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Sustainability

From left to right: **Christian Mauz**, Partner; **Ursula Finsterwald**, Head Group Sustainability Management, LGT; **Matthew Kilgarriff**, Director of Corporate Social Responsibility, Partner; **Philipp Tenbieg**, Partner, Financial Services; **Dominik Bischoff**, Senior Consultant; **Lena-Katharina Gerdes**, Senior Consultant; **Gilles Pütz**, Senior Consultant

Contents

Sustainability? It's not an option – it's essential for success!

We have all now come to the realization that this planet is all we have. Our resources are finite and it is up to us to use them economically. Anyone who thinks that sustainability simply means having to "go without" underestimates not just the challenge but also the significant opportunities that sustainable business presents us with. Because sustainability isn't just about making the most of our resources. It also involves completely rethinking our business models. Switzerland in particular offers huge potential in this regard.
Christian Mauz

Although we are still dealing with the COVID-19 pandemic, anthropogenic climate change demands our full attention. This is unlikely to come as welcome news for anyone, exhausted as we are following the events of the last two years. But what if, instead of only seeing the climate crisis as a "crisis", we viewed it as an ideal opportunity for making new economic and social improvements?

The pandemic has greatly accelerated the digital revolution. Organizations that would previously never have entertained the idea have now made working from home a way of life, and it is now possible to collaborate effectively across borders without the need for excessive business trips. But digitization can do a lot more when it comes to creating a world that will be able to thrive in the long term. Last year, for example, the Royal Foundation in London awarded its first "Earthshot Prize" for innovative sustainability projects, and in Liechtenstein, Prince Maximilian of Liechtenstein has put sustainability in the financial sector right at the top of his agenda.

We are happy to follow this royal call to action. Thinking of sustainability in the business world not just as an imposition but also an opportunity creates value both for customers and for society as a whole. Here in Switzerland, we have a long tradition of making a little go a long way. With our experience, our capacity for innovation and our strong services sector, we are practically predestined not only to lead the way with regard to sustainability, but also to benefit commercially from it. Let's seize this opportunity together.

We wish you enjoyable reading.

> "Genuine sustainability combines responsibility toward future generations with a huge opportunity for new business models."
>
> **Christian Mauz, Partner**

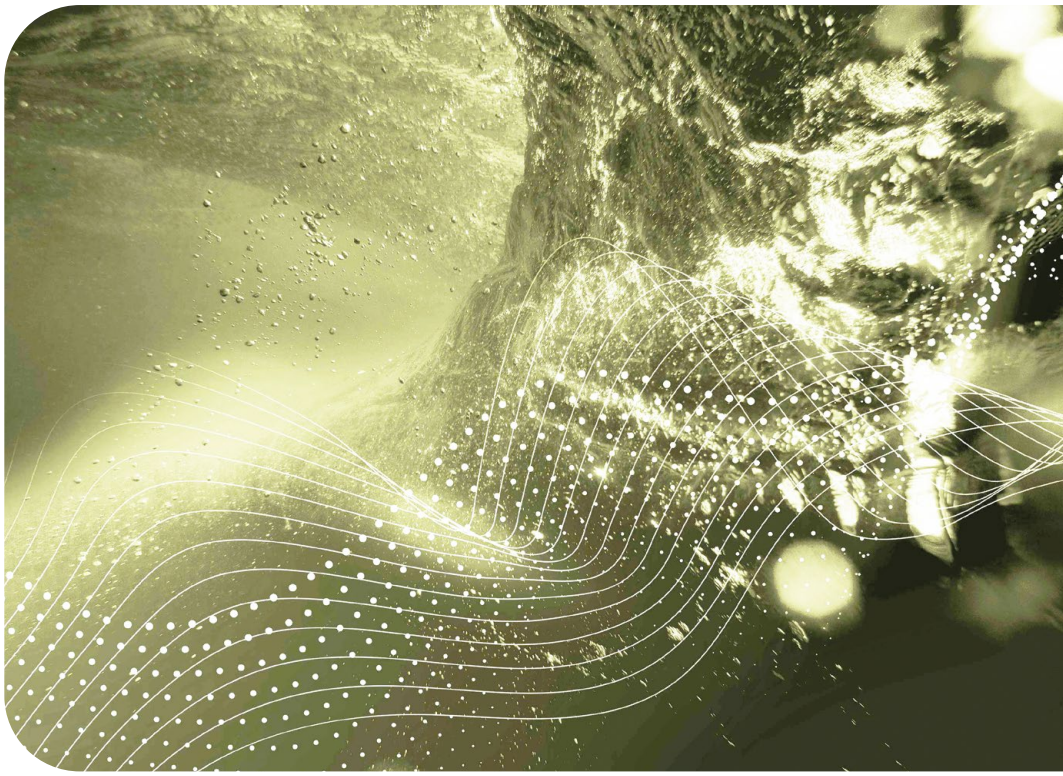
Digital transformation and sustainability – a match made in heaven?

Sustainability and the digital transformation are two key challenges confronting our society in the 21st century. The COVID-19 pandemic further emphasised their significance throughout the past two years: business communication and commerce transferred almost completely into the digital universe, resulting in a long overdue relief for planet earth. Even though the digital transformation and sustainability have a great power in shaping our future, their interrelationship is not always in harmony.

Philipp Tenbieg

The pandemic has forced us to rethink the way we work, consume and live. It has also forced us to take radical action with the aim to save lives. When considering climate change and the sustainable transformation, similar radical action has long been overdue. Too often, necessary change was postponed based on the excuse that it is not possible to change the behaviour of corporates or individuals in such drastic way with such immediacy.

The COVID-19 pandemic has, however, shown us that it is indeed possible! In response to this global crisis, digitalisation has enabled us to take the required radical action. The digital transformation can also play a key role in the other global crisis we face: climate change and the sustainable transformation. In an opinion paper, published towards the end of 2020, the European Economic and Social Committee emphasised the importance of actively considering how digitalisation can be leveraged as a tool for the sustainable transformation.



"The pandemic has transformed many of our daily routines into a large-scale field trial of digital implementation: Governments temporarily closed schools, asking pupils, students and teachers to work online, and employers quickly had to rethink their approach to remote working. As we slowly emerge from confinement, we need to reflect on how much digitalisation is desirable and appropriate, and how we can maintain intra- and inter-generational fairness aligned with the SDGs in the process."

Two years later, as we start planning our post-COVID lives, we need to be both smart and critical in how we leverage and implement new technologies. While digitalisation will be key to establishing sustainability, it can also have significant negative side effects that need to be managed, to limit their deteriorating power.

