



# **Sustainable funds – On the path to a sustainable future**

Swiss edition

# Swisscanto by Zürcher Kantonalbank

Proven specialists develop high-quality investment and pension solutions for private investors, companies and institutions under the Swisscanto brand. With its Swisscanto brand, the Zürcher Kantonalbank Group is one of Switzerland's largest fund providers. It is known for its vanguard role in sustainable investments and its funds regularly achieve national and international recognition.

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Further information:  
[zkb.ch/sustainability-am](https://zkb.ch/sustainability-am)

# Investments in SDG securities – Our excellence standard for sustainable investments

## Action required

Every year, a growing number of companies are taking up the cause of sustainability. In the meantime, more than 90% of the world's 250 largest companies (the Fortune 250) publish a sustainability report that informs the general public about their sustainability management. There is also an urgent need for action. So far, it has not been possible to decouple economic growth from environmental consumption; for instance, in the last century, global population has quadrupled while energy consumption has increased sixteen-fold. We consume more resources and produce more waste and pollution than our planet can sustainably endure. The increased attention to sustainability is an important foundation for effective change and for companies to benefit from solutions for more sustainable growth.

## Benefit from sustainable growth

We firmly believe that sustainable companies and countries have a long-term competitive advantage as a result of the fact that they successfully integrate relevant current and future challenges into their strategies. In our sustainable funds, we focus precisely on these investments: We invest in companies whose products, services and manufacturing methods contribute to sustainable development in accordance with the UN Sustainable Development Goals (SDGs) (Figure 1) ("SDG securities").

## The 17 UN Sustainable Development Goals (SDGs)

In order to achieve sustainable development, the UN has defined 17 Sustainable Development Goals (SDGs). These goals were published in 2015 by the United Nations General Assembly and entered into force on 1 January 2016.

Profit-driven companies can also contribute directly to achieving some of these goals. The focus here lies on the issues of environmental protection, education, healthcare and equal opportunities.

Sustainable enterprise is not only about optimising production processes or fulfilling statutory requirements and social standards. Rather it's a matter of which developments are initiated by business activities and what ability companies have to implement necessary changes. One example is the energy revolution which seeks to replace fossil fuels with renewable energies and energy efficiency. Non-sustainable production processes or products must be dropped and replaced by new ones.

Sustainable companies use their innovative power to create environmentally compatible and socially responsible products and services.

Figure 1: UN Sustainable Development Goals (SDGs)



Source: UN (2016)

# Achieve returns by investing in SDG securities

We firmly believe that companies that provide a social benefit are more successful, as they have products and services that generate above-average demand. If the companies are additionally protected from competition by barriers to entry, they can grow to become more profitable. A favourable valuation in terms of their capital profitability and growth makes the companies an attractive investment.

In the bonds asset class, a specific impact segment has grown over the course of recent years: bonds that exclusively finance ecological ("greenbonds") or social projects ("socialbonds") or both ("sustainable bonds") and thus contribute to sustainable development.

## Investment process

SDG securities undergo a complex sustainability analysis process, with the aim that our Sustainable funds contain the equities and countries with the greatest societal impact.

- **SDG leaders** The companies and countries with the highest social benefits and strong growth prospects are identified.
- **ESG leaders** For diversification purposes, in addition to SDG Leaders a best-in-class approach may also be used to invest in companies or countries that are above average in terms of ESG criteria.
- **Systematic inclusion of ESG criteria** Before investing, we analyse the SDG leaders and ESG leaders in a systematic analysis based on our in-house ESG score. For this purpose, we obtain data from renowned sustainability research providers such as MSCI ESG, RepRisk and ISS.
- **Exclusion criteria** Broad exclusion criteria exclude around 20% of the initial universe. We monitor new findings, social norms and trends, and adapt the criteria if necessary. In doing so, we rely on sources such

as MSCI ESG, the World Bank or Freedom House. Our exclusion criteria concern one or more of the following problem areas:

- endangering society and health
- accelerating climate change
- reducing biodiversity

You can find more information about our exclusion criteria on our website.

## Investment sectors with the best outlook

We have defined six investment sectors thanks to which equity and bond investors can contribute to sustainable development. Each investment sector is briefly introduced below and illustrated using a business example. The "SDG impact profiles" we have created show the social benefits, the business model, the growth and the barriers to entry of the individual companies.

# The six investment sectors



**Energy**  
 – Renewable energies  
 – Energy efficiency

## UN Sustainable Development Goals (main focus)



Ensure access to affordable, reliable, sustainable and modern energy for all



Build resilient infrastructure, promote sustainable industrialisation and foster innovation



Take urgent action to combat climate change and its impacts



**Mobility**  
 – Public transport  
 – Private transport



Ensure healthy lives and promote well-being for all at all ages



Make cities inclusive, safe, resilient and sustainable



Take immediate countermeasures to combat climate change and its impacts



**Resources**  
 – Water  
 – Resource efficiency



Ensure access to water and sanitation for all



Ensure sustainable consumption and production patterns



Take urgent action to combat climate change and its impacts



**Health**  
 – Access to basic care  
 – Health promotion

## UN Sustainable Development Goals (main focus)



End poverty in all its forms everywhere



Ensure healthy lives and promote well-being for all at all ages



Reduce inequality within and among countries



**Finance**  
 – Access to financial services  
 – Financial infrastructure



End poverty in all its forms everywhere



Achieve gender equality and empower all women and girls



Reduce inequality within and among countries



**Knowledge**  
 – Education  
 – Networking



Ensure inclusive and quality education for all and promote lifelong learning



Achieve gender equality and empower all women and girls



Promote inclusive and sustainable economic growth, full and productive employment and decent work for all

