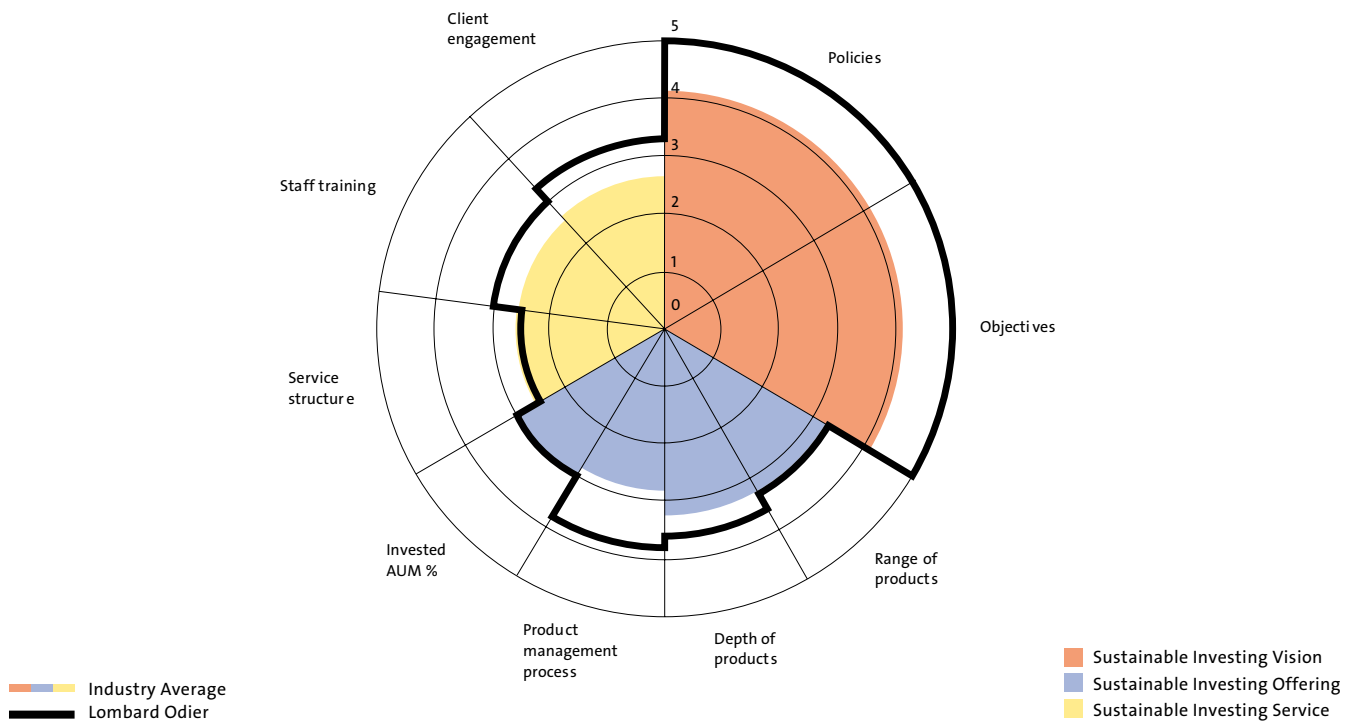
1 Portrait LGT 2016

2 Portrait LGT 2016

For banks with global operations across different geographical regions (i.e., UBS and Credit Suisse) we include product offerings and services available in European operations. A limitation is the fact that these might not be available in each European market.

BANK PROFILE: LOMBARD ODIER

General Information								
					HQ	CH		
					2016 AuM (USD bn) ¹	165.35		
					2016 AuM WM (USD bn) ²	123.75		
					# of Employees ³	2,294		
Breadth of Services ⁴								
Non-SI	SI	Lending	Insurance	Retirement Planning & Trust	Life-Cycle Tax Planning	Family Office Services	Non-Financial Asset Acquisition	Philanthropic Planning
✓	✓			✓	✓	✓		✓
Sustainable Investing Information								
Exclusion	Best-in-Class	ESG Integration	Active Ownership	Thematic	Impact Investing			
✓	✓	✓	✓	✓	✓			
Listed Equity	Listed Fixed Income	Private Equity/Debt	Real Estate	Infrastructure	Multi-asset			
✓	✓	✓						



Strengths		Challenges
SI Vision	- All key SI policies (e.g., group-wide, sector, asset class) established and publicly communicated - High level of transparency regarding SI policies and investment process - Strong and explicit top management endorsement - Clear product and process related SI targets and governance system	
SI Offering	- Broad range of SI approaches for in-house products - Best-in-class and ESG integration approach applied to most products and not just dedicated SI - Based on unique ESG rating system of tracking change and results, not only footprint - ESG reporting (e.g., carbon intensity) applicable to all portfolios - Innovative thematic and impact investing offering - Close partnerships to develop private market products (e.g., Blue Orchard, the Global Fund) - Efforts to make impact investing accessible ("Democratization of impact") - Impact measurement, verification, and reporting carried out by specialists - ESG rating applied to external fund selection process	Industry average quantity of dedicated in-house SI products
SI Service	- Dedicated SI team supporting SI advisory - Standalone SI training, also as e-learning, offered, pushed, and monitored by HR - SI workshops with families for client engagement	- No mandatory SI training for RMs - SI not fully integrated into the client on-boarding process

