ASSET MANAGEMENT ASSOCIATION

Swiss Sustainable Finance

How to Avoid the Greenwashing Trap:

RECOMMENDATIONS ON TRANSPARENCY AND MINIMUM REQUIREMENTS FOR SUSTAINABLE INVESTMENT APPROACHES AND PRODUCTS

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1. Introduction

Pursuing sustainability goals through investments is becoming increasingly popular with private and institutional investors. The asset management industry is responding to this growing demand through many new investment products, mostly investment funds, with sustainable characteristics.

Not all these products aim for the same sustainability goals, however. Furthermore, regulatory restrictions also prevent certain products from being offered to private investors. For this and other rea-sons, investors may sometimes be disappointed if they do not see their original goals and intentions reflected in investment products and their portfolio holdings.

There are various reasons for this mismatch between client expectations and product characteristics. Investors often have aspirations that cannot be met by an investment product given its underlying investment strategy. For example, while climate may be the main priority for an investor interested in sustainability, the asset manager might not only consider the environment, but also social and governance aspects and weights these factors accordingly – with the result that the portfolio does not just contain climate leaders. In addition, many investors envisage making a direct contribution to climate protection or another sustainability goal. Yet, in secondary market investments this goal is often best achieved through engagement and not necessarily with a thematic portfolio. Also, a majority of funds opt for a broad sector approach, partly in the interest of diversification and better risk control.

At the same time, the asset management industry has an obligation to present the key sustainability features of an investment product in a transparent manner and in a clear and understandable language. Further, it needs to demonstrate that the promises made in marketing documents and the goals set therein are supported in practice, and so-called greenwashing is avoided. In practice, both the terminology around sustainable investment and the information disclosed with a particular investment product vary across the industry at national and international level, making it difficult for investors to compare sustainable products. Clearer communication on the applied sustainability approaches and their goals might therefore also contribute to preventing disappointments on the client side.

The recommendations set out in this paper are directed at the asset management industry with the intention to build a bridge between asset managers, other financial service providers and end-investors. It focuses on the products designed by the fund and asset management industry and sold by financial service providers to investors. and has three main goals:

- Define the various sustainable investment approaches and instruments in more detail and set minimum criteria for the implementation of each of them.
- Specify minimum requirements for investor information on the different investment approaches and instruments.
- Identify which of these sustainable investment approaches satisfy the three main sustainable investor goals most effectively.

These recommendations also aim at supporting the "points of sale" and distribution, ensuring a financial advisor has access to all relevant information in order to recommend the most suitable sustainable product to a client.

The sustainable finance regulatory environment in Switzerland and abroad is transforming rapidly. At the European level, the EU Taxonomy and the Sustainable Finance Disclosure Regulation (SFDR) aim at introducing standards and at fostering transparency for sustainable investment products.

These recommendations are complementary to existing and upcoming national and international regulatory frameworks. Both the Asset Management Association Switzerland (AMAS) and Swiss Sustainable Finance (SSF) see this paper as a first step on which periodic amendments and expansions can be based to reflect further developments. In the context of the EU (e.g. SFDR) and Swiss regulation, these recommendations give guidance on how asset managers can ensure the transparency of their products' sustainable finance characteristics.

The recommendations do not cover regulatory obligations on a national or international level that asset managers must comply with vis-à-vis their clients and the supervisory authority, or requirements due to product regulation (e.g. FinSA[1] , CISA[2] , other binding obligations / regulations, cross-border services). The same applies to the fulfilment of obligations under civil law. This paper does not contradict these obligations, nor does it discharge the asset managers from such obligations.

[1] Federal Act on Financial Services of 15 June 2018, Classed compilation 950.1.
[2] Federal Act on Collective Investment Schemes of 23 June 2006, Classified compilation 951.31.

2. Sustainability across the asset management value chain

The asset management value chain includes three main elements: the entity level, the product level and the point of sale or distribution level. Sustainability can be addressed and embedded at the various levels of the value chain, while mismatches with client expectations can also result from short-comings on each level.

- **Entity level**
  The first level corresponds to the level of the financial institution providing asset management services. On this level, sustainability relates to the financial institution’s own operations. The Asset Management Association Switzerland (AMAS) and Swiss Sustainable Finance (SSF) have defined several recommendations[1] on the different elements that asset managers should consider in order to successfully integrate sustainability into their services and investment processes. On the entity level, the risk of expectation mismatches can for example arise when sustainable investment approaches are poorly implemented due to the lack of sound investment processes or if there are not enough resources available.