Digital solutions are needed to enable the electrification of transport, the intelligent usage of energy systems and the development of smart cities, to name just a few examples. Especially in the automotive industry, digitalisation along the entire value chain is required to produce electric vehicles and charging infrastructure, as well as for artificial intelligence to develop autonomous vehicles. The combination of electric and autonomous vehicles can reduce greenhouse gases in urban areas and overall emissions in freight transport considerably. Furthermore, digitalisation is the foundation for Industry 4.0 – or Internet of Things. Through IoT, we can leverage for example digital twins in the real estate sector to identify and implement retrofit-options and thereby improve the carbon footprint of buildings. By using IoT to create movement-profiles of EVs, cities can make more reliable charging infrastructure decisions, therefore contributing to the smart city transformation.

A further significant aspect of digitalisation with regard to sustainability is the availability of data. Available, high-quality data is an indispensable component and important accelerator of the sustainability transformation. In its World Energy Outlook 2021, the International Energy Agency (IEA) stated that investments in clean energies would need to triple in the 2020s if the 1.5° scenario was to remain a viable goal. This emphasises the role and need for the financial sector to allocate capital accordingly. As we transform into an increasingly digital world, the digitalisation of good and services and

their value chains unlocks new dimensions of data that can be leveraged for financial decision making. For example, data collected by IoT applications provides relevant quantitative metrics required by the financial sector to identify sustainability-related risks and opportunities. Digitalisation also enables the real economy to report increasingly more on its activities and externalities affecting climate, while enabling financial institutions to implement regulatory climate-related financial disclosures. Yet, there is still a long way to go until we achieve reliable transparency and valuation of the impact our real economy has on our climate and sustainability.

The potential of digitalisation to facilitate and accelerate the sustainable transformation is evident – but it also poses risks. The increase in digitalisation has led to an explosion in power consumption and so far, did not have a reducing effect on overall energy demand. Moreover, the ever-growing demand for data centres further drains the world's resources. It is evident that like all major trends, the digital transformation needs to be viewed critically in terms of its possible implications on sustainability. Only when we critically consider how the digital transformation can be established sustainably, will we be able to reap its full benefits.

There is an exciting journey ahead of us, accelerated by the COVID pandemic to a speed that has long been overdue. Digitalisation remains to be a key enabler for sustainability, but not without pitfalls. How can we succeed in creating a sustainable digital transformation? And how does digitalisation help us to allocate the required capital towards sustainability in the most effective way? We hope to clear the fog at least to some extent over the next few pages.

Abbildung 1: Digitalisierung und Nachhaltigkeit gehen Hand in Hand

Sustainable digital transformation

When it comes to sustainable development, the digital transformation represents both a major opportunity and a risk in equal measure. On the one hand, digital products and services offer connectivity, transparency, and efficiency. On the other, they consume raw materials, require energy, and can create problems for both individuals and society. Organizations are therefore called upon to actively ensure that their digital transformation is sustainable.

Gilles Pütz, Dominik Bischoff

The demand for ever more sustainable services and products is growing among customers and citizens. However, implementation of true sustainability is frequently difficult, given the complexity of the issues involved. This also impacts the provision of digital products and services. Sustainability aspects need to be addressed in every step of a digital transformation project (Fig. 2).

Sustainability and digital transformation interact in two ways. On the one hand, the UN Sustainable Development Goals (at the bottom) can be applied to set sustainability targets for a digital transformation project (at the top). On the other hand, a digital transformation project can also be used to address sustainability deficits.

Fig 2: Correlation between digital transformation and sustainability

We examine sustainability aspects in digital projects through a specific example: the digital representation of buildings, a so-called digital twin. Building administrators and owners can create a detailed digital twin of their building through the installation of sensors and aggregation of real-time data. The digital twin is used for simulating adaptations to the building and for troubleshooting.

In a project to create such a digital twin, questions soon arise regarding the sustainable use of data as well as the use of data for sustainability. For example: Which data should be collected and how should it be processed? If suitable data is collected and analyzed, the energy consumption of the building can be optimized by providing the building's administrator and its residents with feedback on their heating and ventilation management.

However, this can only be achieved if this use case has been considered when designing the digital twin. The required temperature, airflow and air quality data should be recorded at appropriate points and with an adequate level of precision.

Residents can see the effects of their actions if they are provided with this data. Consequently, in addition to optimizing energy consumption, the digital twin also contributes to empowering and raising the awareness of residents regarding sustainable behavior.

A potential conflict can arise as a direct result of this, however, as the collection of data can have a negative impact on people in the building. The data could potentially reveal when the occupants are in the building, how they behave, and so forth. The protection of privacy must therefore be considered during the collection, processing, and provisioning of the data to ensure that a sustainable digital twin is created.

The choice of infrastructure also influences the sustainability of the project. The required digital infrastructure can be virtualized in a dedicated data center or outsourced to the cloud, thus minimizing the use of resources required for the collection and processing of data. Virtualization can enable sharing of physical server resources with other applications, reducing hardware and energy requirements. In the case of large data centers (such as are frequently used in the cloud), energy consumption can be reduced further through targeted measures introduced by the provider. The use of CO2-neutral electricity by the data center operator is another good option when it comes to reducing negative impacts on sustainability. Use of the cloud also facilitates dynamic scaling of the computing power required for one's own application without the need to maintain a reserve for this purpose.

In addition to the infrastructure, other resources such as sensors and software need to be procured for data collection and analysis. In terms of sustainability, physical resources should have a long service life and a circular rather than linear lifecycle. In addition to being energy efficient and free of conflict materials, they should also be manufactured under good working conditions. Good working conditions and fair business practices should also be observed regarding services and software resources. Requirements of this nature can be reflected in the procurement criteria of a tender, prioritized to an adequately high degree. Another good option is to demand relevant certifications from potential providers to ensure that the right partners are found for the project.

The choice of the right partner is not only of significance regarding suppliers as, in addition to the building's administrator and residents, further stakeholders can obtain added value from the digital twin. The data collected and the information generated from it can, for example, aid analysis of the energy efficiency and sustainability of buildings by being published in an appropriate form and being made available to researchers. Even competitors can become partners, with administrators, building owners, architects,

and construction companies joining forces to create a single ecosystem that promotes the sustainability of buildings through an exchange of information from digital twins and other sources, thus benefiting everyone involved as well as society in general.