# Energy

## Renewable energy – protecting the climate

Around 30% of global greenhouse gas emissions come from the power plant sector. The current composition of electricity generation consists predominantly of coal, oil, natural gas, nuclear and hydro power. To achieve the 2-degree target of climate policy, the portion of energy sources with low greenhouse gas emissions would have to increase from 30% to at least 80% by the middle of the 21st century. Electricity generation from renewable energy sources is normally characterised by no or low operating costs for the use of the energy sources, a substantially reduced burden on the environment compared to conventional power plants and a decentralised nature. Electricity generated from solar energy (photovoltaics) has made huge progress in terms of production technologies and cost reductions in the last decade. As a result, photovoltaics have already become competitive in sunny regions. Today, power generated from wind energy is also able to compete with electricity from fossil fuel power stations in many cases. Electricity generated by wind energy or photovoltaics has thus far had the disadvantage that it is dependent on weather, unlike electricity generated from fossil fuels. This disadvantage can be offset by power stores in the form of batteries. With the increasing prevalence of electric vehicles, the cost of batteries will decrease massively. It will therefore be possible to store power from renewable energy sources in batteries in a cost-effective manner and provide it to electricity customers when needed.

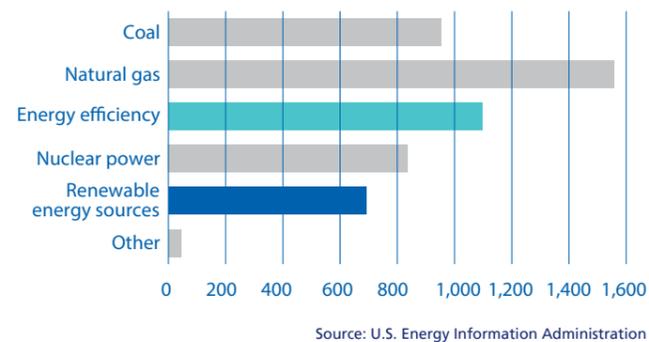
## Energy efficiency – why less is more

In the USA, electricity consumption has practically not increased any more in the period from 2005 to 2019 – although the economy, measured by gross domestic product, has grown by 64% in the same period. This decoupling is largely attributed to energy efficiency measures, such as standards for product efficiency, construction regulations and efficiency programmes by energy suppliers. Besides renewable energy sources, energy efficiency also plays a pivotal role in reducing greenhouse gas emissions: Among all the scenarios for achieving the climate goals, those that are aimed at improving energy efficiency in accordance with the recommendations of the International Energy Agency (IEA) clearly exhibit the lowest overall costs. In order to achieve the goals of the Paris Climate Change Conference, the relevant investments must increase significantly, however.

## More than non-consumed energy

Statutory regulations are the most important drivers for investment in energy efficiency measures. For example, the EU Energy Efficiency Directive provides a framework for defining national energy efficiency targets, such as in the renovation of buildings or the construction of power plants. The potential for efficiency in the construction sector, transport and industry is particularly great – and these investments offer business opportunities for providers of the right solutions. In Switzerland, around one quarter of energy consumption is accounted for by the residential sector, and a significant proportion of buildings are in need of energy modernisation. Important measures include the prevention of heat loss (insulation in roofs, walls and windows, and comfort ventilation systems) as well as efficient appliances for heating, hot water and lighting. In the latter area, light-emitting diodes (LEDs) have changed the market substantially thanks to their energy efficiency and long lifespan. Digital control systems will provide further efficiency gains in the future. Information and communication technologies will increasingly be used to relieve power grids through the smart management of supply and demand (smart grids).

**Figure 2: US electricity production in 2019 and savings through energy efficiency measures since 1990 in billion kWh**



Energy efficiency is more than just “non-consumed energy”: If energy savings in the USA were compared with the electricity generated, energy efficiency would be the third largest energy source according to the ACEEE (American Council for an Energy-Efficient Economy) (Figure 2). Energy efficiency can be considered an actual energy source that is still not fully exploited by any means.

# Case study: Gurit Holding AG

## SDG impact profile



**Energy**  
Renewable energy

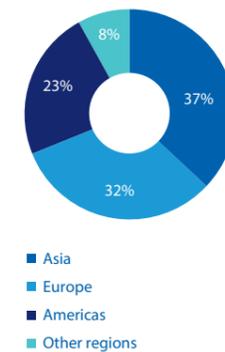
## Company description

Sector	Material
Country	Switzerland
Employees	3,027
Revenue	CHF 576 million
Market capitalisation	CHF 945 million

Gurit Holding is a global industrial group specialising in the development and manufacture of high-performance plastics with activities in the composite materials, kitting, tooling and aerospace segments.

## Geographical positioning

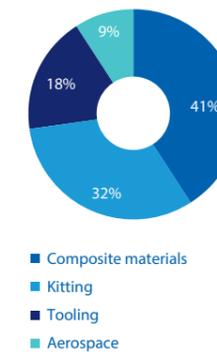
Revenue



Source: Bloomberg, data as of October 2020

## Business areas

Revenue



## SDG profile and business model

Gurit focuses on the development and production of composite materials, as well as on mould construction for wind rotor blades and structural core material kitting services. Gurit's customers mainly come from the wind energy industry (around 80%) as well as from the aerospace and marine industries. Gurit has played an important role in the wind market as a global technology and market leader in blade designs and thanks to its good positioning in composite materials. Gurit thus makes a significant contribution to achieving the UN Sustainable Development Goals (UN SDG 7 and UN SDG 13). In order to continue to act as an innovative and focused system partner, Gurit is expanding its already good positioning in the growing wind markets such as China, India and Mexico. The transition from thermosets (PVC, SAN) to the more sustainable thermoplastics (PET) is actively promoted by Gurit through investments in new extruders for the mechanical production of PET. In addition, a large proportion of PET core materials are made from recycled PET. In order to minimise waste during kitting activities, Gurit locates the kitting division and PET production sites as close to each other as possible so that waste produced when cutting the kits can be recycled without long transport routes. These efforts are to be welcomed against the backdrop of the ever larger wind rotor blades and the increasing PET content in the core material. Gurit joined the UN Global Compact in 2020 and is committed to reporting annually on progress. Gurit wants to gradually move away from chemicals of concern by 2022.