- **Product level**
  The second level addresses the investment products. In the context of these recommendations the term “product” is not limited to a particular collective investment scheme but is applied in a generic manner, including all types of portfolio wrappers and segregated mandates (financial instruments). On this level, the risk of expectation mismatches can result from inadequate communication on sustainability practices and features in the product description. In practice, sustainable investment products are often delivered through a collective investment scheme such as an investment fund. This paper discusses the necessary information that should be made available to clients (irrespective of a particular fund structure with their individual and specific legal requirements).

- **Point of sale level**
  This level refers to the interaction between a financial service provider, often a bank or an insurance company, and the investor (private or institutional client). At the point of sale a financial transaction is advised, agreed on and subsequently executed. The Swiss Bankers‘ Association (SBA) sets guidelines for the integration of ESG considerations into the advisory process for private clients. At the point of sale, an expectation mismatch can arise, for example, when a financial service provider fails to provide precise and detailed information about the sustainable investment approach or the benefits of a sustainable investment product to an end-investor. These recommendations aim to help asset managers improve product information to create transparency for all market players, including at the point of sale level.

[3] The referred recommendations also discuss the various sustainable investment approaches.

Table 1. Three levels of the asset management value chain

Entity	Product	Point of Sale
Governance	Investment Approach and ESG Approaches	Financial Services • Advisory • Discretionary • Execution only
Investment Policy	ESG Objectives • Financial performance • Values alignment • Positive change	Clients • Retail • Professional • Qualified
Investment Guidelines	Reporting on ESG approaches and results	
Risk Management		

For sustainable investment product features and client expectations to be aligned, the end-investor needs to have a clear understanding of the sustainability-related product and the approaches it is based on. At the same time, the asset manager should make sure the chosen approaches are implemented in a diligent way and adequate information on them is disclosed, to create transparency for all market participants.

The recommendations introduce a framework to foster transparency on the sustainability promises made by the asset manager with the objective to make it easier for investors to select sustainability products based on their preferences. Chapter 3 details our recommendations on minimum standards and information disclosure for the different sustainable investment approaches and instruments. Chapter 4 links the approaches commonly applied in the market to specific investor objectives.

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3. The different sustainability goals of sustainable investment products

3.1. Background

The asset management industry uses a number of different approaches and instruments to embed sustainability into its investment processes. These instruments are typically not mutually exclusive and may be used simultaneously by an asset manager, be it for single products or across different types of investment products and portfolios. The application of these approaches also varies across different asset classes (e.g. equities, fixed income, alternative investments) or investment styles (e.g. fundamental / quantitative investing, active/passive investing). They can be applied at different phases of the investment process.

Sustainable investment products usually consider environmental (e.g. energy consumption, water usage), social (e.g. talent attraction, supply chain management) and governance (e.g. remuneration policies, board oversight) factors – hence ESG-criteria and ESG-related metrics. ESG factors form the basis for the different sustainable investment approaches.

Sustainability within the primary and secondary markets

Most sustainable investment products available to the public, especially investment funds and ETFs, invest in bonds or shares traded on the stock exchange. In discussions around the impact of sustainable investments, it is rightly pointed out that buying shares on the secondary market of a company with positive environmental impacts does not immediately lead to new capital for sustainable solutions. At the same time, divesting from a stock due to negative environmental impacts of the respective company does not make the respective economic activity disappear – in other words, it does not trigger any immediate sustainability effects.

However, this does not mean that such investment decisions on the secondary market have no effect at all. After all, climate risks and investment risks go hand in hand and simply cannot be ignored by investors. If a company fails to anticipate changes to its business model and corresponding regulatory adjustments in the light of climate change, it may well go out of business soon. Asset managers will divest from such assets, and the respective company gets penalised via the capital market, resulting in higher refinancing costs or a lower share price, for example. Yet, although secondary market investments provide a market signal and change a company's refinancing costs, this effect is hard to measure.

Another more direct way in which the asset management industry can leverage its importance and responsibility in the secondary market is to seek to influence companies. This can be done either by engaging with management on sustainability goals and performance, or by exercising voting rights at AGMs in a deliberate and consistent manner.

On the primary market, asset managers have a more direct effect by providing companies access to additional funding, for example through participating in the issue of green bonds, right issues or IPOs. The same applies to private equity or private debt instruments. In the case of the primary market, the investment decision can therefore result in capital being allocated directly to new projects and business models promoting sustainability objectives.

3.2. Three main investors' sustainability goals

Incorporating ESG criteria allows investors to pursue various sustainable investment goals. As a baseline, the assumption is that all investments are expected to achieve financial returns that match their risk profile. In addition, sustainable investments can serve further purposes and different investor objectives. We distinguish between three main goals:

- **Financial performance goal** – Improving the risk/return profile generated by the investments
- **Values alignment goal** – Aligning the investments with the investors' personal values and norms
- **Positive change goal** – Contributing to a positive change in the economy, in society and for the environment.