The digital twin provides an example of how a variety of sustainability aspects can be involved in digital transformation projects. Through a com-

Daten	• Collect and manage data to measure sustainability integrate it in data structures • Observe data privacy and data security during processing
Algorithms & Artificial Intelligence	• Check that algorithms and AI follow the principles „ethical, timely and robust" and identify negative impacts • Ensure decisions are transparent
Project & Program Management	• Set sustainable project and project management goals • Anchor organization sustainability goals in project and program management
Design of Services & Products	• PEstablish planet-centric or life-centric design as a methodology • Make sustainability part of a product owner's responsibility and empower them for this purpose
Procurement	• Rethink the object of a procurements with regards to sustainability and circularity • Attach a high priority to sustainability in selection criteria and take the entire life cycle into consideration
Infrastructure & Operation	• Improve resource efficiency through use of cloud and virtualization • Exploit automated provisioning to optimize of IT resources
Partners, Platforms & Eco-systems	• Explicitly address targeted sustainability in all partnerships and during platform selection • Be actively involved in eco-systems that promote sustainability
Transformation into a Sustainable Organization	• Identify sustainability levers and integrate smart goals in enterprise management • Actively manage change (exemplify, change story, communication, behavior, ...)

parison of the different phases of a digital transformation project and UN Sustainable Development Goals (Fig. 1), we have identified eight key issues that can have a major impact on the sustainability of digital transformation projects (Fig. 2). Implementation of these key issues in all phases of a digital transformation project provides a solid basis for more sustainable digital products and services.

Different levels of importance are attached to these key issues, depending on the project and organization involved.

In addition to the eight key issues, a pragmatic approach that also addresses the initial situation and goals of the organization and other significant stakeholders is key. The stronger sustainability is already anchored in the DNA of an organization, the more ambitious it can be when setting targets for a digital transformation project and the resulting products and services. If the organization is at only just starting its journey towards a sustainable organization, it is preferable to focus on just a few important goals. Then you, the reader, can act as an internal organization pioneer. Sustainability is, after all, also a matter of passion.

Fig. 3: The eight key issues identified enable us to shape digital transformation projects sustainably in a structured manner

Integration of sustainability risks as the key to the green transition

Risk is the key factor influencing most of our business decisions – especially those of financial nature. Though when discussing the energy transition, risks related to sustainability appear to be neglected. One key challenge in incorporating sustainability risks into decision making is their complexity. Nonetheless, to really accelerate the energy transition and re-allocate capital to where it is most effective, we need to start properly integrating sustainability risks into the decision-making process.

Lena-Katharina Gerdes

Following the developing industry standard set out by the Task Force on Climate-related Financial Disclosures (TCFD), sustainability risk defines two fundamental types of risk: transition risks and physical risks. The latter is often better understood, as it appears in the form of natural disasters. Physical risks also have a longer track record of analysis, resulting in the availability of reliable pricing and forecasting models, developed mainly by the re-insurance sector. Even though the TCFD definition focuses mainly on climate-related risks, rather than sustainability overall, it is currently the definition closest to an international industry standard. When thinking of climate-related financial risks, the industry is especially challenged by transition risks. From a financial point of view, the biggest concern around transition risks, is the resulting value of stranded assets – the amount of assets that will become worthless due to the energy transition. Transition risks therefore define the risks related to the transition to a low-carbon economy, and include dimensions such as policy & legal, technology, market, and reputation risks. Considering these underlying risk factors, it quickly becomes evident why it is so challenging to quantify and model transition risks for individual companies or assets.

When looking at regulatory developments, such as the EU Sustainable Finance Disclosure Regulation (SFDR) we observe an additional layer of risk: in addition to sustainability risks, SFDR introduces principal adverse sustainability impacts (PASI). These reflect two sides of financial investments: PASI define the direct negative impact that investments can have on the environment and society; sustainability risks define the indirect negative financial impact climate-related risks can have on investments. While regulators (e.g. SFDR) increasingly call for a quantitative assessment of the impact of sustainability risks on the financial performance of products offered, the financial industry is faced with significant challenges to conduct such an assessment.

When considering the quantification and integration of sustainability risks, the financial industry is faced with two main challenges: first, the availability and quality of data, and second, the complexity and appropriateness of sustainability risk models. Sustainability related data is key to model and accelerate the transition to sustainability for both the financial industry as well as the real economy. The financial industry requires data from the real economy to determine the availability of liquidity (i.e. provision of credit), construction of new financial products and to fulfil new reporting require-

ments (e.g. SFDR). While the real economy is increasingly obliged to disclose sustainability metrics (e.g. under the EU Taxonomy), the data collection is still tedious and far from complete. This poses a problem and risk for the financial industry, as it lacks the inputs required for its own purposes, forcing financial actors to rely on estimates provided by data providers. Furthermore, the absence of a global standard produces further implementation challenges as the real economy and financial sector is faced with a variety of sustainability reporting schemes, further complicating the data collection and analysis. This also has implications for the development of sustainability risk models.

A model needs to consider various layers and dimensions of risk factors, especially for transition risks. Take, for example, a major company from the oil & gas sector. To determine the transition risks, one would need to identify viable "clean" technologies, e.g. green synthetic fuels, and their innovation or implementation pathway to estimate the value of potential stranded assets. This would need to be compared to "business as usual" scenarios. Depending on the nature of the company assessed, physical risks can have a substantial additional effect on the value at risk. For financial actors to quantify and forecast sustainability risks, they would require data and models that consider viable new technology pathways, political reforms, socio-economic developments, and the future competitive market environment.

