# Activating Impact through Sustainable Investing: Reflections for Foundations and Service Providers in Switzerland

A Lombard Odier & proFonds Study on Sustainable Investment Practices among Charitable Foundations in Switzerland

2021

# About Us

This report is the fruit of a partnership between Banque Lombard Odier & Cie SA, a Geneva-based private bank, and proFonds, proFonds is the umbrella organization of nonprofit foundations and associations in Switzerland.

**proFonds** has among its missions the creation and dissemination of knowledge and best practices regarding foundation operations and administration, including the area of finance and investments.

**Lombard Odier** is a leading Swiss private bank with a significant focus on sustainability and responsibility in its investment management practices, and which manages the assets of numerous foundations in Switzerland and abroad.

**Alpha Financial Markets Consulting** provided extensive support in the creation, administration, and processing of the empirical online survey and its results, as well as the qualitative interview process. Lombard Odier Philanthropy Services managed the project.

# Contents

"In Switzerland, public utility foundations are trusted most by the public to "do the right thing"."

# EXECUTIVE SUMMARY

As the 2021 United Nations Climate Change Conference of the Parties (COP26) reinforces the message that climate change and sustainability are, and must continue to be, two of the defining issues of our time, proFonds and Lombard Odier have partnered to build the evidence base of foundations' and associations' activity in sustainable investing in Switzerland. The basis of our study was an online survey with a total of 33 respondents within Swiss foundations, supplemented by a series of one-on-one confidential interviews. All respondents were promised anonymity in exchange for their candour. Alpha Financial Markets Consulting supported the drafting and administration of the survey and helped with the one-on-one interviews.

## EIGHT KEY FINDINGS

1. 80% of foundations already engage in sustainable/ESG-aligned investing, and **70% explicitly mention it in their investment policies**. There is, however, still significant untapped potential for growth and improvement in the market.

2. Foundations report that they are facing a **mismatch between their key drivers for sustainable investing and the ESG approaches/criteria they have adopted**, which is largely due to a lack of time, money, and expertise available.

3. Most foundations believe that return on investment (ROI) requirements will increase or remain the same over the next three years, and **all expect to increase their allocations to sustainable investments over the same period**.

4. Only **11% of foundations have defined an overarching investment strategy**, which, along with the lack of time, money and expertise, could elevate the risk of foundations failing to achieve their investment objectives.

5. Even though they place significant value on having a positive impact on the environment and society, **few foundations are actively engaged with the companies they invest in**. This could offer additional opportunities for equity ownership/stewardship services to foundations.

6. Although many of the foundations surveyed flagged resource and sustainable investing knowledge constraints, nearly **half of respondents believe that it is their responsibility to search for ESG investments themselves**. This might be because only half of the respondents have been actively engaged on sustainable investing by the banks that serve them.

7. At this point, it seems that best practice sharing still has a long way to go in foundation-related sustainable investing, with the **large majority of respondents (78%) not expressing an interest in collaborating with others to help drive sustainable outcomes**.

8. Foundations also feel that the quality and quantity of information and training related to sustainable investing are lacking. **Two-thirds of respondents were either dissatisfied or not aware of whether information and training were sufficient**. Increased effort in this area should therefore be a priority.

# Five important to-dos

1 **Raise the ambition level and move beyond exclusions into the mainstream:** Sustainable investing means more than simply not investing in certain sectors or business models. Foundations have significant capital to mobilise, and should use all levers available to them.

2 **Clarify what the concept of sustainable investing means for the foundation:** In order for foundations to successfully implement a sustainable investing strategy, they must define what sustainable investing means for them, and why they hope to engage in it.

3 **Make sustainability reporting meaningful and relevant:** The difficulty of creating reliable and meaningful reporting metrics is one of the key factors holding back sustainable investment in general, so foundations should not hesitate to enlist professionals to help them make better investment decisions and achieve better outcomes.

4 **Remove barriers to entry and find ways to disseminate best practices:** Foundations could lean more heavily on banks and other expert intermediaries to make up for their own (readily admitted) lack of expertise on the topic of sustainable investing, and then share what they learn to help their peers move forward.

5 **Harness the power of voluntary sector action:** Swiss foundations should think about how to take advantage of their unique, market-driven operating environment and effective self-regulation to take effective steps to achieve better sustainable investment outcomes.

# Preface

The world is changing. Sustainability and climate action have taken centre stage among the world's most pressing issues. In Switzerland, the climate is characterised by large natural variations. However, many changes since the beginning of industrialisation can only be explained by rising greenhouse gas emissions. Since 1864, the mean Swiss annual temperature has already risen by 2°C[1]. At the global level, total $CO_2$ emissions from fossil fuels, industry, and change in land-use reached an all-time high of over 43 gigatonnes (billion metric tonnes) in 2019[2].

The Intergovernmental Panel on Climate Change's (IPCC) *Sixth Assessment Report*, published in August 2021, provides a stark warning. The report details how the climate is cracking under the strain of continuous human activities and development, and how this will impact many areas of our economies, societies, institutions, and cultures[3]. The United Nations Environment Programme's (UNEP) *Emissions Gap Report 2021* calculates that even national climate pledges announced before COP26, combined with other mitigation measures as currently foreseen, would put the world on track for a global temperature rise of 2.7°C by the end of the century. This a full 1.2°C above the aspirational goal set in the Paris climate agreement in adopted by 196 parties in 2015 to keep global warming below 1.5°C in this century; as a result, UNEP expects "catastrophic changes in the Earth's climate."[4]

We live in times when we need to think hard how we can preserve what is most precious.

Starting in 2018, Swedish youth activist Greta Thunberg and Climate Strike launched the largest social movement in decades to call for urgent action to contain global warming. Translating his ecological encyclical letter Laudato Sí into action, Pope Francis recently invited all Catholics on a journey "to create the future we want: a more inclusive, fraternal, peaceful and sustainable world."[6] Just prior to the release of this report, the United Nations Climate Change Conference of the Parties (COP26) was held under higher pressure and scrutiny than ever before.

Powered by civil society's activism, governments and the private sector are laying out long-term strategies that set out how and when countries and companies expect to achieve net-zero greenhouse gas emissions. It seems sensible for the charitable foundations sector to ask how foundations could engage in a similarly ambitious effort.

Attention to sustainability issues stands at an all-time high. Nevertheless, much remains be done. To achieve progress at the necessary scale, the public, private and third sectors all need to work together, partnering across sectors to devise solutions. Stakeholders need to find a way to align their various, sometimes conflicting, priorities. This will present challenges.

To keep global warming below 1.5°C this century, the world needs to halve annual greenhouse gas emissions in the next eight years[7]. This requires fully activating all parties that can contribute to the solution.

A prior collaboration that resulted in a study, aimed towards evaluating the dynamism and "vitality" of the philanthropic sector, found that in Switzerland, public utility foundations are trusted most by the public in all age groups "to do the right thing," ahead of government, non-governmental organisations, business and media.[8] This high level of trust confers an additional level of influence on charitable foundations, next to the work they conduct by funding initiatives and projects for public benefit.

The environment is intrinsic to human civilisation, thus it is not surprising that philanthropy already runs and funds environmental initiatives, using grants to resource work on protecting our environment. The four core goals of COP26 -to achieve net-zero by mid-century to contain global warming, to protect communities and our natural habitat, to mobilise capital to enable all of this, and to do so via collaborations, in a spirit of partnership - all align well with philanthropic foundations' commitment to positive change. Translating trust and influence into additional purposeful action, it makes sense to ask how charitable foundations can further activate their social and environmental impact.