These three goals are not mutually exclusive. If an investment product targets a specific sustainability goal, an asset manager has to make sure the chosen sustainability approaches are in line with this target and allow the set goals to be achieved. At the same time, it is important to implement a specific sustainable investment approach in a credible fashion and report on it in a transparent way: in other words, sufficient resources must be available or suitable processes in place to implement an approach and report on it.

3.3. The need for a robust sustainable investment process

A robust and diligent investment process incorporating sustainability aspects is the basis for any asset manager who offers sustainable investment products to their clients. For any sustainable investment approach or sustainable investment product to be credible, the overall governance of the operational and investment processes must embed clearly defined sustainability features. It is equally important to anchor the principles of a sustainable investment process firmly in an overarching investment policy.

These basic requirements address the entity level and are set out in the paper "Sustainable Asset Management: Key Messages and Recommendations of AMAS and SSF".

The minimum standards outlined in this paper constitute the bare minimum that an asset manager must apply to implement the relevant approach effectively. In addition, the recommendations specify the information that should be published to support the credibility of the investment approach. This information should provide investors with greater clarity about the intended goals of a sustainable investment product, whether or not it actually manages to achieve them. Furthermore, this information helps investors decide if a product matches their primary goals.

4. Matching sustainable investment products with investors' sustainability goals

The following section defines key specifications for each of the different sustainable investment approaches and instruments. Each approach and instrument is first described. We then clarify the extent to which the three main different investors' sustainability goals are met by the respective investment approach. Finally, we name the relevant information that should be provided on each of the approaches and list minimum criteria for an effective implementation.
For the illustration of the suitability of each approach with the three sustainability investor goals the legend below applies:

Table 2. Legend

	Not applicable
	Contributes to a certain extent to respective sustainability goal
	Contributes to a medium extent to respective sustainability goal
	Contributes to a great extent to respective sustainability goal

4.1. Exclusions

Brief description

The exclusion approach (including negative or norms-based screening) refers to the deliberate exclusion of issuers from an investment product due to activities or business practices that violate given norms or values – based on client's preferences – or due to anticipated risks. There are two main types of exclusions: unconditional exclusions of products or business activities incompatible with the investor's values (often referred to as values-based exclusions, e.g. exclusions of weapon manufacturers) or leading to excessive risks (e.g. coal mining) and conditional exclusions of companies based on negative business practices, such as breaches of certain norms, regulations or global ESG standards (often referred to as norms-based exclusions, e.g. systematic violation of human rights).

Main goals

Investor goals	Suitability for achieving respective goal	Explanations
Financial performance		Some investors apply exclusion criteria for the purpose of minimising financial risks. For example, many investors have banned carbon-intensive firms from their portfolios in an attempt to avoid financial losses. Such losses may result from structural changes in the economy that lead to stranded assets because they can no longer be used for profitable business models.
Values alignment		The main purpose of exclusion is to align an investment product with investors' overarching cultural values and norms. • By excluding certain business sectors, investors feel that they are not flouting their personal values or participating in activities considered illegitimate. In the case of norms-based exclusions, the purpose is also to avoid reputational risks. It certainly reflects poorly on investors if their invested companies are involved in controversial business practices or sectors • Ultimately screening can also correspond to a conscious decision not to invest in specific sectors and/or to redirect investments to other economic activities based on overarching values. Some insurance groups that also provide health cover, for example, have made a conscious decision to no longer invest in tobacco companies because of the impact of smoking on health.
Positive change		The extent to which excluding companies encourages them to change or cease their harmful activities is disputed. Although companies may face higher refinancing costs if their share price drops due to the sell-off, there are many other key factors determining whether a company continues or ceases a particular business activity – such as prices, regulations, etc.

Important information for investors

To allow investors to assess the quality and format of exclusion criteria, asset managers should publish the following information:

1. Name of the sustainable investment approach
2. List of all business areas/products/incidents leading to exclusion
3. The revenue threshold at which a specific business activity can trigger exclusion
4. Criteria dictating when negative business practices lead to exclusion
5. Description of the benchmark used: how is exclusion reflected in the index
6. Percentage of a benchmark not considered investible from the outset based on the defined screening criteria

Minimum requirements

Exclusion criteria can take many forms and their definition can be more or less strict depending on the investor's goals and preferences.
If an activity is banned due to applicable laws and guidelines, however, its exclusion cannot be credibly formulated as a negative screening criterion. In Switzerland, for example, the Federal Act on War Material (WMA) prohibits the financing of controversial weapons. Investment strategies that only exclude the manufacturers of controversial weapons should not therefore claim to be applying negative screening criteria. Even so, it makes sense to inform investors about the application of this criterion.