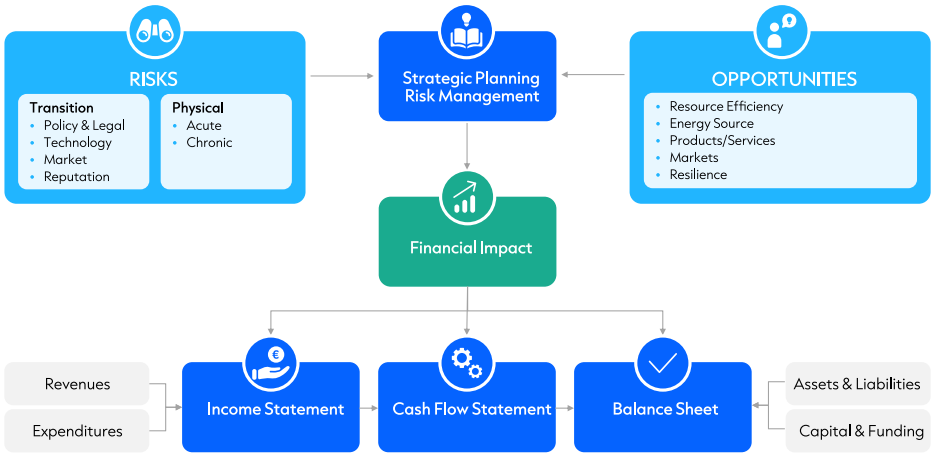
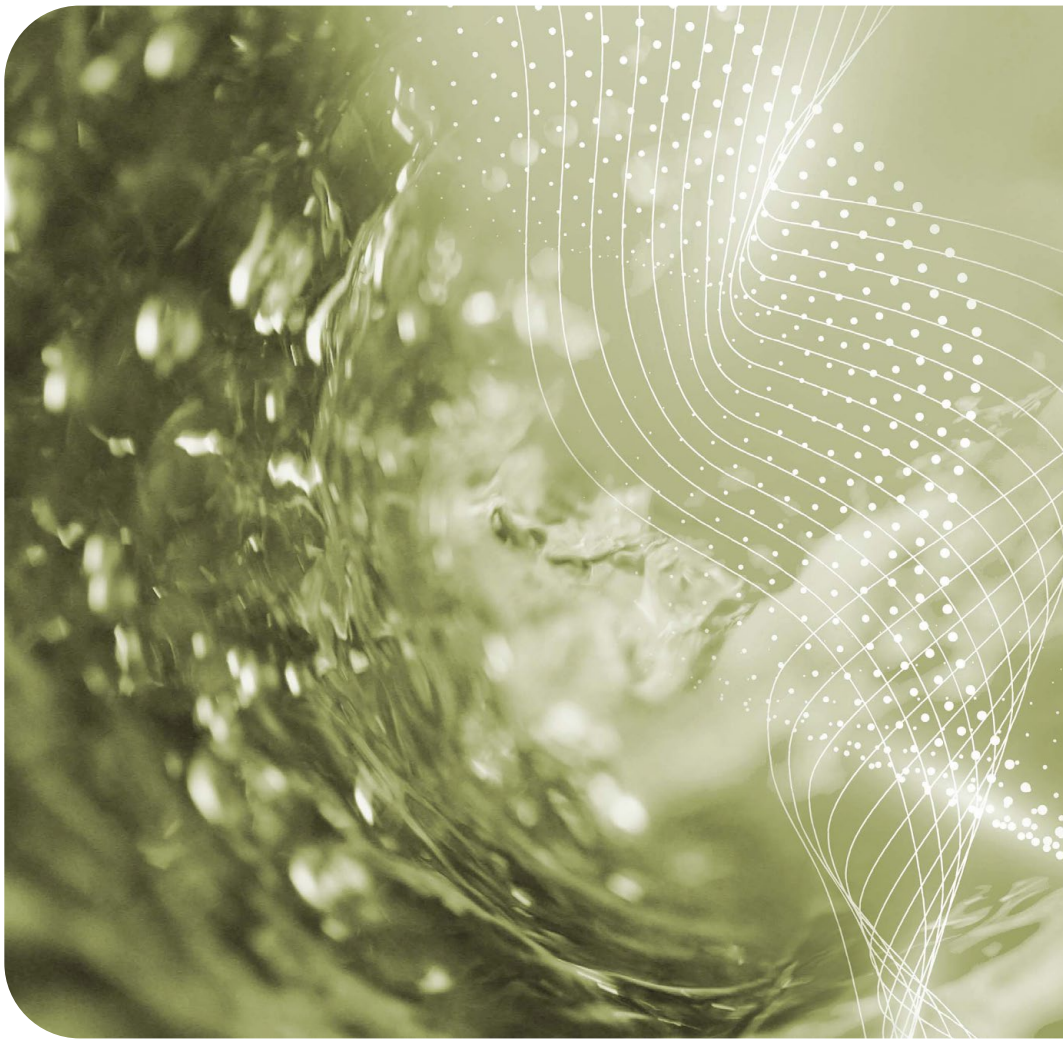


Fig. 4: Overview of climate-related risks, opportunities and financial impact - Source: TCFD

It is evident that there is a rocky road ahead. However, this should not be a reason to wait until an industry standard is established. Both data availability and appropriate pricing or forecasting models require constant development and therefore continuous effort and input from industry. It is of utmost importance to include transition risk as an explicit quantified variable in financial valuations. Only when we start pricing in the true value of stranded assets will we be able to determine the cost of sustainable investments vs. business as usual. Both the real economy and the financial industry should prioritize the integration of relevant data collection and development of sustainability risk models to accelerate the sustainability transformation. In order to do this, while limiting the risk of "betting on the wrong horse", companies and financial actors should set on sustainability models which 1) are flexible in regards to data providers, 2) have the ability to work with parameter in place of missing data, and 3) have the ability to overwrite input parameters with internal knowledge. By choosing models which inherit such flexibility, industry will be able to improve and implement sustainability risks on an ongoing learning base and therefore grow with the complexity and availability of data.



Sustainable Finance Interview with Ursula Finsterwald

LGT is the world's largest private banking and asset management group, entirely owned by an entrepreneurial family - the Princely House of Liechtenstein. As the family office of the Princely Family of Liechtenstein, LGT has extensive experience in managing family assets. LGT has over 3900 employees in more than 20 locations worldwide.

Ms. Finsterwald, what does sustainability mean to you on a personal level?
I work in the field of sustainability because I believe that future generations should have the same opportunities we had. The world has been heading in the wrong direction for years, which is why I think it's important that all we care more about our planet. There is no "Planet B".

What changes have there been with regard to this topic in recent years, both in your work environment at LGT and among your clients?
Ursula Finsterwald: While the issue of sustainability has already become established at the institutional level, retail clients still only make corresponding investments on a small scale. This has also been confirmed by the surveys that we have carried out of high net worth individuals since 2014 as part of the LGT Private Banking Report. The interest is there, but it is not (yet) reflected in the portfolios. The correlation between sustainable investment and its impact on our world is not yet clear to many people. Although many people have started to factor sustainability into their purchases much more in recent years, such as by buying locally produced or organic products, it seems that financial institutions need to be more targeted in the way they inform private investors about the quality of sustainable investments. At LGT, one of the ways we do this is with specific events for clients. Sustainability is already an important issue for the younger generation.

What do you think that this is due to? Are there any barriers that might explain this reluctance towards sustainable investments?
UF: Older clients are more skeptical with regard to sustainability, and that also influences their investment decisions. And many people still believe that sustainable investments generate lower returns. Another factor that deserves serious consideration is the fact that many Private Banking clients still see sustainable investment as a PR issue, and in some cases even suspect that the subject is merely being used as a marketing label ("greenwashing").