## Growth and barriers to entry

The wind energy industry has seen double-digit growth in recent years. A new record value is expected for 2021 with 77 gigawatts of newly installed wind capacity. Lifecycle assessments for wind turbines show that wind energy is one of the most sustainable forms of energy. In the long term, the wind industry should therefore enjoy structural growth above GDP.

## Risks

Gurit has no ordinary shares and the anchor shareholder (Huwa Finanz- und Beteiligungs AG) holds a blocking minority of 33.3%. In operational terms, the increasing competition in composite materials, the shortage of supply of balsa wood and new technological disruptions could adversely affect Gurit's activities in the future.

# Mobility

## Mobility change, not climate change

Sharply rising traffic volumes are leading to an exacerbation of climate issues, resource scarcity and poor air quality in cities. Mobility is a basic need for any society and a requirement for its development. The transport sector is responsible for around 29% of global greenhouse gas emissions, and the trend is increasing (Table 1). More than 70% of greenhouse gases in the transport sector come from road transport.

**Table 1: Greenhouse gas emissions in the transport sector, urbanisation rates and car densities**

	Transport share of CO <sub>2</sub> emissions (energy)	Urbanisation rate	Cars per 1,000 inhabitants
World	29%	56%	190
USA	40%	82%	837
EU	29%	75%	524
China	16%	61%	173
India	17%	35%	32

Sources: IEA, Road Transport Yearbook of India and Statista

There are also further significant negative effects on the environment and society, such as deaths and injuries due to traffic accidents or noise pollution. In order to prevent these effects and optimally satisfy the growing need for mobility, a number of different strategies are applied. When considering the sustainability performance of various modes of transport, rail transport is clearly in the lead for land transport (Figure 3). In terms of CO<sub>2</sub> emissions, rail scores more than ten times as well as motorised road transport.

## Dreaming of freedom – as a service?

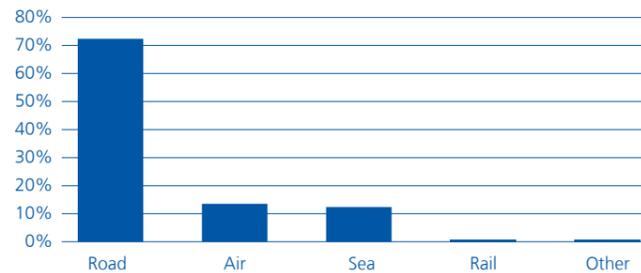
For motorised personal transport, more environmentally compatible drive systems are a priority. These include more efficient and low-emission engine technologies, lightweight design and the electrification of drive systems (hybrid or electric vehicles) in conjunction with the expansion of renewable energy sources. Support provided by driver assistance systems through to autonomous driving contributes to road traffic safety. Thanks to high-performance e-bikes and better infrastructure, cycling and walking are becoming increasingly attractive, even for medium distances, and also bring healthy exercise into everyday

life. Furthermore, new mobility concepts are gaining substantial momentum, especially due to the openness to the sharing economy such as car and bike sharing projects. Will we soon stop buying cars and instead consider mobility a service?

## Impending gridlock in developing countries

Here, there is a need to intelligently integrate various modes of transport, particularly with public transport: This will enable commuters and travellers to reach their urban destinations quickly by metro and rental bike. Especially in developing countries, the high rate of population growth and increasing urbanisation are ushering in major challenges. Megacities with several million inhabitants are being choked by cars and are suffering severely from poor air quality, since there is still a lack of efficient public transportation systems. Public transport in particular offers huge efficiency advantages: it is superior from an ecological viewpoint and is the best solution for transporting large populations. Even electric vehicles are subject to congestion! The global promotion of public transportation systems benefits manufacturers of underground railways, for example, or companies in the traffic management and telematics sectors.

**Figure 3: Transport-specific CO<sub>2</sub> emissions, average of 28 European countries in 2017**



Source: EEA

Video conferences can already make business trips obsolete. As further progress is also made in digitalisation, such as with virtual realities, traffic will be either reduced or avoided to increasing degrees in the future. The challenges associated with increasing urbanisation and the importance of transport for climate change are buoying the current investment theme of mobility.

# Case study: Aptiv PLC

## SDG impact profile



**Mobility**  
Private transport

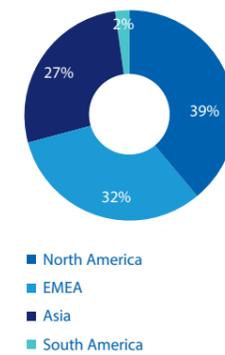
## Company description

Sector	Automotive parts
Country	USA
Employees	160,000+
Revenue	USD 14.4 billion
Market capitalisation	USD 32.8 billion

Aptiv PLC is a global automotive supplier. The company operates in two segments: Electronics (components and systems for vehicle electronics, 72% of revenue) and safety (systems and software for active and passive safety solutions, 28%).

## Geographical positioning

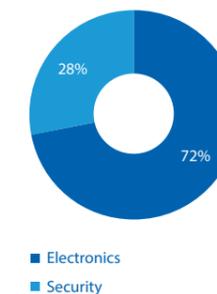
Revenue



Source: Bloomberg, data as at December 2019

## Business areas

Revenue



## SDG profile and business model

Almost a quarter of the world's CO<sub>2</sub> emissions come from transport activities, two thirds of which come from passenger cars. Given the potentially catastrophic consequences of climate warming, many countries have committed to drastically reducing greenhouse gases. As a result, car manufacturers are forced to halve CO<sub>2</sub> emissions from passenger cars per kilometre travelled by 2030.

