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Scope

Generating returns. Sustainably.

Growth and sustainability are compatible. Now better than ever.

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Impact investments

New value-added dimensions

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Green is healthy

Combine financial goals and backing environmental protection

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Winners

Sustainable real estate pays off

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A holistic approach. For the long term.

Michel Degen

Head of Asset Management
Switzerland & EMEA

In a world that is changing constantly, we look at the spectrum of investment opportunities from an entrepreneurial perspective. Our specialist and innovative approach ensures that we can generate added value irrespective of the asset class and investment style. Today, the concept of leveraging investments just for the sake of maximizing returns falls short. Environmental, social and governance (ESG) criteria need to be considered as well. This calls for holistic thinking on the part of asset managers so that they can develop and implement long-term investment solutions covering a broad spectrum of investor preferences, risk profiles, and asset classes.

Credit Suisse boasts a longstanding tradition of thinking outside the financial box. The pioneering achievements of Alfred Escher, who in 1856 founded forerunner Schweizerische Kreditanstalt and was later the driving force behind the construction of the Gotthard Tunnel, confirmed that sustainable thinking is always geared to the long term. Credit Suisse has remained true to this conviction and today is one of the leading financial service providers for sustainable investments.

Credit Suisse has also built up years of expertise in the impact investment space. Impact investors want more than just financial returns. They also aim to have a positive impact at the social and environmental level, as Iqbal Khan, CEO International Wealth Management, explains in the Scope interview.

In this edition of Scope we have brought together data, facts, and ideas covering all aspects of ESG investments. What's more, you will find a wealth of background information to serve as a useful guideline for sustainable investment going forward, a trend that will continue to gain traction. The real question is not whether investors should invest sustainably but whether they can afford to ignore this trend.

Michel Degen

The way forward

Investments aligned with ESG criteria or impact objectives are becoming part of the norm for a rapidly growing number of investors. They have no qualms about giving a priority to sustainable assets, as this does not hold back performance. On the contrary.

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The Scope interview: Iqbal Khan, CEO International Wealth Management

Credit Suisse is very well prepared for the growing demand for impact investments, which generate a positive momentum for society.

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Impact investing is a strategic choice

Impact investing combines the quest for profit with a mission to have a measurably positive effect on society and the environment. Credit Suisse has many years of investment experience from which impact investors can benefit.

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Millennials' values

Generations Y (aged 20 to 35) and Z (up to the age of 20) are having a growing influence on consumer and investment behavior. This trend is especially pronounced in the emerging markets, where most millennials live.

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“It’s possible to invest successfully while creating a positive impact”

Interview with Iqbal Khan

CEO International Wealth Management

Interest in impact investing is rising across all client segments, with the millennials playing a leading role, says Iqbal Khan. Impact investors aim at triggering change in terms of economic, social, and environmental objectives while at the same time generating financial returns. With Credit Suisse's close links to the next generation of clients and investors, the Bank is at the forefront of adapting its capabilities while offering to accommodate growing client demands in the impact investing space.

Mr. Khan, why is the topic of impact investing important to you?
Iqbal Khan: Credit Suisse has been in a leading position in the field of impact investing for over 15 years. In the last few years, we have noticed that impact investing has become an even stronger priority for our clients. Partly because of the specific values of our younger clients, the so-called millennials. They form part of one of largest generations in history, representing almost 50% of the world's population and set to inherit more than USD 40 tn of wealth in the next three decades. It's a generation that I feel very connected to. And how this generation looks at the world will have a lasting impact on how we serve this client base in wealth management.

What are the specific values of millennials?
A major factor that unites this generation is a sense of collective responsibility for the well-being of the world. In terms of investments, this distinct millennial philosophy means that they do not just care about financial returns. Millennials want to see what impact their investments have and how they can do good for society or the environment. They clearly shape new investment trends. At Credit Suisse, we want to be close to our current and future clients and fulfill their needs.

How does Credit Suisse make sure to meet the demands of the next generation?
Building relationships with the next generation of clients and investors has been one of Credit Suisse's core priorities for many years. We launched our "Global Next Generation Initiative" in 2005 and have developed a variety of programs across the globe which provide financial education for young investors and the opportunity for exchange among peers. In 2007, the Young Investors Organization (YIO) was launched with Credit Suisse as its sponsor. Today, the YIO has over 1 300 members from 55 countries and has established itself as a global community of future leaders from influential families. Understanding their challenges and needs helps us to actively shape our value proposition and to build solutions together for their own personal growth, that of their family, or that of the broader community.

What expectations does the next generation have of a financial services provider?
The next generation of wealthy clients and investors does not want to pay a bank to simply preserve and manage the wealth their parents and previous generations have created. They are looking for institutions that can help to marry their financial needs with those of wider society responsibly. One of our younger clients has recently said that the conversations our client advisors would have with his father were completely different from the ones with him. He stressed how important it was for him to see at one glance what kind of impact his investments have. While his father would like to see the financial return first, the younger client would like to see return and impact side by side.

Sometimes people see banks as very profit-driven whereas impact investing aims to create a lasting impact.
I don't see a conflict between making profit, having a rate of return, and creating a positive impact. If we can measure impact and align it with the purpose our clients would like to have, the influx of funds into impact investing could be pretty significant. Impact investing can also help to increase the dialogue between our clients and their heirs, the next generation, as it includes aspects that are important to both generations.

What is Credit Suisse doing to further promote impact investing?
Adapting our capabilities and offering to accommodate growing client demands in the area of impact investing is a key priority for Credit Suisse, and it's a multilayered approach. We are in a continuous dialogue with our next generation of clients and investors and help them to connect with like-minded people inside and outside the Bank to drive their priorities forward. At this year's World Economic Forum (WEF), for example, we took part in a "Next Generation event" together with the YIO and The ImPact, a non-profit organization in the impact investment space with board member Justin Rockefeller, discussing how to make impact investments more effective so they could affect a broader audience. Last October, Credit Suisse launched a new department, the Impact Advisory & Finance Department, which focuses exclusively on the creation and structuring of sustainable and impact investment products across asset classes and themes. On the educational front, we included the topic of impact investing in our Young Investor Program, a one-week program for our next generation of clients, which aims to provide a thorough grounding in finance and the different types of investments. The educational aspect is also important for our client advisors. They have to open up the discussion about the topic of sustainability with their clients.

Interview with Justin Rockefeller, Valerie Rockefeller and Iqbal Khan

Together with the Young Investors Organization (YIO) and The ImPact, Credit Suisse discussed at a Next Generation event during this year's World Economic Forum how to create impact that affects a billion people. Watch the interview on the investment vision of the next generation with the keynote speakers of the event: Justin Rockefeller, Board Member of Rockefeller Brothers Fund and The ImPact, and Global Director of Family Offices and Foundations at Addepar; Valerie Rockefeller, Chair Rockefeller Brothers Fund; and Iqbal Khan, CEO International Wealth Management Credit Suisse.

However, the success of sustainable and impact investing across the industry will very much depend on how the current structural problems can be solved. SII assets under professional management rose 25% to USD 23 tn in the two years to 2016, and at Credit Suisse assets under administration (including custody) invested according to sustainability criteria rose by more than 30% from 2015 to 2016. But they remain a niche within total global wealth, which reached USD 280 tn last year. So if we can find ways to construct and strengthen the crucial pieces of market infrastructure for the sector, I'm convinced that impact and sustainable investing will become mainstream.

What is holding back impact and sustainable investing from becoming mainstream?
Impact investing is a new market and is currently limited by three things: first, a combination of size and diversity of impact investment opportunities; second, a lack of investor understanding of what impact investing is and the benefits it can achieve in comparison to traditional investments; and, third, the lack of a long history of performance data. Breaking into the mainstream will come about through better investor education and more efficient intermediation, whereby families can come to their traditional wealth advisor and get help in aligning their investment portfolio with their values.

Take the Blue Economy, for example, the newest arm of impact investing. Earlier this year, Credit Suisse hosted its first impact roundtable on marine conservation to raise awareness among clients, investors, and client advisors of investment opportunities in this sector. In GDP terms, the ocean is the world's seventh largest economy and it's a very attractive, fastgrowing, sustainable business and market opportunity. However, existing solutions to make an impact in ocean conservation are not yet on the scale needed to address the magnitude of the challenges. But, like the entire impact investing space, it's a market in the making, with growing opportunities for investors who want to make a difference.

16 years of impact investing expertise

2018 marks the 16th year of microfinance and impact investing at Credit Suisse, a field in which the Bank has been a pioneer. Since the early days as co-founder of the specialized asset manager responsAbility in 2003, Credit Suisse has continued to innovate financial products and services that cater to the specific needs of people at the base of the wealth pyramid. Credit Suisse currently has over USD 3.3 bn in assets under administration, and close to 5 000 clients invested in microfinance and impact investment products.

In 2008, Credit Suisse launched the Microfinance Capacity Building Initiative to help build capacity and foster innovation in the microfinance industry and beyond. The Bank for entrepreneurs, Credit Suisse is committed to helping microentrepreneurs to help themselves and their communities.

Other notable achievements include the creation of the first climate-neutral real estate fund in Europe (2015) or winning the Environmental Finance Deal of the Year Award for the Nature Conservation Notes (2014).

Paving the way to leave a mark: Global Next Generation Initiative

Credit Suisse focuses on building relationships not only with the current generation that manages and builds wealth but also with their children from the younger generation. That's why the Bank launched its Global Next Generation Initiative in 2005. Since 2018, a dedicated department at Credit Suisse has been catering to the needs of the Next Generation and their families. Providing financial education and peer-to-peer networking opportunities is at the heart of several programs designed by Credit Suisse.

Young Investor Program (YIP)
This program focuses on creating a foundation of knowledge and understanding of financial markets.

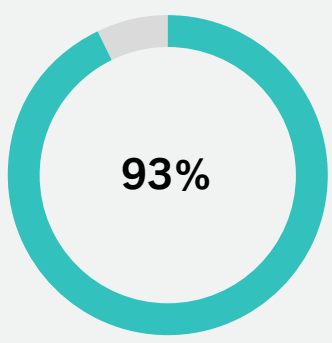
Family Ties Program
With a focus on family business, family governance, and wealth transition, this program is designed to tackle cross-generational issues within family businesses.

Young Investors Organization (YIO)
The YIO was established in 2007, with Credit Suisse as its sponsor. The organization comprises of a global community of future leaders from influential families who are committed to leaving their mark and making a difference in the world. During regular regional, local, and global meetings, members collectively drive social impact, and create and manage their businesses.

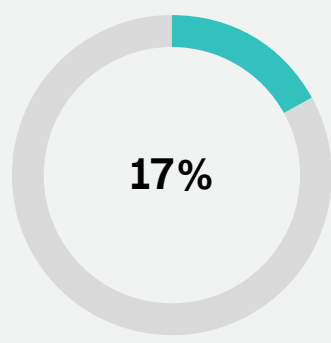
Millennials' values

- Sustainable business and investments
- Clean energy
- Digital natives
- Social enterprise and impact investments
- Fun, health, and leisure
- Millennial housing

will transfer to the next generation over the next three decades
World Wealth Report 2006; Nickles & Ashcraft, 2003; Credit Suisse Global Investor 2007



of millennials believe social impact is key to their investing decisions
U.S. Trust, 2016



of assets (on average) allocated by families to impact investments
Fidelity Millionaire Outlook, 2013

Sources: Credit Suisse Investment Outlook 2018, www.theimpact.org

“Impact investing is a market in the making, with growing opportunities for investors who want to make a difference.”

What is the difference between impact investing and sustainable investing?
There is considerable confusion in the industry over the terms “responsible investing,” “ESG (environmental, social and governance) investing” and “sustainable investing,” often used interchangeably with “impact investing.” We define responsible or sustainable investment strategies as either those which are focused on “doing no harm,” those aiming at avoiding or minimizing negative impacts, or those which positively screen for investments aligned with the investor’s value system – in other words, proactively making investments in environmentally and socially responsible, well-governed companies. Impact investors take this one step further and aim to create a definable and measurable impact with their investment dollars, and they hold their investee companies accountable for delivering that impact. Impact investments can target either market returns or concessionary returns in their quest to make an impact, but the measurement of the impact is paramount. In terms of asset classes, impact investing today is largely (but not exclusively) limited to private equity, venture capital, and private debt alternatives, while sustainable investing spans all asset classes. We see sustainable-driven investments as rapidly becoming mainstream, and in due course we can see a world where all investments start with an ESG overlay and just become part of the traditional investment process.

Do you see some additional benefits of impact investing?
Yes. The long-term nature of many of today’s impact investments is of interest in volatile markets as they can be defensive and help to diversify a portfolio. The cash flows of these investments usually do not depend on the whims of capital markets but instead on the operations of the underlying social enterprises and therefore are tied to a real economy.

Iqbal Khan

Mr. Iqbal Khan is a member of the Executive Board of Credit Suisse and CEO of International Wealth Management, which comprises the wealth management businesses in EMEA and Latin America, as well as Global Asset Management. Prior to assuming his current role, he was CFO of Private Banking & Wealth Management. Iqbal Khan has an Advanced Master of International Business Law (L.L.M.) from the University of Zurich and is a Certified Financial Analyst.

Bridging the gap between purely returns-driven investment and values-driven philanthropic donation, a range of new investment forms has become established in recent years. The most widely adopted of these are investments that pursue financial objectives while at the same time integrating environmental, social and governance (ESG) criteria. Impact investing takes this to its logical next step by combining the quest for profit with the mission of making a measurable positive social and/or environmental impact. Credit Suisse recognized this trend and boasts a long track record of investment expertise from which impact investors can benefit on a sustained basis.

Impact investing. A strategic choice.