That's why it's important to clearly show clients what sustainable investment really means, exactly what it involves and how LGT approaches the issue. People trust our bank, but many are still a little unclear regarding our sustainable products and services, and their impact on society and the environment. This is something that we need to keep working on.

> „I work in the field of sustainability because I believe that future generations should have the same opportunities we had."
>
> **Ursula Finsterwald**
> **Head Group Sustainability Management, LGT**

Where does LGT feel the greatest pressure from? Is it really from the younger generations or more from the regulators?
UF: We put ourselves under the most pressure because we firmly believe that the world needs to act very quickly. That is why, last year, we set ourselves the goal of achieving net-zero emissions by 2030, not just as a company but for our investments as well. We also welcome the pressure from the regulators because it can be very effective. The EU has introduced new regulatory initiatives such as the Sustainable Finance Disclosure Regulation (SFDR) and the EU taxonomy. The standardization it is hoped these measures will achieve is important if anything is to genuinely change.

One current problem following the entry into force of the SFDR is that many fund management companies have defined their products as Article 8 products (light green) without changing the contents of those products in any way. This means that the EU has not yet achieved its goal of making investments more sustainable. But this will change in the years ahead as the regulatory authorities actually take a look at the products. In the future, every client will have to be asked how interested they are in sustainable investment. This will trigger an enormous push because it will confront private investors with the issue more and they will therefore need to look into it.

What measures has LGT introduced within the investment process?
UF: We first included sustainable investment funds in our range of products in 2009. Since 2019, we also offer our retail clients actively managed wealth management solutions with a focus on sustainability.

We have introduced the LGT Sustainability Rating for stocks, bonds, funds and entire portfolios in order to help our clients make decisions regarding their choice of investments. This is based on our proprietary ESG Cockpit, which sources data from a variety of well-known ESG data providers. Based on a scale of between one and five stars, investors can see at a glance how sustainable their investments are, with one star for "insufficient" and five stars for "excellent". This means that clients have access to information regarding the sustainability of their investments that is easy to understand, allowing them to make their investments more sustainable.

When selecting stocks to invest in, we make absolutely sure that the companies conduct their business in a way that is not harmful to the environment or society, and that they do not produce any products that are significantly detrimental to sustainable development. LGT has also been measuring the ecological footprint of its funds for the last four years.

A lot of the data provided is currently still estimated, which makes it more difficult to precisely judge its quality. Despite this, funds will already be required to report in accordance with the European ESG Template from January 2023. What is your view on this?
UF: The problem is that companies still don't publish a lot of the data. This means that financial institutions have to work with and report estimates. They are being asked to report on something that doesn't exist yet. In a way, the EU has put the cart before the horse and is now pressuring the financial industry into requesting the necessary data from companies.

What is LGT's approach to the controversial issue of nuclear power?
UF: We are in the process of drawing up a position on nuclear power and discussing it in our Sustainability Board. Nuclear power is highly controversial, just like natural gas. You could get the impression that the EU acted on political motives in this regard in its taxonomy, and could have made concessions to France with regard to nuclear power and Germany with regard to natural gas.

What do you consider to be the greatest challenges when it comes to quantifying sustainability risks?
UF: The risks are difficult to quantify exactly. As a rule, we systematically exclude investments associated with significant environmental, social and governance risks (ESG criteria), and instead focus on the opportunities that arise as a result of taking aspects of sustainability into account. We are interested in supporting companies that are already in the process of transitioning to a sustainable business model, and we also want to invest more in such companies in the future.

What do you see as the biggest weaknesses of the valuation methods used for sustainable investments, from a data perspective?
UF: The biggest challenges for us are the quality, availability and standardization of data. It is often impossible to draw comparisons even between companies operating in the same sector as we are unable to verify exactly what data is published.

We hope that sustainability reporting will be standardized in the future in order to ensure that everyone reports in accordance with the same criteria. We would also like to see clear transparency requirements as these would facilitate informative comparisons. But it will be some time until we reach that point.

Will the entry of the EU taxonomy into force already bring about some improvements in this regard?
UF: As only the first two aspects of the EU taxonomy ("Climate Change Mitigation" and "Climate Change Adaptation") have currently been drafted in full and ratified, and the other four are not yet available, it is going to take some time for the taxonomy to achieve its goal.

There are also a large number of small and medium-sized enterprises that will need to report in accordance with the Corporate Sustainability Reporting Directive (CSRD) in the future. Many of these companies have not collected any data in the past, and lack the necessary resources. It will therefore be a while before these companies are able to provide high-quality data. The risk that SMEs not disclosing sustainability data will no longer be granted loans could expedite the matter, but it will not necessarily lead to a rapid improvement in the quality of data.

Looking ahead to the future, what do you consider to be the seminal trends and developments in the field of sustainable finance?
UF: The EU regulation will have a significant impact on institutions of all sizes. It presents the entire sector with a large number of challenges, particularly with regard to disclosure obligations. My hope is that this will also reduce the amount of greenwashing.

The intended degree of transparency should provide consumers in particular with even more detailed information in the future on what the products on offer consist of and what impact they can achieve.

There are a lot of changes in store for the reporting side of things as well. The International Financial Reporting Standards (IFRS) Foundation has, for example, created a Sustainability Board to develop a standard for sustainability reporting. The EU has had the NFRD since 2014, and the CSRD will now require additional sectors and also smaller entities to report. I very much hope that this will lead to the development of a global standard in the future.

ESG labels have also become much more important in recent years because they provide transparency and steer capital toward sustainable investments.

Could labels even be counterproductive and add to the problem of greenwashing?
UF: Article 8 of the SFDR is rather counterproductive at the moment because it is being applied to a lot of products. There is a risk of more lawsuits. Unfortunately, greenwashing is still too common.

Why do you think that banks and pension funds struggle more with sustainability than they originally expected?
UF: Unlike in Nordic countries, where sustainability has been an important factor for some time now, Swiss pension funds are more conservative in their approach. But thankfully, larger institutions in Switzerland and Liechtenstein have now also started to address the topic. In addition, sustainable investments are still associated with lower returns, and there are still concerns that the rise of ESG places excessive limits on the investment universe.