1 Lombard Odier Annual Report 2016

2 Lombard Odier Annual Report 2016

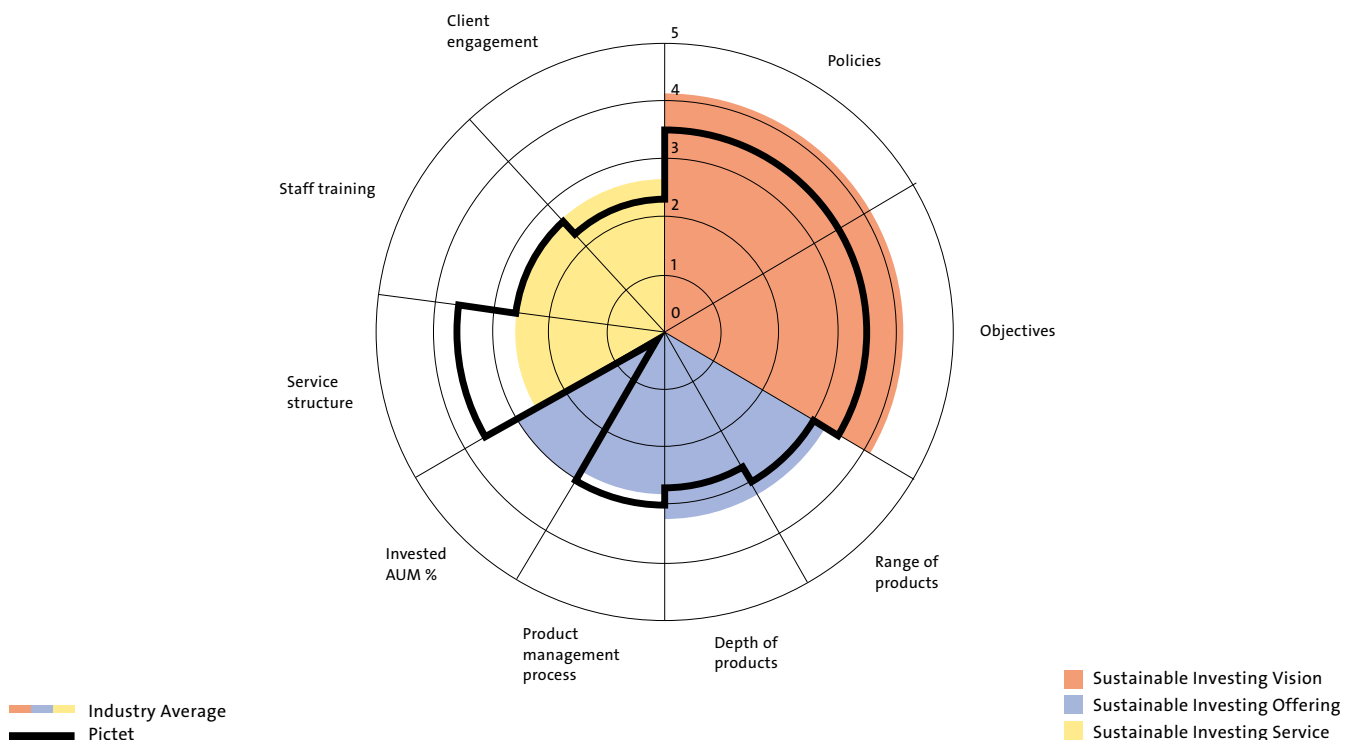
3 Lombard Odier Annual Report 2016

For banks with global operations across different geographical regions (i.e., UBS and Credit Suisse) we include product offerings and services available in European operations. A limitation is the fact that these might not be available in each European market.

BANK PROFILE: PICTET

General Information								
				HQ		CH		
				2016 AuM (USD bn) ¹		480.44		
				2016 AuM WM (USD bn) ²		246.32		
				# of Employees ³		4,130		
Breadth of Services ⁴								
Non-SI	SI	Lending	Insurance	Retirement Planning & Trust	Life-Cycle Tax Planning	Family Office Services	Non-Financial Asset Acquisition	Philanthropic Planning
✓	✓			✓	✓	✓	✓	✓
Sustainable Investing Information								
Exclusion	Best-in-Class	ESG Integration	Active Ownership	Thematic	Impact Investing			
✓	✓	✓	✓	✓	✓			
Listed Equity	Listed Fixed Income	Private Equity/Debt	Real Estate	Infrastructure	Multi-asset			
✓	✓							

Note: SI AuM has not been disclosed by the bank and is not reflected into the SI Capabilities Map



Strengths		Challenges
SI Vision	- Overall SI approach is well defined and communicated publicly - Policy and target establishment and governance driven by specialist team	Several key policy documents (e.g., sector and exclusion policy) are not communicated publicly
SI Offering	- Early mover in thematic funds - Water fund launched in 2000 - Timber fund launched in 2008 - Industry average best-in-class and ESG integration - Multiple data providers - Internal SI products have extra financial reporting on relevant ESG metrics (reporting at client portfolio level is under development) - Dedicated SI research team with well-established selection criteria and process	- Limited range of in-house products - Products only for listed equity and fixed income - No in-house impact investing products
SI Service	- Dedicated advisory team offering SI - Standalone SI training program for investment teams and RMs (mandatory for new employees) - Several tools (presentation; booklet) available for RMs to use to engage clients in SI	- SI not fully integrated into the client on-boarding process - Limited client education programs

