

Sustainable investments in Switzerland 2007

Swiss market survey per end of 2007
+
Focus survey on sustainable theme investments



onValues
March 2008

Sustainable investments in Switzerland 2007

Swiss market survey per end of 2007 Focus survey on sustainable theme investments

onValues GmbH
Report prepared by: Ivo Knoepfel and Heiko Specking

Zürich, 25 March 2008

Contents:

Executive summary	2
1. Introduction.....	4
2. Methodology	4
3. Results for the Swiss sustainable investment market.....	6
4. Results of the focus survey on sustainable theme investments per end of 2007	10
5. Annex: Data	15

Executive summary

This report presents results of the regular survey by onValues of the Swiss sustainable investment market per end of Dec. 2007. A total of 19 managers reported their assets under management (AuM) in a range of different sustainable investment styles¹.

The size of this market according to the survey amounts to 30.0 billion CHF per end of 2007, which corresponds to an increase of 67% compared to the same value per end of December 2006. In comparison, the total Swiss fund market decreased by 1% in the period Dec. 2006 to Dec. 2007. Accounting also for sustainable assets managed in Switzerland on behalf of foreign subsidiaries or clients, the total figure for the Swiss sustainable investment market rises to 34.0 billion CHF per end of 2007.

Funds account for approximately 55%, mandates for 41% and structured products for 3.4% of the total market volume. In terms of different investor types it is interesting to note the impressive 'surge' of investments by retail and private banking clients in this market. For the first time these investors have overtaken institutional investors in terms of their total investment volume. This is also due to the increased interest by private banking institutions and their clients in sustainable investments. Equity remains by far the most important asset class (83% of total AuM, having increased from a value of 73% for the June 2007 survey), followed by fixed income, liquidity and private equity. In terms of the different investment approaches used we observe a further increase in importance of sustainable themes investing, which partly goes at the expense of positive screening/best-in-class investments. An interesting development is also the larger share of funds that actively use their equity voting rights compared to previous surveys.

This report also presents results of a special asset manager survey on sustainable themes investing in Switzerland per end of 2007. The three most important themes (Climate change, Renewable energy/Energy efficiency and Sustainable water) were assessed in detail. Total AuM for these three themes amounted to 21.67 billion CHF per end of 2007, of which 11.98 billion CHF focused their selection of investments on theme exposure, another 9.69 billion CHF also included an analysis of the environmental, social and governance (ESG) performance of holdings. The established Sustainable Water theme is the one attracting the largest share of assets (especially if investments without additional ESG analysis are included); the younger Climate Change theme has the lowest figure for AuM but a high growth rate.

Theme investing appears to be driven mainly by retail/private banking clients (80% of total), with only the more established Sustainable Water theme (and to a certain extent also the Renewable energy theme) attracting a higher share of institutional clients. Theme investments are also exclusively in equity (approx. 68% large-caps, 27% small/mid-caps and small amounts of private equity and other investment types).

Asked about the motives of investors in sustainable themes, survey participants pointed to an almost balanced combination of financial and 'altruistic' motives: investors' belief that theme investing is interesting from a financial performance and from a portfolio diversification point of view was seen as almost equally important to contributing to sustainable development and to solving social concerns.

¹ Including Socially Responsible (SRI), sustainability, ethical, engagement and sustainable theme investment styles; the survey is estimated to cover over 95% of the total Swiss sustainable investment market.

The participating asset managers – in spite of current turbulent times on stock markets – are quite bullish about the future prospects of sustainable themes. Most of them expect an above- or strongly above-average growth rate compared to the Swiss fund market for all three themes (particularly pronounced for Renewable energy/Energy efficiency).

The survey also asked participants to highlight emerging themes for the next 2-3 years. The most frequently mentioned ones were (in decreasing order of importance):

- Sustainability issues in emerging markets (e.g. infrastructure, energy and environmental aspects). Participants seem convinced that the combination of interesting investment opportunities and the huge sustainable development challenges in emerging markets offers potential for interesting investment products satisfying both the 'altruistic' and the financial motives of investors.
- New materials/recycling
- Sustainable commodities (e.g. timber and second-generation biofuels)
- Microfinance and other strategies to combat poverty (seen as important but leading to lower AuM than the top themes)
- Healthy living (seen as important but leading to lower AuM than the top themes).