One logical way to deploy additional resources to achieve environmental goals is for endowed charitable foundations to not only fund environmental projects through grants, but to also reconsider how they invest their endowments to achieve risk, return and liquidity objectives while meeting sustainability goals. Without such a holistic view, in some cases the foundation's investments could even be counterproductive and contradict the expenditures the foundation makes to put in practice its mission. Consider for example the potential case of a foundation that funds advocacy against firearms whilst being invested in a company that sells weapons. Such lack of coherence undercuts social impact and creates reputational risk.

In the current context, investing their own financial assets sustainably is becoming more and more timely and relevant for the foundation (and NGO) sector. So how can we actually achieve such activation and acceleration? Rather than proposing a grand strategy, we wanted to tackle this issue empirically. We therefore conducted an online survey and a series of interviews to understand Swiss foundations' current point of departure in terms of sustainable investment practices.

We thank the survey participants for their candour and generously sharing their insights.

This short report summarizes our research findings and identifies a series of actions that will help charitable foundations increase their contributions to moving our world onto a sustainable track. We hope that it can serve as a catalyst for discussion and reflection as the foundation sector in Switzerland reconsiders its investment practices in light of the urgent need for sustainability action.

November 1, 2021

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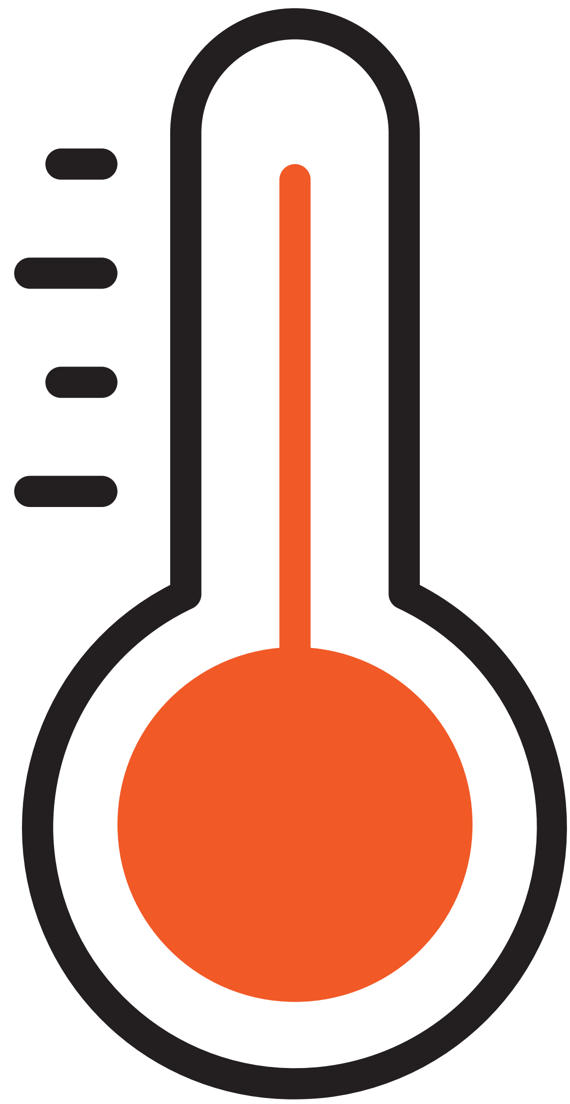


***"We live in times when we need to think hard how we can preserve what is most precious."***

+2°

The mean Swiss annual temperature has already risen since 1864.

“One common definition of philanthropy is to serve as society’s risk capital.”

PART I

# METHODOLOGY AND OVERVIEW OF FINDINGS

# INTRODUCTION

One common definition of philanthropy is to serve as society's risk capital: its financial resources are deployed to tackle issues that are in the public interest, and which cannot be left to governments and markets alone. Put differently, at its best, forward-looking philanthropy can help bring about the future we want to leave to the next generations.

Climate change and environmental destruction have become key issues that will play a significant role in shaping the destiny of future generations.

Today, there is a growing consensus that to hold the increase in global temperature to "well below 2°C above preindustrial levels and pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels," as formulated in the historic 2015 Paris Climate Accord, stakeholders in the private sector, government and civil society need to do more.

As mentioned earlier, the importance of the environment for human civilisation makes it a primary subject for philanthropy and foundations already run and fund environmental initiatives, using grants to support the protection of our environment.

One logical way to deploy additional resources to achieve environmental goals is for endowed charitable foundations to not only fund environmental projects through grants, but to also reconsider how they invest their endowment to achieve risk, return and liquidity objectives while meeting sustainability goals. This also holds true for non-governmental organisations (NGOs) who have reserves that they invest on capital markets.

To study this topic, proFonds and Lombard Odier have partnered to build the evidence base of foundations' and NGOs' activity in sustainable investing in Switzerland.

As an umbrella association of charitable foundations and associations in Switzerland, proFonds represents the interests of a wide range of foundations and associations working for the public good. This also means promoting the exchange and dissemination of knowledge and generating new knowledge on specific topics of wider importance.

Listening and providing solutions to client needs has been its sole purpose since Lombard Odier's founding in 1796, and this has never been as important as today when we face some of the most challenging times in modern history. Lombard Odier's corporate foundation, Fondation Lombard Odier, has implemented a sustainable investment charter to ensure that the endowment's financial assets complement the positive social and environmental impact of the grants made by the foundation.

We are convinced that gathering data constitutes a necessary step so that foundations and NGOs in Switzerland can support the transition to a net-zero-emissions economy when they invest their endowments and reserves, whilst simultaneously achieving their risk-adjusted financial return objectives, which they need to meet to support ongoing funding of their charitable programmes.

We designed this study to enable an evidence-based exchange of perspectives with foundations and NGOs, their peers and sustainable finance specialists such as Lombard Odier. The goal is to identify certain trends in sustainable investing in Switzerland, and how they could be relevant for foundations and boards of trustees, so that charitable foundations and associations can invest more sustainably.

This resource is geared to be a short reflection piece that helps kick-start the discussion around sustainable investments and accelerate reflection and action, in a crisp manner.

# RESEARCH METHODOLOGY AND DATA SET

How charitable foundations in Switzerland approach sustainable investing is, first and foremost, an empirical question.[9] To gather the necessary data, we conducted research from July to September 2021.

In addition to desk research that aimed towards clarifying the landscape in sustainable investing for charitable foundations in Switzerland, we ran empirical research via two distinct approaches.

First, an online survey: a dedicated online page with 31 questions enabled respondent foundations to share general information, their view on sustainable investing and the support received in implementing such an investment strategy. The online survey saw a total of 33 respondents. All respondents are charitable foundations under Swiss law. We investigated and cross-analysed the dataset to derive key findings that are highlighted in this report. To ensure confidentiality of the individual answers, results are presented in an aggregate manner.
*Please see Appendix 2 for the full survey.*

In economic research, questionnaires are a powerful tool to inquire into the current state of affairs, and discover lagging indicators. However, we also wanted to be able to capture leading indicators and get a sense of future trends. We therefore conducted a series of in-person interviews with key personnel from Swiss charitable foundations and sector specialists to gain additional insight.

The interviews consisted of a series of questions relating to sustainable investing for foundations covering the interviewees' current views on the market, perceived opportunities and threats, and identification of priorities, before opening the discussion to any point of interest the respondent wished to raise.