1 Pictet Annual Report 2016

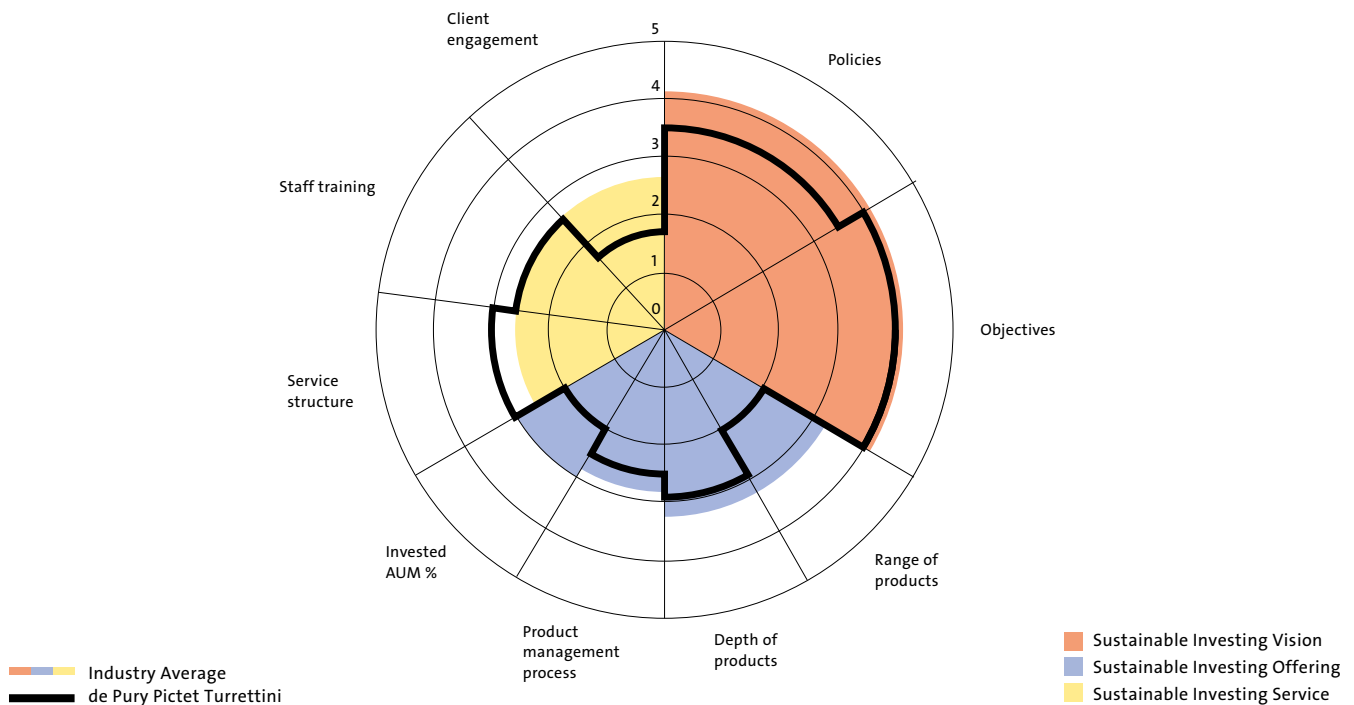
2 Scorpio Partnership Global Private Banking Benchmark 2017

3 Pictet Annual Report 2016

For banks with global operations across different geographical regions (i.e., UBS and Credit Suisse) we include product offerings and services available in European operations. A limitation is the fact that these might not be available in each European market.

BANK PROFILE: DE PURY PICTET TURRETTINI

General Information								
					HQ	CH		
					2016 AuM (USD bn)	n/a		
					2016 AuM WM (USD bn)	n/a		
					# of Employees ¹	1,271		
Breadth of Services ²								
Non-SI	SI	Lending	Insurance	Retirement Planning & Trust	Life-Cycle Tax Planning	Family Office Services	Non-Financial Asset Acquisition	Philanthropic Planning
✓	✓		✓	✓	✓	✓		✓
Sustainable Investing Information								
Exclusion	Best-in-Class	ESG Integration	Active Ownership	Thematic	Impact Investing			
		✓	✓	✓				
Listed Equity	Listed Fixed Income	Private Equity/Debt	Real Estate	Infrastructure	Multi-asset			
✓	✓							



Strengths		Challenges
SI Vision	- High level of transparency regarding dedicated SI funds - Investment and engagement process established and publicly communicated - Managing partner actively engaged and driving SI - Clearly defined targets and governance process	Low level of overall policy formalization due to small size of organization
SI Offering	- Innovative active ownership products - Formalized and active engagement process - Dedicated team and partner - Systemic approach (e.g., clear targets for engagement) - Unique matching process between multinationals and impact projects or social enterprises - ESG integration applied to all dedicated SI products - Strong partnership with impact investing organizations (e.g., Blue Orchard, Koïs Invest, Kite, and Sattva) - Focus on discretionary services	- Limited in-house product development capabilities due to size and resources - No impact measurement and reporting system besides the active ownership report
SI Service	Specialized team offering SI advisory service, especially for impact investing	- No official training for RMs (less necessary due to small size) - No formal education program or workshop for clients

¹ UN PRI Transparency Report 2016

For banks with global operations across different geographical regions (i.e., UBS and Credit Suisse) we include product offerings and services available in European operations. A limitation is the fact that these might not be available in each European market.

