Lucerne University of
Applied Sciences and Arts

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Media release

Lucerne/Switzerland, November 18th, 2020

Sustainable investments: increasingly popular and oft-misunderstood

Over the past year, the total asset value of sustainable mutual funds has grown by 60 per cent in Switzerland - despite the Covid crisis. As of 2020, 316 billion Swiss francs are invested in such products, climate and environmental funds being particularly popular. However, as a study of the Lucerne University of Applied Sciences and Arts reveals, only a limited number of sustainable investments funds explicitly promises a positive environmental or societal impact.

Sustainable investments rank among the winners of the Covid crisis. The range of sustainable mutual funds on the market has grown by 31 per cent to 777 funds, from 595 in the previous year. The related assets under management increased from 198 to 316 billion - a 60 per cent growth - despite a stagnant overall market (figure 1). Just under six per cent of all fund assets are invested sustainably. In total, that is markedly less than the topic's media presence would suggest. Nonetheless, in new investments, one in every four Swiss francs goes towards purchasing sustainable funds and there is intense competition amongst international and Swiss providers to secure this net new money inflow (figure 2 and 3).

Converting conventional funds into sustainable funds is on-trend
Providers have converted conventional funds into a sustainable form of management at a much higher rate than in previous years. The study identified 73 formerly conventional funds with a total value of 28 billion Swiss francs that are now positioned as "sustainable" by their providers. The conversion into sustainable funds is challenging; providers are struggling with a lack of knowledge and issues concerning implementation. They must adapt the investment process and the fund documents, bring research partners on board, inform their clients about the chosen sustainability strategy and educate their investment advisors about the topic. The Cantonal Banks are exemplary in dealing with these challenges. Roughly a third of them are now selling sustainable funds, some of which have been recently converted from "conventional" into "sustainable".

Thematic funds around climate and environmental protection are popular with investors
Around a quarter of sustainable funds invest in selected themes with a sustainability focus. These include clean energies, water or investments in the fields of environmental and climate protection. Impressively, the demand for climate funds has increased more than six fold to 34 billion Swiss francs in the past three years only. "Investors intuitively understand sustainable thematic funds. In addition to their performance potential, they also offer an emotional benefit," says Manfred Stüttgen, co-author of the study and lecturer at the Lucerne University of Applied Sciences and Arts. According to Stüttgen, investments with a potential to effect positive change are particularly popular with private investors. However, the study also shows that sustainable thematic funds carry higher fees than their non-thematic counterparts do.

Only a third of sustainable thematic funds promise a positive effect
The public tends to associate sustainable funds with a positive effect on both society and the environment. "In fact, only a minority of the sustainable funds available explicitly promises a

positive eco-social outcome," says Manfred Stüttgen. Only a third of the 184 sustainable thematic funds – most of which are environmental and climate funds - claim to have a potentially positive impact (figure 4). "It is a widespread misconception to expect a positive impact for all sustainable funds," Stüttgen continues. However, the study's authors maintain that accusing the providers of sustainable funds of engaging in "greenwashing" is not appropriate.

Misunderstandings are commonplace

The labelling of the funds as "sustainable" merely reflects that the fund manager integrates ESG-(environmental, social and governance) criteria in their investment process. These criteria do not necessarily trigger a positive environmental or social impact. "We rarely come across cases where investors are deliberately misled," adds co-author Brian Mattmann from the Lucerne University of Applied Sciences and Arts. "Whether a sustainable investment has a positive impact in real economic terms depends on the chosen investment strategy. Only a minority of sustainable funds are dedicated to pursue an impact."

2020 IFZ Sustainable Investments Study

The annually published IFZ Sustainable Investments Study of the Lucerne University of Applied Sciences and Arts examines sustainable investment funds licensed for distribution in Switzerland. This year, the study's authors focus on sustainable thematic funds. The study results are being presented at the conference "Sustainable Investments Day", which takes place in an online format on November 18th, 2020.

Click HERE for more information about the study and the conference (only in German).

