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Global vision required

Michel Degen

Head of Asset Management
Switzerland & EMEA

In the midst of the COVID-19 pandemic, an increasing number of commentators are suggesting that globalization may be coming to an end, citing the reliance of many pharmaceutical companies on suppliers in China and India. As we saw in March this year, when India suspended exports of drug ingredients, the supply chain was broken and the supply of medicines in global end-user markets was interrupted. Other industries, such as electronics, also experienced supply bottlenecks, which were almost unavoidable given the drastic measures imposed by governments worldwide. Despite all these doom-laden prophecies, however, we are not heading back to the 19th century.

It is overly simplistic to claim that the current situation will mean an end to globalization. We are still in the early stages of the digital disruption of the worldwide economy and of globalization, which is only now really starting to gain traction. In asset management, too, the future is set to be dominated by automation, artificial intelligence, and the digitalization of workflows – all of which are technologies and developments that are unaffected by national borders.

In an interview, Michael Strobaek, Global Chief Investment Officer at Credit Suisse, underlines the importance of diversification in a global environment. The photographer, environmental activist, and journalist Yann Arthus-Bertrand, meanwhile, is the very personification of a global citizen. In his interview, he explains how investors can trigger positive impacts against the backdrop of the vast global challenges that our children will face.

COVID-19 does not mean the end of globalization. On the contrary, it is an opportunity for the world to draw closer together, as we are currently all facing the same adversary. Global challenges call for global solutions built on prudence and vision.

Happy reading!

Michel Degen

The economic and social impact of the coronavirus pandemic is not yet known. In their search for the new normal, many people are busy redefining their values and recalibrating their inner compasses. A long-term view, willingness to innovate, and disciplined adherence to tried-and-tested principles can make for a helpful and constructive approach.

Principles over panic

Scope interview with Michael Strobaek, Global Chief Investment Officer

The swift political response to the coronavirus crisis has prevented a wave of insolvencies, at least for the time being. It is already clear, however, that the pandemic will trigger a sea change in the way we think and act.

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Save time and money with FundsDLT

Credit Suisse Asset Management is investing in a completely new platform for distributing investment funds. The benefits for clients are obvious.

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Climate change offers investment opportunities

The Environmental Impact Equity strategy gives investors access to listed companies that offer both solutions to environmental challenges and promising potential returns.

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Virus, volatility and value

Interview with Michael Strobaek

Global Chief Investment Officer of
Credit Suisse AG

Michael Strobaek

Michael Strobaek is Chairman of the Global Investment Committee and Global Chief Investment Officer of Credit Suisse AG. He has more than 20 years of investment management experience, directing investment portfolios internationally for institutional and UHNW clients. Michael Strobaek holds an MSc in Economics and Business Administration from Copenhagen Business School in Denmark and a CEMS Master's in Finance from the University of Cologne in Germany.

Policymakers' very fast reaction to the coronavirus crisis prevented a wave of bankruptcies. As long as the lockdown remains temporary and monetary and fiscal support during the lockdown is sufficient to prevent a wave of insolvencies, economic activity will be able to rebound fairly quickly and robustly. However, the pandemic will mark a turning point in our lives and thinking.

What developments or reactions on the securities markets surprised you the most following the outbreak of the coronavirus pandemic?
Michael Strobaek: The most surprising element of this crisis was the speed with which the market selloff evolved. In the case of the S&P 500, for instance, it was the fastest correction on record – not the deepest correction, but the fastest. There was hardly any time to react. It was also surprising to see how quickly policymakers were able to put together stimulus packages. Policymakers were able to react rapidly because the underlying mechanics of the crisis are very well understood. The lockdown measures mean that companies and households lose revenue because shops and factories are closed. However, their costs remain, meaning that they are quite quickly experiencing liquidity stress. Policymakers provided the liquidity quite rapidly, which is a positive sign, and I guess this speed is also a lesson learned from the 2008 financial crisis.

Worldwide gross domestic product growth for 2020 is expected to be clearly negative. What are the most important preconditions for avoiding a prolonged slump?
Our forecast for global GDP growth this year is –3.6%, due mainly to a projected very sharp contraction in Q2, which will drag down average growth for the entire year even if we do get a sizeable rebound in Q3 and Q4. We think that the fiscal and monetary policy measures announced so far are big enough to prevent a very bad economic outcome. As lockdown measures are now eased, we think that growth can snap back relatively quickly. That, of course, hinges on the assumption that the spread of the virus can be contained and a second wave of infections remains manageable.

Another assumption is that the stimulus is sufficient to prevent a wave of bankruptcies. If companies can survive the lockdown, then shops and factories can be reopened and economic activity can return to normal. However, if companies go bankrupt during the crisis, then there won't be a return to normal and we could see a prolonged slump. Growth is shut down for now, but with the right mix of policies, the damage needn't be permanent.

Once the coronavirus crisis has been overcome, do you think that companies will reorganize their supply chains to make them more crisis-proof, even if the associated costs put a dent in their earnings and stock valuations?
Yes, I think so. Just think about the trade war between China and the USA and the introduction of tariffs we saw last year. The pandemic is now accelerating this process.

Central banks had already been conducting ultra-accommodative monetary policies for many years prior to the coronavirus crisis and are now injecting additional liquidity into the economic system. How might or ought a gradual "return to normal" proceed?
The liquidity injections are a temporary measure and can be ended once economic activity returns to normal. The general interest rate level and the size of central- bank balance sheets are a different matter. Here we have seen that even after many years, balance sheets are still as bloated as ever and that, apart from the Fed, other central banks have not been able to raise interest rates. We think there are several factors that make normalization unlikely. The first is demographics – as populations age, nominal growth rates come down and equilibrium interest rates fall as well. The second is indebtedness. As government debt increases, low interest rates are needed to help keep debt servicing costs in check. So, while we do expect emergency measures to stop relatively soon after the acute phase of the crisis is over, we nonetheless think that interest rate levels are likely to stay low for quite some time and that central banks' balance sheets are unlikely to shrink significantly.

How has the Global CIO Office changed the way it has been procuring and processing information since the outbreak of the coronavirus pandemic?
I feel that our processes have been robust enough to cope with the challenges since the outbreak. The diversification we have in a global setup has allowed us to work with great speed and diligence. This has worked quite well for us during this crisis.

"Policymakers provided liquidity quite rapidly, which is a positive sign, and I guess this speed is also a lesson learned from the 2008 financial crisis."

In every crisis there are also winners. Which industries and suppliers rank among those winners?
Some of the big winners during the current coronavirus crisis are digital companies, i.e. those that enable information sharing, videoconferencing, video streaming, etc. Things like online shops are also benefiting. We have also identified what we call "stay-at-home stocks" that should perform well in the current environment. Online gaming companies, for instance, are part of that basket. The general trend toward digitalization is one of the high-conviction, long-term investment themes that we have identified in our Supertrends, which are changing human behavior and how societies work. Other themes addressed include infrastructure, healthcare, climate change and sustainability. We believe that the coronavirus pandemic will mark a turning point in our lives and thinking, and the Supertrends look at some of the changes that could occur going forward.

Isn't the earnings potential already priced into those stocks?
Those industries, of course, are already trading at a valuation premium relative to the overall market, but we think this premium is justified. After all, this is where we get double-digit growth rates. We think these sectors will continue to show above-average dynamics, so they can continue to outperform, in our view.

How would you rate the outlook for real estate assets in Switzerland and other markets?
We generally have a positive outlook for real estate because it provides a source of yield, which investors will increasingly have to look for given low interest rates. Given the digitalization trend, some areas such as retailing real estate face challenges, but generally we think that real estate is likely to continue producing positive total returns.

Has the time come to increase the asset allocation to commodities in the wake of the oil price shock? What are the key buy signals?
Actually, we are overweight commodities. At this stage, prices are really beaten down, particularly in the oil market. The open price war between OPEC and Russia, which broke out right during the escalation of the coronavirus pandemic, has caused a massive correction on oil markets. Markets were faced with a sharp drop in demand for oil as travel and transportation activity was cut back massively. At the same time, markets are awash in supply because the biggest producers are battling for market share. The agreement between OPEC and Russia to reduce output is a first step in the right direction. In parallel to that, the drop in real interest rates during the crisis is benefiting gold and other precious metals. We think that commodity and oil prices can increase from here.

Investors who are able to avoid negative interest rates are fond of preaching that "cash is king." How would you respond to them?
Cash may be king during a liquidity crisis, but as a long-term investment strategy, it won't help investors to achieve their financial objectives. Interest rates for cash are very close to zero or negative in most major currencies.

The correction on the stock markets unfolded in waves. Will a recovery proceed in waves as well?
Yes, I think so. The economic recovery is unlikely be a smooth one because the nature of this shock will lead to unrecognizably bad and often unreliable economic data, and because it has become nearly impossible to predict the path ahead. However, I am confident that the stimulus measures announced so far worldwide will prevent a depression-like economic outcome. After the substantial correction we have started to re-enter the markets. We went overweight equities in late March and went overweight credit in April with measured buys/positions. The key lies very much in broad diversification, including geographic and time-horizon diversification.

Let's end with the sixty-four-thousand-dollar question: will the recovery be V-shaped or U-shaped, or even W-shaped?
One may overemphasize the geometry of the recovery versus the shape of the shock. As long as the lockdown remains temporary and monetary and fiscal support during the lockdown is sufficient to prevent a wave of insolvencies among households and companies, economic activity can rebound quite quickly and significantly.

To give an example, if you need to close your restaurant during the lockdown, the economy will lose this business activity as long as the restaurant is closed. However, once the lockdown eases, you can reopen and hopefully resume activity, hopefully reaching pre-pandemic levels fairly quickly. Some consumption decisions that were postponed during the lockdown will be implemented later this year. This argument supports a V-shaped recovery.