Asked about future challenges for sustainable themes investing, participants stressed the following key challenges (in decreasing order of importance):

- Exaggerated investor expectations with regard to risk-adjusted returns
- Limited investment universe and risk of 'bubble' building
- Risk of investors being deluded by low-quality concepts (including the definition of sustainable themes) and products brought to the market by opportunistic managers
- The need to propose new, innovative themes and backing them up with know-how and capacity.

1. Introduction

Since the end of 2005, onValues has performed half-yearly surveys of the Swiss sustainable investment market (including Socially Responsible (SRI), sustainability, ethical, engagement and sustainable theme investment styles). This report presents the results of the survey per end of December 2007. It also includes results of a special focus survey on the Swiss market for sustainable theme investments also per end of December 2007.

It is important to note that the goal of this survey is to assess the market of *specialist* sustainable investment products or mandates, and not to assess the degree to which environmental, social and governance considerations are increasingly being used to manage mainstream portfolios. Therefore the *results of this survey should not be seen as an indicator of total - probably considerably larger - assets-under-management for which environmental, social and governance considerations are taken into account.*

The two surveys were part-sponsored by and overseen by a committee of representatives of the following Swiss financial institutions: Bank Sarasin, Ethos, SAM, Swisscanto, UBS, Vontobel and Zürcher Kantonalbank.

2. Methodology

It was decided for the purposes of the Dec. 07 survey to completely align the data collection methodology to the new EuroSIF (European Social Investment Forum) methodology². This will facilitate the comparability and aggregation of data at the European level.

The Swiss surveys presented in this report therefore include all sustainable assets managed in Switzerland (i.e. for which the asset management function is located in Switzerland). Previously, Swiss surveys included only Swiss asset managers, funds approved for public distribution in Switzerland and mandates for investors whose client relationship was based in Switzerland. The impact of this change in methodology is shown transparently in this report by indicating the results according to the old and to the new methodology.

Data are collected directly from the asset managers by means of customized data sheets³. onValues then aggregates the information at the level of the entire market. The data collection and aggregation is supervised by a Committee of representatives of the Swiss financial institutions mentioned in the Introduction.

The following asset classes are evaluated⁴ (strategic, not actual asset allocation is surveyed):

- Equity
- Fixed income
- Liquidity

² According to EuroSIF “.. a national market is defined by the country where the assets are being managed (i.e. where the asset management team is located)”

³ Data are based on the declaration of providers and are not verified externally

⁴ The survey on theme investments additionally distinguishes between large-cap and mid-/small-cap equity

- Private equity
- Others.

The survey assesses the following sustainable investment approaches (multiple mentions are possible):

- Negative screening
- Positive screening/"best-in-class"
- Sustainable themes
- Proxy voting
- Engagement.

For 'Sustainable themes' investments to qualify for the overall Swiss market survey, it is not enough that an investment vehicle or a mandate focus on the exposure of companies to specific sustainable themes (e.g. climate change, renewable energy). An additional analysis of the environmental, social and/or governance performance of the investee companies must be part of the investment process⁵.

⁵ The survey on theme investments indicates the total market volume for sustainable theme investments with and without this additional requirement

3. Results for the Swiss sustainable investment market

The following table shows results of the Swiss sustainable investment market survey per end of Dec. 2006, June 2007 and Dec. 2007 (all data according to the old survey methodology). For comparison, also data on the total Swiss fund market is included in the table.

	<i>million CHF</i>	Volume Dec 06	Volume June 07	Volume Dec 07	Change Dec 07 vs. June 07	Change Dec 07 vs. Dec 06
Swiss sustainable investment market	Funds	8829	13860	16971	22%	92%
	Mandates	8811	10619	11838	11%	34%
	Str. products	283	507	1164	130%	312%
	Total	17923	24985	29973	20%	67%
Swiss fund market	Funds	607300	630889	600495	-5%	-1%

The total volume of the sustainable market in terms of assets under management (AuM) is 30.0 billion CHF per end of December 2007, which corresponds to an increase of 67% compared to the same value per end of December 2006.

Particularly impressive is the increase in AuM for sustainable structured products (+312%⁶) and for sustainable funds (+92%) in the period. In comparison, the total Swiss fund market volume (as indicated by Swiss Fund Data) decreased by 1% in the period Dec. 06 to Dec. 07.