Marisa Drew

CEO, Impact Advisory & Finance Department
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Historically, investing behavior has been driven principally by the pursuit of return, tempered only by the fear of loss – to what degree depended solely on the investor's risk tolerance. In contrast, philanthropy centered purely on giving to a cause or organization with no expectation of any kind of return, except for the satisfaction of doing good.

From investing to philanthropy

There is a growing recognition that investing for return and doing good are not mutually exclusive but instead can be mutually reinforcing. On the spectrum from "return only" traditional investing to "no return" philanthropy, increasingly the middle ground is being populated. ESG investing – taking into account environmental, social and governance criteria – is often a first step toward using investing dollars to express an investor's social or environmental conscience. On the other side, venture philanthropists have begun expecting some kind of financial sustainability to arise from their donations, bringing a certain business logic to doing good.

Impact investing takes this to its logical next step, by melding the quest for profit with the ability to make a deliberate and measurable positive impact on the world. But the question often remains: which aspect should be prioritized – financial returns or impact? Should impact investors seek competitive returns from investments delivering desirable social and environmental outcomes, or should they be happy to receive lower returns accepting that a portion of their return comes in the form of the impact their investment can make on the world?

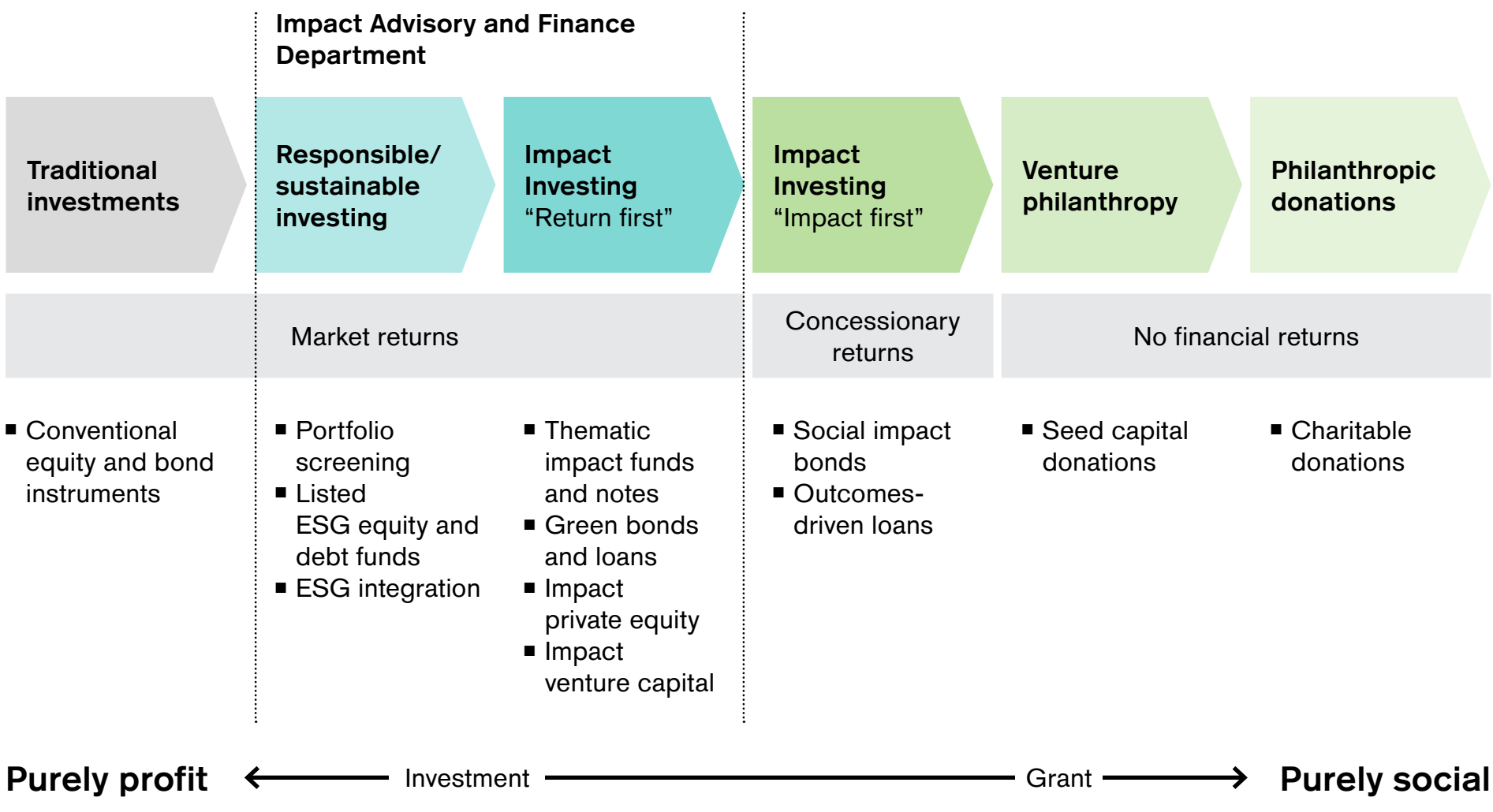
At Credit Suisse, we believe that there is a place for both priorities and that this is an individual decision for every investor to make. However, we also believe that for impact investing to be attractive to the largest communities of investors and genuinely grow at scale, it has to provide competitive returns. As a result, we are focused on offering impact investments to our clients that seek to achieve market-based returns. This is less of a hurdle than might be expected. Increasingly, data points in different regions and on different time scales are demonstrating that companies driven by a purpose beyond just profit are outperforming their peers. The same holds true for the performance of mission-driven investments.

A crucial aspect of the acceptance and mainstreaming of any investment asset class or sector is the ability for all market participants to agree a common language. An important catalyst to the sustainable finance and impact investing market has been the launch of the UN Sustainable Development Goals (SDGs) in 2016. These goals have provided a framework for the major actors in the field – from universities to banks, from insurance companies to pension funds, from governments to NGOs – to categorize and quantify the key global challenges the world faces and identify where each are best placed to play a part. While not all of the SDGs lend themselves to investable opportunities, at Credit Suisse we will increasingly map our investment offerings against the relevant SDGs.

Next generation a key driver of growth

It is no accident that the ascendancy of impact investing coincides with the maturing of the millennial generation as investors. Time and again millennials have been shown to be more interested than previous generations in environmental and social causes, while at the same time showing great affinity for ways to gauge the efficiency and effectiveness of their engagement. This is efficient altruism, and impact investing can be seen as an offshoot or a logical extension.

The spectrum from ESG to philanthropy



Source: Impact Advisory and Finance Department, Credit Suisse

A common language. Creating a catalyst for market development.

The UN Sustainable Development Goals
An estimated USD 2.5 tn funding gap annually

1 No poverty

2 Zero hunger

3 Good health and well-being

4 Quality education

5 Gender equality

6 Clean water and sanitation

7 Affordable and clean energy

8 Decent work and economic growth

9 Industry, innovation and infrastructure

10 Reduced inequalities

11 Sustainable cities and communities

12 Responsible consumption and production

13 Climate action

14 Life below water

15 Life on land

16 Peace, justice and strong institutions

17 Partnerships for the goals

The Sustainable Development Goals (SDGs) are 17 political goals adopted by the United Nations, based on the economic, social, and environmental dimensions of sustainable development. Their aim is to drive forward sustainable development around the globe. They entered into effect on January 1, 2016, succeeding the Millennium Development Goals. They will be in place for 15 years and apply to industrialized, emerging and developing countries.

Source: Sustainable Development Goals as defined in Transforming Our World – the 2030 Agenda for Sustainable Development, United Nations, 2015

As millennials make up an ever greater share of the clientele of global investment houses, this shift in attitudes has shown up very clearly. Currently, investors representing more than USD 62 tn have signed the UN-backed Principles for Responsible Investments. A recent poll of 20 000 investors showed that sustainable investing was the number one topic they wanted to know more about, and 80% of millennial investors own or show an interest in impact investments. With that kind of buzz, it is no wonder that impact investments and assets invested sustainably grew 17% and 25% in 2017, respectively. One clearly defined and hence measurable category of impact investments are green bonds, where the market grew from USD 11.3 bn in 2013 to USD 158.9 bn in 2017. 64% of investors say they have increased their investments in sustainable funds over the past five years. Given such numbers, it is clear that the industry in general and asset managers in particular must respond.

Credit Suisse leadership

For over 15 years, Credit Suisse has been a leader in impact. This has been evident throughout the bank across geographies and regions, ranging from the underwriting of various trailblazing green bond issues to pioneering microcredit and education investment structures, from the launch of the first Asian Impact PE Investment Fund to our support of fair trade and co-creation of conservation principles, to a dominant banking presence in solar energy and to the recognition of our efforts as a bank to minimize our own carbon footprint. We can genuinely claim that Credit Suisse created and offered impact investing opportunities well before the term “impact investing” existed.

Rejoice children, one day all this will belong to you!

Recognizing the strategic importance of sustainable finance and impact investing for our clients and their ability to tackle some of the world's greatest challenges, our Group CEO, Tidjane Thiam, established the Impact Advisory and Finance ("IAF") Department in October 2017 as a direct reporting function to him. The IAF Department has brought Credit Suisse's extensive impact investing and ESG efforts globally into one overarching organization that is mandated to define, guide, and coordinate all of its activities in this sector. We are convinced that this is the way forward – it allows us to share best practice, leverage regional activities across the bank, and deliver holistic solutions for our clients. We at Credit Suisse act as a steward of our client's capital and a global citizen. This strategic initiative also makes sense from a financial perspective and in order to fulfil and exceed our goal to help close the gaps identified by the UN SDGs.

For us, the focus on impact investing is a strategic choice.

To learn more on recent developments and key themes in the Impact Investing space, watch this video in English.

Marisa Drew

Marisa Drew is the CEO of the Impact Advisory and Finance (IAF) Department of Credit Suisse based in London. The IAF Department is responsible for setting the strategy as well as directing, coordinating, and facilitating activities globally across the bank that promote sustainable finance and impact investing on behalf of the bank's private wealth, institutional, and corporate clients. The IAF Department reports directly to Tidjane Thiam, CEO of Credit Suisse. Ms. Drew, formerly Co-Head of EMEA Investment Banking and Capital Markets, sits on the Global Reputational Risk Committee and the UK Conduct and Ethics Board. Marisa Drew holds a BA in Finance and Marketing with distinction from the University of Virginia's McIntire School of Commerce and an MBA with distinction from the Wharton School.

The myth of a trade-off between impact and returns

Peter A. Fanconi

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“Impact Investing. Happy Returns” – this was the headline in the Economist way back in 2011, when few people were familiar with the term. The story drew people’s attention to the two key attributes of this approach to investment: doing good and earning money doing so. Impact investing has since shed its niche image and become an established investment strategy. Nevertheless, a stubborn myth persists that investors sacrifice competitive returns when they invest to achieve a social and/or environmental impact. In fact, impact investing is all about the efficient interplay between measurable social or environmental benefits and profitable financial returns. Impact and returns are equally important components of the investment strategy. The majority of impact investing managers focus on competitive, risk-adjusted market returns. Of course, as in conventional investments, these returns may vary considerably depending on the asset class, investment strategy and fund manager.

To take one example, private equity impact funds can generate average annual gains in excess of 20%, keeping pace with their conventional private equity counterparts. Stable and competitive returns are legitimate aims for impact investing managers, and as this example shows they can be achieved. The microfinance market, which is one of the oldest and largest areas in the impact investing space, makes this abundantly clear. Over the past 20 years, not only have microfinance funds generated an annual return in US dollars of more than 4%, they have also survived numerous global financial, economic and currency crises broadly unscathed and exhibit default rates averaging less than 1%.

Impact and returns are equally important components of the investment strategy.

Some of these product solutions fund microfinance institutions in developing nations and emerging markets and have provided millions of people from many different countries with access to financial means over the years. The majority of these micro entrepreneurs are women, with around half living in rural areas. Microfinance funds are known for their stable returns as well as their low volatility and low correlation with conventional asset classes. They also benefit from heightened interest in investments with social and/or environmental benefits.

In light of the major social and environmental challenges facing us in the world today – two billion people have no access to formal financial services, more than 260 million children and young people have no access to education and around 800 million people live in extreme poverty – the growing fusion of returns and impact is very good news indeed. It means that even more private capital is being mobilized for social and environmental purposes and directed toward sectors and regions where it is urgently needed.

Peter A. Fanconi

Peter A. Fanconi is the Chairman and former CEO of Swiss based BlueOrchard Finance, one of the leading asset management companies in the field of impact investing. Peter demonstrated his entrepreneurial competencies in various positions, including CEO of private bank Vontobel, a Swiss listed bank, CEO of Harcourt Alternative Investments, a global leader in alternative investments, and managing partner at PwC.

Peter is also Chairman of Graubündner Kantonalbank (GKB), a Swiss listed bank, Vice-Chairman of Deutsche Bank (Switzerland), Vice President of the ROKPA International Foundation and a member of the Executive Leadership Committee of Brown University, Rhode Island.

Besides lecturing at various business schools, Peter is a frequent speaker at governmental and public events. As co-

author he has published the bestseller Small Money – Big Impact as well as Power to the Poor.

Millennials' values

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Digital, global, social

Millennials are viewed as being digital, global, social, and environmentally friendly. They have a great affinity with brands that embody these attributes and values, and they are very interested in electric vehicles, clean energy, and ESG investments.

Recently, consumer analysts and strategists have observed how consumer companies are aggressively targeting their product developments, marketing, and sales initiatives at the new generation, the millennials. Generation Y (20–35 years of age) and Z (below 20 years of age) are increasingly shaping future consumption as well as investment and business trends. An early mover, our “millennials’ values” supertrend, has successfully captured these developments since its inception. Given the importance millennials attribute to environmental, social and governance (ESG) criteria, this supertrend goes hand-in-glove with a broader move toward sustainable investing observed across all segments and regions.

