Turning point
ETHOS NEWSLETTER ON GOVERNANCE AND SUSTAINABILITY



This month in 30 seconds

- **Editorial**: the real risk for pension funds does not lie in environmental, social, and governance (ESG) factors, but in the extreme concentration of indices in a handful of artificial intelligence (AI) giants. Close to 80 billion francs in Swiss pension assets are estimated to be exposed.
- **Climate**: the summer heatwave caused around 50'000 deaths in European cities. Brussels has proposed a climate resilience law based on a +3 °C pathway.
- **Governance**: the Federal Supreme Court has issued a final ruling upholding the cancellation of bonuses for Credit Suisse executives. In the United States, the share of women on boards has fallen for the first time in more than a decade.
- **Shareholder rights**: shareholder proposals have dropped by 15% in the United States, while the US Securities and Exchange Commission (SEC) wants to repeal Rule 14a-8.

- **Good news**: the SEC has closed its investigation into Climate Action 100+, Lula has been re-elected in Brazil, and young investors are embracing ESG voting.
- **Figure of the month**: greenwashing incidents up 112% in five years.
- **Ethos**: investor statements signed on ethical AI and methane; a new Engagement Paper on tax responsibility; and a debate on nature in governance on 23 November in Geneva.

EDITORIAL : The real risk is not ESG

While some continue to believe or claim that taking ESG factors into account hurts performance, a far more tangible threat looms over financial markets: the extreme concentration of investment in a handful of stocks, all linked to technology and AI. The world's ten largest companies by market capitalisation now account for almost a third of the total weight of the MSCI World Index, which contains more than 1'200 stocks. And that is before the two behemoths Anthropic and OpenAI have even gone public.
For better or worse, depending on your point of view, this extreme concentration also affects emerging markets: just seven stocks, all of them linked to AI in some way, account for over 30% of the MSCI Emerging Markets Index.

Yet, if these technology shares turn out to be overvalued – as a growing number of observers believe – and the bubble bursts, it takes no superintelligence to imagine the impact this would have on the financial markets. And particularly on pension funds which, let us recall here too, are increasingly investing, for reasons of cost and to reduce 'tracking error' (the deviation from their benchmark), in passive funds that simply replicate indices.
At the end of 2025, Swiss pension funds managed 1.35 trillion francs, almost 20% of which was invested in foreign equities (around 270 billion). As a large share of these investments is index-managed, we can estimate that nearly a third of this amount – around 80 billion francs, or roughly 6 % of total Swiss pension fund assets – is now invested in some ten stocks linked to AI and semiconductors. Index investing therefore no longer delivers the diversification it is supposed to provide.

This concentration has become an undeniable risk to returns, all the more so as many tech companies carry governance risks of their own. In several of them, power is heavily concentrated in the hands of a few billionaires, and shareholder rights are sometimes restricted, notably through classes of shares with differential voting rights or even through clauses in the articles of association prohibiting legal action.

This is why we remain convinced that ESG issues, governance first and foremost, influence the performance of companies and portfolios. Long-term investors must stay the course and incorporate these factors into their risk management, particularly during periods of volatility. As for the idea that sustainable investment inevitably costs returns, it is mistaken, to say the least. In fact, numerous recent empirical studies show that taking ESG criteria into account helps to improve the risk-return profile of investments.

Today, performance and tracking error are often confused, yet deviating from a benchmark does not necessarily mean underperforming it. Excluding sectors we consider unsustainable,

such as fossil fuels or weapons, does not automatically lead to weaker performance, even in the short term.

For investors such as pension funds, the long term is what matters. And here too, a sustainable approach performs at least as well as the market. The Ethos Swiss Corporate Governance Index (ESCGI), which focuses on the best governance within companies included in the Swiss Performance Index (SPI), has outperformed the SPI since its launch in 2017.

Beyond any question of conviction, sustainability helps investors manage long-term risks more effectively, whether they are climate-related, regulatory, or reputational. Indeed, on a global scale, major institutional investors regard the management of these risks as a key reason for taking non-financial criteria into account. According to a recent survey by Morgan Stanley, two-thirds of the 600 asset owners surveyed cited reducing portfolio risk as a motivation for sustainable investing, compared with half in 2025. The growing materiality of sustainability-related risks has even made risk reduction their second most important reason for increasing sustainable allocations, just behind growth opportunities. This marks a notable shift from last year, when financial performance and past results came first.