Six full-length interviews were conducted, as well as a number of conversations on different aspects of the research.

# KEY FINDINGS

**The results from the survey revealed a number of fascinating insights regarding Swiss charitable foundations' and non-profits' conception and use of sustainable investing:**

1. 80% of foundations already engage in sustainable/ESG-aligned investing, and **70% explicitly mention it in their investment policies**. There is, however, still significant untapped potential for growth and improvement in the market.

2. Foundations report they are facing a **mismatch between their key drivers for sustainable investing and the ESG approaches/criteria they have adopted**, which is largely due to a lack of time, money, and expertise available.

3. Most foundations believe that return on investment (ROI) requirements will increase or remain the same over the next three years, and **all expect to increase their allocations to sustainable investments over the same period**.

4. Only **11% of foundations have defined an overarching investment strategy**, which, along with the lack of time, money and expertise, could elevate the risk of foundations failing to achieve their investment objectives.

5. Even though they place significant value on having a positive impact on the environment and society, **few foundations are actively engaged with the companies they invest in**. This could offer additional opportunities for equity ownership/stewardship services to foundations.

6. Although many of the foundations surveyed flagged resource and sustainable investing knowledge constraints, nearly **half of respondents believe that it is their responsibility to search for ESG investments themselves**. This might be because only half of the respondents have been actively engaged on sustainable investing by the banks that serve them.

7. At this point, it seems that best practice sharing still has a long way to go in foundation-related sustainable investing, with the **large majority of respondents (78%) not expressing an interest in collaborating with others to help drive sustainable outcomes**.

8. Foundations also feel that the quality and quantity of information and training related to sustainable investing is lacking. **Two-thirds of respondents were either dissatisfied or not aware of whether information and training was sufficient**. Increased effort in this area should therefore be a priority.

“There is no single accepted definition of sustainable investing.”

PART 2

# WHAT DID WE FIND?

# Definitions, Concepts, and State of the Market

## DEFINITION AND CONCEPTS

**Traditional investing delivers value by translating investors' capital into investment opportunities that carry risks commensurate with expected returns. Sustainable investing balances this traditional method of investing with environmental, social, and governance-related (ESG) insight to improve long-term outcomes.**[10]

There is no single accepted definition of sustainable investing. Foundations defined "sustainable investing" in a variety of ways, with the underlying sentiment largely aligned on the common denominator of achieving extra-financial goals through their investments. Responses included:

"Aligning the investments with the goals of the foundations and therefore not working against the purpose of the foundation"

"Applying and respecting mandatory ESG (environmental/social/governance) criteria and actively exercising shareholders' voting rights"

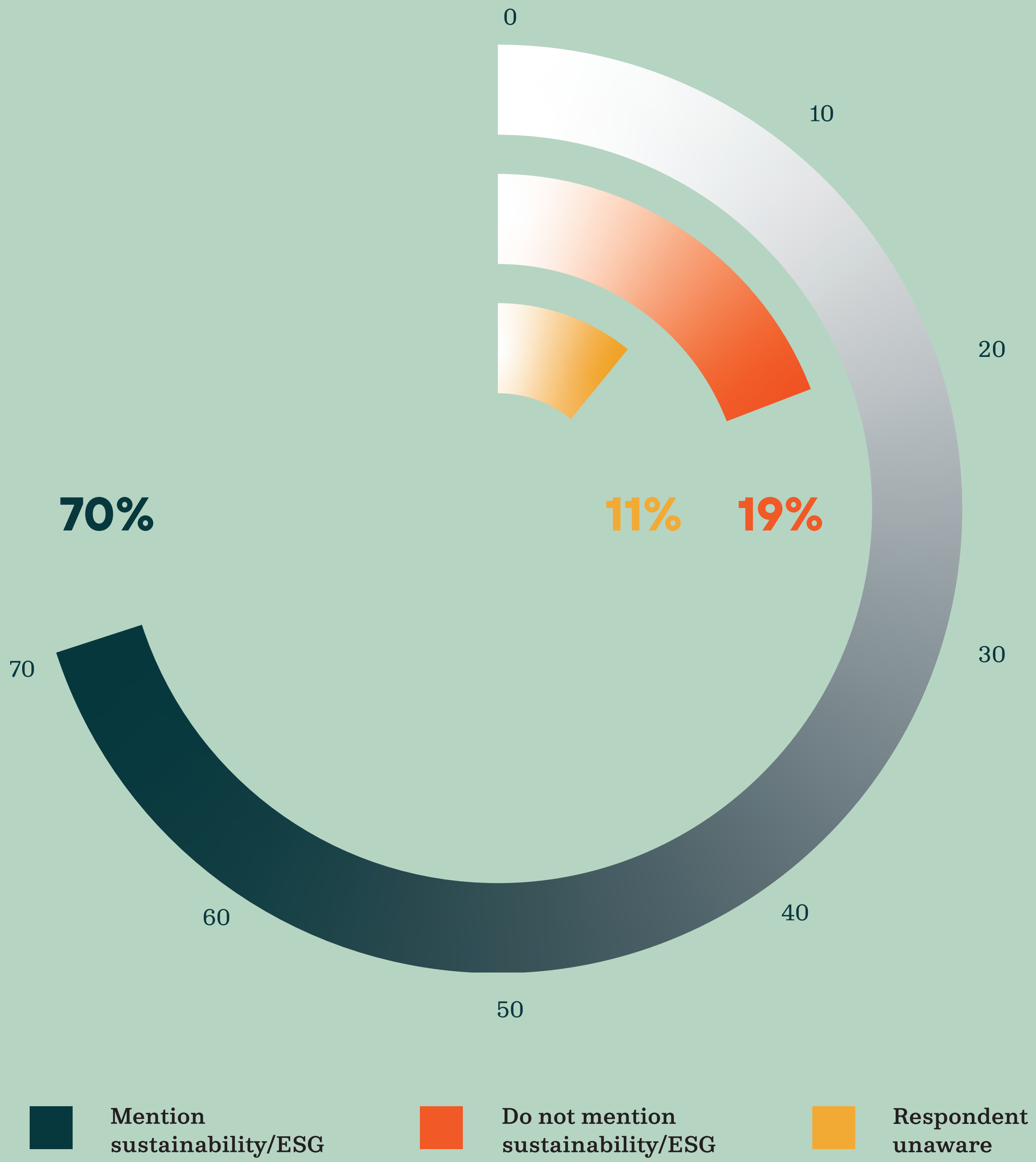
"Respecting the ESG principles and being in touch with the enterprises which could have a positive return after costs, and which suit the goal of the foundation"

"Establishing an investment discipline that considers environmental, social, and corporate governance to generate long-term competitive financial returns and positive societal impact"

"Having included sustainability objectives without compromising on return targets"

"Investing in companies that take ESG guidelines and objectives seriously, that do not run counter to the purpose of the foundation and especially being careful with the aligning of the fund's capital with its stated philanthropic goals"

**Figure 1**
Presence of sustainability and/or ESG
in respondents' investment strategies




> *70% of foundations explicitly mention sustainability or ESG in their investment policies.*

*“There are stark differences in the perceived sustainability contribution of different asset classes.”*