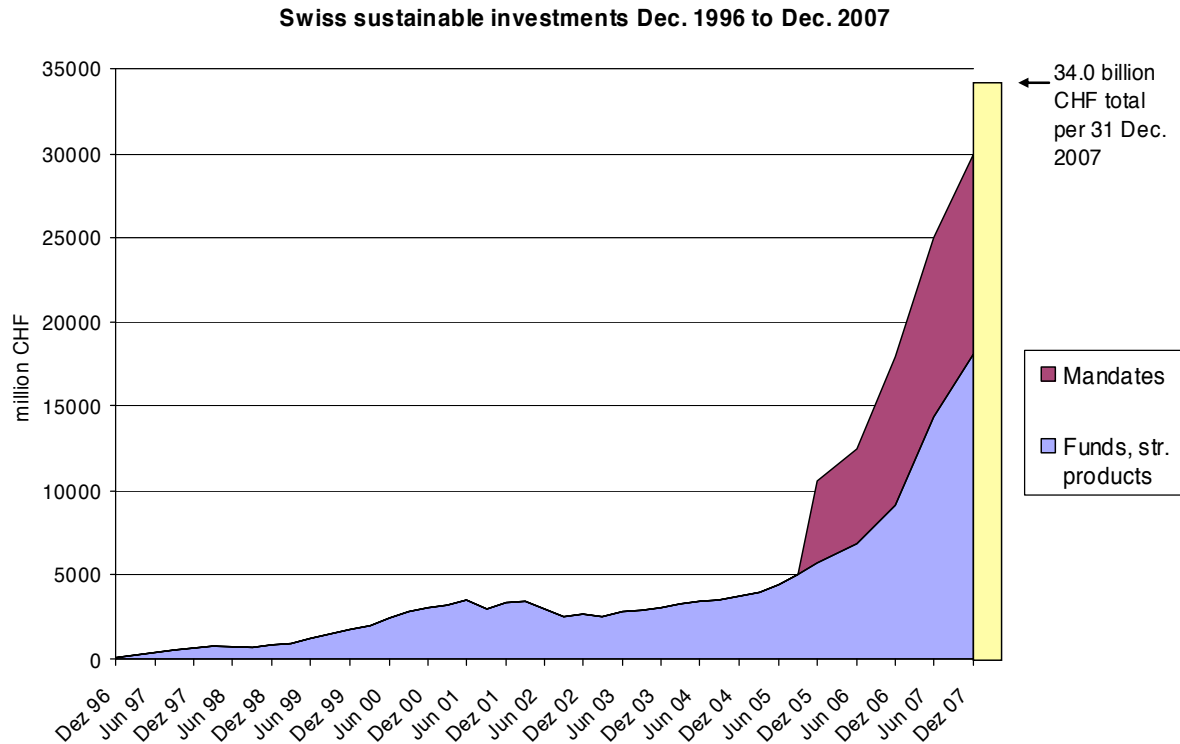
The figures according to the new methodology compatible with European statistics yield an even larger volume for the Swiss sustainable investment market. The following table shows results according to the new and to the old methodology per end of Dec. 2007.

<i>million CHF</i>	Volume Dec 07 - New meth.	Difference	Volume Dec 07 - Old meth.
Funds	18839	1868	16971
Mandates	13998	2160	11838
Str. products	1164	0	1164
Total	34001	4028	29973

The total volume of the sustainable investment market amounts to 34.0 billion CHF according to the new methodology. The difference to the old methodology is mainly due to large white label funds or mandates managed in Switzerland on behalf of foreign clients or subsidiaries. Funds account for approximately 55%, mandates for 41% and structured products for 3.4% of the total market volume.

⁶ This figure can be compared with the growth of the entire Swiss market for structured products, which amounted to +15.3% in the first eleven months of 2007 according to the SVSP (end of year data not available yet).

The following graph shows the time series for the volume of the Swiss sustainable investment market between Dec. 1996 and Dec. 2007. One can see that the growth rate in the second half of 2007 has somewhat decreased compared to the previous periods, but this is mainly due to the negative performance of stock markets in the second half of 2007 (83% of Swiss sustainable assets are invested in equity).



*) Mandates were assessed for the first time in the Dec. 2005 survey; in Dec. 2007 for the first time also assets managed in Switzerland on behalf of foreign clients or subsidiaries were evaluated (included in yellow bar).