LATEST NEWS

Europe's summer heatwave caused around 50'000 deaths in cities across the continent, a record, and cut the European Union's gross domestic product (GDP) by around 0.17% between April and September (17 billion euros), according to a report in Bloomberg's daily newsletter Green Daily. The death toll comes from a study by scientists at Imperial College London, which attributes nearly two-thirds of the deaths to climate change. This figure far exceeds the toll of the previous deadliest summers (29'000 deaths in 2022 and 28'000 in 2003). Bloomberg Economics estimated the economic impact to be two and a half times the average loss of the previous decade, with GDP falling by 0.2% in France in the second quarter, 0.1% in Germany, and 0.05% in Spain. From May to September, average temperatures in Western Europe were almost 3 °C above the 1991–2020 summer average, peaking at up to 12 °C above, which put infrastructure under severe strain.

This grim toll has spurred Brussels into action. According to an article in Responsible Investor, the European Commission has proposed a climate resilience law that would require member states to prepare for a significantly hotter future. They would have to base their policies and investments on a reference pathway of 3 °C of warming by the end of the century and bring their planning together in a single national strategic plan. While the 1.5 °C goal remains the priority, it would be unwise not to prepare for the scenarios that science is projecting, the climate commissioner explained. For the financial sector, the Commission wants to better integrate physical risks into valuation and accounting, and to set up a Climate Insurance Alliance tasked with proposing measures by 2028 to narrow the insurance protection gap.

The banking sector is feeling the heat too. In a ruling published on 15 October, the Federal Supreme Court sided with the Swiss Confederation (and, incidentally, with UBS) and upheld the cancellation or reduction of bonuses for around 1'000 Credit Suisse executives following the bank's rescue by UBS in 2023. In doing so, it overturned a decision by the Federal Administrative Court, which had found that the measure lacked a legal basis. For the Federal Supreme Court, the scale of the public support (9 billion francs in loss guarantees and 100 billion francs in default risk guarantees) justified preventing the payment of excessive variable remuneration, even though the support has since been repaid. The decision is final. As a reminder, Credit Suisse's executive management lost all of its outstanding variable remuneration, while bonuses for the two levels below were cut by 50% and 25% respectively.

According to a survey by the consultancy firm ERM, investors are increasingly relying on in-house resources to assess companies' ESG performance. In-house research and dialogue with companies have overtaken ESG ratings as the main sources of information. Ratings now rank only seventh among the sources considered useful for investment decisions, having previously ranked first in the 2023 survey. Only 31% of surveyed investors still cite ratings among their three most useful sources, compared with 53% three years earlier, far behind in-house research (54%), engagement (50%), and corporate sustainability reports (40%). Ratings are not disappearing, however; their role is changing: 61.5% of investors use them as a starting point for their in-house analysis and 59% as a basis for their dialogue with companies.

According to a study by 50/50 Women on Boards, the representation of women on US company boards has fallen for the first time in over a decade: in the second quarter this year, women held 29.2% of board seats at Russell 3000 companies, down from 30.1% a year earlier. The sharpest decline concerns the selection of new board members. Between July 2025 and June 2026, Russell 3000 companies made 2'440 appointments, 4.1% more than in the previous year. Women received only 553 of these appointments (22.7%) compared with 29.1% in 2025 and 40% in 2022. The head of 50/50 Women on Boards said: 'This study is a call to action. Merit is the norm; access is the problem. We therefore need to convince the bodies that decide on board composition, particularly the chairs of nomination and governance committees, present them with talent profiles, and strengthen succession planning.' It is only a small step from there to drawing a link with the Trump administration's anti-diversity policies…

Undeterred by the headwinds, California has completed the final step in adopting its corporate climate reporting rules, ESG Today reports. Approved on 12 October, the California Air Resources Board (CARB) regulation came into force the same day. The deadline for the first reports on scope 1 and 2 emissions is now definitively set at 10 November 2026. CARB immediately sent a reminder letter to the more than 4'000 companies potentially affected. Two laws are at stake: SB 253 requires companies doing business in California with revenues above 1 billion US dollars to disclose their scope 1 and 2 emissions every year and, eventually, those of their value chain (scope 3). Meanwhile, SB 261 requires companies with revenues above 500 million US dollars to publish a report on their climate-related financial risks. However, at the end of 2025, the Ninth Circuit Court of Appeals suspended SB 261 pending a ruling on the merits, without blocking SB 253.