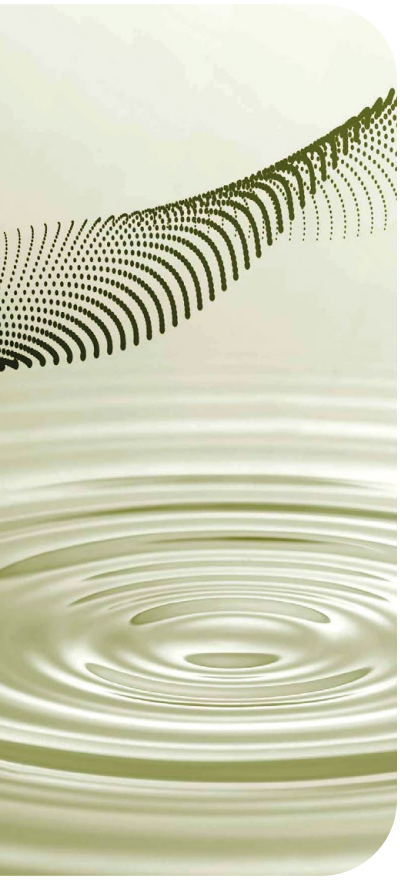
What do you find to be the best way to educate people in this regard?
UF: It is important to talk to clients in a targeted manner and provide an overall impression of companies that is not just based on their financial data but also includes ESG factors. LGT offers courses in the form of webinars and livestreamed events in order to provide clients with more information on this topic. We use these events to show how we implement sustainability ourselves.

To what extent does LGT incorporate social and governance data into the advice it provides?
UF: We always include ESG data as a matter of principle. To this end, we source raw data from a number of well-known data providers and evaluate it using our ESG Cockpit. When it comes to the evaluation of companies, the set of indicators used and their weighting are tailored to the sectors in which they operate. In the field of governance, the separation of the Chairperson and CEO functions, and the existence of independent Audit, Risk and HR Committees, are important. With regard to social matters, we look at how employees are treated and the training opportunities made available to them, as well as any involvement in human rights abuses. On the environmental side, we evaluate the volume of CO2 emissions, the proportion of waste that is recycled, etc. The rating also factors in data regarding any controversial activities carried out by the company. Any controversies lead to a reduction in the rating.

Social and governance aspects are also important because, in addition to being an environmental catastrophe, climate change is also having a disastrous impact on societies. This is because many people are being forced to flee from their countries, making them susceptible to slavery and human trafficking. One important initiative in this regard that LGT supports is the "Liechtenstein Initiative on Modern Slavery and Human Trafficking", which aims to help identify flows of money from slavery and human trafficking, and raise awareness of the issue within the financial sector. Artificial intelligence is also used for this purpose, and the provision of targeted training to bank employees plays a pivotal role. Financial institutions must identify and report suspicious transactions, for which they must be familiar with the current methods used by human traffickers.

How understanding are clients when profitable companies disappear from their investment port-folios?
UF: This is certainly a common issue at LGT as well. The important thing is to talk to the client and explain why we don't invest in a particular company and to explain the rating process in clear terms. At the same time, greater emphasis must be given to factors relating to quality (particularly in the retail clients sector), as these factors play an important role in decision making.

You are active in the UN Global Compact Network Switzerland & Liechtenstein. What motivated you to get involved, and how important do you think those kinds of institutions are in the context of sustainability?



UF: LGT is a member of the UN Global Compact, and I represent Liechtenstein on the Board of the Global Compact Network Switzerland & Liechtenstein. I was motivated to get involved in order to raise awareness among smaller companies of the ten principles of the UN Global Compact (such as human rights, environmental issues, etc.) and to encourage them to play their part. The principles of the UNGC and the UN's Sustainable Development Goals are very abstract, so it's important to provide examples of how smaller companies can also play an active role in making the world more sustainable.

What is your view of the relationship between the financial sector and the real economy, and the associated interaction within the sustainability movement?
UF: In this context, our aim is to also actively raise sustainability issues with SMEs. We use best practice examples to show how small and medium-sized enterprises can play their part. In the course of these activities, we found that dealing with this topic is a generational issue at some SMEs. We may see a shift in this regard once the younger generation takes over.
I consider interactions between the financial sector and the real economy to be fundamentally important because, as a financial institution, we invest in the real economy.

How optimistic or pessimistic are you with regard to global warming?
UF: From a business perspective, I am optimistic that we will be able to achieve our climate targets. But when I look at society, I am pessimistic because there is still no motivation to make a change, and very little has been achieved in recent years. The politicians are also (still) not doing enough in this respect.

Did you consider the UN Climate Change Conference held in Glasgow in 2021 (COP 26) to be a success or a disappointment?
UF: I found the outcomes of COP 26 to be very disappointing because there was a lot of talk but very little action.

If you could wish for anything for COP 27, what would it be?
UF: It would be for the attending countries to report on concrete actions that followed the words used at COP 26.

Sustainability at Richemont Interview with Matthew Kilgarriff

Matthew Kilgarriff is the Director of Corporate Social Responsibility at Richemont, the owner of prestigious luxury goods companies, recognized for their excellence in jewelry, watches, fashion, and accessories. In addition to spearheading Richemont's movement for better luxury, he also serves as deputy chair of the UN Global Compact Network Switzerland, as co-chair of the SDG task force of the Responsible Jewelry Council, and as an ambassador for the Cambridge Institute for Sustainability Leadership in Switzerland.

What do sustainability and corporate social responsibility mean to you, both personally and professionally?
Matthew Kilgarriff: The three words sustainability, CSR (Corporate Social Responsibility) and ESG (Environment, Social, Governance) are often interchanged. I think of them as three concentric circles. Sustainability forms the outer circle. How do we get on with each other in harmony? That covers people and the planet. The middle circle is ESG. How does the economic milieu understand the sustainability circle? This gets us into metrics, measurable things, and disclosures. The innermost circle is CSR. What do we do at the single company level? Little Matthew can't do very much about humanity and nature. But I can use some leverage points to move beyond my own small scope.

How did you first develop an interest in sustainability?
MK: I had an interest in birds and trees when I was a little kid. That later developed into becoming a member of Friends of the Earth when I was a teenager. I didn't think it would ever be my professional life, but sometime in my early 40s I was asked to take over the sustainability work of Richemont. About five years ago, I went from part time to full time in sustainability.

Where is Richemont on its sustainability journey today?
MK: I published the 16th Sustainability Report in July last year. Hence, we are definitely not at the start anymore. However, we are also looking at a midterm horizon and have set ourselves clear goals for 2025 and 2030. And beyond that, thanks to our patient majority shareholder, we can look at the very long term. We ask: What are the criteria for a company to survive wars and more through those centuries? What does resilience really mean? Richemont is a little over 30 years old. But the controlling shareholder, the Rupert family, was with World Wildlife Fund on day one. That was 60 years ago. So, I could answer that we are on our 60th year, our 16th year, or just getting going.

