

**“Ethical Investment for Pension Funds---Overview of the Swiss Market and of the Evaluation Methods of Zurcher Kantonalbank”**

**RIETI, Tokyo**

**May 30, 2001**

**Sabine Dobeli**

**Head of Environmental and Social Research**

**Zurcher Kantonalbank**

I would like to talk about ethical investment for Swiss pension funds.

First, a bit about Zurcher Kantonalbank (ZKB): it is a universal bank, with a national focus. It is the third largest Swiss bank. The government obliges the bank to care for sustainable development of Zurich, which covers small and medium sized enterprises, micro lending, as well as specific products. The bank holds SF110 billion in assets, has a triple-A rating from Standard & Poor's, and employs 4,000 people. Its first ethical fund was launched three years ago, while my research group within the bank is six years old. For several funds, ZKB cooperates with non-governmental organizations (NGOs) such as the World Wildlife Fund (WWF) in Switzerland, which has a very good reputation there.

The Swiss pension system is divided into three columns. The first column is the state pension, which everyone receives and is determined by contribution. The second column is work pension, which depends on wages. These first two columns together add up to about 60% of a person's last wage. To keep up the standard of living, the person would need to participate in the third column: private pensions, which are tax exempt, flexible, and have just begun to take off. The Swiss pension market is SF450 billion in size, as of 1998, and is growing at 10% per year.

Within the Swiss socially responsible investment (SRI) funds, there are two categories. The first includes ethical pension fund companies, such as Ethos, which emerged as a state enterprise and is the largest of such companies with SF775 million in assets. Ethos is strong in shareholder activism. Others include NEST (SF320 million), PUK (SF320 million), Abendrot (SF70 million), Abendro (SF150 million), and GEPABU.

The other category includes the SRI funds of regular pension fund companies. This group includes Prevista (SF130 million), Baloise (SF99 million), VBS (SF100 million), and Sarasin (SF0.3 million).

Ethical fund volume over the past five years has seen very strong growth.

The ZKB approach is based on the industry leader concept and uses strict exclusion criteria. Of the fund's content, a maximum of 10% is in environmental innovators (renewable energy, etc.). It maintains the most transparency possible; it publishes its investment list on the Internet.

The criteria for investment fall under two categories: environmental (production, products, etc.) and social (employees, stakeholders, etc.). The exclusion criteria include the following: oil, gas, and coal production; airlines; car and airplane production; ozone depleting substances; non-sustainable energy; fishing without MSC label; nuclear plants and technology; genetically modified plants and animals; weapons and tobacco; and PVC.

The positive criteria include the following: corporate policy (integration of environmental issues); management (environmental management systems and targets); production (resource consumption and emissions); products (environmental design and recycling); employees (working conditions, safety, and diversity); external shareholders (dialogue and rules of conduct).

ZKB gathers information from the actual companies (environmental and social reports), from secondary information (such as data banks and NGOs), and from other sources such as screening Reuters (30,000 publications). We then make a quantitative rating. The fields are weighted by industry.

Products of the cantonal banks include the Swissca Green Invest, a mutual fund that is 100% equity and totals SF264 million. Another product is the Provista Oeko-Invest. The performance of these funds has been good. The Swissca Green has outperformed the Morgan Stanley World Index.

What are the effects of sustainable investments? Most importantly, it creates pressure, through questionnaires and disclosure, on companies to improve practices. The funds can become benchmarks, using and publishing their industry averages. The questionnaires we send force companies to publish more information. And the share prices of smaller companies are stabilized by our investments.

As for the outlook of the industry, I see several opportunities. Pension laws are beginning to oblige funds to say if they use SRI. Private investors are showing sensitivity to SRI. And investment volumes are expected to increase. Challenges will include trying to increase shareholder activism (still unpopular), increasing

sustainability reporting, and standardizing the evaluation process.

## **Question & Answer**

***Q: What is “ethical” and who decides?***

“Sustainable investments” means environmental and social issues are included in the criteria. The investors decide what the specific criteria are.

***Q: Do the bank and the government use the same definition of “sustainability”?***

The bank presents a report to its board of directors (politicians), as it is a state bank. We must prove that we are offering services to the state.

***Q: Does the canton ask how much of the investments are “sustainable”?***

No.

***Q: Does the bank have targets for returns on investments?***

There is no minimum return defined. But the fund must be profitable and contribute to the canton, which it has.

***Q: Might the fact that there are no targets be positive because benefits to the environment are a kind of return on investment?***

Yes, some of our actions are not as profitable as others.

***Q: Are the products international?***

Yes, the fund is sold in Germany and Austria.

***Q: Which Japanese companies does the fund look at?***

There are 24 Japanese companies in our investment universe, especially in the areas of electronics (Sony), finance (Tokyo Marine), and retail. Companies are doing more in this realm in Japan than in Switzerland.

***Q: Do you send the questionnaires to Japanese companies too?***

Yes, we have two steps: the first is a short questionnaire (with 25 to 30% return rate); the second is a more detailed questionnaire (with an even higher return rate). Companies' knowledge of SRI is growing.

***Q: Is gender an issue?***

Yes, the questionnaire asks what percentage of a company's management is female.

***Q: Why do you exclude certain things like nuclear? You exclude airlines, yet you used an airplane to come to Japan. What role does the fund play in government policy?***

The fund is not a charity; we invest our customers' money. People can get lower interest rates from the bank to finance environmental projects. There are always contradictions, but the investors' preferences reflect their culture. The Swiss are not fond of the nuclear industry.

***Q: What is the relationship between government policy and fund policy? Does the fund look at government programs in calculating returns?***

We take into account the environmental programs of all governments. We invest in renewable energy. But Switzerland itself has not really had these promotional initiatives. Ultimately, we defer to the investors.

*-The RIETI editorial department is responsible for this article.*