BPS (SUISSE)

Striving to achieve increasingly Sustainable Finance

Opinions, considerations and prospects of your trusted Bank

Fifth Newsletter
February 2025

Summary

IMPRESSUM

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Still
“Thinking Sustainable”?

How much has the sustainability paradigm in investment changed in the last five years? A lot. The perception of the professional investor is that we’re witnessing a progressive and inexorable loss of financial dominance (where and how to allocate capital in a way that is relevant to an expected return/risk ratio, taking into account the negative external factors arising from environmental, social and corporate governance aspects) in favour of regulation and compliance, within an intricate, changing and barely legible system of rules.
Read like this, sustainability in investment seems to be turning into yet another regulatory obligation in itself. In reality, there are many multifaceted aspects involved.
On the one hand, regulation is necessary; avoiding greenwashing and all other misleading practices when offering a financial product on the market is sacrosanct, especially when coupled with declared environmental impact objectives. On the other hand, measuring “how sustainable” a financial product is – and with what criteria and over what kind of time frame – is a complex and not unambiguous process. Just as the harmonisation of data, the use of ratings and the definition of industry standards is still an open point of discussion and, in our opinion, not an easy one.
However, to simplify and rigidly define the methods involved would result in yet another box-ticking exercise, moving away from the principles of efficient capital allocation and leading to a concentration on just a few securities and sectors capable of artificially altering risk premiums.
Despite these obvious contradictions and a volatile regulatory and sectoral environment, in 2025 we continue to maintain a constructive approach to the topic of sustainability, confirming what is stated in our Sustainable Investment Policy.
In short, we believe! Indeed, we believe that the principles underlying the concept of sustainability make sense from an investment point of view and that regulatory uncertainty or complexity should not be allowed to undermine the intrinsic value of sustainability.
Our objective therefore remains unchanged: to maximise return over risk, but while taking sustainability into account by demonstrating it with facts. Including environmental, social and corporate governance risk parameters – using a systematic and measured approach – in the analysis and construction of portfolios doesn’t upset the investment process, but refines it in the pursuit of better results by employing a return/risk logic and considering sustainability parameters as a third dimension of structural analysis.
Finance must therefore remain the dominant aspect in order not to lose what it means to invest, combined with the common sense that can be inferred from the rules that will gradually be imposed by the regulators.
So, in answer to the question “**THINKING SUSTAINABLE?**”, we say: “**YES!**” and we’re re-publishing our ESG newsletter which, in this edition no. 5, discusses the main market trends in ESG and deals with the Swiss equity market as a specific topic.
The present moment in history also makes for a particularly interesting topic and presents an opportunity to discuss the evolution of “green” policies in the United States following the election of Donald Trump. We then move closer to home to discover the role of a sustainability manager within a Swiss bank and conclude with the usual “Sustainability Tips”.

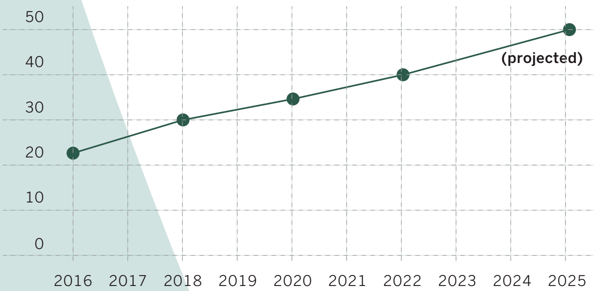
Roberto Mastromarchi, CFA, CESGA
Vice President Executive Board,
Head of the Front Office Division BPS (SUISSE)

ESG TRENDS – WHERE ARE WE TODAY?

As predicted, the year just ended turned out to be generally positive for sustainability-related investment strategies, with a moderate growth in the number of people adopting them, slightly higher than in 2023 – a year characterised by uncertainties and wars that disrupted the global landscape.

The result that the figures show is very clear: we haven't yet returned to the levels reached in 2020/2021, but growth remains steady, year after year, and the sharp reversal of the trend we saw in 2022 does seem to be behind us now.