What are some of your biggest achievements of the past 16 years with regard to sustainability?
MK: I put governance at the front of our achievements. We have organized ourselves and that organization has been regularly reviewed to see if this is really working. You can have a greener product or a small process change. That's an interesting exercise as a pilot but doesn't really change the system at all. However, if we get the governance right, we not only have a better understanding of the system, but will also know better what we can change and which changes are important.

Governance is how you drive sustainability within Richemont. But you still have to decide what to work on. How do you turn this into actions?
MK: If you are reporting under the Global Reporting Index, GRI, you are required to run a materiality matrix, which asks „What matters most to us?" and „What matters most to our stakeholders?" The resulting areas are our first choice when it comes to invest our time, energy and money. Three years ago, many of my colleagues were unhappy with the areas, as they saw environmental topics as a top priority, which they were not at that time. Hence, we decided that I would run a Gen Z materiality matrix, asking the same questions. But, the people doing the interviews, the people being interviewed, the people running the back office, and so forth were all under 25. Suddenly the environment went straight up to number one. So, we needed to get environmental actions right because our future customers are building their perceptions now. As a result, we submitted our science-based goals for environmental impact and climate change already in 2021.

So, your actions depend heavily on the stakeholders you interview. How do you make sure that you ask the right stakeholders?
MK: We run the process through qualitative and quantitative research methods, and we use a third party to run the exercise for us so that we are not biased in our own techniques.

On the quantitative side, we use surveys that are sent to several hundred people. We have a high response rate because our surveys are nice and easy, and we explain why we are doing this. We don't say we have sent this to a million people. We explain, why we have chosen them and let them know that they will be shaping Richemont's understanding of its issues and the actions that will follow.

On the qualitative side there are more in-depth interviews with 3 or 4 representatives of each stakeholder group. We hope that the messages that we pick up from those interviews are consistent with the quantitative sampling methods in our surveys. For our latest matrix, we made sure that there was at least one Chinese representative because so much of our sales footprint has moved to China.

So, you look at your sales footprint and at your operations footprint to decide who to talk to?
MK: Yes. I talk with the agency that runs the process and then we discuss which parts of the standard approach we need to adapt for Richemont's current concerns. We look at what other people are seeing through our segmental public reporting and say: that's the place to look, those are the regulators to ask, those are the investors to talk to.

Many companies and many of our readers are still at the start of their journey. How would you get things started if you were in their position?
MK: I would join a club and listen to what the other members of that club have been through. I would not be talking to Richemont, which is now almost an old man in this process. It makes way more sense to talk to businesses who are just bit further down the road from you. They will remember the things they did right and the things they wish they had not done. And, I would always start with the governance and form a committee. Don't let it be a one-person story.

How do you run the governance at Richemont? What are the key elements that you would like to highlight?
MK: We established a new sustainability board committee that includes a handful of non-executive directors. They oversee management. They hold quarterly meetings to find out: How are you getting on? Why are you working on this? Tell us about your problems.

At management level, the CFO chairs my sustainability committee across the management functions of the group. Together we form a college of experts to manage all the commitments and targets. The CFO forms the channel, letting the rest of the EXCO know if there are any issues and telling the middle management what they should be focusing on.

The CFO taking on this role is partly history. I was the secretary to the board, and that role at Richemont always sat with the CFO. When my role became full time, we asked ourselves whether we should move this function to the CEO. But we liked the stringency and the challenge that the finance function represents for the entire corporation. It is independent and manages the Group's resources. Sustainability is about doing the right thing. It's not about marketing nor about human resources or green issues. It's about everything. Hence, we left it where it was and, here we are, five years later. We have just announced the appointment of a Chief Sustainability Officer who will again report to the CFO.

At Eraneos, we see that sustainability today is a lot about having the right data, understanding this data and figuring out where it fits. How relevant is data within your sustainability journey?
MK: We have always tried to use data for decision making and for commitments. We start with an estimate of our status today, but by 2025 we want to be something different. That is our transformation of the business. What sort of data will we need to measure in order to find out whether we managed the transformation or not?

With regard to carbon and personnel, we are quite advanced, while in other areas, like social impact and human rights, we are not. These are new areas, so we don't have established tools yet. I have asked the head of technology and the head of data to work together with me on what I simply call tech for sustainability. It's about designing what technology is best suited to help us reach our targets set for 2025 and beyond. Will this result in an extension of

existing CRM or ERP systems? Or will we just work with spreadsheets? Will a human rights impact assessment be the next area to be fully integrated? Proba-bly not, as this would be too complicated. Currently, we still need to work out the priorities, as there are too many questions. Once the questions are sorted out, we can do the final design work.

So, as you get the questions, you start looking at data and as the questions are clarified, you start looking at permanent data structures to be continuously integrated into your everyday work?
MK: Exactly. To give you a better idea, I would like to provide you with a few facts and figures: For 2025, we have identified four focus areas – environment, people, sourcing, and communities. For each of those areas, we have short-, medium-, and long-term targets and commitments. Adding them up you get to 101 targets. Each of them will have a data-based metric sooner or later. However, there will be some decisions that we will have to make in terms of the design.

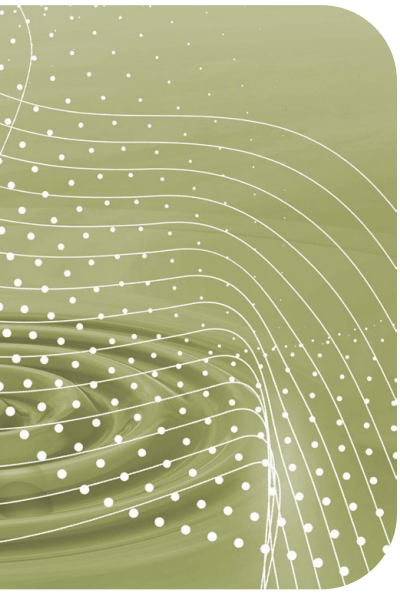
You have mentioned your strategic framework around environment, people, communities and sourcing. What has this accomplished for you so far?
MK: We have set this up properly for the first time in 2013, so nearly ten years ago, and we have mostly left it as it is. It has become more demanding and more future-oriented. However, it is an organizational device. The good news is: our COO is in charge of the supply chain. He will assist the operating companies with everything from logistics to purchasing responsibly. Same goes for people with the HR director and communities with the marketing function. Environment is inherently transversal, so I put myself in charge of the topic. We are exploring how to organize social impact and human rights, probably through a steering committee.

