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Kontakt/Contact
ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics
Düsternbrooker Weg 120
24105 Kiel (Germany)
E-Mail: *rights[at]zbw.eu*
https://www.zbw.eu/econis-archiv/

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Eurosif

EUROPEAN SRI STUDY 2018

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[1] Source IPE "Top 400 asset managers" published in June 2018 and based on AUM as of end December 2017
[2] Amundi figures as of September 30, 2018
[3] Investment hubs: Boston, Dublin, London, Milan, Paris and Tokyo
[4] Based on market capitalization as of September 30, 2018

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Disclaimer

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Foreword by Valdis Dombrovskis,

Vice-President of the European Commission for the Euro and Social Dialogue also in charge of Financial Stability, Financial Services and the Capital Markets Union

Only last month the global community was confronted with several reports underlining the many and grave threats currently facing our climate and our environment.

In particular, the Intergovernmental Panel on Climate Change (IPCC) published a special report on the 1.5 degree scenario, which makes it crystal clear that unless we rapidly increase our transition towards a more sustainable and low-carbon society, we are only a few decades away from catastrophic climate change.

Europe is leading the world when it comes to implementing the Paris agreement commitment to keeping global warming to well below 2 degrees. Already, the EU has achieved a 22% reduction of carbon emissions compared with 1990. And we have a number of policies in place to go much further, including our Emissions Trading Scheme, which puts a yearly cap on greenhouse gas emissions that is lowered every year.

But this on its own is not enough to prevent global climate breakdown. In fact, on its current trajectory, the world is heading towards 3 or even 3.5 degrees warming. This would entail a drastic fall in biodiversity, the disappearance of several UN countries, accelerated migration due to climate-related causes, and the multiplication of natural disasters.

To avoid this catastrophic scenario, what we need is large-scale investment to enact deep emissions reductions across a range of sectors, including energy, land, urban, infrastructure, and industry. And we need the whole world to step up its action. And this is exactly where this report by Eurosif the State of the European Sustainable and Responsible Investment (SRI) Market enters the picture.

According to our estimates, Europe needs at least €180bn in additional annual investment over the next decade to meet our Paris goals. The European Commission has al-

ready proposed that the EU should devote a quarter of its budget to climate-related action as of 2021. But public finance alone will not be enough.

The good news is that investors are ready to play their part. In fact, this Eurosif report highlights the growing interest of investors in directing funding towards sustainable actions. For example, the report shows that impact investment has increased five-fold between 2013 and 2017. And when it comes to SRI, the share of retail investors compared to institutional investors is also growing, from about 3.4% in 2013, to 30.7% in 2017. A nine-fold increase!

This is a big step in the right direction. But as the IPCC special report itself points out, what is needed now is

to scale this up massively. This is why in March of 2018, the European Commission presented its ten-point action plan to enable sustainable growth. And soon after, in May, we put forward three legislative proposals to facilitate and incentivise green and climate-friendly investments:

1] First of all, we have proposed a draft Regulation to agree on EU-wide definitions for what is green and what is not. We call this the green finance taxonomy, and it is a ground-breaking step at the global level. It will provide clarity to those that want to invest in climate-friendly projects, or provide climate-friendly financial products to their customers. In fact, the current European SRI report points out that concerns about greenwashing is the number one deterrent for investors who are interested in pursuing sustainable and responsible investment. With the green finance taxonomy, we will help investors avoid this problem, and thereby lay the basis for sustainable finance to really scale up in Europe.

2] The second proposal is about improving the disclosure of how institutional investors integrate climate change and green aspects in their investment decisions. Studies show that the number of investment managers that take sustainability into account is not rising fast enough. So our proposal will require asset managers and institutional investors to disclose information on how they integrate environmental, social and governance factors into their investment and advisory process. In addition, investment managers whose products are marketed as sustainable will have to disclose how they achieve those objectives.

3] The third proposal is about giving investors reliable tools to measure a financial product's carbon footprint, by defining standards and establishing disclosure requirements for the methodologies of low-carbon benchmarks. In particular, there will be separate standards for 'low-carbon benchmarks', whose underlying assets have a reduced carbon impact, and for 'positive carbon impact benchmarks', whose underlying assets decrease overall emissions in line with the Paris agreement 2 degree target. This will help more money to flow into decarbonising our economy.

In addition, we want to make it simpler to invest in green finance. Because 3 out of 4 investors say sustainable investments have become more important to them in the past five years. And figures are even higher for younger generations. But despite rising demand, there are often no suitable products. So among the next steps is to create an EU label for green financial products, so retail investors can easily tell which investment options are green.

To give a final example, we are also looking at how we can include more climate-related issues in non-financial disclosures. We want to see how we can align EU requirements more closely with the work of the FSB Task Force on Climate-related Financial Disclosures.

To conclude, European and global capital markets are one of the most powerful tools we have in the fight against climate change. But they are also one of the most overlooked. So we need initiatives like the present SRI study to map and measure the growing market for sustainable investment. And we need action from EU co-legislators to reach agreements on the policy proposals we have put forward, still within the current political cycle of the European Parliament.

But most of all, we need investors all over Europe and the world to seize the opportunity to fund the transition to a sustainable and low-carbon economy, before we run out of time. If we can do that, we will not only help to preserve our planet and our way of life, but we will create millions of jobs in the process, and position Europe as a technological leader in the transition to a low-carbon economy.

Foreword from Eurosif President and Executive Director

The 8th edition of the Eurosif SRI Study presents our readers with a renewed picture of the dynamics in the SRI world. In fact, the past two years have been shaped by much activity on the policy side at European level, to reposition and boost SRI as part of sustainable finance. The endeavors of European policy makers have caused a tremendous stir in our industry and contributed to lifting a veil on some of the most pressing and problematic issues which have prevented the SRI industry from achieving its full potential.

Eurosif has been the first European organization focused on the promotion of sustainable and responsible investment which understood the great importance of policy making as a necessary enabler to the growth of the industry. Together with its members at national level, Eurosif has invested in advocacy and worked alongside key stakeholders and influencers, since its inception. Today, we are proud to enjoy the fruit of our labour as policy makers take the lead in making sustainable finance a pillar of the financial system as part of the Capital Markets Union. The work of the High-Level Expert Group on Sustainable Finance (HLEG) as conjured up by the Directorate General for Financial Stability, Financial Services and Capital Markets Union (FISMA) has set the basis for a new chapter in finance; one which forever engrains sustainability into the financial system. The HLEG's recommendations define the pillars of a sustainable framework. Defining a **common language** which defines the remits of sustainable investments, the renewed focus on **fiduciary duty** and the right to seek informed consent including sustainability preferences as part of the relation between investors and beneficiaries. The renewed work on **disclosure rules** with heightened emphasis on climate and the importance to protect, inform and engage the **retail client** by providing the right tools for investing sustainably. These are some of the key recommendations that were made by the HLEG and which capture the main themes for building a sustainable financial framework. Eurosif has been deeply engaged in elaborating all these priorities since many years. The work carried out to set out definitions around sustainable and responsible investments, when none were available, and define different strategies of investments was an exercise carried out by Eurosif to ensure a common terminology that investors could refer to. The need to clarify the ambiguity around the notion of fiduciary duty, too often understood as "maximizing (short-term) financial return", by emphasizing that ESG concerns are compatible, as they may impact long-term profitability, was part of the CMU manifesto Eurosif put forward in 2015. In the same document we emphasized the need to continue the work around disclosure and transparency to incorporating a strong and comprehensive corporate disclosure policy package. This was in recognition of how corporate information disclosure around ESG factors can help investors to more accurately price companies, and support those companies investing in long-term sustainability oriented projects. Finally, the work in favour of the retail investors defines one of the key tools put forward by Eurosif: this being the **Transparency Code**. Crated to bring some clarity in the world of retail funds, the Code abides to a clear process that fund managers have to follow in order to ensure that their funds truly deserve the SRI denomination. Launched in 2008, the Code has become the basis for most European SRI funds labels and is the reference in the industry. Having tracked the growth of retail investors since the beginning of our SRI review, we have witnessed an incredible growth in the last four years. At the end of 2017 we had 31% of retail investors in the SRI industry, compared to a meagre 3.4% back in 2013. Things are changing and they are changing rapidly.

Policy goals are deeply intertwined with investors' goals and the developments around the Sustainable Development Goals are just an example of how appealing the category of impact investing has become. Grown by 440% in the past five years, this investment strategy has shown to deliver beyond initial expectations and in view of its

ability to deliver on financial and sustainability impacts. It seems fair to conclude that we have not yet seen its full potential yet. Going forward, we expect to see more clarity on definitions and metrics regarding sustainable investing, to give more guidance to investors and reduce the risk of greenwashing in our industry. There seems to be needed more work regarding what constitutes an SRI investment and clear criteria that define the investment process. This needs to be coupled with increased transparency and defined standards. Investors need to be protected and appropriately informed. Our industry has clearly grown out of a niche now and it needs to continue evolving towards mainstream.

Eurosif Executive Director,
Flavia Micilotta

Eurosif President,
Will Oulton

Executive Summary

This 2018 SRI Study gives a fair representation of the European SRI industry for the past two years, across a range of investment approaches as defined by Eurosif. The data collected for this Study, at the end of 2017, allowed us to cover institutional and retail assets from 12 different European markets. The methodology substantially remained the same, except for some changes in the survey questions which have allowed us to gain further insight on the various considerations of impact investing, particularly in line with Sustainable Development Goals (SDGs) and social finance. The taxonomy for this edition remains the same and this is a conscious choice in view of the many changes occurring at policy level in Europe, particularly on a sustainability taxonomy at the time this report is being written. We foresee these changes to have important implication for the financial industry at large and inevitably for our industry. For this reason we deem this report to be a 'transition' one in view of changes in-the-making within the European financial industry.

The most remarkable indicators for this review are very much in line with the positive expectations that policy-makers and industry players have been fuelling since our last review. Institutional investors are fundamentally the basis on which regulators are hoping to build in order to fill the investment gap, estimated at €180 billion of additional investments, every year until 2030 to achieve the European Commission's climate targets. Nevertheless, we have witnessed a positive uptake of the retail market in favour of Sustainable and Responsible Investing. In the last four years. In fact, we have seen an incremental increase in demand in the retail sector, a great indicator of a pool of potential that needs to be capitalised on.

As we note in other sections of the Study, this increase in demand is today not matched by adequate product offer. In fact, still too few retail clients currently have the opportunity to invest according to sustainability preferences. Legislation has not helped improve things, as specific legislation mostly shaped by MiFID I and II, still contains no specific requirements to embed sustainability as part of the investment preferences discussed with the client. Added to that, many financial advisers still today perceive sustainability-oriented products as presenting a negative trade-off with returns — despite multiple studies pointing to the opposite. It is fair to say that the typical information asymmetry which fundamentally dominates the relation between client and their advisors, is greatly heightened when it comes to responsible investment products. More clarity would clearly profit all the industry, and Eurosif has been a big advocate of that since its inception with the Transparency Code which since 2008 represents the reference framework for SRI investment products for retail clients. We hope that the work of the European Commission to continue defining and reshaping investment criteria and sustainability standards will bring further clarity in terms of minimum standards for responsible investing that can be clearly recognised by investors.

The lack of definitions and clear metrics still hampers our industry. In fact, in this review we clearly notice how the general discussions around definitions are leading to a more general concern for greenwashing, gaining ground as part of the barriers to SRI in general. This concern is the central focus of the work of the European Commission as part of its Action Plan on Sustainable Finance. In fact, the majority of the recommendations set out by the European Commission are in line with adding a much-needed layer of transparency on what sustainable finance is and guide investors in the right direction. This factor has strong ties with the concerns around greenwashing which hamper the offer of SRI products, and which in our research, go up exponentially. The concerns regarding the lack of expertise or right product offering, remain top issues again this year and they are also topics that very much fuel the debate around transparency and comparability of indicators.

The main factors motivating investors to choose for SRI are linked to the desire to address climate change and other environmental issues, featuring as key principles

behind their choice. Investors still find important to capitalise on the financial opportunity represented by sustainable investing, which, together with the generational transfer of wealth are the two main factors that were highlighted by our respondents.

In terms of asset allocation, at a European level, equities and bonds are sharing the market almost equally (bonds are at 40% and equity at 47%). The trend across Europe has fundamentally remained unchanged. Sovereign bonds continue to feature predominantly among issuers, surfing of the green bond wave.

Increasing amounts of investments contribute to corroborate the positive trend across investment industry. Growth remains consistent across all strategies at the European level except for Norms-Based Screening and Exclusions. The biggest growth for ESG integration with an CAGR of 27% sustains the view that integrating sustainability criteria within investments is increasingly the norm. Best-in-Class together with Engagement & Voting also show positive growth as they gain ground with investors.

The most positive sign across the strategies' growth this year is the one registered for Engagement and Voting which gives clear indication of the investors'willingness to engage with the companies they invest in and positively contribute to the sustainability of their business model. The strategy has convinced most investors in Europe, as we register substantial growth across most countries. This positive evolution is in line with the developments around the clarification of investors' duties that have been the main focus of the European Commission as a follow-up of the recommendations of the HLEG.

Sustainability Themed investments mainly focus on water management, renewable energy and climate change, but remain stable. After the strategy's exponential growth registered in 2016, it stabilizes in 2017, confirming the excitement of investors towards their choice for a particular sustainable theme.

Exclusions still features as the most prominent strategy in terms of assets, though it registered a small decrease since last review. Tobacco features as the most popular exclusion criteria, reflecting a wave of divestment which in the past two years has involved large asset owners from Europe and beyond.

Best-in-Class has registered a healthy growth in the past year with a positive CAGR of 20% in the past eight years, reaching almost €600 billion, in this way being confirmed as one of the main choices for investors.

Impact Investing has confirmed its positive uptake this year, though keeping its growth more modest than in our last review. The strategy has grown exponentially in the past year registering a 6-year CAGR of 52%, and embodies several commitments and promises linked to sustainable development. Much of the work around Sustainable Development Goals (SDGs) continues to feature predominantly within the deployment of this strategy, promising to spur further growth in the years to come.

Norms-based screening loses traction as investors seem to be looking elsewhere for exclusion-related strategies. While it is too early to determine a substantial change in investors'appetite, we note that investors still find it a valid strategy for their portfolios, while they are less likely to be using it as a standalone strategy.

Survey definitions and methodology

Sustainable and Responsible Investment

Over the past two years, the issue of definitions has become an ominous one. The difficulty to reach an agreement as to what is 'sustainability' or even 'sustainability related', has become fundamentally engrained with the main characteristics of sustainable finance. Following the recommendations of the High-Level Group of Expert on Sustainable Finance (HLEG)[1], the European Commission has decided to dedicate a complete chapter of European sustainable finance to the development of its taxonomy. Bringing clarity to a common understanding or principles represents the fundamental guidance investors need in order to choose sustainability as their imperative and give clearer goals to their investments. Eurosif understands the need for clear guidance and powerful definitions and consistently worked to provide that guidance to investors to ensure the proper development of the SRI industry. In 2016 Eurosif's Board reached a consensus on a definition of SRI, which represents our common view at European level.

"Sustainable and responsible investment ("SRI") is a long-term oriented investment approach which integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio. It combines fundamental analysis and engagement with an evaluation of ESG factors in order to better capture long term returns for investors, and to benefit society by influencing the behaviour of companies."

This definition was coined in the first half of 2016 to reflect the change in governance and renewed mission and purpose of Eurosif. Over the years, the lack of definition has not hampered growth, on the contrary. And yet, thanks to the policy developments in single member states and at European level, we feel that going forward, and for SRI to become mainstream as the pillar of sustainable finance, more efforts need to be put in place to provide the clarity needed to unlock its true potential.

As in the past reviews, the Study tracks the metrics relating to the applications of the different SRI strategies as classified by Eurosif.

Eurosif	GSIA-equivalent	PRI-equivalent	EFAMA-equivalent
Exclusion of holdings from investment universe	Negative/ exclusionary screening	Negative/ exclusionary screening	Negative screening or Exclusion
Norms-based screening	Norms-based screening	Norms-based screening	Norms based approach (type of screening)
Best-in-Class investment selection	Positive/ best-in-class screening	Positive/ best-in-class screening	Best-in-Class policy (type of screening)
Sustainability themed investment	Sustainability-themed investing	Sustainability themed investing	Thematic investment (type of screening)
ESG integration	ESG integration	Integration of ESG issues	-
Engagement and voting on sustainability matters	Corporate engagement and shareholder action	Active ownership and engagement (three types): Active ownership Engagement (Proxy) voting and shareholder resolutions	Engagement (voting)
Impact investing	Impact/community investing	-	-

1 As announced in its communication on Capital Markets Union – Accelerating reform, the European Commission established a High-Level Expert Group on Sustainable Finance (HLEG) in December 2016.

Categorisation of strategies

This review follows the classification of SRI approaches introduced in 2012. The seven categories of strategies identified in this Study are:

1. Sustainability themed investment;
2. Best-in-Class investment selection;
3. Exclusion of holdings from investment universe;
4. Norms-based screening;
5. ESG Integration factors in financial analysis;
6. Engagement and voting on sustainability matters;
7. Impact investing.

Eurosif's classification closely aligns with other frameworks available to the industry. Nevertheless, underlying details of each definition may reveal some variation[2].

Aggregating SRI strategies

We continue to see a strong aggregation of strategies by investors which makes it increasingly difficult to be able to determine individual strategies. With the Eurosif Study, we strive to record and account for data which allow for a clear determination of investment approaches and avoiding double counting as much as possible. Nevertheless, one should be cautious about adding up the SRI strategies presented, as this would yield an amount larger than the actual size of the European SRI market due to multiple counting. Following Eurosif's methodology, we asked survey participants directly for sums of SRI strategies without counting overlaps. This approach ensures that, if a fund combines two or more SRI strategies (for instance, best-in-class, exclusions and engagement and voting), they will be accounted for in each strategy, but only once in the final sums, to avoid multiple counting.

As in previous years, the Study covers professionally managed SRI assets which are subject to one or more of the SRI strategies included in our classification. It attempts to capture both retail and institutional SRI assets:

- Managed by asset managers via pooled products, both institutional or retail;
- Managed by asset managers via separate accounts on behalf of their institutional clients;
- Managed internally by asset owners (self-managed assets).

The European fund management and the financial sector in general, is a highly internationalised industry. SRI funds can be domiciled in one country, managed in a second and sold in a third, either within Europe or further afield. As a result, defining national SRI markets is a complex and challenging exercise. While fund managers are rather easy to locate,[3] the final investors are not. For this reason, and to remain consistent with the methodology of our previous SRI studies, we define a national market by the country where the SRI assets are being managed, i.e. where the SRI asset management team is located.[4] This means that, as in previous Eurosif SRI Studies, the SRI assets are allocated to a country based on the set up and location of the SRI management team, rather than according to the location of the client. Therefore, it is important to note that this Study attempts to measure the size of the SRI asset management markets, rather than the investment markets themselves.

The Study covers 13 distinct markets: Austria, Belgium, Denmark, France, Germany, Italy, Netherlands, Norway, Poland, Spain, Sweden, Switzerland, and the United Kingdom.

Data collection and analysis

Data collection for this Study was conducted using, for the most part, an Excel-based questionnaire including quantitative and qualitative questions, sent to key SRI market participants including asset managers, banks and asset owners (pension funds, universities, foundations, state-owned players/national funds and insurance companies). Data was collected from March to July 2018

2 These comparisons are based on Eurosif's analysis, and not verified by the PRI or EFAMA. Interested readers should consult the original sources. Note that Eurosif is a member of GSIA (www.gsi-alliance.org).

3 Although this could become more complicated as SRI asset management teams split across several locations.

4 For example, if a Danish asset manager with an SRI team based in Denmark is managing assets for a Finnish asset owner, this is counted in the Danish market. If the SRI team is located in Berlin, it is counted in the German market.

from asset managers and asset owners regarding their self-managed and indirectly managed assets. The questionnaire was sent to market participants by the national SIFs[5], where relevant, by a partner at the national level[6] and in one instance, by Eurosif directly[7]. For Austria, Germany and Switzerland, data was sourced from the Marktbericht Nachhaltige Geldanlagen 2018 prepared by the Forum Nachhaltige Geldanlage (FNG).

The major innovation in the methodological approach of this 8th edition, is the collaboration with an academic partner, the **University of Antwerp**, which ensured support in the analysis and elaboration of the data. The researchers were engaged from April to September and they worked in collaboration with Eurosif directly and the individual SIFs where needed. Our research partners also gave great insight in the analysis of the questionnaires which was amended in order to capture new elements relevant to the industry.

Academic Partners

The Team of our academic partner at the University of Antwerp (Belgium) consisted of prof. dr. Luc Van Liedekerke (team leader), a Professor of Business Ethics, prof. dr. Peter-Jan Engelen, a Professor of Finance, and Senior Researcher Mrs. Karina Megaeva. The Team received the raw survey responses from Eurosif and was responsible for data processing and data aggregation across the full sample and across country-level samples.

In total, 263 asset managers and asset owners with combined assets under management (AuM) of EUR 20 trillion participated in our survey, representing market coverage of 79%.[8] In a limited number of cases where survey responses from key industry players were not received, Eurosif and the national SIFs were able to enhance the data sample using publicly available information. Overall, we are rather confident that our data sample represents the vast majority of SRI in Europe.

In line with the developments the industry has witnessed in the course of the past two years, we stressed in this years' questionnaire, the use of impact investing, trying to add granularity to the questions and gain further understanding of how investors use this strategy today. A specific exploration on Sustainable Development Goals (SDGs) and how they are delivering their promise for SRI investors, was included as well.

The questionnaire included a balanced number of both quantitative and qualitative questions. Qualitative questions dealt mostly with practices, themes, influencing factors and trends for SRI strategies, while quantitative questions referred to SRI assets under management according to different SRI strategies used, asset allocation and customer segmentation (institutional, retail).

Limitations of the Study

As data collection is primarily based on our SRI market participant survey, one important limitation of the Study remains the fact that the figures are largely self-reported and Eurosif does not have the capacity to verify all of these figures. As in the previous editions, we feel the need to highlight the importance to gain an agreed and recognised EU SRI framework, where market players from different countries can recognise themselves, even though they all share different understandings of SRI. We take again this opportunity to call on European regulators for continuing their work in this respect and ensuring that investors can continue to choose sustainability as an investment strategy and play their role in supporting the fight against climate change and short-termism.

To accommodate any potential inaccuracies in the answers of survey respondents, Eurosif, in collaboration with its research partners, worked diligently and on a best-effort basis to ensure consistency within survey responses and across countries. For instance, Eurosif noticed that questions were misinterpreted or that responses within the same questionnaire were not consistent (e.g. figures were reported in million euros in one question, while in thousand euros in another question). In these cases, direct follow-ups with respondents were

5 For Austria, Denmark, Germany, Italy, Spain, Sweden, Switzerand, the Netherlands and UK
6 For France and Poland
7 For Belgium
8 This estimation is based on EFAMA's Asset Management report 2018, which reports that the total Assets managed in Europe reached a record high of EUR 25.2 trillion. Report available at: https://www.efama.org/Publications/Statistics/Asset%20Management%20Report/EFAMA_Asset%20Management%20Report%202018%20voor%20web.pdf

conducted and data was clarified. For eight data points, data reported by the respondents for the 2016 edition of the Study was used to fill a specific data gap when no other valid source of information was available.

Another limitation is that the response rate may have varied in different countries and that it may have varied from one year to another within each country. This limitation guided us to make some clear choices in the data analysis. Where the response rate was too low to guarantee sufficient market coverage to provide a realistic picture of a given market, the market was left out of the survey results.[9] The reader should be careful in drawing too sweeping conclusion across time as the number of respondents can slightly vary from year to year in a given market[10].

Given these limitations, the SRI figures presented in this study cannot be seen as the exact reflection of any given national SRI market. However, Eurosif is confident that the report provides a realistic picture of the SRI market in Europe and its 2015-2017 developments.

Structure of the Report

The Eurosif 2018 SRI Study is organised geographically, starting with Europe as a whole and then by alphabetical order for the covered markets. This is the eighth Eurosif SRI Market Study and we invite readers to refer to our earlier studies (2010, 2012, 2014, 2016) for further information on local SRI backgrounds, drivers and methodologies employed.

Country profiles focus on key features of SRI in the given country, market evolution since the end of 2015 and market predictions. As much as possible, data is presented through consistent charts to facilitate comparison. In the European section, Eurosif presents a view across countries and highlights key 2015-2017 trends.

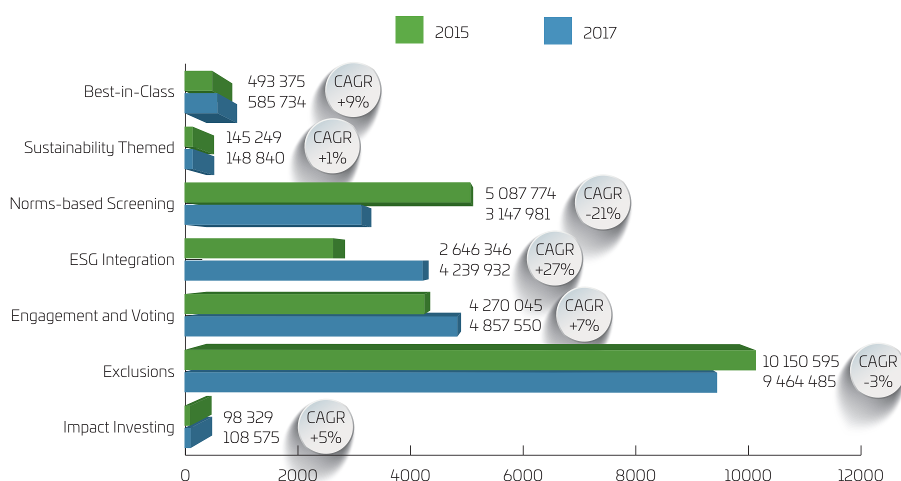
9 Due to limited respondents, the 8th edition of the SRI Study does not feature Norvegian data.
10 For this review, the data for France, only presents the Asset Management side

The Status of SRI in Europe

In the last review, we stressed how the wealth of investment approaches coupled with the lack of specific definitions in terms of requirements has contributed to much innovation and growth of SRI products on a European scale. The moves toward regulation we are now witnessing in some member states are coming at a time when the industry, increasingly mature, is ready to examine and test itself.

The willingness to develop further reporting standards able to confirm accountability and transparency, is a call for defining some benchmarks of good practice. The work of the European Commission in the course of the past two years has left an indelible mark on the SRI industry. The call for action, streamlining, transparency and accountability advocated by the European Commission echoes views previously expressed by industry stakeholders, but it has crystallised consideration of actions in a way not seen before. As this report is being written, the European Commission is considering action points which will finalise its sustainable finance policy. The work around the definition of a taxonomy for sustainable investing, the definition of a green bond standard and an eco-label, are examples of the main elements that will influence and guide investors. Increased awareness and coherence will surely help in fostering further growth and ensure that SRI is not only no longer a niche, but rather, an increasingly essential investing practice. which is accessible to all. Much change has happened in the last two years, a change which will continue to have its repercussions over the next years, but for the time being, this edition's results show clear signs of consolidation in the industry. Responsible investors have their preferences and in spite of the general lack of agreed standards, they express their views more concisely in their investment choices than ever before. While positive Compound Annual Growth Rates (CAGR) have been seen across almost all strategies, there are some clear leaders. Overall growth is more modest than in the previous review, but it comes from a higher base-assets can't adopt SRI for the first time twice. The data suggests there are two de facto "essentials" for SRI investors: investors cannot do without at least some form of **ESG integration** which grows with a CAGR of 27% and is the fastest growing strategy this year; and there is a trend to more active management underlined by strong **Engagement and Voting** results, with a positive 7% CAGR from an already high base. Owners and producers increasingly feel they need to be more vocal and show their engagement through their ownership rights.

Figure 1: Overview of SRI strategies in Europe



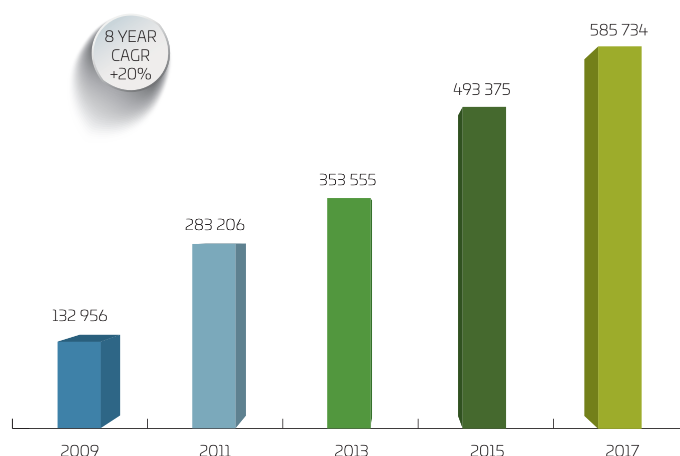
The strategy attains an almost record figure close to €5 trillion, getting increasingly closer to **Exclusions** (a strategy with inevitable links to Engagement and Voting), which in this review slightly recedes with a negative CAGR of 3%. The major decrease we register in this Study is in **Norms-Based Screening** which loses traction with a negative CAGR of 21%. **Best-in-Class** continues to show growth more or less in line with the previous years and a CAGR of 9%. **Sustainability themed investments** remain stable, while a more moderate growth than expected in **Impact investing** which is now at €108 billion and a positive CAGR at 5%. In spite of a modest growth, the positive trend clearly demonstrates that investors are becoming more cognisant of their potential and want to make a difference by choosing specific categories of investments. More and more investors are turning to this strategy which is associated by most with the ideal SRI strategy and which promises a match between expectations and returns.

Best-in-class

This strategy allows investors to pick those companies that have the best ESG[11] score in a particular industrial sector. Investors can choose the criteria, and the final score attained will be linked to the weighting of the criteria which may depend on the sector. A Best-in-Class (BIC) portfolio typically includes companies that meet both an ESG and a financial evaluation. Other approaches that fall under a similar classification are Best-in-universe[12] (BiU) and Best-effort[13]. One of the main shortcomings of BiU is that in this category we cannot compare all sectors and asset classes as we can with BiC. Furthermore, given that some BiC portfolios may not differ significantly from non-SRI portfolios some investors are increasingly looking at benchmarks and indexes which can be applied to implement a BiC approach.

In the last eight years, Best-in-Class has grown with a Compound Annual Growth Rate (CAGR) of 20%, reaching over €585 billion, and showing in this way that this strategy is one which investors clearly feel at ease.

Figure 2: Best-in-Class evolution in Europe

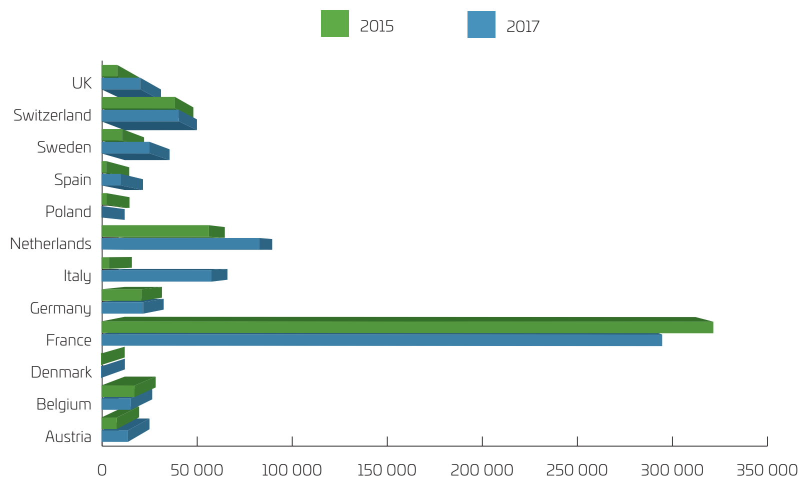


In the last review we witnessed a generally positive trend across Europe in favour of this strategy. Every country showed growth, except for Sweden, while Belgium's figures were stable. At the end of 2017 we observe a different situation, with contraction in three countries: Belgium, Poland (where the strategy does not seem to find its place), and France. But the 8% decrease in France still leaves the strategy as the most practised there, confirming the preference for investors in the French market. Of note is the position in Italy, where BiC has grown from €4 billion to €58 billion over the past two years. This is a clear sign that inves-

11 Or they can choose amongst just one of the criteria
12 AMF report on socially responsible investment in collective investment schemes, November 2015 page 13
13 AMF report on socially responsible investment in collective investment schemes, November 2015 page 13

tors in Italy are becoming more mature in the evaluation of ESG parameters and are not content with, for example, simple exclusions. Continued growth is also observed in the Netherlands, where with a positive growth of 47% the strategy now registers a total AuM of €83 billion.

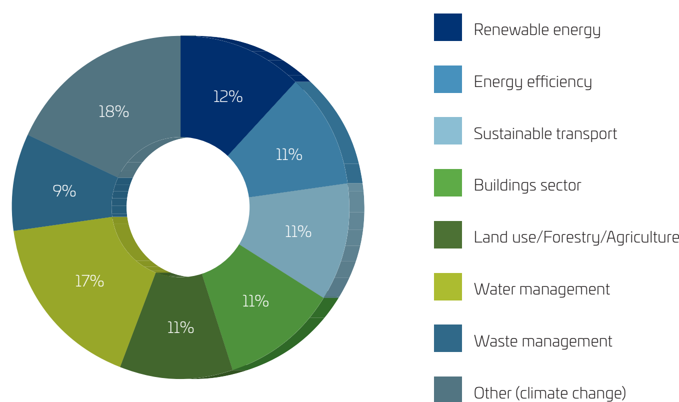
Figure 3: Best-in-Class investments by country



Sustainability Themed

This strategy translates into the selection of assets that are specifically related to sustainability in single- or multi-themed funds. Observing the dynamics in themes, allows us to measure the investors' appetite for a particular area of sustainability. In past reviews no group of themes predominated but over the past two years investors have shifted their focus primarily in favour of climate change and water-themed funds.

Figure 4: Sustainability Themed Investments



The CAGR over the past eight years is at 25%, and we think this strategy has profited from the prominence of climate change and sustainability topics in discussions at international policy level. Furthermore, there are clear signs that investors understand increasingly that water is one of the main ways in which we will experience the worst of climate change. We are already seeing floods and heat-waves which are concrete signs of a changing climate, but water scarcity is already a threat impacting the lives of some 1.2 billion people who live in water scarce areas, while the

number of those lacking access to basic sanitation is close to double[14]. Although the Paris agreement did not set out directly to address these problems, the links with climate change are inescapable and adapting our water and sanitation to climate change is thus critical. Investors can therefore focus on adapted infrastructure which to prevent floods and provide for water treatment. Investments towards wetlands restoration or riverbanks reforestation can equally support supply and quality of water against flooding. Even supranationals are focusing their efforts to water. The European Investment Bank (EIB), for instance, has identified integrated water resource management and adaptation to climate change as key objectives for future lending operations and it is the largest source of loan finance to the global water sector to date.

Although we observe such a positive CAGR in the last eight years, performance across Europe is rather uneven. The biggest growth observed in France in 2015 is now halved at €20 billion and similarly the Netherlands witnesses a drop by 81% with total AuM at €7 billion. The biggest growth shows up in Belgium, Spain and Italy where the strategy is now at €53 billion.