BANK PROFILE: TRIODOS

General Information								
Triodos Bank					HQ	NL		
					2016 AuM (USD bn) ¹	16.57		
					2016 AuM WM (USD bn) ²	1.28		
					# of Employees ³	1,271		
Breadth of Services ⁴								
Non-SI	SI	Lending	Insurance	Retirement Planning & Trust	Life-Cycle Tax Planning	Family Office Services	Non-Financial Asset Acquisition	Philanthropic Planning
	✓	✓						
Sustainable Investing Information								
Exclusion	Best-in-Class	ESG Integration	Active Ownership	Thematic	Impact Investing			
✓	✓	✓	✓	✓	✓			
Listed Equity	Listed Fixed Income	Private Equity/Debt	Real Estate	Infrastructure	Multi-asset			
✓	✓	✓	✓	✓	✓			

Legend:

- Industry Average (Yellow)
- Triodos (Black outline)
- Sustainable Investing Vision (Orange)
- Sustainable Investing Offering (Blue)
- Sustainable Investing Service (Yellow)

Strengths		Challenges
SI Vision	- All key SI policies (e.g., group-wide, sector, asset class) established and publicly communicated - High level of transparency regarding SI policies and investment process - Strong and explicit top management endorsement - Clear product- and process-related SI targets and governance system	
SI Offering	- Broad range of in-house products - Products also in private equity/debt, real estate, and infrastructure - Products across all SI approaches - Best-in-class and ESG integration approach applied to all products by default in the investment process - Active ownership for all funds - Formalized engagement process and responsibilities - Sophisticated ESG analysis as the basis for engagement - ESG engagement report communicated publicly - Diverse thematic and impact investing products (e.g., food, renewable energy, microfinance) - Thematically specialized in-house team for each fund - Impact measurement, engagement, and reporting - Offers an impact investing crowdfunding platform	- No open architecture - Limited discretionary services
SI Service	- Entire advisory service restricted to SI, by default - Compulsory, standalone SI training and further development regarding specialized knowledge - SI integrated into the advisory process	No formal education program or workshop for clients

1 Triodos Annual Report 2016
 2 Triodos Annual Report 2016
 3 Triodos Annual Report 2016

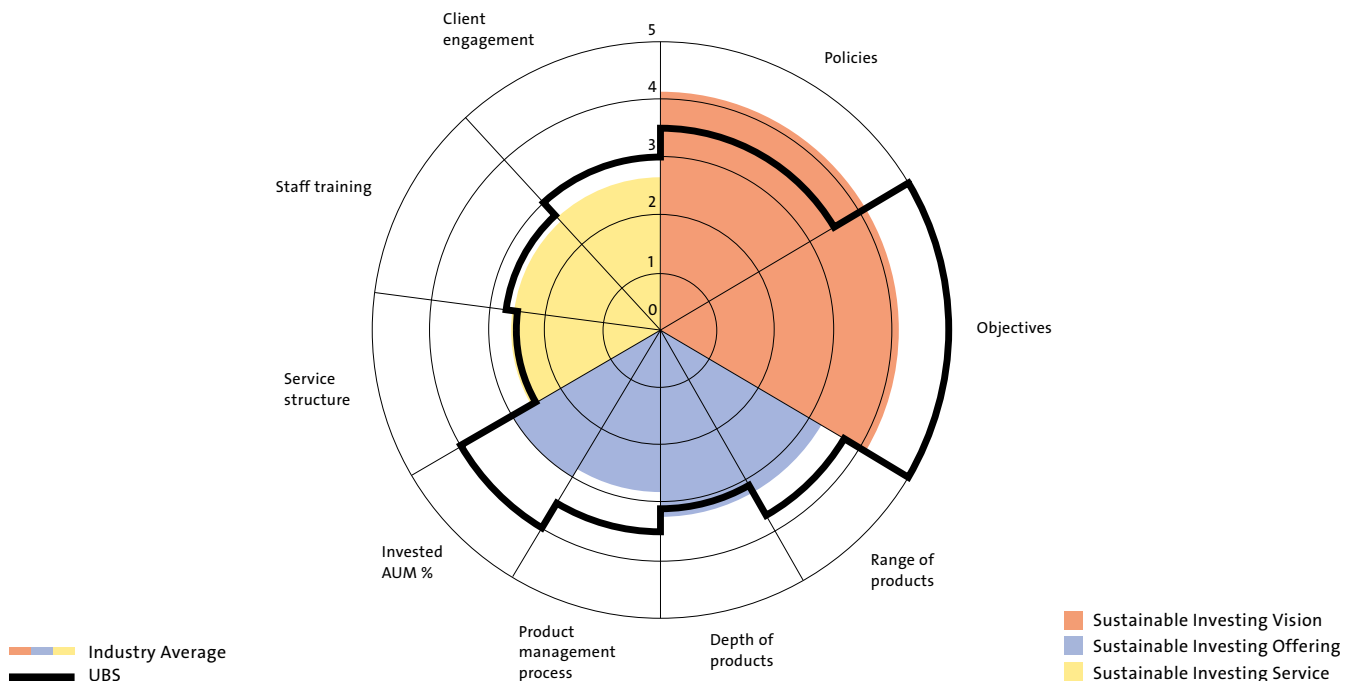
For banks with global operations across different geographical regions (i.e., UBS and Credit Suisse) we include product offerings and services available in European operations. A limitation is the fact that these might not be available in each European market.