And, the whole thing is also collaborative: by having a committee, we have a way to invite people to work on specialist topics in dedicated working groups, and then report back. Furthermore, we have a management system that is easy to organize and doesn't require technology - just Postit notes and marker pens.

You are somebody who is very much involved in partnerships, for example in the Jewelry Council, the UN Global Compact and so forth. How do you leverage these partnerships?
MK: I distinguish between formal and informal partnerships. The Jewelry Council, for example, is formal: third party audit, very robust. What I set out to do was to encourage all parts of Richemont Group that were potential members to join, go through their first audit, and become fully certified. Then we asked our first-tier suppliers to do the same. That is a formal partnership channel, and it has enabled us to develop a trustworthy supply chain. It works very nicely in French: „De la mine à la vitrine." From the mine to the display case. We have used this structure in many different ways to build trust, as it is not competitive. I can work with competitive rivals on the understanding that I don't need to know who their suppliers are. I just need to know that we are building the same pipeline.

On the informal side, I could think of the responsible luxury initiative. One of the most recent publications is about what sustainable e-commerce looks like. Richemont, LVHM, and others threw in a couple of bucks and said: E-Commerce is coming – we can get it wrong, we can get it right, or we can get it somewhere in between. So, let's clarify the spectrum of activities and take ourselves and our customers to the right part of that spectrum. By publicizing what we are doing, we are sharing our capital and our time with everyone to say: Look, here it is! Here's the guide!

So to summarize: Formal – audits, certification. Informal – publications, knowledge sharing. Both kind of partner-ships have great leverage strengths.



What recommendations would you like to pass on to other organizations?
MK: In short: codes, clubs, and governance. Start with governance. Join one or more clubs and learn from your peers. There is so much knowledge out there. You risk to „drown" very quickly if you just sign up for newsletters and don't know where to start.

And what is your personal wish with regard to the sustainability movement as a whole?
MK: My personal wish is that both my body and my professional role will be compostable. As a „sustain-ablist", I have one of those peculiar „moment-in-time" professions. We will always need doctors. But a sustain-ablist is something that I hope will disappear within the next 20 years. It will become composted, organically absorbed by the organization and just become part of the EXCO agenda.

And the other one is about the right to be forgotten. I quite like that my role will sooner or later be forgotten; that my work will be absorbed by Richemont and the industry. People we really remember are the artists and people who plant great gardens. Everything I'm doing is intangible. It's not going to be remembered. I am building a legacy, but it's not about Matthew. It's not even about Richemont. It's about great gardens and great art. And this is what I hope people will enjoy in the future.

The compostability is the image that I like the most. I appreciate that Switzerland is beautiful, a lot more beautiful than other countries I've lived in, because I know from experience that the Swiss take composting seriously.

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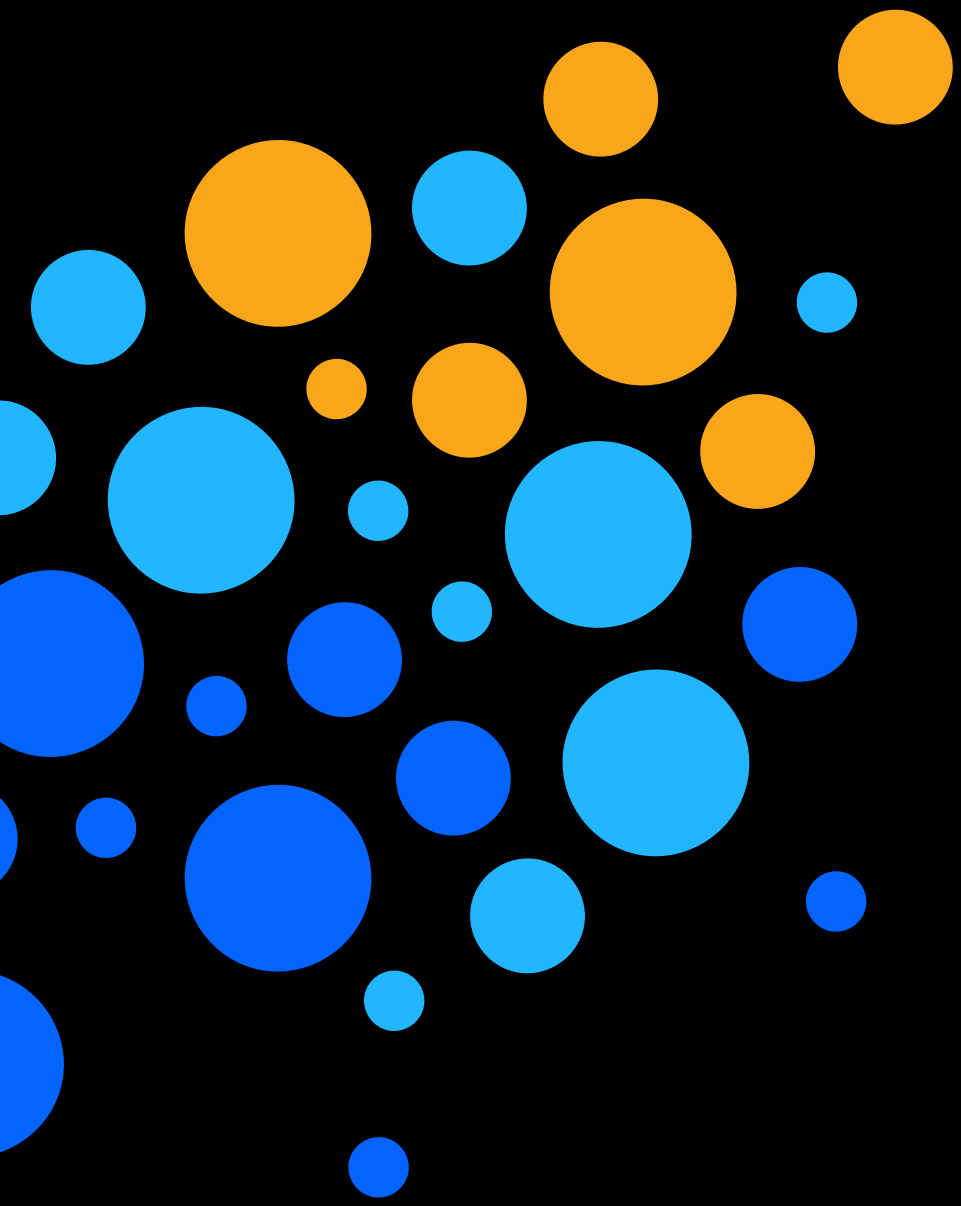

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