Figure 5: Growth of Sustainability Themed Investments in Europe

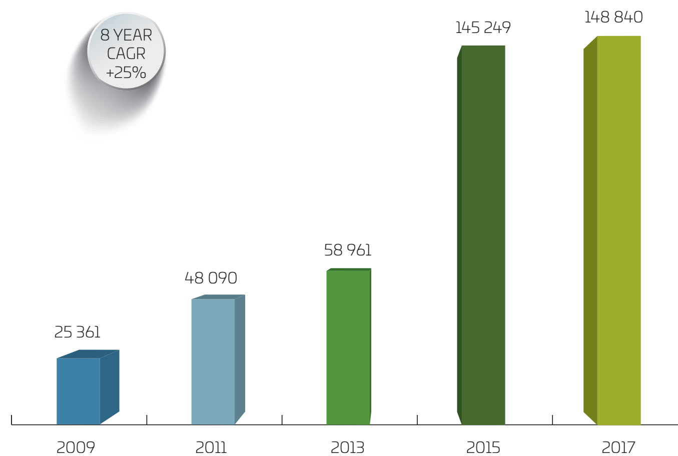
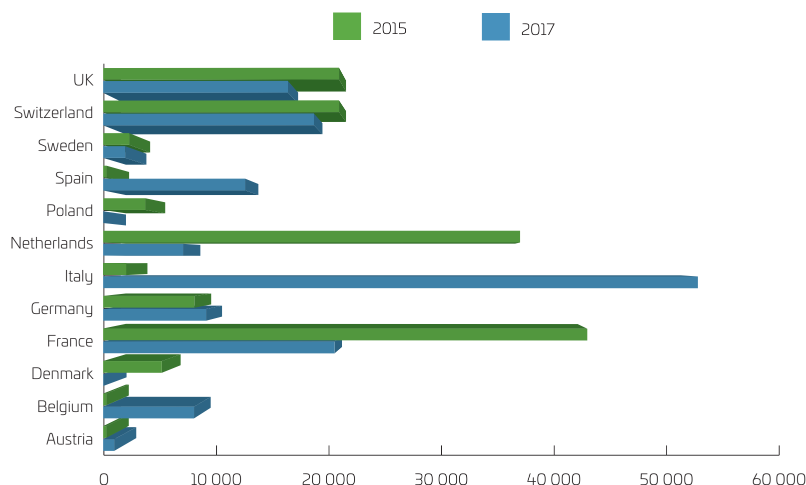


Figure 6: Growth of Sustainability Themed Investments by Country

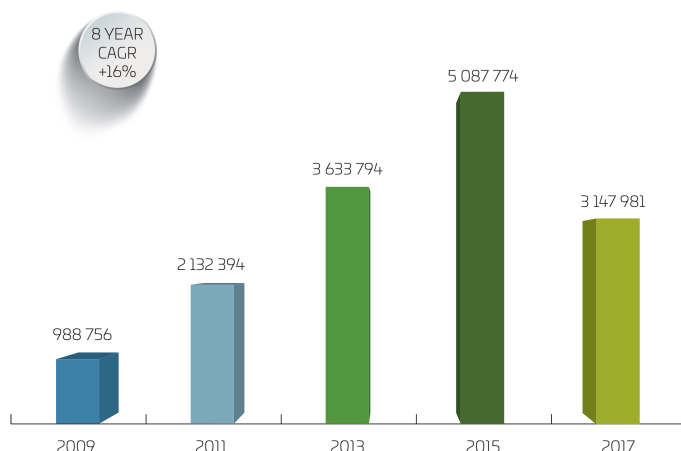


14 http://www.un.org/esa/population/publications/WUP2005/2005WUP_FS1.pdf

Norms-Based Screening

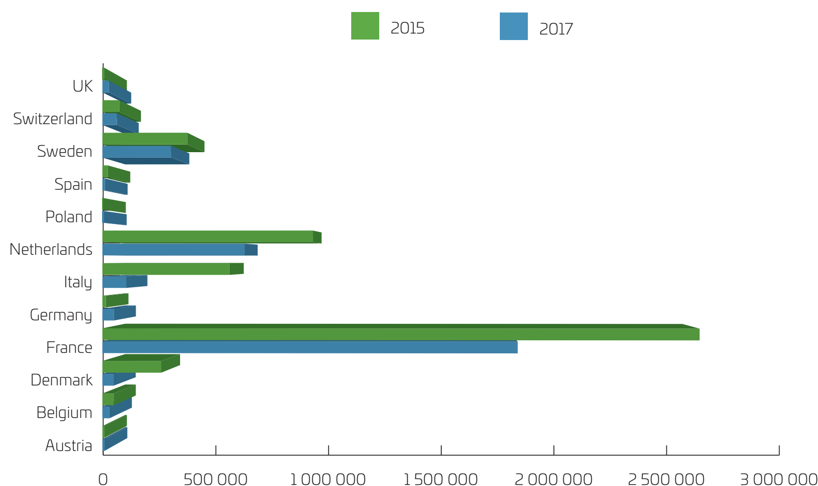
Norms-Based Screening (NBS) allows investors to select the companies in their portfolios in line with their level of compliance with *international standards and norms*". The Norms referred to focus on areas such as environmental protection, human rights, labour standards and anti-corruption principles, and are set out in international initiatives and guidelines such as the OECD Guidelines for Multinational Enterprises, the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, the UN Global Compact and, most recently, the Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework'. In our 2016 review, we highlighted that this strategy can be used as standalone or in combination with other strategies, typically engagement and/or exclusion. The decrease registered in Exclusions this year has had clear repercussions also on Norms-Based Screening which in the last two years dropped by 38%.

Figure 7: Growth of Norms-Based Screening in Europe



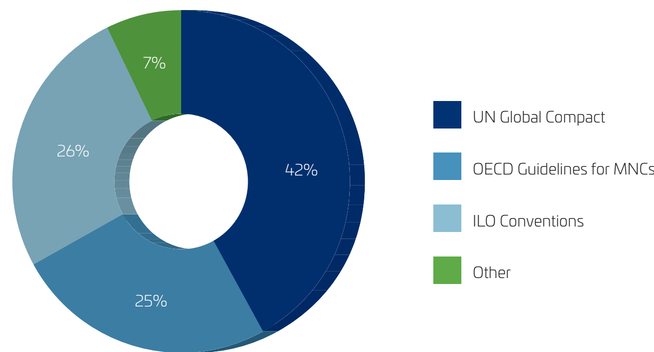
NBS has in fact registered systematic growth year on year and has a positive CAGR of 16% over the past 8 years. In view of the fact that SRI investors are becoming increasingly sophisticated and demanding, NBS seems to have lost traction in countries that in the past registered steady growth like France, the Netherlands and Italy. On the other hand, growth is registered in the UK, where in the previous review we had noticed a sharp drop.

Figure 8: Growth of Norms-based Screening by Country



The most common Norms-based screen remains the UN Global Compact, while ILO Conventions is at ex-aequo with the OECD Guidelines. A 7% of respondents have indicted preference for various other guidelines[15].

Figure 9: Application of Norms as part of Norms-Based Screening

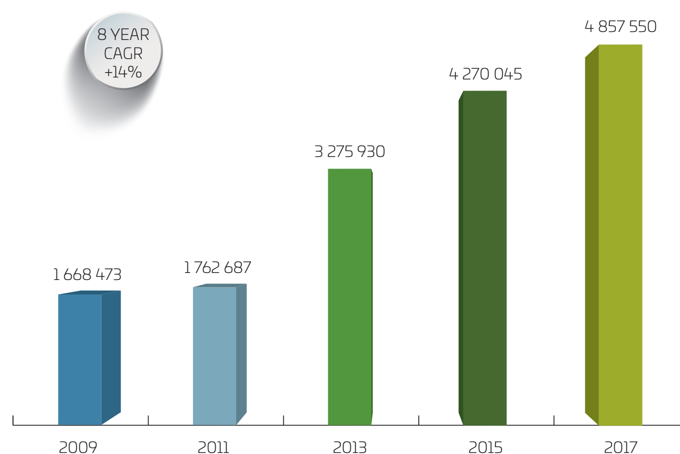


Engagement and voting

Engagement and voting (EV) is still the second most popular strategy after exclusions, and in 2017 we register a positive growth in CAGR in the last eight years of 14%. This strategy registers a total AuM of €4.8 trillion at the end of 2017, which gives a positive indication as to the understanding and interest in active management by investors. In the last review we highlighted the important link of this strategy with fiduciary duty, as it revolves around the relation between stewards of assets – shareholders – and their accountability towards beneficiaries. The work done by the HLEG to recognise the value of sustainability and embed it into the financial system, focused particularly on the need to clarify investor duties, and what it means to act in the 'best interest of the beneficiary'. This is clearly aligned with EV. Following a 2016 consultation on long-term and sustainable investments, the HLEG recognised the essential characteristic of investors duties to the investment process and recommended to codify it across EU financial services directives, ensuring that sustainability issues are equally factored in as strategic elements of long-term investing.

On a national level, the UK is once again the biggest play-

Figure 10: Growth of Engagement & Voting in Europe

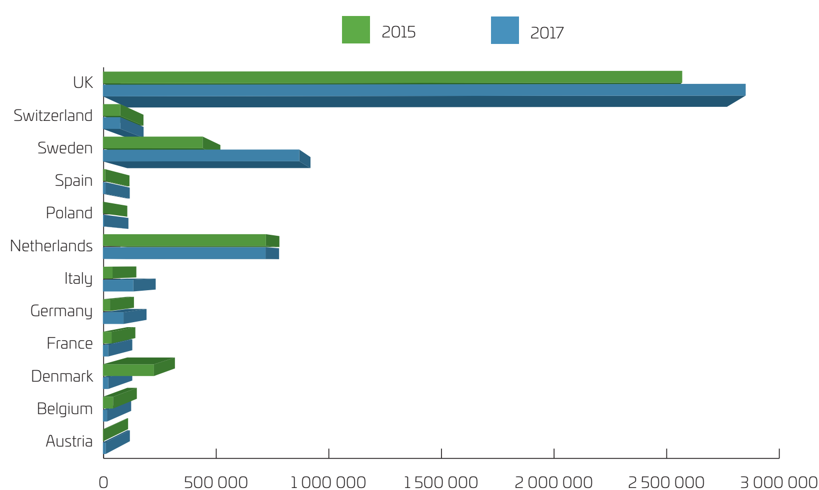


15 Other guidelines include: the UN Guiding Principles on Business and Human Rights, the Universal Declaration of Human Rights, the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, the Kyoto Protocol, the Oslo Convention on Cluster Munitions, the Ottawa Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction; the Rio Conventions on Biodiversity, Climate Change and Desertification; CITES (the Convention on International Trade in Endangered Species of Wild Fauna and Flora); World Bank Development Indicator; the UN Convention on the Law of the Sea (UNCLOS)

er in the market with a total of €2.8 trillion and a growth of 11%. Except for Belgium, Denmark and France where the strategy registers a loss, or in the Netherlands where it remains stable at a strong €724 billion, other countries in Europe demonstrate a strong vote of confidence in favour of this strategy, which is fundamental for a sustainable investment strategy. In fact, when at the heart of active management, engagement and voting does not just allow investors to choose the preferred stocks in a portfolio, but it requires investors to constantly monitor the companies it invests in and take an active stake in monitoring their management. Investors become guides for corporations allowing to build a positive relation that should lead to better company management, and more sustainable business models.

Sweden follows the UK with €874 billion and a growth of 97%. Italy also shows a very interesting growth rate at 213%.

Figure 11: Growth of Engagement and Voting by Country



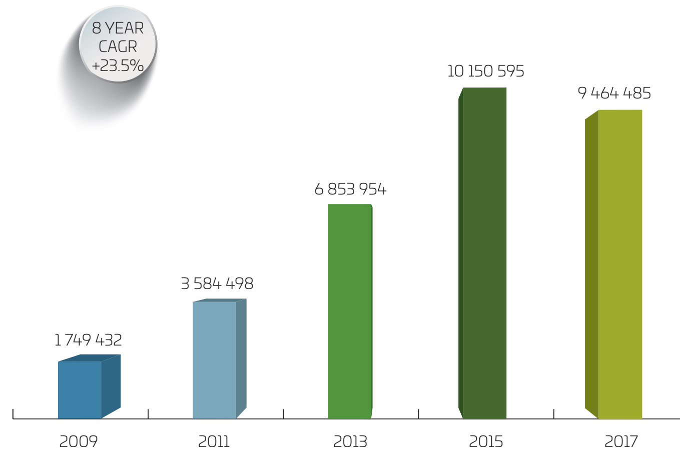
Exclusions

This is the oldest SRI strategy, inasmuch as it was used at the beginning of the 18th century already, when religious groups, from Quakers to Methodists, started by aligning their investment choices with their moral codes. At the time, industries where human health was at risk, (industrial processes involving tanning, chemical production, etc.) were the focus, while later the 'exclusion trend' started to include the avoidance of "sin stocks", such as companies involved in the production or sale of weapons, alcohol, tobacco and pornography.

This approach systematically excludes companies, sectors, or countries from the permissible investment universe if involved in certain activities based on specific criteria. Common criteria include weapons, pornography, tobacco and animal testing. Exclusions can be applied at individual fund or mandate level, but increasingly also at asset manager or asset owner level, across the entire product range of assets. For some, this extremely popular strategy, when practiced alone, does not constitute real SRI. Such people argue that for everyone who divests from an industry, there will be another investor willing to buy such that the investee company suffers no impact.. In a nutshell, we believe that for an exclusion strategy to be meaningful, it needs to be applied together with some attempt at engagement and voting. This may require investors to hold token amounts of "excluded" stocks to be able to exercise the rights that come with ownership and which are lacking if no shares are held. In this way, active investors can truly demonstrate their willingness to have a positive impact and contribute to more and better sustainability of their portfolio. Even though exclusions still remains the biggest strategy in terms of AuM with a

positive CAGR of 23.5% in the last eight years, it witnesses a slight drop in this study. This may indicate that investors are starting to slowly lose interest, but that does not match feedback from market participants. We think it may instead reflect the increasing sophistication of SRI approaches, but this requires further thought.

Figure 12: Growth of Exclusions in Europe



At European level, we have the most significant growth in Italy and Poland with 154% and 159% growth in the past two years respectively, with Italy reaching almost €1.5 trillion of AuM. Austria and Spain also witness significant growth, while an important drop in Denmark by 31% and in the Netherlands by 35% really contribute to the overall decrease at European level. Part of the decrease in Switzerland and the Netherlands, is directly connected to the respondent rate to this year's review. Nevertheless, on a more structural level, investors have embedded certain exclusion in their approach to the extent that it has become fully integrated in their investment approach and difficult to discern as an individual strategy.

Figure 13: Growth of Exclusions by Country

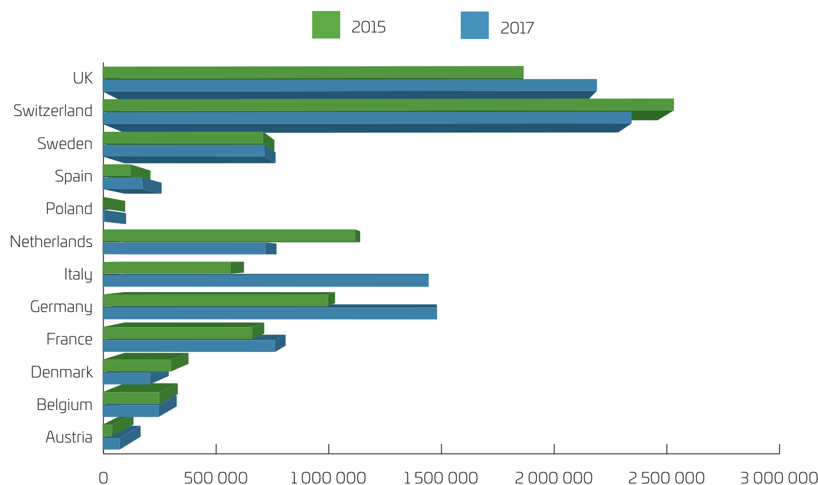
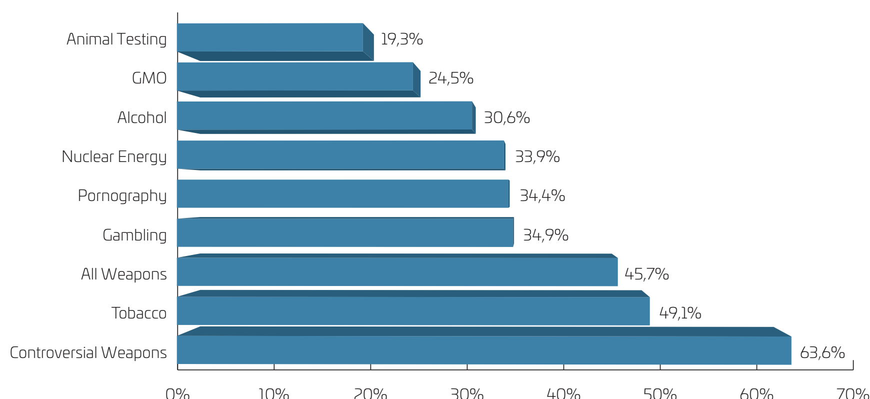
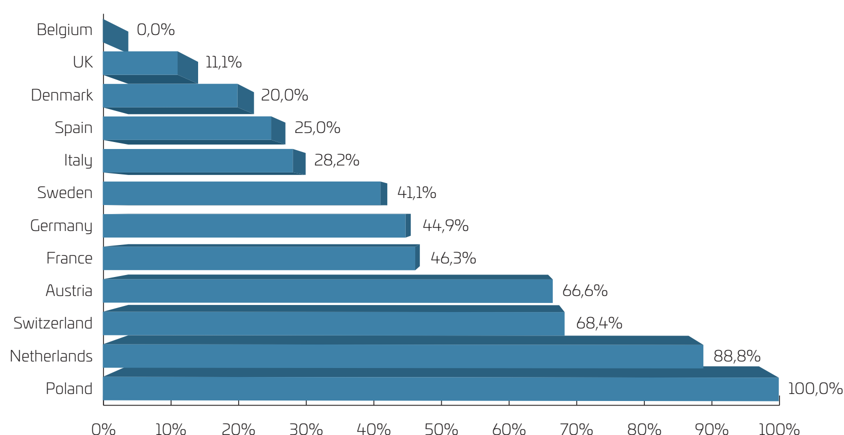


Figure 14: Top Exclusions Criteria



At European level, there seems to be a good level of unanimity on the exclusion of tobacco from portfolios. This means that there is consistency between the realisation that tobacco has strong health and social repercussions to our society and economy and that companies in this sector do not represent a sustainable investment option in view of the stringent legal and marketing costs they have to bear.

Figure 15: Tobacco Exclusions by Country



Divestment

As divestment continues to thrive, we stop to ponder if this strategy, truly helps investors in their fight against the challenges posed by climate change. As climate change campaigners continue their fight, investors interested in tackling the financial dimensions of climate change, are also increasingly considering divestment as a solution. In fact, when we consider the challenges posed by climate change, divesting from oil and coal are the most immediate actions to take in order to reorient capital flows towards more sustainable financial projects and infrastructures. The campaigns taken up by leading environmentalists and activists like Naomi Klein, which had great traction mostly with American university campuses back in 2011, still have much prominence today, while other major financial players, like large pension funds, have been met with demands to divest. Fossil fuel divestment is rather straightforward as it is based on one imperative: that shareholders sell all their shares in any fossil-fuel related industry. Fossil fuels represent a small proportion

of any portfolio, and many investors have already moved away from the highest-carbon investments, because they no longer find them financially interesting.

Divestment also has a clear moral appeal and, as mentioned, it is per se an easier strategy compared to engagement and voting. In fact, the financial weight and the reputation damage combined together, truly embody the powerful divestment call. Like green bonds, a variety of clean energy vehicles, sustainable investment products and benchmarks are widening the opportunities for institutions and retailers to invest in a clean economy: institutional investors are increasingly going beyond divestment by committing to invest in climate solutions, reallocating their funds to growth industries in renewable energy, clean tech, energy efficiency, and energy access. A proliferation of new fossil-free financial products is making it easier to divest: regulators, advisors and scientists, including the G20 Financial Stability Board's Task Force on Climate-Related Financial Disclosures and the Intergovernmental Panel on Climate Change, are now explicit on the extreme consequences and risks that climate change and the threat of stranded fossil fuel assets pose. Fiduciaries should have a legal duty to manage these risks through divestment and other strategies, giving advice on ESG issues to retail investors as well. Commitments to divest continue to grow rapidly: to date[16], institutional and individual investors with $6.24 trillion in assets have committed to divest from fossil fuels. Up from $52 billion in 2013—an increase of 11,900 percent[17].

And yet, it seems that divestment does not always mean that regulation will follow and support, nor that the capital no longer flowing in some industries, will start flowing in the 'right ones'. As noted by the International Energy Agency (IEA), 'Coal continues to dominate global power generation, with a share of over 40% in 2016. To stay on 2DC track, coal-based CO2 emissions must decline by around 3% annually to 2025, led by a retirement in the least efficient technologies and a decline in coal generation not equipped with carbon capture and storage (CCS) after 2020'[18]. And again, although the total investment in clean energy RD&D[19] has been USD 27 billion in 2015, it is not yet rising globally. It needs to pick up to be on track for a sustainable energy transition[20].

The growing success of this movement has accelerated in recent years challenging ethical, financial, and fiduciary imperatives to divest and invest. Pope Francis has had his voice heard on the subject as well. The recent Vatican document *Oeconomicae et pecuniariae quaestiones* (Considerations for an Ethical Discernment Regarding Some Aspects of the Present Economic-Financial System), took strong positions on shareholder risk, subprime mortgages, derivatives, credit default swaps, interbank loans (LIBOR), shadow banking systems (think, cryptocurrency), and offshore tax havens. The document in particular has some strong words of encouragement for those who engage in SRI, emphasising the importance that even small individual investors have and their potential to move the needle in the 'good' direction.

It certainly seems that the Church is making the most of the current importance everyone currently attaches to sustainable finance and responsible investing and they intend to continue showing great support to this movement. The Church of England also joined in as, shortly after, it agreed to divest from oil and gas companies by 2023, as the General Synod, voted to divest its National Investing Bodies (NIBs) from companies that are not aligned with the Paris Agreement. Already in 2015 the Church of England had taken the decision to divest from companies involved in the extraction of coal and tar sands. The 2023 deadline has been carefully devised with the ambition to make it as realistic as possible and in full alignment with the time frame for Climate Action 100+. The Third Vatican Conference on Impact Investing held in Rome this year, was another concrete example of how religious communities intend to use finance to help the poor and other people in need. Impact investing has increasingly began to feature prominently as part of the mission of the Catholic Church. Very much in line with the words and will expressed in *Laudato Si*, the Church is beginning to report how choosing invest-

16 As of September 2018
17 Global Divestment Report, 2018, Arabella Advisors
18 IEA Tracking Clean Energy Progress 2017, page 6
19 (RD&D) Private investment in research, development, and demonstration
20 IEA Tracking Clean Energy Progress 2017, page 7

ments that are consistent with the Catholic ethics is in line with its ambition and a valuable tool to accomplish much of its mission.

Over the past year, divestment pressure and related campaigns have inspired a number of important decisions by major banks to stop financing new fossil fuel projects, including a commitment from the World Bank Group (WBG) to stop funding oil and gas development. To date, 19 banks have stopped direct financing to new coal mines projects, and 16 banks have stopped direct financing to new coal plants projects globally. Of these, seven banks have restricted indirect finance to coal plant developers, 11 banks have restricted indirect financing to coal utilities, and four banks have ended or restricted the selling or buying of coal assets. In addition, several major insurers have decided to stop underwriting fossil fuel projects. The insurance sector continues to divest more than any other sector, having committed to divest over $3 trillion in assets. AXA, the first insurance company who reduced its exposure to coal, adopted a policy aimed to divest from any company which derives revenues from oil and coal with a percentage over 30%[21].

his year, Sweden's largest pension fund, AP7, which provides pensions to 3.5 million Swedes, divested from ExxonMobil, Gazprom, TransCanada, Westar Energy, Entergy, and Southern Company, citing the need to insulate its assets from growing financial stress in the oil and gas industry and to align with the UN Paris Agreement[22].

In January 2018 144. New York City Mayor Bill de Blasio announced a plan to divest New York's $189 billion pension funds from fossil fuel companies within five years, while in April The Office of New York City Comptroller Scott Stringer called for "insights and knowledge" on how to develop and structure Requests for Proposals (RFPs) relating to "services to evaluate and determine a prudent strategy for potential divestment and exclusion of securities issued by companies owning fossil fuel reserves from the investment portfolios of the Systems within a five-year period, consistent with fiduciary duty and the investment objectives of the Systems". A recent interview given by Thomas DiNapoli, the New York State Comptroller, set the last step, stating a likely divestment process from Exxon in the next years, should it continue not to take into account properly environmental risks.

Positive moves are coming from regulators in Europe where just about one year ago, the plenary session of the Parliament in Strasbourg adopted a document ahead of the UN Climate Change conference (COP23), which stated "calls on governments and public and private financial institutions, including banks, pension funds and insurance firms, to make an ambitious commitment to aligning lending and investment practices with the global average temperature target of well below 2 °C" and the commitment to "divesting from fossil fuels, including by phasing out export credits for fossil fuel investments". The document called for the international community to adopt also a concrete timetable for phasing out fossil fuel subsidies which "distort competition, discourage international cooperation and hinder innovation". The European Parliament is currently working on three pieces of legislation to implement the Paris Agreement: the post-2020 carbon market (EU ETS) reform, the 2030 targets effort-sharing regulation and the regulation on greenhouse gas emissions and removals from land-use, land-use change and forestry[23].

21 Global Divestment Report, 2018, Arabella Advisors
22 responsible-investor.com
23 http://www.europarl.europa.eu/news/en/press-room/20170907IPR83323/cop23-the-eu-should-ratchet-up-its-climate-goals

An insight on Tobacco with Tobacco Free Portfolios

Interview with Dr. Rachel Melsom MBBS, BSc., Director, UK and Europe

The mission

The Tobacco Free Portfolios initiative has the mission to inform, prioritise and advance tobacco free finance. Their ultimate aim is to eliminate tobacco from investment portfolios across the globe. Tobacco Free Portfolios traces its roots back to 2010, when Tobacco Free Portfolios founder and CEO Dr. Bronwyn King inadvertently discovered that most pension funds, including her own, invested in tobacco. As a radiation oncologist treating cancer patients she decided to act, and approached her funds' executives and trustees. Over an 18-month period of discussion, information exchange and analysis, First State Super adopted a tobacco-free position in 2012. A cascade of interest followed from further superannuation funds in Australia.

Dr. King created Tobacco Free Portfolios, and in 2016, Cancer Research UK kindly funded a position in Europe to expand Tobacco Free Portfolios' reach beyond Australia.

The approach of Tobacco Free Portfolios is an advocacy, informative and educative role. Their focus is on enabling the finance sector to collaborate, and stand side by side with, governments and the health sector to address one of the greatest health challenges of our time. Tobacco Free Portfolios engage with Asset Managers, Pension Funds, Banks, Insurers, Trustees and Advisers, and all those who are responsible for making investment and credit decisions.

Tobacco is the only industry targeted by a UN Treaty: the landmark World Health Organisation Framework Convention on Tobacco Control (WHO FCTC), signed by 181 Parties including the European Union, representing just under 90 % of the global population. This is one of the most widely supported and swiftly adopted treaties in history – also known as the UN Tobacco Control Treaty. Tobacco is currently responsible for 7 million deaths per year globally, a number forecast to rise to 8 million annually by 2030, and 1 billion by the end of this century. Tobacco use is the leading preventable risk factor for Non-Communicable Diseases (including cancers, chronic lung disease, stroke, cardiovascular disease and diabetes).

How can investors support in practice

Governments across the globe are implementing the WHO FCTC: increasing taxation; regulating marketing, banning smoking in public places, protecting children from smoke and introducing plain packaging are the most widely adopted and recognised controls in Europe. Government efforts are supported and supplemented by the health community, who continue to manage patient needs and invest in developing treatments to reduce the daily health impact, prevent premature deaths, and decrease the cost of tobacco related disease.

The finance sector is increasingly aware of the need to support Government efforts in tobacco control: Tobacco Free Portfolios launched the Investor Statement on Tobacco to coincide with World No Tobacco Day in 2017.

The Investor Statement openly supported governments' tobacco control efforts globally and served as a platform to raise awareness of the issue of tobacco, and has been followed by the launch of the Tobacco Free Finance Pledge during the UN General Assembly week in New York in September 2018. Eurosif are Founding Supporters. The Pledge does not require an existing tobacco-free investment policy, it is a forward looking initiative that encourages review of existing tobacco investments and encourages a move to a tobacco free position. We encourage both signatories and non-signatories to PRI to sign the pledge and review their positions in relation to tobacco.

The importance of sharing knowledge

Sharing existing knowledge and enabling access to detailed, accurate and up to date information are vital – as comprehensive access to facts enables informed decision making.

Tobacco Free Portfolios work together with board members of financial institutions, on a confidential basis, informing and assisting with information on all areas pertinent to investment in tobacco – these include the negative impact of tobacco on achieving at least 13 of

the 17 Sustainable Development Goals, the sizeable future risk through litigation: e.g. class action in Quebec (CAN $15.6 billion awarded against the tobacco industry, and currently under appeal by the industry) and an increasing recognition that the externalisation of costs to society, alongside an internalisation of profits is not an acceptable business model.

A reputational risk

A good example of this is the case of Philip Morris International (PMI). PMI the largest publicly traded tobacco company was reported in the Financial Times (20 April 2017) to have lost $6.5 billion in market value when it missed its earnings targets, notably due to a slump in shipping volumes, with a further 16% drop in April 2018 on announcement of their results. As tobacco product sales continue to decline, and 181 parties globally further restrict access and tighten regulations per their commitment to the WHO FCTC, past performance is unlikely to be repeated. Chris Varco, a director at investment advisory firm Cambridge Associates notes in the Financial Times article 'Insurers join pension plans in filtering out tobacco stocks' (May 8th 2017) that "We've had a unique set of circumstances." He says that shares in tobacco companies have benefited from the growth in emerging market demand, and from investors' search for yield in a low interest rate environment. Neither is guaranteed to continue. "The circumstances of the past fifteen years are unlikely to repeat".

Reconciling divestment with fiduciary duty

We believe the future risk to tobacco companies is significant. The provisions of the WHO FCTC are increasingly being implemented, litigation will increase and the business model of the industry will be dramatically challenged as the issue of child labour in the supply chain is brought to public attention.

This increasing financial risk provides a clear reason for Trustees to review tobacco in line with their fiduciary duties.

The way ahead

The increasing interest in moving to tobacco-free mandates has resulted in an ever-growing number of requests for input and discussion – both one-to-one and at a wide range of finance, pension and health conferences. There is growing momentum, and the rate of change is accelerating. The health sector has over 70 years of evidence that proves without doubt that tobacco is the number one preventable cause of early death.

Eurosif Policy efforts overview 2017-2018

The last two years in Sustainable and Responsible Investment, have been defined by a remarkable wave of events which have forever transformed the whole financial industry. The recognition of European policy makers of the importance to embed sustainability in European financial markets in order to allow for the sustainable growth of a transition economy, has been a key gamechanger.

The work undergone by regulators at European level strongly supports the transition to a low-carbon, more resource-efficient and sustainable economy and it has been at the forefront of efforts to build a financial system that supports sustainable growth.

The Capital markets union, the EU's flagship initiative to boost capital markets in Europe and reduce the economy's reliance on bank lending is now 4 years old. In 2016, The European Commission issued a communication on the Capital Markets Union – **Accelerating reform**. It stated that: "Reforms for sustainable finance are necessary to support investment in clean technologies and their deployment, ensure that the financial system can finance growth in a sustainable manner over the long term, and contribute to the creation of a low-carbon, climate resilient economy. Such reforms are essential to meet our climate and environment objectives and international commitments including the delivery of the EU's commitments under the Paris agreement on climate change and the objectives of the Circular Economy package. Work is ongoing to increase the availability of green funds through the European Fund for Strategic Investment, by earmarking at least 20% of the EU 2014-2020 budget available for climate action. On 14 September 2016, the European Commission proposed an extension of the duration of the European fund for strategic investments (EFSI) until 31 December 2020. The new proposal, referred to as EFSI 2.0, increases the EU guarantee from €16 billion to €26 billion and the European Investment Bank (EIB) capital from €5 billion to €7.5 billion, with the aim of mobilising €500 billion of private and public investment. Sustainability has been clearly prioritised in the proposal. The EFSI has been linked to a greater number of sustainable projects, such as the COP21 climate targets, and 40% of the investment under the Infrastructure and Innovation Window (IIW) should contribute to COP21 objectives. On 8 November 2017, the Council confirmed the agreement on the EFSI extension. On 8 June 2017, the European Commission announced the Capital Markets Union (CMU) Mid-Term Review where sustainable finance is set as a new priority: "the Commission highlighted the need to **improve disclosure and better integrate sustainability/ESG in rating methodologies and supervisory processes, as well as in the investment mandates of institutional investors and asset managers.** It will also develop an approach for taking sustainability considerations into account in upcoming legislative reviews of financial legislation". This is part of a CMU 2.0.

Following the communication on **Capital Markets Union – Accelerating reform**, the European Commission established a **High-Level Expert Group on Sustainable Finance** (HLEG) in December 2016.

The HLEG comprised 20 senior experts from civil society, the finance sector, academia and observers from European and international institutions. The group was mandated to provide advice to the Commission on how to

- steer the flow of public and private capital towards sustainable investments
- identify the steps that financial institutions and supervisors should take to protect the stability of the financial system from risks related to the environment
- deploy these policies on a pan-European scale

Eurosif had the honour to be a member of the HLEG and to contribute to the recommendations to craft a more sustainable financial system for Europe.

June 2017

Mid-Term Review of the Capital Markets Union Action Plan
Yesterday the 8th of June, the European Commission published the Communication on the **Mid-Term Review of the Capital Markets Union Action Plan**. The document reiterates the intention to strengthen the third pillar of the Investment Plan for Europe and the role of capital markets in addressing the financial needs of Member States economies. Good progress has been made to address some of the most pressing issues around the key players, particularly interesting are the amendments on Solvency II to encourage insurance companies to invest in 'qualifying infrastructure projects', opening up further the ability of private investors in an asset class with so much potential for sustainability. Similarly, the Consumer Financial Service Action Plan opens up a greater choice and better access to retail financial services across the EU.

The Mid-Term Review confirms the will for a re-engineering of the financial systems as a necessity for investments to become more sustainable. Integrating sustainability in the EU regulatory's policy framework allows for private capital to be mobilised and directed toward sustainable investment and to ultimately fit in with the SDGs as part of the UN 2030 Agenda. The challenge of the Commission's High-Level Expert Group on Sustainable Finance (HLEG) is to capture precisely those elements which are present in the financial system of today that can be re-engineered to deliver sustainable value. Eurosif is particularly happy about the clear commitment to strengthen the EU's leadership on sustainable investment. The recognition that long-term investment decisions have to integrate wider risks and returns linked to environmental and social externalities is key to a more sustainable financial system.

Acknowledging the evident need to integrate ESG considerations in investors' governance is part of this recipe for sustainability which also needs to be reflected in companies.

There is much the European Commission has already been doing and that goes beyond what is acknowledged in the Mid-Term Review. We recognise that and we look forward to the road ahead and the opportunities for a strategic and sustainable European financial system.

July 2017

The HLEG's Interim Report
The 18th of July saw the launch of the **Interim Report of the High Level Expert Group on Sustainable Finance**, which represents an important landmark in the evolution of sustainable finance and a strategic lever for COP21 and the transition to a low carbon economy.

The HLEG Interim Report, in line with the mandate of the group, looks at the role that finance can play in ensuring that investment protects the environment and promotes economic systems that are truly sustainable. The basis of this reasoning is understanding that there is a fundamental paradigm shift that we need to make and which is linked to 'interdependencies'. The paradigm shift that sustainable finance entails means reconnecting finance with society and reconsider the basis for productive investments.

In conjuncture with the launch of the Interim Report, Eurosif hosted a roundtable discussion yesterday to explore the main findings of the report in view of the main consequences and impact on the financial system, on businesses and the regulatory framework and understand what investors can expect and how they can prepare. Leading the debate, was Christian Thimann, Chair of the HLEG, who introduced the vision and the main findings of the report at this stage, explaining the process, the key challenges and the ambition pursued in the drafting. Joining the discussion in the panel were Peter De Proft, Secretary General of EFAMA, Matti Leppälä, CEO of PensionsEurope and Michael Collins, CEO of Invest Europe. Eurosif was presiding over the debate with both myself and the Eurosif president, Will Oulton.

Each of the stakeholders expressed their main concerns regarding the main barriers and levers to sustainable finance across industries and players and several key issues were dissected.

The report's recommendations included inter alia focusing on developing a class of sustainable assets, clarifying fiduciary duty as encompassing sustainability and strengthening reporting requirements. The discussion revolved around the current level of readiness of the

players in the market and what is needed to move ahead. Integration of ESG in the investment process has become an imperative in the asset management industry since a while, but the issue of time misalignment and short-termism continue to hamper the long-term view that should be the 'natural' view of investors.

The need for green investment from players like pension funds is tremendous, and yet due to lack of environmental policy support, investment vehicles and market liquidity, regulatory disincentives and scale issues, their asset allocation remains generally low. The pension fund industry should not be subject to legislation which undermines its ability to invest long-term and IORP II has demonstrated the importance of allowing these players to think long-term and incorporate ESG criteria in their investments. Different prudential regulation makes it so there is no one approach across Europe today but it remains critical for these actors to have more freedom in choosing the right approach.

The interim report goes on underlining the extent to which sustainable infrastructure is essential for the delivery of the SDGs and will determine the EU's collective chances of meeting its contribution to limiting global warming to 1.5/2°C. Some of the recommendations suggest the creation of a dedicated organisation, responsible for developing and structuring infrastructure projects and matching them with investors. This new entity would be responsible for match-making infrastructure projects with investors, focusing on sustainability projects in particular, and help countries in their efforts to access capital markets to finance their capital-raising plans. This suggestion would be welcomed by the industry, together with the notion of increasing further stability in terms of pricing policies, which so far have affected investments in a remarkable way.

A sustainable financial system for Europe entails the promotion of the role of a well-functioning market that reconnects finance with society. Such a system would take ESG issues into account and use performance indicators to track and reflect success. It would also enable individuals to know where their money is going and how it is being invested in order to contribute to sustainable development.