4.2. Best-in-class and positive screening (approaches based on ESG ratings/metrics)

Brief description

With this approach, the selection of investments in companies or bond issuers is based on ESG ratings or ESG portfolio-alignment metrics, which can be applied in different ways:

- **Best-in-class:** A company‘s or issuer‘s ESG performance is compared with the ESG performance of its peers (e.g. of the same sector or industry) based on sustainability research/data. All companies or issuers with a metric or rating above a pre-defined threshold are considered investable. The threshold can be set at different levels (e.g. 30% best performing companies or all companies that reach a minimum ESG rating or 20% most-carbon efficient companies based on reported CO_2 emissions). The level of the pre-defined threshold defines the size of the remaining investment universe. Some best-in-class approaches focus on a small share of the total investment universe, while others still define bigger shares of the total universe as investable.
- **Positive screening/positive tilt:** companies with good sustainability credentials are selected based on ratings. The aim is to create a portfolio with a higher ESG rating or alignment on average than the benchmark, or to achieve an average minimum rating.

Asset managers can rely on external sustainability information when applying a best-in-class approach, as the development of proprietary ESG ratings or metrics for a large universe is quite resource-intensive. Using ESG benchmarks that are based on a best-in-class approach can also help an asset manager to implement such a strategy.

Main goals

Investor goals	Suitability for achieving respective goal	Explanations
Financial performance		A ratings/metrics-based approach makes it possible to focus on a market segment with better ESG criteria. This can reduce financial risks and support the seizing of investment opportunities.
Values alignment		A ratings/metrics-based approach can reduce the risk of investing in companies that contravene applicable norms or pursue activities that damage their reputation, thus helping to align investments to investors' values.
Positive change		Using a sustainability index based on ESG ratings creates a signalling effect. For companies, it is also increasingly important to be represented in sustainable indices. Striving to achieve a minimum ESG rating or alignment can therefore also be a motivation for them to implement a more comprehensive sustainability strategy.

Important information for investors

For investors to be able to assess the quality and configuration of a ratings-based approach, asset managers should also publish the following information:

1. Name of the sustainable investment approach
2. Rating, metric or index the approach is based upon, as well as a description in the case of a proprietary rating.
3. Dimensions (i.e. ESG criteria) that the applied rating or alignment method takes into consideration.
4. Essential minimum threshold , i.e. the percentage of the portfolio that is still investable (for best-in-class).
5. Average sustainability rating or degree of alignment of the portfolio relative to the benchmark (for positive screening/positive tilt/alignment)
6. Exclusive use of external research or are internal resources available as well?

Minimum requirements

For best-in-class or positive screening, the ratings/metrics used must consider all three ESG dimensions of sustainability and may not limit itself to just one or two dimensions.

4.3. ESG Integration

Brief description

ESG integration refers to the inclusion of sustainability risks and opportunities in the traditional financial analysis and investment decision based on a systematic process and appropriate research sources. The idea is to get a holistic view of a specific issuer of securities. There are different forms of how ESG factors can be integrated into the financial analysis or the investment decision. Sustainability information can be used to adapt estimates of future cash-flows or it can lead to adjusted discount rates, to name just two examples[4]. Usually, ESG factors are only integrated into the investment decision if they are expected to be financially material. Hence, a company with a poor sustainability performance in some areas might still be considered an interesting investment, as long as the ex-pected financial risk/return of an investment remains attractive. This is a major difference to the best-in-class approach, where a minimum sustainability standard is defined for each investment. These recommendations refer to ESG integration as an investment approach.

Main goals

Investor goals	Suitability for achieving respective goal	Explanations
Financial performance		By integrating ESG factors into the financial analysis, the ESG integration approach aims to produce a superior analysis, identify the risks and opportunities of companies and issuers more effectively and thus make a more accurate prediction as to whether they are a good or bad investment.
Values alignment		As only financially material ESG factors are considered, this approach does not contribute to this goal.
Positive change		To contribute to positive change is not a goal of ESG integration, as only financially relevant factors are considered for the investment decision

Important information for investors

For investors to be able to assess the quality and configuration of an ESG integration approach, asset managers should publish the following information:

1. Name of the sustainable investment approach
2. Elements in the financial analysis influenced by the inclusion of sustainability factors (such as the assessment of the company's competitive position, estimate of future cash flows, discount factor, etc.).
3. The extent to which the inclusion of ESG factors is binding for analysts (e.g. fixed element of each factsheet, part of the discussion when making any purchase decision).
4. Type of information available to the analysts (external ratings, databases, etc.)