The big uncertainty surrounding this view is time. The depth and duration of slow and low economic growth may leave behind structural damage. The longer the lockdown, the more stimulus the real economy will need to be resuscitated back to something resembling normalcy and eventually recover. However, policymakers seem to understand the urgency of the crisis, so at the moment there is optimism that we will see a rebound in global growth in Q3.

The six investment principles

With financial markets moving so fast and being affected so significantly by daily news flow, investors should not succumb to their emotions, but should first and foremost remember their principles. A disciplined investment process helps investors take a rational longer-term view and avoid getting swept away by short-term panic.

Be humble

Good investors are humble by nature. They know their own and their models' limits. They recognize the power and speed of markets in processing new information. And they are aware of the high efficiency of markets.

Emphasize second-level thinking

Financial markets are complex and driven by many different variables. Go beyond analyzing the information that has moved markets and emphasize second-level thinking.

Time in the market instead of timing the market

The longer the investment horizon, the more risk premia and return a portfolio can capture. In fact, over time, risks tend to diversify. That is why long-term investing is rewarding.

Consider the contrarian option

Rigorous analysis, experience and good judgement are the best means of seizing rare contrarian opportunities. The most rewarding investments are often contrarian.

Manage your risk by adhering to simple, well-enforced principles

Diversification is key. Successfully managing real capital is the essential goal in weighing risks and opportunities. When in doubt about what to do, stick to your investment policy or well-diversified strategic asset allocation.

Overcome behavioral biases

Even the most experienced investor will sometimes suffer from cognitive or behavioral biases. Rely on a disciplined investment process to overcome those biases.

DLT

applications

for the

business

world

Credit Suisse Asset Management commissioned students at the University of Basel to develop solution approaches to simplifying Know Your Customer procedures. They presented their approaches at a big gala event in December 2019. Distributed ledger technology (DLT) experts and representatives of the business community were deeply impressed by their work.

How can the process of verifying the identity of new clients be simplified? All banks are concerned with this question. They are obligated to run a Know Your Customer (KYC) check for each new client relationship to combat money laundering. KYC procedures pose substantial costs to financial institutions and the time involved in carrying out a KYC check is also substantial.

Via smart contracts, Ethereum enables users to write programs that – thanks to DLT – are guaranteed to be executed exactly as programmed and are available worldwide. The resulting guaranteed execution of program code makes a wide variety of new applications possible.

Avoiding redundancies

Since regulations prohibit KYC check procedures from being abbreviated or simplified, the team of students commissioned by Credit Suisse Asset Management searched for a DLT-based procedure aimed at preventing redundancies. The students Kolja Sander, Stéphane Vez, Yeliz Cay and Janneke de Snaijer took on this problem in the context of the Blockchain Challenge.

The system architecture had to be designed in a way that keeps confidential client data from being shared with the network and prevents its participants from tracing client relationships with other involved banks. To survive in a market economy environment, the concept must also include an adequate system of rewards and incentives.

"Through the Blockchain Challenge, companies can position themselves as attractive employers, and on top of that they receive a distributed ledger technology concept paper addressing their own defined problem, ideally even with initial implementation proposals."

Prof. Fabian Schär, Managing Director of the Center for Innovative Finance (CIF) and initiator of the Blockchain Challenge

Security through smart contracts
The students based their solution approach on smart contracts and multi-signature protocols. Anonymity is ensured through creative employment of hierarchical deterministic key derivation systems and a certificate authority. Building on that, the team drafted the architecture of a permissioned ledger in which each participant operates its own node. The necessary KYC functions are provided by a variety of interlinked smart contracts. All of the functions are abstracted behind a main smart contract, making it the central interface between the system and external clients. This modular system architecture enables easy upgrading of the system and rapid implementation of new functions.

The students presented their solution approaches to DLT experts and representatives of the business community at the 2019 Blockchain Challenge gala evening. The event, initiated by Prof. Fabian Schär, took place in December in the WWZ Auditorium at the University of Basel. In light of the positive response it received, a third Blockchain Challenge will be held in 2020.

Potential clients

Shorter waiting time

Banks

Huge cost savings

Regulator

Quality enhancement & control

Ecosystem

State-of-the-art & no redundancies

Improvement of the system through KYC software

Transparency in the supply chain

Novartis sought a smart solution to a somewhat different problem. The task at hand here was to devise a procedure to improve verification of suppliers and supply chains to ensure compliance with guidelines without having to disclose the identity of subcontractors. Today's centralized administration of certificates is not always able to provide error-free verification. Moreover, it takes a lot of resources to uncover misconduct and trace down individual companies.

So, two master's students, Julius Lüttin and Florian Gronde, worked out a concept for ensuring and verifying responsible conduct by all companies in a supply chain. One focus was on better integrating second-tier and lower-tier suppliers. There is a wide spectrum of such subcontractors, ranging from suppliers of intermediate products to cleaning companies. Multinational corporations usually know little about such firms.

The concept developed puts automated retrieval and forwarding of certificates into practice. Self-sovereign identities enable decentralized administration of those certificates. Based on this, participants in the supply chain can now use zero-knowledge proofs to attest to their responsible conduct without having to reveal strategically critical information to their competitors.

The concept devised by the two master's students turned out to be so compelling that they were awarded the CHF 10,000 first prize in the Blockchain Challenge. Accolades also went to Team Port of Switzerland for its decentralized digitalization concept for port infrastructures and to Team BearingPoint for its platform for transparently and cost-efficiently handling construction project tenders.

Discretion thanks to DLT

Master's students Julius Lüttin and Florian Gronde are the proud winners of the Blockchain Challenge. They developed a concept for Novartis that enables participants in the supply chain to provide evidence that they are acting responsibly without having to disclose strategically critical information.

An ideal merging of theory and practice
The merging of theory and practice achieved under the Blockchain Challenge is unprecedented. The competition enables students to apply their knowledge acquired in university courses to real-world problems and to build valuable contacts with businesses. Participating companies, in turn, benefit from the students' enormous DLT knowhow, obtain innovative solution approaches to their defined problem, and can position themselves as potential employers in an attractive venue.

Center for Innovative Finance (CIF)

The University of Basel's Center for Innovative Finance (CIF) is dedicated to researching practical issues in the fields of fintech, digital banking, and innovative finance. Its research focuses on the scientific analysis and practical implementation of blockchain projects, innovation funding, and innovative financial solutions. With this research focus, the CIF is unique in Switzerland and makes a vital contribution to the research and deployment of forward-thinking technologies.

Unlocking the power of distributed ledger technology in fund distribution:

Faster, cheaper and highly scalable

Synchronized vision

Digital platforms are fast becoming the darlings of a rapidly growing community that appreciates the efficiency, flexibility, and democratic setup of these new applications.

Credit Suisse Asset Management is rapidly moving forward with digitalization and is investing in FundsDLT, a distributed ledger technology-based platform for investment fund distribution. The main winners are clients, who save time and money.

Clearstream, Natixis Investment Managers, Credit Suisse Asset Management and the Luxembourg Stock Exchange (LuxSE) have announced a joint investment in the rollout of a new distributed ledger technology (DLT)-based platform for investment fund distribution initiated by the LuxSE affliate Fundsquare. Digital distribution of Credit Suisse Asset Management investment products in the future can thus take place via exchange-traded funds or via the new DLT-based platform.

The investment decision was made after a successful trial run on the prototype platform. The new platform is called FundsDLT. The name says it all: it's all about investment fund distribution with the aid of DLT.

Cheaper, faster and more transparent
The platform reengineers the fund distribution value chain and supports every step in the distribution process. FundsDLT eliminates redundancies, thus enabling actors in the value chain to cut costs.

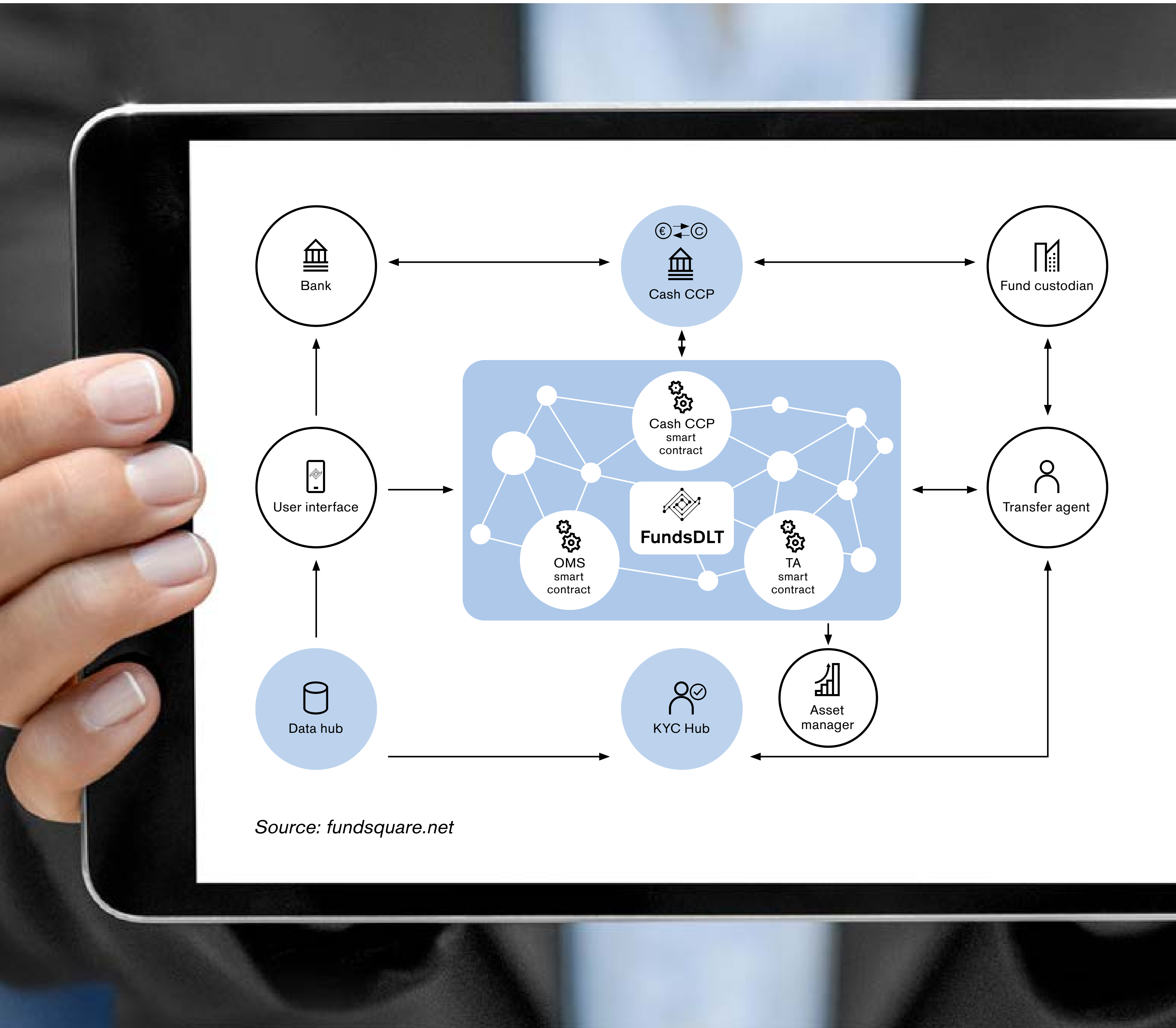
In the traditional fund distribution model, the process runs sequentially. This means, for example, that although subscriptions or redemptions of fund units affect all actors in the value chain, the corresponding information follows with a time lag.