July 2017

Public Hearing on Sustainable Finance

After the launch of the HLEG Interim Report on Tuesday the 18th, the European Commission hosted a Public Consultation aimed at gathering the views of stakeholders on the work carried out by the HLEG so far. The meeting's real purpose was to ignite the debate on the key recommendations made by the group of experts in view of the launch of the **consultation document**. The feedback received will dictate the discussions and the reasoning that will shape the final report the group will produce by the end of the year.

In his welcoming address, Vice-President Dombrovskis highlighted the shared understanding and importance of re-orienting the financial system towards supporting long-term, sustainable, and green growth. The good news is: private investors are already seizing opportunities to invest in the clean energy sector, we have witnessed the creation of over one million jobs in the renewable sector and the green bond market continues to boom.

The Vice-President further committed to continue raising the ambition level in the policy work as a way to improve the integration of sustainability considerations in the investment mandates, investigating the role of credit-rating agencies and 'systematically embedding sustainability as part of upcoming reviews of financial legislation'.

The meeting gave a good view of the Interim Report as introduced by Christian Thimann, Chair of the group and gave the possibility to some of the HLEG members to dive deeper in some of the sections.

September 2017

Paving the way for Sustainable Finance:

With investment in long-term infrastructure assets needing to grow exponentially, green investment represents a major opportunity for both long-term investors and good-willed policymakers. For this to happen, green finance needs to go mainstream.

The ambition of the High-Level Expoert Group on Sustainable Finance, set up by the European Commission, is to ensure this happens smoothly and rapidly. Defining a blueprint for sustainable finance, framing sustainability in European Capital Markets is a very powerful vision and, at the same time, a unique opportunity.

What could be the main levers to spur this much-needed change? Developing recognised, standardised terms and conditions for a green bond. Setting up a comprehensive and transparent taxonomy to bring clarity to both issuers and investors that the project being financed is 'sustainable'. Mandating ESG criteria into credit ratings.

On the 29th of September, Eurosif published a **report** which gathers up some of the recommendations from the industry to the industry and which looks at the work of the HLEG and its final outcome, identifying **Key Takeaways** for a successful implementation of a blueprint for sustainable finance. We want to thank our partners and contributors for this work which feeds into the HLEG consultation process.

January 2018

High-Level Expert Group publishes its Final Report

In January, the High-Level Expert Group on Sustainable Finance published its much-awaited **Final Report**. The report contained a series of carefully calibrated recommendations, elaborated by the members of the group over the past year. As the Executive Director of Eurosif and member of the HLEG, I have been able to represent the vision of a more sustainable financial system that Eurosif has advocated for since its inception, and with the support of its membership.

Eurosif's advocacy work for sustainable finance is long-standing. Back in 2015, and as part of Eurosif's "Sustainable Capital Markets Union Manifesto", we identified five priority areas as recommendations for the European Commission to weave sustainability through the Capital Markets Union. Already back then, we applauded the CMU initiative as a catalyst for change and we recognised two conditions that needed to be met in this framework, for it to deliver sustainable value for Europe. Those were:

1. contributing to reducing the cost of capital for European companies, including SMEs and
2. building an investment environment conducive to greater long-term capital allocation for productive purposes.

Building on that, Eurosif strengthened its position around this discourse a year later, when we drafted a CMU Action Plan, clearly asking for a set definition of fiduciary duty as including ESG issues. **We called for a clear definition of the concept of fiduciary duty**, too often interpreted by investors and investment advisors as a duty to maximise short-term financial return. As climate and wider ESG risks are material to business, acting in the beneficiaries' best interest means having a long-term approach to business and fully factoring ESG issues into investment decisions. Asset managers and institutional investors, who are naturally interested in maintaining high portfolio returns, should be able to ensure that ESG risks in their portfolios are properly measured and managed. Therefore, we urged policy-makers to develop a clear definition of fiduciary duty with a clear reference to ESG. Eurosif fed its input into the work of the HLEG and our call for action has found new legitimacy in the call for the clarification of investor duties in the relation with fiduciaries by seeking informed consent.

Empowering and connecting Europe's citizens with sustainable finance issues. This is a key recommendation which is directly targeting those investors who are less knowledgeable about these considerations, but who represent a rich investment pool and therefore great potential. Although development of new sustainable financial products has continued to rise rather modestly, the retail investor sector has grown exponentially in the past three years. In 2016, Eurosif's latest landmark biennial SRI Study highlighted that demand from the retail sector had grown by over 500%, a truly impressive result and a clear signal for the industry and for policy-makers. The need to tackle a fragmented offer of SRI products which draws from a set of definitions and denominations, never before unanimously accepted by the investors' community, was pressing. Again, year after year, the Eurosif Study tracks the flows of responsible investment across European member states, and the last review registered a total of SRI Assets under Management of 11 trillion euros. This impressive figure is made up of all the assets clas-

sified today as part of a sustainability offer. Guiding and protecting the retail investor is not just the right thing to do, but it is also essential to the sustainable growth of an industry which has been evolving over the years from niche to norm. Establishing a minimum standard for SRI products to be respected by manufacturers and targeting all funds, represents the keystone of this strategy and one that we can hope will spur further growth for this rich industry. Engraining sustainability in the discussions of investment advisers with their clients and referencing impact and process of products constitute important dynamics of this retail recommendation.

March 2018

Commission adopts an action plan for financing sustainable growth

The European Commission published its Action Plan for Financing Sustainable Growth in March and the communication gave way to a series of supportive statements. A timely step, rich with a series of concrete actions which are going to help shape the framework for a new chapter of climate finance, it aims at reorienting private capital to more sustainable investments by ensuring a comprehensive shift in how the financial system works. This work has been recognised as a necessary step to help the EU develop more sustainable economic growth while ensuring the stability of the financial system. It's a substantial review of the EU's Capital Markets Union (CMU) project.

Addressing the risks arising from the pressing sustainability needs we are confronted with will foster transparency and long-termism in financial and economic activity. This, in turn, will allow for the reorientation and increase of capital flows towards sustainable investment. How can this be achieved without 'better' transparency? Transparency is an essential condition for market participants to create and sustain an efficient working system. The long-standing debate around corporate transparency needs to go to the next level: full transparency is required to ensure corporate players are truly steered towards operating in a more sustainable and long-term direction.

Transparency relies on the clarity of indicators and there needs to be a consensus on what these indicators are. For this reason, the Commission will devote much of its future plans to establishing a 'common language on sustainability', defining what is sustainable and identifying areas where sustainable investment can make the biggest impact. This will guide investors by providing detailed information on the relevant sectors and activities, based on screening criteria, thresholds and metrics.

On the topic of transparency, the European Commission clearly recognised the importance of the work of the HLEG, in bringing the focus back to rating agencies, as a crucial provider of information for investors, and players who have a great share of responsibility in ensuring the stability of the financial system. Stability rhymes with 'sustainability' and the Commission highlights the absolute need for credit rating agencies to 'integrate sustainability factors into their assessments'.

For sustainability rating agencies, the Commission will also explore and analyse the work related to methodologies, their market structure, their independence and therefore their business model in general. Time to envisage new models and innovative solutions for data and its uses for sustainability. In this context, a very timely move was announced in March, as the former sustainability rating agency 'Beyond Ratings' has recently set up a new structure, through which it claims to be the very first of its kind to systematically integrate environmental, social and governance (ESG) factors. After two years of preparatory work, Rodolphe Bocquet, co-founder and CEO of Beyond Ratings, said: "It is in a favourable environment that Beyond Ratings has developed an agency that meets the new expectations of a financial system that wants to more fully assume its role in the deployment of the Paris Agreement". Among the key characteristics of the methodological approach, Beyond Ratings will look at a longer time-horizon of 10-15 years as opposed to the old one of 5 years. The interesting element here is the search for new definitions for the sustainability challenges of our times, captured by ratings. Measuring what matters is the basis on which to build sustainable strategies.

Eurosif trusts the work of the European Commission will proceed efficiently and bring the technical know-how needed to define the road ahead to the table. The

agenda and time-frame are ambitious and the road will certainly be paved with difficulties. This time, the vision for great accomplishments is there and the results will undoubtedly materialise.

May 2018

Commission presents the first legislative proposals on sustainable finance

It is sometimes hard to address an audience about sustainable finance without thinking that it can be perceived as an oxymoron. Well, in Europe at least, this is no longer the case. In May all the SRI news was overshadowed by the European Commission's announcement of its first legislative package in support of the Action Plan for Sustainable Finance. This comes as a follow-up to the Action Plan on Sustainable Finance launched on the 8th of March and which builds on the High-Level Expert Group on Sustainable Finance Final Report, out in January this year. The Sustainable Finance chapter the European Commission has been crafting through its praiseworthy initiatives is geared at hardwiring sustainability in the Capital Markets Union, Junker's financial plan for Europe. The Commission has been working relentlessly in order to ensure putting in place all building blocks of the Capital Markets Union by mid-2019. The measures presented on the 24th of May, and all the CMU proposals that were presented by the end of May, should be adopted before the European Parliament elections in 2019. The eagerly awaited package comprises three major legislative proposals touching upon some of the pillars of the European Commission to achieve its sustainable finance strategy:

1. A unified EU classification system ('taxonomy'): The proposal will help define through the delegated acts those activities which qualify as 'sustainable' and which will be determined through the work of the technical expert group set to carry on this task. The achievement of this goal will help greatly to inform investors on how to direct their investments, while at the same time, laying the foundations for standards and labels around financial products going forward. The taxonomy will at first define climate-specific goals and then will be extended to the environment, enlarging the scope of the objectives looked at. Useful for the Member States but also asset managers and institutional investors, the taxonomy is much needed to bring alignment in the understanding of the concepts and the requirements linked to sustainable investment classes and can help limit green-washing dangers.

2. Investors' duties and disclosures: Maybe the most symbolic part of the sustainable finance change, foresees regulation to oblige disclosure obligations on the way institutional investors integrate ESG criteria in their risk process. Much in line with Article 173 in France on a European scale, the Commission will look at specifically setting disclosure parameters for asset managers and investors to disclose how they are concretely applying the concept of fiduciary duty by sharing their work in relation to the impacts achieved. Affecting both asset managers and asset owners, the Commission proposal will look at the procedures for integration of ESG risks and the related impacts on the returns of the product or services, regardless of the pursuance of sustainable objectives as part of the investments.

Also drawing from the Action Plan, the Commission announces in parallel the launch of a public consultation regarding integrating sustainability into suitability tests. This will entail amending the Delegated Acts under the Markets in Financial Instruments Directive (MiFID II) and the Insurance Distribution Directive to include ESG considerations into the advice that investment firms and insurance distributors offer to individual clients. Demanding for informed consent, this is a formal way to determine that sustainability preferences are going to be taken into account when considering the suitability of the products for their clients. (This should help a broader range of investors access sustainable investments).

3. Low-carbon and positive-carbon impact benchmarks: Recognising the strategic importance of benchmarks in guiding investors to create the climate-aligned investment products, the Commission proposed to create a new category of benchmarks, comprising low-carbon and positive-carbon impact benchmarks. The concept behind these market standards for a new low carbon category in the benchmark regulation is to help further reflect companies' carbon footprint and therefore enhancing the quality of the disclosure and exchange with investors. Stocks will be selected based on their ability

to reduce carbon emissions and for the positive-carbon benchmarks, investors will be looking at stocks which are able to account for their carbon emissions' savings in relation to their footprint. Such a 'positive' carbon impact benchmark is to allow investment portfolios to be better aligned with the Paris agreement objectives below 2°C.

The Commission also takes into account ESG benchmarks and acknowledges the need for administrators to disclose the way they manage to integrate ESG criteria. This represents a great advancement for our industry which is in great need of more granularity regarding ESG integration. How integration is done and according to what parameters, is certainly going to be one of the most crucial issues of debate within the SRI industry in the coming years.

June 2018

The Molly Scott Cato report on sustainable finance

In June, European Institutions again demonstrated their commitment to sustainable finance, as the Committee on Economic and Monetary Affairs adopted the own-initiative report on sustainable finance by Molly Scott Cato (Greens/EFA, UK). The resolution won a landslide victory of 455 votes in favour to 87, with 92 abstentions – quite a rare example of consensus and support. The report strengthens the Commission's backing of sustainable finance and builds on the recently launched Action Plan and the legislative proposals of the 24th of May. Starting from the acknowledgment that the financial system and its actors are a key element to help us address societal challenges and achieve economic growth, the report positively highlights the potential for the European Union to set standards for a sustainable financial system through a cohesive framework and the appropriate legislative initiatives.

The high level of consensus was in recognition of the urgency to speed up the flow of capital in favour of a sustainable transition and in support of sustainable and responsible investments. In line with the divestment spree we have been witnessing now for long, the report emphasised the need to continue on this path and going beyond coal, to include other fossil fuels. In that respect, the role of European banks is key to successfully capitalise on the innovations available in this area. The report calls for a more prominent role of the European supervisory authorities to carry out climate scenario analyses to check whether the portfolios of financial institutions are aligned with the Paris Agreement on climate change. Supervisors have the ability to facilitate capital allocation and reorient investments towards more sustainable technologies and businesses, and towards decarbonised, disaster-resilient and resource-efficient economic activities that can reduce the current need for future resources and are capable of meeting goals related to sustainability in the EU and to the Paris Agreement.

The report also stresses the need for further collaboration between the public and private sectors and therefore calls for the Member States, in coordination with the Commission, the European supervisory authorities and the European Investment Bank (EIB), to assess their national and collective public investment needs and to fill the potential gaps to ensure that the EU is on track to meet its climate goals within the next five years, as well as the UN Sustainable Development Goals by 2030.

Furthermore, the report also recognises that more work is needed to regulate green bonds in view of the potential they represent today and tomorrow and their vulnerability as part of the sustainable investing panorama.

The role of the EIB as the bank of the European Union was also recalled in view of its responsibility to set the right example in terms of its financing activities. Today, the bank is still involved in carbon-intensive projects which do not match its accomplishments in support of climate finance, particularly with a reference to the great work done around green bonds.

Impact Investing

Impact investing continues to grow, though at a much more controlled speed over the past two years. Nevertheless, it is safe to say that Impact Investing has certainly been one of the most talked about strategy since our last report. A fair share of first time SRI investors find in this strategy their natural match. The combination of a positive impact linked with the commitment to return represents the key aspects of this investment approach. Definitions around the key requirements for impact investing and which differentiate it from other strategies are:

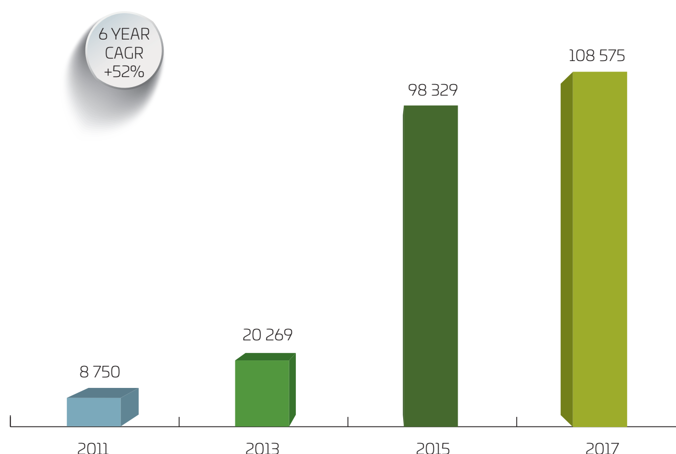
Intentionality: the intention of an investor to generate a positive and measurable social and environmental impact;

Additionality: fulfilling a positive impact beyond the provision of private capital; and

Measurement: being able to account for in a transparent way on the financial, social and environmental performance of investments

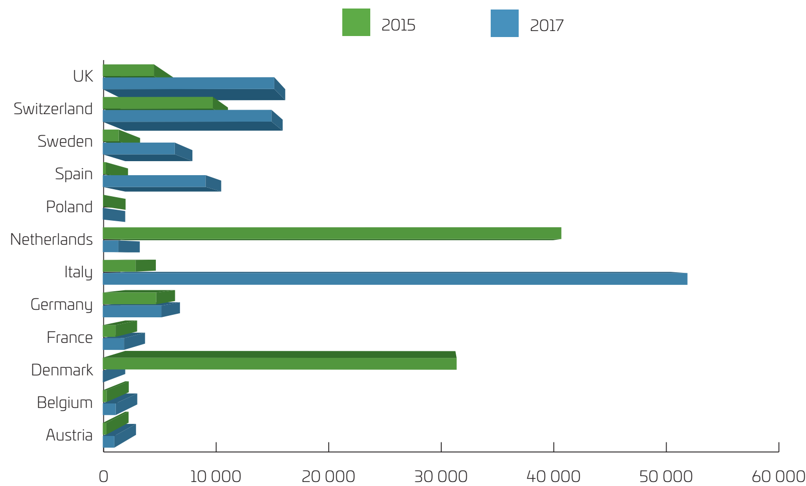
The Global Impact Investing Network (GIIN), is a non-profit organisation that focuses on the promotion of impact investing and which convenes investors, facilitating knowledge exchange, producing research and tools to support investors continue to develop this part of the industry. The GIIN has been tracking the evolution of Impact Investing for the last seven years now and in its latest review[24] released in 2017, it produced an analysis of the 'activities of 209 of the world's leading impact investing organizations, including fund managers, foundations, banks, development finance institutions, family offices, pension funds, and insurance companies'. The report found that there is nearly a total of USD 114 billion devoted to this strategy and also determined a series of significant challenges to the continued growth of this strategy. After the appropriate capital across the risk/return spectrum and suitable exit options, investors highlight the need for a 'common understanding and segmentation of impact investing market'[25] as a key challenge going forward.

Figure 16: Growth of Impact Investing



24 https://thegiin.org/assets/GIIN_AnnualImpactInvestorSurvey_2017_Web_Final.pdf
25 Annual Impact Investor Survey 2017 GIIN, page 10

Figure 17: Impact investing by Country



The CAGR of the last six years has been at 52% and from last review we have seen an increase in its growth by 10%. At country level, we observe some notable increase in Spain and in Italy. Encouraging signs also in Sweden, Belgium and the UK, whereas the sharp fall in the Netherlands, is largely explained with a respondent gap rather than a shift in trends. The country in fact, remains, one of the biggest hubs for developing and implementing the way forward for this strategy.

In the 2016 SRI Study we commented on the work of the European Commission regarding the revision of the amendments to the European Venture Capital Funds (EuVECA) and European Social Entrepreneurship Funds (EuSEF)[26]. The Commission launched its work having identified a lack of success for the two Regulations. The main obstacles identified related to the widespread use of the labels and referred to: limitations imposed on managers; product rules; and the (varying) application of regulatory fees in Member States with regards to funds' marketing and management[27] The amendments were applicable as of 1 March 2018 and they are intended to increase the uptake of these two collective investment funds by:

- Widening the range of managers eligible to set up and manage these funds to include larger managers with assets under management of more than €500 million.
- Increasing the range of entities that EuVECAs can invest in to include unlisted companies with up to 499 employees (SMEs) and SMEs listed on SME growth markets.
- Broadening the definition of enterprises that EuSEFs can invest in to include "**services and goods generating social return**".
- Prohibiting the imposition by host Member States of administrative procedures, fees and other charges relating to marketing of such funds cross-border[28].

Clarifying the definition of social enterprise, and consequently increasing the visibility of these players for investors, was also been an important focus for the European Parliament in 2017. This came from the recognition that social enterprises are an important player in the social economy, combining wider social, environmental and community objectives with entrepreneurial activity. According to the findings of a 2016 European Parliament study, the social economy represents an area of civic activity which, through the performance of economic and public interest activities, contributes to: professional and social integration of persons at risk of social marginalisation, job creation, provision of social services of general interest and local development. Contributing to increased competitiveness within the EU Single Market, social enterprises also represent an increasingly popular choice

26 http://ec.europa.eu/finance/investment/social_investment_funds/index_en.htm#maincontentSec2
27 http://www.europarl.europa.eu/legislative-train/theme-deeper-and-fairer-internal-market-with-a-strengthened-industrial-base-financial-services/file-review-of-euveca-and-eusef-legislation
28 https://www.lexology.com/library/detail.aspx?g=bcf76661-ed4d-4ec1-b86b-5b999c9133ed

for investors working on outsourcing certain public services of general economic interest. **Social enterprises respond to the growing demand for goods and services with a positive social and environmental impact, as consumer awareness rises and more attention is given to the social impact of economic activities. One of the main challenges in this area is to ensure more visibility, better-tailored funding and legal frameworks.**

Due to the fact that social enterprises can take a variety of legal forms and statuses, ranging from existing legal forms to new legal forms exclusively designed for social enterprises, there has been significant confusion in the determination of one coherent identity. The work of the Parliament was geared towards a proposed Statute for social and solidarity- based enterprises to offer the opportunity to establish a broader EU-level legal basis for various types of social economy actors.

A European Parliament resolution of July 2018 acknowledges the diverse and innovative character of the existing legal forms of social enterprises. It calls on the Commission to introduce a 'European social economy label' to be obtained by social enterprises optionally on request and upon meeting a set of criteria, regardless of the legal form in the national legislation. The 77% majority sent a strong signal that Europe is ready to give further recognition to social and solidarity-based enterprises. The vote came after the European Parliament Committee on Legal Affairs, and the Committee on Employment and Social Affairs, adopted a motion in support of the creation of a label specifically focusing on identifying social economy actors in Europe. The purpose of this label would be to identify good practice and standards for social enterprises. The resolution also calls for the establishment of a mechanism of certification and of supervision and monitoring for the legal label with member states. To fight the problem of information asymmetry regarding the concept of social enterprise, the European Social Economy Label would only be awarded to enterprises that conduct a socially-focused activity including support for vulnerable groups to combat social exclusion, inequality and violation of fundamental rights, or help to protect the environment, biodiversity, the climate and natural resources. The original plan had been for a European wide legal definition, but this was abandoned as unworkable in light of the different legislation present in different member states. A label would instead allow relevant players to identify themselves when applying for funding. Last October, the Committee on Legal Affairs delivered a draft report which contained clear recommendations for the Commission in favour of a statute for social and solidarity-based enterprises.. The report also specifically highlighted clear guidelines for good practices which include a set of minimum requirements that need to be in place:

- A consultation processes for the establishment of an effective business strategy.
- Adaptation to local social needs and to the local employment market.
- Relations with users and clients and the response to social needs not yet covered by the market or the State.
- The situation of the enterprise with regard to diversity, non-discrimination and equal opportunities for men and women among their members, including positions of responsibility and leadership.

Previous European Parliament positions included earlier resolutions, like the one in 2015 on 'Social Entrepreneurship and Social Innovation in Combating Unemployment', which called for the creation of the necessary framework for a system of social innovation, facilitating access to public procurement, and improving access to funding. Back in 2013, with a resolution on the 'Contribution of Cooperatives to Overcoming the Crisis', the Parliament pointed out the resilience of these types of enterprises in the face of the fluctuating economic cycle and their critical role in integrating disadvantaged workers in the labour pool. It was still further back in 2013 that the European Parliament had also supported the establishment of EU-level legal forms for social economy actors.

In the past, the concept of a social enterprise label had also already been explored by the Expert Group on Social Entrepreneurship (2011-2018) in the GECES report 'Social Enterprises and the Social Economy Going Forward', which included recommendations around the development of "labelling protocols for identifying funds that follow the social model. This could perhaps draw from the EUSEF experience and guidance around defining investment of a social or socially-focused nature as being that which delivers a measurable social impact."

Social Impact Bonds (SIBs)

The efforts of European regulators in terms of tackling the social dimension of sustainable development have been considerable and several instruments have been deployed in this sense. Along with the European Social Fund (ESF), the EU has set up an instrument, to generate, test and spread innovative policy solutions to foster sustainable long-term growth and jobs, reduce divergence between the Member States, and make progress towards reducing social inequality. The Programme for Employment and Social Innovation (EaSI), seeks to provide €10-14 million per annum for social innovation activities. EaSI works in collaboration with ESF and the European Globalisation Fund (EGF), to promote, social protection and social inclusion, as well as working conditions for the period 2014-2020.

The European Fund for Strategic Investments (EFSI) is set to contribute to meeting the social objectives of the Europe 2020 Strategy (typically inclusive growth) by supporting social entrepreneurship and other areas of the social economy. Social infrastructure is one the EFSI's priority sectors. Nevertheless, to date, still a too small part of EFSI financing supports social infrastructure projects. Given the social challenges Europe currently faces, more can be done to increase its focus, this means that the pipeline of viable projects needs to increase to contribute to the extension of the Investment Plan under the EFSI 2.0.

A broad and complementary range of instruments under EaSI and EFSI to improve access to finance for micro-and social enterprises has been set up to provide financial instruments (EaSI Guarantee, EaSI capacity building, EFSI Equity Social Impact, EaSI Funded loans and other EaSI products[29]) The goal is to fund financial intermediaries to support micro-enterprises with up to 25K loans and social enterprises with up to 500K loans.

The Microfinance and Social Entrepreneurship axis supports actions in two thematic sectors: microcredit and microloans for vulnerable groups and micro-enterprises; and social entrepreneurship. For the 2014-20 period, this initiative has been included as part of the microfinance and social entrepreneurship efforts of the **European Union programme for employment and social innovation 1296/2013** that has taken over from the Progress Microfinance instrument. This axis has 21 % of the global EaSI budget, i.e. €193 million over a period of 7 years.

The EFSI impact investing pilots engage and support social impact investors in providing risk capital financing to social enterprises in their early, growth or expansion stage, and include: Social Incubators/Accelerators Facility, Social Business Angels Co-Investment Facility and the pilot Social impact bond schemes, (SIBs) also known as Payment-by-Results[30]. The Social Impact Bond (SIB) model is an innovative method of financing welfare and other social services, as SIBs represent a valuable tool for actors in the social economy space to access capital from an investment community beyond philanthropic investors. SIBs are interesting tools as they rid governments of upfront costs and risks against the commitment to pay for predetermined and quantifiable impact, independently and scientifically assessed. The aim is to improve a social outcome through the collaboration of government, service providers and external investors: a SIB involves a set of contracts, based on an agreement by government to pay investors for an improvement in a specific social outcome in the case it has been achieved. It is indeed based on these predetermined targets that the principal will be reimbursed, differentiating them from classic bonds Social impact bonds enable government to link payment for the service provided to the community to the results achieved. If the social outcome reaches notable improvements, government payments are larger and thus, investor returns are higher. This creates a virtuous circle and improves the quality of public spending. Nevertheless, as for every 'impact-related' product, it is necessary to target the outcome side of these instruments to ensure appropriate scaling. The performance indicators must be concrete and objectively verifiable and comparable against benchmarks,

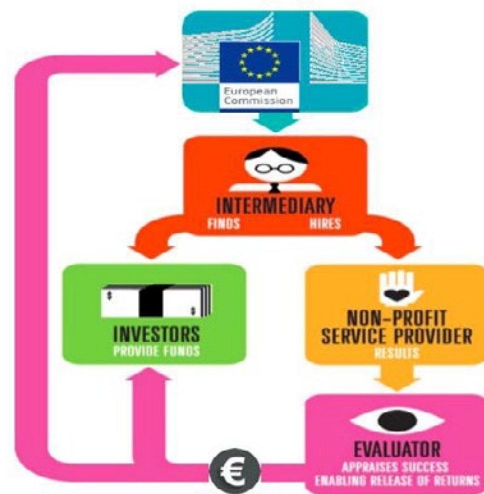
29 Not yet deployed

30 Payment by results schemes work by building partnerships between social service providers (social enterprises and social sector organisations), commissioners (usually government agencies at local, regional or national level, or private sector foundations), investors and intermediaries. By focusing on outcomes, the interests of all stakeholders involved are aligned and thereby the various resources, experience and know-how are combined, enabling targeted social service delivery. Payment by Results schemes encourage cross-departmental funding within public entities and improve the rigour in government spending.

this would ensure avoiding distorted incentive mechanisms. SIBs are mainly used for projects which present an innovative approach to social problems which have not been addressed by conventional finance. SIBs require innovative collaborations between government, investors and service providers – something that occurs in the negotiation of the terms of the SIB, in its implementation and in its management. In view of their potential and their special nature, they represent an invaluable opportunity for Europe and the Commission could help greatly by continuing to explore their use as risk sharing mechanisms able to combine public sector outcomes and risk acceptance from investors while linking returns to measurable outcomes.

The SIB structure also aims to align the interests of these key stakeholders around agreed and measurable social outcomes as follows:

- Government commissioners: SIBs ensure that payments are only made by the public sector if SIB-financed services improve outcomes for service users. Government transfers the financial risk to investors
- Investors: investors take the risks and receive higher financial returns for greater improvements in social outcomes.
- Service providers: Providers are key in the implementation of the bond. Innovation and efficiency are fundamental in order to maximize outcomes for their target populations.
- Intermediaries: SIBs create a new market for intermediaries across a range of functions in their development and execution. Feasibility studies, due diligence, deal negotiations, capital raising and management are the main tasks
- Service users: Payments by government are made on the basis of improvement of outcomes for the group of individuals targeted. To identify individual needs is of extreme importance in order to improve the outcomes



Each SIB is structured around at least one well-defined social outcome, in this way the alignment with SDGs is perfectly consistent with SIBs. In fact, SIBs seem to well represent the nature in which SDGs have been conceived. A social issue is pointed out and a Public-Private partnership (SDGs overarching strategy) is set among various actors in order to solve the problem. Appropriate outcomes and success metrics are negotiated and agreed between government and the party responsible for delivering the outcomes. Investors may be involved in these discussions, or may be sought once the terms of the contract are established. These investors are asked to take on some or all the risk that the interventions lead to the target outcomes, but will make a return on their investment in the event that the intervention is successful.

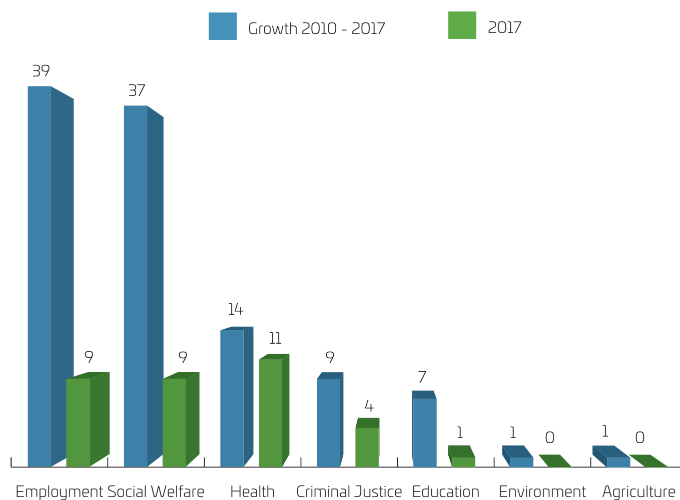
Since the first Social Impact Bond[31], issued in 2010, the SIBs market has continued to be on the rise during the last years. A total of 109 bonds launched until now, to the size of 392$ millions of capital raised and 738,671 of lives touched. Although some difficulties during the first years, due to the various obstacles in structuring the projects and providing investors, the future of this market doesn't seem to be niche anymore. With around 70 projects under development in 2018, the total number of SIBs launched per year has always doubled since 2016. Moreover, 2017 marked the first contracted bonds in developing and middle-income countries, with Colombia being the front-runner and Congo, Cameroon, Perù and India following. Even

31 which successfully reduced the reconviction rate at Peterborough Prison in United Kingdom

if more than half of total bonds come from UK (40) and the US (20), the entrance of poor and emerging markets record a step forward in the impact investing industry. Social welfare (37) and Employment (39) are the sectors mostly targeted by SIBs, with Healthcare (14), Criminal Justice (9), Education (7), Environment (1) and Agriculture (1) coming next[32].

Financing social infrastructure and maximising public value has been an important focus of European regulators, particularly in view of the set-up of a **High-Level Task Force on Social Infrastructure**[33], initiated by the European Long-Term Investors Association (ELTI) and under the aegis of the European Commission. As their report highlights, investment in social infrastructure, is far from reaching the level needed to cater for the EU's needs, both in terms of population and needs for the years to come. With a current investment in social infrastructure estimated at approximately EUR 170 bn per annum, the report highlights a total future gap of over EUR 1.5 trillion in 2018- 2030[34]. The report also underscored the need for a dramatic shift in favour of smart investments linked to clear targets and reports at national level. The role of finance has been deemed key in this respect, with a view to the promotion of social infrastructure finance to promote the creation of a more stable and more investment-friendly environment.

Figure 18: Total of SIBs by sector (graph elaborated with data from the Social Finance database: https://sibdatabase.socialfinance.org.uk



32 sibdatabase.socialfinance.org.uk
33 https://ec.europa.eu/health/sites/health/files/investment_plan/docs/ev_20170227_co04.pdf
34 Boosting Investment in Social Infrastructure in Europe page VI, Report of the High-Level Task Force on Investing in Social Infrastructure

Sponsored section: Cariplo

Marco Gerevini, Managing Director – Fondazione Housing Sociale

Introduction

During the last 15 years, ***Fondazione Cariplo*** *(or the "Foundation") dedicated a significant effort in supporting the diffusion of an impact investing approach to private investments in the Italian market. At the beginning, the main focus has been in the social housing sector: the testing of an innovative model was positive and the project scaled up at national level. Today, the successful experience of the social housing program and the unique competences acquired have been the basis on which the Foundation built a more integrated approach, in order to facilitate the development of a thorough Italian impact investing ecosystem.*

Since its establishment in Milan on June 12th 1823, the Savings Bank *Cassa di Risparmio delle Provincie Lombarde* promoted social and cultural development and economic growth of local communities, carrying out charitable activities in accordance with the principles of self-organisation.

Fondazione Cariplo was officially set up in December 1991 as a result of a complex legislative process aimed at privatising and modernising the Italian banking system that gave birth to "banking foundations".

Fondazione Cariplo plays a crucial role as catalyst, convening, leveraging resources and fostering a participatory and collaborative approach among key stakeholders of civil society, private and public sectors.

Inspired by the principle of subsidiarity, the Foundation supports the development, testing and scaling of innovative, more effective and higher impact solutions to critical social needs, as well as the dissemination of successful practices. With roughly **€7.5 billion endowment** and c. **€150 million grants per year**, Fondazione Cariplo is ranked among the most important philanthropic institutions in Europe, having enabled the accomplishment of over **30,000 projects** of non-profit organizations supported with over **€3 billion in grants** since 1991.

Social housing: the roots of impact investing in Italy

The creation of Fondazione Housing Sociale

Within the context of its philanthropic mission, Fondazione Cariplo first addressed the issue of disadvantaged conditions in housing in late 90s, conceiving projects aiming at creating sustainable communities and urban regeneration. These initiatives were pioneering and grant-based at the beginning, but quickly evolved into experimentation and feasibility studies that have contributed to orientate public policies and sector operators.

Aware of the limited amount of resources available, the Foundation began experimenting in 2004 an innovative model based on sustainability and ethical investments as an alternative to free grants. The goal of this phase was to expand the range of planning instruments and seek to involve in its initiatives other public and private institutions interested in contributing to the realization of sustainable housing projects dedicated to the weakest segments of the population.

The Foundation's approach to this sector led to **social innovation** via the promotion of high quality real estate projects that deliver social value. The next step consisted in the identification of ways to turn experimentation into best practice, so that new actors could enter the market and replicate or improve the model.

For this reason, in 2004, Fondazione Cariplo created **Fondazione Housing Sociale** (or "FHS"), a new entity with the mission to develop an affordable housing market funded by private investors in Italy. The involvement of Lombardy Regional Government and the National Association of Italian Municipalities (ANCI) as founding members of FHS gives evidence of its public-private partnership nature.

When FHS was set up, the term "**impact investing**" was yet to be coined, though investments aiming to achieve both a financial return and a social or environmental impact were already emerging.

The social housing program set up by FHS and now run by the Italian National Promotional Bank, Cassa Depositi e Prestiti, can be considered as the first structured attempt to create a market in Italy where private investors could put their money to work with a purpose.

Social challenge

Today, after the launch of the national social housing program, FHS's mission is to support and coordinate the actors who conveyed in the social housing sector to carry out social real estate actions, experimenting **new action approaches and innovative solutions** for structuring, financing, implementing and managing affordable social housing projects.

The social challenge is to contribute to **solving the housing problem** of families and people, having special regard to those that are disadvantaged in income and/or social terms. In particular, the target market is made up of the "**grey area**" of families whose income is above the threshold to turn to public housing, but insufficient to satisfy their needs on the real estate free market, thus generating disadvantaged housing conditions.

In particular, it aims at fostering the **creation of pleasant housing and social environments** where people, thanks also to their direct and responsible involvement and supported by an adequate service network, can live and have fulfilling and significant human relations and experience positive relations with the other members of the community.

In order to do this, FHS has acquired diversified skill sets, enabling an **integrated approach** to the development of private social housing initiatives: Urban and Service Design, Community and Social Management and Finance are the pillars upon which rests the goal to **supply high quality dwellings, services and instruments at affordable prices**.