[4] For further examples of ESG integration see also: ESG integration in Europe, the Middle East, and Africa: markets, practices, and data, CFA and PRI, March 2019 .

Minimum requirements

For the description “ESG integration” to be justified, it must be mandatory for analysts to actually consider ESG information in their analysis. If suitable information is available but is only used on a voluntary basis, claiming the use of an ESG integration approach is unwarranted.
ESG factors can be made binding by integrating them into a shared factsheet or including them on the agenda of investment meetings.

4.4. Thematic investments

Brief description

This approach refers to investment in businesses contributing to sustainable solutions both in the environmental and/or social dimension. In the environmental dimension, this could include investments in renewable energy, energy efficiency, clean technology, low-carbon transportation infrastructure, water treatment and/or resource efficiency. In the social dimension, this includes investments in education, healthcare systems, poverty reduction and/or solutions for an ageing society.

Main goals

Investor goals	Suitability for achieving respective goal	Explanations
Financial performance		For many private investors, thematic investments complement the portfolio mix. They invest in the hope of sharing in the success of businesses with good growth opportunities and thereby improve their risk-return profile beyond the economic cycle.
Values alignment		Another important objective of sustainable thematic investments is to participate in companies that make a positive contribution to a more sustainable world. • This approach also helps to ensure that investments are aligned with investors’ personal values, allowing them to be involved in sustainable solutions. • For institutional investors, thematic investments can be a way to gear their investment portfolio to the purpose of the organisation. Foundations, for example, can add products to the portfolio that promote the themes embedded in the foundation’s objective.
Positive change		**Private equity and private debt:** In private markets, investors can encourage companies with sustainable solutions to grow by providing fresh capital. **Public markets:** Companies may benefit from a positive effect if a higher share price makes it cheaper to refinance. This effect is difficult to prove, however.

Important information for investors

For investors to be able to assess the quality and configuration of sustainable thematic investments, asset managers should publish the following information:
1. Name of the sustainable investment approach
2. Naming the sustainability theme(s) addressed by the fund. Helpful reference points here include the UN Sustainable Development Goals, or a taxonomy of sustainable economic activities.
3. Information on criteria defined as a condition for an investment and details on how such a theme is actually operationalised
4. Information on the minimum revenue threshold for a company to become eligible for the theme.
5. Percentage of the portfolio that can be allocated to the themes identified.

Minimum requirements

For an investor to be able to aspire to sustainable thematic investments, not only must the investment themes be named: details must be provided of the size of the product's investment in such themes.

4.5. Impact investing

Brief description

Impact investments intend to generate a measurable, beneficial social and/or environmental impact alongside a financial return. Important differentiating factors from other forms of sustainable investments (namely thematic investing) are the intentionality of an investment in a sector or activity that has such a positive impact, the management process that allows for a direct impact, and the measurability of the impact through relevant key performance indicators (KPIs). The description of a "Theory of Change" makes it possible to explain to the investor how and to what extent the investment generates material impact. Impact investments can be made in both emerging and developed markets and, if necessary, can follow a clearly defined thematic approach or one oriented to development policy. The sustainable investment approach described can be applied both in public and private markets.

Main goals

Investor goals	Suitability for achieving respective goal	Explanations
Financial performance		Since impact investments are often made through private markets (private debt or private equity), they can also provide diversification in the portfolio and thus help to improve the risk/return profile.
Values alignment		Impact investments offer investors the opportunity to participate in companies that make a positive contribution to a more sustainable world. This approach also helps to ensure that investments are aligned with investors' personal values, allowing them to be involved positive change. For institutional investors, impact vestments – like thematic investments – can be a way to gear their investment portfolio to the purpose of the organisation. Foundations, for example, can add products to the portfolio that promote the themes embedded in the foundation's objective.
Positive change		Impact investments aim to make an active contribution to a sustainable economy and society. • One of the key objectives of impact investments is to promote products that help to solve environmental problems or social challenges. Such an impact is achieved if companies with these products receive fresh capital, as happens with investments in private markets. • Selective participation in shares or bonds issued by companies offering products that have such an impact is another way to promote similar activities.

Important information for investors

For investors to be able to assess the quality and configuration of impact investments, asset managers should publish the following information:

1. Name of the sustainable investment approach
2. Description of the intended impacts (via a "Theory of Change")
3. Key performance indicators (KPIs) that illustrate the actual impact achieved
4. Applied standards underlying the operational management and measurement of impacts (e.g. the IFC's "Operating Principles for Impact Management")

Minimum requirements

For an investor to be able to assess the quality and configuration of impact investments, there should be regular reporting on product level of the impact achieved, based on a recognised standard (e.g. IFC's "Operating Principles for Impact Management").