All asset managers that had participated in the previous survey also contributed to the current survey. Participating institutions for the current survey include:

- Bank Coop
- Care Group
- Credit Suisse
- Dr. Höller
- EPS Value
- Ethos
- LODH
- Migros Bank
- Pictet
- Raiffeisen
- responsAbility
- SAM
- Sarasin
- Swisscanto
- Synchrony
- UBS

- Vontobel
- Zegora
- ZKB.

The market shares of the most important managers are as follows (shares of total Swiss sustainable investment market according to new methodology):

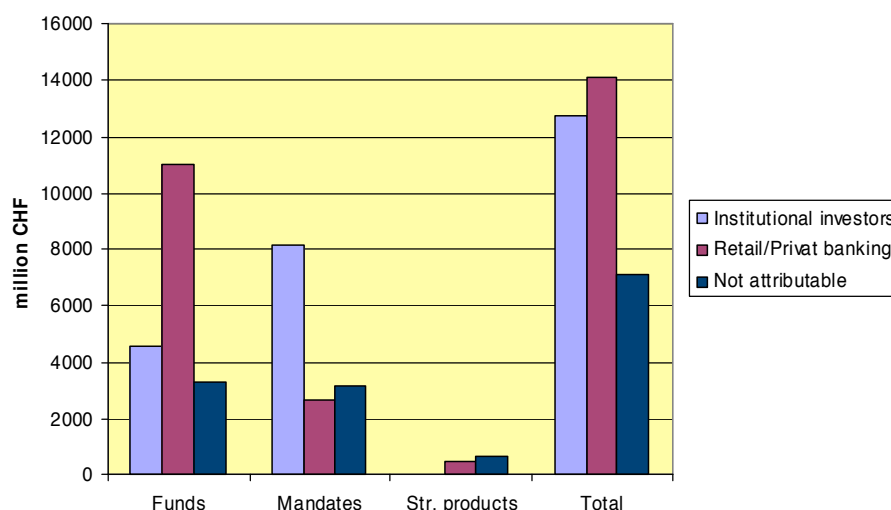
- SAM, 22.1%
- Sarasin, 17.4%
- UBS, 12.1%
- Credit Suisse, 10.0%
- Ethos-Pictet, 9.3%
- Swisscanto, 7.6%
- Vontobel-Raiffeisen, 6.4%
- ZKB, 2.7%

Analysis of investor types, asset classes and investment approaches

As in the previous evaluation, the split of AuM by different investor types, asset classes and investment approaches was assessed.

In terms of different investor types it is interesting to note the impressive ‘surge’ of investments by retail and private banking clients in this market. For the first time these investors have now overtaken institutional investors in terms of their total investment volume with a share of approx. 53% of the total (not considering a relatively large share of non-attributable assets). This is probably due also to the increased effort by private banking institutions to market sustainable investments to their clients.

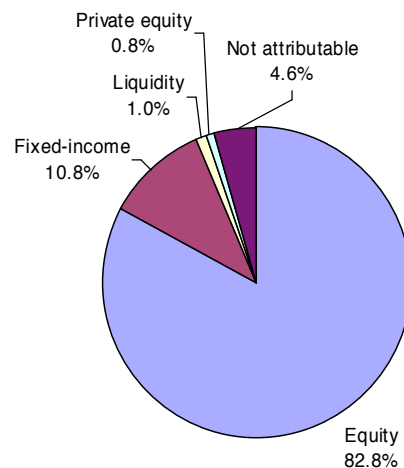
Total AuM for different investor types (31 Dec. 2007)