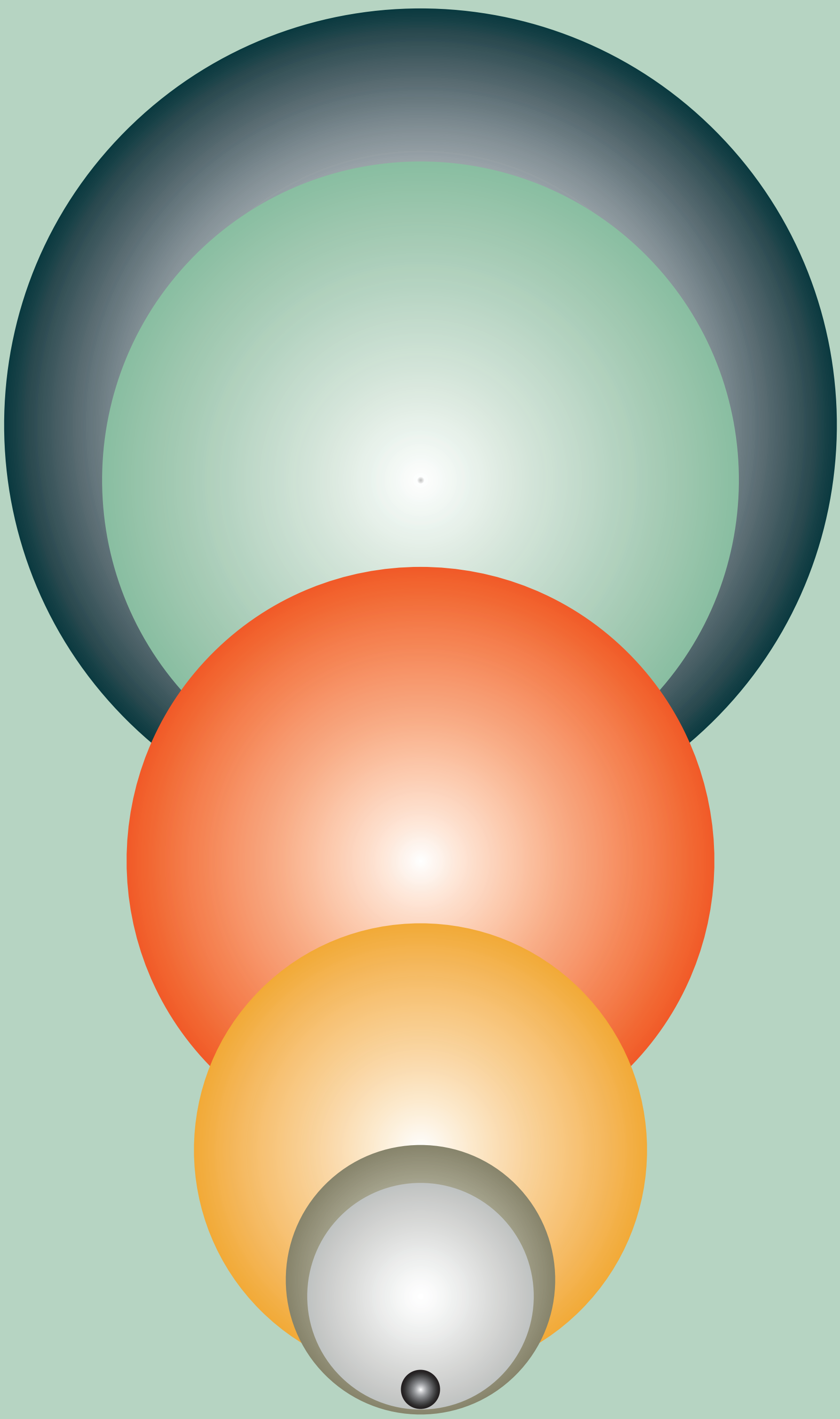
As shown in the survey results, 70% of foundations explicitly mention sustainability or ESG in their investment policies (see **Figure 1**). The drivers for sustainable investing among these foundations can be broken into main drivers (i.e., those scoring 5 or above on a scale of increasing level of significance from 1 to 6) and secondary drivers (i.e., those that scored below 5).

Having a positive impact on society and on the environment, as well as aligning the foundation's investments with its values and goals, are of the utmost importance for foundations. Protecting or improving reputation and mitigating investment risks are considered less impactful reasons for sustainable investing.

On a wider scale, 82% of interviewed foundations take ESG factors into account when making investment decisions. However, some misalignment may exist between their goals and their approaches. As noted in **Figure 2**, fewer than 20% of respondents reported that they regularly exercise their shareholder voting rights or actively engage with companies, the two strongest levers available to shareholders in terms of influencing companies.

The main ESG criteria/approach applied to sustainable investing is the use of negative criteria (e.g., exclusion). However, to achieve their main goal and have a positive impact on society and environment, foundations need to go further in their investment approach. On a positive note, fewer than 5% of respondents said that they do not consider any ESG criteria when making investments.

**Figure 2**
Prevalence of selected criteria/approaches in respondents' investment strategies (note that respondents were allowed to select as many choices as applicable)



**55%**
Negative criteria such as exclusion (weapons, tobacco, etc.)

**42%**
Positive criteria such as "best-in-class"

**39%**
Thematic investments

**30%**
Impact investing

**18%**
Active engagement

**15%**
Exercising shareholder's voting rights

**<5%**
Varies on case-by-case basis

**<5%**
No defined criteria

## INVESTMENT STRATEGY

Regardless of endowment size, foundations are already investing a large percentage of their assets in sustainable/ESG-aligned ways, and around 50% of respondents indicated that they are looking to further increase their allocations in the coming years.

### KEY DATA POINTS

- Over 90% of foundations with over CHF 10m in investible assets have currently allocated 20% or more to sustainable/ESG-aligned investments.
- Among foundations with over CHF 50m of investible assets, the majority (~60%) have less than 40% of their money invested in sustainable/ESG-aligned assets.
- All foundations that have invested 61%-80% of their assets in sustainable/ESG-aligned investment strategies plan to increase this percentage over the next three years.
- 50% of foundations expect to increase the share of their assets invested in sustainable/ESG-aligned ways over the next three years, while the other 50% expect the allocation to remain the same. However, the majority of foundations believe that their return on investment (ROI) will remain the same over that time period, implying a belief that sustainable/ESG-aligned investing produces returns that are at least as good as, if not better than, traditional investment strategies.