One critical advantage of a DLT-based platform is that it provides an absolutely synchronous view of the status of a transaction. Every actor involved always has the most up-to-date information. The transfer agent, the asset manager, the fund custodian, and the fund manager all see the current status of fund unit subscriptions and redemptions at all times. At the same time, the client is always in the know about the processing of his or her order.

The FundsDLT Model

FundsDLT aims to streamline a range of fund administration and order-routing tasks by using distributed ledger technology to automate multiple processes in a secure manner.

Find out more about FundsDLT in the Video



Supplementation with additional services, such as from suppliers for Know Your Customer (KYC) procedures, can create a robust ecosystem for fund distribution. FundsDLT intends to provide its services for all products from all EU countries and for investors worldwide.

Jos Hehenkamp, the Credit Suisse Asset Management product management head for Switzerland & EMEA and a member of the FundsDLT board of directors, stresses that “FundsDLT opens new opportunities for our products because it offers a digital transaction solution that shortens the connection between the investor and the asset manager. It enables the investor to transact with our funds in a more accessible and transparent manner from anywhere. Whereas asset managers historically have built their distribution on decentralized infrastructure and processes, FundsDLT uses distributed ledger technology and smart contracts to dramatically improve processing of the shared issuer register, bringing significant efficiencies to the funds industry.”

Strategic investment

Credit Suisse Asset Management views its stake in FundsDLT as a strategic investment. The platform facilitates fund distribution and will act as a marketplace for digital distribution that will supplement traditional distribution channels and will thus foster growth in assets under management.

“We expect our investment in FundsDLT to yield efficiency gains across the entire value chain – e.g. instant processing – as well as cost reductions for end-investors,” explains Michel Degen, Head of Credit Suisse Asset Management Switzerland & EMEA. He adds that “FundsDLT benefits both institutional and private investors and promotes the democratization of investing, which we have been championing.” Alongside the advantages for investors, FundsDLT will facilitate and accelerate the development of new distribution channels.

Simple and easy to trade –

ETFs are increasingly popular

Credit Suisse Asset Management is adding exchange-traded funds to its range. They will supplement the existing Credit Suisse index funds and are set to play an increasingly significant role due to ongoing digitalization.

No.1

in Switzerland and no. 4 in Europe*

The Index Solutions unit manages assets with a volume of around CHF 132 bn (as at December 31, 2019). Credit Suisse Asset Management is the market leader in Switzerland and the fourth-largest provider of index funds in Europe. Since 1994, it has been replicating indices for a broad range of asset classes, regions, and currencies with the utmost precision. ESG indices have also been part of the range for the past two years.

**Source: Morningstar, April 2020.*

Exchange-traded funds (ETFs) are in demand. Few other investment products have seen such growth in popularity in recent years among both individual and institutional investors. So what is their recipe for success? They are simple, transparent, and generally low cost, and can be bought and sold at any time during the exchange trading day (intraday) thanks to a liquid secondary market. Their high level of trading liquidity also makes ETFs a favorite of fintech companies and robo advisors, whose buy and sell orders provide a further boost to liquidity.

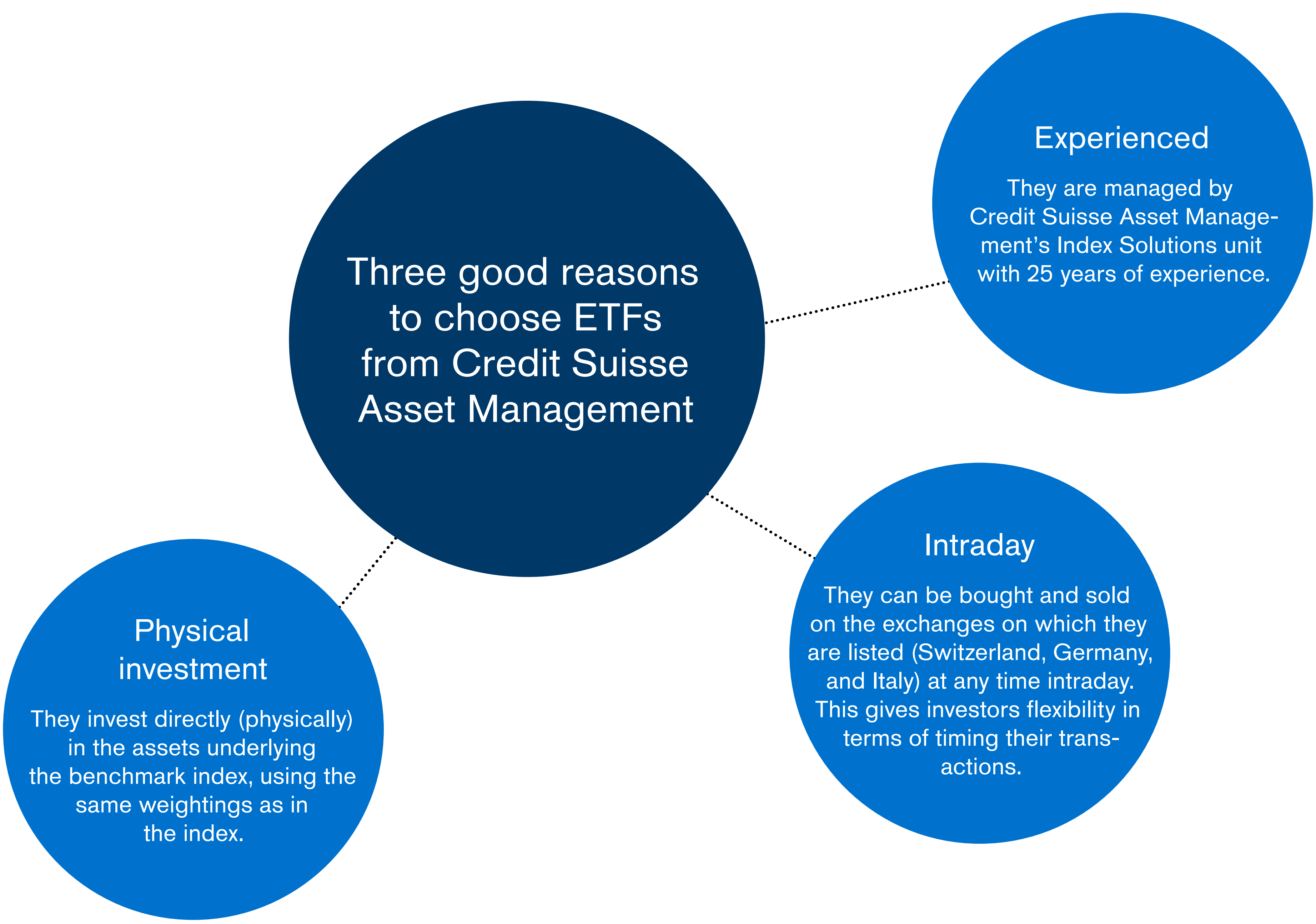
After withdrawing from the ETF business some years ago, Credit Suisse Asset Management has now made the comeback that many investors were calling for – a return that has not gone unnoticed. ETFs supplement the range of index funds, which comprise more than 90 products with an overall volume in excess of CHF 132 bn (as at December 31, 2019).

“It’s a logical step for us to extend our range of funds. Through our core index funds business we have the critical mass, the technology, and the expertise to offer our clients a first-class service covering all aspects of ETFs,” explains Dr. Valerio Schmitz-Esser, Head of Index Solutions at Credit Suisse Asset Management.

However, the rise of ETFs should not conceal the fact that, according to data from Morningstar, index funds still account for more than half of the passive investment volume in Europe. Market observers expect index funds to grow faster than ETFs over the coming years, with Credit Suisse Asset Management benefiting disproportionately as the leading provider of index funds in Switzerland and one of the largest providers in Europe.