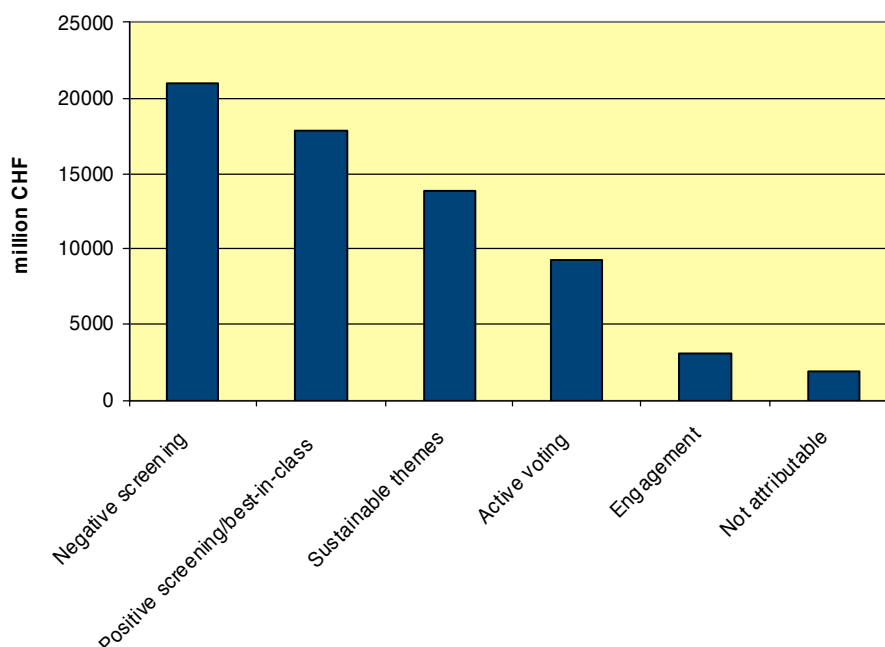
Equity remains by far the most important asset class (83% of total AuM, having increased from a value of 73% for the June 2007 survey), followed by bonds, liquidity and private equity.

In terms of the different investment approaches used we observe a further increase in importance of sustainable themes investing, which seems to go at the expense of positive screening/best-in-class investments. This is indeed a trend that can be seen at many asset managers that were previously offering only broad 'best-in-class' products or mandates and are now increasingly shifting toward sustainable themes. A positive development is also the larger share of funds that actively use their equity voting rights compared to previous surveys.

AuM share of different asset classes (31 Dec. 2007)



Use of different investment approaches (31 Dec. 2007)



4. Results of the focus survey on sustainable theme investments per end of 2007

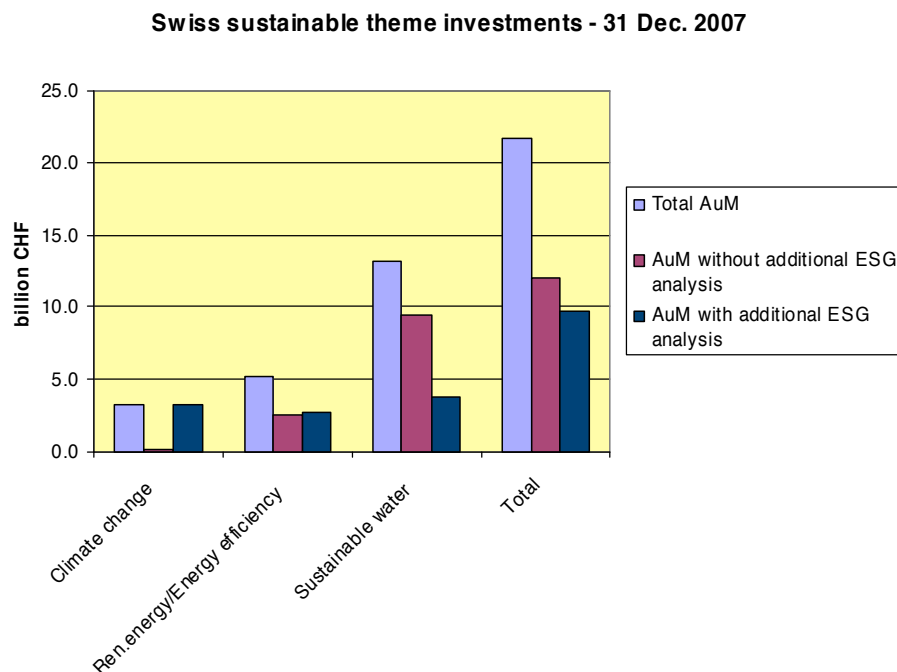
Given the increasing importance of investments focussing on specific themes as opposed to applying broad sustainability, ethical or SRI approaches, a special focus survey on sustainable theme investments was performed per end of 2007. Respondents were senior representatives in charge of coordination of sustainable investments at 15 institutions involved in theme investing (a sub-group of institutions listed on page 7). The survey included both a quantitative and a qualitative section.

In the quantitative part the assets under management (AuM) for the three most important themes were assessed:

- Climate change (only if a product or mandate has a clearly declared focus on climate change mitigation it was included in the survey)
- Renewable energy / Energy efficiency
- Sustainable water (as opposed to traditional water investments, the products or mandates must focus on long-term water availability challenges to be included)

The results are shown in the following graph and table, which indicate both AuM for products/mandates with an additional environmental, social and/or governance (ESG) analysis of holdings (9.69 billion CHF of assets for the three themes) and AuM for products/mandates without an additional ESG analysis (11.98 billion CHF of assets). The overall total AuM for the three themes amounts to 21.67 billion CHF.