Financial returns

Fully aware of the scarceness of resources available, FHS has - from the very beginning - developed its activity model based on **principles of sustainability and impact investing,** with **ethical real estate funds** as the most suitable tool to implement social housing projects in Italy. Indeed, such funds dedicated to social housing have been designed to support controlled-price rental using the fund as a financial vehicle providing long-term risk capital with **controlled return**.

In other words, investors of ethical funds who are willing **to limit the financial return** they would rely on traditional real estate markets in order to allow social housing projects financial plans to run with prices that are, on

average, 20% lower than the target market, both for rent and sale. Nonetheless, these financial plans are based on **solid financial plans** targeting on average a 3%+ return plus inflation: financial returns while answering the challenge to provide affordable housing and enjoyable life conditions to those identified as the "grey area".

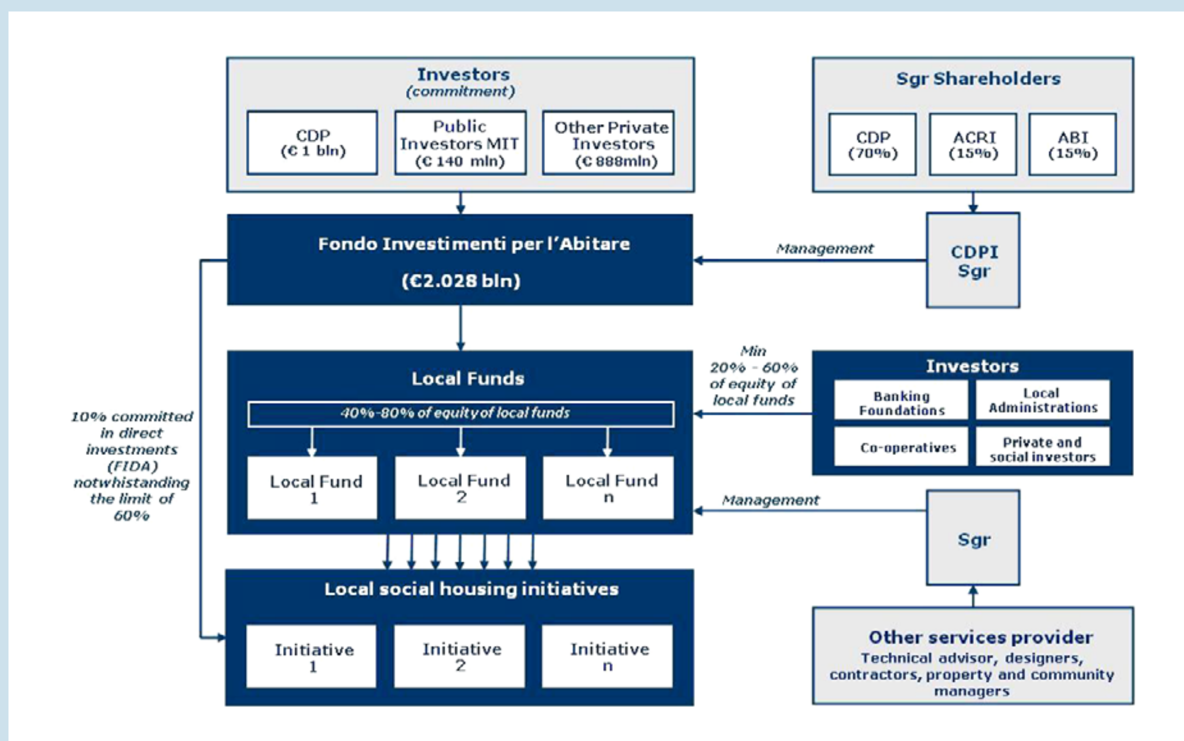
The Italian Integrated System of Funds

The first ethical fund, ***Fondo Abitare Sociale 1,*** was set up in 2006 and raised Euro 85 million from institutional investors (Fondazione Cariplo, Cassa Depositi e Prestiti, Lombardy Region, Intesa Sanpaolo, BPM, Generali, Cassa Italiana Geometri, Pirelli and Telecom) to implement social housing projects in Lombardy.

This successful experience was used as basis to set up the Integrated Funds System ("*Sistema Integrato dei Fondi*" or "SIF") introduced by the National Housing Plan that formally started private social housing in Italy: an innovative way of developing projects and programs aimed at expanding the supply of social housing units using resources and means of implementation proper to the private real estate market.

SIF today accounts for a **total equity of about Euro 3 billion, raised by investors, without any public contributions or grants** and consists of a national fund of funds, the Fondo Investimenti per l'Abitare ("FIA"), managed by CDP Investimenti Sgr (controlled by Cassa Depositi e Prestiti, the National Promotional Bank) with an AUM of €2 billion, which invests in local real estate funds, providing up to 80% of equity with the balance funded by local investors.

Figure 1: Structure of the Integrated Funds System

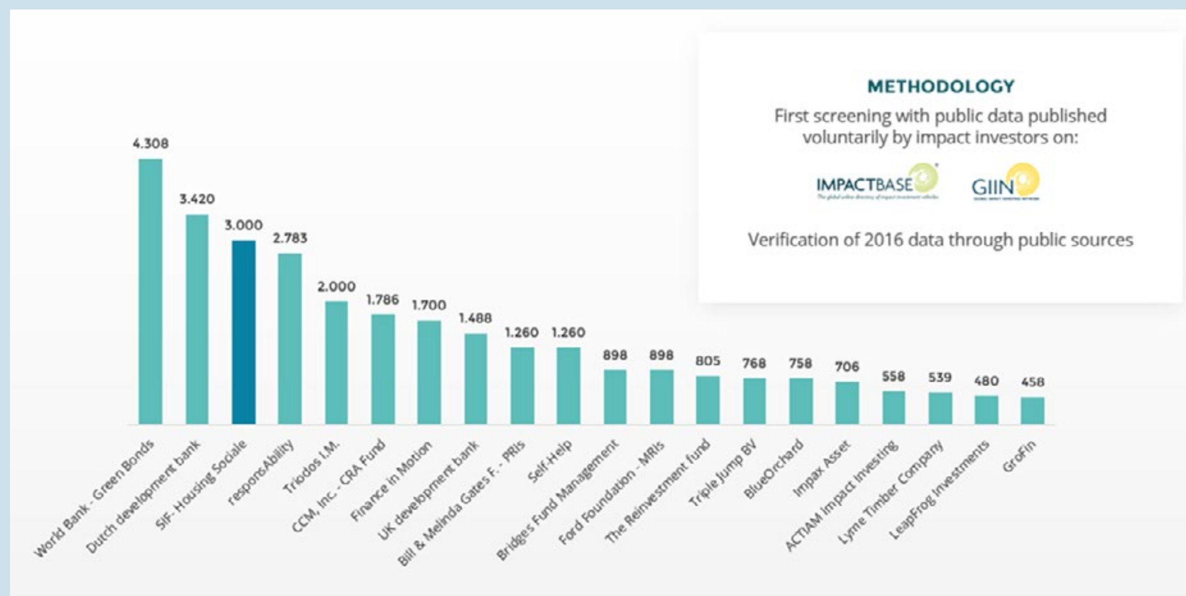


As of December 2017, there are 30 approved local funds (all regulated by Bank of Italy), spread throughout Italy with the aim, by 2021, to build about 20.000 social housing units and 8.500 beds in temporary and student residences at affordable prices.

Every project is planned as an urban project involving redefinition of public spaces, traffic issues and a functional mix of new dwellings; a social project providing commercial services with community impact, high impact social services and sometimes special residential services; and a financial project involving planning and project management. Ideally, all of these elements have to be planned and agreed between local stakeholders and investors at the outset and built into the implementation agreement prior to closing the agreement, and agreement on tender for final building design and development, property allocation and property and community management arrangements.

Once the project has been built, the attention turns on the social dimension of placemaking, developing strategies and instruments to accelerate the natural process of community evolution, undertaking a journey with tenants to quickly establish a high level of trust. A flourishing and thriving community is the essential basis that ensures a long-lasting, safe environment.

Based on a research conducted in 2017 by FHS, elaborating information from the Global Impact Investing Network (GIIN), ImpactBase and public sources, SIF is one of the main impact investing initiatives worldwide in terms of committed capital:

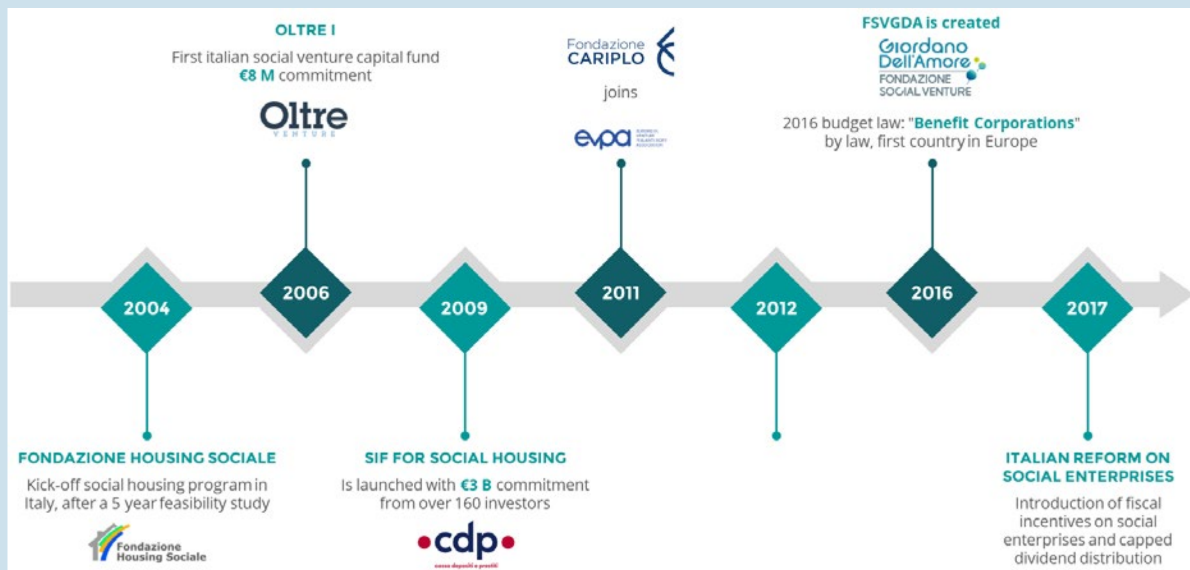


Impact investing in Italy: from slogan to reality

It took a slow process of cultural assimilation and a few framework adjustments for impact investing to turn from a buzzword first, to then something more concrete. The process is still undergoing, with a long road ahead but, since the creation of Fondazione Housing Sociale, few key initiatives have created the conditions for the development of impact investing in the Italian context, including some **changes in the legal and institutional framework**.

In particular:

- The introduction in 2012 of **innovative start-ups** and **socially-oriented innovative start-ups** as a possible legal form for a company, bearing advantages such as fiscal incentives for investors and a waiver on capital losses in the first 3 years, created a growing and clearly identifiable group of possible target companies
- This trend was reinforced by the adoption of **benefit companies** by law in Italy in 2016, a concept that is strictly connected with the B-Corp certification. By the Italian law, a company can be recorded in the benefit corporations register if it includes in its stat-



ute the pursuit of one or more common benefits while performing its business activity in a responsible and sustainable way

- The **Italian reform of non-profit sector** in 2017, introduced important changes that made social enterprises appealing, on paper, to investors seeking high social impact and controlled financial returns (e.g. "impact first" investors)

Current Italian market context

The biggest challenge that investors approaching this market are facing is finding profit companies pursuing a truly meaningful social or environmental challenge, or identifying non-profit or "hybrid" organizations that are also able to guarantee a minimum financial return. Nonetheless, the demand side of the Italian market looks promising:

VENTURE CAPITAL IN NUMBERS (2017)

	SOCIAL	TRADITIONAL
ACTIVE OPERATORS (N)	6	30
NUMBER OF DEALS (N)	15	128
DEALS VALUE (€ MILLIONS)	6	104
AVERAGE TICKET (€ MILLIONS)	0,4	0,8

Source: FSVGDA research and analysis based on AIFA Italian PE&VC report 2016 and private sources

Given the favourable market and legal/institutional context, a growing number of investors and fund managers started approaching impact investing in Italy with a **social venture capital approach**. We are still very far from Italian traditional venture capital, but a recent research made by the Milan Politecnico university estimates that managed assets in this sector could reach **€400 million** within 3 years. This implies that invested capital could reach an average of **€20 million** per year, compared to the current **€6 million**.

Fondazione Cariplo's integrated strategy to support impact investing in Italy

In 2016, Fondazione Cariplo launched a **€20m new program**, Cariplo Social Innovation, dedicated to Social Innovation, Third Sector Capacity Building and Social Finance. It has been conceived based upon the belief that systemic actions supporting social entrepreneurship may contribute to the reduction of the innovation and efficiency gap in the welfare sector, cultural and environmental policies. The program focuses on an **integrated strategy addressing both the demand and supply side of the market** to support social innovation and impact entrepreneurs in Italy.

Capacity building

F. Cariplo committed **€10m in three years** to this first pillar, with the goal of **strengthening the capacity** of Third Sector organizations and the new subjects turning to social entrepreneurship to express **social**, **environmental** and **cultural innovation**, in an economically sustainable way, also via the definition of more **structured demand of capital**. In order to do this, Cariplo Social Innovation's capacity building action, with a €10m budget, includes:

1. A call for grants (from €30.000 up to €100.000) for Non Profit Organizations targeting themes such as organizational empowerment, leadership, generational change and internationalization. The call accounted for almost 200 requests for grant

2. An open source distance-learning program (Cariplo Social Innovation Lab) currently providing courses on subjects such as social business model canvas, financial sustainability, social investor pitch, etc. Some of these courses are mandatory for NPOs to participate in the call for grants

3. A series of workshops, seminars and lectures, dedicated to a wide audience, about the main challeng-

es the Third Sector and social entrepreneurs are facing (Cariplo Social Innovation Talks) that will be launched in 2019

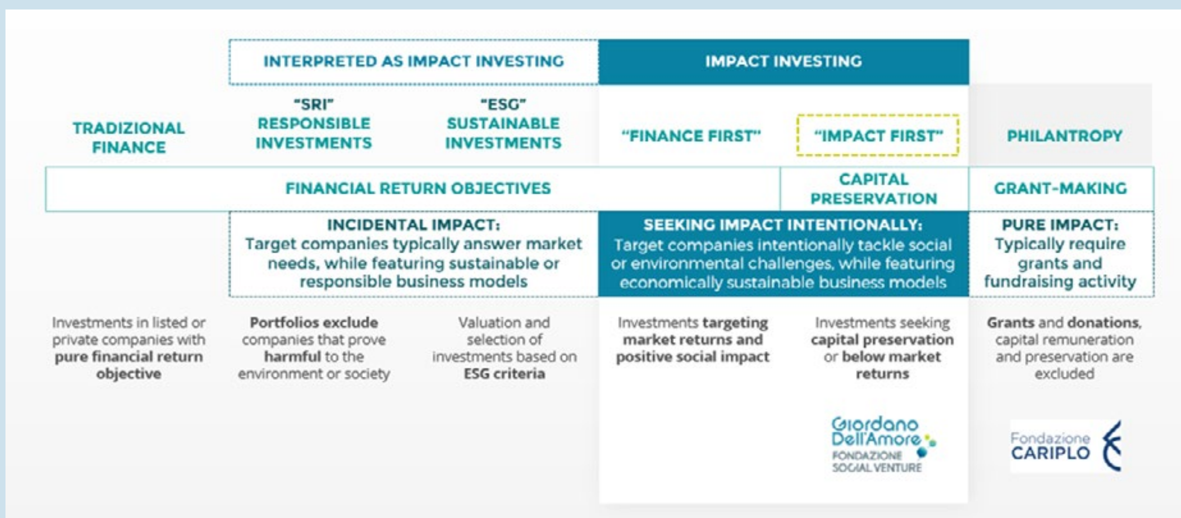
Patient Capital
F. Cariplo committed **€10m in three years** to this second pillar, centered on the activity of a new foundation: **Fondazione Social Venture Giordano Dell'Amore** ("**FSVGDA**").

FSVGDA is dedicated to promote and financially support organizations and companies intentionally tackling social, environmental or cultural challenges in Italy with innovative and economically viable business models, not only belonging to the Third Sector.

FSVGDA provides also advisory services to social entrepreneurs and other subjects in the impact investing and social entrepreneurship ecosystem.

At the same time, FSVGDA intends to support the diffusion of an impact investing culture and market in Italy, together with the enhancement of the whole ecosystem's capabilities.

In the pursuit of its mission, FSVGDA's core institutional activity consists in realizing impact investments, focusing on the "**impact first**" segment with a "**social venture capital approach**":



In fact, FSVGDA invests in securities (typically representing equity), targeting **limited returns** (i.e. capital preservation) over **longer time horizons** compared to traditional investors.

In summary, FSVGDA's impact investing activity is dedicated to two main categories of targets:

- **Social impact funds** (indirect investments): via the acquisition of shares of other ethical funds that support companies running activities in relevant social, environmental and cultural fields
- **Social enterprises**: direct investments and co-investments with other social impact funds in innovative, economically sustainable profit or non-profit organizations, in the form of social enterprises, cooperatives, socially-oriented innovative start-ups or other types of limited companies addressing relevant social, environmental or cultural needs

Notwithstanding the growth of capital supply in the Italian impact investing market, the ecosystem is rich in people with the potential of becoming social entrepreneurs but with ideas or newborn start-ups not yet

ready premature to be appealing to investors. For this reason, in 2017 Cariplo Social Innovation launched **Get it!**, a new program developed and managed by FSVGDA that intends to **create an environment for new social business to grow and thrive**.

Get it! the platform to support new ideas

Get it! is the third pillar of Cariplo Social Innovation, that complements its integrated strategy by providing a platform that connects people with great ideas and potential to express social innovation with all the relevant actors in the ecosystem to **let their ideas turn into actual social businesses**: accelerators and incubators, professionals, mentors and potential investors.

Get it! is designed to:

- Support the creation of **new innovative enterprises** with potential to generate social, environmental and cultural impact
- Foster the growth of **existing, economically sustainable, social impact organizations in their initial stages of development**
- Become an **economic driving force to develop local incubators, accelerators, mentors and professionals** with specific expertise on social issues
- Create new opportunities to **attract capitals into the social entrepreneurship sector**, thus contributing to the development of an **impact investing market in Italy**

The potential beneficiaries of the program are innovative business initiatives and ideas in their **initial stages of development** (e.g. "**seed ideas**" or **newborn enterprises**), targeting **social, environmental or cultural issues**. The presence of at least a member of the team who is below 35 years old and the potential to generate social, environmental or cultural impact in some specific areas are mandatory prerequisites.

The impact areas are identified in the following thematic "**call for impact**":

In each "call for impact", up to 20 initiatives are invited to a selection day where they will be pitching to a jury with a differentiated expertise, which includes each impact area's specific focus but also start-ups experts and investments professionals. The winners of each selection day have free access to a program that includes:

- A **3-months incubation or acceleration program** at one of Get it!'s technical partners based on the teams or start-ups' needs and geographical location. In fact, FSVGDA has selected over 20 incubators and accelerators across Italy with the goal to provide the best possible match for each winner. Initiatives which still do not have a defined legal structure ("**ideas**") will access an **incubation program**, while initiatives with a defined legal structure ("**start-ups**") will access an **acceleration program**

- **Value added services** for all the program's duration, which might include consulting services on administrative, legal and financial matters, workplace, tutorship and networking activities

- **A 3-months mentorship program** to be delivered by professionals with specific expertise to be identified based on the initiatives' needs at the end of the incubation or acceleration programs

Selected initiatives agree with FSVGDA the terms of a **call option** allowing FSVGDA to get a minor stake of the start-up's equity, thus creating a strong partnership and facilitate the growth of the company and its fundraising capacity in the market.

The first two call for impact have totalled over 200 applications, of which roughly one-third ideas and two-thirds legally formed start-ups. **Get it!**'s goal is to provide 50 programs and invest in 20 promising initiatives.

Green Bonds

Green bonds offer new possibilities for investors who are looking for opportunities that incorporate environmental, social and sustainability considerations. Green, Social and Sustainability Bonds have evolved out of this demand. Finance projects with clear environmental benefits are on the rise all around the world. They are regulated instruments subject to the same capital market and financial regulation as other listed fixed income but they can be a valuable tool for issuers to amplify sustainability strategy, forecast risks more aptly and communicate values to investors. It is a win-win situation for both the bond issuer and the investor, as both parties can contribute towards a sustainable future while showcasing themselves as responsible players.

The context in which green bonds are being set up, is rapidly evolving together with new metrics. ICMA's Green Bond Principles (GBP) and Social Bond Principles (SBP), as well as the Sustainability Bond Guidelines (SBG), have become the leading framework globally for issuance of green, social and sustainability bonds.

The GBP and SBP are based on four pillars:

- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting

An External Review is also included as a part of the last check.

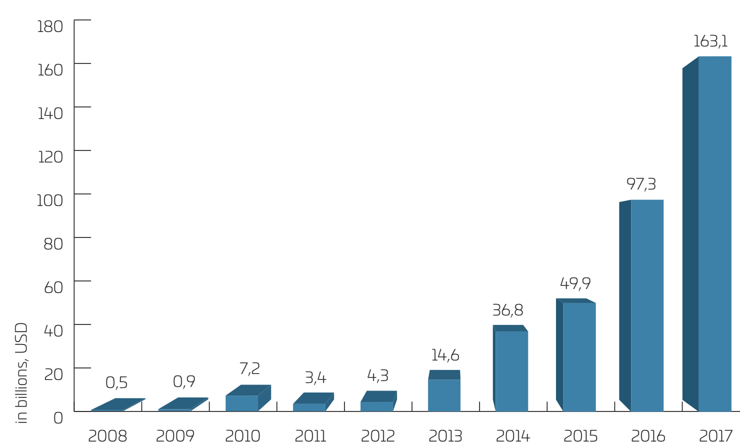
Governments are increasingly playing a role in determining a way forward. China, France and Japan have released guidelines largely based on international best practices. The Securities Exchange Board of India has released listing disclosure requirements for Green Bonds based on the GBP and international market practice and Capital Market Regulators Launched ASEAN Green Bond Standards to drive Sustainable Investments for ASEAN Green Bonds aligned with the GBP.

Like traditional fixed income instruments, green bonds' use of proceeds is specifically aimed at finance environmental or climate-change projects. This characteristic makes them perfectly aligned with the SDGs and while the types of sustainable bonds are rapidly diversifying, green bonds are the most well established among them. Since the first green bond was issued in 2007 with a AAA-rated issuance by the European Investment Bank to raise funding for climate-related projects, the green bond market has witnessed an exponential growth. In 2008 green bonds stood at just USD500 millions[35]. When in 2013 the state of Massachusetts completed a $100 million bond sale to help finance environmental projects[36], it opened the green bond market to new possibilities. The

following year, a Swedish property company, Vasakronan, issued the first corporate green bond, an example which was followed by many others later on.

Issuance nearly doubled between 2015 and 2016, attaining almost 68% in 2017, reaching a total issuance of USD160 billion, setting yet another record.

Figure 19: Bloomberg energy finance, January 2018



The US, China and France accounted for 56% of total issuance in 2017. In the same year, the total green bonds issued in China reached USD 37.1bn, with a 4.5% growth from the previous year. A notable example in Europe came from France, where in 2017, the Treasury issued the first sovereign green bond, enabling the country to borrow €7 billion to fund the energy transition. This was the largest-scale issuance with the longest maturity date ever seen on the young green bond market, as well as being the largest inaugural issuance in its history[37].

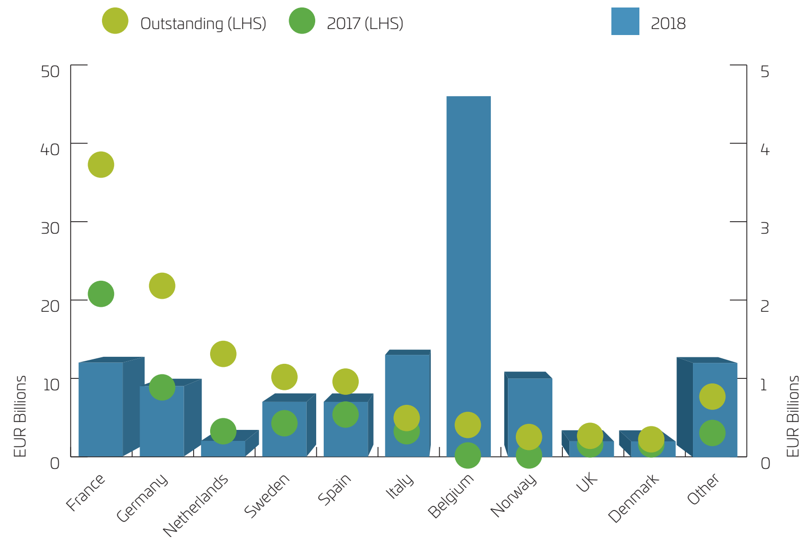
An important trend which is confirmed again is that Europe still leads the way in the issuance market with a cumulative issuance totaling €122bn, which reflects the largest regional amount issued[38]. With 145 entities to market, a third of the global total, European issuers demonstrate a good level of dynamism coupled with a good mix of players between companies, financial institutions and sovereigns. The energy sector features predominantly with over 60% of allocations, the rest is equally distributed among local governments, sovereigns and financial institutions. Investments in renewable energy still represent the biggest share of the use of proceeds, though we have observed an important drop in the financing of low carbon buildings. Projects targeting waste, land use, and adaptation continue to be the smallest, this is partly due to a lack of clear definitions which fuel investors' uncertainty.

The geographies which have excelled in Europe regarding issuance, have been particularly the Nordics and France. According to CBI[39] the total issuance from municipality and sovereign-owned companies in these countries 'exceeds the cumulative amount raised by sovereigns and local government: EUR 24.9bn versus EUR 20.7bn, as of end Q1 2018'.

35 Sustainable Value: Sustainable Issuance as an Investor Signal, Morgan Stanley, 2018
36 https://www.climatebonds.net/market/explaining-green-bonds
37 https://www.gouvernement.fr/en/success-for-france-s-first-sovereign-green-bond
38 Climate Bond Initiative (CBI), The Green Bond Market in Europe report
39 https://www.climatebonds.net/files/reports/the_green_bond_market_in_europe.pdf page 5

It is also worth highlighting the role of Stock Exchanges in terms of their ability to increase green bond visibility, as well as their listing requirements (see next Specialist Section). Promotion of transparency and good practices is on the rise in the segment: this channel investments flow and support the growth[40].

Figure 20: 'Green bond issuance by country' Climate Bonds Initiative (CBI) data as of 31st of March 2018



40 The green bond market in Europe, CBI, 2018

Specialist section:

Interview with Julie Becker – Luxemburg Stock Exchange

The green bond boom has not gone unnoticed by investors everywhere and we have noticed a great level of activity from several stakeholders who want to partake in this adventure. Stock Exchanges have a crucial role to play and the Luxembourg Stock Exchange is a great example of that. Can you give us some highlights of what has happened in the past two years?

It is true that the green bond market has been blooming in the past two years, but its first buds appeared more than 10 years ago. In 2007, the EIB listed the first Climate Awareness Bond in Luxembourg. In 2016, when we launched the Luxembourg Green Exchange, we already had around 100 green bonds listed on our markets.

It was really the COP 21 and the launch of the UN 2030 Agenda at the end of 2015 that shook things up. The international negotiations built momentum for climate action and for the green bond market. In just two years, the number of green, social and sustainability instruments we display on LGX has more than doubled – we now display over 250 securities.

Figure 21: Julie Becker, Head of the Luxemburg Green Exchange, Member of the Executive Committee of the Luxemburg Stock Exchange and Member of the HLEG

We have come a long way in a very short time. When we created LGX in 2016, the challenge was two-fold. On one hand, we had issuers who were expecting more visibility and recognition for their green bonds and, on the other, investors looking for better information on the projects financed and their impact. Our solution was to build a platform and bring them together.

Since there were no clear standards in the market, we had to make sure that investors have access to all the information they need to make their investment decisions. Therefore, we require and ensure full transparency.

We do not judge on the green features of the bonds or underlying projects but we put mandatory requirements in place for an independent external review and regular reporting during the lifecycle of the bond.

We have set the bar very high and encouraged issuers to go the extra mile. The feedback from the market was so positive that we expanded the platform to display social and sustainability bonds, as well as SRI funds.

When you put clear requirements in place and all issuers comply, investors have access to easily comparable instruments. This created competition and a race to the top, which is beneficiary for the market and its development. We could say that LGX managed to create a dynamic similar to what we would expect from a green bond standard. An exchange-driven green bond standard.

This is in line with what we now witness at the European level, with all the efforts to make these concepts we use – green, sustainable, social, ESG, SRI – understandable for everyone. To help the green bond market become mainstream, we need to educate our clients and ourselves. We also need greater standardisation of sustainability terms and more disclosure of relevant environmental and social data.

Speaking of social data, I think it is interesting to note that the social bond market is today at the same stage as the green bond market 10 years ago. I hope that with the knowledge and experience we now have, we will manage progress fast.

How do you envisage the current developments in favour of green bonds and how will a European standard shift the course of the green bonds growth?

Green bonds are arguably the best tool to finance projects that fall under the Paris Agreement commitments or the Sustainable Development Goals. Since the stakes are very high – and the latest IPCC report highlighted the enormous risks we are facing if we do not accelerate our actions –, we must all make sure that proceeds raised through green bonds actually go into green projects. This is why transparency is crucial. Investors need to know where their money is going, if and how the issuers are delivering on their commitments and, where possible, with what impact.

Having a European standard would kill several birds with one stone: it would enhance investors' trust, it would make issuers more accountable and it would bring a sufficient level of transparency to the market. Most of the good practices are already there and market participants apply them. A green bond standard would endorse and harmonise them, allowing for more comparability and acting as an incentive for newcomers.

There are some worries that a European standard could make the process too burdensome, adding layers of red tape where we do not need them. I trust that the European regulators will manage to find the right balance and ensure that the EU keeps its leading position in green finance, as well as its attractiveness for international issuers.

How does the international market regard the European green bonds growth in this respect?

The competition is increasing between different regions of the world. I think they are all watching very closely the developments in Europe and many of them follow the example. It is, however, hard to find a one-size-fits-all approach and I think this is where we, the stock exchanges, have an important role to play. We should be inclusive rather than judgemental and encourage the others to move forward.

At LuxSE, we have been trying to do this with our Chinese partners. Although their national green bond standards and guidelines differ from international ones, we have an ongoing collaboration to display Chinese domestic green bonds. Our objective in doing so is, on one hand, to raise awareness and bring information in English to the international investors' community and, on the other, to encourage Chinese issuers to align with international standards.

We think it works, as we have on LGX several important Chinese issuers, such as the Bank of China, ICBC, ADBC or the CCB, whose green bonds fully comply with international standards.

We see a growing interest for the green bond market on the other side of the pond, as well, despite the US exit from the Paris Agreement. In 2017, the largest overall issuer was Fannie Mae with nearly USD 25bn from its green MBS programme.

Do you have a word of advice for European regulators as they continue to set the pace in sustainable finance in Europe?

I think they should move quickly and keep it simple. We have no time for perfection. It is crucial to be pragmatic, concrete and listen to the market. They should also design regulations that are dynamic enough to allow for innovation and adaptation in line with the market evolution.

SDGs for investors

The 17 Sustainable Development Goals (SDGs) were launched in 2015 with the ambition to end poverty, tackle climate change and fight inequalities, while promising to "leave no-one behind", replacing, to an extent, the 8 Millennium Development Goals (MDGs) set up in 2000.

There are main relevant differences between the MDGs and the new Global Goals which need to be highlighted. Upon their creation, MDGs were largely determined by a small team of technical experts at the headquarters of the United Nations, whereas SDGs have evolved after a long and extensive consultative process including 70 Open Working Groups, Civil Society Organizations, thematic consultations, country consultations, participation of general public through face-to-face meetings and online mechanisms and door to door survey.

SDGs are universal: to the extent that they apply to all countries and actors and holistic in their conception. In fact, they are meant to cover poverty reduction and inequality, sustainability and economic growth, environment in all its forms, healthcare and peace-keeping. MDGs on the other hand, had a specific focus on developing countries, with funding coming directly from rich countries, through an international donation mechanism, mainly conveyed by donor agencies and public institutions. The SDGs framework encompasses all countries, from industrialized, emerging or developing ones, are all expected to join forces in a collaborative spirit. Every country is expected to actively participate in the mission.

The private sector is now far more engaged and is actually considered a real protagonist to lead the way and work with SDGs that cover topics ranging, for instance, from consumption to global trade, which are so close to the business reality and which were not included in the MDGs. The focus on 17 areas go far beyond the high-level ambition to end poverty, work for peace, ensure stability, guarantee human rights and good governance, already targeted by MDGs. The more concrete nature of the SDGs makes them certainly more complex but at the same time more comprehensive in terms of capturing to the fullest the multi-faceted dimensions of global sustainable development challenges. The biggest challenge remains the issue of funding. Due to the comprehensiveness of the Agenda, the role of the private sector is still much underestimated and underexplored.

Nevertheless, since achieving the UN's SDGs will require 'pouring $1.4tn into low-and lower middle-income countries', the private sector and investors will have a big role to play in this journey. For the private sector to act, policy-makers must step up and empower them to mobilise private capital through regulations, incentive structures, and public-private partnerships.

The need to capitalise on the private sector's resources represents an opportunity for investors who are already keen on SRI. SDGs can drive economic and financial growth, setting the framework on sustainable investments and become an opportunity for smart retail and institutional investors, which can shape future markets. Since the beginning of the articulation of the SDGs, investors have seemed rather keen to focus on which SRI strategy is best for the attainment of the Goals. SDGs offer the opportunity (and the challenge) to anticipate market trends, focusing on a range of topics, which are being progressively integrated in financial analysis. Investors who are already making these considerations, are taking a big advantage in respect to those who are not. "Last will be first and first will be last" is not applicable to sustainability.

SRI for SDGs

Several private sector players have been deepening their understanding of investment impact and have already sharpened their strategies accordingly. The adoption of environmental, social and governance (ESG) considerations in investments has matured continuously in the past decades. Promoting ESG adoption throughout the investment value chain can encourage greater private investment in sustainable development, resulting in greater impact. The various actors in the investment value chain, including asset owners, asset managers and companies, have been increasingly including ESG and sustainability information in their reporting processes. ESG integration refers to the explicit inclusion of ESG factors by asset managers into traditional financial analysis. This investment process has been gaining momentum, not only in Europe but across the globe, becoming the most widely used strategy by SRI investors, whose large majority reportedly has a formal integration policy document.

The ESG efforts by the various private actors are consistent with the Sustainable Development Goals (SDGs), but need to be leveraged further to achieve stronger outcomes. Eurosif has recognised different degrees and approaches to ESG integration on the part of investors, as the fundamental methodology for the realisation of SDGs and their ambition. SDG investors can opt to take ESG criteria into consideration to have a positive societal impact, targeting financial returns which can range from below market to market rate returns, committing to both measure and report the social and environmental performance and progress of underlying investments. Since the beginning of the articulation of the SDGs, investors have seemed rather keen to focus on impact investing as the SRI strategy which is best able to embody the attainment of the Goals. This strategy was already the protagonist of Eurosif's SRI review in 2016, as it proved to be the fastest growing strategy and the one associated with landmark events such as the 21st UN Climate Change Conference of the Parties (COP21), which set the framework for further investment in low-carbon technologies and infrastructure. Impact investing foresees specific characteristics which underpin it, these being:

1) intentionality of ESG impact
2) return expectations
3) impact measurement
4) a long-term horizon All the mentioned criteria are linked to all SRI strategies, except for impact measurement, which is therefore considered the key criteria for this investment approach. Eurosif has analysed the impediments to impact investing and has found that there is an interesting correlation between investment barriers and the possibility to gain traction for SDGs. The risks investors see here are actually linked to the lack of set metrics which can hamper the comparability. This can have repercussions on the investor's due diligence process.

Other SRI strategies can also be very helpful for a SDG investment focus.[41]

Best-in-Class, for instance, allows investors to pick those companies that have the best ESG score in a particular sector. It is therefore possible to take a specific performance indicator which is in line with one of the SDGs. For example, when evaluating its impact performance on decent work (SDG 8), investors can measure and track KPIs such as the number of training hours per employee and the turnover figures.

SDG Investing has a long-term perspective, which entails the principle of continuous improvement as much for investors as for investees. For this reason, it is imperative for an SDG investor to be an engaged one, as well as one that is prepared to interface with any issuers present in the management portfolio who are not on track with the SDG targets as part of their business strategies. Through **Stewardship and Engagement**, investors are sure to monitor the progress and keep up to date with the commitments of companies they invest in.