Much like previous generations, Millennials have distinct characteristics that shape their preferences, concerns, and priorities. They are digital, global, environmentally friendly and social, to name but a few. Brands that surf the millennials wave have outpaced their respective markets in 2017, and we expect this trend to continue. Another distinct feature of the millennials generation is that, as a result of global demographics, most of them come from the emerging markets (EM). China accounts for a particularly large share of the world’s millennials. Chinese millennials are leading the way in a rapid shift to online consumption and the development of eSports, which are rapidly gaining popularity. Any solution aiming to capture what we subsume under the “millennials’ values” supertrend has to have sufficient exposure to EM consumer companies geared to EM millennials or companies that are well positioned to cater to that consumer cohort.

Strong environmental consciousness
Millennials are also highly conscious of the environment. In our view, it is thanks to them that electric cars, clean energy and environmental, social and corporate governance (ESG) investments are becoming more and more mainstream. While ESG-leading companies are already a sub-theme of our “millennials’ values” supertrend, we are strengthening this focus by applying an ESG overlay to the entire stock selection for this supertrend. This means that we only retain companies with a top score in the areas we believe are of relevance to our supertrend.

Sustainable business and investments
Sustainability is a core value for millennials, who are becoming more and more demanding in this regard, requiring companies to show how they make a positive contribution to society before buying their products. This comes as little surprise, as evidence of climate change is growing, and pollution and environmental health hazards are becoming increasingly apparent in both developed and emerging markets. From an investment standpoint, applying ESG criteria to stock selection has been shown to improve risk management without lowering returns. Academic literature and case studies published on the subject have shown that companies with higher sustainability scores, on average, deliver a better operating performance, are less risky, have a lower cost of debt and equity, and are better stock market investments. Further, companies whose ESG scores are improving tend to outperform those with static ESG scores.

Investor takeaways – the key beneficiaries of this fifth supertrend are, in our view:

Companies exposed to clean energy (renewable energy, electric vehicle supply chain), in digital natives brands (social media sites, e-commerce leaders, technology brands) and companies exposed to fun, health and leisure (video gaming, eSports, Millennials brands in apparel, beverages, cosmetics, food, luxury goods)

EM consumer companies which are likely to benefit from the dominance of EM Millennials in the cohort

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Companies that score high in terms of ESG. We apply an ESG overlay to the entire stock selection, retaining only ESG leading companies.

Sustainability should therefore be a continuous process for a corporate organization. We believe there is a strong business incentive for companies to implement sustainable management practices with regard to ESG. Once these practices are deeply rooted in an organization's culture and values, they can provide a competitive advantage in the long run.

In turn, not focusing on sustainable factors could pose reputational, financial, and litigation risks, which could make companies more vulnerable. What is more, any bad press related to ESG factors could meaningfully impact demand from the millennials cohort. So ESG not only improves risk-adjusted investment performance, but is also becoming a prerequisite for a company's success. This is why we now integrate ESG standards across our stock selection in this supertrend.

The millennial generation has yet to reach its full potential as investors. But if they shape asset management and investment in the same way they are shaping consumption, we are at the beginning of a true revolution. Millennials' values are more than just another reason to invest sustainably. They are the reason sustainable investing is here to stay.

ESG not only improves risk-adjusted investment performance, but is also becoming a prerequisite for a company's success.

The future belongs to sustainable investing: momentum building in the face of a familiar challenge

Our planet is in a bad state, and the economy is a key driver behind this development. That much is old hat. What is new is the momentum with which this is changing, from the Paris Agreement to the breakthrough of sustainable technologies on the market. This narrative is gaining traction by the day – with palpable consequences for companies and the asset managers that finance them.

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Human activity has been transgressing all natural boundaries since the mid-20th century. On average, today's world population consumes the resources and reserves of 1.7 Earths – in Europe it is around 3. In other words, we are no longer living off nature's interest, but for years have been drawing down its capital (*see chart: "Global ecological footprint"*). Needless to say, this is unsustainable in the long term.

People and companies are feeling the physical effects of pollution and climate change. Eight of the current top ten risks to the global economy are either environmental or directly linked to environmental degradation (*see chart: "The global risk landscape 2018"*).

This analysis is nothing new. What is, however, is the political and economic fallout. An example of this paradigm shift is the Paris Agreement, signed by nearly every country in the world. The phase-out of fossil fuels within a few decades is thus a fait accompli – and not just on paper either, as the evidence shows:

- Solar and wind power are already cheaper than fossil fuels in many markets, including India, South Africa, the Netherlands, and the US.

- A world without gas and diesel cars? France, the UK, India, the Netherlands, and China are expected to introduce bans on sales between 2030 and 2040. Meanwhile, EU directives and various national laws stipulate that no oil, coal, or gas is to be burned in Europe after 2050 at the latest. In Norway, net CO_2 emissions should be phased out entirely by as early as 2032, in Iceland by 2040 and in Sweden by 2045.

- Major investors such as the Norwegian Government Pension Fund are divesting from the coal industry due to high risks. Ireland will become the first country to completely sell off its investments in fossil fuels.

- Major insurers are following suit with their own commitments, including Allianz, Axa, and Swiss Re.

- The European Union has established the High-Level Expert Group on Sustainable Finance, and the Financial Stability Board (FSB) has set up the Task Force on Climate-related Financial Disclosures, proposing recommendations, guidelines, legislation, and related amendments in record time.

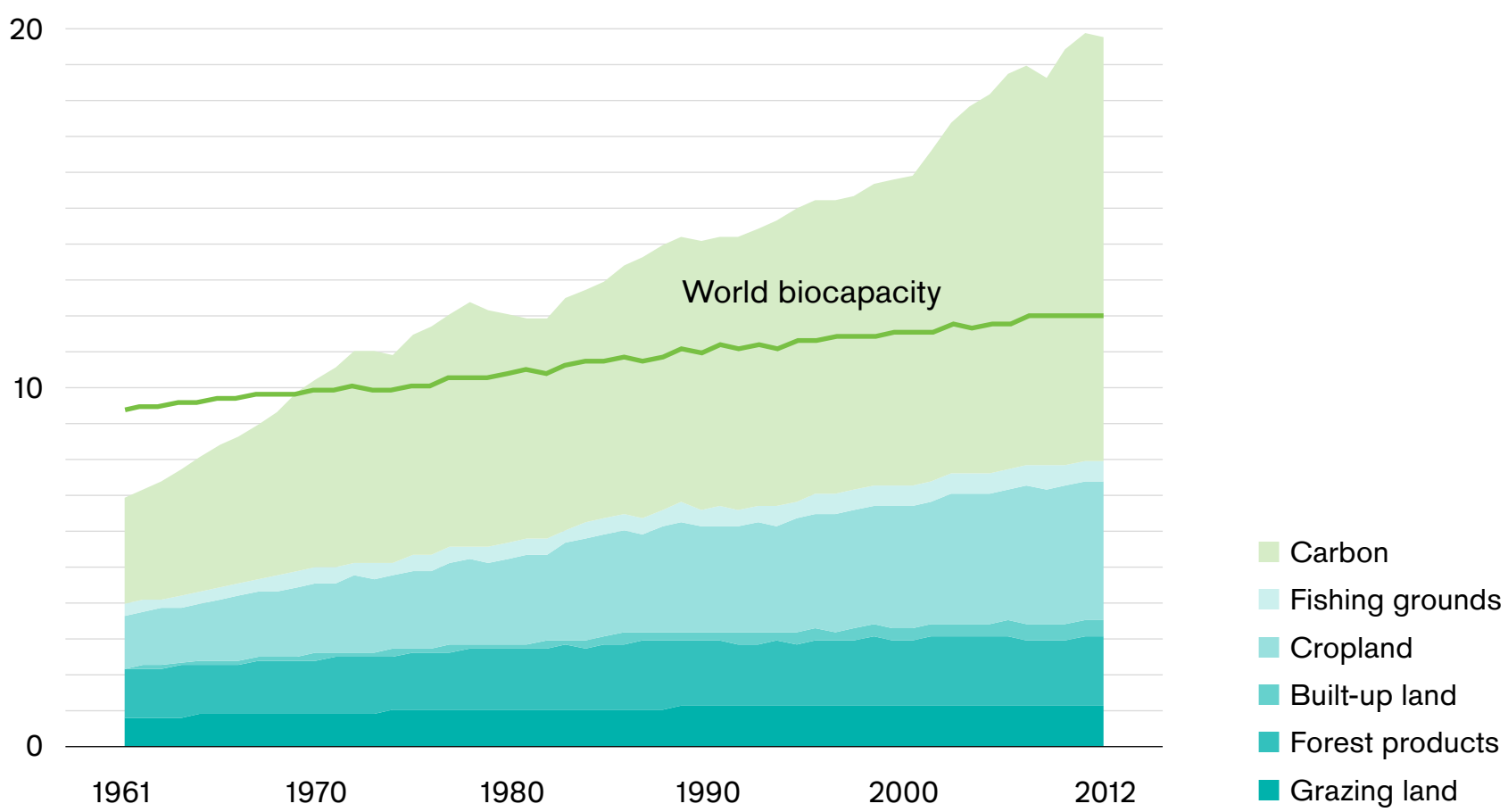
- Eight central banks and supervisory authorities (from countries including the UK, Germany, France, Singapore, and China) have come together to form the Network for Greening the Financial System.

- The world's leading asset managers are frank about how environmental issues loom large when considering investments.

This list could go on and on. These examples show that a new market narrative is taking hold, whereby economic performance must generate net environmental and/or societal benefits. This means that financial flows must be diverted in the manner expressly provided for in the Paris Agreement. Asset managers play a pivotal role in this context by exercising their responsibilities as brokers and custodians. Diverting financial flows in a targeted manner not only presents new market opportunities, but allows hitherto hidden risks to be systematically taken into consideration. Now is the time to act from an environmental, social and above all economic perspective.

Global ecological footprint

By component vs Earth's biocapacity, 1961–2012,
in billion global hectares (gha)



Source: WWF Planet Living Report 2016

Sustainable investing as the business case of the future

Asset managers bear a fiduciary responsibility extending beyond conventional risk management and performance targets. By allocating the capital entrusted to them, they consciously and unconsciously impact on society and the environment. Regulators and clients increasingly expect sustainability risks and opportunities to be actively accounted for, which is why the market for sustainable asset management is growing at a rapid pace. The two main drivers are strong demand from institutional investors and the solid performance of sustainable investments – often incorporating holistic and longer-term risk factors. The ever-increasing variety of sustainable investment products and services, coupled with the sublimation of existing sustainability-related investment approaches, is similarly contributing to market growth.

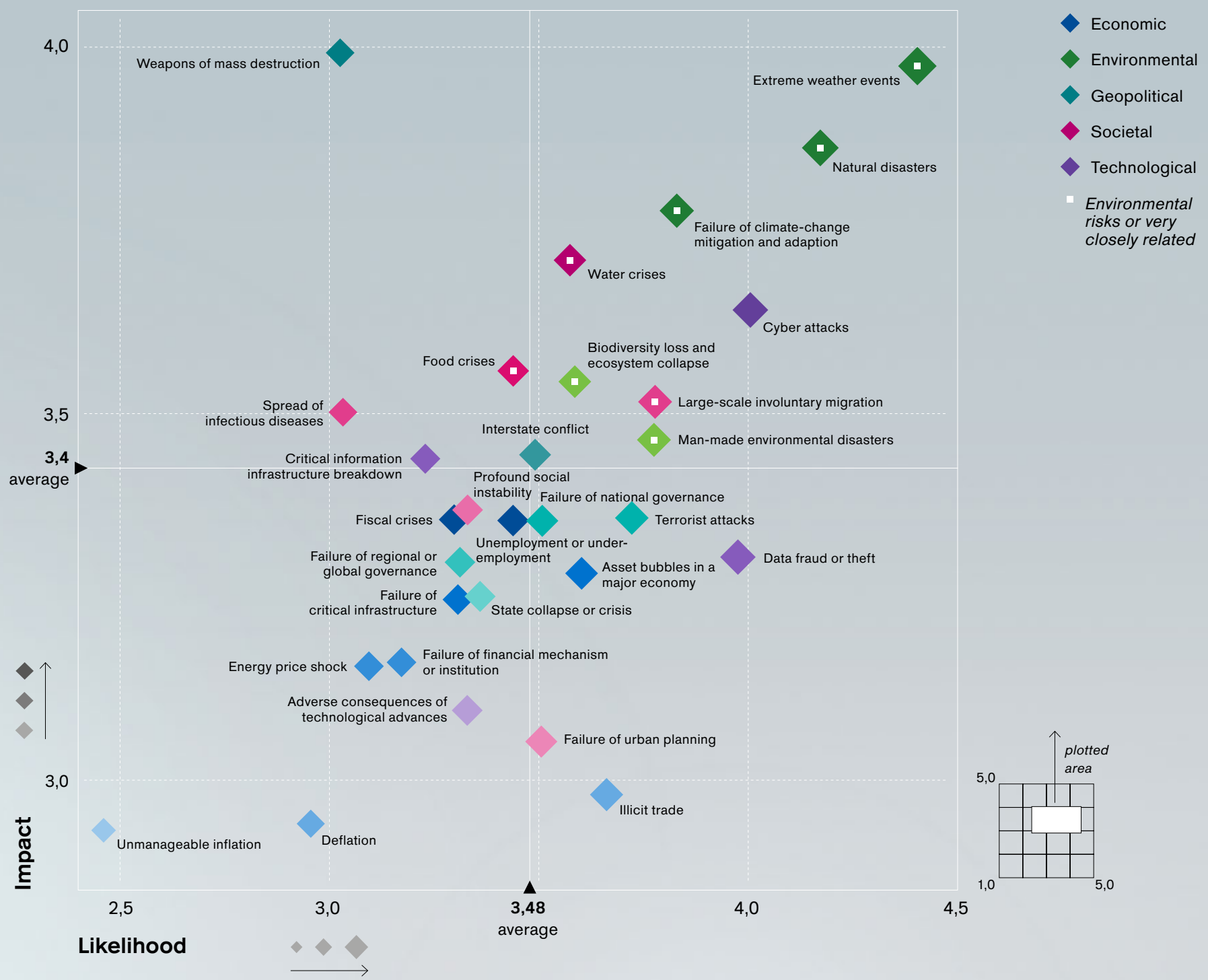
Not all products with an ESG (environmental, social and governance) label earn this seal of approval: their quality must consistently be measured against their effective and long-term holistic impact on the environment and society. This is crucial for the design, monitoring, and further development of a sustainable investment strategy that goes above and beyond a mere product solution. Without this systematic focus, sustainable investment becomes mere virtue signaling, and will be uneconomic in the new market narrative.