Attachments:

Figure 1: Development of total assets in sustainable and conventional mutual funds
Figure 2: The fifteen largest providers of sustainable mutual funds in Switzerland
Figure 3: The fifteen largest Swiss providers of sustainable mutual funds in Switzerland
Figure 4: Sustainable thematic funds and the integration of ESG strategies
Supplementary figure: The fifty largest providers of sustainable mutual funds in Switzerland

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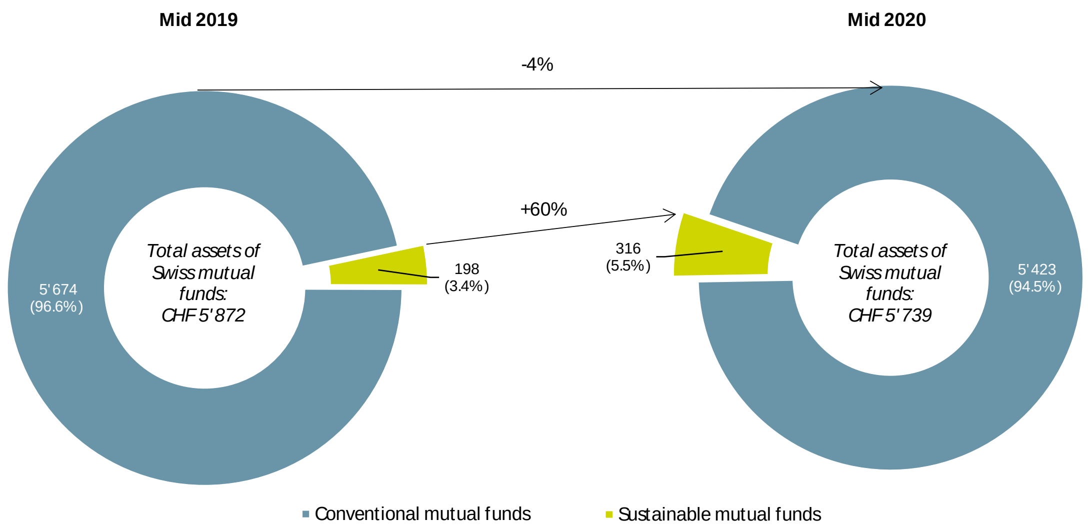


Figure 1: Development of total assets in sustainable and conventional mutual funds (in bn CHF, as of 30 June)

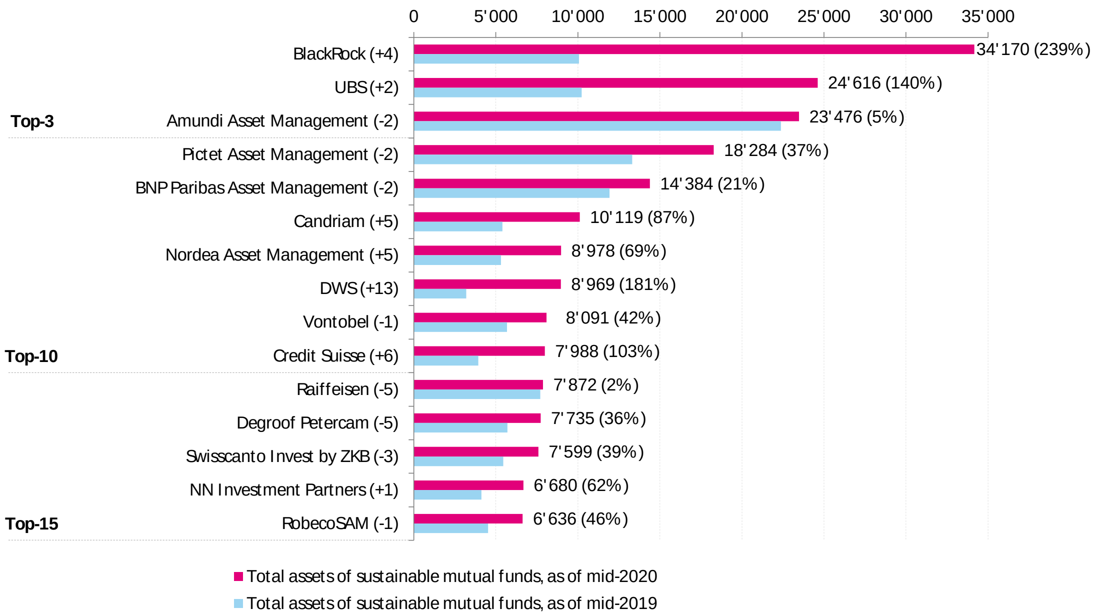


Figure 2: The fifteen largest providers of sustainable mutual funds in Switzerland (in m CHF, as of 30 June 2020/2019, in brackets after provider: change in ranking vs. mid-2019, in brackets to the right: asset growth in per cent vs. mid-2019)