Parallels and differences
Like index funds, which are traded on a daily basis at net asset value (NAV), ETFs pursue a passive investment approach, replicating a benchmark index as accurately and cost-effectively as possible. The performance of both fund types is closely aligned with that of their index, setting them apart from actively managed funds, which may diverge significantly from their benchmark. Shares in ETFs can be bought and sold at any time during exchange trading hours, giving investors additional flexibility. The price of an ETF corresponds to the bid or ask price plus the broker's commission. The spread between the buy and sell price depends on the trading volume. Their high trading frequency means ETFs can be used to exploit tactical opportunities.

An index fund is subscribed and redeemed at net asset value (NAV). The NAV is calculated on the basis of closing prices, to which a small dilution levy is added to cover the transaction costs and protect existing investors against their shares being diluted. Index funds are suitable for establishing a strategic position in a selected market segment, for example.



Full replication is the aim
There are essentially two investment approaches – full and optimized replication. The ETFs on the Swiss Market Index (SMI) or the MSCI Europe fully replicate these indices. This means that the funds hold all the stocks included in the index, with the same weightings. Apart from a few second-liners, the ETFs on the Swiss Performance Index (SPI) or the MSCI Emerging Markets also hold all the stocks that make up the corresponding index. By contrast, the bond funds replicate their benchmark indices by means of optimized sampling.

Index funds and ETFs compared

Similarities

Both types of fund pursue a passive investment strategy and aim to replicate the benchmark index as accurately as possible while keeping costs and deviations from index performance to a minimum. Both funds replicate their benchmarks physically. The minimum investment is one share.

Differences

	Index funds	ETFs
Liquidity	Daily	Intraday trading
Investment suitability	Long-term strategy	Tactical allocation
Trading price	NAV plus or minus dilution levy*	Bid or ask price at the time the trade is carried out, plus broker commission
Minimum investment	1 share	1 share
Stamp duty	Fund under Swiss law: subscriptions and redemptions of shares are exempt from stamp duty. Fund under Luxembourg law: stamp duty of 0.15% is only levied on subscription amount.	ETFs under Irish law: stamp duty of 0.15% is levied on all transactions.

** Subscription and/or redemption spread to compensate for transaction costs in the fund incurred as a result of subscriptions and redemptions.*

Finding the next unicorn

A Thematic Private Market Equity approach enables investors to gain access to growth businesses before they go public.

Investors seeking to shift some of their portfolio away from areas beset by the low interest rate environment are taking a growing interest in private equity. Companies that meet the requirements for an initial public offering (IPO) but that, for various reasons, have not yet made this move, are an attractive option in this regard. Credit Suisse Asset Management has launched a new team – Thematic Private Market Equity, under the stewardship of Ralph Bloch – with the aim of giving investors access to the potential performance and returns offered by businesses like these.

“Opportunities to invest in private market equity are meeting the desire on the part of many of our clients for investments in illiquid assets offering consistent returns that are not correlated with those of markets accessible to the public,” explains Filippo Rima, Head of Equities at Credit Suisse Asset Management, with reference to the expanded offering in the thematic investment space.

Thematic Private Market Equity gives up-and-coming companies the growth capital they need to implement their business plans. Unlike the Swiss Entrepreneurs Foundation *(see Scope No. 2/2019)*, which exclusively supports Swiss start-ups and innovative SMEs, Thematic Private Market Equity has a global focus. While this worldwide approach extends the investment universe, it also means that significantly higher requirements apply when it comes to selecting suitable companies and managing the portfolio. This makes the asset manager’s professionalism and experience all the more important.

Longstanding involvement in the thematic areas
Thematic investing in the private equity space means regularly exchanging thoughts and ideas with the management of companies operating in these sectors, taking a close interest in their strategic objectives and their competitive environments. This kind of engagement develops and nurtures a network that is indispensable to investment success in the realm of private equity. Within the area of thematic investment solutions, Environmental is the latest thematic equity investment area.

Access to the world of academia
The Bank's relationships with universities and other academic institutions are another key strength. Since 2019, Credit Suisse Asset Management has funded an additional professorship at the Institute of Robotics and Intelligent Systems (IRIS) at ETH Zurich. Last year also saw the establishment of a Thematic Equity Advisory Board.

Alongside ETH professor Roland Siegwart, this body also comprises other proven experts from academia and industry. The aim of the Advisory Board is to provide detailed insights into future technologies, to consolidate expertise in the thematic fields, and to keep abreast of the latest developments at all times. "Regular dialogue between the Advisory Board and the Thematic Private Market Equity managers helps us to evaluate promising investment opportunities at an early stage and to assess them from an academic or sector-specific perspective too," Rima adds.

The ETH's longstanding and successful experience with spin-offs is also useful. Some 440 spin-offs have emerged from the university since 1996. In 2019 alone, the ETH announced 30 spin-offs, attracting investment of around CHF 630 mn.

Eyes on the future
The COVID-19 crisis has prompted a sharper focus on sustainable structural growth trends and therefore on businesses that can play a key role in the successful implementation of automation and the digital transformation. In the post-crisis new world order, we will likely see growing demand for digital solutions that will relieve pressure on the healthcare system in future, as well as for home education and home entertainment offerings. In this context, we expect to see sustainable, rewarding investment opportunities for private equity investment vehicles with a thematic focus.

The Thematic Private Market Equity team

The team, which was launched in March 2020 and is based in Zurich, is headed up by Ralph Bloch, who has worked for Credit Suisse since 1999, including stints in London and New York. He has 20 years' experience in this field.

Unicorns – the shining stars among young enterprises

If an up-and-coming business succeeds in achieving a market valuation of at least USD 1 bn before it lists on the stock market, it can call itself a unicorn. Prominent unicorns in the US include Airbnb, Epic Games, and Uber. Well-known examples in Germany include the software company TeamViewer and the online merchant Zalando. In Switzerland, GetYourGuide, an online booking platform for tourists, has made headlines as a unicorn company.

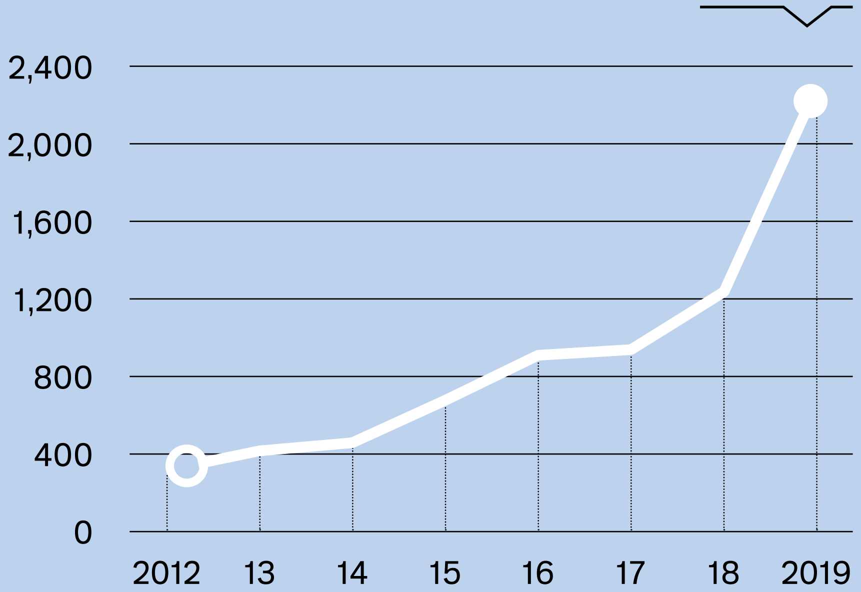
According to CB Insights, a provider of economic data, there are currently 442 private companies valued at more than USD 1 bn, with a total valuation of USD 1.431 tn. Nevertheless, critics warn that unicorns' valuations tend to be too high as a consequence of a deluge of liquidity and extremely high willingness to invest on the part of many market participants. This danger should not be dismissed out of hand. The objective should not, therefore, be to hunt for unicorns. Instead, investors should ensure that young enterprises have business models that generate sustainable earnings. And professionals like the Thematic Private Market Equity team are needed to verify the plausibility of businesses claiming to tick these boxes.