4.6. Stewardship (active ownership)

As opposed to the other sustainable finance approaches, stewardship or active ownership occurs at a later stage of the investment process – namely after the investment decision has been taken – and is often combined with other sustainable finance approaches applied in the investment selection phase. Stewardship activities can be applied across all portfolios of an asset manager and therefore differ from other ESG approaches. These recommendations refer to stewardship as an investment approach.

The terms stewardship or active ownership are often used to refer to a combination of engagement and voting. In practice, asset managers either combine the two approaches or focus on one of them.

4.6.1. Voting

Brief description

This term refers to investors addressing concerns about sustainability issues by actively exercising their voting rights based on ESG principles or an ESG policy. Investors might choose to reject a certain proposal at the Annual General Meeting (AGM) based on the fact that it is not aligned with their overall ESG policy. Many of the AGM agenda points do not directly refer to environmental or social topics, but rather to governance aspects. In some cases, investors therefore choose to indirectly express their discontent with a sustainability strategy by voting against other agenda items (e.g. blocking the re-election of certain board members who do not support the company's progressive sustainability strategy).

An asset manager can establish their own voting policy covering the aspects perceived as relevant for the organisation (e.g. renumeration standards, governance structures, diversity) or act on the advice of external specialised providers.

Main goals

Investor goals	Suitability for achieving respective goal	Explanations
Financial performance		In the long term, the active exercising of voting rights can also improve the company's performance and thus have a positive effect on the risk/return profile.
Values alignment		If investors aim to vote to express sustainability preferences, they need to hold the respective stock and cannot decide to divest from it, in case of underperformance in ESG aspects. This approach therefore cannot contribute to the alignment of a portfolio with personal values.
Positive change		Active ownership based on an ESG policy is intended to apply normal voting rights to encourage companies to adopt a better sustainability strategy. If no environmental or social issues feature on the AGM's agenda, the decision to elect (or not elect) individual board members can have an indirect effect on sustainability themes.

Important information for investors

For investors to be able to assess the quality and configuration of active ownership, asset managers should publish the following information:

1. Name of the sustainable investment approach
2. Publication of the voting rights policy
3. Proportion of the share portfolio for which voting rights were actively exercised
4. Percentage of votes that did not support the board's recommendation
5. Breakdown of negative votes by topic

Minimum requirements

For an investor to aspire to active ownership, an ESG policy should be in place for the exercising of voting rights and be published on the website. This should not concern itself exclusively with matters of good governance, but also include statements about priorities relating to environmental or social themes.
In addition, the votes – at least for a specific, defined market segment – should be exercised for a significant proportion of the portfolio and voting details reported on an annual basis.

4.6.2. Engagement

Brief description

Engagement refers to an active dialogue between shareholders and management of investee companies or other relevant stakeholders with the aim of convincing them to consider environmental, social and governance criteria within their sphere of influence. A structured engagement process defines clear engagement objectives with a clear timeframe and reports on outcomes such as changes in a company's strategy and processes to improve ESG performance and reduce financial risks. Engagement can complement voting by providing an opportunity to discuss issues with management that are not on the AGM agenda.

There are different forms and levels of engagement:

- In the case of direct company engagement, each investor holds an individual dialogue on the sustainability aspects with companies. Such engagements are often carried out by analysts or portfolio managers that hold a dialogue with senior management and/or boards of the companies they invest in.
- In a collaborative engagement process, different investors team up to bundle their forces and investor power in the dialogue with companies or when co-filing shareholder proposals. The PRI (Principles for Responsible Investment) offers a "Collaborative Platform" on which investors can post initiatives and look for allies for their engagement processes. Some collaborative engagement processes are formalised into separate organisations (e.g. Climate Action 100+, The Institutional Investors Group on Climate Change IIGCC).
- A third form of engagement is public policy engagement, where investors lobby politicians for improved frameworks for a sustainable economy (e.g. calling for a carbon tax).

Investors might choose to outsource the engagement process to a service provider that pools the interests of different investors and thereby carries more weight in the dialogue with the companies. An asset manager can establish their own engagement policy covering the aspects perceived as relevant for the organisation or rely on an engagement policy of a respective service provider. The engagement policy should also address the escalation process foreseen in case an engagement is not successful.

Main goals

Investor goals	Suitability for achieving respective goal	Explanations
Financial performance		In the long term, the active exercising of voting rights can also improve the company's performance and thus have a positive effect on the risk/return profile.
Values alignment		If investors aim to vote to express sustainability preferences, they need to hold the respective stock and cannot decide to divest from it, in case of underperformance in ESG aspects. This approach therefore cannot contribute to the alignment of a portfolio with personal values.
Positive change		Active ownership based on an ESG policy is intended to apply normal voting rights to encourage companies to adopt a better sustainability strategy. If no environmental or social issues feature on the AGM's agenda, the decision to elect (or not elect) individual board members can have an indirect effect on sustainability themes.