BANK PROFILE: UBS

General Information		
	HQ	CH
	2016 AuM (USD bn) ¹	1,933.59
	2016 AuM WM (USD bn) ²	2,068.67
	# of Employees ³	60,785

Breadth of Services ⁴								
Non-SI	SI	Lending	Insurance	Retirement Planning & Trust	Life-Cycle Tax Planning	Family Office Services	Non-Financial Asset Acquisition	Philanthropic Planning
✓	✓	✓	✓	✓	✓	✓	✓	✓

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



Strengths		Challenges
SI Vision	- Centralized sustainability team on the group level - Consistent policy making and governance - Aligned key targets for both products and processes	- Multiple policies and guidelines are established but not publicly communicated - Asset class or sector-specific guidelines - Exclusion policy
SI Offering	- Above average range of products - Strong in-house product development capabilities - Formalized voting and engagement policy - Clear role prescription - ESG engagement reporting - A product with further active ownership focus - Above average thematic and impact investing offerings - Thematic products developed based on long-term themes - Multiple impact investing products with clear measurement and reporting	- Basic group-wide exclusion policy of antipersonnel mines and cluster munitions - Further exclusion carried out upon client request - Average ESG integration approach - ESG integration conducted in a non-systematic way
SI Service	- SI training included in mandatory relationship manager training - Additional specialist training for interested RMs - Regular workshops and educational events for clients	- No standalone, compulsory SI training for relationship managers - SI not integrated into the client on-boarding or advisory processes

1 UBS Interview

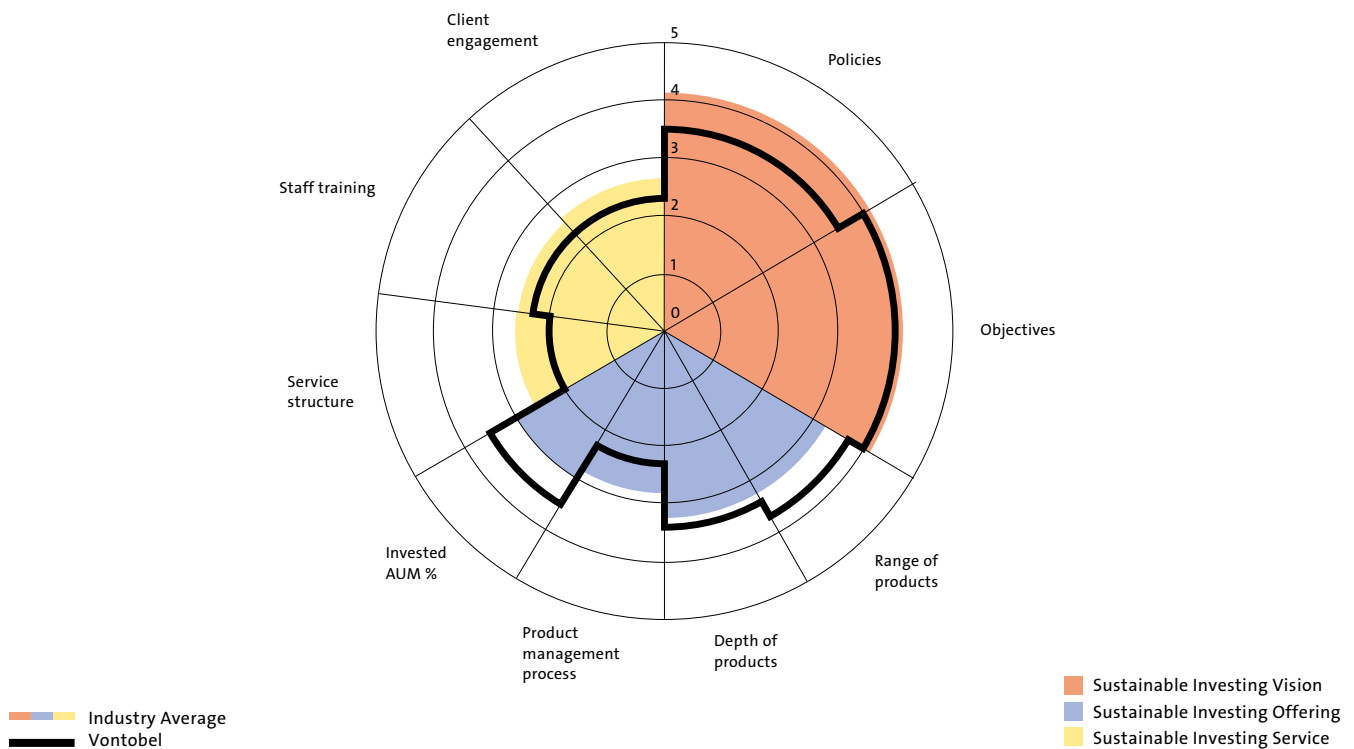
2 Scorpio Partnership Global Private Banking Benchmark 2017

3 UBS Annual Report 2016

For banks with global operations across different geographical regions (i.e., UBS and Credit Suisse) we include product offerings and services available in European operations. A limitation is the fact that these might not be available in each European market.