Boom in start-up capital

At a glance

Capital invested in Swiss start-ups
in CHF mn

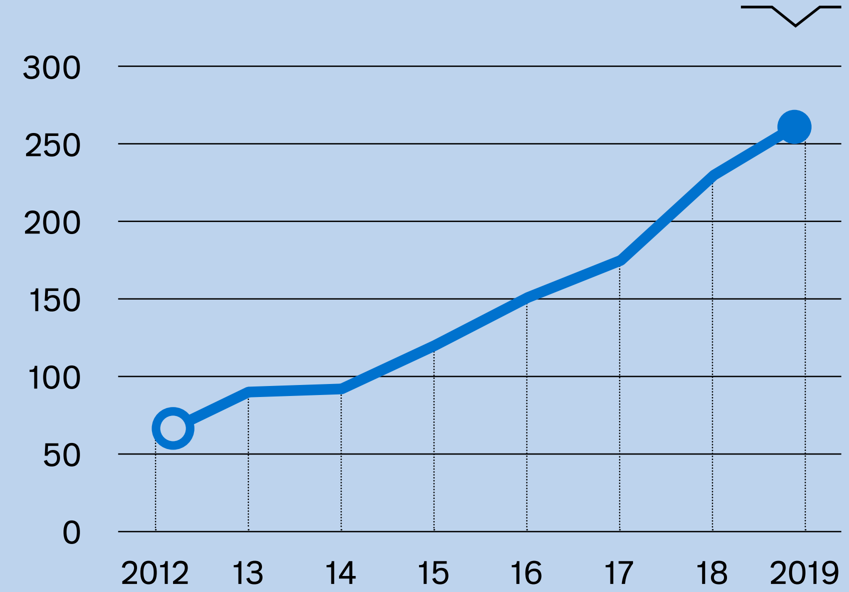
Invested, 2019
2,294



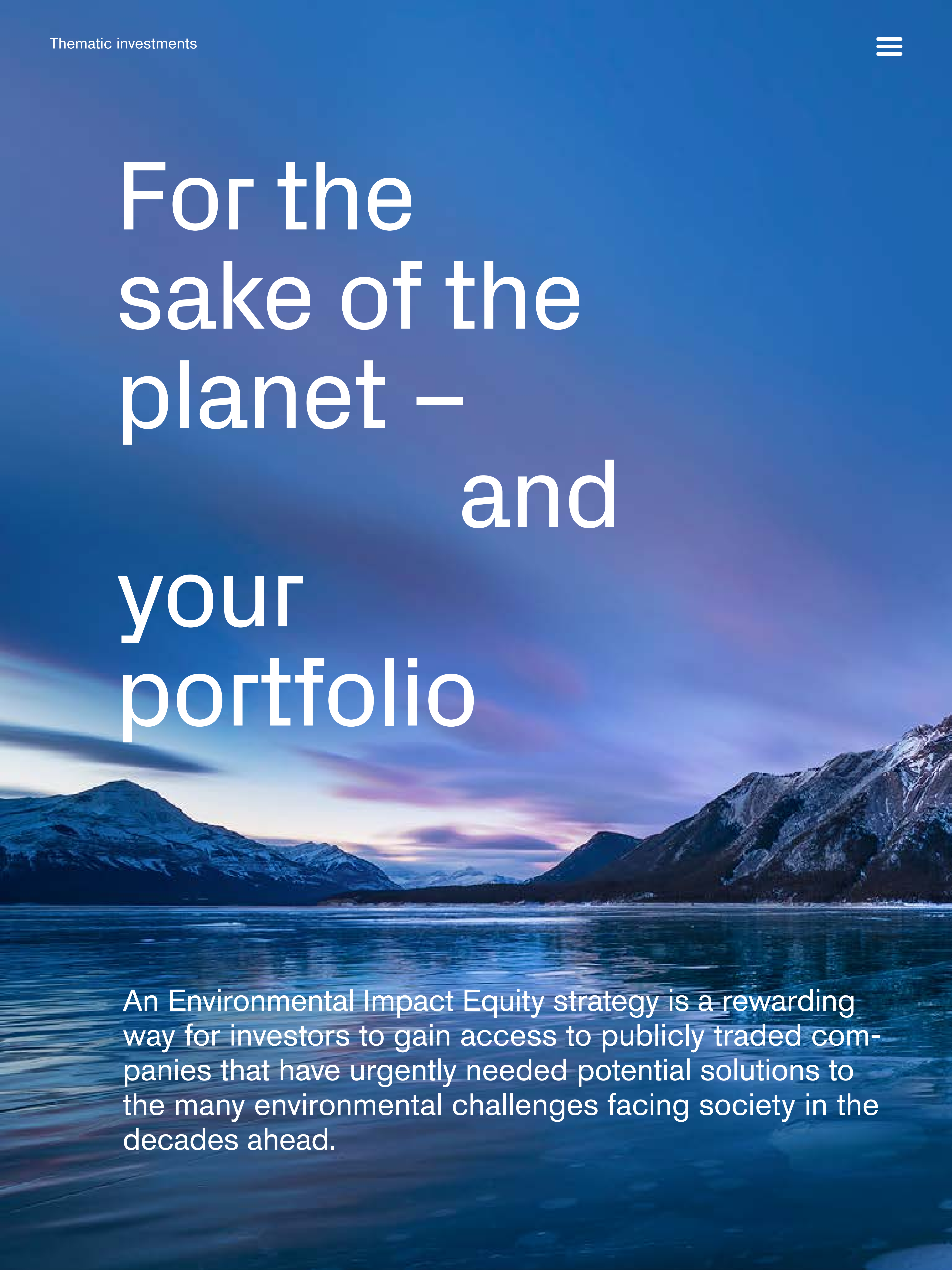
86% growth

Financing rounds of Swiss start-ups
number

Rounds, 2019
266



Source: Swiss Venture Capital Report 2020



For the sake of the planet – and your portfolio

An Environmental Impact Equity strategy is a rewarding way for investors to gain access to publicly traded companies that have urgently needed potential solutions to the many environmental challenges facing society in the decades ahead.

The global risk landscape 2020

Bubble formation

Researchers still do not know exactly how bubbles of methane gas reach the surface of the ice. The gas could come from methane hydrates on the sea bed that are breaking down due to warming sea water. After carbon dioxide, methane is the most significant greenhouse gas.

Source: http://www3.weforum.org/docs/WEF_Global_Risk_Report_2020.pdf

As reported by Forbes.com, the ten worst climate-driven disasters of 2018 cost a combined USD 85 bn. The financial impact of climate change and environmental pollution has in recent years been of a material size for the global economy. Large-scale action is urgently required to safeguard the future of generations to come *(see Chart "The global risk landscape 2020")*. This calls for a mix of solutions that can be implemented efficiently over the short, medium and long term.

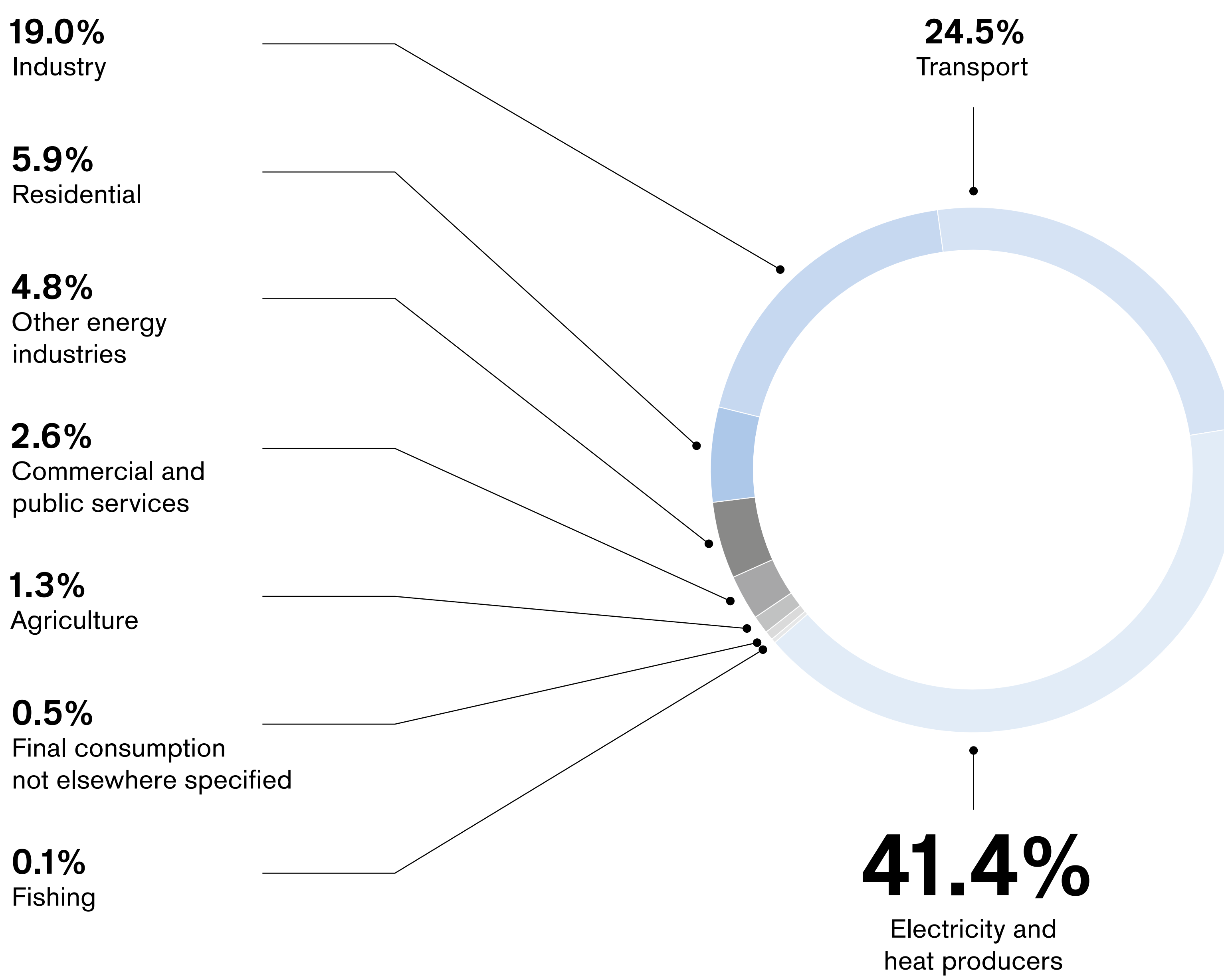
The likelihood *(x axis)* of environmental risks such as loss of biodiversity and extreme weather events materializing is considered very high. As the potential for long-term and irreversible damage *(y axis)* is also high, businesses that can deliver urgently required solutions to such challenges may offer attractive returns over the long term.