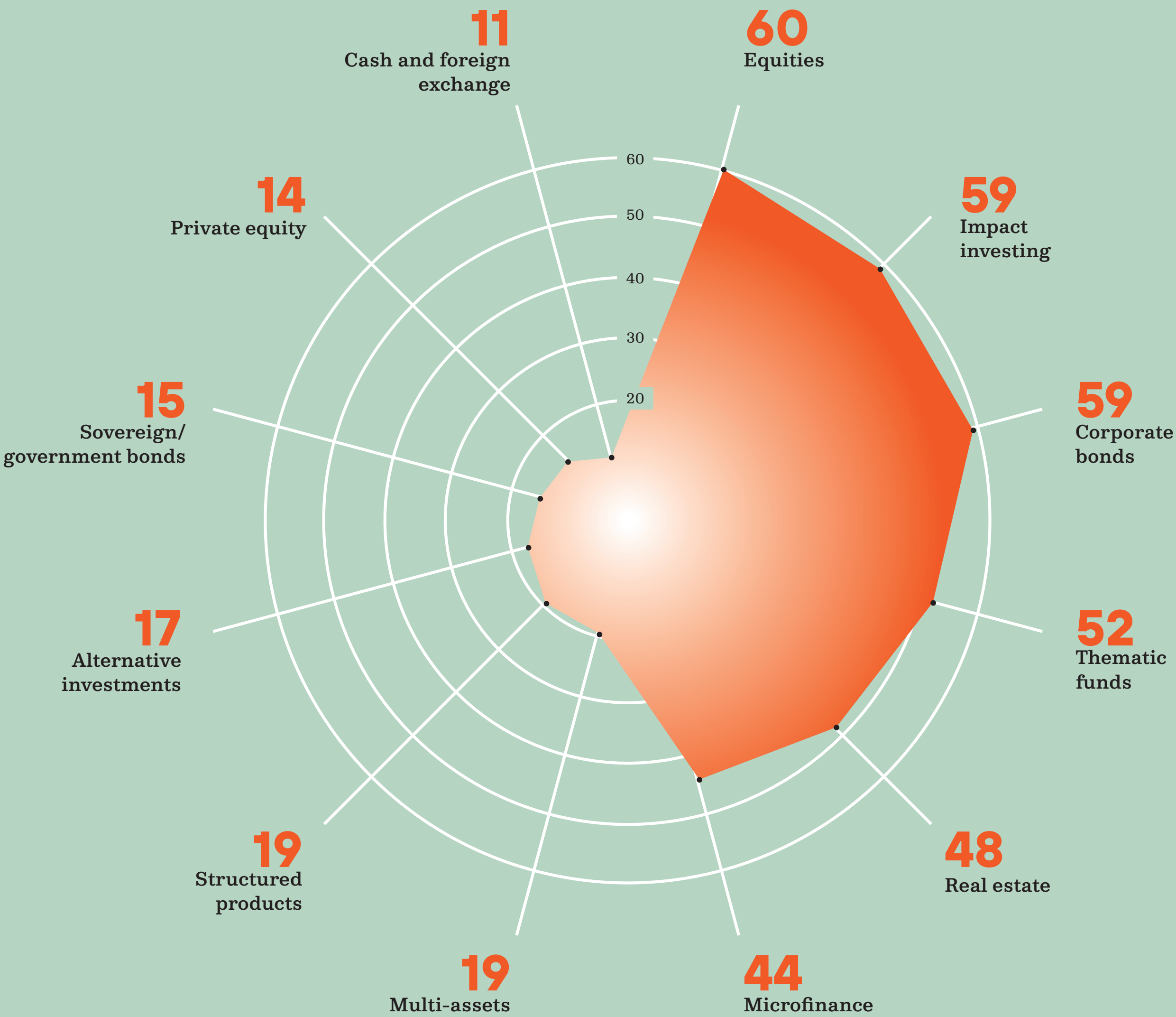
*“While foundations are familiar with traditional approaches to sustainable investing such as exclusions and positive screens, few are prepared to engage more actively on thematic topics or express a preference on voting around key ESG issues.”*

## TOP ASSET CLASSES

Foundations reported widely varying perceptions of the utility of different asset classes for sustainable investing. Respondents were presented with a list of twelve asset classes and asked to state how useful they find each asset class for sustainable investing, on a scale of 1 to 5 from least to most useful. As shown in **Figure 3**, which shows the percentage of respondents giving each asset class a ranking of 4 or 5, two clear clusters emerged. Half of the asset classes were deemed useful by at least 44% of respondents, while the other half all received below 20%.

The findings of this part of the questionnaire are somewhat surprising, particularly concerning the asset classes deemed less useful. Some of them are unsurprising—cash and government bonds, for example, are not particularly dynamic or flexible as investment instruments. Some of the other members of this group, though, seemingly have potential as sustainable investing vehicles, including private equity, alternative investments, and structured products. It might, therefore, be useful for bankers and financial institutions to discuss such non-traditional solutions with their foundation clients as a way of raising awareness of the potential utility of these asset classes, and thereby mobilising additional capital for sustainable investment strategies.

**Figure 3**
Percentage of respondents ranking each asset class as useful for sustainable investing (4 or 5 on a scale of 1 to 5)



# Opportunities

## THE FOUNDATION CASE FOR SUSTAINABLE INVESTING

**The survey data indicates that charitable foundations in Switzerland are not yet systematically considering two types of opportunities resulting from being active in sustainable investing.**

### BUSINESS CASE FOR SUSTAINABLE INVESTING

Results from empirical research demonstrate the "business case" for ESG investing. For example, a panel study aggregating results from over 2,000 empirical studies suggests that roughly 90% of studies find a non-negative correlation between ESG investments and corporate financial performance (CFP).[11] Indeed, the large majority of studies even reports positive findings, with the positive ESG impact on CFP stable over time.

Nevertheless, the business case for ESG investing, and possibly even accessing alpha—that is, receiving rates of return above market rates–appears to be one of the aspects that foundations consider least when adopting a sustainability strategy.

This finding represents a significant opportunity for banks to demonstrate that foundations can achieve positive impact on society and the environment while simultaneously helping to grow investible assets to further their charitable missions.

### PARTNERSHIPS

Interestingly, only 22% of surveyed foundations would like to partner with other foundations to collaborate on sustainable investments and defining ESG-aligned strategies.

This seems to be a significant missed opportunity, as such partnerships could produce fruitful discussions, while also allowing foundations to pool their assets and potentially unlock greater returns and/or access to more interesting instruments. In the private markets and alternative investment space in particular, the ability to provide seed capital and make larger investments enables access to investment managers who do not normally serve smaller allocators.

## HOW CAN BANKS ADD VALUE?

Banks play a critical role in the global economy, from processing day-to-day transactions for ordinary citizens to managing trillions of dollars in assets and the structuring of complex global markets. This means that banks have a crucial role to play in supporting the adoption of sustainable investment strategies. Given the finding that many foundations still have a significant way to go in terms of their knowledge of sustainable investing, banks are ideally placed to help them work on this transition.

Nevertheless, 55% of survey respondents reported not feeling engaged by their banks on sustainable investment. Banks are increasingly demonstrating their commitment to adopting sustainability into their business practices. They aim to manage investor assets in accordance with ESG criteria, they help structure sustainability-linked investment products and promote sustainable finance more generally, and they offer a range of ESG-integrated products and apply ESG screening to investment portfolios.

Banks can thus support foundations to define the right investment products and understand the impact of their investments. This opinion is shared by the foundations themselves, as demonstrated in **Figure 5**, which shows the percentages of respondents who agreed with several statements regarding the role of banks in helping them with their sustainable investment strategies. One thing to pay attention to here is the objectivity of the advice: multiple foundation respondents stated that they would like to receive independent information from external providers, and be informed about ESG-aligned passive investment opportunities.

In addition to ESG investing in public markets, foundations can also invest portions of their endowments in private markets. Over the past 15 years, private assets have drawn very significant interest from investors interested in achieving social impact alongside financial returns in fields that offer a direct link between financial investment and social impact, such as microfinance, healthcare, food and agriculture, alternative energy, education, or housing and infrastructure.[12]

In this vein, alternative and private equity (PE) strategies, while still nascent, can help foundations achieve attractive financial returns and greater alignment to investment time horizons, as well as sustainability outcomes.

Here again, some foundations lack the knowledge, expertise and/or ability to invest large amounts into a single transaction, so banks, with their syndication power and skill set, can be helpful. More generally, banks can and should further engage with foundation clients on why certain asset classes are not being considered and offer education regarding the potential benefits. For example, PE strategies can offer direct exposure to renewable energy, carbon capture and storage, and other industries directly relevant to sustainability.