Total global ESG assets (trillion USD)



Source: Bloomberg Intelligence

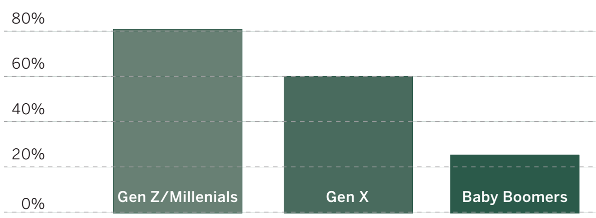
In 2024, therefore, ESG investments continued to grow, with total assets under management (AUM) increasing by around 10% from their USD 41 trillion starting point, an improvement on the 7.9% reached in 2023. Growth was mainly driven by an expansion of the relevant regulations and increased demand from institutional and retail investors, particularly the Millennial and Gen Z generations, who show at least 80% interest in sustainable investment solutions.

Geographically, Europe retains the lead with around 85% of global ESG assets, supported by the now standardised EU taxonomy and green bonds. In contrast, the US shows slower growth due to political divisions over ESG, but the Inflation Reduction Act is stimulating investment in renewable energy and low-emission sectors. And finally, Asia is growing rapidly with a significant increase in sustainable investments related to renewable energy and infrastructure, particularly in China and Japan.

The most popular investment strategies are still passive ones, with ESG ETFs continuing to record the highest capital inflows. In the year just ended, growth rose to 20% over the previous year as the combination of transparency and low costs is always popular among investors. In terms of thematic investing, sectors such as renewable energy, clean technology and water management have experienced a boom, attracting over 30% of total capital inflows owing to the global focus on decarbonisation and the circular economy. Lastly, there are social bonds, i.e. instruments dedicated to raising funds to promote social projects, which received significant inflows and grew by 15% this year, supported by the demand for health and education infrastructure in emerging markets.

The other side of the coin, however, is the traditional ESG mixed funds, which have shown a slowdown from previous years and a 10% drop in inflows compared to 2023, partly due to rising expectations of transparency and measurable impacts that some funds fail to meet. In turn, investments in carbon credit markets – carbon credits – were stable but did not reach the expected peak due to doubts about the integrity of some voluntary credit projects.

Investors interested in ESG issues by age group



Source: Stanford University

"2024 represented a **turning point** for the adoption of **sustainable investments**."

Finally, 2025 is expected to bring further developments in the sustainable investment landscape, with assets invested globally in ESG strategies projected to exceed USD 50 trillion, accounting for 15% of total AUM in investment products and growing at an average rate of 12% a year. Sustainable investments will increasingly shift to private markets such as private equity and venture capital, attracting capital for sustainable technology start-ups and green infrastructure. There will also be more regulation in this area, with the expansion of climate reporting regulations in the US and Asia, along with more complex taxonomy criteria in Europe, which will favour funds with advanced transparency practices.

In conclusion, there is no doubt that 2024 represented a turning point for the adoption of sustainable investments, with an increasing focus on specific strategies and high-impact sectors. The year 2025, in turn, is likely to see these trends accelerate, with an even greater focus on transparency, technological innovation and the integration of ESG criteria into new market segments.

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Investment Advisory BPS (SUISSE)

Sources:

ESG Investing Trends and 10-Year Outlook | Morgan Stanley

The Future of ESG 2024: Trends and Predictions

Eight ESG trends to watch in 2024 – Deutsche Bank

ESG Investing Statistics, Data & Trends (2024)

Global ESG Funds Attract $10.4 Billion in Q3 2024 | Morningstar

THE SWISS STOCK MARKET
A SUSTAINABILITY ASSESSMENT

Let's dive straight in with the conclusion – which might also seem obvious – that the Swiss stock market is generally considered to be good in terms of ESG (environmental, social, governance) sustainability.
This is due to a set of laws and regulations in this area that could be described as advanced, as well as a structurally sound economy that allows companies to spend both time and money in adopting sustainable practices.