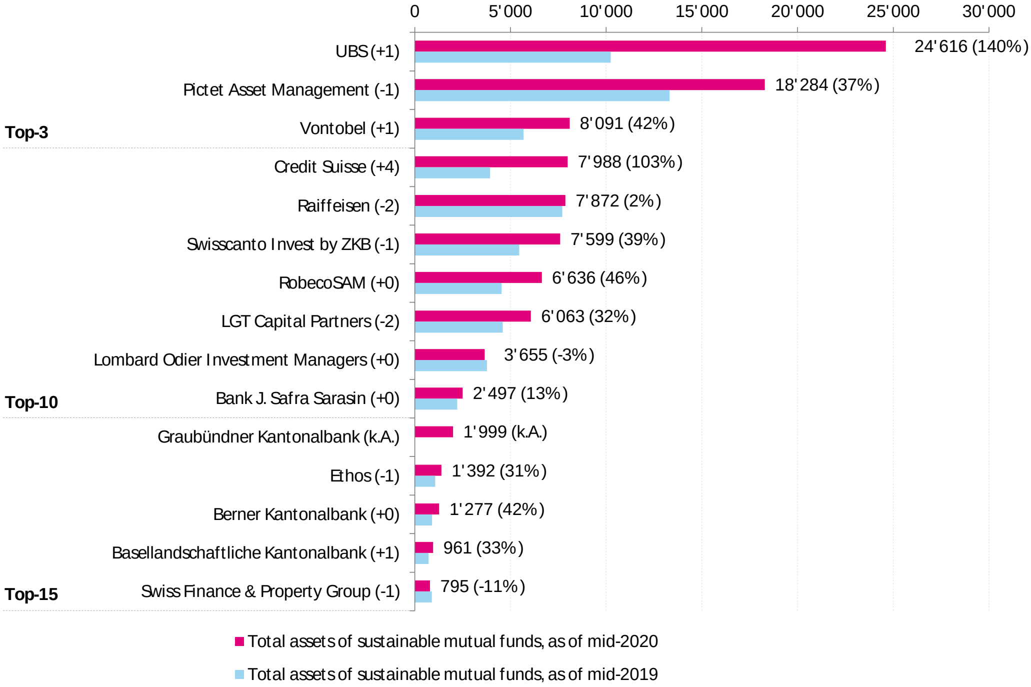


Figure 3: The fifteen largest Swiss providers of sustainable mutual funds in Switzerland (in m CHF, per 30 June 2020/2019, in brackets behind provider: change in ranking vs. mid-2019, in brackets to the right: asset growth in per cent vs. mid-2019)