**Figure 4**
Share of respondents willing to collaborate with other foundations in the area of sustainable investment and defining ESG-aligned strategies

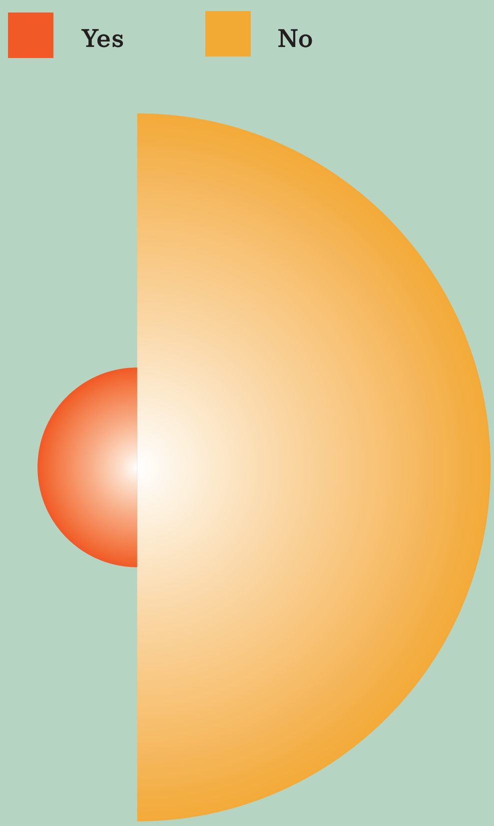
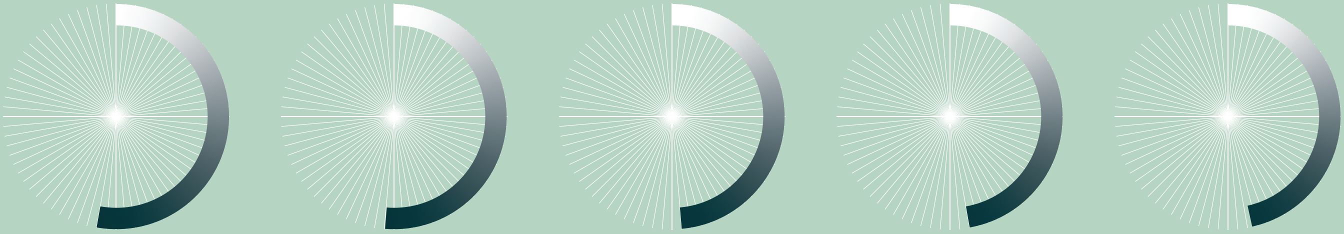



**Figure 5**
Foundations' opinions regarding the role of banks' role in helping them implement sustainable/ESGrelated investment strategies



| 55% | 52% | 47% | 45% | 43% |
|---|---|---|---|---|
| Banks should assist in building a sustainable portfolio | Banks should provide ESG criteria for investments | Banks should provide information regarding ESG impact | Foudations are responsible to search for ESG investments themselves | Bnks should provide investment research/ ideas on ESG |

“Foundations want to receive independent information from external financial service providers.”

PART 3

# WHAT DOES IT MEAN?

# Conclusion: Five TO-DOS

**To manage the financial resources they have at their disposal in service of the public good, foundations, like any other investors, must set investment objectives and put in place strategies in order to meet these objectives.**

The study has demonstrated Swiss charitable foundations' overall willingness to include sustainable/ESG-aligned approaches and criteria in their investment strategies. All respondents plan to either increase the percentage of their assets currently invested in sustainable/ESG-aligned investment strategies or at least maintain it. But the lack of expertise, within the boards of directors, and the limited transparency of ESG reporting has made decision-making a sizeable challenge for foundations.

The study highlighted new opportunities between foundations to support each other, and for banks to assist foundations in fulfilling their goals. In a constantly evolving investment landscape, innovation in environmental solutions—such as alternative energy, waste management, green infrastructure and generally transitioning industries to "greener" business models—can be a way for foundations to use part of their financial assets to meet sustainability objectives, while also earning a risk-adjusted financial return. But to navigate this space, foundations need to develop roadmaps to help them capitalise on the investment opportunities.

Investment is not without risk, of course, and expertise matters. Well-informed foundations will take advantage of the emerging opportunities by increasing their knowledge and awareness of ESG issues, leveraging professionals with deep ESG knowledge, and thoughtfully aligning their foundations' objectives with their investment principles.

Empirical data is increasingly demonstrating that sustainable investments perform at least as well as unsustainable and/or non-ESG-oriented strategies, and possibly better.[13] Given the significant risk going forward associated with re-regulation and changing costs of resources and pricing of externalities such as carbon emissions, it is, moreover, reasonable to expect that unsustainable business models will be penalised in the future in financial terms.

In a societal context where governments and companies put forward ambitious plans to achieve carbon neutrality in the coming decades, forward-looking foundations should similarly dedicate time and effort to increasing their level of knowledge and expertise.

From an ease and cost point of view, they can also reap benefits from working collaboratively with their partners to help align their investments to these opportunities. To be able to monitor progress, they need to demand relevant, credible reporting from their investment partners on the progress and social and environmental impact of their portfolios.

Based on our analysis, we have identified five priorities for charitable foundations in Switzerland that wish to activate the additional lever of sustainable investing in the pursuit of contributing to the broader sustainability agenda.

# #1 Raise the Ambition Level and Move beyond Exclusions into the Mainstream

Charitable foundations are "deep purpose" actors. Their grant making and operating activities are directly related to the pursuit of a public purpose mission. Given the heterogeneity of their missions, it is not always easy to define directly aligned sustainable investing practices for every foundation. Consider, for example, two foundations, one focused on social housing and the other on human rights. The first foundation could well consider investments in revenue-generating social housing assets; in the latter case, considering how multinational corporations integrate adherence to human rights in their operations and supply chains is a likely addition to the ESG metrics being monitored.

A general observation is that in sustainable investing, the focus is often on the "E" (environment) and the "G" (governance) aspects of ESG. But foundations are often also particularly interested in solutions on the "S" (social) dimension of ESG. Moreover, awareness of social and health impacts of less polluting industries is gradually moving to the forefront of sustainability thinking. For example, there is some evidence indicates that frequent users of social media have higher rates of depression and anxiety than do light users.[14] The World Health Organisation (WHO) has kept warning regarding the public health implications of excessive use of the Internet, computers, and smartphones for several years now.[15] In addition to tackling the overall challenge of global warming, it makes sense for foundations active in public health to want to integrate ESG metrics that are directly relevant to their chosen field of action into their metrics cockpit.

To keep things simple, many foundations therefore integrate sustainable investing considerations in their portfolios mainly via exclusions. Given analytical progress in the field of ESG investing, more and more dimensions can now be monitored with data, and foundations can be more ambitious and adopt more wide-ranging sustainable investing strategies. The wide variety of asset classes that could be useful to address sustainable investment challenges should be analysed in depth.

> Promoting sustainable investment also means investing in the long term. Thus, planning a sustainable investment strategy should include longer-term asset classes, while keeping focus on the various inflows. **However, according to the survey, 30% of foundations' investment choices are still made with an investment horizon of 1-5 years.**

# #2 Clarify the Concept of Sustainable Investing and Primary Motivation for Action

As one seeks to become more ambitious, one needs clarity about what one is doing, what the opportunities are, and where the limitations lie. Put differently, it is critical that charitable foundations clarify what sustainable investing means for them. Today, the sector is characterised by confusion regarding the goals of sustainable investing.