But let's first look at Switzerland as a nation. According to a study by ZKB, which ranked nearly 200 countries on their "sustainability", Switzerland ranks third – an improvement on the previous year's fifth place. Only some Nordic nations (Denmark and Iceland) achieved higher rankings.[1]
As for companies, however, an article on the NZZ Sustainable Switzerland platform tells us: "Studies show that three-quarters of Swiss companies have invested much more funds in ESG activities in recent years, despite growing uncertainty and crisis. They make this choice not only under the pressure of increasingly stringent regulatory requirements but also to defend their own interests. They assume social, ethical and ecological responsibility, thus ensuring their economic success over time".[2]
In addition, an article on the economiesuisse portal reports the following: "...most Swiss enterprises correctly apply the rules on responsible business management. Due diligence performed by companies in the areas of human rights and the environment is particularly emphasised".[3]
But now let's turn to some more specific aspects:

- When it comes to environmental (E) matters, the lack of fossil fuel deposits, which makes Switzerland dependent on foreign energy sources, and the direct and indirect impact of global warming on the economy (winter tourism, the agricultural sector, natural disasters, migration, etc.) make us an ideal place to promote the transition to a low-carbon economy. In this regard, Switzerland has armed itself with, among others, the Federal Act on the Reduction of CO2 Emissions and the Federal Climate and Innovation Act (2023), which aims to make all Swiss industry climate-neutral by 2050.
- With regard to social (S) aspects, Switzerland has advanced labour policies and strong standards for gender equality and human rights protection. In addition, many listed companies adopt strict ethical codes and inclusion and employee welfare policies. However, to date, with regard to wage inequality and the gender gap in management roles, Swiss companies are not among the top performers according to the rating company MSCI Inc.
- - On corporate governance (G), Swiss standards are among the best in the world with stringent transparency and control requirements for listed companies.

We, as the financial sector, are subject to – among others – the Swiss Financial Services Act, which introduced the duty to record ESG preferences in the suitability and appropriateness review when selling

financial services, and the Swiss Bankers Association (SBA) guidelines against greenwashing or the Asset Management Association Switzerland (AMAS) self-regulation on sustainable investments.
These regulations have a direct impact on our Bank's activity and in particular on the management of the Popso Swiss Equity fund, which takes ESG aspects into account using data supplied by our provider Moody's. In short, we exclude companies that do not meet certain requirements (e.g. a minimum ESG rating) with the aim of having overall scores above our benchmark (SPI). Some companies, even well-known ones (e.g. Swatch or Baloise), are automatically excluded from the portfolio for this reason. We also try to integrate ESG analysis into our base analysis when selecting securities by using, in part, the analyses of brokers who, nowadays, also evaluate most securities from an ESG perspective. As this area is constantly evolving and developing, we're always looking for new ESG indicators that can improve our fund management.

> "According to a study, **Switzerland ranks third** and is improving compared to the 5th place of the previous year."

To conclude, we can say that the Swiss stock market is well positioned at the global level thanks to the country's solid regulatory framework and its companies' commitment to sustainability. We therefore agree with the BAK Economics "Swiss Sustainability Gap 2024" study (footnote 4), which essentially reveals that the Swiss economy is making good progress towards achieving sustainability, while also acknowledging that there is still room for improvement, especially with regard to ecological components. From this point of view and also bearing in mind the extreme weather events that have closely affected Switzerland in recent years, we expect and hope for an increasing commitment from everyone.

[1] ZKB: Sustainability Country Rating
[2] Sustainable Switzerland
[3] The Federal Department of Foreign Affairs and the Federal Department of Economic Affairs commissioned the consultancy firm ECOFACT AG and the Department of Sociology of the University of Zurich to analyse how Swiss companies implement due diligence procedures to achieve responsible business management.
[4] BAK Economics: Swiss Sustainability Gap 2024

Pietro Codoni
Portfolio Manager BPS (SUISSE)