Sustainability Themed Investments is a strategy which includes a variety of themes to allow investors to choose specific areas of investments, typically with a close link to sustainable development. The emergence of new products and focus on certain themes has sharply increased, as demonstrated by the exponential growth in this strategy over the last five years. Sustainability-themed investments that focus on long-term investment themes associated to SDGs, such as water scarcity, energy efficiency, carbon reduction, agricultural yield and access to education, to name a few, can be easily integrated into portfolios. Furthermore, thematic investment proposals can be used to guide other approaches, namely best-in-class, Stewardship and Engagement, and impact investing. Eurosif's research classified the most popular themes for investors which clearly reflects a tendency to support the fight against climate change and renewable energy. For investors to be sure they are truly using the right metrics, they can devise methodologies through which they can track the effectiveness of their sustainability choice, by measuring parameters (i.e. carbon intensity) they can track throughout the entire value chain.

Indisputably, the comprehensiveness of the forward-looking SDGs is an ambitious but demanding challenge for our society.

41 For a comprehensive overview, please visit www.eurosif.org, 'SDGs for investors' report

Specialist section:

Interview with Piet Klop – PGGM

The SDGs are just another way to slice and dice the world's troubles. But there's no denying that this particular presentation has become popular among a variety of organizations, including banks and investors. The 'building highways' report has certainly added to that momentum with all the work currently being undertaken to map investments against the SDGs and to measure the impact of such investments against a limited number of indicators (one of the report's recommendations). I do believe that understanding and communicating our investments in terms of their real world impact is of fundamental importance. In a way that's back to where the industry started –a new beginning- but it also builds on earlier interest in avoiding negative impact (exclusions) and active ownership.

Eurosif has reviewed in a briefing which SRI strategy is best fit to meet the appetite of SDG investors. The main conclusions for the SDG investor rely on a responsibility to ensure that a positive change is made. How is it possible to reconcile this reality with the mission of a pension fund and its fiduciary duty?

We continue to believe that there's a subset of investment opportunities that allows us to deliver market-rate financial returns while contributing to measureable, positive social or environmental impact. As a fiduciary we simply cannot afford to trade off financial return for impact. Nor do we want to: if we are to have a substantial impact on the global challenges put in those 17 colored SDG boxes we need investments at scale. And scale needs a commercial rationale. We accept the pioneering work of impact-first investors but as a fiduciary we're wired differently. While constrained in their impact investment aspirations, fiduciaries but they can bring scale to the effort. They also need time to build the experience and confidence to move from impact investing efforts in liquid (secondary) markets to more 'additional' private market investments.

Figure 22: Piet Klop, Senior Advisor Responsible Investment, PGGM Investments

Can you describe your approach in detail?

At PGGM we focus on four impact themes (climate, water, food and health) that map to five SDGs, and aim for a total of 20 billion euro in impact investments by the end of 2020. For listed equities we have compiled a distinct universe of solution providers for a €2.5 billion mandate. That universe has been compiled on the basis of 'taxonomies' of solutions and eligibility criteria that later on we broadened with APG to cover all SDGs, see https://www.pggm.nl/english/what-we-do/Documents/SDI-taxonomies-APG-PGGM-mei_2017.pdf. The portfolio drawn from this universe is managed for financial return including ESG factors with an expected material impact on company performance.

In private markets –infrastructure, private equity, real estate- we determine on a deal-by-deal basis whether an investment is indeed an 'investment in solution' (BiO, in Dutch) and should count against the €20 billion target. The basis for that assessment by a cross-asset class taskforce is the share of the investment contributing to one or more of the solutions identified by those taxonomies.

Key to our approach is impact measurement by which we sidestep the convoluted debates on intentionality and additionality: in public and private markets alike we demand that investees (companies, funds) start measuring the positive impact they deliver through products and services. That positive impact is weighed up against possible negative impacts or ESG risks in a qualitative way. We offer transparency in lieu of that elusive formula by which we can simply net various impacts. We recognize that impact investments too have downsides and simply want to be able to explain to our pension funds clients, their participants and other stakeholders why we believe a certain investment –all things considered- is a good thing for one or more of the original four impact themes and associated SDGs.

What are the main challenges you still see today?

The main challenge is to avert greenwash. The SDGs are pretty broad and mapping existing investments is merely the first step towards the bigger challenge of measuring what difference our investments are making in tangible terms and to what extent our capital has contributed to that impact. Impact measurement needs to balance credibility with practicality: it obviously needs to capture the bulk of the positive impact generated, weigh the positives against negative impact and ESG risks, while avoiding the sort of complexity that scares off fiduciaries. This is why we have proposed with Dutch financials and companies a limited set of positive impact indicators[42] which we are taking up by mainstream disclosure initiatives such as GRI. This is also why we support UBS efforts at modeling positive impact for the listed equities portfolio mentioned earlier (and their calibration by company data). We are also participating in the Impact Management Project for its excellent work on defining the different dimensions of 'impact' and how companies and capital providers can contribute to it, see http://www.impactmanagementproject.com/.

Do you think that further work on taxonomies is needed regarding the determination of impacts measurement?

Yes, I do. Whereas we have focused on positive impact with our work on taxonomies and eligibility criteria, we recognize that the SDGs can also be used for measuring negative impact of our investments. That doesn't resolve the difficult questions around the trade-offs between different SDGs, but it would present a more balanced account of impact per SDG. Taxonomies will always need more work with the availability of new solutions; they also provide a way to guide investors' thinking about the social utility of their investments. The success or failure of impact measurement however may rest more on our willingness to adopt the 80-20 rule and our ability to make the effort work for investors. Perfection may indeed be the enemy of the good here.

How is the work of the European Commission (Action Plan and SDGs platform) going to help guide your work and help you in devising your future strategy?

All that is really helpful as it concentrates the mind. There is always the risk that in our urge for perfection top-down initiatives lose sight of the investibility of perfect solutions. While we obviously must look at positive and negative impacts, we cannot afford to saddle good ideas with numerous conditions to the effect that they will never take off. I personally believe that we can't go binary on 'green', especially when conflicting impacts and conditions need to be weighed. It is a difficult balance to strike between broad SDGs, investible solutions, and various investor-specific requirements. That balance has a content

42 https://www.dnb.nl/en/binaries/SDG%20Impact%20Measurement%20FINAL%20DRAFT_tcm47-363128.PDF?2018020717)

and a process component –perhaps along the lines of the Green Bond Principles (process) and the Climate Bonds Initiative (content), which should accommodate fiduciaries in their efforts to grow and deepen their real-world impact.

Sponsored section: AMUNDI

Stanislas Pottier, Head of Responsible Investment – Amundi

Since Eurosif Study previous edition, responsible investment has continued to gain significant ground. From governments to central banks, pension and retirement funds, investors, companies, public initiatives and the society in general, there is a global mobilization towards integrating sustainability considerations into financial frameworks.

As the leading European asset manager, with €1,475 billion[43] in assets under management, Amundi is determined to be a driver of progress and change, through innovative sustainable solutions, engagement and support to collective initiatives.

Responsible investing – A founding principle

When it was created in 2010, Amundi has made social and environmental responsibility one of its four founding pillars. We have been a leader in asserting the responsibility of the financial sector in the pursuit of responsible investment policies. This commitment is based on two convictions: the **responsibility** companies and investors have in building a sustainable society, and the belief that responsible investment is a guarantee of **long-term financial performance**. When putting their savings to work, investors indeed must consider the impact on society in general. Secondly, we are convinced that value creation and sustainable development are now linked more than ever: environmental, social and governance (ESG) issues represent financial risk factors for investors and are also opportunities.

We have structured ourselves from the outset to encourage issuers to take ESG aspects into account in the management of their businesses. Our approach is clearly **incentive and transparent**. It is based on a robust and in-depth internal ESG rating methodology, and on a strong engagement policy which goal is twofold: to support companies in improving their sustainable development practices, and to identify the ESG challenges that companies face in order to manage our clients' investments in a sustainable performance perspective.

Amundi currently manages **€280 billion in responsible investments[44]**, representing 19% of its total assets, that are invested in three areas:

- **Applying ESG criteria in addition to traditional financial analysis**. A dedicated Amundi team gives

43 Amundi figures as of end of September, 2018
44 Amundi figures as of end of September, 2018

issuers (currently 5,500) an ESG rating from A to G. This rating may mean certain stocks are overweighted or underweighted in portfolios, or excluded completely. It gives company managements the incentive to improve their environmental and social impact. Assets under management incorporating this policy represent €270 billion[45].

€10 billion of **dedicated funds with targeted investments**, particularly to tackle climate change or finance energy transition. Examples include low-carbon index funds in partnership with MSCI; green bonds, largely from emerging countries in partnership with the World Bank; and a joint-venture with EDF (Electricité de France) to finance energy transition.

- Support for **social and solidarity economy** companies through a dedicated €200 million fund.

Three Year action plan

Amundi has announced, on October 2018, an ambitious plan to significantly increase its commitment to responsible investment. This development is set on precise goals, processes and management rules to extend ESG integration to all Amundi funds.

By the end of 2021, **Amundi's ESG policy will apply to 100% of its fund management and voting practices.**

Extra-financial analysis using ESG criteria will be extended to all fund management, both active and passive, wherever technically possible. All actively managed funds will be required to offer ESG performance above the ESG rating of their benchmark indices or universes. Asset classes currently poorly served by responsible investment, particularly emerging markets, high-yield or small and mid-cap stocks, will fully incorporate the Amundi ESG analysis.

Moreover, ESG performance will be systematically taken into account by Amundi in its shareholder dialogue with issuers and its voting policies.

Regarding thematic funds, related to the environment and social impact, the objective is to double their assets under management in 3 years. Amundi's commitment to solidarity-based enterprises will also be strengthened. Amundi will also strengthen its ESG advisory activities for its institutional clients to support them in their development initiatives. With this action plan, Amundi positions itself at the heart of responsible investing, committed to link its fiduciary and social responsibility to financial performance, meeting clients expectations.

Meeting the SDGs

Amundi welcomed the Sustainable Development Goals (SDGs), as a great potential to transform investors' and companies' attitudes towards sustainability and ESG issues. The SDGs both provide a common language for discussing the progress that a company makes or has to make with the realization of sustainability, as well as a common framework to discuss with investors about their expectations in terms of sustainable investments. That said, meeting the Sustainable Development Goals is a complex challenge that requires collaboration from all: government, civil society, companies, investors, asset owners as well as asset managers. There is a long path ahead of all of us, investors and companies, to be able to make a sound impact on each of the goals and sub-goals. One of key challenges in SDG-investing is that a much bigger ground needs to be covered, from the move towards sustainable business models in development strategies to the reporting, transparency and reliability of impact metrics. That can only be done with a holistic approach, at all levels in the investment chain.

Amundi's responsible investment policy meets the United Nations' 17 Sustainable Development Goals for a more sustainable world, through 3 main areas: ESG Analysis, Thematic Investment solutions and Engagement policy.

The **ESG rating of 5,500 issuers**, with an objective of 100% of issuers covered by 2021 (equaling to about

45 Amundi figures as of end of September, 2018

8,000 companies), worldwide is based on a set of 36 criteria fully aligned with the SDGs. 15 of these criteria are generic, common to all companies whatever their business sector and 21 are specific, depending on each sector's issues. The weight assigned to each ESG factor depends on the company's sector. As an example, one of the 36 criteria deals with employees' working condition. ESG specialists analyze the daily conditions of employees and the management practices towards workers from a selected company. This criteria is directly related to *SDG 8, decent work and economic growth, SDG 10 Reduced Inequalities and SDG 16 Peace, Justice and Strong Institutions*. Another social criteria is the Access to medicine, this topic relates directly to *SDG 3 Good Health and Well-being, SDG 10 Reduced Inequalities*. Amundi has set these criteria as a basis of its ESG analysis. The United Nations' goals for sustainable development pushes certain aspects that are 21st century profound issues. Amundi follows those SDGs with the purpose to achieve sustainable and inclusive growth.

Moreover, Amundi applies a **targeted exclusion policy** that applies across all its management strategies. We exclude companies that do not comply with our ESG policy, with international conventions and texts with a universal scope, nor with national law regulations. We also implement targeted sector exclusion, on coal for example: exclusion of issuers that derive over 25% of their revenue from coal mining or that produce more than 100m tons of coal each year. In 2017, more than 240 issuers were concerned by our exclusion policy.

The second main application is the selection of companies that are eligible to our **ESG and thematic solutions**. In the field of energy transition, Amundi offers an innovative range of solutions from low carbon funds, green technology and green bond strategies (including impact funds) to green physical assets financing. Bond solutions focus on green bonds with strategies funding the energy transition and searching for impact. Equity solutions on their side focus on sustainable corporates with strategies covering hedging climate risk, green technologies, water solutions, or natural resource solutions. Real asset solutions seek to finance green physical assets. Finally, we also develop a range of social impact funds designed to offer a financial performance objective with a measurable social impact.

These solutions meet, on one side, the expectations of investors concerned by environmental and social issues and, on the other side, the financing needs of companies which contribute to sustainable development. These specific initiatives contribute to the development of various SDGs.

On top of SRI, thematic, or impact investments, it is also key to mainstream SDGs considerations across all kind of sectors. To see a significant increase in responsible investments, there must be issuers engaged in an approach of continuous improvement, aware of the value placed on environmental, social and governance criteria. That is how progress will be achieved on a larger scale. Amundi implements an active **engagement policy** designed to support companies on the major issues of sustainable development, in line with the SDGs. Our active dialogue with companies, as part of our engagement for influence, addresses topics that are in line with specific SDGs (for example, our thematic study "the food challenge" deals with questions related to SDGs n°2 "Zero Hunger" and n°3 "Good Health and Well-Being").

In 2017, Amundi's Engagement for influence was articulated around a new theme: The living wage in the textile, food and semiconductor sectors. Our ESG analysts discussed with companies about their policy, the implementation of their strategy and the performance monitoring of several indicators such as the level of knowledge of the supply chain, the integration of wage issues in the supplier selection process, the existence of a living wage strategy and the gap versus observed wage, the calculation methodology, the education of employees to improve productivity, the controversies related to this wages. This work allowed us to address issues linked to *SDG 12 Responsible consumption and production, SDG 8 Decent work and economic growth*

and also *SDG 1 against poverty*. ESG Analysis also executed an interim evaluation of a theme initiated in 2016 about child labour in the tobacco and cocoa production sectors. In the world, 152 million children are forced to work, 70% of them work in the agricultural sector and half of them in Africa. This engagement, linked to *SDG 8 Decent work and economic growth* and *SDGs 16 for justice and strong institutions,* demonstrates that despite improvements at some companies in terms of dedicated policies, farmers' education and community members and transparency, these same companies are still subject to controversy, especially in the cocoa sector. Details about assessment and recommendations made to companies are available in Amundi's 2017 Engagement report on www.amundi.com.

These examples illustrate Amundi's ambition to continue acting as a driving force to change issuers' practices, in response to growing demand from investors and more generally the civil society.
The integration of ESG criteria, Amundi's responsible solutions and its engagement among issuers conduct Amundi in the development of its responsible investment as part of its essence.

Specialist section:

Interview with Magnus Billing – Alecta

Alecta's focus is to support a sustainable pension system and ingrained in your business model, there is a conscious willingness to do that by engaging with the companies in your portfolio on one side and the beneficiaries on the other. This is a virtuous circle which should inspire other pension funds. Did you face any challenges getting there and what would be your word of advice to others?

In our experience this virtuous circle is enhanced by an active management model based on fundamental in-house analysis with a well-diversified but limited number of holdings. It will furthermore benefit from acting as an owner and hence having aligned objectives of long-term value creation, i.e. a long-term view capable of seeing through bad as well as good times. The reason being that the effectiveness and impact of your engagement increases with the establishment of a relationship based on mutual trust. Such a relationship requires time and capacity to build up. Some of the main challenges, and more importantly opportunities, are related to the investments an asset owner must do. An investment predominantly of time and resources to procure that you fully understand the value creation of the business model operated by the entity you invest

Figure 23: Magnus Billing, CEO of Alecta and member of the HLEG

in. I would argue that is a key starting point for you to start building a long-term relationship based on mutual trust with the company. Based on this you can enter into a meaningful engagement about the SDG goals that you have set for yourself as an investor. Alecta is a mutual company, meaning our beneficiaries are our owners, hence there is no conflict of interest – our fiduciary duty is to create value for the occupational pension, and it is our conviction that this is the most efficient model to do so.

Information asymmetry in the relation with the client does not allow for long-lasting and sustainable relations. The tide on fiduciary duty is turning in favour of sustainability; and yet the work of the Commission shows how important it is to get further clarity and alignment on definitions. In that respect and as member of the HLEG, do you think there is still a long way to go before we 'get it right'?
I see three strong trends in the marketplace that I believe provide clear impetus for fiduciary duty more strongly favoring sustainability. The first one being the clear message from the customer base, that they expect their pension fund to be managed sustainably. This is imperative to almost 2/3 of Alecta's customers. I am certain that our customers are no different from other customers. We should therefore, as an asset owner or asset manager, respond adequately to this demand from our customers. Otherwise we are at risk to fail our fiduciary duty. The second trend that we observe increasingly in our holdings is the incorporation of ESG factors in the business models we invest into, i.e. ESG is becoming a critical feature for value creation, with both risk and opportunity dimensions. We see this in many business sectors like real estate, transport, energy and retail. This trend should be supported and encouraged by investors' engagements and it will further enhance the necessity for consideration of ESG factors as part of the fiduciary duty. The third clear trend is the regulatory drive in Europe to abolish the hurdles for mainstream capital to be more substantially allocated towards sustainable investments. I hold the opinion that these trends will together significantly develop the European financial markets into a much more sustainable financial market and it will gear the fiduciary duty to increasingly encompass sustainability.

ESG went from niche to almost mainstream, and it's here to stay. This shift is possible because there is increasing demand. We are witnessing an unprecedented shift in terms of commitments from asset managers who now compete to become increasingly ESG compliant. And yet there is no alignment on what that means and investors, particularly retail ones do not know what good looks like when it comes to sustainable investing. Do you think a European standard would be the solution?
I think this is one of the most important issues to safeguard more sustainable investments going forward. We should make it easier for retail investors to assess what impact their investments have from a sustainability point of view. It must be more standardized, more accessible, more consistent and more comprehensible for retail investor. There are today too many standards and labels. We furthermore lack to a certain extent consistency and clarity. I do think that European standards would be helpful to install confidence in retail investors that their sustainable investments contribute to progress aligned with society's interest, or international commitments such as the Paris agreement. With that said, we are now seeing a diversity of sustainable investment approaches which is a positive development that should be encouraged if critical principles of consumer protection are met. I believe these can co-exist to meet different investors' needs.

Alecta, as one of the founding signatories, initiated last year The Stockholm Declaration, whose signatories now have a total of over $1 trillion, and which symbolises a firm commitment to integrating the 17 Sustainable Development Goals (SDGs) set out by the UN into their central framework. Investors seem very excited about their potential. Do you think they are concrete enough tools to spur growth in SRI even for the retail market or do you think in the long-run they will remain confined to a niche for institutional investors?

The 17 SDG have among other things given us an investment platform. It provides us with a language and a map for sustainable investments and it caters to different investors, in that it can be used in a variety of ways – developing financial products that focus on one theme, or more broadly linking investments to the Agenda 2030. If you add to this the clear demand from retail that their investments should also work for a more sustainable world, it is clear to me that we will see growth of SRI in the retail space.

Finally, having worked so closely with European regulators in the past years and in view of your career and experience in the financial sector, what do you think investors still need to 'make it happen', if anything at all?

I have mentioned above three drivers providing strong impetus and momentum for investors to meaningfully increase capital allocated towards sustainable investments and raising the bar for sustainability across the investment and business community. However, I do think we need to see a stronger pipeline of investment opportunities for sustainable investments beyond the listed equity assets. A pipeline containing large scale investment opportunities well suited for large volume, illiquid, long term stable cash flow, i.e. adequate for long term pension capital.

The EU on SDGs

Since the first definition of sustainable development was introduced in the "Brundtland Report" in 1987, the European Union has always been committed to pioneering the execution of both sectoral projects and multidisciplinary initiatives, since 1997, firmly anchoring them to its Treaties.

Sustainable development has long been a central policy objective for the European Union: the first EU Sustainable Development Strategy was adopted in 2001 and set out a single, coherent plan on how to meet the challenges of sustainable development in the EU. Revised twice in 2006 and again in 2009, it reaffirmed the overall aim of a continuous improvement in the quality of life of citizens while ensuring prosperity, environmental protection and social cohesion. On the 17th of June 2010, the European Council adopted the Europe 2020 strategy, which put forward three mutually reinforcing priorities for smart, sustainable and inclusive growth which represented the practical implementation of the EU's policy agenda for sustainable development.

SDGs are unprecedented in terms of significance and scope and they critically rely on a global set of partnerships to enable the mobilization of resources, including financial and non-financial ones. The 2030 EU Agenda provides again a historic opportunity for the EU and its Member States to be global front-runners in the area of sustainable development. The EU has been tracking with the 2017 Eurostat report[46] a set of indicators which give insights and describe the progress on SDGs. According to the latest data available from the report, the EU has made significant progress over the last five years towards the overall achievement of SDG 7 'affordable and clean energy', SDG 12 'responsible consumption and production', SDG 15 'life on land', SDG 11 'sustainable cities and communities' and SDG 3 'good health and well-being'. For instance, for education, which is commonly seen as key enabler for other SDGs, up to 94,8% of children in Europe start compulsory education, while early leavers are a still high percentage (10,7) but down to almost 3% less than 2011. Again, tertiary education attainment (39,1%) and the number of graduates (78,2%) have both risen since 2011, while the population aged between 15 to 29 not employed, following an education or training course, has since fallen.

At EU level, disparities in disposable household income have been converging, while gender gaps have been narrowing, with an increasing proportion of women in both national parliaments (+3,6% since 2012) and in senior management positions in the largest listed companies (+24,6% since 2012). In general terms, gender employment gap and gender pay gap have narrowed. For what concerns 'climate mitigation', the EU is well on track to reach its targets for greenhouse gas emissions, renewable energies and energy consumption. The greenhouse gas emissions intensity of energy consumption has improved

46 "Monitoring report on progress towards the SDGs in a EU context" pages 149 and 91(Eurostat, 2017)

since 2000, in particular, due to higher shares of renewables and less consumption of oil products and coal.

Between 2001 and 2016 resource productivity in the EU increased by 38.6%. While the EU economy (in terms of GDP) grew by 20.7%, domestic material consumption decreased by 13.0%, indicating absolute decoupling of material consumption from economic growth. This is a positive indicator which shows the extent to which the EU was able to continue improving living standards and quality of life without sacrificing the natural resource base they depend on[47].

The European Commission and the Members of European Parliament have worked hard with the aim to provide the broadest set of common rules to the member states. For example, a Multi-stakeholder Platform on SDGs, chaired by European Commission First Vice-President Frans Timmermans and whose members are either individuals or organizations (spanning from academics to World Bank Group), was set up on 22 May 2017, in order to:

- support and advise the European Commission and all stakeholders involved on the implementation of the SDGs at EU level
- support and advise the European Commission in relation to Commission events on sustainable development
- help to prepare the selection process of an annual sustainability award
- provide a forum for exchange of experience and best practice on the implementation of the SDGs across sectors and at local, regional, national and EU level.

The first meeting took place on 11 January 2018 in Brussels for prioritizing future initiatives and discussions, monitoring and reporting on progress and mainstreaming the SDGs in the Multiannual Financial Framework. Participants also agreed to work on a contribution to the EC's reflection paper titled, 'Towards a sustainable Europe by 2030.' The reflection paper is part of the 'Future of Europe' debate, which the EC launched in 2017. The platform also decided it will help the Commission with the selection process for an annual sustainability award, and that it will support and advise the Commission on sustainable development events.

47 "Monitoring report on progress towards the SDGs in an EU context" page 239 (Eurostat, 2017)

Specialist section:

Interview with Christian Thimann, Chair of the High-Level Expert Group on Sustainable Finance

SDGs are increasingly becoming not only an investors' tool but also an interesting policy tool. Particularly in reference to the work of the European Commission Multi-stakeholder Platform. This Platform was set up to device a European agenda for SDGs for 2030; what concrete results con investors aspect?

Well, SDGs face extremely difficult challenges in so many different areas. In a lot of them, finance is key to answering to issues that these challenges face us with. Regulators are going to have to work really hard in order to achieve a concrete set of results by 2030. Both retail and institutional investors are given a great opportunity to take part in SDGs development and enhancement. But, they need a precise and forward-looking regulatory framework in order to manage their investment decisions in relation to opportunities and risks. The most important duty for policy makers is to link SDGs with the investment chain and provide investors with a clear regulation and an incentives structure. It must be clear what investment is needed to make economic prosperity sustainable; investors have the right to expect to be facilitated in long-term investments and long-term lending. This also means that regulators need to remove obstacles to long-term investors and in particular attenuate the short-termism inherent in current financial markets. Insurance companies and sovereign wealth funds are classic institutional long-term investors and can foster the investment in education, infrastructure, environmental projects, old-age protection through life insurance.

What have been the Multi-stakeholder Platform's main challenges in the course if this mandate?
As the High-Level Expert Group, the Multi-stakeholder Platform has been an ambitious idea from the Commission. It is of deep importance to prioritize issues on the different areas of sustainability, at local, national and EU level and respect the principle of subsidiarity that is critical to the European construction and its acceptance by citizens. Sustainable development is a continuous process for policy-makers.

Figure 24: Christian Thimann, Chair of the HLEG and currently CEO of Athora Germany

As the chair of HLEG you have been a key player in the enactment of the European Commission blue print for sustainable finance. How do SDGs fit into the European Commission sustainable Action Plan?
The HLEG has been set up to identify an overarching strategy to integrate sustainability issues into the European financial framework. Specifically, Sustain-

able finance refers to finance fostering the sustainability of our economic prosperity. This also means to integrate ESG factors into financial investments decisions and financial services. In a broader sense sustainable finance is a system that only eases and encourages financial stability, but also one that solves the long-term issues of our planet. That is the aim of the European Commission Sustainable Finance Action Plan. Like SDGs, it is an all-in-one package: economic, social and environmental issues are considered and targeted to be tackled and their challenges resolved. It is therefore of crucial importance to have a system that fosters long-term orientation and serves much better our community. In this sense, SDGs and the Action Plan have the same background. We can say the latter is the natural financial extension of the first at EU level, they perfectly complement each other in terms of premises, methodology, language and goals.

Can the European Agenda for SDGs be an engaging tool for foreign investors?

The European Union has always been a pioneer in terms of facing development in all its forms, so much so it is strongly grounded in the European Treaties. Europe' duty is "simple": continue to lead while facing challenges around sustainable development. Europe is an opportunity for foreign investors and vice versa. Forward-looking investors can satisfy their appetite for sustainable and responsible investments and the European Union can efficiently orient their resources to reach a profitable and productive allocation through multiple sectors. For a successful implementation of this process, I get back to my first answer: investors need stability to focus on long-term investment; regulators must attenuate short-termism in many segments of capital markets and avoid that the daily ups and downs of financial markets do not unduly destabilise the long-term orientation.

Sponsored section: Candriam

Naïm Abou-Jaoudé, CEO – Candriam

The Dawn of a New Era

Do you remember when you first heard about responsible investment? Growing awareness after the 2008 financial crisis remained rather confidential, a matter for enlightened specialists. Driven by the climate emergency and other critical societal issues, awareness is now growing rapidly and has reached global proportions. There is a strong chance that 2018 will mark a new unprecedented acceleration... which will probably be nothing compared to the one to unfold in 2019 and the years thereafter.

Since COP21 held in Paris three years ago, in 2015, the race against global warming has mobilized States, regions, cities and companies. The more general subject of the sustainability of our economic, social or political systems and, more broadly, of our "good old Earth" is raising awareness, perhaps to the point of disrupting our lifestyles and consumption one day soon.

Investors do not derogate from this rule, and I am not referring here to the loyal readers of the Eurosif report, for whom the subject has not had any secrets for a long time. Investors around the world and their agents are quickly awakening to this new approach to investment: in Europe, but also in the US, UK, continental Asia and Japan, they are revising their analysis grids, rethinking the concepts of risk and return and redefining their "long-term" approach.

Responsible investment has often developed with crises: wars, certain ecological tragedies such as the Chernobyl or the Exxon Valdez disasters in the 1980s, and – as we have said – the 2008 crisis have led financial players to question themselves repeatedly about the extra-financial risks associated with their investments.

The big difference between this "before" and today is that the subject of sustainability has freed itself from its temporal contingency: it is here now, it will be here tomorrow, it is here to stay...!

Above all, it will only amplify and, unless you close your eyes so you don't see and cover your ears so you don't hear, its consequences are becoming more obvious every day. Responsible investment has a quality soil here that it has never experienced before; time has become its natural fertilizer.

On the road to Mainstream

Over the past ten years, Europe has built up a formidable laboratory of ideas, a real experimental factory. Under the impetus of some great visionary institutions to whom we must pay tribute today – the sovereign wealth

funds of the Nordic countries in particular – the subject has grown in maturity and technicality. Research has developed, enriched knowledge. Agents have structured themselves to meet the growing demand: today, the clear majority of pension funds require the integration of non-financial criteria and the creation of impact indicators. Just five years ago, it was 1 out of 10!

From this European blossoming, the world is drawing on an agreed vocabulary, a diversified offer across all asset classes, teams and know-how that place a few continental managers, including Candriam, at the forefront of the industry.

Better still: from a niche, responsible investment is becoming the norm. In some countries, it is no longer the preserve of institutional investors alone: it is also gradually becoming established among fund selectors, distribution networks, financial advisors and even sometimes the ordinary saver, particularly Millennials and women, whose sensitivity to the subject is very high. France is a good example. Thanks to the implementation of article 173 of the Ecological and Energy Transition Act, it has been able to mobilize energies and point the way forward.

"Are my investments in line with my values? Which companies, sectors and projects do my savings stimulate? What vision of the development of our communities do they support? How, if at all, can I orient them differently? What impact can I have on the course of the world?" are simple questions from which many savers had detached themselves. With a little curiosity, they will be able to find the answers, much more easily today and tomorrow than they would do a few years ago.

Adding heart to reason

For experienced investors, the reasons for the craze are above all very pragmatic. The money entrusted to them must be made to grow and responsible investment appears to them above all as a way of preventing many risks that simple financial analysis fails to detect. Examples abound. The recent drop of the Facebook stock price following the scandal of the leakage of personal data from 87 million users provided a good illustration of this; simple financial analysis does not have the weapons to identify and anticipate a problem of this kind.

Beyond risk management, does the performance of a fund or mandate suffer from its responsible bias? To this question, which has long been opposed to the advocates of a responsible approach to investment, academic studies are providing clear and straightforward answers. Today, they no longer have to prove that responsible investment generates a higher or lower performance than "traditional" investments: over longer period of time, it has been demonstrated that management integrating non-financial criteria will make the difference – Candriam's SRI strategies offer some striking examples.

Better risk control, positive long-term outperformance: there is therefore nothing to prevent the phenomenon from growing "reasonably". But the boom is so strong that reason alone cannot be held solely responsible. This is the magic of responsible investment: it gives the saver or investor the feeling of being the sole master of the destiny of his savings. To Finance, responsible investment gives back a form of lost pride and a sense of social utility that it had lost for some time on the way. It reconciles her with herself.

The state of emergency

Despite the critical circumstances in which this exceptional movement is taking place, we can only welcome it and hope that it will spread as quickly as possible. Time is running out: to finance the low-carbon transition, the IPCC[48] estimates that $11 trillion a year must be mobilized now.

An optimistic look will indicate that the demand for sustainable investment solutions – thus facilitating

48 The Intergovernmental Panel on Climate Change (IPCC) is an intergovernmental body of the United Nations, dedicated to providing the world with an objective, scientific view of climate change and its political and economic impacts.

this transition – is increasing rapidly. This is a very good sign for the orientation of savings, since it is demand that still largely drives asset management: the ESG investment market has grown by 25% per year over the past four years and, within ten years, we are convinced that it will no longer be possible to find an institutional mandate without ESG filters. The number of strategies created or transformed into responsible funds is exploding and volumes are increasing exponentially: the "snowball effect" that has seen European SRI funds gathering more assets in the last two years than during the previous four years is expected to accelerate further in the coming years.

On the other hand, the work that remains to be done is absolutely gigantic. A few figures are staggering: less than 1% of the investments of the largest public pension funds ($90 billion) and less than 0.5% of the investments of the largest insurers ($70 billion) are now labelled "low carbon" according to ShareAction's rankings[49]. Another striking figure: only 10% of public pension funds have policies in place to exclude coal from their portfolios.

Why, despite the urgency acknowledged rather unilaterally, are these figures still so modest, and how can acceleration be strengthened and standardized?

As we said, responsible investment is still essentially an institutional investor issue in continental Europe. Elsewhere, it is gaining momentum – quickly, but there is still a long way to go.

A few stumbling blocks slow down the movement. Working to resolve them would help to promote the trend. At the center of these is the establishment of a common language and framework. Responsible investment is a quite new topic. The approaches and concepts are recent and developing, it is still a changing and unstable universe: it is difficult for investors to find their way around the offer of methodologies and to obtain standardized measurement elements that would allow them to assess the real impact of their investments.

SDGs: particle accelerators?

Created in 2015, the 17 UN Sustainable Development Goals (the "SDGs") provide a first framework from which the construction of a common reference system for guiding savings flows seems possible. As a reminder, the SDGs have defined 169 targets to be achieved by 2030. These targets are common to all countries involved and meet the following general objectives: eradicating poverty, protecting the planet and ensuring prosperity for all. They require estimated annual investments of between $5 trillion and $7 trillion.

The SDGs create a kind of common language that allows investors to talk about their societal impact... and savers to understand them better at all levels: institutional or private. Finance players should therefore be able to show, for all their investments, how they are addressing specific SDGs.

For an asset manager, the first question to ask is therefore: how to contribute to these objectives through portfolio management? Candriam is already able to show its alignment with the SDGs, as our historical SRI analysis methodology has been developed on similar pillars and is therefore easy to reconcile with the SDGs. For example, we analyze the theme of "climate change" across all our SRI assets, and companies' exposure to this theme through their business models: do their activities contribute positively or negatively to climate change? We can therefore already link our investments to Objectives no.7, 11 and 13 – "Renewable Energy", "Sustainable Cities and Communities" and "Climate Change". Looking further afield, our objective is clearly to align all our fund management with the SDGs and to propose indicators to monitor our impact.

Although, for Candriam, this practice will soon become widespread, there is still a long way to go to make the SDGs homogeneous and generalized indicators of en-

49 The Engagement Deficit: Ranking Auto-enrolment Pension Providers on Responsible Investment and Member Engagement & Communications

vironmental and social impact. In 2016, 75% of asset managers claimed to take sustainable development objectives into account in the investment process, but the reality is less rosy and there is a significant risk of "SDG-washing", as the interpretation and way of contributing to SDGs are arbitrary and at the discretion of asset managers.

At this stage, however, it is more important that the enthusiasm and knowledge of the subject progress. SDGs help to focus on the notion of impact and provide a framework and long-term objectives: this is the most important thing today. Moreover, in an era of over-regulation, it is important that the normative frameworks adopted are not too coercive and allow the variety of approaches, which are a source of innovations beneficial to the system, to be maintained, while pointing to the star in the sky. SDGs offer both advantages.

Continue to lead by example

Candriam is at the heart of these advances and reflections. Our objective is clear: to direct capital towards investments aligned with global challenges such as climate change, resource depletion, digitisation, demographic change, and to ensure that this long-term vision is embraced by as many people as possible.

This is the key to our quest, and it has not changed in more than 20 years!

Since 1996 and the creation of our first responsible funds, Candriam has developed a pioneer and industry leading expertise. A sign of the times: 50% of our 2017 asset gathering was for responsible investments and 2018 is on the same path. Candriam is one of the fastest growing players in Europe, thanks to SRI today, so it is proof that you can succeed when you have a sustainable and long-term approach to your business. We are now harvesting the fruits of the trees we planted more than 20 years ago and hope to harvest the fruits of the trees we are planting today in 20 years.

This is the vision which led to the recent exclusion of all Candriam's holdings in thermal coal and tobacco producers as well as chemical and biological weapons manufacturers – this was already the case for our €30 billion in SRI assets, but now this includes all our investments. Beyond the fact that these investments are increasingly incompatible with our ethical and sustainable objectives, we believe that the long-term business foundations of thermal coal and tobacco companies are no longer viable.

By divesting ourselves of thermal coal, tobacco and weapons, we can free up capital to invest in better opportunities, to companies whose economic fundamentals are better and more sustainable and which we believe offer better long-term prospects for our clients' investments.

We are aware that our decision will have a limited immediate impact, but in the long term, we know that it is the right thing to do. We also hope that it will inspire other institutions and financial agents to move forward in this direction; it is collectively that we can have a real impact on mobilizing capital for sustainable projects.

All actions matter

It is this vision, too, that guides Candriam's upcoming initiatives notably on innovation: we will soon launch original thematic equity funds on topics related to the SDGs and take our field of action a step further with the launch of an impact fund of funds, which will invest in local "social" private equity projects in Europe.