Although combustion engines have further potential to increase efficiency and additional savings can be achieved with hybrid models, the longer-term solution lies in the complete electrification of the drive systems and the conversion of the energy supply to renewable energies. Aptiv is excellently positioned to benefit from the decarbonisation of the car (among other things via the high-voltage products) as well as from increasing safety requirements and self-driving vehicles (including via active safety components). For this purpose, Aptiv has entered into partnerships with companies such as Mobileye/Intel, BMW and Lyft for relevant safety and driver assistance systems.

## Growth and barriers to entry

In view of the focus on growth topics in the automotive industry such as electrification and safety/autonomous driving, above-average sales growth (>5%) can be expected for Aptiv in the coming years. Profit margins are likely to increase due to productivity gains and a changed product mix. Aptiv is the leader in the majority of the company's fields of activity, particularly in the integration of hardware and software as well as data analysis in complete systems.

## Risks

In addition to the cyclical risks, product liability represents the greatest systemic risk. Moreover, the switch to electric vehicles could facilitate the entry of new market participants and/or the insourcing of manufacturing steps on the part of automotive manufacturers. The consequences of autonomous driving, which will lead to a more efficient use of the global vehicle pool, as well as new mobility services, remain to be seen.

# Resources

## Circular economy, not landfill

The growth in population and prosperity is leading to a continual increase in demand for natural resources, instances of resource scarcity and heightened levels of environmental pollution. A large proportion of manufactured goods still go to landfill or incineration plants after use. In order for non-renewable resources not to be wasted in future, it is important to ensure closed cycles of resource flows; this could be achieved, for example, by manufacturing products such that the materials used can be fully recycled. Economical dismantling and recycling processes produce essential preconditions for a more efficient and sustainable approach to handling valuable and scarce resources. Decoupling resource consumption and water usage from economic growth will become important investment themes of the 21st century.

## Water – a vital resource for life

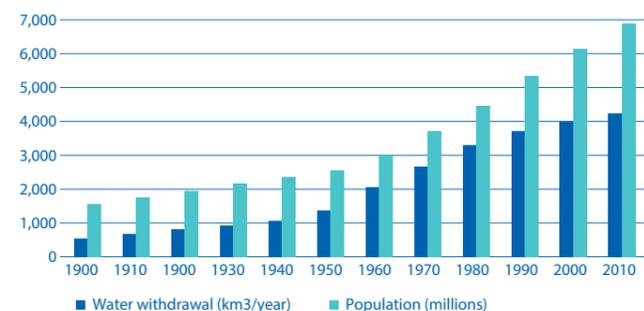
Water has a unique characteristic that sets itself apart from other resources: there is no substitute for water. Around one third of humanity suffers from “water stress”, which means that their water supply can be at risk during several months of the year. It is likely that by 2050 the number of people suffering from water stress will at least double. The main reason for this is higher consumption due to population growth and increasing wealth. In addition, global warming has a negative effect on the availability of water in many regions due to changing rainfall patterns, increased evaporation resulting from higher temperatures and the melting of mountain glaciers. At the regional level, these changes will cause severe problems and threaten millions of people with water shortages. Existing water infrastructures are significantly outdated to a large extent and require modernisation. There is a massive need for investment. It is often the case in developing countries that appropriate infrastructures must first be built. Consequently, huge volumes of water are still going to waste in distribution. For instance, Mexico City experiences water losses of more than 40%, while this proportion is estimated at around 20% for France. These tremendous losses are costly as the lost water is for the most part treated beforehand at significant expense. Accordingly, smart water management systems have been developed for water distribution, for example in order to find evidence of leaks. As water tariffs increase, the demand for water purification and wastewater treatment technologies increases, also because the demands on water purification and treatment have increased. Clean

water is crucial in tackling diseases and epidemics. Finally, demand for desalination plants is rising as more and more people with high incomes live in desert areas, such as the Persian Gulf.

## Around 30% of food products end up as waste

The agricultural sector consumes around 70% of freshwater resources used around the world. This is not a problem in itself, because the production of food now requires a great deal of water, which is usually also abundant in the regions with intensive agriculture. However, it is problematic if agriculture is practised with unsustainable methods. This is the case, for example, when arable farming in monoculture is carried out with high use of fertilisers and protective plant products in steppe areas, where grassland is the natural ecosystem.

**Figure 4: World population and water extraction compared over the long term.**



Source: FAO, Aquastat

Breaking the top soil increases the evaporation of water in the soil and the use of chemicals can contaminate the groundwater. Sustainable management methods adapted to local conditions are important. Around 30% of the food offered in developed countries ends up in the garbage because shelf life dates are exceeded or small quality defects make the products impossible to sell. On the other hand, almost all products reaching the market are consumed in developing countries. But up to 30% of agricultural production is lost on its way to the consumer because, for example, the losses at harvest are high due to outdated technologies, or cold stores and warehouses are not available or in a poor condition. Striving for sustainability in food production and consumption can therefore help to save significant amounts of water.

# Case study: GEA Group

## SDG impact profile



Resources  
Water

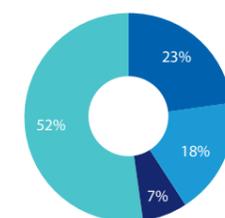
## Company description

Sector	Machinery
Country	Germany
Employees	18,000
Revenue	EUR 4.9 billion
Market capitalisation	EUR 5.5 billion

The industrial corporation GEA Group is one of the world's biggest suppliers of machines and process technology for various production processes, especially in the food and beverage industries. Over 70% of its revenue is generated in the food sector, with a key area being the dairy industry. The company is considered a market and technology leader.