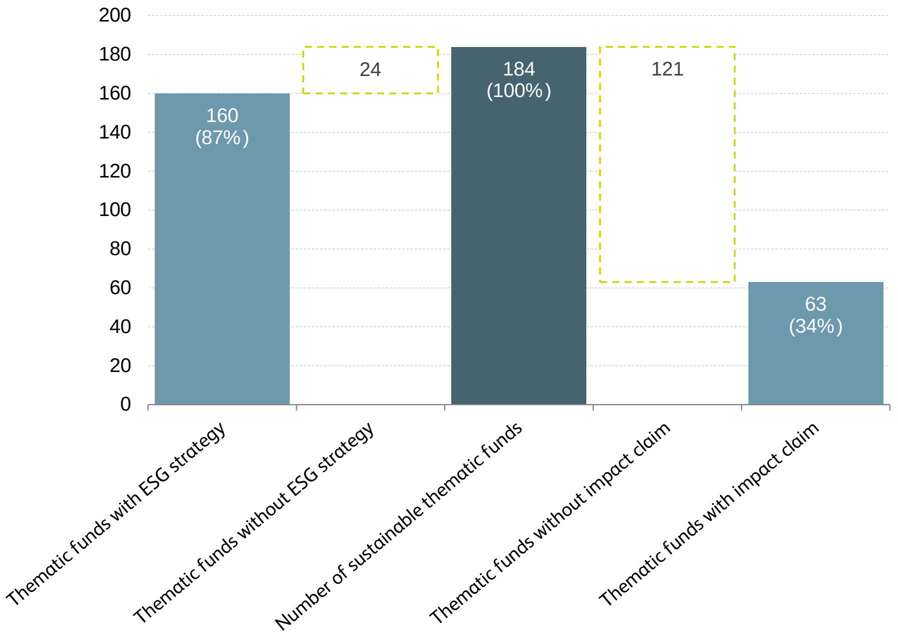
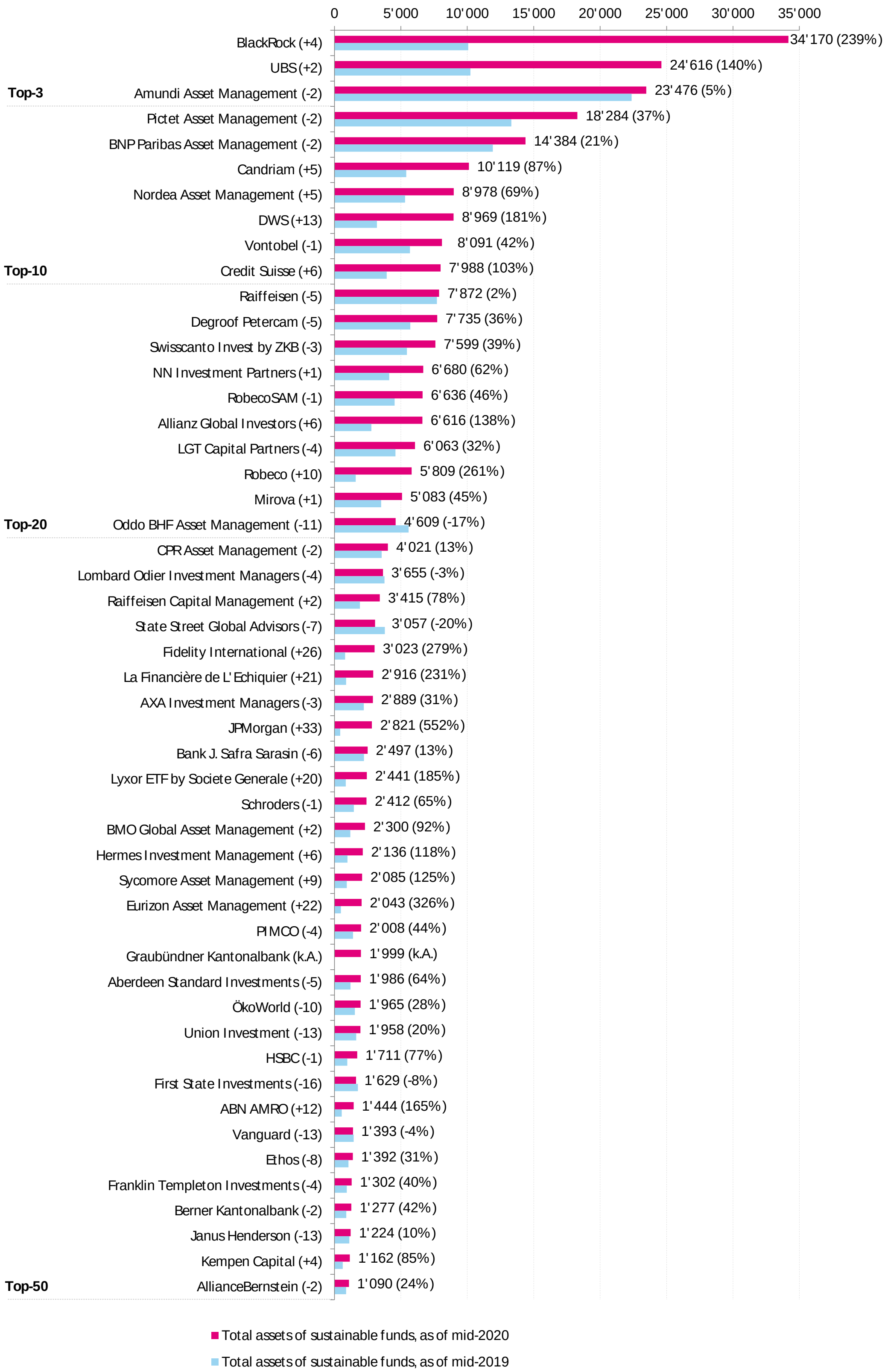


Figure 4: Sustainable thematic funds and the integration of ESG strategies (in number of funds, as of 30 June 2020)



Supplementary figure: The fifty largest providers of sustainable mutual funds in Switzerland (in m CHF, as of 30 June 2020/2019, in brackets after provider: change in ranking vs. mid-2019, in brackets to the right: asset growth in per cent vs. mid-2019)