The results show that the sustainable water theme in particular has a considerable share of products/mandates that concentrate on the exposure of companies to the theme without including a special analysis of holding ESG issues.



million CHF	Total AuM	AuM without additional ESG analysis	AuM with additional ESG analysis
Climate change	3284	74	3210
Ren.energy/Energy efficiency	5203	2483	2720
Sustainable water	13182	9424	3758
Total	21669	11981	9688

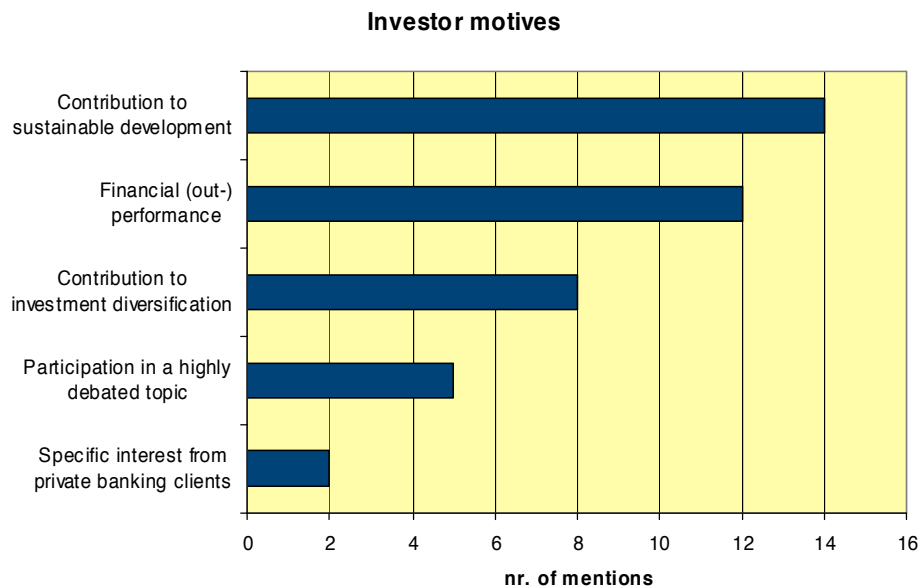
It is interesting to note that the share of retail/private banking clients investing in the three themes (with and without ESG analysis) amounts to approximately 80% of the total and is therefore much higher than the equivalent share for the overall Swiss sustainable market (53%). Institutional investors seem to be somewhat hesitant to invest in themes, except for water, where institutional investors contribute a large share of total investments (split institutional/private clients is about 50%/50% for water).

Interesting is also the fact that investments in the three themes are exclusively in equity (68% large-cap, 27% small/mid-cap equity, the rest being a small amount of private equity and undefined investments).

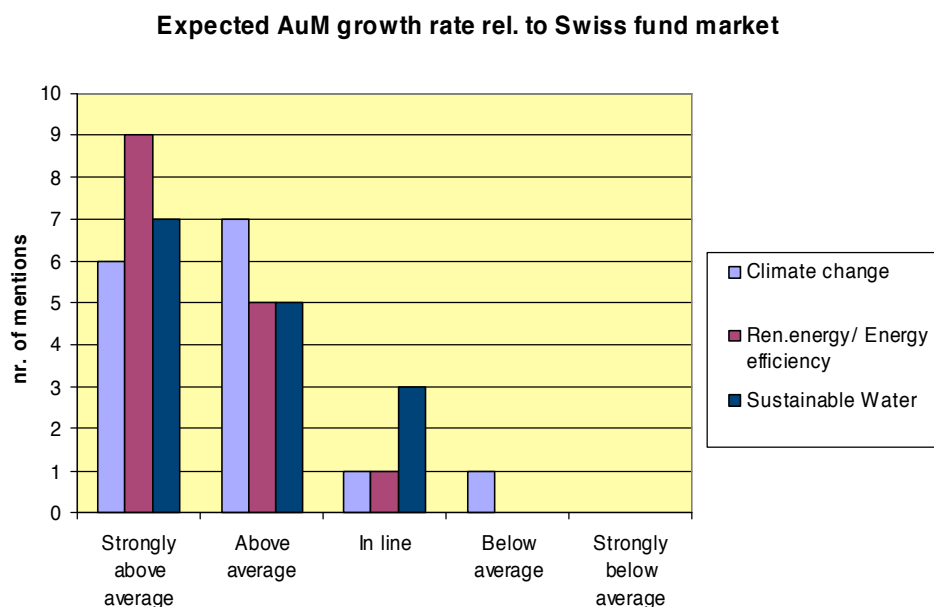
In the qualitative part of the survey respondents were asked to indicate their institution's assessment of:

- The main investor motives for investing in sustainable themes (up to a maximum of three motives could be indicated)
- The expected AuM growth rate for the three themes in the next 2-3 years relative to the Swiss fund market)
- New themes that participants believe will emerge in the next years
- Challenges for future developments in this area

The next graph shows results for perceived investor motives. The largest single motive is the wish to contribute to sustainable development, which is not totally surprising given the large share of retail/private clients investing in the area. The second and third most important motives are of a financial nature (interest in financial out-performance and in diversification). The fourth motive is of a more psychological nature: investors' wish to take part in a (mediatically) highly debated topic. It is interesting to note that the combined 'altruistic' motives (contribution to SD and participation in pressing topics) and the combined financial motives (performance and diversification) are seen to be almost equally important motives. One can therefore conclude that investors in sustainable themes are driven by a combination of financial and 'altruistic' motives. The picture would likely be very different if only motives of institutional investors would be assessed.



The next figure shows participants' expected assets under management (AuM) growth rates for the three themes in the next 2-3 years relative to the Swiss fund market⁷. The asset managers – in spite of current turbulent times on stock markets – are quite bullish about the future prospects of sustainable themes. Most of them expect an above- or strongly above-average growth rate, especially for Renewable energy/Energy efficiency. The overall assessment for Climate Change and Sustainable Water is also very positive, but single respondents were more cautious expecting a growth rate in line with the general fund market (and one participant expecting below-average growth for Climate Change).



⁷ Strongly above/below average meaning growth rates more than 20% larger/smaller than the Swiss fund market; above/below average meaning growth rates 5- 20% larger/smaller than the market

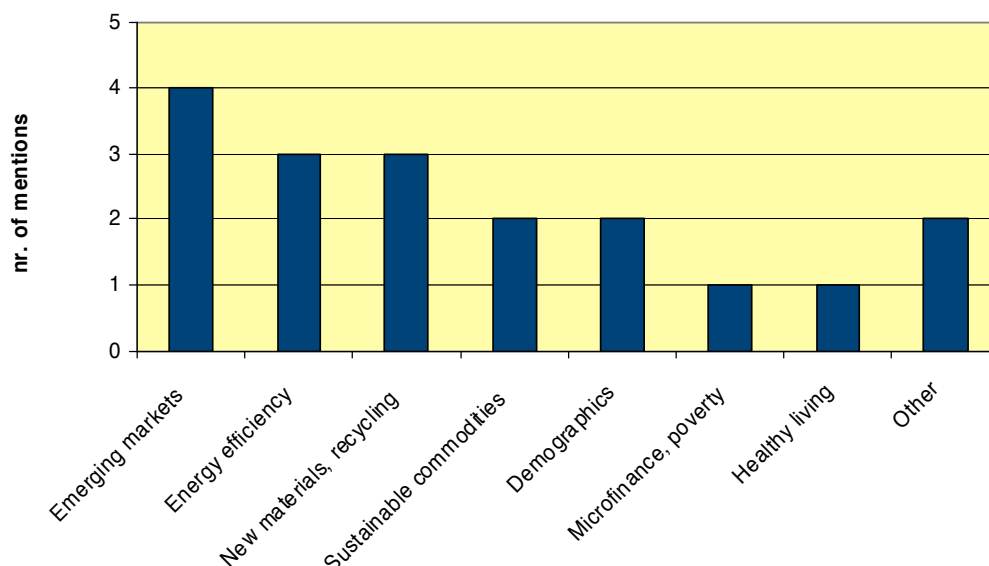
The next questions related to new investment themes that participants expect to emerge in the coming years. First, participants were asked to mention themes (max. 3) that they believe have the potential to attract similar investment volumes as the established climate change, energy and water themes. The most important new theme according to participants will be sustainability issues as they relate to emerging markets (e.g. infrastructure, energy and environmental plays). Participants seem convinced that the combination of interesting investment opportunities and the huge sustainable development challenges in emerging markets offers potential for interesting investment products satisfying both the 'altruistic' and the financial motives of investors.