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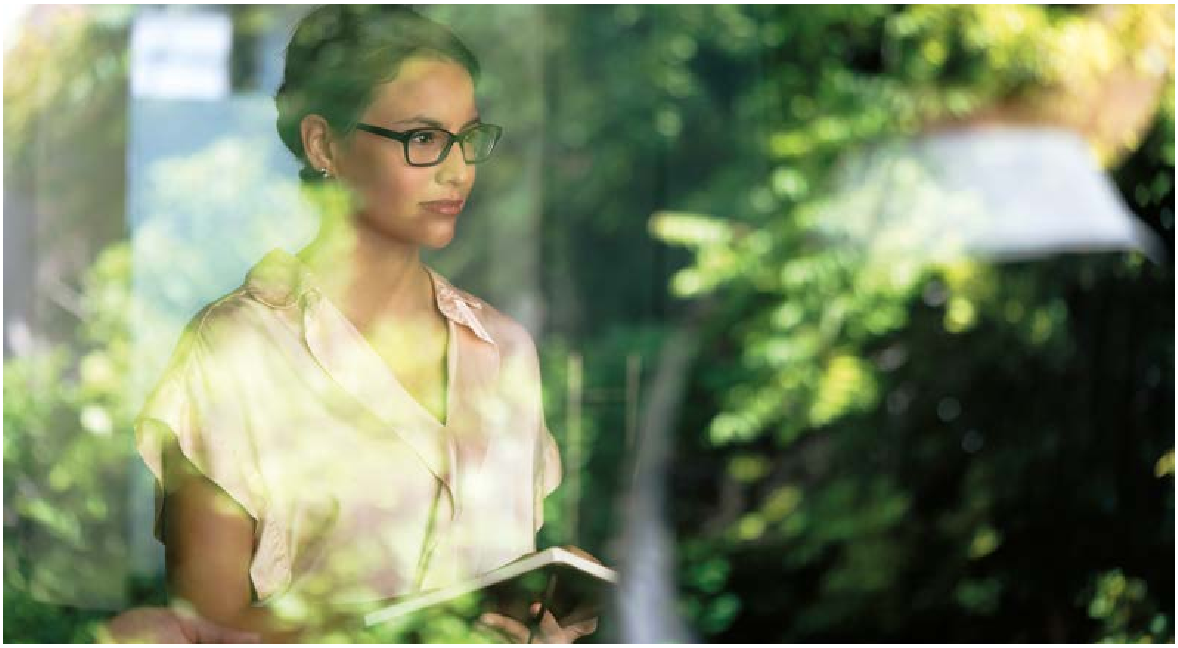
HOW TO ORGANISE SUSTAINABILITY IN A BANK

THE ROLE OF A SUSTAINABILITY MANAGER



The banking sector has undergone a profound transformation in which sustainability has established itself not just as a mere trend, but as an essential strategic element.

- What does integrating sustainability into such a complex organisation involve?
- What is the role of a sustainability manager?
- How will this position evolve in the coming years?

Today, the role of sustainability manager is increasingly becoming a necessity when it comes to ensuring that ESG (environmental, social and governance) principles are integrated into business processes, which transforms them into competitive and sustainable advantages.

Why is sustainability so important for banks today?
In Switzerland, the regulatory framework puts an emphasis on the urgency of adopting sustainable models. The Swiss Climate and Innovation Act (CIA) aims to achieve climate neutrality by 2050 and requires the financial sector to direct capital flows towards environmentally responsible investments.

Banks, through their ability to allocate financial resources, play a decisive role in influencing society and the environment. But responding to regulations isn't the only motivator here: there is a growing demand among clients, investors and employees for institutions that reflect sustainable values. Integrating sustainability means attracting talent, enhancing reputation and strengthening competitiveness.

The key role of the sustainability manager
This is a very important role; the sustainability manage is the main contact for all sustainability initiatives in the bank.

The position involves four main responsibilities:
- **Developing ESG strategies:** defining measurable goals, creating priority projects and encouraging the organisation to adopt sustainable products and services.

- **Ensuring regulatory compliance:** monitoring national laws such as the CIA and international regulations such as the SFDR and Taxonomy Regulation as well as keeping track of developments to ensure compliance with new regulations.
- **Promoting corporate culture:** raising awareness and training employees to help integrate sustainability into their daily work.
- **Measuring and reporting:** drawing up transparent reports according to international standards such as the European ESRS or GRI Standards.

How is sustainability organised in a bank?

Integrating sustainability in a bank requires a structured approach involving all corporate functions.

1. Clear governance

ESG Committee: creating a multi-disciplinary body with representatives from the main corporate functions (e.g. risk, credit, investment, marketing, HR) to ensure an overall view and strategic decisions.

Appointing a sustainability manager: giving this role the necessary authority to influence relevant decisions.

2. Integration into business processes

ESG criteria in consultancy and credit: integrating environmental and social assessments into processes for granting credit, promoting projects with a low environmental impact and financial products that comply with ESG criteria.

Operational efficiency: reducing environmental impact by adopting renewable energy, virtuous behaviour and digital solutions to reduce resource consumption.