WWF Switzerland

WWF Switzerland is Switzerland's largest environmental organization and part of a worldwide network of over five million members. We work with them in more than 100 countries to maintain a healthy and living planet both for ourselves and for future generations.

wwf.ch, @WWF_Schweiz

The global risk landscape 2018



Source: WEF Global Risks Report 2018 (original chart includes the WWF additions "environmental risks or very closely related")
Note: Survey respondents were asked to assess the likelihood of the individual global risk on a scale of 1 to 5, 1 representing a risk that is very unlikely to happen and 5 a risk that is very likely to occur. They also assess the impact on each global risk on a scale of 1 to 5 (1: minimal impact, 2: minor impact, 3: moderate impact, 4: severe impact and 5: catastrophic impact).

Generating returns. Sustainably.

Credit Suisse Asset Management aims to offer its clients innovative investment solutions for today's markets. We are fully committed to making ESG benchmarks and ESG selection criteria a core part of our offering.

Nothing but sunshine

Concentrated solar power plants like this facility in the Nevada desert tap an energy source that never runs out: sunshine. The sunlight is captured using mirrors and then concentrated onto a small area. The heat this produces turns water into steam, which then drives a turbine, in turn generating electricity.

Performance and sustainability. In harmony.

Valerio Schmitz-Esser

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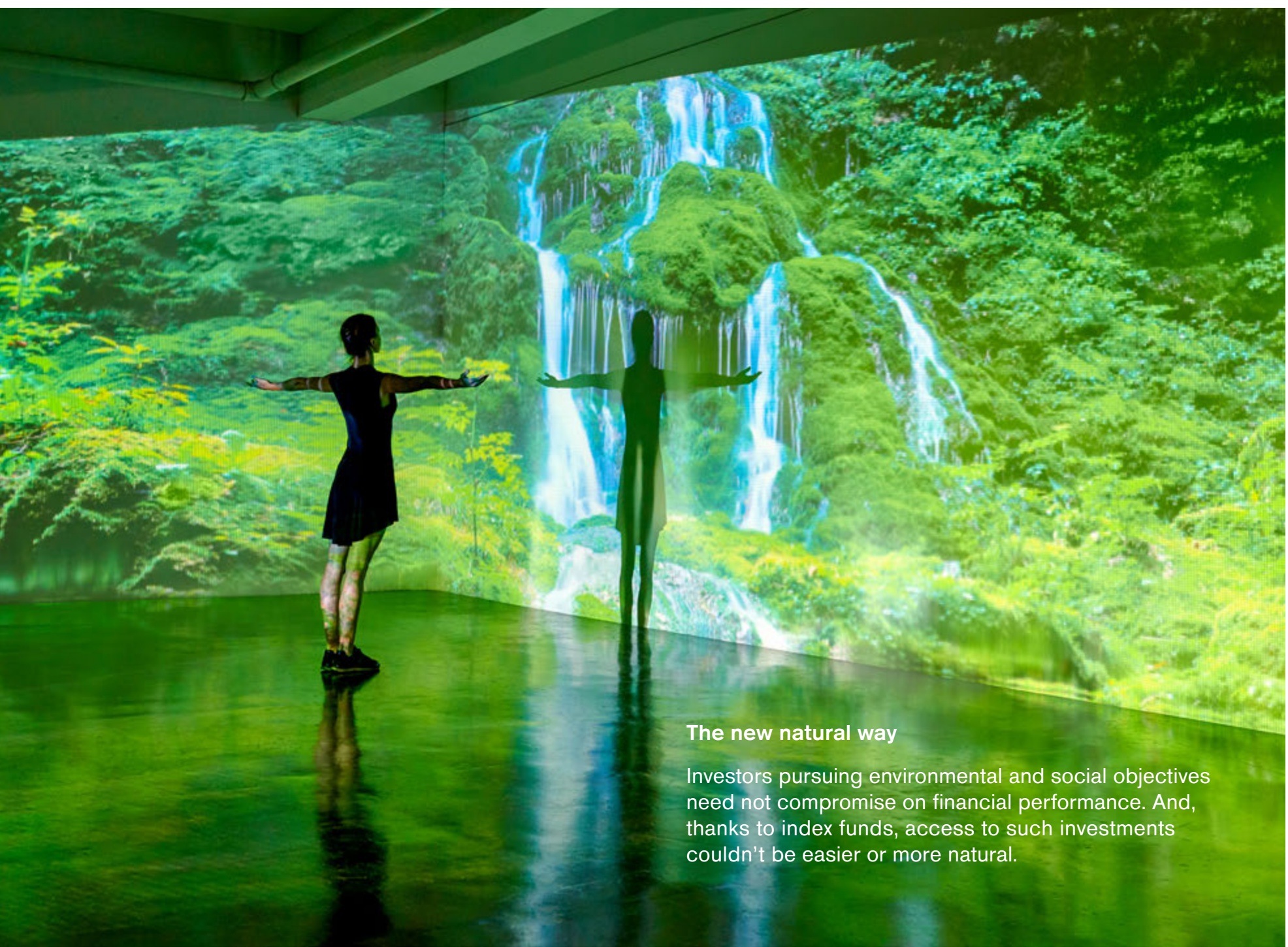

The new natural way

Investors pursuing environmental and social objectives need not compromise on financial performance. And, thanks to index funds, access to such investments couldn't be easier or more natural.

Integrating environmental, social and corporate governance factors into operational management is not a luxury anymore, and it hasn't been for some time now. In fact, companies that do so achieve better and more sustainable results compared to the broader market. This is increasingly recognized and reflected in the stock market as well. Stock market gains and a clean conscience are complementary. And with the corresponding index funds investors can target exposures efficiently.

ESG (environmental, social and governance) stands for criteria that measure a company's sustainability. To perform well based on this metric, a company's management must cast its eye not merely on the next quarterly or annual report. It also has to develop strategies geared to drive long-term success while using resources in a responsible manner that minimizes the environmental footprint and promotes social fairness.

Long-term thinking

As obvious as this sounds, it is still a long way from being implemented in practice. The stock market has been rewarding quarterly revenue and profit figures. Shareholders have, so to speak, been demanding short-term optimization. Investing on the basis of ESG criteria was, then, at best a niche product for investors who were also willing to accept inferior returns.

The new generation of investors takes a different view of this. Today, ESG is not only clearly defined but also rigorously applied and factually measured. That makes it possible to divide the broader market into ESG and non-ESG segments based on objective and constant criteria. To the surprise of many, the performance of ESG-compliant securities is roughly on a par with the non-ESG segment and is as a rule even far superior in terms of risk level achieved. A second glance reveals another compelling argument: a company's management that, intentionally or unintentionally, aims for a high ESG rating will necessarily be less erratic as well – precisely over the long term – and thus will also have a lower risk bias.

What is more, these results are extremely robust – both over time and across diverse regions. The arguments in favor of ESG-compliant investing are here to stay (*see "Five good reasons for investing in sustainability"*). A purported argument against ESG-compliant investing – namely, poorer returns – has been conclusively refuted. In emerging markets in particular, ESG criteria are evidently a key to investment success – see: *"Only half of the MSCI companies meet ESG criteria"*.

The index revolution
Already prior to the introduction of ESG as a compelling investment approach, another relevant development took place in the financial sector: indexing. Advances in technology and finance have today made it possible to create an index quickly and efficiently using virtually any criteria whatsoever, an index that can be exactly replicated in a corresponding passive fund. That index funds replicating indices based on ESG criteria have been used by investors to aid in their investment decisions is no recent phenomenon.

A wide range of indices are available today that variously weight environmental and governance-related aspects. We see them as falling into four categories: Indices that focus on climate change, indices that base their selections on religious and ethical convictions, indices based on specific objectives such as the promotion of women within corporate structures, and diversified indices that more or less cover the entire ESG spectrum. Credit Suisse Asset Management focuses on the last category for its investment solutions.

Five good reasons for investing in sustainability

1 Reputation

Investors are keen to boost their image by selecting investments that not only focus on returns but also have ESG criteria as a motivating factor.

2 Legal requirements

Some investors are prohibited from investing in certain sectors such as alcohol or firearms.

3 Clean conscience

Investors are interested in making a targeted contribution to alleviating social and environmental problems.

4 Marketing

Sustainability can make for a winning sales pitch when dealing with clients.

5 Risk minimization

The overall portfolio's risk/reward profile can be optimized by using sustainable investments.

Source: Credit Suisse

The MSCI indices serve as the underlying. MSCI is one of the largest and most prominent index providers in the world. The MSCI ESG Leaders indices are broadly diversified, replicate a wide array of sectors and moreover exhibit a lower tracking error relative to the respective (non-ESG) standard index.

The MSCI ESG Leaders indices achieve this by means of a multi-stage process. First, they exclude outright any company that derives more than 50% of its revenues from controversial business areas such as alcohol, tobacco, gambling, nuclear power or firearms. The remaining companies are subjected to a detailed analysis based on publicly available data sets, e.g. business reports, NGO studies and other trustworthy third-party sources.

The outcome of this analysis is an in-house ESG rating. To attain best-in-class status, companies must achieve an ESG rating of “BB” and score at least “3” on a scale of controversial business practices. The companies with the best ESG scores are included in the ESG Leaders Index, targeting a representation of 50% of the market capitalization in each sector. This ensures that the ESG indices do not stray too far from the standard indices at the return and risk level.

Yearly performance comparison of MSCI Indices

Year	MSCI Emerging Markets	MSCI Emerging Markets ESG Leaders
2011	–18.16%	–12.78%
2012	18.62%	21.64%
2013	–2.26%	1.63%
2014	–1.96%	5.20%
2015	–14.61%	–11.99%
2016	11.75%	13.83%
2017	37.79%	40.90%
2018 YTD	–6.56%	–7.91%

Sources: MSCI. Bloomberg. Data as at June 30, 2018. Data in USD

Only half of the MSCI companies meet ESG criteria
Out of the 1653 companies, only 808 are included in the MSCI World ESG Leaders Index. Nevertheless, the ESG Leaders Index's return (period: December 2010 to June 2018) totaled 8.49% last year, only marginally lower than the 9.63% for the MSCI World. And that return comes at a slightly lower risk level.

For a clean investment conscience, then, investors do not have to pay the price in terms of lower returns or accepting higher risk. The contrary is true, as evidenced by the particularly impressive example of emerging market companies: the MSCI Emerging Markets Index delivered an annualized return of 1.80% for the period from August 2010 to December 2017 – at a risk level of 16.89%. By contrast, investors that opted for sustainable emerging market companies and invested in the MSCI Emerging Markets ESG Leaders Index made a return of 5.31% last year – and at a lower level of risk, i.e. 15.74%. The ESG momentum score that has a particularly positive impact on performance in emerging markets is governance, i.e. sound corporate management.

This goes to demonstrate that a sustainable portfolio is anything but an unattractive investment; to the contrary, performance and sustainability harmonize perfectly. And, when the selection process is as rigorous and reliable as in the case of MSCI, with index funds implemented directly and efficiently, there is simply no excuse for not joining the ESG crowd.

MSCI Emerging Markets ESG Leaders Index vs. MSCI Emerging Markets Index – The top 20 positions by size

MSCI Emerging Markets

	Company	Weighting	Country
1	Tencent Holdings LI (CN)	5.46%	China
2	Alibaba Group HLDG ADR ✗	4.09%	China
3	Samsung Electronics ✗	3.84%	Südkorea
4	Taiwan Semiconductor MFG	3.34%	Taiwan
5	Naspers N	2.13%	Südafrika
6	China Construction BK H	1.69%	China
7	Baidu ADR ✗	1.28%	China
8	China Mobile ✗	1.04%	China
9	ICBC H ✗	0.99%	China
10	Ping an Insurance H ✗	0.92%	China
11	Hon Hai Precision IND ✗	0.86%	Taiwan
12	SK HYNIX	0.85%	Südkorea
13	Housing Dev Finance	0.84%	Indien
14	Vale On ✗	0.78%	Brasilien
15	Reliance Industries ✗	0.77%	Indien
16	Bank of China H ✗	0.75%	China
17	Sberbank Russia Com (RUB) ✗	0.72%	Russland
18	Itau Unibanco PN	0.65%	Brasilien
19	Infosys	0.64%	Indien
20	CNOOC ✗	0.59%	China
	Total	**32.21%**	

MSCI Emerging Markets ESG Leaders

	Company	Weighting	Country
1	Tencent Holdings LI (CN)	11.31%	China
2	Taiwan Semiconductor MFG	6.92%	Taiwan
3	Naspers N	4.41%	Südafrika
4	China Construction BK H	3.51%	China
5	SK HYNIX	1.77%	Südkorea
6	Housing Dev Finance	1.74%	Indien
7	Itau Unibanco PN	1.34%	Brasilien
8	Infosys	1.32%	Indien
9	Lukoil Holding (RUB)	1.17%	Russland
10	Tata Consultancy	0.98%	Indien
11	Banco Bradesco PN	0.93%	Brasilien
12	Sasol	0.81%	Südafrika
13	Naver	0.76%	Südkorea
14	KB Financial Group	0.74%	Südkorea
15	CTRIP COM INTL ADR	0.74%	China
16	Standard Bank Group	0.72%	Südafrika
17	Femsa Unit UBD	0.68%	Mexiko
18	Public Bank	0.67%	Malaysia
19	Shinhan Financial Group	0.66%	Südkorea
20	Firstrand	0.62%	Südafrika
	Total	**41.78%**	

Sources: Factset. MSCI. Credit Suisse. June 30. 2018

Performance compared

Traditional investments
MSCI Emerging Markets Index

1.80%
return

16.89%
risk

Annualized risk and return
Data interval: 31.12.2010 to 30.06.2018

vs.