## Geographical positioning

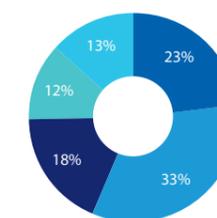
Revenue



■ Asia/Pacific  
■ North America  
■ Latin America  
■ Europe & MEA

## Business areas

Revenue



■ Separation & flow  
■ Liquid & powder  
■ Food & healthcare  
■ Farms  
■ Refrigeration

Source: Bloomberg, data as of August 2020

## SDG profile and business model

The machinery marketed by GEA contributes to reducing food waste and to increasing food safety (UN SDG 2), as well as energy and resource efficiency (UN SDG 12). Water consumption in particular can be reduced: directly through more efficient production processes in food processing and indirectly through the reduction of food waste and water consumption in agriculture. Thanks to GEA's process technology, fresh milk, for example, can be preserved much longer, and during homogenisation, water consumption can be reduced by around 60% and energy consumption by around 40%. By focusing on the food industry, GEA is subject to less cyclical markets in comparison to other machine manufacturers. GEA has a broadly diversified customer base; the largest 200 customers account for around 52% of sales. GEA is also characterised by its innovative strength and the high quality and performance of its machines and processes and thus holds a leading position in the food industry. High efficiency, reliability and safety are important to their customers in order to guarantee food safety for consumers.

## Growth and barriers to entry

Population growth and urbanisation are driving above-average demand for processed foods. An annual growth rate of around 2% to 3% is expected in the medium term and the planned cost reductions will expand margins. The food industry has a minimum tolerance for errors and the most stringent quality requirements, which represent high barriers to entry.

## Risks

An economic slump in developing countries would pose a risk since this is where around one third of revenue is generated. There is likewise a dependency on the dairy market: The trajectory of dairy and feed prices is critical for investments. Corporate governance can still be improved compared to international ESG standards, but overall corresponds to the home market

# Health

## Living healthily

A health sector designed to enable a life in good health forms a core part of sustainable development. Thanks in part to medical progress, global life expectancy has risen sharply (from 52.5 years in 1960 to 72.2 in 2017) and the infant mortality rate has fallen (from 121.9 per 1,000 births to 28.2). Although many life-threatening diseases are now treatable, the challenges facing the global healthcare sector are tremendous. Examples include increasing cases of chronic diseases, new epidemics and greater antibiotic resistance. Our healthcare system also has to adapt to demographic changes, particularly to diseases associated with an ageing population such as dementia or increased blood sugar levels. In the healthcare sector, we expect innovative companies to launch new therapies and treatments on the market and improve affordable access to healthcare.

## Innovative therapies

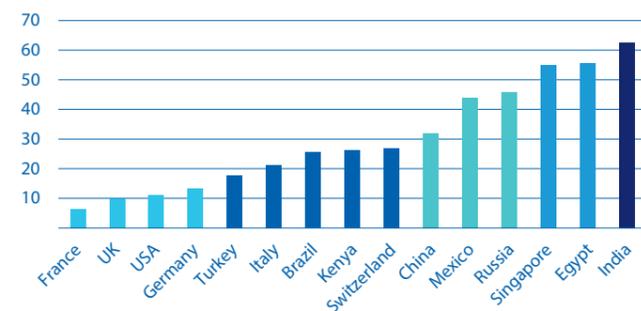
After infectious diseases, cancer is the second most common cause of death around the world. A range of innovations in gene therapy, cell therapy and genome sequencing are creating new treatment options, such as in oncology and cardiology, as well as for rare conditions, autoimmune and infectious diseases. In cancer therapy, immuno-oncology is ushering in a new era in which the patient's own defence system is used to attack cancer cells. This enables individualised therapy with fewer side effects. Such ground-breaking therapy and treatment methods are very important. At the same time, it is imperative that affordable access is guaranteed for the wider population.

## Affordable medical care

Affordability is a key challenge facing the healthcare sector. Even though medication prices only account for 15 to 20% of total healthcare costs, they have risen sharply in recent years partly as a result of the new options available. The medicines developed by Gilead for the successful treatment of hepatitis C have been sold in the USA for around USD 100,000, for example. In India or Egypt, the same medicines have been offered for approximately USD 1,000 in order to provide the less affluent population access to this important medication. In many countries, there is only limited insurance coverage available, if any.

In some developing countries, the patients bear more than 90% of the costs themselves (Figure 5). The pent-up demand for greater access to health provision and care is particularly high in these regions. The "Access to Medicine Index" indicates the degree to which companies are committed to affordable access in developing countries. The index assesses the pricing for medicine provision as well as the development effort taken to combat neglected diseases.

**Figure 5: Share of healthcare costs borne by private households (in %)**



Source: World Health Organization (2014 data)

Extremely high prices are also not sustainable in the long term for insurers and uninsured patients in developed countries. This explains, for example, why people with hepatitis C travel to India to purchase medication. Generic medicines, biosimilars (imitators of biopharmaceuticals) and vaccines make an important contribution for affordable healthcare. The use of new technologies can also help increase cost efficiency, in addition to improving quality. Insurance companies and entities such as hospitals are increasingly using IT solutions to achieve better treatment processes with a more precise interpretation of diagnostic data and optimise cost management. Another relevant area for healthcare is preventive medicine, but sufficient exercise and a healthy diet are also indispensable. Companies in the health promotion sector also play a role in increasing quality of life and reducing healthcare costs overall.

# Case study: Centene Corporation

## SDG impact profile



**Health**  
Access to basic care  
Cost management

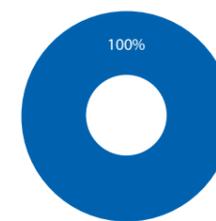
## Company description

Sector	Healthcare, services
Country	USA
Employees	71,000
Revenue	USD 71.1 billion
Market capitalisation	USD 34 billion

Centene Corporation is one of the largest health insurance companies in the USA with a focus on the public welfare services of the American healthcare system (Medicaid and Medicare). The company also operates private health insurance platforms and offers complementary medical administration services.