BANK PROFILE: VONTOBEL

General Information								
					HQ	CH		
					2016 AuM (USD bn) ¹	144.55		
					2016 AuM WM (USD bn) ²	48.67		
					# of Employees ³	1,674		
Breadth of Services ⁴								
Non-SI	SI	Lending	Insurance	Retirement Planning & Trust	Life-Cycle Tax Planning	Family Office Services	Non-Financial Asset Acquisition	Philanthropic Planning
✓	✓	✓	✓	✓	✓	✓		✓
Sustainable Investing Information								
Exclusion	Best-in-Class	ESG Integration	Active Ownership	Thematic	Impact Investing			
✓	✓	✓	✓	✓	✓			
Listed Equity	Listed Fixed Income	Private Equity/Debt	Real Estate	Infrastructure	Multi-asset			
✓	✓	✓	✓					



Strengths		Challenges
SI Vision	Top and senior management involved in SI policy development	SI policies internally defined, but not publicly communicated (besides exclusion and voting)
SI Offering	- Above average quantity of in-house SI products - Best-in-universe and ESG integration for most dedicated SI strategies - Multiple ESG data providers - Proprietary ESG rating complemented with in-house research team - Formalized engagement process and reporting through service provider - Multiple thematic investments (e.g., water, clean-tech)	Impact investing offering is limited to microfinance
SI Service	- SI training is part of compulsory training for RMs - Additionally, regular expert circle meetings and deep-dive sessions by internal staff - SI partially integrated into the client on-boarding process - Questions on values, vision, and ideas included in the on-boarding questionnaire	No formal workshop or educational events for client engagement

¹ Vontobel Full Year Results Presentation 2016

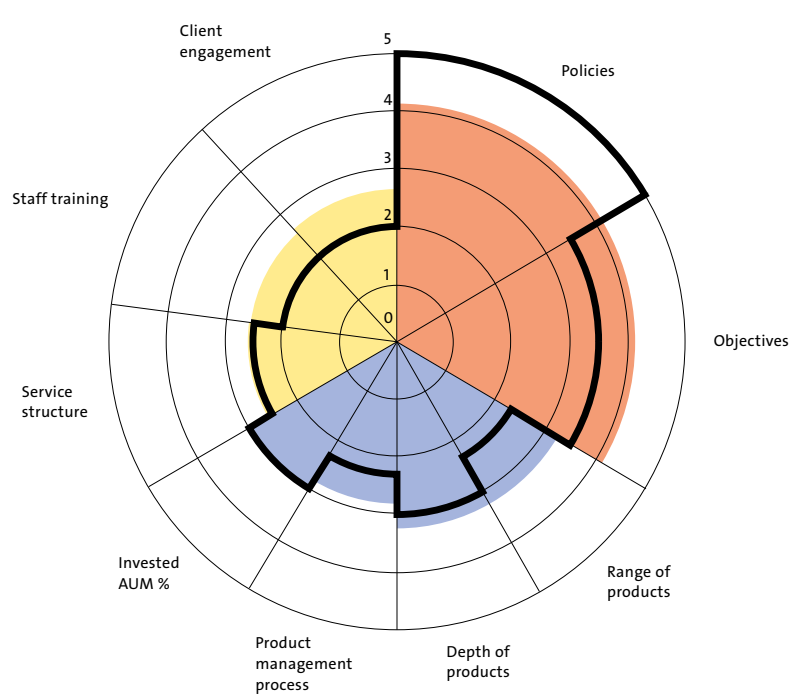
² Vontobel Full Year Results Presentation 2016

³ Vontobel Full Year Results Presentation 2016

For banks with global operations across different geographical regions (i.e., UBS and Credit Suisse) we include product offerings and services available in European operations. A limitation is the fact that these might not be available in each European market.

BANK PROFILE: ZÜRCHER KANTONALBANK

General Information								
 Zürcher Kantonalbank				HQ	CH			
				2016 AuM (USD bn) ¹	275.32			
				2016 AuM WM (USD bn)	n/a			
				# of Employees ²	5,173			
Breadth of Services ³								
Non-SI	SI	Lending	Insurance	Retirement Planning & Trust	Life-Cycle Tax Planning	Family Office Services	Non-Financial Asset Acquisition	Philanthropic Planning
✓	✓							
Sustainable Investing Information								
Exclusion	Best-in-Class	ESG Integration	Active Ownership	Thematic	Impact Investing			
✓	✓	✓	✓	✓				
Listed Equity	Listed Fixed Income	Private Equity/Debt	Real Estate	Infrastructure	Multi-asset			
✓	✓					✓		