A helpful way to start tackling this is asking questions about motivations. For example, Swiss Sustainable Finance distinguishes the following three types of motivations, which are very helpful in clarifying an investment strategy:

- Value alignment: Do we want to align to the foundations' values and mission?
- Risk/return improvement: Are we motivated primarily by financial drivers?
- Real world impact: Do we want to enhance our ability to drive change?

> For foundations to adopt sustainable investing strategies that are meaningful for them, it essential to decide which motivations predominate.

## #3 Make Sustainability Reporting Meaningful and Relevant

Sustainable investing is an important practice to help ensure that invested assets do no harm and contribute to the greater public good. To be able to monitor this contribution, reporting is essential. Charitable foundations, however, are not typically specialists in sustainable investing, nor do they have the staff to develop solutions themselves.

The way forward must therefore involve defining reporting requirements and enlisting asset managers in creating the reporting solutions needed.

## #4 Remove Barriers to Entry and Find Ways to Disseminate Best Practices

Science tells us that peer learning is generally a powerful way to demystify and share knowledge. This also holds true for sustainable investing: sharing definitions and best practices can accelerate strategy formulation and execution. There is appetite in the foundation sector for more sustainable investing, but accessing experts and solutions is often difficult.

The way forward is devising ways to disseminate knowledge and expertise faster in the sector. Doing so will require foundations, non-profit organisations, and the financial industry to collaborate on information and expertise sharing, as well as ease of access to sustainable investment solutions. Developing action plan templates will also be helpful. How to go about this in ways that genuinely add value is not obvious, and the data suggests that many foundations are not interested in sharing best practices. Nevertheless, given the tremendous potential benefit, it is important to keep looking for formulas that work.

Banks could add value by supporting those foundations that believe that it is their own responsibility to search for sustainable investments. Banks possess the resources and networks to provide necessary information, motivate boards of foundations, and clarify the point of departure. There is room for more, especially regarding the quantity and quality of sustainable finance information and training opportunities banks could offer to their clients.

Smaller foundations, especially those that hold up to CHF 10 million in assets, would clearly benefit from the investment experience that banks and other more sophisticated foundation investors could offer. Collaboration and willingness to learn is key. Governments could also lend support by helping to disseminate best practices and by promoting policies encouraging charitable foundations to develop and/or ensure that their investment strategies have a positive impact on the society and environment. Furthermore, foundations could more actively engage with the companies they invest in, whether via in-house equity ownership or stewardship services or via banks offering these services.

# #5 Harness the Power of Voluntary Sector Action

Finally, there is opportunity resulting from the specifics of Switzerland's operating environment. Indeed, Switzerland benefits from a liberal charitable foundation operating context and an effective self-regulation and codification of best practices. The country's leading industry associations, proFonds and SwissFoundations, already undertake strategic initiatives in other fields to improve the sector's operating context. The question is: how can such an approach be applied to sustainable investing? For example, how could the new Swiss Foundation Code recommendations be translated into action on a broad front in the sector, and who needs to be at the table to make this happen?[16]

As is apparent from the research, sustainable investing is a fast-developing and dynamic topic. Foundations benefit from a reflexive approach to define what is right and works for them, so that they can "do the right thing" to further activate their impact, in line with the general view of the public utility foundation sector in Switzerland.

To help the reader launch and run such processes internally, we have included both the questionnaire and the interview guide we used to gather data for the study in Appendix 1 and Appendix 2.

“proFonds and Lombard Odier have partnered to build the evidence base of foundations’ and NGOs’ activity in sustainable investing in Switzerland.”

# APPENDIX

# APPENDIX 1
## LIST OF INTERVIEWEES AND SURVEY RESPONDENTS

33 foundations completed the online survey, of whom 25 requested to remain anonymous and the following eight agreed to have their names published:

- Chaîne du Bonheur
- Fondation André & Cyprien
- Fondation CHUV
- Fondation Lombard Odier
- Fondation Philanthropia
- Fondation Suisse pour la Zakat
- Limmat Stiftung
- MAVA, Fondation pour la Nature

In addition to the online respondents, the project team conducted a series of six in-depth interviews to contextualise the findings. These six interviewees all requested anonymity in exchange for their candour.

# APPENDIX 2
## ONLINE QUESTIONNAIRE

General Questions

**1. In which sector(s) is your foundation currently active?**
- ○ Culture
- ○ Education and research
- ○ Environment
- ○ Politics and government relations
- ○ Public health
- ○ Social action
- ○ ______________________

**2. How would you define the mission of your foundation? (open question)**

______________________

**3. What is the size of your foundation's investable assets?**
- ○ Less than CHF 2 million
- ○ Between CHF 2 and 10 million
- ○ Between CHF 10 and 50 million
- ○ More than CHF 50 million
- ○ The foundation does not hold investable assets
- ○ Prefer not to say

**4. Have you defined an investment policy to manage your foundation's investable assets?**
- ○ Yes
- ○ No
- ○ Don't know
- ○ Prefer not to say

**5. What is your time horizon for your investment?**
- ○ < 1 year
- ○ 1-5 years
- ○ 5-10 years
- ○ 10+ years

**6. What is your investment risk profile?**
- ○ Moderate
- ○ Balanced
- ○ Growth
- ○ ______________________

Sustainable Investing

**7. For our foundation, "sustainable investing" means... (open question)**

______

**8. Do you take environmental, social, and governance (ESG) factors into account when making investment decisions?**
- ○ Yes
- ○ No
- ○ Don't know

**9. Why not? (open question)**

______

**10. What type(s) of ESG criteria/approaches do you currently use?**
- ○ Negative criteria such as exclusion (weapons, tobacco, etc.)
- ○ Positive criteria such as "best-in-class"
- ○ Exercising shareholders' voting rights
- ○ Thematic investments
- ○ Active engagement
- ○ Impact investing
- ○ ______

**11. For any of the above criteria/approaches that you are NOT using, could you explain why you have chosen not to use them? (open question)**

______

**12. Does your investment policy mention sustainability or ESG criteria when making investment decisions?**
- ○ Yes
- ○ No
- ○ Don't know

**13. What reasons motivate you to invest sustainably?**

| | 1 (not a reason at all) | 2 | 3 | 4 | 5 | 6 (very strong reason) | No opinion |
|---|---|---|---|---|---|---|---|
| Positive impact on society and environment | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Aligning investment with the foundation's values and goals | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Protecting or improving the foundation's reputation | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Mitigating investment risks | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Accessing alpha (i.e., investment outperformance) | ○ | ○ | ○ | ○ | ○ | ○ | ○ |

**14. What is the current percentage of your assets already covered by sustainable/ESG-aligned investment strategies?**
- ○ Less than 20%
- ○ Between 21% and 40%
- ○ Between 41% and 60%
- ○ Between 61% and 80%
- ○ More than 80%
- ○ Prefer not to say

# Implementation Support

**15. Do you expect this percentage to increase, decrease, or remain the same over the next three years?**

- ○ Increase
- ○ Decrease
- ○ Remain the same
- ○ Don't know
- ○ Prefer not to say

**16. Do you expect your target annual rate of return on investment to increase, decrease, or remain the same in three years' time?**