## Geographical positioning

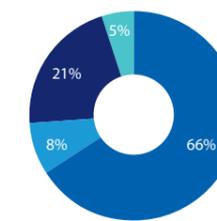
Patients



■ USA

## Business areas

Revenue



■ Medicaid  
■ Medicare  
■ Commercial  
■ Special services

Source: Bloomberg, data as at December 2019

## SDG profile and business model

Healthcare has improved significantly over recent decades and has contributed significantly to the general increase in life expectancy. Improved services and an ageing population at the same time lead to ever-increasing healthcare expenses, especially in the USA, where costs are by far the highest in a global comparison. The financial burden is constantly increasing for both poorer sections of the population and the public sector. The main focus of Centene's business model is healthcare for people with low financial resources who are physically or mentally handicapped (Medicaid) or older than 65 years (Medicare). Centene is also a successful operator of health insurance platforms. With its healthcare solutions, Centene is also making a contribution to relieving public finances.

## Growth and barriers to entry

In the USA, political consensus continues to favour a market-economic system for optimising health services. Medicaid and Medicare services are increasingly outsourced by the responsible member states or at the federal level to private health administration organisations. Practical experience shows that this can reduce the cost explosion and improve planning security for the public sector in the long term. A quality rating system provides incentives to ensure that the scope and quality of the healthcare services offered also reach an optimum level. Population trends and the continuing increase in outsourcing of cost management to companies such as Centene are estimated to ensure annual market growth of 5 to 6% in the coming years. Centene has a mature centralised technology infrastructure that allows for a value-driven approach, optimal use of available resources and cost transparency. Through the recent acquisition of Wellcare and continued above-average growth, Centene will continuously expand its insured base and further increase operational efficiency.

## Risks

Real political and regulatory risks appear relatively low. Market risks in the American healthcare sector are likely to primarily affect service providers such as hospitals or pharmaceutical companies.

# Finance

## Vital for society

Whatever one may think of banks, the financial industry plays an indirect, yet important role when it comes to the direction in which our society is to develop. No economic system could function without access to financial resources, growth-inducing loans, property and life insurance, and the relevant infrastructure; innovations and new technologies would not be able to take root.

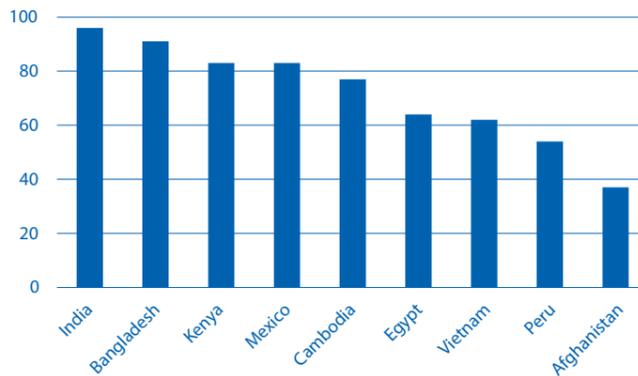
The digitalisation of financial infrastructure can help execute processes and business transactions in a quicker and more cost-effective manner. The increasing level of networking has enabled novel forms of financial services, such as crowd investing, which has made it easier for start-ups and small businesses to access capital and investors. It is more frequently becoming the case that these types of services no longer even require a conventional bank.

## Micro-finance – help for self-help

Even for the smallest economic units such as communities or families, it is difficult to evade poverty without investing in the future. But purchasing a school uniform, medication or a bicycle is almost impossible for people with no or very low incomes. According to estimates by the World Bank, more than 700 million people worldwide still lived in extreme poverty in 2015. At the same time, two billion adults had no bank account, and hence practically no access to the financial system. Conventional loans are also not granted, as there is either a lack of collateral required by commercial banks or such small amounts are not even offered in the first place. This is where micro-financial institutions (MFIs) come in: Even relatively small loans – typically between 50 and a few thousand US dollars – enable people to establish a livelihood for themselves. Due to the fact that there is a lack of asset securities in these cases, other approaches are developed for financial protection, such as getting to know the exact life circumstances of the borrower or forming cooperatives. For many MFIs, women represent a large proportion of the customer base: The improved financial situation brought about by micro-financing improves the position women occupy in society – and in many instances, women have turned out to be the most reliable borrowers (Figure 6). For micro loans to really help customers overcome the poverty line and not find themselves in a debt spiral, it is important that MFIs take on corresponding functions of responsibility and control. The loans are supposed to be invested in viable, long-term

projects and not simply satisfy consumer needs. The recipients have to be informed of the terms and conditions in a language they understand.

Figure 6: Share of female micro loan borrowers (in %)



Source: Mix, Benchmark Report 2014

“Mobile wallets” make it easier to save or reinvest acquired funds. They are offered by telecommunication providers and are particularly relevant in regions in which financial services are still not readily available, and where the market penetration of mobile telephones is relatively high. They are helpful for carrying out the fundamental functions of money transfers and cash-less payment transactions via mobile telephone, even for very small amounts, without the need for a normal bank account.

## Financial resilience

Losses due to illness and death, theft, poor harvests and natural catastrophes have a particularly severe effect on the poorest share of the population. Ideally, besides loans, micro-insurance schemes should also be available that allow insured people to protect themselves against losses by paying in very small premiums over a period of time. Even in developed countries, such acts of fate can affect livelihoods in the worst cases. Insurance protection increases the acceptability of health, age-related, economic and ecological risks by collectivising them and spreading them out over time.

# Case study: Gentera S.A.B. de C.V.

## SDG impact profile



**Finance**  
Access to financial services

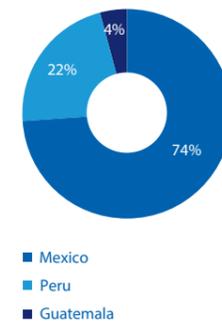
## Company description

Sector	Financial services
Country	Mexico
Employees	22,000
Revenue	MXN 21.9 billion (CHF 1 billion)
Market capitalisation	MXN 10.9 billion (CHF 0.5 billion)

The Mexican financial holding Gentera – originally an NGO – serves over four million customers at around 800 contact points in Mexico, Peru and Guatemala. The bank’s main activities are the granting of loans and credit lines, community groups and low-income people; savings accounts, insurance policies, and payments services.