Carbon emissions at a record high
According to the UN Environment Programme's Emissions Gap Report 2019, emissions of carbon dioxide and other greenhouse gases reached a record high of 55.3 metric gigatons in 2018. Even if all countries adhered to their nationally determined contributions under the Paris Agreement, we would still be heading for a 3.2°C rise in temperatures. To meet the goal of the planet warming by no more than 1.5°C, emissions will need to be cut by 7.6% every year between 2020 and 2030.[1]

Circular economy is still in its infancy
The significant impact of the manufacturing sector on the environment (CO_2 emissions, energy and water consumption, and waste generation) is a source of frequent calls for a circular economy. Emissions from producing and reusing cement, steel, plastic, and aluminum, for example, could be cut by 40% by 2050 if the principles of the circular economy were adopted. In food production, emissions could be as much as halved by 2050, according to estimates by the Ellen MacArthur Foundation.[2] Back in 2016 the foundation hit the headlines when it forecast that there could be more plastic than fish in the world's oceans by 2050.[3]

[1] *The UNEP Emissions Gap Report 2019 finds that even if all unconditional Nationally Determined Contributions (NDCs) under the Paris Agreement are implemented, we are still on course for a 3.2°C temperature rise. Our collective failure to act strongly and early means that we must now implement deep and urgent cuts. This report tells us that to get in line with the Paris Agreement, emissions must drop 7.6% per year from 2020 to 2030 for the 1.5°C goal and 2.7% per year for the 2°C goal.*
[2] *Completing the Picture: How the Circular Economy Tackles Climate Change, 2019.*
[3] *Ellen MacArthur Foundation, The New Plastic Economy: Rethinking the future of plastics, 2016.*

As the chart titled "Global anthropogenic CO_2 emissions" illustrates, the following sectors have the greatest potential to reduce them: electricity/heating, transportation, industry and residential buildings. These four sectors combined account for over 90% of worldwide CO_2 emissions.



Global anthropogenic CO_2 emissions

Source:
International Energy Agency, data and statistics,
CO_2 emissions by energy source, 2017

Measures taken by individuals in their day-to-day lives are all well and good, but simply driving less or cutting meat consumption are not enough on their own. If we want to be truly effective in making a positive impact, we need to focus on achieving significant results as quickly as possible. There are already some very interesting approaches in certain areas, such as sustainable infrastructure and the efficient use of resources. By contrast, it will be some time yet before we see others, e.g. the circular economy, technologies such as carbon capture, and widescale use of hydrogen fuel cells, being deployed at scale *(see Figure "Impact roadmap")*.

Impact roadmap

	The cause	Investment subgroups	SDGs	Impact measurement
Short-term	**Rapid rise in global population**	**Sustainable infrastructure** ▪ Green buildings ▪ Energy efficiency ▪ Environmental services ▪ Water management	6 CLEAN WATER AND SANITATION 11 SUSTAINABLE CITIES AND COMMUNITIES	**Reforming water and energy usage** ▪ Drinking water supplied (m^3) ▪ Waste water treated (m^3) ▪ Energy saved (MWh)
Mid-term	**Deteriorating natural resources**	**Resources** ▪ Renewable energy ▪ Sustainable forestry ▪ Sustainable agriculture ▪ Land use efficiency	7 AFFORDABLE AND CLEAN ENERGY 14 LIFE BELOW WATER 15 LIFE ON LAND	**Recreating resources** ▪ Renewable energy produced (MWh) ▪ Land forestation (m^2)
	Accelerated waste production	**Waste mitigation** ▪ Recycling ▪ Packaging ▪ Sustainable materials ▪ Waste management	8 DECENT WORK AND ECONOMIC GROWTH 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	**Recycling waste** ▪ Waste materials recycled (t) ▪ Waste collected (t) during production
Long-term	**Rising CO_2 levels**	**Carbon reduction technologies** ▪ Sustainable transportation ▪ Alternative power technology ▪ Energy storage solutions ▪ Pollution management	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 13 CLIMATE ACTION	**Reducing greenhouse gas emissions** ▪ Emissions avoided (tCO_2) ▪ Energy saved (MWh)

Shifting values
It is at least true that the alarming facts and figures have set in motion a shift in values throughout society and across the generations. This is being underpinned and accelerated by regulations and political programs. The UN's Sustainable Development Goals (SDGs), the Paris Agreement of 2015 (a follow-up to the 1997 Kyoto Protocol), the European Commission's Green Deal, and the EU Taxonomy (a classification system for sustainable activities) have established targets and signposted the way forward.

While this path is strewn with huge challenges, they offer enticing opportunities for businesses and investors alike. More and more companies are specializing in products and services that solve environmental problems or significantly reduce their negative impact. The novel business models of firms like these enable investors to participate in potential sources of return that were previously very difficult to tap into.

Environmental Impact Equity – deeds not words
The first questions that spring to investors' minds are how to find such businesses and how to invest in them while maintaining a reasonable level of risk diversification. Having heard questions like these on many occasions, Credit Suisse Asset Management has risen to the challenge by developing an innovative investment approach. This encompasses listed companies that specialize in developing solutions to issues such as the ceaseless population growth, the growing scarcity of natural resources, the mountains of waste, and high greenhouse gas emissions. "Our approach is to identify investments that leverage these themes which are critical to planetary health and can generate attractive financial returns in the process," comments Marisa Drew, CEO Impact Advisory and Finance, Credit Suisse. The focus on these new areas reflects the fact that companies in established business segments are increasingly coming under pressure from environmental regulations and a generational shift in values.

The investment focus is generally on small and mid caps. As firms of this size are not often found in conventional portfolios, our aim is to tap into sources of return that have not previously been accessed, thus increasing diversification. "Investing exclusively in companies whose business makes an impact by solving the problems people really care about is attracting extraordinary interest from our clients. And for our next generation of clients, this is becoming the default," Marisa Drew explains.

The potential is huge – according to estimates by the World Economic Forum (WEF), the combined volume of the market as a whole is set to reach USD 26 tn by 2030. In addition, investors can look forward to more extensive reporting, including an impact report. Alongside the usual financial performance figures, an impact report sets out how the individual businesses contribute to solving environmental challenges. Impact reporting is intended to illustrate tangible progress over the medium to long term.

Investments are made across the world. But given that northern European companies are well positioned in innovative environmental solutions, Europe plays a key role at the relative expense of the US. This results in a roughly equal distribution of the investable universe across the US, Europe, and rest of world (RoW) regions. To ensure the best possible portfolio positioning at all times, each company within the investable universe is assigned to one of four subgroups.

The subgroups are:

- Sustainable infrastructure
- Resources
- Waste mitigation
- Carbon reduction technologies

Stringent investment process

The investment process starts with an impact assessment. This examines whether a business has an appropriate strategy and a suitable product portfolio to enable it to make a lasting, positive impact on the environment over the medium to long term. All companies must operate in a sustainable way themselves and systematically record the relevant data. If a company fails to do so adequately, this will in some cases be actively communicated to the firm so that it can make improvements.

01

Impact assessment

The ESG assessment is based on Credit Suisse Asset Management's ESG grid, which uses exclusion criteria and a rating system. Minimum ESG requirements are taken into account right from when the investment universe is defined from a pool of more than 40,000 stock corporations worldwide. This ensures that ESG factors are considered and included at every step of the investment process.

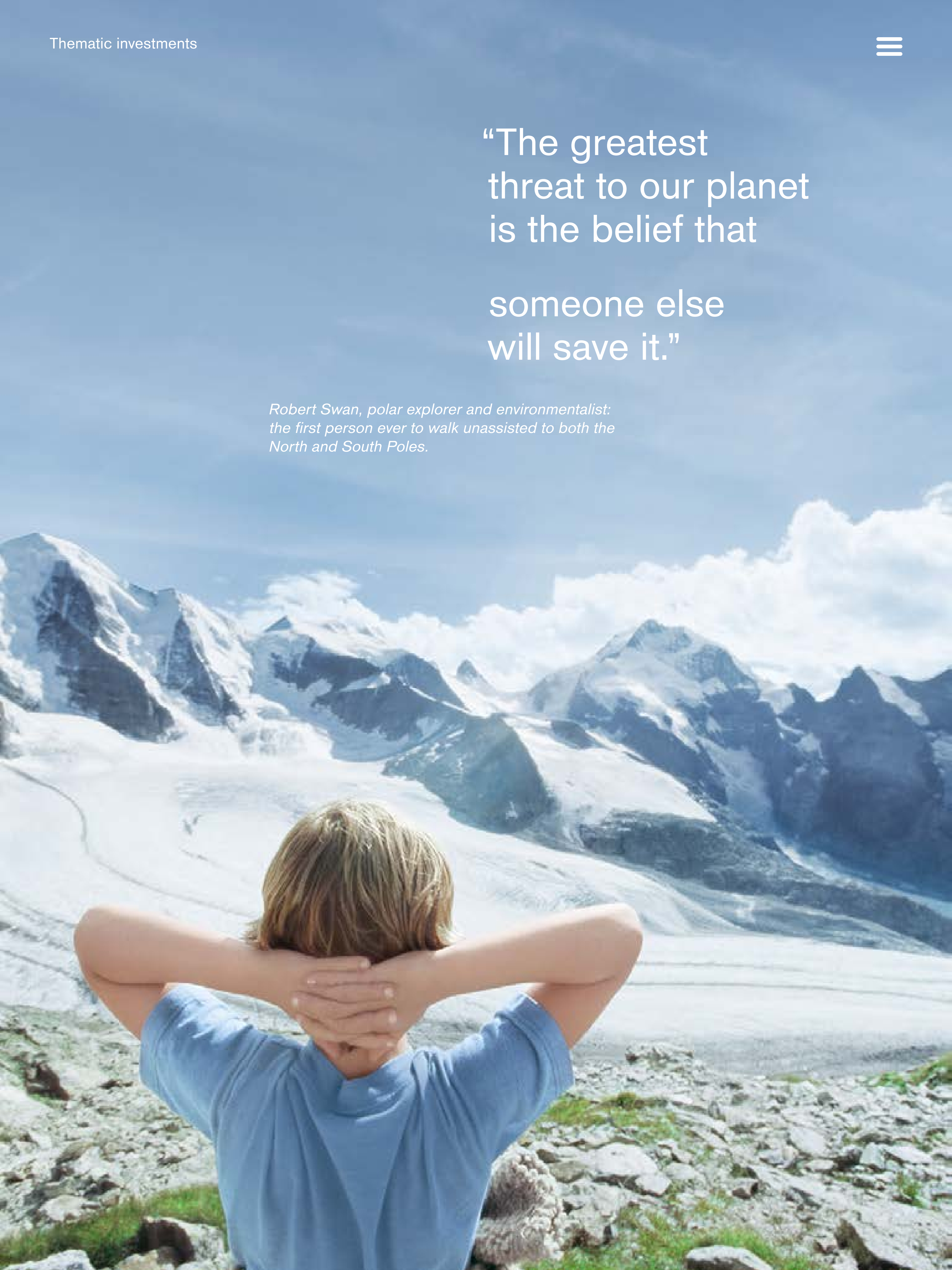
02

ESG assessment

The fundamental assessment examines each company's financial ratios, competitive strength, and management strategy. It draws on Credit Suisse Asset Management's comprehensive analytical experience, sector expertise, and direct access to businesses.