Social relations and ethics: emphasising human aspects and promoting responsible governance, for example by adopting the equal pay model, a certification guaranteeing equal pay. This approach reduces reputational risks and promotes ethical management in line with the expectations of a contemporary society.

3. Tools for measuring and transparency

Monitoring ESG performance: using advanced systems to analyse and improve the impact of operations.

Transparent reporting: publishing periodic reports in accordance with recognised standards and ensuring clear and reliable communication.

4. Involving stakeholders

Employees: raising awareness through training programmes to encourage employees to integrate sustainability into their work.

Clients: promoting sustainable products and services through targeted campaigns and personal advice.

5. Networking to strengthen impact

Collaborating with trade associations, government institutions and other financial industry players to share best practices, develop innovative solutions and contribute to common standards.

> "**In Switzerland**, the regulatory framework highlights **the urgency of adopting sustainable models.**"

The challenges a sustainability manager faces

The increasing complexity of the role of sustainability manager brings several challenges:

- **Resistance to change:** integrating sustainability into established processes takes time and sensitivity.
- **Transparent communication:** avoiding the risk of greenwashing by ensuring that ESG statements are supported by verifiable data.
- **Impact measuring:** creating reliable metrics to evaluate the results obtained.

The evolving role of sustainability manager

In recent years, this role has shifted from operational figure to strategic leader. Studies show that this role reduces sustainability risks and actively contributes to improved company performance.

It is thus becoming increasingly relevant in risk management, compliance and the development of sustainable technologies.

Conclusion

Integrating sustainability into banking isn't just a matter of satisfying regulation, but a strategy for creating shared value. The role of the sustainability manager, at the heart of this transformation, ensures that ESG objectives are translated into concrete actions.
With a structured and collaborative approach, banks can contribute to creating a more responsible future while maintaining their competitiveness.

Tiziana Brenna
Corporate Social Responsability Manager
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Sources:

FINMA sustainability guidelines

Swiss Bankers Association (SBA) guidelines

AMERICA'S "GREEN" TURNAROUND UNDER TRUMP

"I grew up on a farm, my family raised chickens, they had a pick-up truck and still have one today… I'm not interested in electric cars and frankly I never thought that this 'new technology' would be so important in our region".

MASSIMILIANO HERBER
RSI Correspondent in the United States

This is the answer the town manager of Liberty, a small town in North Carolina, gave me[1]. Thanks to the Biden administration's green policy, Toyota has decided to build a huge factory to manufacture batteries for electric vehicles in this small agricultural county. A USD 14 billion dollar investment that will employ 5,100 people by 2025. And Liberty isn't alone in this. A little further east, there are plans to build a factory producing eco-friendly Vietnamese cars and a building site is in progress further south to construct a microprocessor plate plant. These are USD 4 and 5 billion investments respectively, possible thanks to the policies of the Democratic President, and together will result in 9,300 new jobs. In November, Donald Trump received 78% of the vote in this county; four out of five inhabitants voted for him.

The rural pragmatism of Liberty's town manager explains the only apparent contradiction of the election outcome and offers a key to imagining the future green policy of the Trump presidency. Despite labelling it as "crazy" in his election campaign, the President-Elect won't erase the environmental policy of his predecessor entirely. This is because many subsidies were agreed with the automotive industry – a major industry in the US – and also because the main beneficiaries[2] of the Energy Policy and Conversion Act were, paradoxically, conservative states, such as North Carolina, Georgia and Texas. Donald Trump, however, is intent on overtly emphasising the impending departure from his predecessor, to show himself as less "green" in his actions, not just his words. It is probable, indeed certain, that, as early as the day of his inauguration, he will scrap Biden's requirement for two-thirds of all vehicles sold in the US to be electric by 2032. The USD 7,500 tax rebate for hybrid car buyers, which didn't go down well with the oil companies or with Elon Musk, who has seen Tesla's internal competition grow during the Democratic presidency, also seems destined for the scrapheap.