Sustainable investments
MSCI Emerging Markets ESG Leaders Index

5.31%
return

15.74%
risk

Annualized risk and return
Data interval: 31.12.2010 to 30.06.2018

Source: MSCI Bloomberg, data as at June 30, 2018, in USD, monthly performance figures for risk calculation

Green is healthy. Also for bonds in the portfolio.

Dominik Scheck

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Going green

Rising ocean temperatures due to climate change are a wake-up call for action. Using green bonds, investors can participate in projects that have a positive impact on the climate and environment.

Green bonds allow investors to combine their financial interests with direct contributions to environmental and climate protection. The green bond market is a rapidly growing segment with high potential. Clarity is ensured through consensus on definitions and a longstanding track record. Ideal access is offered to investors through a combination of professional investment processes, traditional selection criteria, and sustainability aspects.

Climate change is manifesting itself ever more clearly. In 2016 the global temperature record was broken for the third consecutive year while 2017 was the hottest year on record without an El Niño event. In this context, most climate experts regard the frequency and intensification of hurricanes in the US not as random weather events but rather as the unambiguous consequence of climate change, as clearly evidenced by warmer ocean temperatures. Global warming has become one of the biggest challenges humanity is facing today and is likely to result in unprecedented, difficult-to-estimate damages and costs.

As a result, many investors feel the need to combine their financial interests – generating attractive capital market returns – with direct contributions to environmental and climate protection. Clearly defined and with a longstanding track record, green bonds are a good option.

What distinguishes green bonds?
The difference between green bonds and normal bonds consists in the intended use of proceeds by the issuer. Funds raised from conventional bonds may be utilized to finance any type of business project; by contrast, proceeds from green bonds must explicitly be dedicated to projects that have a positive impact on the environment and the climate. Proceeds from the sale of green bonds can be utilized to finance the construction of a solar power plant, for example, or the expansion of public transport.

Apart from this specific purpose, green bonds function like conventional bonds. The issuer is liable for green bonds exactly the same as for other bonds. Green bonds have no special default risk status. Consequently, yields on green bonds of the same currency and maturity are roughly on a par with yields on conventional bonds. In addition, credit ratings of green bonds are generally at the same level as the issuer rating. The risks thus correspond to those of a conventional bond.

How are green bonds defined?
To be classified as a green bond, the following criteria based on the Green Bond Principles must be satisfied:

- The capital raised from the bond issue must be utilized to finance or refinance “green” projects (use of proceeds).

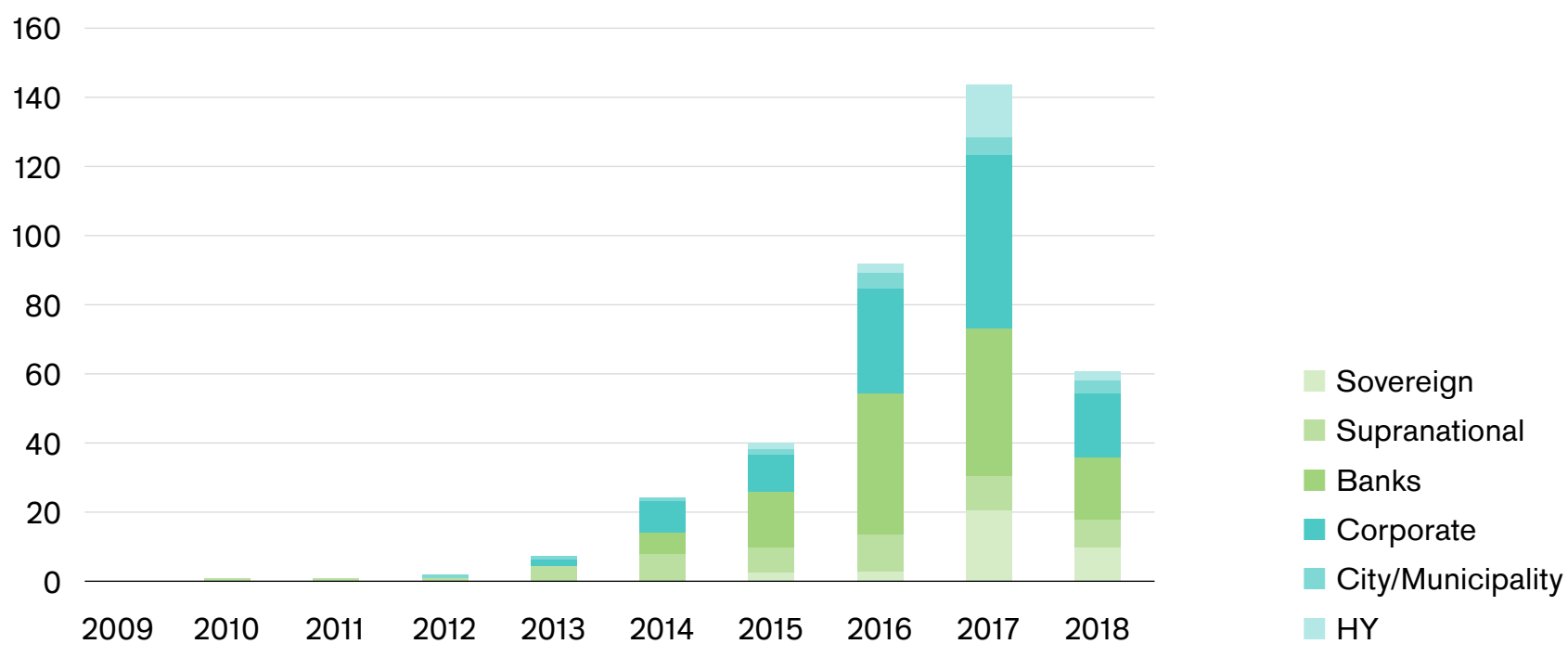
  – Issuers must provide a detailed description of their project selection process along with a definition of the project’s purpose and scope (process for project evaluation and selection).

  – Issue proceeds must be managed separately, and this must be verified by an independent auditor (management of proceeds).

- Issuers must provide a minimum level of transparency, must report at least annually on the progress of their projects, and must regularly provide reports on the use of proceeds (reporting).

Annual green bond issues by sector

(in USD bn)



Sources: Credit Suisse, Bloomberg, MSCI ESG, as of end-June 2018

The Green Bond Principles are voluntary guidelines set out by the International Capital Markets Association (ICMA). First introduced in 2014, the Green Bond Principles are reviewed and updated annually. Moreover, independent auditors are often engaged to check the use of proceeds. This represents a voluntary obligation on the part of issuers, but compliance enhances transparency. In accordance with these provisions, green bonds may be labelled as such only if the funds raised go to projects in any of the following ten categories: renewable energy, energy efficiency, sustainable waste management, sustainable agriculture, conservation of biodiversity, clean transportation, sustainable water management, adaptation to climate change, recycling management products, and green buildings.

How large is the green bond investment universe?
The green bond investment segment is still young but is growing rapidly. In May 2007, the European Investment Bank (EIB) issued the Climate Awareness Bond, the world's first climate protection bond, which was successfully repaid in 2012. Since then, the market segment has seen very dynamic growth. The initial issuers were mainly supranational organizations, but for some years now they have largely been displaced by corporates, such as Iberdrola SA or Netherlands-based TenneT Holding BV, all of which issue green bonds. More than 390 issuers currently have outstanding green bonds, with a global market volume of approximately USD 350 bn (data as of end-June 2018.)

Over the short and medium term, issuance activity in the green bond market looks set to remain very strong. After Poland issued the first sovereign green bond in December 2016, France followed suit with a EUR 7 bn issue in January 2017, which was later topped up repeatedly to total over EUR 14.7 bn. As a result of the Paris Climate Accord (Paris CoP 21), it is anticipated that in the near future other countries will follow the example of Poland, France and now also Belgium. More generally, the investment segment is likely to expand rapidly over the next few years given the enormous need for investment in measures to address climate change, and green bonds have established themselves as a reliable source of financing. The Luxembourg Stock Exchange, a key trading venue, in 2016 set up a separate segment for green bonds.

In terms of performance, green bonds no longer lag the overall market – to the contrary. Since the introduction in December 2013 of the main benchmark, the Bloomberg Barclays MSCI Global Green Bond Index, green bonds have outperformed the Bloomberg Barclays Global Aggregate Index by a total 2.37%.

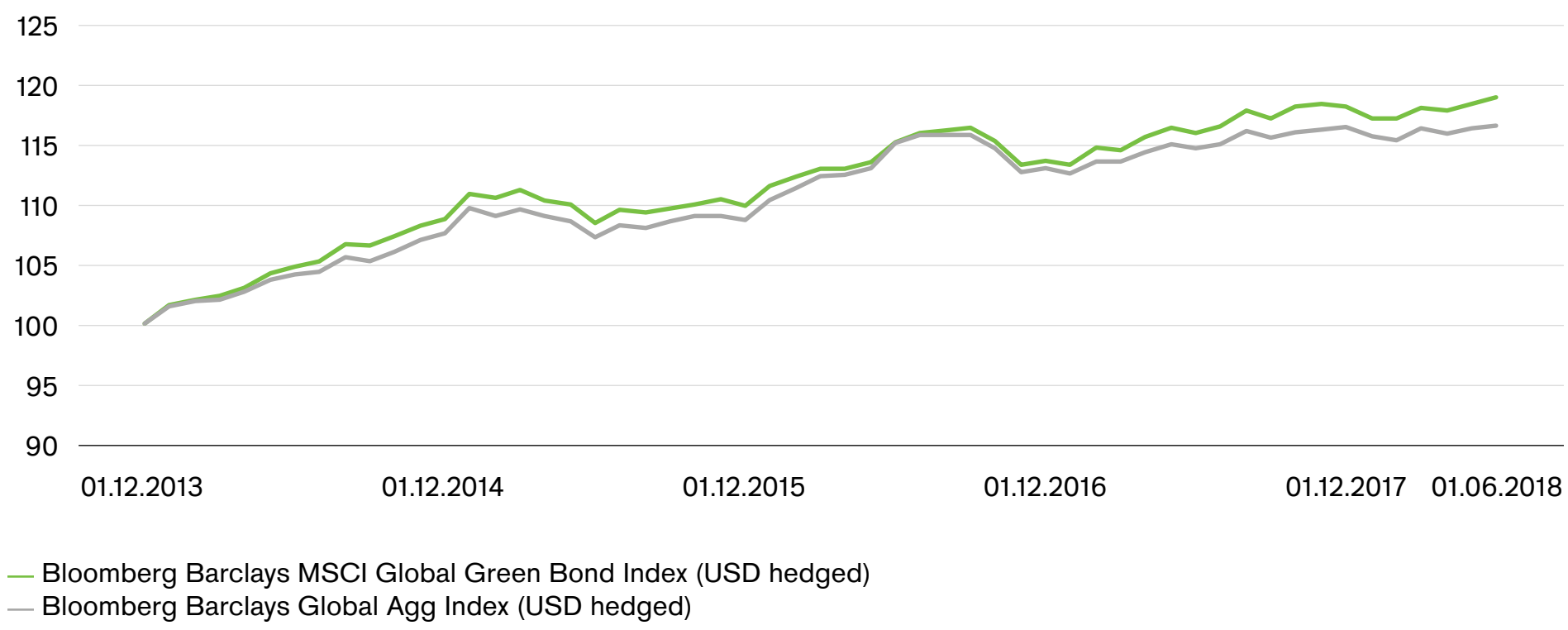
How are individual green bonds selected?
Successful green bond strategies combine traditional selection criteria with sustainability aspects. Companies engaging in controversial business activities are excluded from the investment universe. These activities involve the usual suspects such as arms manufacturers and so-called "sin sectors" (alcohol, tobacco, gambling and pornography).

The remaining investment universe is reviewed at the issuer level using various ESG criteria to identify the most sustainable companies. Last but not least, individual green bonds and/or the quality of the underlying green bond pro-jects should be reviewed. This is to prevent “weak” environmental projects – the sole purpose of which is to give issuers a green veneer (greenwashing) – from being supported.

Green bonds represent an excellent opportunity for private investors and institutional investors alike to combine their financial interests with direct contributions to environmental and climate protection. This growing investment segment allows investors to invest in green bonds in increasingly greater scope.

Performance comparison

Performance of the Bloomberg Barclays MSCI Global Green Bond Index compared to that of the broad market since index launch (duration-adjusted)



Source: Bloomberg, as of end-June 2018

Balanced sustainability

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Useful guideline

ESG criteria have proven to be a valuable and reliable guideline, also for balanced investment strategies.