## Geographical positioning

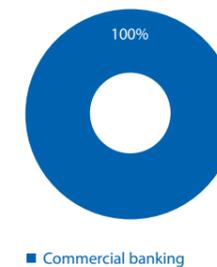
Customer



Source: Bloomberg, data as of November 2020

## Business areas

Loan portfolio



## SDG profile and business model

Micro loans and insurance are a central element in poverty reduction. Gentera is the largest micro-creditor for the capital needs of micro-entrepreneurs in Latin America according to the number of customers. Gentera contributes in particular to the financial integration of traditionally underserved groups through its subsidiaries Compartamos Banco (Mexico), Compartamos Financiera (Peru) and Compartamos (Guatemala) (UN SDG 1 and 8). Overall, 90% of customers are women (UN SDG 5). In addition to micro-finance, the subsidiary Yastás offers payment services in cooperation with local entrepreneurs (grocery stores, pharmacies) where bank infrastructure is limited or not available at all. Aterna brokers micro-insurance.

## Growth and barriers to entry

Gentera is the largest micro-finance provider in Mexico with over three million customers and a 40-45% market share. Penetration with financial services is still relatively low in Mexico. The market potential is estimated at 40 million potential customers and the growth prospects are therefore attractive in the long term. After the coronavirus crisis, demand for micro-loans will be higher than before, as more people will be unemployed and in the informal sector and thus no longer have access to traditional banking products. The main barriers to entry for other competitors are high financing costs and the network of loan clerks, which often come from the borrower community. Originally, the company focused on providing loans to small groups, mainly women. These group loans still account for almost 60% of the loans. However, Gentera has meanwhile further diversified its financial services; for instance, the branch network and thus also the savings deposits have been expanded.

## Risks

The granting of micro-loans entails relatively high administrative costs, which is why interest rates are also above average in an international microfinance comparison. These may be considered very high, represent a reputational risk for the company or may lead to stricter government regulation. Economic policy and the general development of the economy are further risks. Corporate governance and the overall ESG profile are considered very good.

# Knowledge

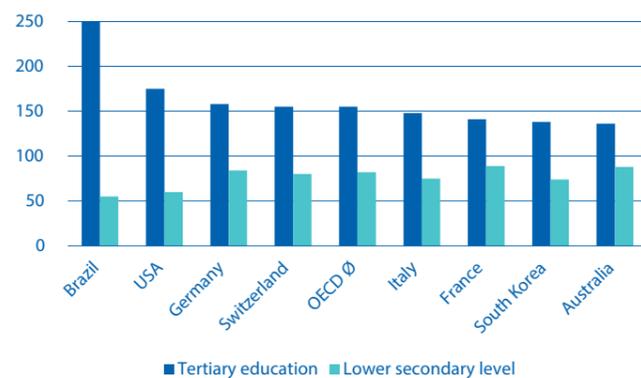
## Knowledge as the key to tackling poverty

Access to knowledge and information is essential for society and individuals to be able to shape their lives independently. It is only in this way that we are able to fully utilise the options open to us, whether in exercising our political rights, accessing better-paid work to cover our healthcare costs or tackling climate change. The lack of access to information technology or inadequate education restricts the potential for society and the economy.

## Education for all – still not a matter of course

Education means access to knowledge and allows learning the skills to use this knowledge. Good basic education for all – regardless of social background – is a necessity for this. Nevertheless, children from poorer families in developed and developing countries still receive a lower standard of education, because there is a lack of quality among public primary schools. School pupils from poorer social strata with low levels of competency have an 80% higher probability of unemployment and a 40% higher risk of health problems. This causes social tension in many countries. According to OECD studies, higher incomes are only achievable with improved education and qualifications (Figure 7).

**Figure 7: Income differences for selected countries in comparison with higher secondary stage education (=100)**



Source: OECD, Zürcher Kantonalbank

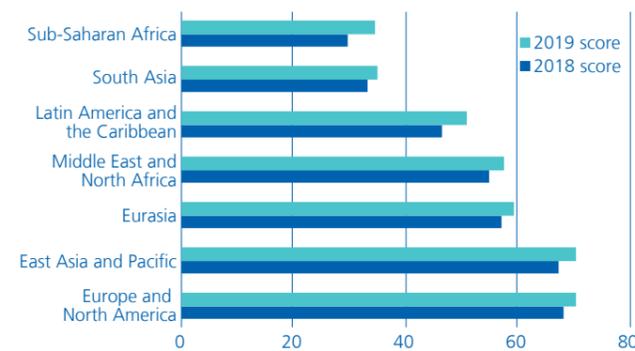
Many people from lower and middle social backgrounds in countries with inadequate public education institutions depend on second-chance education programmes. This is particularly critical as the requirements on daily work are becoming more technology and knowledge-intensive, even in developing countries. It is for this reason, for example,

that profit-driven private companies are offering high-quality education services in Brazil. The loans are affordable for graduates, thanks to the subsequently higher-qualified and better-paid work.

## Networking for better solutions

Digital communication technologies (ICT) create economic and social networks which make access to knowledge, information, services or goods cheaper and more efficient. Studies show that improving access to mobile communications and the Internet has a positive effect on a country's economy, as additional incomes can be generated and costs saved (Figure 8). Digital solutions also contribute to decoupling resource consumption from economic growth by means of efficiency gains or innovations. For this reason, connectivity to mobile networks is a sustainability goal in itself.