Of course, our role does not end at the investment stage: if, in the future, we continue to act in the distribution of capital, we will at the same time deepen our active shareholding, that is, our ability to influence companies, to direct them towards cleaner ways of doing business, to respect their employees. Either alone or – again – in association with other like-minded investors.

Finally, as we have said, we firmly believe that educating investors on responsible investment is one of the keys to the success of financial actors' engage-

ment, both to help them better read in a transparent way the offer offered to them in a very aggressive way, and to better orient demand. We will therefore multiply initiatives in this area, both in terms of our reporting (Candriam already provides its clients with reports showing several impact measures, like the carbon footprint of certain funds) and in terms of pedagogy under the aegis of the Candriam Academy – our training platform for SRI online precepts – which has gained momentum and which we will deploy throughout Europe in 2019.

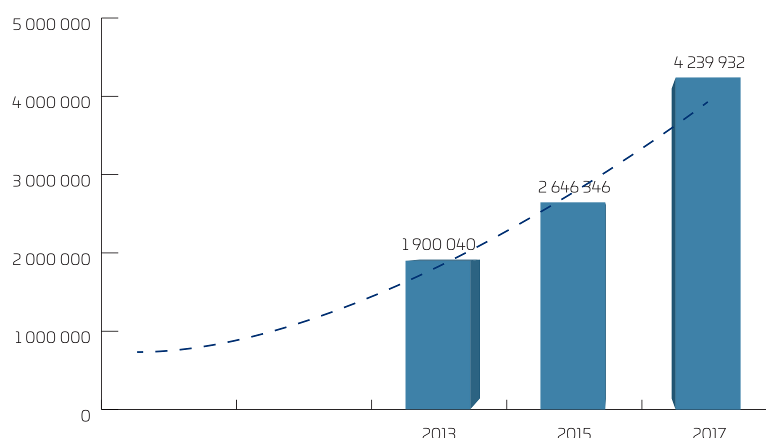
The contribution of finance, through the orientation of assets, to sustainable development is a gigantic undertaking and time is running out. But the momentum is accelerating as governments, regulators, institutional investors and savers become more aware of the consequences – positive or negative – of their investments. Initiatives are multiplying, innovation is galloping: there is no doubt that we are entering a new critical and exciting era in which asset management has a key role to play.

ESG Integration: towards defining a method

Integrating ESG considerations in the investment strategy has been the subject of much discussion not only among investors but also at a policy level in the past two years. Many observers, including those in the sector and those coming to it for the first time, see applying an ESG screen as an easy way to embed sustainability considerations in the stock selection. The issue, of course, is how it is done.

Sometimes this strategy is considered as a general proxy for the SRI industry as a whole, a factor which can potentially increase information asymmetry for investors as it oversimplifies an industry which has grown in maturity and sophistication over the course of the last 10 years. In fact, the expectations on ESG integration have probably grown at the same pace as the industry in asset terms as SRI thinking has spread, and perhaps faster in intellectual terms as all "new" concepts – impact, the need to combine all of E, S and G for a just transition, and many single issues – have to be included. From a rather inadequate, tick box approach to a well-defined integration strategy embedded in the investment process, there is a vast range of possibilities, called ESG Integration, open to investors today. In the last review, we reported **that due to the significant lack of clarity in the parameters governing the integration of ESG factors, it remained very difficult to assess the extent to which strategies that fall under the same denomination can in fact be comparable**. As highlighted earlier in this text this is still the case, and we consider that it is still probably impossible to run a comparative analysis able to guarantee that ESG integration is consistently approached in the same way across investors and investments. A method needs to be established going forward, on the way the strategy is being applied and what it means for different investment houses. The work of European policy makers in helping define clear categories of investments can do much in this respect and we look favourably on future developments in the framework for sustainable finance and particularly around the evolution of taxonomy at European level. With this goal in mind, we started asking our respondents to indicate the level of formalisation of ESG integration in their investment approach. We got confirmation that 19% of our sample of respondents[50] has formalised its ESG integration policy as part of its investment process.

Figure 25: ESG Integration growth over the last three surveyed years. We noticed a 123% growth rate in this strategy, but it remains difficult to decipher the level of the final impact for the final investments.



50 The sample shows that 19% of Asset Managers and Asset Owners, for a total of 40 firms out of 211, have formalised a policy on ESG integration as part of their investment process

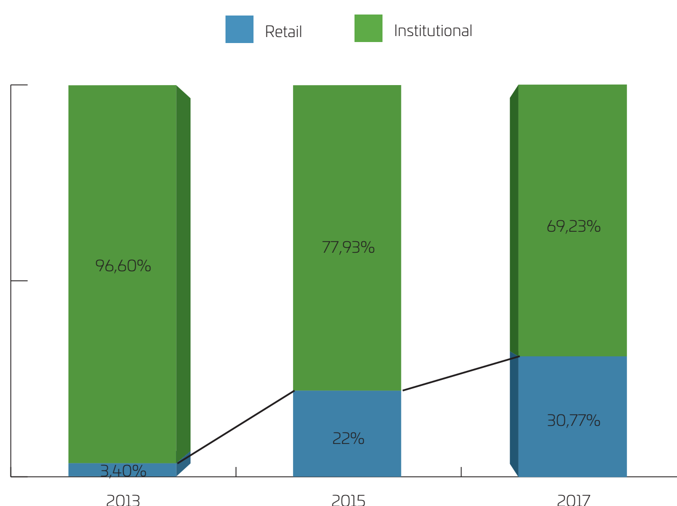
Another indicator of how much ESG integration has become ingrained in the investment process, is the number of SRI analysts that are part of the investment team. Allocating specific resources to the selection and screening process can be a useful indicator for commitment and strategic vision. While a good share of investors tend to use external resources as part of their 'in-house' management team, citing the range of data available and the utility of comparing views from differing sources, having a team of specialists may add substantially to the quality and value of the analysis. Over 61% of our respondents have indicated that their in-house ESG teams include from 1 to 5 analysts, confirming this trend as the most popular in European investment firms. The rest indicated the use of larger teams of analysts of up to twenty, but that is only for 8% of our sample of respondents. Of course, it can be argued that a fully ESG integrated house might have specialists only in particular areas such as governance, whilst all of the fund managers and analysts are actually practising ESG.

Key features of the European market

Characteristics of investors

The call for action of the European Commission for the promotion of Sustainable Finance counts on investors to fill the investment gap which is estimated to be, for Europe alone, at €180 billion of additional investments, every year until 2030. Institutional investors are clearly at the forefront of this plan, but it has been increasingly recognised by the industry that retail investors are key to ensuring that sustainable investing becomes truly mainstream. European households savings represents over 40% of total financial assets in the EU[51] and there is growing evidence in different parts of Europe that most retail investors would like to invest in a sustainable manner. Eurosif tracks every two years the evolution of the SRI asset breakdown by type of investor and since the last two years we noticed a positive trend in favour of the retail sector which is starting to take some interesting dimension. In the last four years, in fact, we have seen an increase in demand in the retail sector by over 800%, a great indicator of a pool of potential that needs to be capitalised on.

Figure 26: SRI asset breakdown by type of investor 2013-2017



Yet very few retail clients currently have the opportunity to invest according to sustainability preferences. In line with the work the European Commission has done and will continue to do to amend the legislative framework in favour of sustainability, the retail sector has the potential to become one of the corner stones of sustainable finance. Today, current national legislation on the role of financial advisers – strongly shaped by MiFID I and II – still contains no specific requirements to embed sustainability as part of the investment preferences discussed with the client. As a result, many retail investors do not express these preferences. This, in turn, leads to lower observable demand and reduced supply: investment advisers have fewer incentives to respond to these considerations, and asset managers have little incentive to design suitable products. Many financial advisers also perceive sustainability-oriented products as presenting a negative trade-off with returns — despite multiple studies pointing to the opposite. In addition, retail investors are not able to understand the real impact of financial products offered to them. While the consultation on environmental and social objectives within PRIIPs for KID in 2016 has started to explore the issue of standardised communication on sustainability, more needs to be done to ensure that retail investment products are kept simple and understandable for clients.

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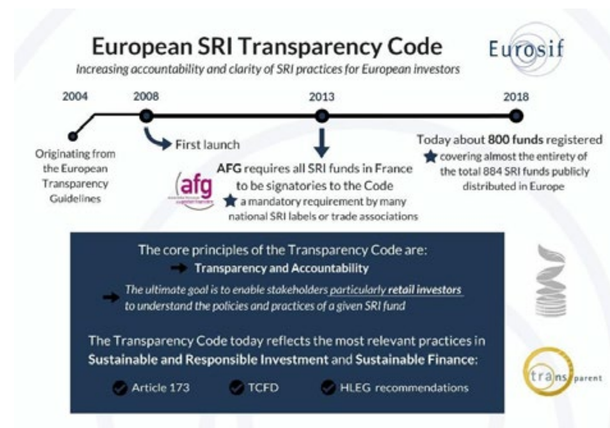
Challenges ahead

Although the EU scores on average higher than the rest of the world for financial literacy[52], there are a number of challenges faced by regulators at national level to ensure continuous improvement in this field. The financial evolutions that entail sustainable finance complicate the matter even more as sustainability adds yet another level of complexity for retail investors. As highlighted in the HLEG final report, the state of sustainable investment products may also be misleading to some retail investors and might appear only for 'a few'. More work is therefore needed to codify sustainability and allow for investments choices in favour of sustainability, easier one to make.

Being able to understand and determine the implications of the impacts of the investment products is also a key issue and investment products should disclose information regarding their sustainability potential. Retail investors would particularly benefit from enhanced disclosure on some indicators linked to climate impact or other sustainability metrics[53]. The work on the definition of a green label for financial products is an important step in this direction. The sustainability taxonomy for Europe will help determine the activities which are compatible with sustainable investments, while defining impact indicators on environmental issues.

Guiding and protecting retail investors is only possible when the industry is able to define common metrics and standards of practice that can be used as reference for investments.

Today, products that carry sustainability denominations are self-assessed and as previously highlighted in this report, the level of ambition, methodologies and processes of the different products available, greatly varies, not only in Europe but across the international markets. The danger of this situation is that competition among product manufacturers is distorted while the risk for retail investors' protection enhanced.



There is today, at European level, a series of labels for SRI denominated products, whose aim is to inform investors of the characteristic of the products and what they can actually deliver. The majority of the labels available today are based on the Eurosif Transparency Code, which is the first European framework for sustainable investment products, first launched in 2008. The Code has undergone a series of revisions in the past years and the latest one came at the end of 2017, and delivered an updated version which takes into account some of the key major developments in the sustainable investment space, these being mainly considerations from the French Article 173, the work of the Task Force on Climate-related Financial Disclosure TCFD and HLEG recommendations.

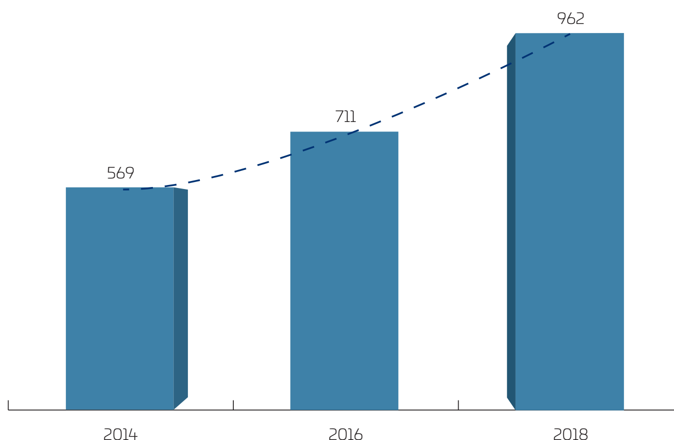
The Code continues to grow as more and more SRI products want to apply this framework for their funds. The very positive uptake is also triggered by the fact that the Code is transposed in the label requirements for investment products in different member states.

As part of the recommendations of the HLEG, Eurosif raised the need for a mean to guarantee the quality of investment products through standardised denominations. We called for the European Commission to prepare an analysis of **minimum SRI standards**, 'in line with the EU sustainability taxonomy, to be respected by manufacturers and targeting all funds' as a way to guarantee an

52 Financial literacy and inclusive growth in the European Union, Uuriintuya Batsaikhan and Maria Demertzis, MAY 9, 2018, Bruegel

53 "Given the emergency of the climate issue and the higher maturity of climate impact indicators, these funds should disclose, as a first step, their strategy and portfolio exposure in relation to climate-related risks and opportunities. Proxy indicators could also be provided on other ESG issues. Disclosure should include the sustainability strategies implemented, so as to enable an assessment of coherence with retail investors' sustainable investment preferences. Where no such strategy exists, this should be made explicit. But this, and other more in-depth disclosures, should not obscure the small number of simple metrics required to provide guidance to retail investors" HLEG final report page 29

Figure 27: Transparency Code evolution over 3-years

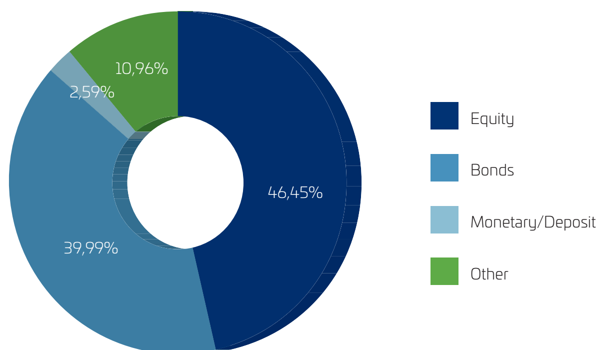


harmonious, coherent and transparent SRI market. Eurosif is currently working to set the basis that can feed the future work of the Commission in this respect.

Asset allocation

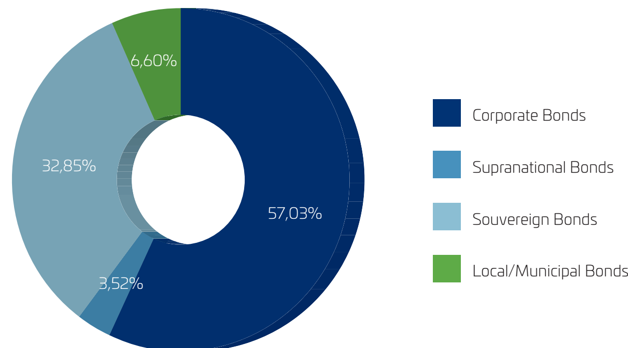
Thanks for our respondents we are able to track the SRI asset allocations by country and provide an asset-weighted European average. At a European level, equities and bonds are sharing the market almost equally (bonds are at 40% and equity at 47%). The trend across Europe has fundamentally remained unchanged.

Figure 28: SRI Asset Allocation



Sovereign bonds continue to feature predominantly among issuers, at 33% and certainly in view of the positive trend in green bonds. Corporate bonds also continue to show growth as they represent almost 60% of the total issuance.

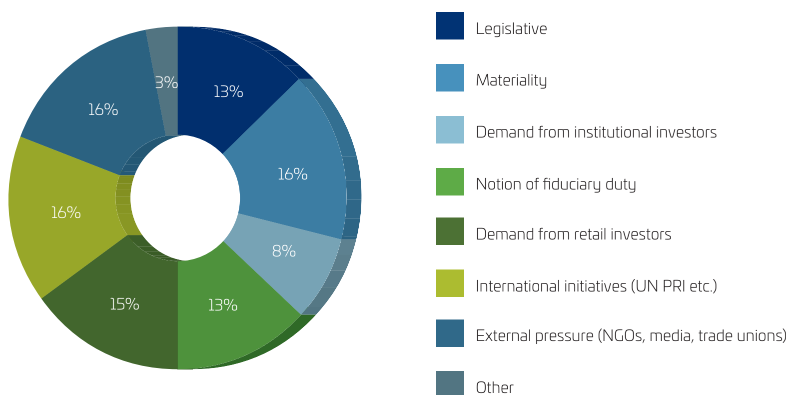
Figure 29: Breakdown of SRI Bond Assets



Market drivers and future trends

In the Impact investing section, we discussed how a common set of metrics and clear terminology are key to ensure continued growth. The problem of definitions is one which hampers not only this section of SRI but the industry as a whole. In fact, in this review we clearly notice how the general discussions around definitions are leading to a more general concern for green washing, gaining ground as part of the barriers to SRI in general. This concern is the central focus of the work of the European Commission as part of its Action Plan on Sustainable Finance. In fact, the majority of the recommendations set out by the European Commission are in line with adding a much-needed layer of transparency on what sustainable finance is and guide investors in the right direction. Much of what has been highlighted in the Policy section of this report delves on this aspect as we consider clearer rules for investors as a way to increase the capital flows for a sustainable economy.

Figure 30: Drivers for SRI demand



The legislative changes directed and implemented by the European Commission, have resonated deeply in the financial industry. Much of the proposals have certainly caused much stir and highlighted the extent to which investors are sensitive to policy changes in the way they develop their SRI strategies. A good mix of legislative push, coupled with the possibility to link sustainability targets to financial outcomes and other examples of soft law, continue to represent the main drivers for SRI demand and will certainly continue to be so for the years to come.

Figure 31: Drivers for SRI strategy

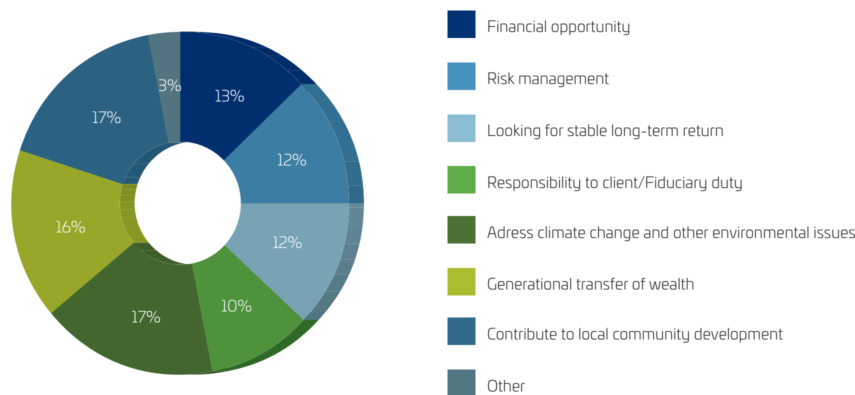
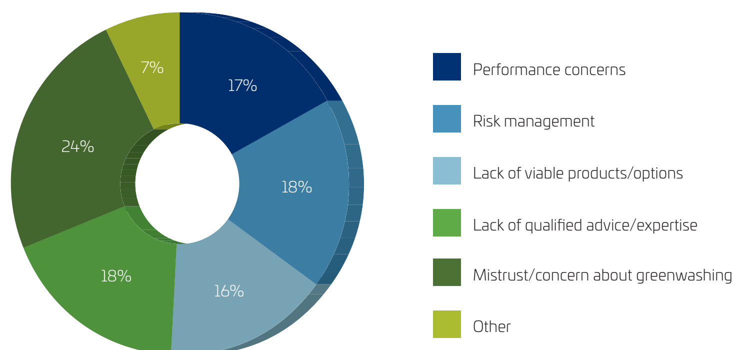


Figure 32: Deterrants to SRI strategies



Among the main drivers behind the choice for SRI strategies, we consistently see the need to address climate change and other environmental issues, featuring as one of the main factors. Capitalising on the financial opportunity represented by sustainable investing, together with the generational transfer of wealth are the two main factors that were highlighted by our respondents. An interesting drop of concerns around fiduciary duty might indicate that the notion of sustainability is now embedded in the value proposition.

The concerns around greenwashing which hamper the offer of SRI products is the top deterrent in this review. There is a substantial increase in this factor which in the last review was only the last of the top 5 motivators. This notion comes at an interesting time in view of the under-

lying themes of the European Commission's Action Plan on Sustainable Finance. It is in fact, 'to avoid the risk of green-washing and preserve financial stability, to quote Vice-President Dombrovskis[54] that one of the major steps towards the development of a taxonomy (as part of the Action Plan), was decided upon. The concerns regarding the lack of expertise or right product offering, return as top issues again this year and they are also topics that very much fuel the debate around transparency and comparability of indicators, which have been highlighted in the previous section.

54 https://ec.europa.eu/commission/commissioners/2014-2019/dombrovskis/announcements/vp-dombrovskis-speech-high-level-conference-sustainable-finance-berlin_en

Summary and Conclusions

The growing into mainstream of SRI has been confirmed in this study, which gives us a sense of direction of investors' preferences in terms of strategy when it comes to defining their responsible investment preferences. Growth is consistent across all strategies at the European level except for Norms-based Screening and Exclusions. The biggest growth for ESG integration with an CAGR of 27% sustains the view that integrating sustainability criteria within investments is increasingly the norm. Best-in-Class together with Engagement & Voting also show positive growth as they gain ground with investors.

Sustainability themed investments remain rather stable, in spite of the enhanced focus of various themes that aim at improving water management, renewable energy and climate change. The strategy has grown rather exponentially between 2013 and 2015, confirming the excitement of investors towards their choice for a particular sustainable theme. Belgium, Italy and Spain demonstrate great enthusiasm for this strategy, where the latter reaches €52 billion.

Exclusions[55] still largely dominates the panorama of SRI strategies, though it registered a small decrease since last review which does not substantially affect the total AuM still at over €9 trillion. Switzerland continues to lead the way with €2.4 trillion, immediately followed by UK with just over €2 trilllion. Tobacco, features as the most popular exclusion criteria[56], confirming that investors are increasingly decisive in their opposition towards the industry.

Best-in-Class is mostly a strategy popular in France, where it registers a total AuM of €295 billion. The Netherlands show renewed interest with a 47% growth, while Italy registers a great increase reaching a total of €58 billion.

Impact Investing has grown exponentially in the past year, with a 6-year CAGR of 52%, it embodies several commitments and promises linked to sustainable development. The Italian market fully supports this strategy with €51 billion and double digit growth is observed almost across all countries.

Norms-based screening registers a substantial loss this year which we believe to be the result of a mix between investors increasingly using this strategy by default on one hand, while opting for higher degrees of sophistication when it comes to demonstrating their commitment to the respect of international norms. France still remains the most important hub for this strategy, immediately followed by the Netherlands. A positive uptake is registered in the UK and Germany.

The growth in Engagement and Voting confirms a positive stream of more engagement for investors who prefer a more 'active' investors' role in the relation with the companies in their portfolios. Originally, a strategy with a large share in the UK, it is today a preferred approach across most other European countries. Although the big numbers still remain in the UK, important growth is registered in Austria, Italy and Germany.

We have already explored how the characteristics of the players has evolved in favour of the retail investor, which in this review grow at 31% increasingly demonstrating that they represent a very important component of the SRI industry. This is particularly true in Spain, where over 82% of the investors belong to the retail sector, and then Belgium, Sweden and the UK, all three well above 40%.

The asset allocation distribution registered continued growth in equities, now at over 46% of the total SRI assets. Bonds register a slight decrease in line with the 2013 results. Sovereign bonds still feature highly among issuers at 33% and in view of the positive green bond trend.

55 beyond those required by law
56 After Controversial Weapons (but these are subject to mandatory exclusions in some countries)

European Data Table

Countries Europe in € million	Best-in-Class	Sustainability Themed	Norms-based Screening	ESG Integration	Engagement and Voting	Exclusions	Impact Investing
Austria	14 023	992	9 871 (15 145)	3 695 (32 439)	12 358 (35 920)	76 543 (14 382)	1 030
Belgium	15 570	8 101	31 654	97 428	18 502	249 014	1 151
Denmark	100	65	50 080	16 527	23 820	211 048	0
France	295 178	20 620	1 845 679	920 055	23 897	768 128	1 894
Germany	22 068	9 184	50 789 (554 445)	49 612 (984 334)	92 084 (881 470)	1 487 161 (83 336)	5 232
Italy	58 137	52 861	105 842	70 425	135 729	1 449 554	51 960
The Netherlands	83 449	7 125	631 721	627 477	724 809	724 704	1 391
Poland	0	0	6 841	2 500	5 431	7 181	0
Spain	10 364	12 665	11 327	67 995	11 750	176 742	9 171
Sweden	25 419	1 966	305 833	297 182	874 724	720 292	6 422
Switzerland*	40 889	18 775	64 435 (462 094)	77 069 (325 923)	77 925 (1 386 026)	2 348 797 (84 228)	15 041
United Kingdom	20 536	16 463	28 391	2 007 847	2 854 400	2 195 394	15 284

Figure 33: European Data Table – The Table above presents a total sum of each individual strategy per country

For Austria, Germany and Switzerland the data in parenthesis refer to the application of a different methodology devised by FNG measuring Verantwortliches Investiren (RI). For more information please refer to Forum Marktbericht Nachhalige Geldanlagen 2018 page 79: **https://www.forum-ng.org/images/stories/Publikationen/fng-marktbericht_2018-online.pdf**

This table represents the best fit for the SRI approaches that have been historically used by Eurosif and its members for the FNG countries.

For Austria, Germany and Switzerland Country Profiles, please refer to the Forum Marktbericht Nachhalige Geldanlagen 2018.

* Exchange rate applied 31/12/2017

Country Profiles

Belgium

Financial industry overview

Belgian GDP totals €423 billions, with a growth in 2017 of 1,7%. Its stock market capitalization is around €377 billions[57] and its bond market €623 billions[58]. The investment funds industry is increasing every year and foreign law investment funds are becoming always more important, accounting for more than 40% of total. The share of the Belgian economy funded by the asset management sector is extensive, as the last represents an important source of funding for Belgian companies. Bonds have historically constituted the most important asset class, followed by equity and cash. The rest is "other assets", including private equity, structured products and hedge funds.

Characteristics of SRI market

Belgium has over twenty years of history in Sustainable and Responsible Investment and the Belgian market has been very active as a result of both NGO activism and the proactive approach of several financial institutions. Even if the SRI industry has not grown at the same pace as the fund industry, it is one of the country where the retail market is evolving most rapidly compared to the institutional market. This is mainly due to the fact that the country is a hub for savings products and there are several SRI players providing private clients with SRI instruments. A couple of retail banks seem to have picked up on this trend, which could have lasting impact on the structure of financial markets in Belgium and on the knowledge level and attitude about SRI investment among the general public, potentially generating interest from regulators.

Positive signs for the industry are coming from institutional investors as well, as they are acquiring increasing experience in SRI strategies. Nearly all financial institutions are gradually elaborating CSR and SRI strategies, in some instances, making clear links to their credit policies, announcing SRI-defined asset management and by integrating ESG research into the security selection processes.

A number of SRI certification options for financial products are available on the Belgian market, including the Ethibel PIONEER and EXCELLENCE labels. These labels are designed for investment funds which exclusively invest in shares or bonds included in Forum Ethibel's Investment Register and have a high rating, being linked to companies with an above average corporate social responsibility performance. Forum Ethibel also developed indexes: ESI Excellence Europe and ESI Excellence Global, which select the best rated companies.

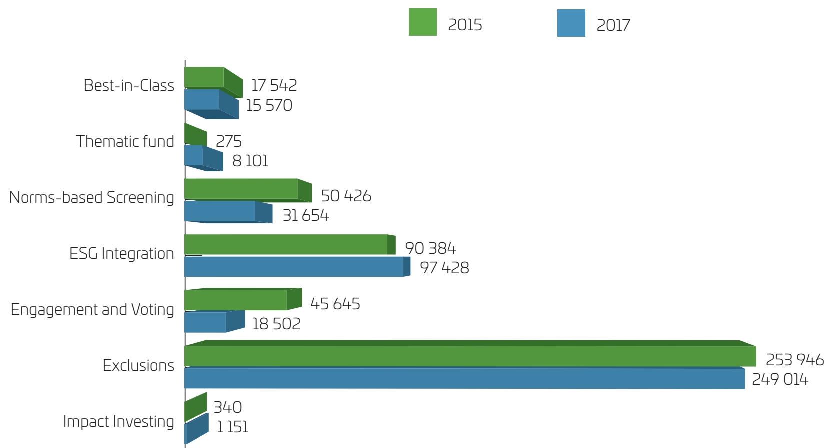
After a prolonged drop in interest in the SRI market, it seems that 2017 could be the time for a positive change. The collapse of the market for SRI products with capital protection is still very much haunting the industry and together with the ongoing low interest rates, it accounts for much stagnation also for SRI savings. This state of things did not discourage some smaller specialized players like VDK and Triodos to increase the volume of SRI savings significantly.

Regulatory framework

Historic legal initiatives and frameworks remain in place: the 2003 Supplementary Pensions Law that mandates some form of (non-public) ESG disclosure for Pension Funds, the 2012 obligation for mutual funds to clarify the extent to which ESG-factors form part of investment policy, the 2013 "Belgian Financial Sector Federation (Febelfin) – Belgian Asset Management Association (BEAMA)" harmonised sustainable financial products definitions and obligation for SRI funds to comply with the European Transparency Code and to define and implement a policy on controversial activities. In 2017 Febelfin updated its methodology, es-

57 2016 data, 2017 not available
58 Efama, FACT BOOK 2018, page 65

Figure 34: Overview of SRI strategies

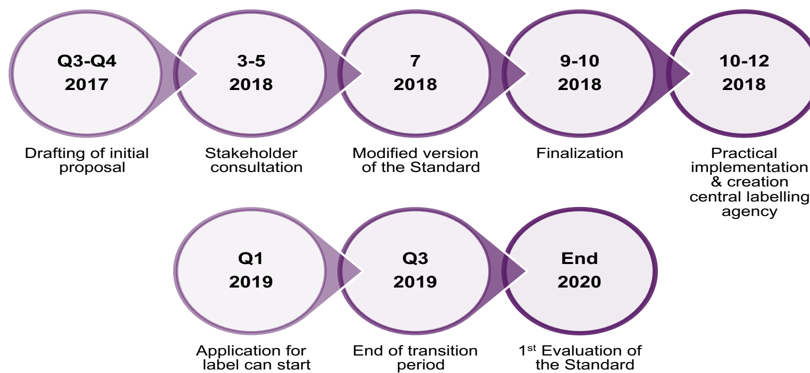


pecially on climate change issues, strengthening the definitions of SRI products.

Labels[59]

The work of the European High-Level Expert Group on sustainable finance and the corresponding EU Action Plan on SRI did not go unnoticed in Belgium. The National Bank of Belgium has taken up the issue of the potential impact of climate change on stability in financial markets, this in close cooperation with an international network of financial regulators. The IORPII directive forces pension funds to take a closer look at SRI investment although the move towards SRI is still very limited among Belgian pension funds. The legislative proposals coming out of the Action Plan are followed with great interest but probably the most important initiative today is a voluntary quality standard for sustainable financial products introduced by Febelfin, the sector association of banking in Belgium. This voluntary standard is due to be implemented by the end of 2018 and it will affect all banks offering SRI products in Belgium. The standard anticipates the outcome of the Action Plan and is in line with recommendations from the High-Level Expert Group. The voluntary standard puts a bottom line under any SRI product in Belgium. It clarifies the taxonomy of SRI products, regulates disclosure and clarifies the kind of information

Figure 35: Timeline



59 Update kindly provided by Tom Van den Berghe, "Head of Sustainable Finance" of Febelfin

that clients should receive around SRI products. Next to that it also expects suppliers of SRI products to have a clear engagement and voting policy as well as to respect certain norms like the UN Global Compact list. In this sense the voluntary quality standard goes beyond pure transparency, it actually imposes a normative bottom line for anyone wanting to sell a financial product labelled 'ethical', 'sustainable', 'impact' or whatever the name to indicate an SRI product. The Quality Standards will reflect dynamically the evolution of investors' preferences and will always be updated to the most recent legislative framework. They will be based on five key principles: **sustainability strategies**, with the implementation of at least ESG integration and Screening; **no harm**, which bans financing UN Global Compact violations and investments in weapons, tobacco, coal and oil&gas; **transparency**, aimed to disclose any controversial financial position; **information**, that shall be clear, understandable, comparable and centralised on a dedicated website; **supervision**, from an independent and qualified third party. Financial products compliant with the quality requirements of the standard will be listed on a dedicated website and be granted the 'Sustainable' label, where standards don't stipulate how the requirements should be fulfilled in practice: this is left to the expertise of the product manager who preferably can go further in its implementation of sustainability than the minimal requirements stated in the standard. Labels will provide investors with standardised products, from Belgian law and of foreign law, accessible to retail and institutional investors, widening and strengthening the universe of sustainable investments.

The proposal is followed up closely by the financial service authority FSMA. Although the FSMA has not made any steps so far it is clear that as the retail market grows they will look upon it as their responsibility to ensure that retail investors are offered products that live up to the sustainability promises made in the prospectus.

Denmark

DANSIF

Financial industry overview

With a GDP growth of 2.1% in 2017, the Danish economy is facing an expansion period, partly boosted by employment reforms. GDP in 2017 is €288,3 billions, with a stock market capitalization of €378,6 billions and a bond market capitalization of €552,1 billions[60].

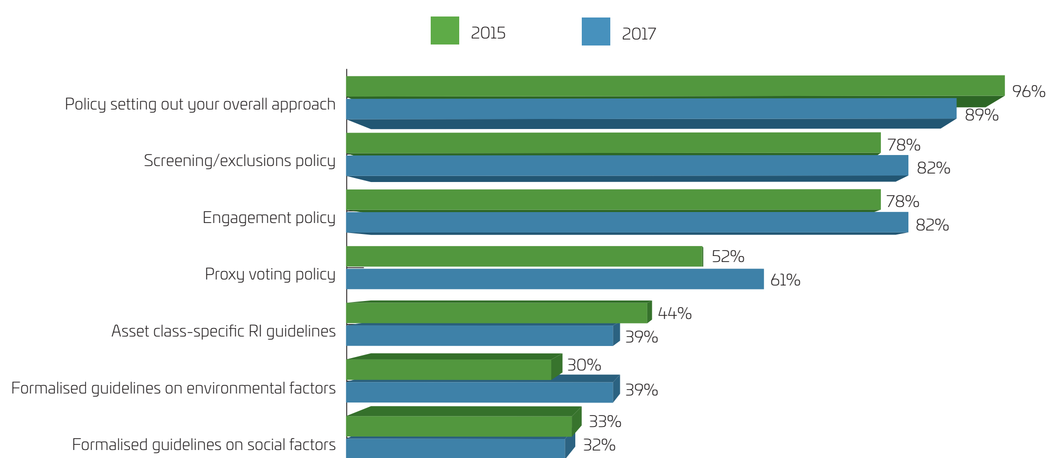
The Danish financial services industry is characterised by a large number of well-established asset owners, notably in the form of private and labour market pension funds covering the bulk of the Danish labour force. Despite its small size, Denmark hosts nine of the world's 300 largest asset owners. As compared to asset owners in other European markets, Danish asset owners have, in general, considerable in-house investment expertise and rely only to a small extent on investment consultants and asset managers. Danish funds assets total €301 billions, with net sales in 2017 amounting €7,699 millions, highest increase for balanced funds since 2016 and good performances by funds of funds.

Characteristics of SRI market

In recent years, there has been a further formalization of demands for investors within responsible investments. In 2016, The Committee on Corporate Governance released the first Danish Stewardship Code (https://corporategovernance.dk/sites/default/files/180116_stewardship_code.pdf) with the first review of the impact of the code expected to be released in the fall of 2018.

The Danish Government released a guide on responsible investment in 2018, which builds on OECD's Responsible Business Conduct for Institutional Investors and OECD's Guidelines for Multinational Enterprises. The most recent survey (2017) on the state of Responsible Investment in Denmark has shown that most investors already have policies and procedures in line with what is expected by the new guide. 39% of investors respond that they already have procedures in place that align the process with the OECD Responsible Business Conduct for Institutional Investors. 7% have implemented new procedures. 29 out the 50 largest investors in Denmark participated in the survey – 15 asset owners and 14 asset managers which predominantly are the largest investors. The results of the survey represent 88% of the total AUM of the 50 largest institutional investors in Denmark. All investors responding to the Danish survey have a policy for RI with 60% having a policy covering all of the AUM. The components used in the respondents' RI policies are screening and exclusion (82%), engagement (82%), voting policy (61%) and asset class specific guidelines (39%).

Figure 36: Components of RI policy



60 Efama FACT BOOK 2018, page 106

75% of respondents involve trustees/boards in oversight of RI and 93% involve C-level executives in oversight. 84% of respondents have dedicated RI/ESG staff involved in implementation – a sharp increase from 54% in 2015 and a testament to the growing importance of RI within the Danish investment community. 39% of respondents have more than one dedicated ESG/RI resource.