Complying with sustainability criteria is one of the conditions investors can stipulate for their portfolios. In most cases they have other criteria in mind as well. Examples include the portfolio's composition in terms of asset classes, the risks taken, sectors to be excluded, regions on which to focus, or other criteria. A strategy whose starting point is a balanced approach across various dimensions seems ideally suited to taking ESG criteria into account, either as a core focus or an added extra.

When choosing their core portfolio, many investors opt for a balanced investment strategy that also takes their personal preferences into account. Balanced profiles like this are therefore offered in various formats. Firstly, they vary in terms of their risk profile and – a closely related aspect – their investment horizon. Secondly, investors need to decide if, for example, alternative investments or exposure to emerging markets should be permitted, or whether there should be a pronounced domestic market bias. These criteria ultimately boil down to restrictions for the relevant portfolio managers. But we should not forget that there are now more and more products on offer that meet sustainability criteria.

Sustainability as an investment restriction

At first glance, ESG – environmental, social, and governance – criteria add an extra limitation. Inevitably, the investment universe shrinks if certain corporations and securities that do not meet the defined ESG criteria are automatically excluded from the portfolio. A reduced universe is not detrimental to performance if the eliminated segments have increased downside risk, such as the coal industry.

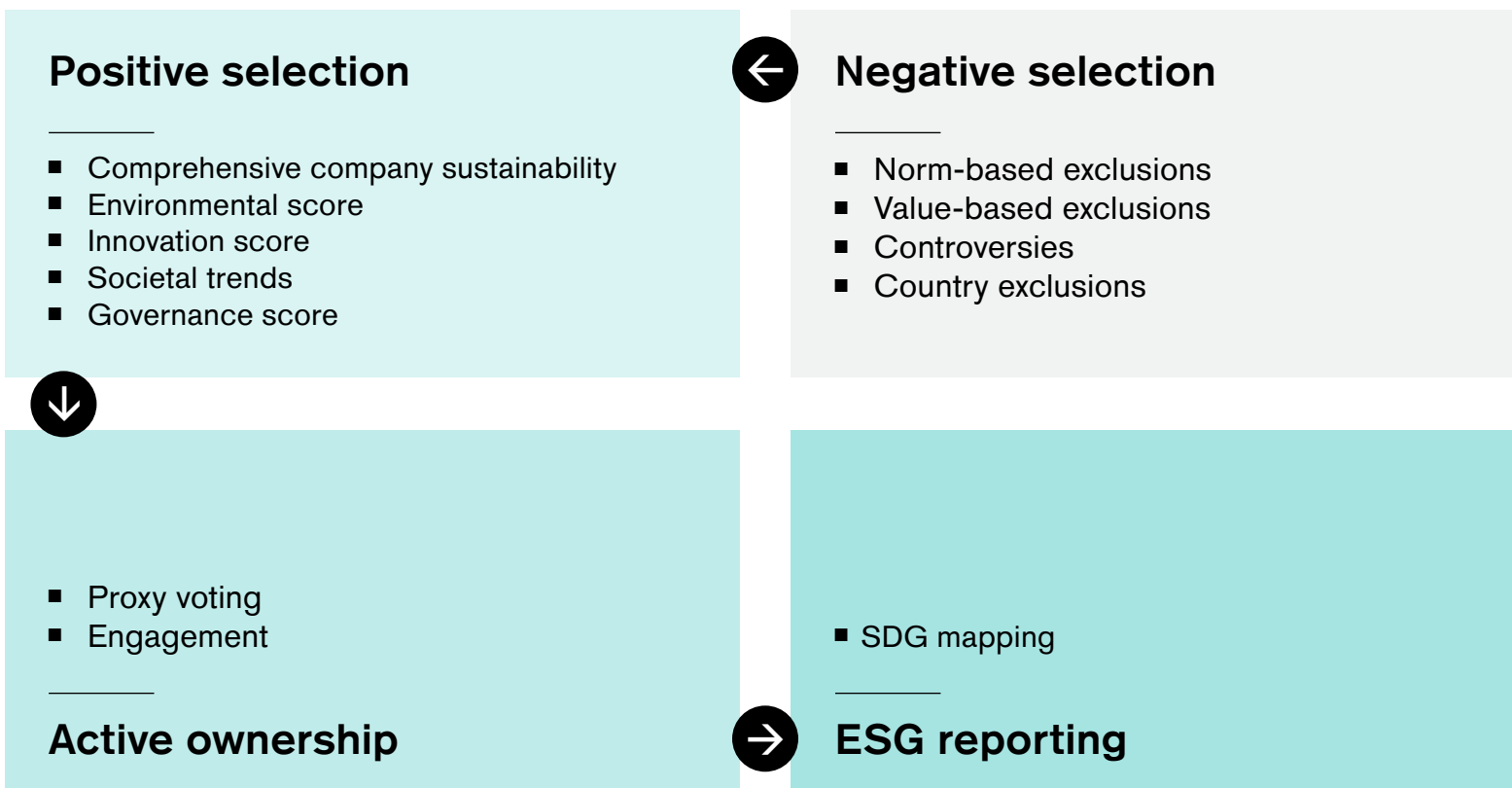
Many investors see adherence to ESG criteria as a positive in itself. This can be due to intrinsic motivation of the individual investor, akin to paying a different price for organic produce at the supermarket. In addition, many institutional investors are subject to restrictions in relation to responsible investment based on articles of association or their stakeholders' requirements. But it goes without saying that all these investors also have an interest in these preferences being implemented as efficiently as possible by keeping any losses to a minimum.

A professionally managed, diversified portfolio has a clear structure and a systematic investment process. The first priority involves determining and annually reviewing the long-term strategic asset allocation as per the desired risk/return profile. Portfolio managers have to check whether the asset classes in the target universe can be replicated using sustainable instruments. To take one example, the offering in the alternative investments space is frequently insufficient.

Tactical allocation based on short-term market expectations is intended to exploit opportunities in asset classes, regions, or currencies. The actual sustainability criteria will be taken into account as part of the stock picking process.

Elements/components of a holistic approach to ESG

A holistic approach involves more than just the widespread exclusion criteria. It is important that positive selection criteria are also incorporated into the investment process. Exercising voting rights as part of active ownership and dedicated ESG reporting are other key elements of a holistic approach.



Source: Credit Suisse AG

The benefits of ESG-focused investments

A meticulous and systematic approach entailing a broadly diversified, balanced investment solution can largely offset any losses caused by narrowing the investment universe due to ESG criteria. Corporations lacking awareness of environmental, social, or governance issues that could result in incidents harmful to their business will be identified and excluded during the sustainability analysis process.

It is now becoming more and more apparent that firms which meet ESG criteria frequently perform better than the broader market. A long-term approach, prudent management, and a focus on the needs of clients who are increasingly prioritizing sustainability – also as part of their consumer behavior – is proving to be beneficial across sectors and regions. Investors can benefit from a professionally managed and balanced strategy without running the risk of suddenly having either too much or too little exposure to certain regions, sectors, or asset classes. In addition, this type of solution is able to apply sustainability criteria systematically and consistently. This is no easy matter when it comes to multi-asset class portfolios.

A balanced approach to ESG – a compelling combination

The aim is to achieve a balanced solution that takes account of investors' preferences, the targeted risk/return profile, and the current market situation in constructing and continuously adjusting a broadly diversified portfolio. This offers a framework ideally suited to implementing an ESG-focused approach that deviates only marginally from the tried-and-tested investment process. It provides investors with a sustainable portfolio without significant shortfalls in returns – and with even the potential for excess returns – versus a conventionally managed portfolio.

Winners – why sustainable real estate pays off in the long term

Ulrich Braun

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The International Energy Agency (IEA) estimates that buildings are responsible for one-third of all CO_2 emissions, 40% of energy consumption and 50% of the consumption of all natural resources. Sustainability considerations are therefore a core element of investment decisions.

Growing significance of sustainability in the real estate sector

On May 21, 2017, the people of Switzerland voted in favor of completely overhauling the Swiss Energy Act. The latter was based on the Swiss Federal Council's Energy Strategy 2050, which envisages gradually halving buildings' energy consumption by this date and achieving a sixfold reduction in greenhouse gases. The coming years will see laws, ordinances, and building regulations tightened even further with a view to ensuring that these ambitious targets are met. Since January 1, 2018, the CO_2 levy on climate-damaging fossil fuels has been CHF 96 per metric ton of CO_2, marking a 700% increase since the tax was introduced in 2012. This example from Switzerland clearly illustrates how regulatory authorities across the world will be passing laws and regulations over the coming years that will exert a growing influence on the buildings and construction sector as well as on the management of real estate portfolios.

For their part, when they lease office space, businesses are increasingly seeking buildings that are highly sustainable. Prospective tenants generally base their assessment of a building's quality on sustainability ratings. There is still no standardized international label for sustainable real estate. As far as Switzerland is concerned, buildings have been certified with labels including Minergie, LEED, DGNB, greenproperty, and SNBS. The various labels assign different weightings to the three dimensions of sustainable construction – society, business, and the environment.

Thinking innovatively, building with a difference

The two residential towers of "One Central Park" in Sydney were designed by architect Jean Nouvel and PTW Architects. The bulk of the façade is now overgrown with climbing vines. The motorized heliostat suspended from the taller of the two towers is not only an architectural eyecatcher but also a real highlight. It captures and redirects the sun's rays down onto a garden of One Central Park.

The Minergie standard, for instance, focuses on a building's energy consumption, while greenproperty or SNBS are holistic labels that assess sustainability in terms of environmental, social, and governance (ESG) criteria.

There is also an ever-increasing demand from investors for sustainability aspects to be taken into account. There are two aspects to these considerations: Firstly, the investment properties should be of high quality and therefore able to stand the test of time. Secondly, many investors are now increasingly conscious of how maintenance, energy, renovation, and related costs can add up over a property's life cycle. If a property meets high standards of construction and energy usage, this can lead to large cost savings.

Targeted measures, measurable results
We take various measures in managing our real estate portfolios:

- transparency,
- operational optimization,
- investments,
- benchmarking, and
- labels/quality seals.

For all its investment products, the Global Real Estate unit at Credit Suisse follows the international standards for sustainability reporting, thus providing greater transparency for investors and optimizing the performance of the property portfolio itself. As well as systematically collecting details of energy and CO_2 consumption, water usage, and waste details are also recorded.

In 2012 we joined forces with Siemens in launching a program to systematically reduce the overall energy consumption and CO_2 emissions of existing properties. The aim is to cut total energy consumption and carbon dioxide emissions in buildings by optimizing operations, without the need for capital expenditure on construction work. Examples include directing air flows in air conditioning systems or optimizing heating curves and limits in the heating system.

For all its investment products, the Credit Suisse Global Real Estate unit follows the international standards for sustainability reporting, thus providing greater transparency for investors.

Better insulation of the building envelope and replacing heating systems are the most effective ways of cutting CO_2 emissions, offering huge potential. However, the necessary building work on walls, roofs, and windows – which may include full replacement – require sizable investment. The same applies to modernizing or replacing heating systems. This may involve replacing oil heating with a long-distance heating system, heat pumps or wood-fired heaters, or installing solar panels on roofs. The key consideration in this regard is not about generating extraordinary investment, but rather viewing the investments that are required as part of the normal maintenance and repair cycle from the sustainability perspective.

Regular verification and benchmarking of outcomes against the international market environment are crucial to the successful implementation and optimization of the relevant sustainability measures. Credit Suisse has been a member of the Global Real Estate Sustainability Benchmark (GRESB) since 2013. With more than 850 participating real estate investment managers and in excess of USD 3.7 tn in property values (as of 2017), GRESB offers the world's leading sustainability benchmarking. GRESB collects quantitative and qualitative data on companies, annual performance, and target achievement across all sustainability-related issues.

In 2010, Credit Suisse's Global Real Estate unit decided to aim for the greenproperty quality seal or comparable standards for all new buildings. The number of certified spaces and buildings has grown continuously since then. This year will see us obtain the greenproperty seal of quality for our 100th property.

Portfolio focused on sustainability

Sustainability considerations have also been incorporated into our products. Firstly, the annual reports provide transparent information on sustainability. Secondly, for several years now we have offered two lighthouse products that have a special focus on sustainable real estate investment. A Swiss fund was launched in 2009 which held real estate assets of CHF 2.45 bn as of December 31, 2017. The fund owns 43 properties and 4 construction projects. The fund focuses on new builds as well as purchasing buildings with sustainability certificates.

A Luxembourg-based fund for qualified investors was launched in 2016. This fund focuses on optimizing operations at properties, which involves purchasing existing properties in Europe and then upgrading the way in which they are managed. The fund is currently at an advanced stage of the purchase process for two properties, which would then take its holdings above the EUR 200 mn threshold.

The Exchange Vancouver

The building, which celebrated its opening in November 2017, is located in downtown Vancouver and is a prime example of a sustainable real estate project. The LEED Platinum-certified building complex consists of the Old Stock Exchange building (constructed in 1929) combined with a 31-story office tower. The successful symbiosis of a historical building and visionary new architecture has earned top accolades from professional architects. For example, it won the 2017 American Architecture Prize for Heritage Architecture and was also nominated for the International Highrise Award sponsored by the German Architecture Museum (DAM) in Frankfurt. The Exchange in Vancouver was developed from the ground up by a real estate fund of Credit Suisse Global Real Estate.

Grand opening of The Exchange in Vancouver

Holistic thinking. More important than ever.

Burkhard Varnholt reflects on the framework conditions for ESG investments, the aims of the UN's Agenda 2030, and investor behavior.

Burkhard Varnholt

Chief Investment Officer (CIO) Switzerland of Credit Suisse, Deputy Global CIO and Vice-Chairman of the Investment Committee of Credit Suisse

“Alfred Escher’s entrepreneurial initiatives show that sustainable thinking is always long-term oriented.”