GOOD NEWS

After a year-long investigation, the US market regulator, the SEC, found nothing to hold against the members of Climate Action 100+. The investigation sought to determine whether the major asset managers BlackRock, State Street, and Vanguard had coordinated their votes at ExxonMobil's 2021 annual general meeting (AGM), where they supported the activist fund Engine No. 1. Had they acted in concert, they could have lost their status as passive investors, which comes with lighter disclosure requirements.

In its investigation report published on 7 October, the SEC therefore decided against taking any enforcement action, as it was unable to establish that votes had been coordinated. It nonetheless attached a warning for the 2027 AGM season: coordinated engagement initiatives could lead large passive investors to form a 'group', required to disclose their combined holdings above 5%, and push them into a far more demanding reporting regime. This warning is in line with the efforts of the Trump administration and Paul Atkins's SEC to curb shareholder influence, as shown by the proposed repeal of Rule 14a-8 (see below).

In Brazil, Luiz Inácio Lula da Silva's re-election in the second round of the presidential election, with 51.8% of the vote against the conservative Flávio Bolsonaro, is a 'reprieve for the Amazon', according to Bloomberg's Green Daily newsletter. It rules out his opponent's programme, which called for more development in the region and a relaxation of environmental rules. Lula, who has pledged to achieve zero net deforestation by 2030, is well placed to keep his promise, as deforestation in the Amazon has fallen to its lowest level since official monitoring began in 1988.

Finally, young investors are embracing ESG voting, as shown by the 2026 data from Vanguard's Investor Choice programme. This programme allows investors in its index funds to choose the voting policy applied to their shares at AGMs. According to an article in ESG Today, younger investors and women choose the ESG option far more frequently than older investors and men. The programme itself is gaining ground: in 2026, its eligible assets quadrupled to around 4 trillion US dollars, and the number of participants increased sixfold to 507'000. Vanguard plans to extend it in 2027 to all of its US equity index funds, representing 8 trillion US dollars in eligible assets.



ENGAGEMENT UPDATE

In October, the Ethos Foundation, members of the Ethos Engagement Pool International (EEP International), and clients of Ethos Engagement Services signed the investor statement of the Collective Impact Coalition for Ethical AI. Coordinated by the World Benchmarking Alliance (WBA), the coalition brings together more than 58 investors managing over 11 trillion US dollars. The signatories are concerned that the sector is lagging behind: 62% of the technology companies assessed by the WBA have still not published any principles on AI, even though weak governance exposes companies, and therefore their shareholders, to legal, regulatory, and reputational risks. The signatories now expect principles aligned with international standards, clear accountability at management and board level, commitments covering the entire AI lifecycle, and human rights due diligence.

The Ethos Foundation, EEP International members, and clients of Ethos Engagement Services also signed an investor statement coordinated by the Institutional Investors Group on Climate Change (IIGCC), first published in October 2025 and relaunched with new signatories. It calls on the European institutions and member states to keep the EU Methane Emissions Regulation (EU MER) as it stands, including its implementation timeline. The European

PROXY SEASON UPDATE

According to a study by Georgeson presented by Governance Intelligence, the number of shareholder proposals filed at Russell 3000 companies fell by 15% in 2026 to 718, compared with 840 in 2025 and 1'000 in 2024. Environmental proposals (down 39%) and social proposals (down 36%) were hit hardest. This decline coincides with the SEC stepping back from its role as arbiter: it no longer reviews the substance of companies' exclusion requests, leaving companies to make the decision alone and bear the legal risk. Exclusion requests have fallen (221 compared with 342), but 29% of proposals were still excluded, as last year. With no recourse to the SEC, proponents are turning to the courts, as at least 6 lawsuits have challenged exclusions this season, compared with fewer than 30 in 50 years.

According to an article in Responsible Investor (subscription required), the Interfaith Center on Corporate Responsibility (ICCR) has launched an investor letter calling on US companies to oppose the proposed repeal of Rule 14a-8. The letter also urges them to adopt their own rules now, so that they can keep putting shareholder proposals on the ballot if the rule is scrapped. The issue is already coming up at AGMs: at Procter & Gamble, a proposal by the National Legal and Policy Center (NLPC) asking the company to continue applying the Rule 14a-8 criteria received 27% of the vote. Norway's sovereign wealth fund manager, NBIM, however, voted against, considering its dialogue with the company and the company's public commitments to be constructive. The NLPC has filed the same proposal at Oracle, which recommends rejecting it at its AGM on 18 November, while it withdrew the proposal at Microsoft after the company committed to maintaining the practice.