**Figure 8: Introduction of technology**



Source: World Economic Forum, (GCR = Global Competitiveness Report 2019)

Despite rapid development in this area, there is still a significant "digital divide" between various global regions. Differences also exist within countries, for example between urban and rural regions, different income groups and between men and women. A lack of infrastructure is not always the cause. Impediments also include lack of knowledge in dealing with communication technologies (digital literacy) or the fact that, in certain cultures, women are obstructed from access to education, money and technology, and hence independence and self-determination. Private education services and the communication and technology sector make a vital contribution to tackling poverty.

# Case study: SAP SE

## SDG impact profile



**Knowledge Networking**

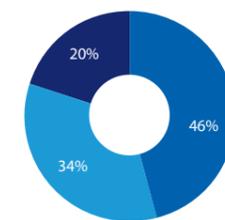
## Company description

Sector	Software
Country	Germany
Employees	101,150
Revenue	EUR 27.55 billion
Market capitalisation	EUR 143.60 billion

SAP is one of the largest providers of enterprise software in the world. In addition to application software that integrates processes into companies and across company boundaries, SAP has also tapped into other software markets. With the acquisition of Sybase (2010) and the launch of its own HANA databases (cloud solution), SAP also entered the area of database software.

## Geographical positioning

Revenue

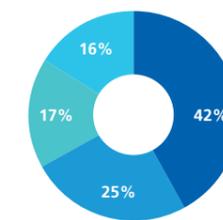


■ North America  
■ Europe  
■ Growth markets

Source: Bloomberg, data as of May 2020

## Business areas

Revenue



■ Support  
■ Cloud subscriptions and support  
■ Professional services and other service revenue  
■ Software

## SDG profile and business model

First and foremost, SAP is one of the largest providers of enterprise software solutions with business applications for large and medium-sized enterprises and standard solutions for small and medium-sized companies on-site and in the cloud. SAP thus enables companies of all sizes and industries to work together efficiently. For example, 77% of global transactions involve an SAP system at some point; SAP customers distribute 78% of food and produce 82% of medical equipment worldwide. SAP contributes to the sustainable management of its customers with a comprehensive portfolio of solutions for energy management, carbon footprint analysis, and environmental protection, health and safety at work. For example, Vestas has developed a digital planning application to improve the processes relating to the installation of wind turbines. It is based on the SAP cloud platform and allows all parties to obtain the same data and information in real time. The bank Compartamos uses SAP solutions for mobile devices and enables customers – especially in rural Latin America – to access financial products. A bank is often not reachable there, but most have a mobile phone. Another application (SAP EHS) allows companies to track and collect the required environmental and energy data for requirements prescribed by law.

## Growth and barriers to entry

SAP is a leading provider of enterprise resource planning (ERP) software for the resource planning of the entire company, with well-known customers and a significant market share (25 – 40%). The product range offers opportunities for cross-selling. Switching to an alternative provider is costly and time-consuming for customers because the solutions have to be adapted to individual customer needs and integrated into the existing IT infrastructure. SAP is one of the more mature companies in the sector; stable sales growth of between 6 and 8% is expected in the next few years.

## Risks

SAP was accused of having paid unusually high commissions to politically networked companies in South Africa since 2014 in order to secure orders from state-owned companies. SAP has numerous measures in place, including an increase in personnel to strengthen its compliance processes. Investigations by the US supervisory authority, the SEC, are still ongoing. Teradata, a database management system provider, filed a lawsuit against SAP in the USA in mid-2018 for the theft of trade secrets.

# A pioneer in sustainable investing

We are a pioneer in the field of sustainable investing and launched the first sustainable fund back in 1998. In 2009, Zürcher Kantonalbank was one of the first universal banks in Europe to sign the United Nations' six Principles for Responsible Investment (UN PRI). It thereby reiterated its conviction that the integration of ESG themes in investment decisions and active shareholder relations is a prerequisite for asset management. The UN PRI international investor initiative regularly coordinates social and environmental commitments for around 4,000 signatories with an investment volume of over USD 120 trillion<sup>1</sup>. We are participating in these joint commitments within the scope of the UN PRI platform. Regular dialogue is also carried out with the management of companies on ESG topics.

We actively exercise voting rights: Our voting guidelines are based on Swiss and international corporate governance standards, as well as the principles of the UN PRI, which incorporate a comprehensive set of environmental, social and corporate governance principles into the decision-making process. In the analysis and decision-making process for the voting procedures at general meetings, we use the assessments of the independent voting right consultant ISS (Institutional Shareholder Services) and our investment specialists in asset management. Voting behaviour is published in detail on our website.

## Paris Climate Goal in Swisscanto funds

In accordance with the Paris climate target, the CO<sub>2</sub>e-intensity<sup>2</sup> of the investments in the active investment funds involving traditional asset classes is reduced by at least 4% per year as standard and shown transparently. Our commitment means we urge companies to devise and implement effective targets for reducing CO<sub>2</sub>e. We also reduce the number of CO<sub>2</sub>e-intensive companies that have no strategies for cutting CO<sub>2</sub>e emissions in favour of companies and countries that are effective in terms of their carbon footprint as well as companies that pursue ambitious targets for reducing CO<sub>2</sub>e.

## Sustainability Advisory Committee

We use an external Sustainability Advisory Committee to round off our expertise with independent expert knowledge. Several proven specialists – among others from the Department of Climate and Environmental Physics at the University of Bern – support the conceptual further development of sustainability approaches and the corresponding investment products.

Detailed information about the various sustainable investment solutions from Swisscanto Invest can be found on our website: [zkb.ch/sustainability-am](https://zkb.ch/sustainability-am).

<sup>1</sup> <https://www.unpri.org/pri/about-the-pri>; January 2022

<sup>2</sup> CO<sub>2</sub> equivalents (CO<sub>2</sub>e) are a unit of measurement to standardise the climate impact of the greenhouse gases carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O) and fluorinated greenhouse gases (CFCs). All of these gases remain in the atmosphere for different lengths of time and do not contribute equally to the greenhouse effect.



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