The Trumpian slogan worrying environmentalists is "drill, baby, drill!". This is the repeated campaign promise to unleash America's energy sector and pursue energy autonomy by leveraging fossil fuels. The US President doesn't have unlimited room for manoeuvre on this topic; he may be able to influence drilling, but the market ultimately decides. Under the Biden administration, for example, US oil production has reached new records. Donald Trump will seek to minimise bans on new wells on federal lands, streamline procedures for acquiring new permits, repeal environmental regulations for coal or gas power stations, will not oppose fracking and will give the green light to new liquefied natural gas exports. The recently announced withdrawal from the Paris Climate Agreement will be a symbolic gesture above all; climate benefits will simply not be a priority in Trump's energy policy.

The climate change scepticism of the energy secretary candidate Chris Wright (a proponent of fracking, nuclear power and geothermal energy) would seem to confirm all ecological fears. But when it

comes to energy, the most repeated mantra among Republicans is "all of the above"[3]: that is, an energy policy that pursues cheap petrol and supports natural gas, but at the same time invests in every other form of domestic energy, such as coal, but also renewable energies, such as solar and wind.

> "**No one** in the future **Trump administration will distinguish between fossil fuels and clean energy sources.**"

No one in the future Trump administration will make the distinction between fossil fuels and clean energy sources; the adjective "green" will likely be replaced by "alternative" and, with a bit of marketing – perhaps somewhat reluctantly – it will be recognised that, even in the green (sorry, alternative...) energy sector, business can be done, jobs created and technology advanced. Everyone seems rather fond of repeating the prediction that more attention will be paid to cost than to the climate, but Donald Trump knows that if you don't want to leave domestic market shares open for competitors (read "China"),[4] you need to take a nimble and pragmatic approach. While "drill, baby, drill!" may not always be the refrain of his administration, what really matters to Trump and the business community that supports him is dollars, baby, dollars!

[1] Telegiornale RSI, 1.11.2024
[2] 80% of investments under the Inflation Reduction Act (IRA) and the Chips Act ended up in Republican states, Gillian Tett, Financial Times, 15.08.2024
[3] Jeva Lange, Heat Map, 19.7.2024
[4] Bentley Allan and Tim Sahay, Johns Hopkins University, 6.11.2024

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DID YOU KNOW THAT...?

SUSTAINABILITY TIPS

Turning Swiss CO_2 into Icelandic rock

Imagine capturing CO_2 from industry before it enters the atmosphere and turning it into rock, permanently. This is the idea that Swiss researchers are exploring as part of a pilot carbon capture and storage (CCS) project. These are technologies that remove CO_2 from certain industrial processes, such as sewage treatment or steel production, and store it deep underground. This solution should enable Switzerland to reach the goal of net-zero greenhouse gas emissions by 2050. The captured CO_2 is not stored in Switzerland, but at underground sites in Iceland. In addition to the mass use of renewable energies and energy-saving measures, the Swiss government asserts that, in order to be climate-neutral by 2050, the 12 million tonnes of CO_2 emissions generated mainly by waste disposal plants, agriculture and industrial sectors such as cement production will need to be captured and offset. With CCS, around 500,000 tonnes of CO_2 could be permanently stored by 2030 and up to seven million tonnes by 2050.

Source:

[1] SWI swissinfo.ch | Turning Swiss CO_2 into Icelandic rock

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Global CO_2 emissions reached new highs in 2024

CO_2 emissions from fossil fuels and cement production increased by about 0.8% in 2024, reaching a record 37.4 billion tonnes of CO_2, according to the 2024 Global Carbon Budget report (compiled by the Global Carbon Project). Despite this rise in 2024, total CO_2 emissions have largely stabilised over the past decade, a sign that the world is making some modest progress in tackling this problem. However, the results are a far cry from what is needed to bring global emissions to zero and stabilise global temperatures in line with the goals of the Paris Agreement. The latest Global Carbon Budget (November 2024) presents some comforting data: in 2024, emissions decreased significantly in the EU (-3.8%) and a little in the US (-0.6%). A slight increase is expected in China (+0.2%) and a significant increase in India (+4.6%) and the rest of the world (+1.6%, including international sea and air transport). If global emissions remain at current levels, the remaining carbon budget to limit warming to 1.5 degrees (with a 50% probability) will be exhausted in the next six years. The carbon budgets to limit warming to 1.7 degrees and 2 degrees would be exhausted in 15 and 27 years respectively.

Source:

[2] Global Carbon Budget | Fossil fuel CO_2 emissions increase again in 2024

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