Important information for investors

For investors to be able to assess the quality and configuration of an active engagement process, asset managers should publish the following information:

1. Name of the sustainable investment approach
2. Engagement policy (incl. goals and most important engagement themes)
3. Percentage of the portfolio for which engagement applies
4. Number of interactions with companies
5. Proportion of demands where progress has been made

Minimum requirements

For an investor to aspire to active engagement, a suitable engagement policy should be in place and be published on the website. This could also be the policy of a relevant service provider.
In addition, annual information should be published on the website on the engagement priorities, how many dialogues were held and what progress was made.

5. Conclusion - Ensuring Suitability

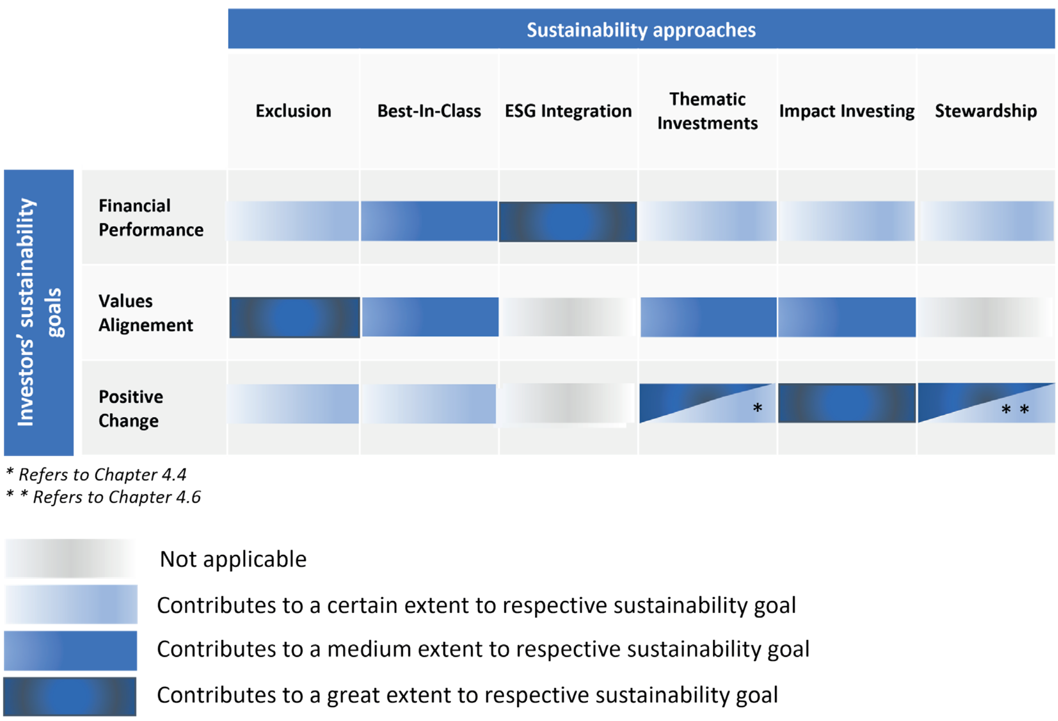
Asset managers and other financial service providers need to fully know and understand investors' sustainability goals. These goals will naturally differ from investor to investor. Therefore, not all investment approaches are equally suitable for each investor.

The information provided to investors should provide clear details about the goals of the respective product and the applied sustainable investment approaches. It should further address the effects and limitations of the applied approaches.

In summary, matching investors' sustainability goals with products based on different sustainability approaches is a key step to make sure each client receives a suitable product. The following matrix sums up the previous discussion. It provides guidance to both asset managers and other financial service providers on how to communicate and advise on sustainable investment products. An active and transparent communication on an investment product's sustainability goals ultimately ensures that clients' needs are met in the most suitable manner.