03

Fundamental assessment



"The greatest threat to our planet is the belief that

someone else will save it."

Robert Swan, polar explorer and environmentalist: the first person ever to walk unassisted to both the North and South Poles.

Our approach to ESG

The Credit Suisse ESG framework assumes an active approach to ownership that delivers impactful change and promotes sustainability in our investee companies. Through proxy voting and engagement, we put our values into action, providing leadership in environmental, social and governance issues.

Active ownership

means the actions that allow us to transform our role from that of a capital allocator into an agent of change. We use two of the most important tools in our repertoire – engagement and proxy voting. On behalf of our clients, we hold significant investments in various companies through our funds and other solutions, which gives us influence over decision-making. Our focus is on establishing continual dialog with management to shift them toward more sustainable practices and ESG excellence. This comes from our belief that it is our duty and responsibility to address ESG issues as part of an open dialog with companies. The prime objective of active ownership is to maintain and increase the value of investee companies so that their sustainability efforts make a positive impact on risk-adjusted investment returns over the long term.

Sustainable investing framework

Exclusion

- Norm-based exclusions
- Values-based exclusions
- Exclusions due to involvement in controversies
- Country exclusions

Thematic and Impact

- Thematic and Impact aligned
- Impact investing

ESG integration

- ESG data and rankings
- ESG risks and opportunities

Active ownership

- Exercise of shareholders' rights (proxy voting) in line with ESG principles
- Engagement

ESG reporting

- Reporting on ESG performance
- Full transparency

"Active ownership is a powerful tool in our push for a sustainable future."

Proxy voting

is the fiduciary exercise of our voting rights at general shareholder meetings. In the context of our ESG approach, it means that we use the voting rights afforded to shareholders whose funds we manage to influence investee companies' policies and practices in areas critical to ESG issues. Credit Suisse Asset Management is fully compliant with the European Shareholder Rights Directive II (SRD II), which encourages long-term shareholder engagement. We use proxy voting to improve corporate governance, strengthen shareholders' position and ensure decisions are taken to boost the long-term stability of companies.

The criteria that Credit Suisse Asset Management applies when assessing the corporate governance of investee companies are:

- composition and independence of the board of directors (BoD), management and executive board
- compensation (system and amount)
- capital structure
- shareholder rights
- environmental and social matters
- general corporate governance aspects

Proxy voting enables us to exert influence over the election of BoD members, as well as over compensation schemes and articles of association. We use our proxy voting power to help elect directors who are committed to a long-term vision of strengthening their companies' sustainability practices and are sufficiently independent to see those efforts through. By voting to reduce overboarding – where board members are burdened with an excessive workload – we seek to ensure that BoD members are able to focus their efforts on the task of providing the most responsible management to their companies. We also encourage transparent compensation packages that are both attractive and rewarding to directors who demonstrate sustainability leadership through their actions.

In 2019, Credit Suisse Asset Management voted for example to:

- encourage personal investments by executive management and BoD members in the companies they work for
- enhance transparency of compensation packages
- increase fairness in legally binding retrospective votes on management board pay
- enhance transparency in prospective compensation budgets
- strengthen BoD members' independence and reduce overboarding

We used our influence to make a strong push for governance best practices in our investee companies and ensure that shareholders' voices are heard.

Engagement

is the process of conducting a continual and active dialog with investee companies' management in order to encourage and assist them in furthering their ESG and sustainability efforts. We believe that Credit Suisse Asset Management's engagement practices have a positive impact on investment returns over the medium and long term, as well as on society in a broader sense. Through direct, one-to-one conversations with our counterparties' key stakeholders and meetings where we explain the how and why of our proxy votes, we help direct our partners toward a more sustainable development trajectory.

In 2019, Credit Suisse Asset Management held numerous meetings and conference calls covering various modes of engagement:

- Thematic engagement – speaking about our ESG priorities, which are currently BoD independence and, in real estate companies, anti-climate-change measures
- Individual engagement – addressing company-specific issues
- Engagement in relation to proxy voting – votes are accompanied by a dedicated engagement plan
- Public policy engagement – seeking to influence our peers and the regulatory environment

We notice a growing understanding of the importance of BoD member independence, particularly among large-cap companies. Our engagement seeks to encourage the proactive adoption of best practices in governance standards before regulators force companies to make changes. In our dialog with firms in H2 2019, we observed openness in our partners, and we will measure the results at the upcoming AGMs.

Credit Suisse Asset Management has also pursued individual engagement with specific investee companies, which includes cooperative planning for leadership transitions that allay shareholder concerns about potential conflicts.

Real estate is an area where we are pursuing specific ESG objectives through dialog, particularly concerning climate change and energy use. Engagement with listed real estate companies showed that there is significant room for improvement by further linking management compensation to sustainability targets, especially when it comes to the environment.

Our engagement in industry-wide initiatives has also allowed us to influence public policy in favor of ESG objectives. We have actively participated in efforts to remove certain weapons manufacturers from equity indices, boost the impact investing market, increase debt transparency, support the transition to a low-carbon economy and shape the EU Action Plan on Sustainable Finance.

Putting a message…

Lake Tele

Lake Tele in the Republic of the Congo (Brazzaville) captivates people with its circular form. For photographer Yann Arthus-Bertrand, the lake is one of many symbols of Planet Earth's beauty. Most tourists never get to experience Lake Tele close up, however, because it is surrounded by vast swamplands and is almost impossible to access.

Ashes

Ashes is the title chosen by Yann Arthus-Bertrand for this picture of a tree that he took in northeast Cote d'Ivoire. The ashes are what remain following the annual manmade fires lit to make the savannah soil more fertile.

…behind the picture

Interview with Yann Arthus-Bertrand

Mr. Bertrand, do you consider your photography artwork or a mission?
Yann Arthus-Bertrand: The goal of my photography is to raise public awareness about environmental issues and environmental protection. In other words, my photographic work aims to make ecology and humanism a central issue, in order to encourage people to take real action for Earth and its inhabitants. All of my photographic work is royalty-free for schools, associations and non governmental organizations. Also, I hope that my photography will become a form of heritage for a new generation, even if Earth is changing a lot every year due to the expansion of capitalism.

When you started your photographic work, it seems that the main goal was to enhance the beauty of our world.
That's true, but after several trips and after meeting with a lot of scientists, I realized that it was essential to put a message behind each picture.

Do you sometimes wish you lived on another planet?
No, not at all. I love Earth, and I don't think that exploring Mars or other planets will help to solve the issues we're currently facing on our planet. We should focus first on the environment that surrounds us and should learn to respect it. I think we lack respect for our beautiful flora and fauna.

The global threats to the future of our children are enormous. How can investors help to make a positive impact?
I think investors have started to change the way they make investment decisions. First, we can see growing engagement in socially responsible investing. This initiative, of course, should expand further in the future. Also, I think it is important to apply more restrictions, such as eschewing investments in weapons manufacturers or oil companies. I know that investors are becoming increasingly aware of these issues, and that's a good sign for the future.

Even if the capitalist model is destroying our environment, we should use it instead of blaming it. That's why I'm working with Total and other large companies to bring about beneficial change for the environment.

You are the founder of GoodPlanet. What makes this organization different or unique?
Our foundation doesn't really differ all that much from other environmental organizations, but we have taken some actions that definitely can be deemed unique. In Paris, for example, we created a public space dedicated to ecology and solidarity that is open to everyone. The GoodPlanet Foundation took up residence at the Domaine de Longchamp in Paris. There we created a "green bubble" with free admission, where visitors can experience a generous, positive form of solidarity-centered ecology forged through discussion and encounters.

What specific form does this experience take?
In addition to the permanent exhibitions, every weekend the GoodPlanet Foundation organizes two themed days highlighting environmental, social, and solidarity issues. From organic food to nuclear power, from freedom of the press to refugees, and from honey harvesting to ethical fashion – all of today's subjects, from the most interactive to the most critical, are put under the spotlight at the Domaine de Longchamp.

Our foundation also cooperates extensively with schools. We recently sent sets of 17 posters on the UN's Sustainable Development Goals to all 80,000 schools in France.

"I would be very proud to spur global action to change the world."

The GoodPlanet Foundation takes actions that include helping companies and institutions implement environmentally responsible approaches. Could you illustrate how the foundation is going about this?
Our foundation is something of a specialist in carbon offsetting. We offset the carbon emissions of several large companies through biogas reservoirs. For example, we are offsetting all of the business flights booked by Total through 7,000 reservoirs currently under construction. A biogas reservoir is a container in which organic waste (animal excrement, food waste, etc.) is digested anaerobically by bacteria via a fermentation process that produces methane for use as cooking gas. Each reservoir also releases residues that can be used as natural fertilizers to replace chemical products. These reservoirs thus help to improve the living conditions of populations while combating deforestation and reducing greenhouse gas emissions.