Client engagement

Staff training

Service structure

Invested AUM %

Product management process

Depth of products

Range of products

Objectives

Policies

5

4

3

2

1

0

Industry Average

Zürcher Kantonalbank

Sustainable Investing Vision

Sustainable Investing Offering

Sustainable Investing Service

Strengths		Challenges
SI Vision	- Overall SI policy and ESG guidelines well established and publicly communicated - SI included in legal mandate and governance by the board of directors, committee, and executive board	Lack of SI process-oriented targets
SI Offering	- Best-in-class and ESG integration based on proprietary rating - ESG indicator based on ESG footprint data - Complemented by in-house qualitative research - Diverse thematic investing (e.g., climate change; water) - Extra-financial reporting offered via the ESG indicator upon request	- Offering is limited to in-house products despite open architecture - Asset class range of products is limited to equity and fixed income (incl. multi-asset) - No formal engagement policy - No impact investing products
SI Service	Specialist team available to support RMs in SI	- No specialized SI advisory service - No dedicated SI training for RMs, but deployed during sales session - No workshops or educational events in SI for client engagement

1 Zürcher Kantonalbank Annual Report 2016

2 Zürcher Kantonalbank Annual Report 2016

For banks with global operations across different geographical regions (i.e., UBS and Credit Suisse) we include product offerings and services available in European operations. A limitation is the fact that these might not be available in each European market.

APPENDICES

APPENDIX 1: LIST OF SOUNDING BOARD MEMBERS

Asset Owner Group		
Private Wealth Owner	William Chin	Principal
Private Wealth Owner	Tiffany Chen	Principal
Kaura Foundation	Rakesh Chand	Chairman / Principal
Private Wealth Owner	Fernando Scodro	Principal
Private Wealth Owner	<i>Name not publicly disclosed</i>	Principal
Industry Expert Group		
JBJ Consult	Julia Balandia-Jaquier	CEO
VALUEworks Consulting	Peter Wüthrich	Head of Investment Consulting
Researcher Group		
University of St. Gallen (HSG)	Sebastian Utz	Assistant Professor

APPENDIX 2: SI QUESTIONNAIRE FOR PRIVATE INVESTORS TO ASSESS THEIR BANK

This questionnaire is a spin-off result of the present report. It is a version of the questionnaire we have used to map out the SI capabilities of banks, adjusted for use by private investors. Each question is accompanied by a checklist, and examples of good and bad practice that the private investor should consult once the banks' initial answers have been received. We hope this assists the private investor in understanding each bank better and fosters the further development of sustainable investing.

		Good Practices	Bad Practices
Sustainable Investing Vision	SI Policy	What are the SI policies in wealth management? Please provide the policy document if possible. • Overall SI policy for wealth management • Sector policies for wealth management • Voting and engagement policies for wealth management	• No policies for wealth management
		Who is responsible for developing the SI policies in wealth management? • Top management • SI specialists	• Policy established on the operational level, but not endorsed by top management
		What is the motivation of wealth management in implementing SI? • External environment • Internal philosophy	• SI as a response to external pressure such as regulation or client demand
	SI AuM	How much of AuM is deployed in SI? Please provide a breakdown for each SI approach.	• Majority of SI AuM in exclusion
		What is the amount of SI AuM as a percentage of total AuM?	
		How has the proportion of SI AuM as % of total AuM changed over the past 3 years?	

			Good Practices	Bad Practices
Sustainable Investing Offering	Range of Products	How many dedicated SI products does wealth management offer?		
		Across what asset classes does wealth management offer SI products?		Dedicated SI products only in public equity and fixed income
		Across what SI approaches does wealth management offer SI products?	Products offered also for thematic and impact investing approaches	Offering only includes products using exclusion or best-in-class approaches
	SI Process	How is the exclusion approach implemented in wealth management? - Sectors - Governance process - Policy review process - Flexibility regarding client requests	- Sector policies are established for multiple sectors with specific guidelines - Weekly updates and IT integration of the exclusion list - Policy is regularly updated based on new research and trends - Wealth management responds flexibly to clients requesting additional criteria	- No exclusion policy - No governance process ensuring the exclusion of sectors/companies - Unable to meet client requests for additional exclusion criteria, or exclusion carried out 'by hand'
		Does wealth management have its own ESG rating scheme and, if so, how are ratings determined? - Data form and sources - Governance process - ESG indicators - Coverage - ESG risk and opportunity	- Proprietary ESG rating is based on raw data from multiple providers - Quality of data is regularly evaluated - Multiple indicators for E and S and not only for G - Covering a large pool of companies and regions, including emerging markets for all asset classes - Data identifies not only ESG risks but also ESG opportunities	- No proprietary ESG rating scheme - Asset managers do not share information proactively with wealth management
		How is SI integrated into the listed equity and fixed income research process? - Team structure - ESG analysis - Access to data - Systematic integration	- Dedicated ESG research team or analysts in wealth management - ESG analysis is available to anyone relevant to the investment process - Process assures consideration of ESG analyses, such as a mandatory ESG section in the investment report	- No additional research team or analyst - No ESG research sharing from asset management either