Different approaches serve different goals to different extents:

Table 3. Matrix illustrating suitability of different sustainability approaches for different investors' sustainability goals



6. Appendix

Appendix 1: Terms and definitions
The following table contains definitions of various terms relating to sustainable finance and sustainable investments that are used in these recommendations[5]

Term	Definition
Best-in-class	Approach in which a company's or issuer's environmental, social and governance (ESG) performance is compared with that of its peers (e.g. in the same sector or category) based on a sustainability rating. All companies or issuers with a rating above a defined threshold are considered investable. The threshold can be set at different levels (e.g. 30% best performing companies or all companies that reach a minimum ESG score).
ESG – environment, social and governance	ESG stands for Environmental (e.g. energy consumption, water usage), Social (e.g. talent attraction, supply chain management) and Governance (e.g. remuneration policies, board oversight). ESG factors form the basis for the different SI approaches.
ESG analysis	Such an analysis includes collecting information on how an investment target manages and performs on environmental, social and governance factors. When an investment institution wishes to track to what extent potential investments (e.g. companies, countries and issuers) are exposed to ESG risks and opportunities and how they actively manage them, they carry out an ESG analysis.
Engagement	Engagement is an activity performed by investors (typically shareholders or bondholders) with the goal of convincing management to take account of environmental, social and governance criteria. This dialogue includes communicating with senior management and/or boards of companies and filing or co-filing shareholder proposals. Successful engagement can lead to changes in a company's strategy and processes so as to improve ESG performance and reduce risks. Such engagement can be performed as direct interaction between an investor and an investee company or in the form of collaborative engagement, where a number of investors team up to hold a joint dialogue (often carried out by a respective service provider).
ESG integration	The explicit inclusion by investors of ESG risks and opportunities in traditional financial analysis and investment decisions based on a systematic process and appropriate research sources.
ESG voting	This refers to investors addressing concerns about environmental, social and governance (ESG) issues by actively exercising their vot-ing rights based on ESG principles.
Exclusion	An approach excluding companies, countries or other issuers based on activities considered not investable. Exclusion criteria (based on norms and values) can refer to product categories (e.g. weapons, tobacco), activities (e.g. animal testing), or business practices (e.g. severe violation of human rights, corruption).

[5] A broad overview of further definitions of various terms relating to sustainable finance and sustainable investments is available in the Swiss Sustainable Finance glossary (http://www.sustainablefinance.ch/en/glossary-_content---1--3077.html).

Impact investing	Investments intended to generate a measurable, beneficial real-world social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below-market to above-market rates, depending upon the circumstances.
Responsible investment / sustainable investment / ESG investment	Responsible investment (analogous to sustainable investment) refers to any investment approach integrating environmental, social and governance factors (ESG) into the selection and management of investments. There are many different forms of responsible investing, such as best-in-class investments, ESG integration, negative screening, thematic investing and impact investing. They are all components of responsible investment and have played a part in its history and evolution.
Sustainability ratings	Ratings reflecting how a company/country/fund manages and/or performs with regards to environmental, social and governance (ESG) factors. Sustainability ratings give investors a snapshot of the sustainability performance of a company/country/fund and are the basis for many sustainable investment approaches.
Sustainable development goals (SDGs)	The SDGs are 17 goals set by the UN in 2015 to be achieved by 2030, aiming to catalyse sustainable development. They include goals such as no poverty, gender equality, decent work, sustainable consumption, climate action and reduced inequalities. The goals were developed to replace the Millennium Development Goals (MDGs) which ended in 2015. Unlike the MDGs, the SDG framework does not distinguish between „developed“ and „developing“ nations.
Sustainable finance	Sustainable finance refers to any form of financial service integrating environmental, social and governance (ESG) criteria into the business or investment decisions for the lasting benefit of both clients and society at large. Activities that fall under the heading of sustainable finance include (but are not limited to) the integration of ESG criteria into asset management, sustainable thematic investments, active ownership, impact investing, green bonds, lending with ESG risk assessment and the development of the whole financial system in a more sustainable way.
Thematic investing / sustainable thematic investments	Investment in businesses contributing to sustainable solutions both in an environmental or social dimension. In the environmental segment this includes investments in renewable energy, energy efficiency, clean technology, low-carbon transportation infrastructure, water treatment and resource efficiency. In the social segment this includes investments in education, healthcare systems, poverty reduction and solutions for an ageing society.

Appendix 2: Literature and further information

- Principles for Responsible Investment, *PRI Reporting Framework 2019*, Strategy and Governance.
- Task Force on Climate-related Financial Disclosures, *TCFD Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures*, June 2017.
- European Sustainable and Responsible Investment Forum, *Eurosif European Sustainable and Responsible Investment (SRI) Code*, February 2018.
- Swiss Sustainable Finance, *Handbook of Sustainable Investments,* November 2016.
- SFAMA, *Recommendations for Risk Management,* 7 September 2018.
- Swiss Sustainable Finance, *SSF E-Learning Tool for Sustainable Investments*, 2018.
- Swiss Bankers Association, *Guideline for the integration of ESG considerations into the advisory process for private clients*, June 2020
- AMAS & SSF, *Sustainable Asset Management: Key Messages and Recommendations of AMAS and SSF*, June 2020