Where are these reservoirs being constructed?
They are being built in developing countries. In India, for example, a family reservoir installed by the GoodPlanet Foundation and its partner SKG Sangha costs EUR 450 and replaces the use of four tons of wood each year. That means five tons of CO_2 per year. The project is running in six districts (Jabalpur, Naramahpur, Madla, Chindwara, Seoni and Balaghat) in the state of Madhya Pradesh.

It has four objectives:

- To develop sustainable energy through the construction and maintenance of domestic biodigesters.
- To improve social, economic and environmental conditions of populations.
- To finance the project through voluntary carbon offsetting.
- To promote alternative agriculture through the use of digestates.

To achieve those objectives, we have identified families in need, trained future users, and established rigorous follow-up protocols.

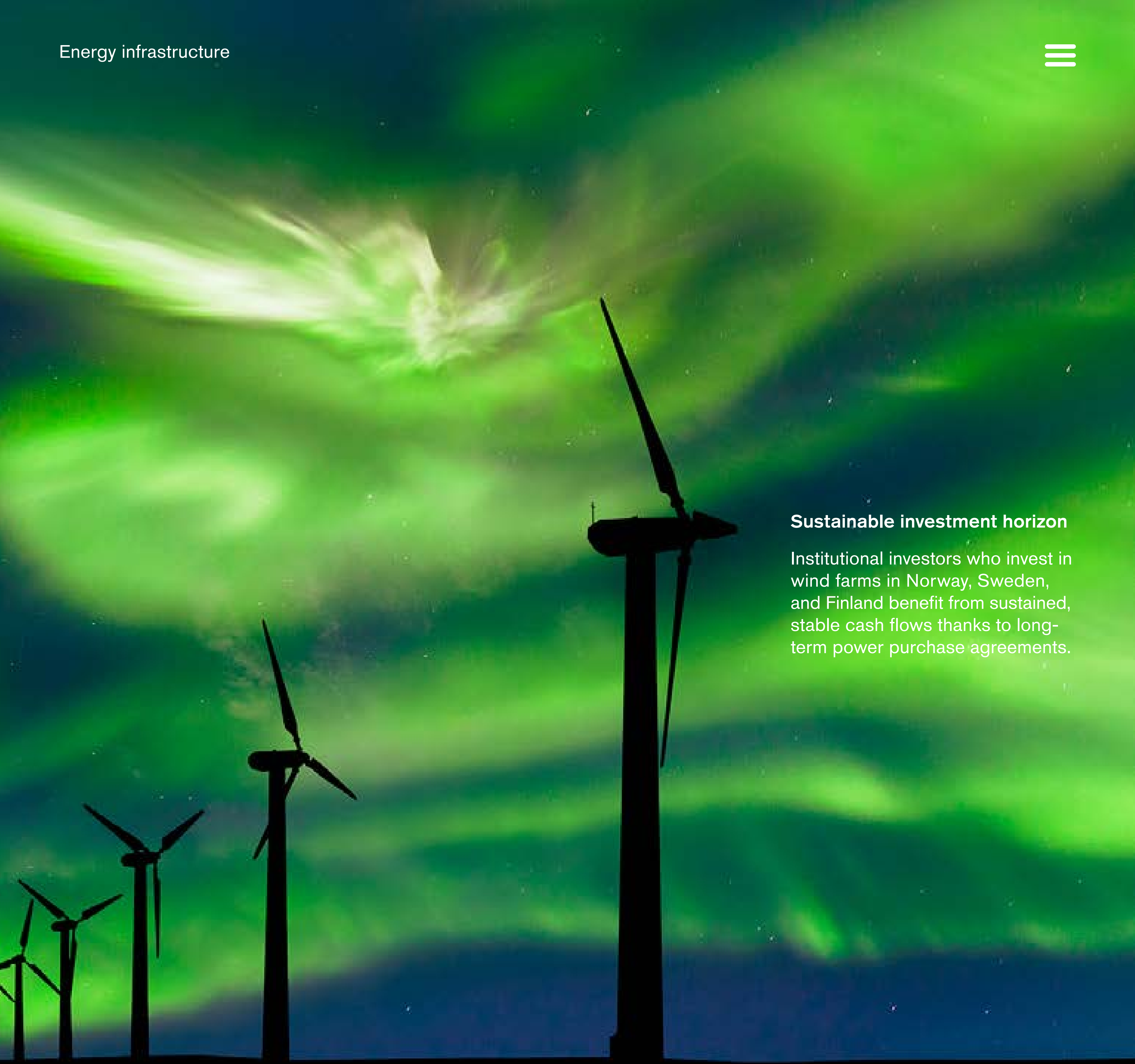
GoodPlanet promotes projects aimed at providing accessible renewable and sustainable energy financed by voluntary carbon offsetting. Is the voluntary approach enough to lastingly change our energy strategy?
Yes, I think it is. I think it's a shame to ignore the environmental impact of our actions. For example, everyone should be concerned about the carbon impact when taking flights. I think we all should greatly reduce our air travel and should offset CO_2 emissions each time we fly. As mentioned before, our foundation offsets CO_2 emissions through biogas reservoirs, but there are lots of other ways to offset them, for instance by planting trees.

Nevertheless, this voluntary approach by individuals must be supported by companies and institutions to have a broader impact.

Which of your many awards and honors are you particularly proud of? Why?
Twelve schools throughout France bear my name today. I think that's the greatest reward I could ask for. I would be very proud to spur global action to change the world, but I don't think the younger generation should have to bear the responsibility. Actions must be taken by the governments, companies and institutions of the world's leading countries today.

Yann Arthus-Bertrand

Yann Arthus-Bertrand, born in Paris in 1946, is an environmentalist, activist, journalist, and photographer. In 1976, he traveled to Kenya to study lions. It was there that he became interested in photography. He has also directed films about the impact of humans on our planet. He is especially well-known for his book The Earth from Above (1999) and for his films Home (2009) and Human (2015). In recognition of his dedication, Yann Arthus-Bertrand was named a Goodwill Ambassador for the United Nations Environment Program on Earth Day 2009. For 44 years now, Yann has traveled the world, worked on numerous subjects and been an advocate committed to the protection of our planet. One of his latest projects is a film called Woman, co-produced with Anastasia Mikova, consisting of 3,000 interviews with women from 40 countries.



Sustainable investment horizon

Institutional investors who invest in wind farms in Norway, Sweden, and Finland benefit from sustained, stable cash flows thanks to long-term power purchase agreements.

Nordic tailwinds

Investments in energy infrastructure promise stable long-term cash flows while contributing to a sustained transformation of the energy system. Wind farms with long-term power purchase agreements are a good example. Institutional investors can hold stakes in facilities such as these.

The energy sector across the world is undergoing a process of transition. In future, numerous countries will stop producing electricity from coal or nuclear power. This transformation of energy production entails very high investment in alternative power generation and in transmission and distribution networks, some of which are now outdated. According to estimates by the European Commission, Europe may require capital expenditure running to more than one trillion euros by 2030. As far as Switzerland is concerned, investment in the energy supply network of CHF 100 to 200 bn will likely be needed between now and 2050. On average, investments of CHF 3 to 5 bn will be required each year.

Pension funds discovering infrastructure as an asset class

Until now, the provision, operation, and funding of infrastructure facilities have mainly been the preserve of state organizations. However, the high level of expenditure required is now opening this segment up to private investors with a long-term horizon.

Investments in infrastructure can be an attractive option for pension funds, life insurers, and other institutional investors that are being hit by the ongoing low to negative interest rate environment and are seeking investments with stable cash flows over the long term. While the market in private infrastructure investments is still relatively young in continental Europe, it already has a long tradition in the UK, Australia, and Canada, for example. In these countries, infrastructure investments already account for between 4% and 11% of pension funds' overall allocations. Globally, according to estimates by the OECD, pension funds held 2.9% of their investments in this asset class as at end-2015. The capital is primarily invested in existing facilities within the transport and energy sectors.[1]

[1] *Infrastruktur. Die neu entdeckte Anlagekategorie, Credit Suisse (Switzerland) AG, 2019*

Switzerland also offers great potential. In theory, Swiss pension funds are permitted to allocate up to 15% of their investment volumes to alternative investments such as infrastructure assets. However, the actual share of alternative investments is just 6%. According to the Credit Suisse Pension Fund Index, the alternative portfolios of Swiss pension schemes largely comprise hedge funds, private equity, and commodities. In this context it is worth noting that investments in infrastructure have been explicitly listed as a subcategory within the investment guidelines since 2014. Owing to the difference in risk profile, there is a political campaign to classify infrastructure as a separate asset class outside of alternative investments with a permitted allocation of 10%, as per the "Weibel motion" submitted to the Swiss parliament.

Investing in wind farms

Investments in infrastructure require extensive expertise and good industry contacts if suitable investment options are to be found and the attendant opportunities – and risks – are to be evaluated as a whole.

Examples include three wind farms in Norway and one each in Sweden and Finland, three of which are already up and running. Construction is currently underway in Sorfjord (Norway), while the Kalax project in Finland has reached the point where building work can begin. Construction work is overseen by general contractors with whom fixed prices have been agreed for turnkey facilities. Once all the wind farms have commenced operations, 94 turbines with a capacity of some 345 MW will be available, enough to power around 190,000 households on average.

The wind farms sell electricity at market prices and operate according to a clearly defined cost structure. The operating costs are highly predictable, as long-term maintenance contracts on fixed terms and with guaranteed availability have been concluded. The risk of electricity price volatility has been minimized by concluding long-term power purchase agreements (PPAs) with local buyers. As a result, attractive selling prices have been agreed over several years for some 70% of the power generated.

This example of Nordic wind farms illustrates how institutional investors can help to transform the energy system. A transition of this nature is only possible if the geographical, technical, contractual, and financial structure of the projects ensures stable income for equity investors and lenders over many years, while at the same time ensuring that all the relevant environmental, social, and governance criteria are met.

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