When speaking with business associates or among friends, I often hear: “Well, you can’t have everything,” a phrase about which I am of two minds. On the one hand, a policy of renunciation can certainly have its merits. A sharing-economy model contributes to conserving resources and simplifies life. On the other hand, the message carries with it a note of resignation. When you say “You can’t have everything”, you forgo from the outset an optimal solution that might satisfy the various needs of different stakeholders.

Should investors want to have everything? The answer is a resounding “yes”. Investors should not focus exclusively on the economic upside of an investment but also incorporate ESG (environmental, social, governance) criteria. So the natural follow-up question is: Has homo economicus been rendered obsolete? The distinguishing characteristics of this type of individual, familiar to us from textbook economics, are his desire to maximize profits and the rational subordination of his decisions to achieving this objective.

Bottom line, homo economicus is here to stay – for the simple reason that, without decent returns and long-term value appreciation, our economic and social system is doomed to collapse. He must, however, broaden his horizon. Goal-setting is becoming more complex, more demanding – and more exciting.

Long ESG tradition at Credit Suisse

The commendable trend of investing according to ESG criteria is actually nothing new. Holistic thinking is an everlasting virtue, and the history of Credit Suisse is a particularly illustrative case in point. Already in his day, Alfred Escher was motivated by the idea of putting Switzerland on the road to progress and prosperity on multiple levels. He founded the Federal Polytechnic (now ETH) in 1854 and “Schweizerische Kreditanstalt” (forerunner of today’s Credit Suisse) in 1856. Then in the 1870s he became the driving force behind the construction of the Gotthard Tunnel – the world’s longest railway tunnel of his day.

The entrepreneurial initiatives of this pioneer cum patron helped to foster research, create jobs, and generate greater tax revenues, all contributing to the prosperity of the Swiss people. The effects of Escher’s deeds and actions proved sustainable then and continue to do so to this day. They demonstrate in exemplary fashion that sustainable thinking is always long-term oriented – even if, conversely, long-term thinking is not necessarily always sustainable.

Another example of Credit Suisse's commitment to ESG values is its signing of the United Nations' six Principles for Responsible Investment (PRI) in 2005, making Credit Suisse one of its first signatories. A voluntary framework initiated by investors, the PRI assists in developing a better understanding of the importance of sustainability, all the while integrating ESG criteria into investment decisions.

Strong arguments in favor of ESG investing

First, the momentum and broad appeal of ESG-related characteristics make a strong case for ESG investing. Moreover, they are reflected in all five of Credit Suisse's Supertrends – from millennials' new world of values and the needs of the silver economy to disenchanted societies in a multipolar world through to the opportunities offered by digitalization and the need for infrastructure investment.

Still, there are 7.6 billion other reasons to align investment decisions with the ESG framework – in point of fact, the world population is currently estimated at 7.6 billion, with some 230 000 new people added each day. And this on a planet that is not prepared for population sizes of this order of magnitude, a planet that – absent a solid, workable plan of action – is heading toward (further) regional disasters.

One such blueprint for action is Agenda 2030 for Sustainable Development adopted by the United Nations General Assembly in September 2015. The eradication of poverty and the fight against social inequalities are highlighted as the most formidable challenges and are targeted by the 17 Sustainable Development Goals (SDGs) at the heart of Agenda 2030 (*see "The UN Sustainable Development Goals"*).

Agenda 2030 is rightly based on the principle that SDGs can be achieved only in cooperation with the private sector. Private sector activities, investment and innovation are termed as "key engines of productivity, inclusive economic growth and job creation." According to Swiss economic umbrella organization economiesuisse, the SDGs are squarely in line with the self-interest of the economy: "Wherever poverty diminishes and legal security increases, markets grow. This results in prosperity and peace by means of trade and investment."

Financial service providers are in demand

Financial service providers also find themselves in demand. There is already a need for innovative services and products just to plug the funding shortfall at the macro level, which the World Economic Forum has estimated to be USD 2.5 tn. At the same time, families with low incomes are reliant on financial services at the micro level to gain access to education, healthcare, accommodation, and employment.

Credit Suisse's impact investing approach

Financial integration

- Providing access to financial services for people at the base of the income pyramid
- Credit Suisse has been the market leader in the field of microfinance and financial integration since 2002, with managed assets totaling some USD 2.9 bn

Higher education

- Supporting talented, underprivileged students
- Investment products to gain access to higher education, resulting in better employment prospects

Environmental protection funding

- Creating new, long-term, and diversified sources of income that can make a key contribution to the conservation of biodiversity and natural ecosystems

Fair agriculture

- Promoting responsible production methods, as well as supporting smallholders in obtaining better trade terms and minimum prices

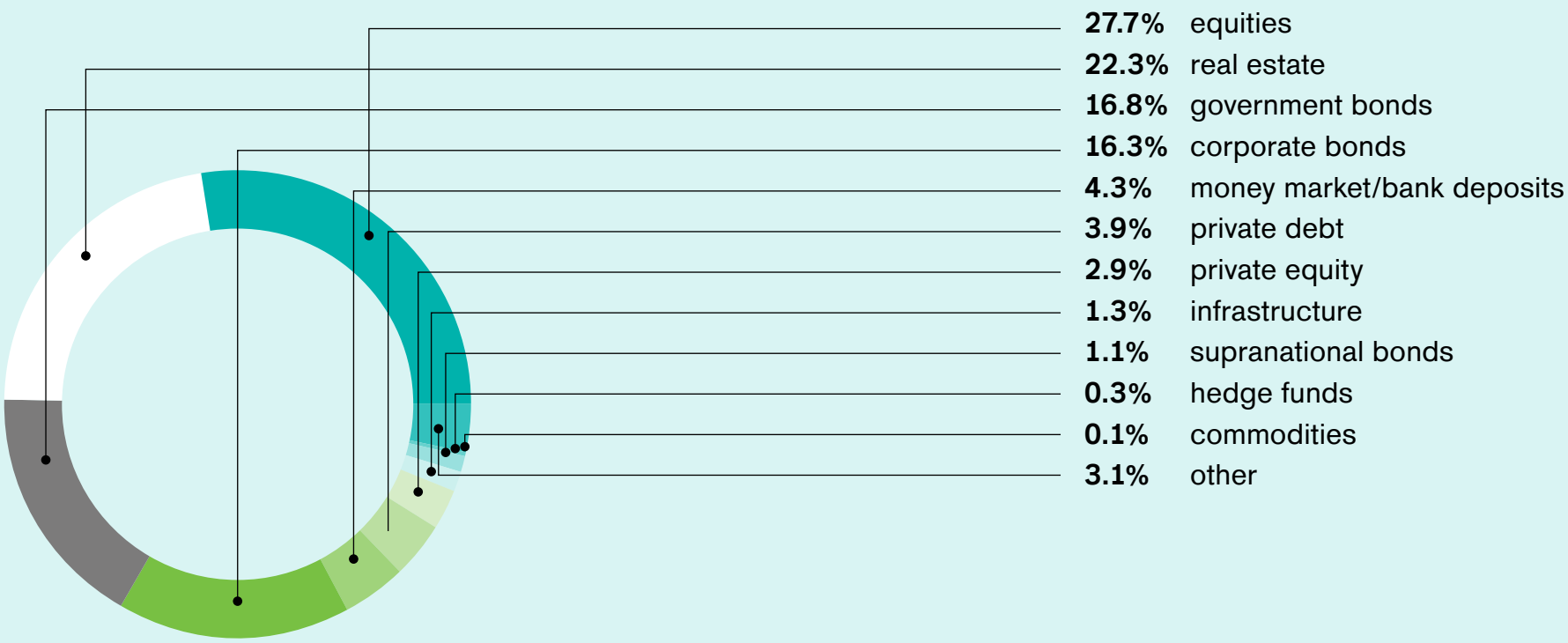
Social enterprises

- Providing financial support to SMEs committed to social aims

Source: Corporate Responsibility, 2017 Credit Suisse Report, page 34

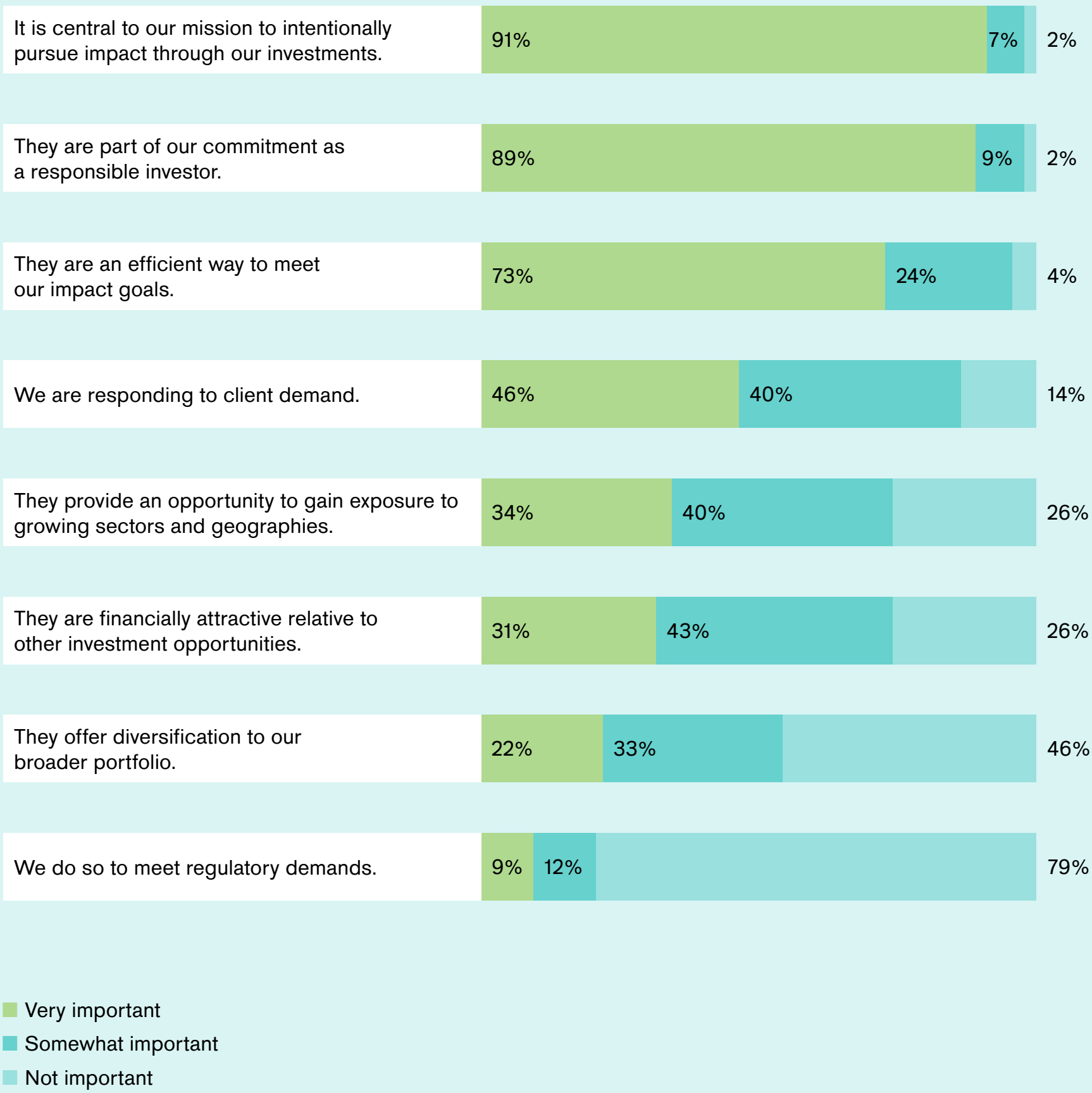
Equities and real estate are the most popular

Equities and real estate account for 50% of all sustainable assets in Switzerland, followed by bonds at around 33%.



Source: Swiss Sustainable Investment Market Study 2018, Swiss Sustainable Finance

The key reasons in favor of impact investing



Source: Global Impact Investing Network (GIIN), Annual Impact Investor Survey 2018, page 4

The Financial Initiative of the UN Environmental Program (UNEP FI), also supported by Credit Suisse, puts the annual capital needed to achieve the SDGs at an estimated USD 5–7 tn. The cooperation between asset owners and investment managers seeking profitable and SDG-compliant investment opportunities is explicitly highlighted in the UN Alliance for SDG Finance. The Positive Impact Initiative also invites banks, insurers, and investment companies to bridge the financing gap in a bid to achieve the SDG targets.

Institutional investors are the most active

The forerunners of sustainable investment in Switzerland are institutional investors, who by definition have long-term investment horizons. In 2017, fully 61% of all sustainable investments were held by institutional investors. According to the Swiss Sustainable Investment Market Study 2018 published by Swiss Sustainable Finance, the sustainable-investment market grew 81% to CHF 390.6 bn last year. Sustainable assets held by asset owners achieved the strongest growth, at 128%. Sustainable investment funds increased 47% while sustainable mandates were up 25%.

Public pension funds are leading the way, while smaller pension funds and notably private investors remain cautious. One possible explanation is that private individuals are still not all that familiar with the characteristics of sustainable investment products and their success metrics. The European Commission thus plans to introduce an obligation on financial service provider advisors to ask clients about and document their sustainability preferences.

Impact investing as best in class

Unfortunately, concepts like ESG investment and impact investing are difficult to define with any clarity. MSCI, one of the major providers of sustainable indices, breaks down ESG investments into three segments, each with its own investment objectives.[1] ESG integration assigns the highest priority to improving the risk/reward profile. Value-based investing enables investors to gear their portfolios to their own standards and values. Impact investing is brought to bear when investors wish to use their capital to trigger social or environmental change. Impact investors combine their investment approach with the clear expectation of being able to achieve a measurable social and environmental benefit and so come closest to a holistic way of thinking and acting.