			Good Practices	Bad Practices
Sustainable Investing Service	Advisory	What does wealth management offer in terms of SI advisory?	• Advisory contains value mapping for private investors or family • SI advisory is carried out from a total portfolio perspective, discussing how SI can be applied to each asset	• No specialized SI advisory • Limited to presenting a standardized SI mandate or fund
		How is the client-facing extra financial reporting for wealth management?	• Extra financial reporting includes ESG indicators for products on the portfolio level • Impact reporting includes both quantitative and qualitative measurements for thematic and impact investing products • Reporting occurs regularly	• No consistency in extra financial reporting • Limited to handing over individual reporting from asset managers
		How is active ownership integrated into wealth management for directline investments?	• Wealth management has a formalized voting and engagement policy with clear responsibilities • Voting occurs for all possible cases and is reported on • No additional fee charged for the service	• No formalized voting and engagement policy, and no adjusted policy from asset management either • Voting takes place only on the client's request and incurs additional charges
	Team	What is the background and experience of the key people in research?	• Multiple years of experience in SI • SI specialists are also in senior positions • High retention rate of key people	• Key people for SI only in junior positions • Senior key person with no relevant experience in SI • High turnover within the SI team
		What is the background and experience of the key people in the front office?	• Wealth management has compulsory and in-depth training on SI for front-office staff (e.g., relationship managers) • Front-office staff are comfortable discussing SI and have an extensive understanding of SI • Front-office staff are familiar with industry practices and what the bank can offer regarding SI	• Wealth management does not have any training on SI for front-office staff, or product sales sessions are considered to be "training" • Front-office staff is not familiar with SI and do not know the bank's offering
	Client Engagement	How does the bank educate clients regarding SI?	• Regular reporting on ESG and impact to educate and engage clients • Regular publications on sustainability-related topics • Numerous events on SI to inform and educate clients (e.g., Next Gen training on SI) • Specific workshops for private clients or families on SI	• No efforts to educate or engage clients on SI
		How is SI integrated into the regular client on-boarding process?	• Questionnaire includes questions on interest in SI, values, and sustainability topics of interest • Relationship manager inquires regarding SI as part of the regular process • Current portfolio review includes SI, such as ESG risk and opportunity • Next steps are clear to the relationship manager once interest in SI has been identified (e.g., refer to SI team; SI portfolio construction)	• SI is not integrated into the regular on-boarding process • Client has to actively ask about the SI offering • Next steps are unclear to relationship manager once the client shows an interest in SI

APPENDIX 3: BEST-IN-CLASS OVERVIEW BY BANK

	BNP Paribas	Credit Suisse	Edmond de Rothschild	Globalance	HSBC	LGT	Lombard Odier	Pictet
Best-in-class or universe	Best-in-Class	Best-in-Class	Best-in-Universe	n/a	Best-in-Class	Best-in-Class	Best-in-Class	Best-in-Class
Scope	Some dedicated SI products	Some dedicated SI products	Some dedicated SI products	Some dedicated SI products	Some dedicated SI products	All products	Some dedicated SI products	Some dedicated SI products
Cutoff point	Top 70%	BB rating (Rating from AA to CC)	“BB rating (Rating from AAA to CCC)”	n/a	~Top 50%	Top 75%	Top 80%	n/a

	de Pury Pictet Turrettini	Triodos	UBS	Vontobel	ZKB	Bank A	Bank B
Best-in-class or universe	n/a	Best-in-Universe	Best-in-Class	Best-in-Universe	Best-in-Class	Best-in-Universe	Best-in-Universe
Scope	Some dedicated SI products	All AuM	All dedicated SI products	Some dedicated SI products	Some dedicated SI products	Some dedicated SI products	All products
Cutoff point	n/a	Top 50%	~Top 50% (Top 2–3 rating out of 5)	n/a	n/a	n/a	Top 90%

BIBLIOGRAPHY AND FURTHER READING

- Dutch Fair Bank Guide. (2015). *5 years of the Dutch Fair Bank Guide* (2009–2014).
- Eurosif. (2016). *European SRI Study 2016* (European SRI Study).
- GSIA. (2017). *Global Sustainable Investment Review 2016* (Global Sustainable Investment Review).
- KPMG. (2015). *Ready or Not? – an assessment of sustainability integration in the European banking sector*.
- Paetzold, F., & Busch, T. (2014). Unleashing the Powerful Few: Sustainable Investing Behaviour of Wealthy Private Investors. *Organization & Environment*, 27 (4), 347–367. <https://doi.org/10.1177/1086026614555991>
- ShareAction. (2017). *Banking on a Low-Carbon Future*.
- SSF. (2018). *Swiss Sustainable Finance – Finance for the Future* (SSF Annual Report 2017). Retrieved from http://www.sustainablefinance.ch/upload/cms/user/2018_05_02_SSF_Annual_Report_Final.pdf
- UNCTAD (Ed.). (2014). *Investing in the SDGs: an action plan*. New York: United Nations.
- WWF. (2014). *Environmental, Social and Governance Integration for Banks: A Guide to Starting Implementation*.
- WWF. (2017). *Sustainability in the Swiss retail banking sector* (WWF rating of the Swiss retail banking sector 2016/2017).

Impressum

Kwon, T.,
Paetzold, F. (2018)

*Sustainable Investing Capabilities
of Private Banks — Report #2:
Assessment of 15 European Private Banks*

Universität Zürich
Departement of Banking and Finance
Center for Sustainable Finance
and Private Wealth (CSP)
Plattenstrasse 32
8032 Zürich
Switzerland

www.csp.uzh.ch