Figure 37: Overview of SRI strategies

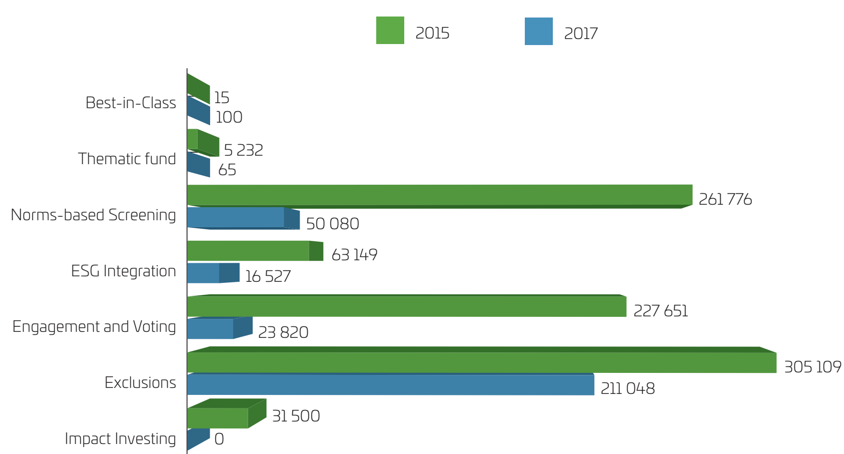
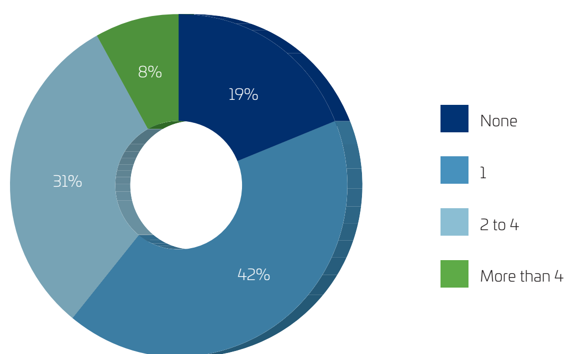
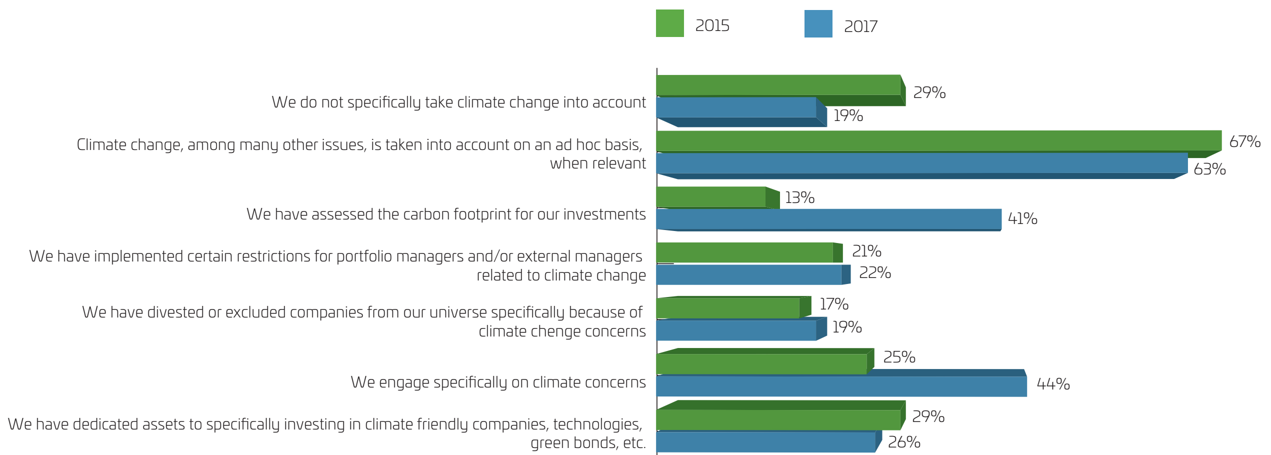


Figure 38: Dedicated RI/ESG staff



56% respond that they engage through internal staff, 48% via collaborative engagements and 74% via service provider. These categories are not mutually exclusive it should be noted. Listed equity remains the most mature asset class in terms of ESG integration but other asset classes are starting to pick up the slack. Climate change continues to be an issue of concern for Danish investors with 41% of investors having assessed the carbon footprint for their portfolio and 22 implementing climate change-related restrictions for asset managers. 44% of investors engage specifically on climate-related concerns and 19% exclude on climate-related concerns.

Figure 39: **How do investors take into account climate change in the investment process**



Looking to the years ahead, it is therefore a natural consequence that the Danish investors will look to TCFD, and so far, a handful of Danish investors have expressed their commitment to report in line with TCFD recommendations.

Other developments are a continuing integration of ESG both in depth and in breadth into other asset classes. As a consequence of this Dansif has also chosen to pursue a closer cooperation with the Danish CFA Society.

France

Financial industry overview

French GDP is equal to €2290 billions, with the last percentage growth in 2017 at 1.9%. Stock market capitalization reached €2097 billions in Q3 2017, while bond market capitalisation[61] is even higher at €3721 billions. The French financial industry is made up of hundreds of asset owners and asset managers. Most of the asset owners are small structures - personal insurance companies, in particular complementary health insurance entities - with limited scopes and also few large entities, especially state linked asset owners and insurance companies. The French asset management industry consists of 630 companies and is the second largest at European level with AuM worth €4.000 billion, and €2.050 billion for discretionary mandates and foreign funds managed at national level. France's pension system is composed of a public pillar, a mandatory occupational system and voluntary occupational and personal arrangements. The statutory pension insurance scheme is a compulsory basic social security system, which provides earnings-related benefits for employees in the private sector. Private retirement income in France is almost entirely based on compulsory systems. In addition to the basic social system, all employees are members of compulsory supplementary plans. Voluntary occupational pension schemes are still only a small part of the market. The compulsory scheme, known as AGIRC/ARRCO, is based on collective agreements and offers defined benefit plans. The funds are financed according to the pay-as-you-go system based on employer and employee contributions. Finally, life insurance products are well developed saving products, offering client attractive tax incentives and contributing to the importance of the insurance industry sector in the country.

Characteristics of the SRI market

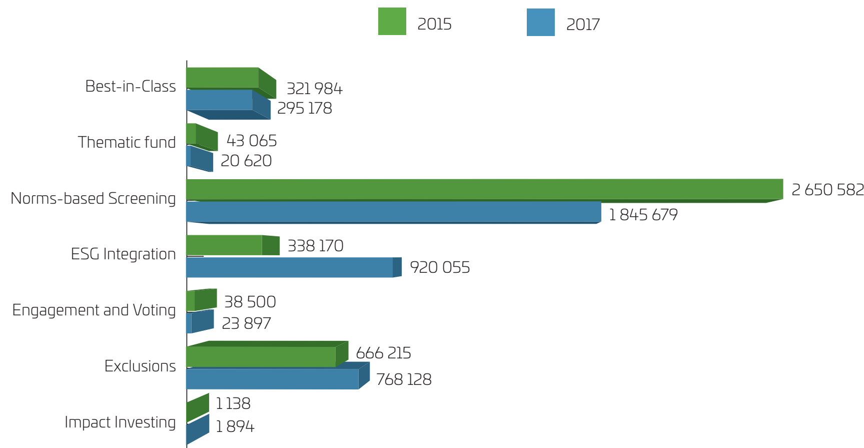
Because of the French pension system, the SRI market has been driven historically by the asset management industry and also by a strong engagement from Unions, particularly within joint financial institutions and through corporate saving plans. With article 173-VI (see further) and mandatory disclosure on ESG and climate related policies, responsibilities of asset owners are highlighted. Now, more and more of them are heading for structured ESG policies, through mandates but also by choosing funds. Article 173-VI is clearly a game changer for the French market: it empowers asset owners. French SRI market is defined by simultaneously taking into account Environmental, Social and Governance criteria. Market has been dominated by Best-in-class approaches and still is. More recently Best-in-Universe has developed and of course ESG integration, thematic funds and impact investing are gaining ground. On the client side, SRI market is split in two equal parts between mandates and funds. It is largely dominated by institutional investors with 75% global market share and 51% for the fund part only. Insurance companies are the main players as asset owners, and retail investors are mainly exposed to SRI through Corporate saving plans. Bank and insurance retail networks are starting to distribute SRI products, but there is still a lack of training among their in-house advisors. They are able to propose existing SRI products, but they lack the proper training on SRI in most cases. Private financial advisors that were reluctant on engaging their clients in responsible investment are also changing attitude. They identified potential growth in the industry, are investing today in platforms to source different SRI funds, particularly thematic ones. Thanks to labels that ensure funds quality and reinforce visibility. The French SRI market also benefits from a very rich ecosystem with brokers, rating agencies, proxy services and a very dynamic research both academic and private.

Change in methodological approach

The former study was led in France in partnership with Novethic and this year French SIF partnered with French Asset Managers Association (AFG) in order to collect data. De facto, differences appear and that is why some figures are showing some decrease, going against the global tendency that is obviously a growing market. There are some explanations to that. First a perimeter reason: some asset owners that manage internally part of their assets are not taken into account. Secondly and more importantly, there is an impact related to new standards on the French market that lead to stricter definitions. Both Public

61 Efama FACT BOOK 2018, page 116

Figure 40: Overview of SRI strategies



Labels, SRI and TEEC (see details further) establish new requirements that pushed fund managers to question their practices in terms of responsible investment. For example, within SRI label, sovereign bonds or mixed corporate-sovereign bond funds are restricted and reporting on impact indicators is mandatory where lots of technical issues persist. Furthermore, the French regulator AMF (*Autorité des Marchés Financiers*) in a 2017 Report invited all asset managers to run for a Label when offering those funds to retail investors. In this context, many respondents have restrained their response to what they consider being a "core" definition of Responsible investment or at least fits with the new market standards.

Regulatory framework

The EU Action Plan has been applauded in France because it illustrated the Commission commitment and because it reflects many of the efforts that are led at national level. France has become a mature responsible investment market because of joint engagement from financial industry, stakeholders and public authorities for two decades. The first law encouraging SRI was implemented in 2001 with employees saving plans and the last one was voted in 2015. Titled Energetic Transition for a Green Growth law, it includes notably article 173-VI, a game changer in the financial landscape. Regarding retail, a labelling system supported by French government is in place since 2016 and today there is still a political will to encourage distribution of responsible product within PACTE law that should be adopted in 2019. Today, strong governmental support is driven by President Emmanuel Macron himself. During the One Planet Summit he emphasized that sustainable finance was a priority and encouraged all French players to make Paris a leading financial place in this field.

Article 173: reporting on ESG and climate change policies

Basically, this article, adopting a form of comply or explain approach requests asset owners and asset managers to report on how they include ESG and Climate in their investment process and decisions. It is not mandatory to do, but it is mandatory to report. For investors with AUM or consolidated balance sheets below 500 million euros, obligations are to describe their methods for incorporating ESG factors into investment strategy. Those above 500 million euros must also describe means employed to support the Energy and Ecological Transition. As no investor can pretend to neglect climate and ESG issues, article 173 encourages all actors, leaders and lagers, to think and act, bringing a new standard to the market. French SIF has published a comprehensive guidebook on this article in order to explain the spirit of the law and propose a roadmap for investors. This Guidebook is available in English on French SIFs' website.

A labelling system for retail investors

In parallel, two public labels were created through a constructive process including all stakeholders: an inclusive SRI label owned by the Ministry of Economy and Finance and a very demanding one which is climate oriented, called TEEC (Energy and Ecology Transition for Climate) and owned by the Ministry of Transition. Both labels were

launched in 2016. Awarded for three years, and controlled every year, funds must be audited by a third party, itself certified as such. The SRI label can be audited by Afnor certification and EY, TEEC label by the two above mentioned plus Novethic. At the end of September 2018, the SRI label has been awarded to 166 funds of 36 asset management firms for approximatively 45 billion euros AUM. The TEEC one has been awarded to 22 funds from 15 asset management firms for approximatively 3,5 billion euros AUM.

Future PACTE law

This law is a major piece of legislation aiming at encouraging Corporate development and resilience. It includes a lot of measures on Corporate Social Responsibility and some important points regarding retail investors. This law will be implemented in 2019 and should make mandatory to offer responsible products in saving plans and life insurance. Poll led in September 2018, shows that 63 % of French people consider important to include environmental and social issues in their investments. In this context mandatory offering will mechanically push retails investors to choose responsible products. One of the challenge here will be to train advisors to responsible products, which hasn't been widely done yet.

Green is key... So does social issues

French players unanimously recognized the excellent work made by the High Level Expert Group on Sustainable Finance, as well as the EU Action Plan that followed its recommendations. Green finance, and particularly climate issues came out as the major target for action. This is of course a priority in regards of urgencies and irreversibility of Climate change and Biodiversity degradation. Nevertheless, social topics shouldn't be neglected. Human rights, employment, diversity, gender equality, inequality are central topics that should also be tackled. French players have developed a solid experience with "solidarity finance", based on social impact first and intend to pursue efforts in this field through impact investing in both private equity and listed universe.

The EU action plan calling for a green taxonomy and the creation of an Ecolabel is clearly a smart move for sustainable investment but French players also strongly advocate that SRI minimum standards are defined and articulated with existing labels at national level.

Transparency Code: The French Case

Early adopted by many French players, the European Transparency Code has been made mandatory by the French Asset Managers Association (AFG) and French SIF (FIR) since 2010, for all a fund claiming SRI approaches. *L'Autorité des Marchés Financiers* (AMF), the French regulator has twice published a report on Responsible Investment (2015 and 2017). In 2015 the report emphasized the importance of the Code and that its coherence with other mandatory documents should be reinforced. In 2017, AMF recognized that progress were made by players and recommended that all products targeting retail investors should get a label, either SRI or TEEC (see above).

Italy

Financial industry overview

In the last two years, the Italian economy carried on along the path of recovery and consolidation, started in the second quarter of 2013, although more slowly with respect to the EU average growth rate.

Growth was higher than expected. The government confirmed a mild expansionary fiscal policy that together with the European Central Bank (ECB) quantitative easing had positive effects on aggregate demand. In 2017 the increase in exports outmatched the imports growth for the first time since 2013. Private investment increased mainly due to low interest rates. There has been an appreciation of the value of financial assets and an increasing market share for the asset management industry. The value of corporate shares increased, whereas government bond yields decreased further[62].

The Italian financial market is benefiting from policies and trends such as: expansionary monetary policies, *pursued by the EU since 2011 with Long Term Refinancing Operations (LTROs)*; economic consolidation; partial absorption of systemic banking risks.

At the end of 2017, the Italian asset management market had a volume of about €2.085 billion, almost €200 billion more than 2016. More than a half (€1.062 billion, 51% of the total) was related to investment funds. The top 15 asset management groups accounted for 83% of the market. The remaining 49% (€1.021 billion) was invested in mandates. The Italian funds market is retail-oriented, with 83% of retail investors out of the total. Looking at households financial portfolios composition, approximately 30% is oriented to direct investments in bonds and shares with respect to 11,7% managed by investment funds and 22% invested in pension funds and life insurance products[63].

The slight growth of total assets managed by institutional investors to about €1.500 billion was mainly driven by the performance of mutual funds, whose collection has more than doubled. This performance is strongly related to high net returns on capital and to the introduction of Piani Individuali di Risparmio (PIR, or Individual Savings Plans)[64]. Insurance companies, on the other hand, raised *a high value of* €39 billion. The share of institutional investors portfolios invested in sovereign bonds decreased, whereas the investment in corporate shares and bonds increased by 7%[65].

Characteristics of the SRI market

Even though few influential institutional investors continue to lead the Italian SRI market, the share of retail sustainable funds offered by Italian asset managers reached a record level.

In 2017, assuming the key role of insurance companies, Italian pension funds showed once again an increasing commitment to SRI, pursuing mainly strategies as exclusions and Norms-Based Screening (NBS). Nevertheless, Italy should make further efforts to narrow the gap with more mature European SRI markets – according to the 2017 edition of the SRI Benchmark on pension plans[66], proposed for the first time in 2015 by FFS and MEFOP using VBDO's methodology. As a matter of fact, almost one half (44%) of the responding funds declared their commitment to sustainability, although they are still focused on short-term investments.

Institutional investors will be affected by the outcomes of the EU Action Plan, which is expected to clarify characteristics and standards for SRI products and to expand the amount and the quality of information available on ESG aspects of investments. The SRI industry will also benefit from common definitions and standards. Institutional investors have raised concerns about including ESG consid-

62 https://www.bancaditalia.it/pubblicazioni/relazione-annuale/2017/rel_2017.pdf, p. 51 et seq.
63 http://www.assogestioni.it/index.cfm/3,883,12324/2018-02-27-the-italian-am-mkt-key-facts-january-2018-update.pdf
64 This Individual Saving Plans collected around €11 billion, corresponding to 11% of the total net inflow of the whole Italian asset management market
65 https://www.bancaditalia.it/pubblicazioni/relazione-annuale/2017/rel_2017.pdf, p. 184 et seq.
66 http://finanzasostenibile.it/attivita/le-politiche-investimento-sostenibile-responsabile-degli-investitori-previdenziali-3-edizione/

erations into the definition of "fiduciary duty" by amending IORP II. In particular, from the pension funds' perspective, it could be important that national supervisors continue to oversee how investors manage ESG risks.[67]

On the side of retail investors, there is an interesting increase in the share of sustainable funds and products distributed by Italian asset managers. Over the last two years, this amount has grown substantially.

The market research on Italian retail investors[68], conducted by FFS and Doxa in 2017, confirm the ever-increasing awareness about the importance of ESG issues in financial activities. 45% of retail investors declared their willingness to invest in SRI. Respondents trust in banks, insurance companies and financial advisors ("consulenti finanziari"). Nevertheless, the SRI industry has to make further efforts to focus and improve their offer and advising services on SRI. To this purpose, financial education shall be essential for both retail investors and financial advisors, as highlighted also in the High-Level Expert Group on Sustainable Finance (HLEG) Report.

In the consultation launched by EU commission, the Italian Association of Financial Advisors (ANASF) carried out the proposal of highlighting the key role of financial advisors in promoting ESG considerations into investment preferences of retail investors[69]. Furthermore, ANASF underlines that "Financial advisors play a key role: by making investors aware of ESG considerations, financial advisors promote financial education and foster responsible and informed investment decisions".

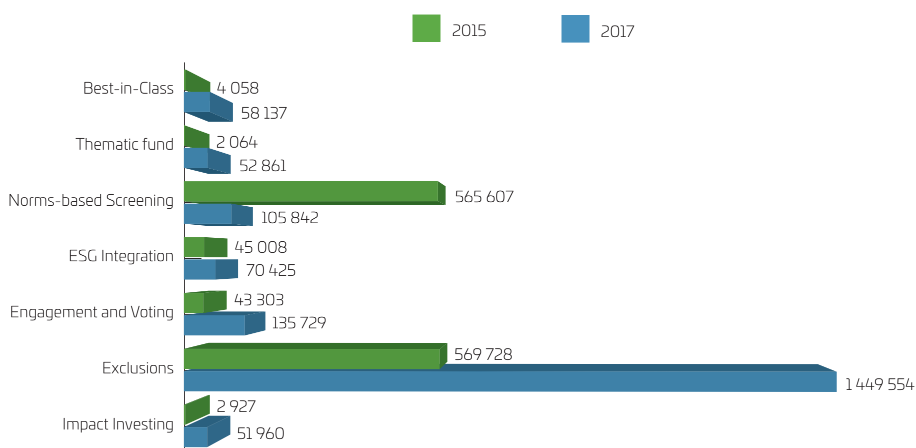
The rising importance of sustainability in the financial sector is confirmed by a series of events aimed at raising investor's awareness. In the last years, the SRI Week – launched by FFS in 2012 (www.settimanasri.it) – has become the most important event on sustainable finance in Italy, gaining increasing visibility and institutional support. FFS is proving to be one of the key players in the Italian sustainable finance sector: the number of FFS members has more than doubled (from 40 to 80) in the last two years.

The 2018 edition of *Salone del Risparmio*[70] also recognized the importance of sustainability issues. The event, launched in 2010, dedicated an entire series of events to sustainable finance and impact investing.

SRI market and strategy overview

The participation in the questionnaire remarkably increased with respect to the previous editions of the Eu-

Figure 41: Overview of SRI strategies



67 https://www.ipe.com/news/esg/pensionseurope-commission-should-not-dictate-esg-rules/www.ipe.com/news/esg/pensionseurope-commission-should-not-dictate-esg-rules/10024880.fullarticle
68 Il Risparmiatore Responsabile, FFS and Doxa (2017) http://finanzasostenibile.it/attivita/il-risparmiatore-responsabile/
69 https://www.responsible-investor.com/home/article/first_feedback_to_eu_consultation/
70 The main event addressed to Italian asset managers. https://www.salonedelrisparmio.com/page/home

ropean SRI Study. This result shows a rising interest of asset managers and asset owners in SRI products.

The application of SRI strategies in the Italian market persisted in the positive growth trend of the last two years, showing some important achievements. The results reflect the renewed interest in climate change, particularly after the numerous legislative interventions following the COP21 turning point. Even the Pope Encyclical Laudato Si' played a role in redirecting the preferences of economic agents towards sustainability.

Traditional strategies such as **Exclusions** and **Engagement and Voting (EV)** still represent the leading share of the SRI market. **Impact investing** registers a substantial increase mainly due to the rising interest in environmental and social effects of finance, reflected by several opportunities of intervention such as investments in social housing. The positive trend in EV is driven by the increased activism of pension funds and other institutional investors interested in playing an active role to affect companies' sustainability policies. For example, Assofondipensione, an Italian pension funds association, created a standing committee about SRI in order to identify the issues to be further dealt with through engagement initiatives.

Best-in-Class confirmed and consolidated its highly positive trend and **ESG integration** continues to grow to signal the relevance of sustainable criteria in investment products.

Regulatory overview

The Italian regulatory framework has changed significantly in the last two years, both for the transposition of EU Directives and for the initiatives of the legislature.

Certainly, the HLEG Final Report and the EU Commission Action Plan on financing sustainable growth are going to affect the SRI market in the years to come, since they are particularly focused on sustainable and responsible investments.

The legislative decree n° 254/2016 transposed the EU Directive 2014/95, regarding non-financial reporting. The intervention requires large companies to disclose non-financial and diversity information on their activities in order to help SRI investors. Sustainability objectives are linked to long-term opposing short-termism approach.

In 2017, The London Stock Exchange Group, together with Borsa Italiana, presented the first ESG guide for listed companies to provide specific guidelines on ESG reporting.

The enabling law n° 106/2016 consists in the reform of the Third Sector and of the social enterprises regulation, affecting associations, volunteering, and social cooperatives. The law defines a single register for the sector[71], institutes a new type of non-profit company – such as volunteering and social-promotion associations, foundations etc. – tax breaks for donors and low-interest financial instruments to fund associations. In this regard, the increasing demand for impact investing may play a key role for Third Sector organizations. In addition, in December 2016 the Italian Budget Law introduced in the Banking Act (TUB) the definition of the criteria that a bank has to meet to be defined as an "ethical bank". Moreover, after a 7 years debating iter, it has been approved a law banning the financing of cluster bombs. The Forum collaborated to the draft of the regulation and adhered to "No money for bombs" petition, contributing to the achievement of this important result.

In July 2018 the Italian insurance supervisory authority (IVASS), following EU Directive Solvency II and the EIOPA[72] guidelines, issued the regulation n° 38/2018 that forces corporate governance bodies to identify, evaluate and manage environmental and social risks. The adoption of this regulation represents a crucial policy for the entire Italian SRI market: it addresses the board of directors, in order to promote awareness of the materiality of ESG risks at a decision-making level. The IVASS regulation is in accordance with the EU Action Plan, which underlines the importance of fostering sustainable corporate governance.

71 Registro Unico del Terzo Settore
72 European Insurance and Occupational Pensions Authority

In the same period Borsa Italiana, *the Italian stock exchange*, published the revised *Self-regulation code of Italian listed companies*, including recommendations for the protection of diversity. This provision is subject to the usual "comply or explain" clause. This change is aimed at safeguarding the positive effects of the Law n° 120/2011 on gender balance in the composite corporate boards of listed companies, even after the law will no longer be effective, starting in 2020.

Sustainable finance is gaining more and more credibility and attracts a growing interest among financial agents, both institutional and retail: not only the volume of ESG-managed assets is growing, but the SRI community is wider, active and multi-stakeholder.

Policy and regulation developments following the issue of the Action Plan will further boost the Italian SRI market. In particular, the establishment of a common taxonomy has been unanimously welcomed as an essential tool to increase transparency and to allow comparison among sustainable financial products.

In 2018 the Ministry of Environment created the Italian Observatory on Sustainable Finance in collaboration with UNEP Inquiry in order to promote, coordinate and monitor the activities related to SRI. Furthermore the Ministry of Economy and Finance is going to promote a public consultation on the implementation of EU Directive 2016/2341 on the activities and supervision of pension funds (IORP II). In the years ahead a positive public-private partnership will play a key role in shaping the debate and promoting a robust framework to encourage SRI investments.

The Netherlands

Financial industry overview

The year 2017 has brought further stabilisation in the Dutch financial sector. The OECD concluded that the economic performance of the Netherlands in 2017 has been "vibrant and growth is expected to remain robust".[73] This corresponds with the IMF's conclusions following its Financial Sector Assessment Program (FSAP), which confirmed the resilience of the Dutch financial sector.[74] Yet, the country's open economy makes it vulnerable to international events. With regard to SRI, sustainability concerns demand both an increase of the system's resilience and a forward-looking policy perspective to maintain the system's current state.

The Netherlands have a large pension fund sector, with around €1300 billion assets under management (AuM) end of 2017.[75] The Dutch pension fund sector also showed positive results in 2017 by increasing their coverage ratio.[76] In addition, the Dutch pension sector is starting to become more concentrated.[77] While there were more than a thousand pension funds in 1997, this number has shrunk to 268 funds in 2017.[78] The consolidation of the sector has been stimulated in 2017 by the introduction of a new law, which automatically allows the merging of smaller pension funds into a larger fund.

With a long-standing savings and investing tradition, the Dutch insurance sector have around €440 billion AuM end of 2015.[79] The Netherlands seems a largely insured country by numbers, since these include health care insurance costs as well, often differently arranged in other countries. The insurance sector is heavily pressured to reduce costs and reorganise, due to technological innovations, higher expectations of clients, increasing regulatory pressure and new entrants in the market.

The Dutch banking industry is essential for the functioning of the Dutch economy. The sector itself is internationally competitive and structured in such a way to enable it to facilitate the export-oriented Dutch economy.[80] Domestically, Dutch companies often rely on bank financing to finance their activities, despite of recent innovative financing solutions for small and medium enterprises.[81] The consolidated Dutch banking market is dominated by three large retail banks; two banks focus specifically on responsible and sustainable financing and investment opportunities.

Characteristics of the SRI market

The SRI market in the Netherlands increasingly matured in the past years. The largest pension funds, insurance companies and banks have an SRI policy in place. The top 5 largest pension funds and insurance companies set the scene for the rest of the sector regarding SRI. In the past years they have focused on implementation of their policies in their investment analysis, making SRI further integrated into investment management practices. While pension funds are developing and setting gradually more targets regarding SRI topics, with a focus on climate change, there is still room for improvement in making them more concrete, measurable and timebound. Only 42% of the 50 largest Dutch pension funds and 23% of the 30 largest Dutch insurance companies demonstrably set sustainability targets for their asset managers. Even fewer set targets that actually measure the impact of the investments that are made.[82] This hampers the tracking of progress and the possible improvements of the quality of responsible investment practices.

Increased focus on the topic has urged the need for more collaboration among financial actors regarding SRI. There has been an increase in sector and multi-stakeholder in-

73 http://www.oecd.org/netherlands/further-reforms-can-foster-more-inclusive-labour-markets-in-the-netherlands.htm & http://www.oecd.org/eco/surveys/Netherlands-2018-OECD-economic-survey-overview.pdf
74 https://www.dnb.nl/en/news/news-and-archive/dnbulletin-2017/dnb356280.jsp#
75 https://statistiek.dnb.nl/dashboards/pensioenen/index.aspx
76 https://www.pensioenfederatie.nl/actueel/persberichten/2018/openbaar/financiele-situatie-pensioenfondsen-in-2017-licht-verbeterd
77 https://www.dnb.nl/nieuws/nieuwsoverzicht-en-archief/dnbulletin-2017/dnb362426.jsp
78 Ibid.
79 https://www.verzekeraars.nl/media/3544/verzekerd-van-cijfers-2016-nl.pdf
80 https://www.ebf.eu/the-netherlands/
81 https://www.ebf.eu/the-netherlands/
82 Ibid., 38% for pension funds, 13% for insurance companies.

itiatives and self-regulation in the past years. For example, the Dutch sector showed its commitment to lead on this subject by signing the SDG investment (SDGI) agenda. This SDGI agenda provides concrete recommendations for collective action to improve the SDG investment environment and, consequently, the positive contribution to the seventeen SDGs.[83] Research by VBDO showed that 74% of the pension funds had incorporated the SDGs in the responsible investment policy.[84]

Also, recently closed government-led sector agreements for the banking and insurance sector (see below under regulatory developments) are the first step to increase the minimum standard for the whole market. This will incentivize middle and smaller funds and insurance companies to increase their efforts on the topic to keep up with market developments.

Although these initiatives are promising indicators of increased recognition of the societal relevance of SRI, efforts have to be made in aligning the interests with a wide range of stakeholders, including pension fund participants. Unfortunately, there is still a significant number (37%) of insurance companies that do not communicate with their stakeholders at all.[85] For pension funds, there has been an increase in the number of funds that either consulted their participants or civil society in general.[86]

SRI market and strategy overview

Dutch pension funds increasingly **exclude** companies from their portfolios based on multiple criteria.[87] The asset classes for which an exclusion policy is developed are mainly public equity and corporate bonds. In different asset classes, like government bonds, exclusion is often solely based on UN and EU sanction lists.[88] The same conclusions can be drawn with respect to the exclusion policies of Insurance companies.[89] For both it is still rare to have developed their own sustainability criteria related to country consideration.

In the Netherlands, 41 of the 50 studied pension funds (82%) actively **engage** with companies regarding their assets in public equity, while 39 funds (78%) follow the same approach with corporate bonds. 82% of the pension funds engage with the companies in their public equity portfolio on all ESG themes. In addition, 34% of the funds publicly initiate and/or support shareholder resolutions promoting CSR or sustainability.[90] In 2017 an increasing share of insurance companies explain and publish their engagement policy.[91] Of the insurance companies that have engagement policies in place, 82% evaluate the changes a company makes subsequent to their engagement efforts. Of these companies 48% evaluated and, if necessary, adjusted their subsequent engagement policies.[92]

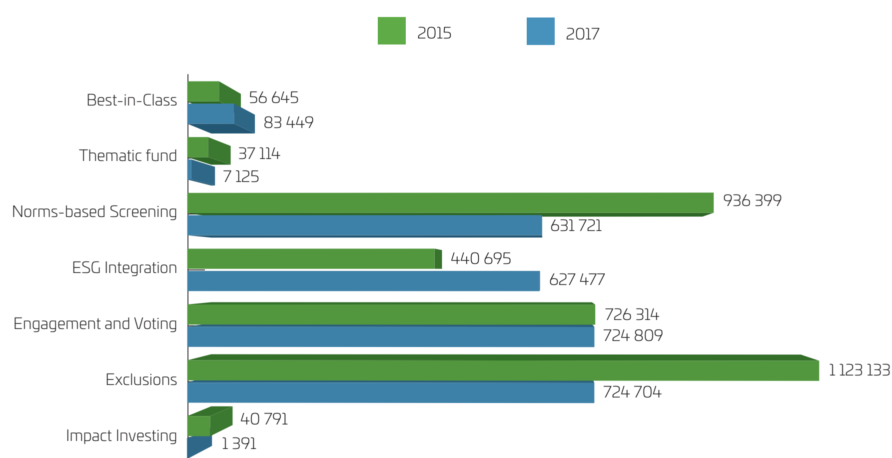
ESG integration among pension funds is almost mainstream; 95% of the 50 Dutch largest pension funds do incorporate any form of ESG integration. ESG integration with systematic and ongoing impact on holdings could be increased, e.g. the automatic under or overweighting in company stock based on ESG criteria. Especially for developed market government bonds and emerging market government bonds this form is rarely applied. Dutch insurance companies are lacking behind, 59% of the 50 largest Dutch insurance companies apply any form of ESG integration, while only 10% applies automatic under or overweighting in company stock based assets.

The concept of **impact investment** is slowly developing in the Netherlands. The majority of the pension funds in the Netherland does not engage in impact investments and the number of pension funds that have impact investments in their portfolio did not rise between 2015

83 VBDO Pension Fund Benchmark 2017, p. 32.
84 VBDO Pension Fund Benchmark 2017, p. 33.
85 VBDO Insurance Companies Benchmark 2017, p. 22.
86 VBDO Pension Fund Benchmark 2017, p.. 26.
87 VBDO Pension Fund Benchmark 2017, p. 50.
88 VBDO Pension Fund Benchmark 2017, p. 36.
89 VBDO Insurance Companies Benchmark 2017, p. 31.
90 VBDO Pension Fund Benchmark 2017, p. 42.
91 VBDO Insurance Companies Benchmark 2017, p. 42.
92 VBDO Insurance Companies Benchmark 2017, p. 46.

and 2017.[93] Dutch investors however did show a growing desire to emphasize the positive societal impact that their investments can make.[94] The Sustainable Development Goals are an important driver for increased attention for impact investments by asset managers, in line with the above mentioned developments. A comparable conclusion can be drawn with regard to insurance companies. Compared to 2014, the same number of insurance companies included impact investments in their portfolio. While only 17% of the 50 largest Dutch insurance companies do not have any impact investments in public equity, impact investments in green and social bonds are made by 44% of insurers.[95]

Figure 42: Overview of SRI strategies



Regulatory framework

In the past years, the Dutch government focused on increasing Dutch companies' social responsibilities when doing business abroad by initiating agreements between government, civil society organisations and the private sector.[96] Thereby giving more responsibility to private actors instead of increasing regulation on corporate responsibility. This resulted in an agreement for the Dutch Banking Sector (focused on conducting human rights due diligence for financing activities) and the Dutch insurance sector for applying ESG strategies in a consistent manner. These sector agreements are the first of their kind globally.[97] The implementation of these agreements has started recently and results will show in the coming years.

The importance of SRI is increasingly recognised by the Dutch Central Bank (DNB), the supervisory authority of the Dutch financial system. In 2017 DNB conducted studies that explored the risks that climate change poses to financial stability.[98] DNB focused on both physical and transition risks. Whereas physical risks included the risks posed to insurers and the damages caused by floods, the transitional risks mainly covered CO2-intensive assets and green finance.[99] The DNB has already announced that it will increasingly instil climate risk criteria in its supervision activities with the ultimate goal of guaranteeing sustainable financial stability.[100]

93 VBDO Pension Fund Benchmark 2017, p. 50. VBDO considers an investment portfolio that includes between 2-5% impact investments to be well balanced
94 VBDO Pension Fund Benchmark 2017
95 VBDO Insurance Companies Benchmark 2017, p. 39.
96 https://www.rijksoverheid.nl/onderwerpen/internationaal-maatschappelijk-verantwoord-ondernemen-imvo/imvo-convenanten
97 https://www.imvoconvenanten.nl/verzekeringssector/news/2018/7/verzekeringssector-maakt-afspraken
98 For example, https://www.dnb.nl/en/binaries/Waterproof_tcm47-363851.pdf?2017101913 & De Nederlandse financiele sector veilig achter de dijken?
99 https://www.dnb.nl/binaries/1706275_Klimaatverandering_NL%20WEB_def_tcm46-363851.pdf?2017101116, p. 14.
100 https://www.dnb.nl/nieuws/nieuwsoverzicht-en-archief/dnbulletin-2017/dnb363837.jsp

The government has committed itself to the Sustainable Development Goals Agenda of 2030, and has thereby recognised both its duty to contribute to solving the global climate change challenges, and its wish to make optimal use of the economic opportunities that the transition to a low-carbon economy has to offer.[101] The new government (2017) has given priority to climate change related issues by, among other measures, the introduction of a Climate Law and Climate Agreement. The Climate Law includes the focus points and a general outline of the climate- and energy-policy in the Netherlands. The Climate Agreement aims at the engagement of multiple societal actors in the process of achieving these goals. One of the outcomes of the Climate Agreement is the initiation of a special task force that focuses on sustainable finance and the role private actors can play accelerating the transition to a low-carbon economy.[102]

Integrating tax related decisions into responsible investment has been one of the focus topics of the VBDO in the past years. While intentions in the financial sector seem both ambitious and promising, the Dutch record with regard to fiscal policies has been mixed. The Dutch tax policy makes it an attractive asset management location, since no taxes are levied on capital contributions in an investment vehicle, annual subscription or net worth taxes. Moreover, the Dutch withholding tax does not apply to outbound interest payments. While these policies have been controversial for some time, the new plan of the Dutch government to completely abolish dividend taxes for foreign investors has caused both numerous parliamentary debates and societal opposition.[103]

On March 8, the European Commission published its Action Plan on Sustainable Finance. This is inspired by the final report of the EU High Level Expert Group on Sustainable Finance (HLEG) appointed by the Commission, including representors of several Dutch investors. In general, the Dutch financial sector warmly welcomes the EU Action Plan for Financing Sustainable Growth and thanks the European Commission for their resolve and ambition on this theme. Several meetings among investors were held to discuss the outcomes and the way forward.