1 MSCI ESG Research LLC, Foundations of ESG Investing, November 2017

Giving and com-passion

Founded in 2000, Room to Read is dedicated to the cause of children's literacy and has provided support to 12.4 million children in developing countries so far. Room to Read is supported by notable partners such as the Bill & Melinda Gates Foundation, the IKEA Foundation and Credit Suisse. This support is not just financial but also draws on the creativity, expertise, and passionate enthusiasm of its partners.

Credit Suisse has had a deep and longstanding partnership with Room to Read for over a decade. This relationship includes significant employee engagement running throughout the organization. Executive Board Members and other Credit Suisse senior executives have served on Room to Read's various advisory boards around the world, including in Asia, Switzerland, the UK, and the US. These leaders have personally championed fundraising efforts and have helped Room to Read launch new initiatives in new countries.

The support provided by Credit Suisse goes far beyond financial contributions and even extends to personal activism by employees. For example, Credit Suisse has also given office space so that the charity can minimize its overhead costs, and numerous Credit Suisse employees have donated their personal time to assist Room to Read's projects across the globe. A highlight for Credit Suisse employees is the Global Citizens Program (GCP), which selects volunteers to contribute their expertise in the field. Jill Jansen, a Director with Credit Suisse Asset Management in San Francisco, participated in the GCP with Room to Read in Africa. The program not only enabled Jill to contribute to the work of Room to Read but, in return, she herself gained a lot from the experience.

Jill Jensen's special field work in Africa

The impressions Jill Jensen took from her experience were powerful. She has served as Director of Alternative Investments at Credit Suisse Asset Management in San Francisco for seven years and has 22 years of experience in asset management. Through the GCP, employees are given the opportunity to volunteer for a charitable project for up to three months on full pay. Length of volunteering is determined by the project itself. Ms. Jensen chose to do capacity building in Tanzania. Her job was to support the Room to Read office in Dar es Salaam and its headquarters in San Francisco. "The work was nearly identical to my fundraising role in Asset Management," explained Jill Jensen.

She prospected the local market for companies that made a special point of supporting children's education in general and empowering disadvantaged girls in particular. She then established contact with the people responsible for donations, scheduled meetings with the Room to Read leadership team, and created a sales guide as well as templates for preparing and following up on meetings. She also helped the local Room to Read team to develop a brand profile in order to increase their visibility among potential donors. "My hope is that in some way I have kick-started their local fundraising efforts and have helped the team gain a deeper understanding of the fundraising process," said Ms. Jensen.

Moving school visits

Jill Jensen was not satisfied with simply sharing her professional expertise and practical tips. During her stay in Tanzania, she also took the opportunity to gain new personal experiences. This included visiting two schools in the village of Bagamoyo, where she was able to see the impact that the Room to Read program has on children's literacy and girls' education in action. At Buma Primary School, she experienced the eagerness to learn and enthusiasm of 450 children aged 5 to 13. She also observed a class for girls at the Kiromo Secondary School, attended by 257 girls and 180 boys. In addition to teaching traditional materials, the class focused on life skills, i.e. empowering girls to make use of their talents and rights in a society still shaped by old traditions. "All of the Kiromo school's top ten students were girls," noted the asset management expert with delight, and she pointed out another Room to Read success story: "The dramatic reduction in pregnancies and drop-out rates for girls."

The challenge

758 million
people are unable to read and write

2/3
of those who are illiterate are female

250 million
children are not learning in primary school

Track record of Room to Read since 2000

12.4 million
children received support

> 22 million
children's books distributed

> 10 000
teachers and librarians trained

> 55 000
girls received support

> 4 700
secondary school diplomas since the girls' education program started

Source: Room to Read Factsheet

Looking back on her trip to Africa, Jill Jensen also has many wonderful memories of kind people. “I laughed, cried, and bumped along the dirt roads of Dar es Salaam with my driver Mr. Moyo, spoke terrible Kiswahili, and ate plenty of Swahili pilau with the Room to Read staff during our daily lunches on their office’s rooftop terrace.” Despite the different currencies, the end result for Jill Jensen was clearly a win-win.

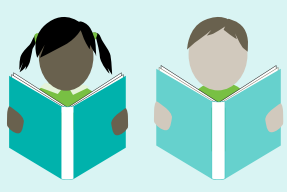
Education is the key to a better world

The main goals of Room to Read are children’s literacy and advocating for gender equality in education across low-income countries in Asia and Africa. “World change starts with educated children” is the credo – one that Credit Suisse wholeheartedly shares. For example, the bank has supported pilot projects to help children in Laos, Sri Lanka, and Vietnam. According to its 2015–2019 strategy plan, Room to Read hopes to have taught 15 million children to read and write by 2020.

The Room to Read approach

By collaborating with local communities, partner organizations and governments in:

Literacy
Primary school children will become independent readers



Gender equality in education
Girls will complete secondary school with the skills necessary to negotiate key life decisions

→ There will be

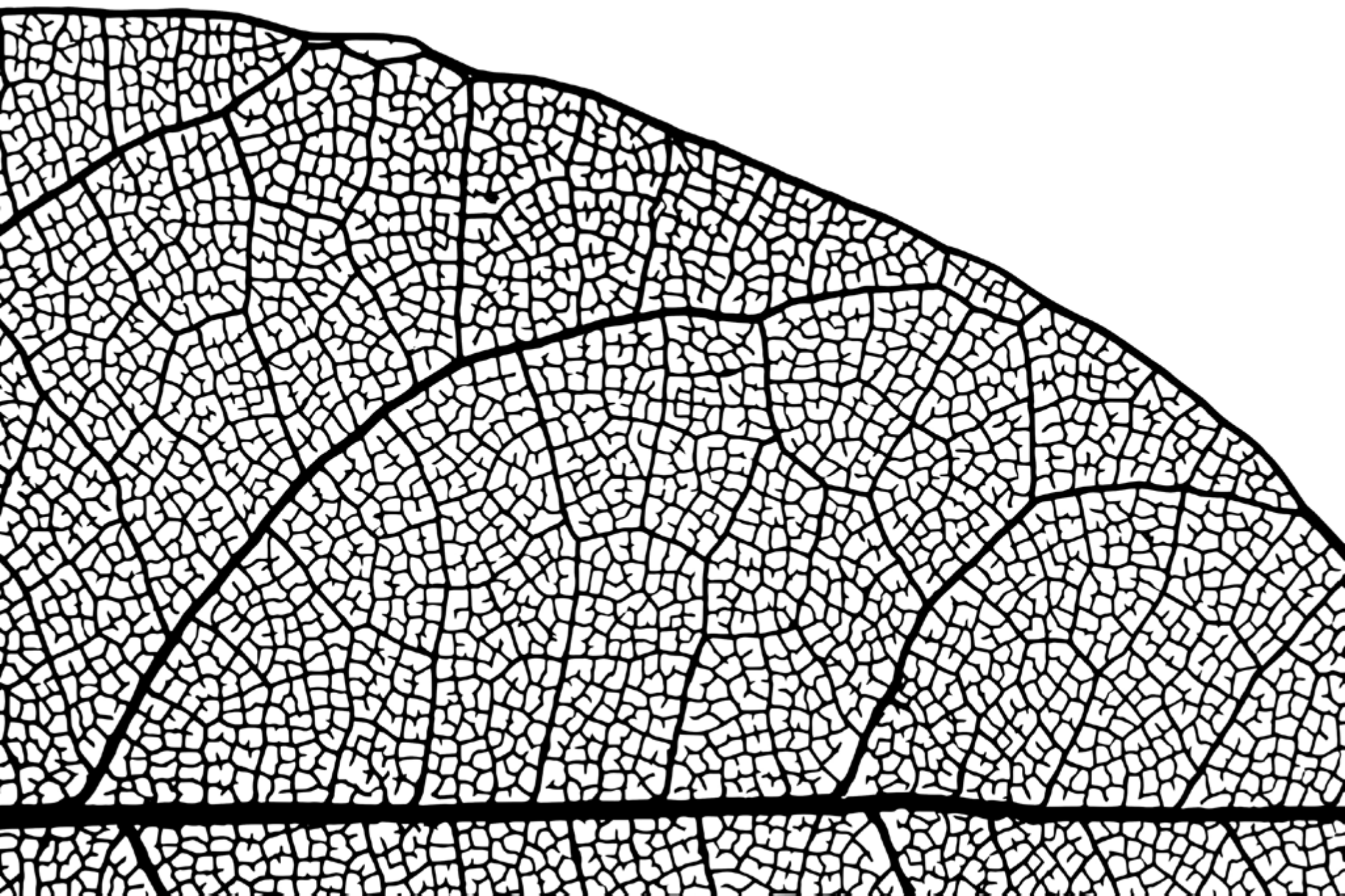
More educated children in the world

→ Which will result in

Empowered active, and responsible citizens

Source: Scaling Our Impact, Global Strategic Plan 2015–2019

ESG Trends 2018



01 Especially in emerging markets, ESG criteria can be the key to recognizing quality in investments.

Emerging market ESG indices show consistently higher performance quality than the broader market. Attaining ESG criteria is an indication of responsible and consistent management beyond the confines of sustainability, and is a sign of a company able to rise above its market environment. A good ESG score is a performance factor independent of an actual ESG strategy.

02 ESG-based analysis is increasingly making its way into fixed income, adding its own distinct flavor to the assessment of credit risk.

The push of ESG into fixed income is two-pronged. On one hand, client demand has accelerated across the board, including among fixed income investors. On the other, as ESG analysis has become more focused and sophisticated, it has been able to target and mitigate specific downside risks relevant to the performance of fixed income assets.

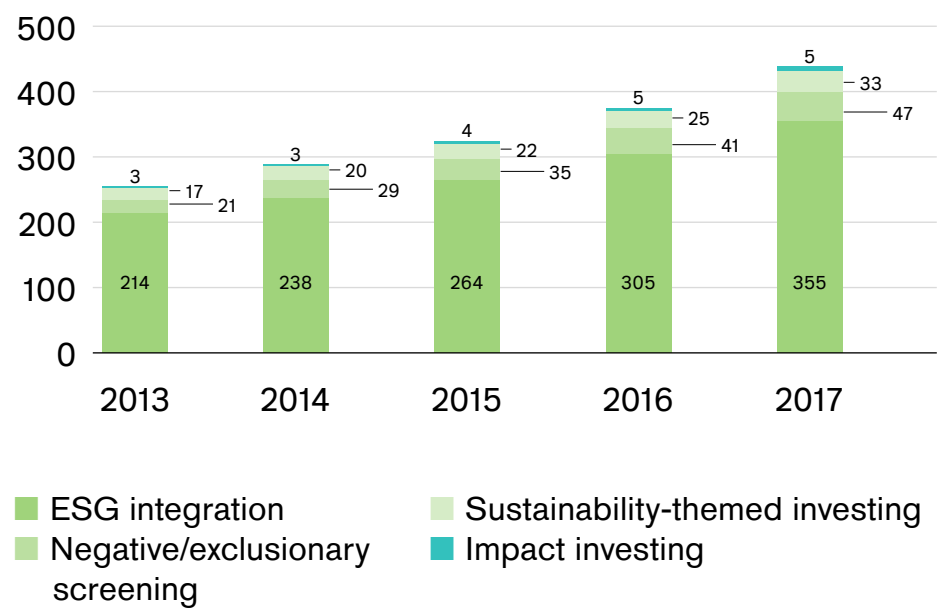
03 Voluntary disclosure of ESG metrics will only take us so far.

Companies are conflicted in how much they want to tell us. While stakeholders demand transparency, management is concerned about the risks of disclosing too much and losing control of their own story. For an ESG strategy to successful, therefore, it is essential to rely on multiple data sources. Next to voluntary sources, these include mandatory disclosure, media, NGOs, and governments. We expect ESG data to become more streamlined and comparable as demand surges.

04 European ESG investments by approach

ESG investing has grown across the board over the past five years, whereby ESG integration (into largely existing portfolios/strategies) remains the dominant approach by a long shot. Impact investing, though still a niche, has enjoyed strong growth rates, and we believe this will continue as the concept becomes more widespread and the methodology more focused.

European ESG Mutual Fund Assets Under Management by implementation type, 2013–2017
(in EUR bn)



Sources: MSCI: 2018 Trends to Watch, January 2018; chart: Morningstar, Cerulli Associates, note: Figures exclude funds of funds and exchange-traded funds.

Gain further insights at these Sustainable Finance Events

August 30–31, 2018, Davos

Credit Suisse Financial Forum Davos 2018

The first day of this client event is titled “Sustainable investing – developments, motives and trends.” The demands placed on responsible investors will be among the topics discussed by renowned experts from the business and scientific communities, as well as by Credit Suisse representatives.

October 22–26, 2018, Geneva

World Investment Forum

Numerous heads of state and government, as well as CEOs, will give presentations at this four-day event organized by the United Nations Conference on Trade and Development (UNCTAD). The primary focus will be on global challenges and promising solutions through investment.

October 30–31, 2018, Paris

GIIN Investor Forum 2018

The most important forum worldwide for impact investors is organized by the Global Impact Investing Network (GIIN). More than 1 000 participants are expected to attend. Credit Suisse will be represented by Marisa Drew, CEO of the Impact Advisory and Finance (IAF) Department, and Anja Hochberg, Head of IAF Investment Solutions and Products, who will be joining the expert panel discussions.

January 9, 2019, New York

6th Conservation Finance Investor Conference

The conference will take place at the Credit Suisse offices located at Eleven Madison Avenue in New York City. It is one of the leading annual conferences devoted to examining the financing landscape for nature conservation projects.

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