Energy efficiency is still seen as being under-developed and offering a very interesting potential in terms of investment volume. The same is true for the 'old' theme New materials/Recycling which thanks to important innovations in the past years and to nanotechnology is seen as 'up and coming'. Sustainable commodities (mainly timber and second-generation biofuels) also received several mentions, even though participants have mixed views about the investment volumes that can be attained.

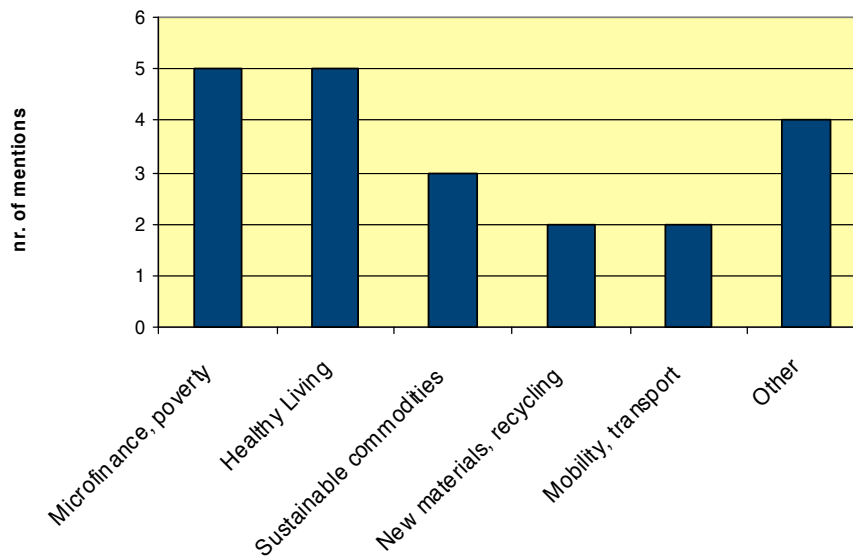
Two additional themes are seen as emerging strongly in the coming years, even though participants don't expect them to reach investment volumes comparable to climate change, renewable energy and water:

- Microfinance and other strategies to combat poverty
- Healthy living

Emerging themes with large AuM potential



Emerging themes with moderate AuM potential



In terms of future challenges in the area of sustainable theme investments, participants mentioned the following (in decreasing order of importance):

- Exaggerated investor expectations with regard to risk-adjusted returns
- Limited investment universe and risk of 'bubble' building
- Risk of opportunistic providers bringing low-quality investment products on the market and deluding investors
- The challenge to clearly define what is a sustainable theme approach, as opposed to an opportunistic one
- Need to improve the research quality in order to be able to differentiate between attractive and unattractive investments (challenging especially when focussing on emerging markets)
- Need to be more innovative and pro-active in proposing new themes and backing them up with know-how and capacity
- Difficult equity markets in general (small- and mid-cap in particular)
- Exchange traded funds increasingly competing with active funds in the theme domain
- How to deal with investors that want to use themes for a large part of their assets

5. Annex: Data

The following tables show aggregated data for the Swiss sustainable investment market as of 31 December 2007 (new methodology compatible with EuroSIF):

	NAV	Investor types		
		million CHF		
	million CHF	Institutional investors	Retail/Private banking	Not attributable
Funds	18839	4565	11000	3274
Mandates	13998	8186	2633	3179
Struct. Products	1164	0	503	661
TOTAL	34001	12751	14137	7113

	NAV	Asset Classes (strategic Asset Allocation)				
		million CHF				
	million CHF	Equity	Fixed-income	Liquidity	Private equity	Not attributable
Funds	18839	15682	2042	306	266	542
Mandates	13998	11604	1627	28	0	739
Struct. Products	1164	877	20	0	0	267
TOTAL	34001	28163	3689	334	266	1547

	NAV	Investment approaches (multiple choice)					
		million CHF					
	million CHF	Negative screening	Positive screening/best-in-class	Sustainable themes	Active voting	Engagement	Not attributable
Funds	18839	12411	6688	10480	2951	1845	570
Mandates	13998	7848	11102	2519	6367	1244	1016
Struct. Products	1164	680	15	867	10	4	275
TOTAL	34001	20939	17805	13866	9328	3093	1860