Parliament, however, has taken the opposite course: according to its press release, on 22 October it voted by 341 votes to 225 to delay the monitoring and reporting obligations for importers of oil, gas, and coal by three years, rather than the one year proposed by the Commission, pushing them back to May 2031. Parliament must now negotiate the final text with the Council. For long-term investors, cutting methane emissions from the oil and gas sector remains one of the fastest and cheapest levers for limiting warming in the short term.





FIGURE OF THE MONTH

That is the five-year increase in greenwashing incidents, according to a report by RepRisk published in early October. In the 12 months to the end of June 2026, 1'594 companies were linked to greenwashing, 28% more than a year earlier. The risk is now spreading to activities linked to the transition itself. Alternative energy, metals, mining, IT, and utilities account for 29% of cases, up from 18% in 2022, while oil and gas account for 12%, down from 17%. Finally, biodiversity has overtaken climate for the first time as the topic most often associated with greenwashing.



Credit: CalPERS

QUOTE OF THE MONTH

'If AI companies make the critical decisions ahead of them without genuinely consulting their shareholders, I believe both sides will regret it.' This warning came from Prashant Yerramalli, general counsel of CalPERS and former SEC chief of staff, in an op-ed published in the Financial Times on 16 October. In the article, he criticises the SEC's plan to repeal Rule 14a-8, which requires listed companies to put shareholder proposals meeting certain criteria to a vote. In his view, the timing could hardly be worse, as AI giants prepare to go public and will have to settle questions with far-reaching consequences. He believes that the rule embodies the fundamental pact between investors and companies: raising money from the public means giving shareholders a voice, even against the wishes of management.

ETHOS NEWS UPDATE

The Foundation was well represented at the Building Bridges conference, held in Geneva in early October. While discussions focused mainly on resilience and adaptation to climate change (hardly surprising after the summer heatwave) and on impact investing, Ethos teams also took part in panels on **economic inequality** and the '**pension's paradox**': pension funds investing their members' savings in companies that may damage the very world in which those members will retire.

Since 2018, tax responsibility has been one of the focus areas of Ethos's engagement with listed companies. Aggressive tax optimisation exposes companies, and their shareholders, to significant financial and reputational risks. On 29 October, eight years after defining five principles of tax responsibility, Ethos published an updated version of its **Engagement Paper**. It takes into account changes in regulation, corporate practices, and rising social inequality. Ethos also plans to assess the practices of the largest companies listed in Switzerland in this area and to publish a study by the end of the year.

Our head of engagement, Matthias Narr, was in Amsterdam on 15 October for PRI in Person 2026. He moderated a debate on a divisive question: do investors have to choose between competitiveness and sustainability? Before a divided audience, he stressed that the answer depends on the definition used, the time horizon, the sector, and the design of public policy. The trade-off is often real in the short term, but in the long term it is inaction that erodes competitiveness. In steel, cement, or chemicals, ambition and regulatory predictability are decisive in unlocking investment, whereas elsewhere the market is already moving. He sees this as an illustration of the 'tragedy of the horizon': climate and social risks materialise beyond economic and political cycles, while pension funds hold liabilities spanning several decades. It is up to shareholders to bridge this gap by asking boards how today's priorities protect tomorrow's value.

Finally, on 23 November, the Foundation and The Positive Project will host a lunch debate as part of the City of Geneva's climate week. The discussion will focus on nature and the place it can be given in the governance of organisations, starting with corporate boards. The programme features short talks bringing together the perspectives of an investor, a lawyer, a parliamentarian, a board member, and a business. There will also be a practical case study and the presentation of a white paper on representing nature within companies. This will be followed by a role-play simulating a board meeting, which will test several degrees of integrating nature, from a simple source of inspiration to shareholder status. Registration is free via **this link**.

PRESS REVIEW

- Comment le reporting de durabilité influence l'investissement (L'Agefi, 15.10.26)
- Am Sunrise-Hauptsitz droht ein Kahlschlag – und künstliche Intelligenz spielt eine Schlüsselrolle (TagesAnzeiger, 11.10.26)

- Bei Lindt & Sprüngli sind die Aktionäre unzufrieden – aber die Allmacht von Ernst Tanner können sie nicht brechen (NZZ, 07.10.26)
- Building Bridges, ou la recherche de solutions financières au service du climat (RTS, 06.10.26)
- Face à une économie «arsenalisée», le conseil d'administration doit changer de doctrine (Le Temps, 01.10.26)

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