- ○ Increase
- ○ Decrease
- ○ Remain the same
- ○ Don't know
- ○ Prefer not to say

**17. To what extent do you agree with the following statements?**

| | 1 (Do not agree at all) | 2 | 3 | 4 | 5 | 6 (Totally agree) | No opinion |
|---|---|---|---|---|---|---|---|
| My bank should help me structure my investment portfolio in a sustainable manner | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| My bank should give me ESG scores for all the positions of my portfolio | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| My bank should give me information on the ESG impact of all the positions of my portfolio | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| My bank should provide me with regular investment research on sustainable investment ideas | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| It is my responsibility, not my bank's, to select sustainable investments | ○ | ○ | ○ | ○ | ○ | ○ | ○ |

**18. To what degree would you value the following offerings from your bank?**

| | 1 (Ex-tremely low) | 2 | 3 | 4 | 5 | 6 (Ex-tremely low) | No opinion |
|---|---|---|---|---|---|---|---|
| Access to structured sustainability products | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Sustainable thematic funds | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Sustainable investment reporting | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Sustainable investment training | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Thought leadership on sustainable investment | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| ESG scoring at the portfolio level | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Carbon footprint for my portfolio | ○ | ○ | ○ | ○ | ○ | ○ | ○ |

**19. Would you value other sustainability metrics? If yes, please describe the type of metrics you are thinking of. (open question)**

**20. Has your bank engaged with you on sustainable investment?**
- ○ Yes
- ○ No
- ○ Don't know

**21. What did they offer? (open question)**

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**22. Is there anything related to sustainable investment that you would have wanted your bank to offer you that they did not offer? (open question)**

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**23. To what degree is each of the following asset classes useful to your foundation for sustainable investment?**

| | 1 (Extremely low) | 2 | 3 | 4 | 5 | 6 (Extremely high) | No opinion |
|---|---|---|---|---|---|---|---|
| Equities | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Corporate bonds | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Sovereign/government bonds | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Cash and foreign exchange | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Structured products | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Alternative investment (e.g., hedge funds, infrastructure) | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Private equity | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Thematic funds | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Impact investing | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Microfinance | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Real estate | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Multi-asset | ○ | ○ | ○ | ○ | ○ | ○ | ○ |

**24. Would you be interested in working with other foundations to define what sustainable investments and/or a sustainable investment strategy would look like?**
- ○ Yes
- ○ No

**25. Would you like to say more about this collaboration and/or about whom you would like to collaborate with? (open question)**

---

**26. How do you rate the quality of the information and training opportunities offered by foundation associations on the topic of sustainable investment?**

| | Very good | Good | Mediocre | Bad | Don't know | Prefer not to say |
|---|---|---|---|---|---|---|
| Quality | ○ | ○ | ○ | ○ | ○ | ○ |

# Other

**27. How do you rate the quantity of the information and training opportunities offered by foundation associations on the topic of sustainable investment?**

| | Too much | Just right | Too little | Don't know |
|---|---|---|---|---|
| Quality | ○ | ○ | ○ | ○ |

**28. What other services regarding sustainable investment of foundation assets would you like to see offered by foundation associations? (open question)**

**29. Are there any topics related to sustainable investment about which you would like to learn more? (Multiple answers possible)**

- ○ Access to structured sustainability products
- ○ Thematic funds
- ○ Sustainable investment reporting
- ○ Sustainable investment training
- ○ Thought leadership on sustainable investment
- ○ ESG scoring at the portfolio level
- ○ Measuring carbon footprints
- ○ Other ESG metrics
- ○ Impact investing
- ○ ____________

**30. Before concluding this survey, would you like to share any further comments, which have not been already discussed? (open question)**

**31. Would you like your foundation/association to appear as a respondent in the public document announcing the results of this survey? (Individual answers will not be given)**

- ○ Yes
- ○ No

**32. Please indicate the name of your foundation**

**33. Would you or your foundation/association like to participate in a one-on-one interview to go into more depth on some of the topics discussed in this survey?**

- ○ Yes
- ○ No

**34. Please provide a contact name and email address**

# APPENDIX 3
## INTERVIEW GUIDE

SECTION A
**DEFINITIONS AND STATE OF THE MARKET**

1. What does sustainable investment mean to you?
2. Do you think sustainable investment strategies help foundations align their assets with their missions?
3. In general, how widespread do you think that sustainable investment strategies are among Swiss charitable foundations? What are the factors that you think are most responsible for this level of uptake?

SECTION B
**OPPORTUNITIES**

4. Do you see a trade-off for a charitable foundation in earning returns on its investments to be able to keep making grants, and in ensuring that its investments are aligned with its mission?
5. [If the interviewee has not answered the quantitative survey] Does your foundation have a sustainable investment strategy? If so, how was it developed and what are its major characteristics?
6. What percentage of your foundation's assets are invested in sustainable and/or mission-aligned ways? Do you intend to increase this percentage in the future? Why or why not?
7. Can you name an example for a particularly innovative sustainable investment approach of a Swiss charitable foundation?

SECTION C
**PRIORITIES**

8. What are the major areas in which sustainable investment approaches need to improve in order to better achieve their objectives?
9. How does the defeat at the ballot box on June 13 of the Swiss $CO_2$ law affect your stance on sustainable investment of your charitable foundation's financial assets?
10. Are there any particular areas of expertise or technical competence, which you feel you need increased access to, in order to put your sustainable investment strategy into practice? What about any other ways in which you could be better supported in this domain?

SECTION D
**OTHER ISSUES**

11. Do you have any other comments or points that you would like to make on the topic of sustainable/mission-related investing?

## ABOUT PHILANTHROPY SERVICES

Lombard Odier Philanthropy Services is Lombard Odier's dedicated advisory service on all matters related to philanthropy.

Since its founding in Geneva in 1796, Lombard Odier's primary vocation has been to preserve and grow the assets entrusted to its care and pass them on to future generations. This spirit of openness and sense of responsibility have shaped our vision of business and community engagement. Responsibility and long-term commitment are also vital values for a seventh-generation family business. It is part of the DNA of Lombard Odier, and of its corporate foundation, Fondation Lombard Odier, to take an interest in the community and in sustainability issues.

At Lombard Odier, we have the privilege of working with inspiring individuals and families who care about making a difference in the lives of others. From supporting underprivileged youth and enhancing well-being in later life, to fostering talent and protecting the environment — the causes are as varied as the people we serve. Whether they are thinking of setting up a grant-making foundation or rethinking the investment strategy of their charitable assets, Lombard Odier is at its clients' side to guide them in their journeys and help them realise their aspirations.

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## SUGGESTIONS FOR FURTHER READING

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8. This data is based on a representative public opinion survey with 310 respondents. See: Martin, Maximilian, Marc Pfitzer, Nina Jais, Olivia Meiners, and Adam Rodriques (2019). *Doing Better, More Efficiently: Measuring and Enhancing Philanthropic Vitality in the Lemanic Region*. Geneva: Fondation Lombard Odier, pp. 32-33.

9. Throughout the text, we use "charitable foundation" as shorthand for both foundations and non-profits, which have reserves enabling them to invest on capital markets. Both have the same opportunity to further activate their impact by investing sustainably.

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# IMPRESSUM



Disclaimer: This research report is the product of professional research and represents the opinions of the authors resulting from the empirical data gathered. It does not necessarily represent the positions of the funders of the project.

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