The Dutch financial sector has made important steps with regard to its sustainability profile. Nevertheless, improvements and continuing education of finance professionals are considered essential to keep up. The Commission's proposal to heighten capital requirements was considered most controversial. The Dutch government recognised this concern. In its reaction to the Commission's action plan it stated that it opposed the use of prudential measures for different aims than financial stability. Together with the Dutch Central Bank, the government will aim for the inclusion of climate risks that correspond with the financial risks. Also it is broadly recognized by the sector itself that sustainable financial growth should include more than only climate change. Focus on the culture within the financial sector keeps in focus of the regulators.

The financial sector will continue to contribute to the European Strategy on Sustainable Finance through engagement with policy makers, civil society and investees, to maximize the opportunity that sustainable finance represents to the economy.

101 https://zoek.officielebekendmakingen.nl/kst-22112-2544.html
102 https://zoek.officielebekendmakingen.nl/kst-22112-2544.html
103 https://www.nu.nl/economie-achtergrond/5004605/moet-weten-dividendbelasting.html & https://www.nrc.nl/nieuws/2018/06/18/dividendbelasting-kwetsbaar-dossier-voor-kabinet-rutte-iii-a1607057 &

Norway[104]

Financial industry overview

The Norwegian financial sector has been responsible for a significant portion of the growth in the Norwegian economy in recent years.

According to figures from VFF, the Norwegian Fund and Asset Management Association, within the fund management industry, total funds under management have grown from €108.0b at year end 2016 to €115.8b at year end 2017. When considering growth of asset value by fund type, all of them have experienced growth since 2014, with the largest occurring for equity funds and multi-asset funds, with both also experiencing growth, year on year, from 2016 to 2017. At the same time, while bond funds and money market funds experienced the lowest growth by fund type since 2014, they also experienced decreases in assets from 2016 to 2017. Within equity funds, index funds represent an increasingly larger share of total investments. This movement is part of a long-term trend towards index funds, increasingly being driven by institutional investors.

The recent reform in the domestic pension system, with the introduction of the new individual pension scheme, combined with changes to improve private savings and the implementation of a new equity saving account program, has the potential to lead to further growth in fund investments.

Characteristics of the SRI market

The Norwegian financial industry has historically been considered at the forefront of SRI, with a well-established SRI tradition in which most large investors possess strong SRI policies and advocate on a range of SRI issues. This tradition has developed despite no explicit SRI framework currently existing in Norway; although it is important to note the industry is influenced by the decisions of the Norwegian Government Pension Fund Global, who is overseen by the Norwegian Ministry of Finance through guidelines based on a formal framework laid down by the Parliament. Many Norway-based asset managers and asset owners closely follow the exclusion decisions, with many customers requiring this as a minimum requirement when investing.

The financial industry has seen increased interest and memberships in the different responsible investment forums. The number of Norwegian signatories to the PRI initiative has grown from 10 in 2014, to 13 in 2018 with 1 EUR trillion in assets under management. Norway has an active SIF association, Norsif, with memberships increasing from 4 in 2013 to 46 in 2018. Norsif is used primarily as a collaboration and knowledge exchange platform, to improve awareness on best practice and cooperation when opportunities exist. In 2018, amongst its activities, the association facilitated knowledge sharing sessions, and commissioned a report about the integration of ESG in fixed income.

Regulatory framework

The European Commission's Action Plan on Sustainable Finance provides an opportunity to address a number of challenges relating to the integration of sustainability in the financial industry. It is the ambition of the Norwegian government to have well-functioning financial markets and a robust economy, to ensure markets work efficiently and to help safeguard in the event of future unexpected shocks, such as those which led to the global financial crisis. Considering the increasing growth in SRI and sustainability in financial markets, approaches to harmonize financial regulations between countries on sustainability are welcomed.

In recent years, the primary source of regulatory changes in Norway has been the result of EU legislation. As part of the EEA, Norway is required to adopt EU regulations and directives into domestic legislation without an explicit vote on their ratification in the European Parliament. However, Norway has a range of means to provide input on the development of EU regulations and directives, as has been witnessed in the development of the legislative proposals relating to the Action Plan on Sustainable Finance. During the consultation process, VFF, and Finans Norge, the Norwegian financial industry organi-

104 Due to the low respondents'rate, the data for this country are not displayed in the Study

zation, provided feedback as part of EFAMA's and Insurance Europe's responses to the European Commission's Action Plan. Additionally, the adoption of EU regulation and directives into domestic legislation allows for some flexibility in interpretation for countries, to ensure it is fitting with domestic economic conditions. Therefore, at this stage it is uncertain the way the implementation of the Action Plan will domestically be shaped, and how it will impact on the industry in the years ahead.

The contributions from EFAMA and Insurance Europe, while supportive of the ambition of the Action Plan to improve sustainability disclosure and of the development of a common taxonomy for sustainability, raised a number of specific concerns. These include ensuring alignment with already existing banking and financial standards; the implementation of a unified taxonomy as a first step; and the importance of the language used for sustainability definitions, to ensure clarity and reduce bureaucracy as to what constitutes an 'environmentally sustainable' fund.

Domestically, Finans Norge developed a road map to 'support a low carbon, sustainable economy', outlining how the financial services industry can support and contribute to the transition to a low carbon economy. The roadmap was developed along with members and other key stakeholders, and makes seven general recommendations about the Norwegian financial sector. It is aligned with many elements from the European Commission's Action Plan, and was presented to the Ministry of Climate and Environment in June 2018. It is too early to say if or to what extent, the roadmap will be considered by the Norwegian government in efforts to address sustainability.

Climate change remains an important focus area for the Norwegian government, as it represents a considerable risk to the economy. In line with the international actions undertaken to address climate change, the Norwegian government has taken steps to consider these risks. In 2018, the Norwegian government established the Climate Risk Committee, with the remit to determine the significance of climate risk on the Norwegian economy, and to make recommendations on the process by which these should be assessed and reported. The group is expected to deliver findings in December 2018, which will inform future policy and decision making.

Poland

Financial industry overview

With an annual growth rate of 4,65% in GDP[105], Poland is one of the fastest growing economies in Europe. In absolute terms, GDP stands at €426 billion, with a stock market capitalization of €331 billion and a bond market which totals €267 billion.

Macroeconomic stability around key factors (labour market, households confidence and inflation) is seeming to boost investment funds assets, which increased by 8% from 2016 to 2017. The asset management industry continues to show growth and the Warsaw Stock Exchange keeps enlarging: the total capitalisation of 483 domestic and foreign companies listed on the GPW Main Market was €311.5 billion at the end of June 2017[106].

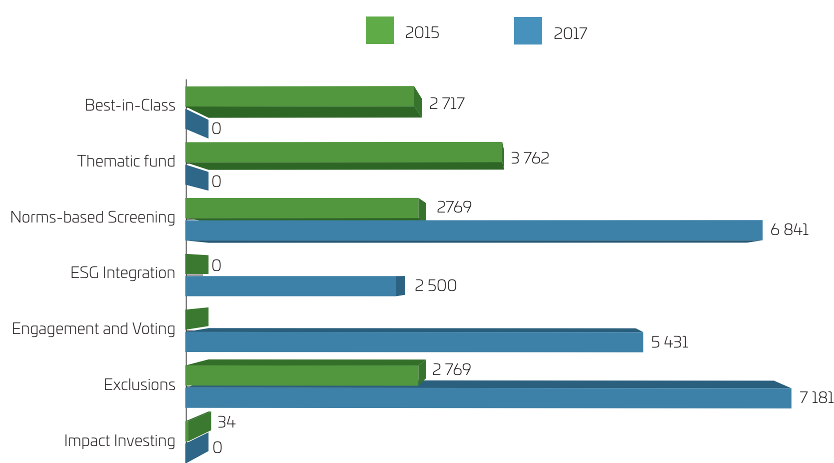
Characteristics of the SRI market

As shown in the data, Polish SRI markets still shows an embryonic stage, both in absolute and relative terms. Our research this year has focused solely on the private equity market and data was gathered with the support of the National Private Equity Association, PSIK. This has determined some of the discrepancy in data regarding certain strategies. Particular SRI strategies don't seem to gain ground in a substantial way, while asset managers show they haven't found their way yet towards Sustainable Finance. One of the reasons for this stagnation is the low demand due to insufficient knowledge about SRI, its effectiveness and performance compared with mainstream investment.

While there is still no SRI leader in Poland building its portfolios on an SRI approach, one large thematic fund investing in environmental protection projects is currently associated with public money. The National Fund for Environmental Protection and Water Management was established in 1989 in cooperation with Voivodeship funds to protect the environment and avoid water waste.

In 2009, the WSE initiated the RESPECT Index Project, promoting high ESG standards among its listed companies and investors. The portfolio selection is carried out by

Figure 43: Overview of SRI strategies



105 https://data.oecd.org
106 Efama FACT BOOK 2018, page 208

WSE and audited by Deloitte. Another project aimed at increasing SRI awareness among listed companies and investors is “ESG Analysis of Companies in Poland”, an initiative developed by the Polish Association of Listed Companies and the ESG rating agency Global Engagement Service. The aims of this project are to analyse the ESG performance of all WSE listed companies and engage with them on increasing the quantity and quality of their ESG disclosure.

Regulatory framework

The capital market in Poland is regulated by the following regulations: Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading and on Public Companies, Act on Trading in Financial Instruments, Act on Capital Market Supervision. Each of these acts addresses one of the main three aspects of capital market operations: the primary market, secondary trading and market supervision. There is currently no specific SRI regulation in Poland for funds, asset managers or asset owners.

However, according to Polish legislation, every public company is required to include a detailed statement on corporate governance in its annual report, and the vast majority of companies do fulfill this obligation. The “Corporate Governance Rules for the Supervised Institutions” was implemented in 2015, while there have been some delays in the implementation of MiFID II, occurred in March 2018, II and the PRIIPs regulation, which investment funds are exempt from until 2019. There are no developments related to responsible investments.

Spain

Financial industry overview

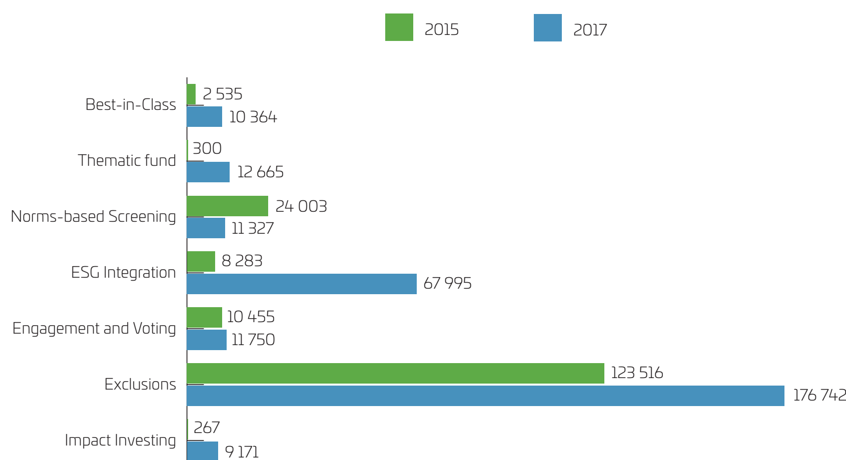
The economy of Spain has consolidated a growth up to 3% for four consecutive years, after a long recession period that finished in 2014. The Spanish economy has achieved, in these last years, growth rates above the global and Euro Zone economic growth. This growth is based on national demand due to a favourable credit situation, the increase in household trust, and the good perspectives of the labour market. These favourable conditions have achieved household finance savings in 2017 of about 2.1 trillion euros (182% of the Spanish GDP).

Related to the collective investment institutions (CIIs), in 2017, this market stands at 14.8% (€464 billion) of the total finance savings while the pension funds stands at 5.7% (€111 billion) of the whole of the finance savings. Over the last several years, these two markets have had the best growth rate in comparison with other finance products like the deposits market, reference in Spain, which represents 37.3% of the total finance savings. This exceptional behaviour of the economy and the financial markets, CIIs, and pension funds, in particular, in sum with the increased support of the investors, international institutions and countries in sustainability terms (ESG criteria) produce a well perspective of the sustainable and responsible investment market growth, as much in quantity as in quality of this kind of investment.

Characteristics of SRI market

In general terms, the SRI market in Spain has had a positive growth rate since we began to measure this market in the year 2003. The continued growth denoted, on the one hand, that sustainable and responsible investment grows both recession times and growth times, and on the other hand, companies are supporting advanced strategies, like we can see in the growth rates.

Figure 44: Overview of SRI strategies



The growth of the SRI market in the last two years has been higher than the growth of the Spanish's GDP or the IBEX 35 (index of reference in Spain). The market share of SRI is still up to 45% of the total assets under management, excluding the foreign CIIs. Most of the strategies have grown substantially. Exclusions is still the biggest in terms of assets while the fastest growing strategy is impact investing at €9 billion.

The main strategy is Exclusion, but in the last two years the growth rate of this strategy slowed down. In contrast, **Best-in-Class** and **ESG integration** have had a high growth rate.

Regulatory framework

The Action Plan of the European Commission for developing a sustainable finance market has come at the

best moment to support the growth of the Spanish SRI market. Currently, there have been some significant improvements in the quality and relevance of the SRI Spanish market because of the increasing attention paid by the financial institutions to sustainable finance and the consolidated demand for SRI products from the Spanish investors. The Action Plan could be the minimum regulation framework to develop a consolidated SRI market in which ESG investment products become a type of competitive investment that also serves to channel capital flows toward sustainable development.

The Spanish government, for its part, is working on an Energy transition and climate change law based on the French Energy transition law. This is an excellent opportunity for the SRI market in Spain because the Spanish law could be included in a methodology about ESG reporting and investment similar to Article 173 of the French law. Also, this is an opportunity for the Spanish government to develop a public label of ESG financial products with the capacity to create a robust SRI market based on financial products vitrificated for the Spanish Administration. On the other hand, the National Securities Market Commission, as mandated by the Listed Companies Act, publishes a report every year about Corporate Governance of Entities with Securities Admitted to Trading on Regulated Markets. This report must provide comprehensive information on the corporate governance practices of the issuers of listed securities, enabling investors and other users to make a founded judgement on the same and including a degree of compliance with good governance recommendations. This is an excellent opportunity to consolidate and grow a strong SRI market in Spain through the involvement of the administration and the support of the companies that are working in the SRI market and drive other companies to join the SRI market. This is done with the intention to create an investment ecosystem in line with sustainable development, the fight against poverty, climate change, and inequality while progressing to achieve long-term economic profitability.

The principal barriers are the asymmetry of information and the different kind of concepts related to sustainable finance. Fortunately, the Action Plan includes specific actions to resolve these sources of uncertainty, such as the development of a European environmental label of financial products and maybe more ESG financial products. The SRI Spanish market is at an inflexion point, and the **Exclusions** and **Norms-Based Screening** have changed for other more advanced strategies like **Best-in-Class** and **ESG integration**. It seems that the sustainable and responsible investment market in Spain is at the dawn of a new stage of quality growth, supported by international initiatives, administrations, and the outstanding demand for the investors.

Sweden

Financial industry overview

Swedish GDP totals €468 billion, with a real GDP growth of 2,4%. Stock market capitalization amounts to €711 billion, almost doubles the bond market (€377 billion)[107].

In 2017, a net total of €11 billion was invested in investment funds. Coupled with a value increase of almost €35 billion, this means that the total fund assets by the end of 2017 had increased to record high €408 billion. The interest in equity funds remained very strong. At the end of 2017, €240 billion was invested in equity funds.

Index funds accounts for a large part of the inflow, almost 80%, and accounts for 13 percent of the total assets in equity funds.

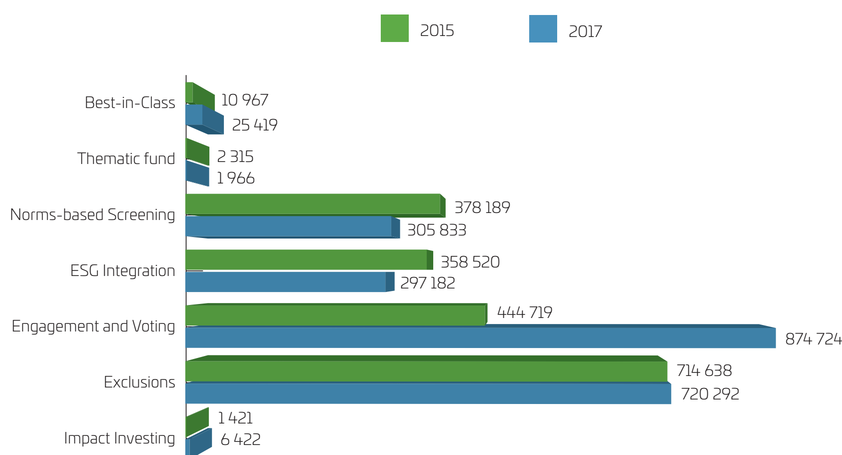
Characteristics of SRI market

The Swedish SRI market is mature, with many large institutional players having been active in the SRI space for more than ten years. Almost all major players have some sort of framework for sustainable investments and an ESG or ethical investment policy. Having started with exclusion strategies in the 1980s, most players now use a combination of exclusion strategies and more all-encompassing strategies such as integration and engagement.

A common practice among Swedish institutional investors is to combine several strategies including Exclusions, Engagement and Voting as part of a holistic approach to integrating ESG factors into the investment policy, process and decision-making. Most players exclude breach of international norms, if dialogue is not deemed progressive enough. Sweden has been receptive to international initiatives such as the UN Global Compact and the UN-supported Principles for Responsible Investment (PRI), and it is common for investors in Sweden to sign up to both the PRI and the base investment guidelines on the principles of the UN Global Compact when assessing investment portfolios.

Swesif continues to grow at a high pace. Most major players are already members, but many smaller players are still joining. The most common cited reason to join is to increase their knowledge in ESG. This might be due to the high pace of regulation in this area. At the end of 2017, Swesif had 88 traditional and associated members, up from 70 at the end of 2016. In the past few years, there has been an increased focus on ESG investments from the government. So far, the outcome has mainly been aligned with current self-regulation and increased transparency.

Figure 45: Overview of SRI strategies



107 Efama, FACT BOOK 2018, page 250

Innovation climate

Guided by an advisory board with high-level executives from banks and pension funds, and experts on sustainable finance, Stockholm Sustainable Finance Centre (SSFC) is an agile platform that shapes, tailors and delivers expertise in sustainable finance to bring about clear positive impacts through the following domains:

- Research: SSFC performs demand-driven research to gain a deeper understanding of how the financial sector can catalyse new investments in low-carbon and climate-resilient solutions.
- Education: SSFC has developed and will deliver an executive education programme for the finance sector in Green Finance at the end of 2018.
- Innovation: SSFC works closely with the market to push the frontier in sustainable financial innovation and collaborates closely with Stockholm Green Digital Finance around digital financial solutions.

Stockholm Green Digital Finance (SGDF) was established at the G20 GreenInvest meeting in Berlin in 2017. Set up as a not-for-profit, SGDF serves as an independent innovation platform and test bed to demonstrate creative solutions for scaling green finance and investment through fintech solutions.

The Green Assets Wallet, the SGDF flagship innovation project, convenes a consortium of capital market actors, researchers and technology innovators who are co-creating a ground-breaking blockchain platform to help accelerate the market for green investments through the following pillars:

- Cost efficiency: The Green Assets Wallet reduces barriers for entry to help increase the supply of green debt in the market.
- Transparency: The Green Assets Wallet injects trust and to make a wider range of high impact investment opportunities accessible to global investors.
- Trust: The Green Assets Wallet supports new entrants in emerging markets to successfully attract capital for green projects.

The Green Assets Wallet is funded and co-developed by the Emerging Markets Dialogue on Finance (EMDF), which is a project of Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ).

Regulatory Framework

ESG investment practices have historically not been governed by any explicit legal framework, but have been driven by frontrunners and increasing transparency. Over the past few years, regulators have considered different ways of further increasing the efforts into sustainable investments. The regulators have for the most part benefited from existing self-regulation, such as Swesif's sustainability declaration for funds, Hållbarhetsprofilen, that was first launched in 2013(see below). The declaration is now compulsory for all fund companies in Sweden.

An initiative from the Swedish Investment Fund Association in 2015, was an industry standard for reporting the fund management companies' sustainability work. This Sustainability Review aims to increase transparency for savers and give an overview of how the fund management company works with sustainability issues along with concrete follow-ups on how this work has been done in practice during the previous year.

Other initiatives and recent legislation from the government within ESG investments include stricter information requirements, financial support for the Nordic Swan Ecolabel, sustainability criteria for mutual funds offered via the public pension system, an inquiry to promote the market of green bonds, mandatory sustainability reporting for all large companies, and a mission to the Financial Supervisory Authority to evaluate its possible contributions to the climate target. Just recently, the government launched an inquiry for ways to promote green savings via tax incentives. The most important of these initiatives for sustainable investments are described in more detail below.

The stricter information requirements for funds entails that for each fund, the fund company must submit the information necessary to understand the fund's ESG methodology and its output/outcome with regard to sus-

tainability. The more static data on what sustainability aspects that have been taken into account in management, and the method or methods applied, are to be presented in the fund's information brochure and annual report. The structure of this information is fully aligned with Swesif's sustainability declaration. The annual report shall include a report on the fund's actual sustainability performance during the reporting period. All information must be available on the fund company's website.

The Sustainability Declaration ("Hållbarhetsprofilen") was developed by Swesif together with its member companies. It is a standardised self-reporting formula describing the fund's work on ESG issues, and is a supplement to the financial fund fact sheets. It was developed in 2013 to help fund investors by giving them easier access to information. In May 2015, Swesif launched the Sustainability Declaration ("Hållbarhetsprofilen") on the private market in Sweden. After one year, 38 fund companies had already joined and at year end 2017, more than around 1000 funds were registered on the platform www.hallbarhetsprofilen.se.

In 2017, the product criteria for Nordic Swan Ecolabelled funds were released. This is the first ecolabel for mutual funds in Sweden. At launch, 12 funds qualified for the label, and 2 more have qualified since then. The label is carried by funds that fulfil certain exclusion criteria and extensive positive screening:

- The fund excludes investments in certain industries and companies that are particularly problematic from a sustainability point of view.
- The fund conducts an extensive ESG analysis of its potential investments and prioritizes companies that are more sustainable.
- The fund discloses all of its holdings on a quarterly basis and publishes an annual report on its sustainability performance
- Nordic Ecolabelling encourages active ownership and rewards funds that engage with investee companies.

The Swedish public pension system has a funded part in which the savers can select their own funds to invest in from a fund platform of more than 800 mutual funds. The platform now has over €110 billion invested. In 2018, new sustainability criteria for the platform are being implemented. The criteria are at the time of writing not fully disclosed, but UN PRI will be mandatory. Previously, the only criteria for the platform has been to report via Swesif' Sustainability Declaration for funds branded as SRI funds.

The interest in green bonds continues to be high. The current trend is that large institutional players are buying the bonds with a buy-and-hold perspective, so the secondary market is small. There are however a couple of mutual funds available on the market. But the green bond market can still be considered a niche product. The government has launched an inquiry to identify ways in which a green bond market could be promoted.

EU commission Action Plan on sustainable finance

Many of the Swedish institutional investors have welcomed the EU action plan and the proposals on disclosure, taxonomy and benchmarks. The main reservations or challenges put forward are linked to a lack of definitions of some of the terms used in the proposals, e.g. what is a sustainability risk; the fact that ESG are intrinsic aspects and that the current proposals overemphasize the E in the equation; the fear of a binary classification on what is considered 'sustainable' combined with a lack of reference to engagement/stewardship and transition strategies for investments. In addition to norm-based screening, and in combination therewith, engagement has been one of the strong and established approaches in Sweden. In terms of regulations, there are no current references with regard to taxonomy or benchmarks, but for asset managers with retail funds there is a requirement to disclose information on if and how sustainability is considered in the investment process. The Swedish assessment has concluded that any changes to the current regulation in order to adapt to a EU directive is moderate.

UK

Financial industry overview

Funds under management rose by 15% at the end of 2017, totalling GBP 1.2 trillion. Sales and market returns grew consistently in 2017, overturning the low performances of the previous year[108].

Pension schemes are still the largest single client type, and due to continuing progress in law and regulation, we expect demand to continue to grow at a fast pace. This growth is driven by renewed analysis of the UK meaning of 'fiduciary duty'. Consequences include: revised guidance from The Pension Regulator; Government action in 2018 to embed SRI considerations into law for trust-based pensions from 2019; a forthcoming FCA consultation on embedding SRI considerations into rules for contract-based pension schemes; and legal warnings to some large pension schemes over how they consider climate risk. UKSIF opinion polling confirms that pension savers are largely unaware of the sustainable and responsible options available to them and their power to switch funds or providers.

The polling also confirms that the percentage of individuals that care about where their money is invested is increasing, and that expectations of the finance industry are high. 57% of UK adults say investment managers have a responsibility to ensure that the companies they invest in are managed in a way that is positive for society and the environment. Whilst engagement between schemes and members remains low, UK savers increasingly expect a financial services industry that considers its impact. This area, which includes reporting, transparency and considering member views, received some attention in the regulatory changes mentioned above, but we expect it to be the subject of further campaigning work. Legal risks to pension funds are also getting some attention, with activist environmental lawyers ClientEarth warning 14 of the biggest pension funds that they are at risk of being sued if they do not consider climate-related risk factors when making investment decisions. Active legal cases elsewhere in the world – such as the US and Australia – are also being noted.

These factors offer a significant opportunity for the SRI sector in the UK. It extends beyond pensions; our opinion polling suggests that the most popular attitude to investment among the public is no longer as it has been for many years "it's all about the money" (22% of respondents in 2018) but is now "it is about making money and making a difference" (24% of respondents in 2018). These results coincide with a noticeable increase in UKSIF membership enquiries from mainstream platforms and discretionary fund managers looking to learn more about SRI and how they might apply it to their businesses.

Characteristics of the UK SRI Market

The UK SRI market is thriving, with notable growth in impact investment. The Government set up an advisory committee in 2016 chaired by Elizabeth Corley to examine how to "grow a culture of social impact investing in the UK". Recommendations included the creation of new finance industry partnerships and changes to pensions' legislation. The pension changes referred to above are supportive of the Corley recommendations but do not go as far as some hoped.

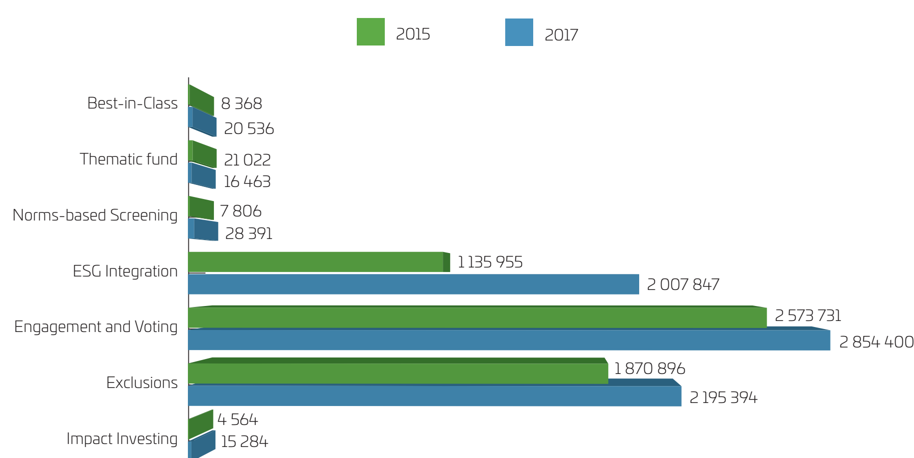
The SRI industry is now staffing a range of implementation groups aimed at making practical changes aimed at "generating a faster rate of innovation in the financial services industry to provide products that give savers and investors the opportunity to make a social impact". Evidence of the mainstreaming of SRI more widely includes growing competition for talent.

SRI teams are growing and there are reports that some firms are struggling to attract individuals with the requisite combination of business sense and strong awareness of broader SRI issues. Improving professional education programmes in these areas will be key to the industry maintaining growth at its current pace. The debate continues on issues such as what best practice is, or what a minimum standard should be when measuring and reporting on SRI investment to asset owners. UKSIF thinks there is growing industry support for increased rigour in assessing claims made for products and processes, in measuring impact, and in transparency and disclosure.

108 Efama, FACT BOOK 2018, page 279

However, there is little agreement as to the best way forward, with UKSIF members pointing out that clumsy interventions risk slowing innovation and encouraging a "lowest common denominator" approach at sharp variance with the buoyant, innovative approach that has characterised the UK market in recent decades. Another question for the industry is on the effectiveness of engagement. Engagement is a well-known and supported strategy in the UK. However, there is some concern around the efficacy of engagement specifically with regard to changing behaviour on climate risk. A recent UKSIF Ownership Day survey showed that despite 89% of managers agreeing that energy transition risk –including increasing regulation around emission levels – will significantly impact the valuations of oil companies in the next 5 years, 41% of fund managers still do not have strategies to engage on the issue. Of those that do, few are aligned on goals and many have not yet decided if any of the oil companies are likely to make a transition to a zero-carbon economy. Climate change is the most researched environmental SRI issue; the ClimateAction 100+ initiative enjoys wide support in the UK. Key advisers – the investment consultants and actuaries – are making efforts to highlight the financial materiality of climate-related risks and ESG in general. The Institute and Faculty of Actuaries issued a climate risk warning to its members, and investment consultants representing over 80% of the UK market signed a statement drafted by UKSIF and the Association of Member-Nominated Trustees committing to offering proactive advice on ESG in-line with The Pension Regulator's guidance. There was a mixed reception to the risk alert amid reports that a third of those that received it were unchanged in viewing climate change as an ethical issue that can be ignored rather than a material financial issue that must be considered.

Figure 46: Overview of SRI strategies



Regulatory Framework

The changes to trust-based pension legislation referred to above require pension trustees to set out how they take account of financially material factors "including those arising from ESG, including climate change." The additional mention of "climate change" was justified since it is systemic and cross-cutting, having the potential to impact many investment risks and opportunities. The new rules also clarified that trustees could take into account members' views on non-financial factors in certain circumstances. The growth opportunity now is to get this thinking applied more widely.

The FCA, which regulates contract-based pension schemes, has committed to consulting on similar rule changes in Q1 2019. While currently a smaller portion of the market, contract schemes have seen rapid growth due to automatic-enrolment and the potential to boost SRI is clear as more assets flow into such schemes. The FCA also regulates financial advisers and the opportunity there is to seek in such regulation the application of concepts similar to those now being applied to trust-based pensions. The Government has already applied them to local authority pension scheme investment, which sits in

a separate legal niche. This suggests that getting conceptually identical approaches across all the entire UK regulatory space is realistic. The current government has expressed support for the fund management industry. The Treasury has issued a second Investment Management Strategy that highlights green finance, social investment and Islamic finance as particular areas of focus. One policy initiative designed to drive this work forward was the Green Finance Taskforce ('GFT'), set up by the Treasury and the Department for Business, Energy and Industrial Strategy.

This made a range of recommendations to Government including that retail financial advisors should ask their clients about their sustainability preferences, that investment consultants should have sufficient expertise on ESG issues, and that TPR and the FCA address the barriers to long-term investment associated with illiquid investments. Many of the longer-term recommendations of the Corley report mentioned above echo these including one that advisers ask about social investment preferences at the fact-finding stage. These recommendations on advisers, combined with the fiduciary duty aspect mentioned above make us think change for advisers is possible. One of the most interesting comments in the GFT was that the Government should make the UK a global hub for green finance, and *"the time is right for the Government to take a more activist approach to working with the private sector to help realise expanded leadership and business opportunities for the UK"*. This was accompanied by a call for a "*green diplomatic strategy*". This would seem to be a call for further Government support for, among other financial sectors, investment management. That support would come as the UK leaves the EU and, presumably, the ambit of the EU's financial sector regulation.

The implications of this are not clear, but it suggests for instance, that the EU's Action Plan on Sustainable Finance will not directly apply to the UK. The EU Action Plan followed the report of the High Level Expert Group. That report recommended in part that actions reflected the "specificities of the nations", but the Action Plan proposals as proposed will be applied on a single-market basis as rules applicable to all EU countries. We have been told by UK civil servants that some EU 27 countries oppose the single-market positioning, but it remains to be seen on what basis the Action Plan is taken forward.

UKSIF members have expressed some caution over the Plan. There is concern about the taxonomy (will it be too rigid and detailed, how will it evolve?, who is to say what is 'right'?), over regulations which refer to the taxonomy before it has been drafted, and over the definitions for E,S and G used in some draft legislation (they seem too 'soft' to some members). The Plan will affect UKSIF members that sell into the EU and its 'shadow effect' on the industry globally could be great, but informal contact with members suggests that few currently plan changes to investment practices. One important point needs to be made: concern over the current Plan should not be mistaken as opposition to any Plan. UKSIF and its membership welcome the attention the EU is paying to sustainable finance.

Appendix

Credits

Project Supervisor
Eurosif, Flavia Micilotta

Project Manager
Eurosif, Flavia Micilotta

Partners and Researchers
University of Antwerp, consisting of:
Prof. dr. Luc Van Liedekerke (team leader), a Professor of Business Ethics,
Prof. dr. Peter-Jan Engelen, a Professor of Finance,
Senior Researcher Mrs. Karina Megaeva.

Editing
Eurosif, Flavia Micilotta
UKSIF, Simon Howard

Communication & PR
Eurosif, Maria Grazia Fumagallo

Contributors
AFG, Audrey Hyvernat
AFG, Thomas Valli
Cattolica University, Federico Acciavatti
CBI, Monica Filkova
Dansif, Sandra Bossen
Eurosif, Flavia Micilotta
Febelfin, Thomas Van den Berghe
FFS, Francesco Bicciato
FFS, Anna Crocetti
FIR, Grégoire Cousté
FIR, Thiên-Minh Polodna
Polska Bezgotowkowa, Mieczysław Groszek
PSIK, Barbara Nowakowska
Spainsif, Francisco Javier Garayoa
Spainsif, Adrian Garcia
Swesif, Philip Thormark
UKSIF, Simon Howard
UKSIF, Fergus Moffat
UKSIF, Charlene Cranny
VBDO, Vicky van Heck
VBDO, Angelique Laskewitz

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About Eurosif

Eurosif is the leading European association for the promotion and advancement of sustainable and responsible investment across Europe, for the benefit of its members.

Eurosif's purpose is to:

1. Promote best practice in Sustainable and Responsible Investment (SRI) on behalf of its members

2. Lobby for European regulation and legislation that supports the development of SRI

3. Support its members in developing their sustainable and responsible investment business

4. Promote the development of, and collaboration between SIFs across Europe

5. Provide research and analysis on the development and trends within the SRI market across Europe

6. Raise awareness of and increase demand for SRI throughout the European capital markets

Joining Eurosif

Joining Eurosif through our national SIFs or as a direct member means becoming part of the most influential network for the promotion of Sustainable and Responsible Investment in Europe. Interacting with key regulators to push the SRI agenda forward, Eurosif's mission is articulated around three main action points:

- Building trust and quality relations with European regulators
- Organising research and events featuring influencers and key policy makers
- Bringing its members a wealth of knowledge on current ESG trends through its partners' network

Benefits

When joining Eurosif, Member SIFs enjoy the following benefits:

1. EU Policy

- The opportunity to help shape public policy on sustainability and socially responsible investing at a European level through exclusive meetings with European policy makers and position papers that Eurosif regularly submits in response to European Commission's legislative and non-legislative initiatives.
- Access to our internal Policy Platform to share and be informed on the latest policy news and developments in the SRI space.

2. Access to Market Leading Research

- Ability to help Eurosif choose research subject matter, act as advisory member to research initiatives and have first-hand access to information and trends to help improve your own development and client reach.
- Access to all Eurosif research before it is made publicly available.

3. Initiatives and High-level Events

- Interacting with key regulators and stakeholders to push the SRI agenda forward.
- Influence in shaping initiatives such as the development of voluntary codes and standards that will affect all actors in the European SRI industry. The European Transparency Code is one such initiative with over 700 fund signatories.
- Participation in key EU level events and roundtables reaching key SRI policy makers, asset owners and eventually, the general public.

4. Continuous Learning and Networking

- Access to a multi-stakeholder environment to learn from different organisations.
- Access to a series of public networking opportunities and conferences.
- Access to the Eurosif Events, to meet SRI and ESG professionals who are members of your network and hear from keynote speakers the latest developments and future plans in the market or in the regulatory areas.

EUROSIF A.I.S.B.L.
European Sustainable Investment Forum
Avenue Adolphe Lacomblé 59
B-1030 Brussels
www.eurosif.org
www.twitter.com/Eurosif

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