



European SRI Study 2016



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Foreword from Bob Eccles

Robert G. Eccles, Chairman Arabesque Partners



Robert G. Eccles

In this seventh highly useful EUROSIF study we see strong and continuing growth in sustainable and responsible investment (SRI). The Foreword by Flavia Micilotta and Will Oulton provides an excellent overview of the results of the latest survey. Notable findings include the shift in SRI assets from equities to fixed income (driven by the growth in the issuance of Green Bonds), the growing interest of retail investors (although the growth in assets is still largely driven by the institutional market), and strong growth in Engagement and Voting which provides evidence of the increasing relevance of stewardship. And while Micilotta rightly notes that the belief that ESG integration hurts financial performance has largely been debunked, she also notes the difficulty of establishing categories for ESG integration.

It is on this subject that I would like to focus my remarks. While I think such a classification system would be very useful, I'm doubtful that it will ever be achieved. Reaching such a universal social consensus would be virtually impossible. Consider the wide variation in language and meaning that still exists in the corporate world where "sustainability" has been a topic of general interest for many more years than in the investment community. "Sustainability" means different things to different people. My position here is to say "I can only say what it means to me." I then go on to distinguish between a "sustainable strategy," defined as one which enables a company to create value of the long term while

contributing to a sustainable society, and a "sustainability strategy", which is a set of programs directed to particular stakeholders. The former focuses on material issues. The latter focuses on socially significant issues, interests of civil society as represented by some group, such as an NGO or set of NGOs. Some subset of socially significant issues are material (which belong in an integrated report), but not all of them (those belonging in a sustainability report).

Similarly, some people use the terms "sustainability" and "corporate social responsibility (also called corporate responsibility)" interchangeably while others see them as different things. Variations exist across countries (e.g., CSR is still the preferred term in China). And there are yet more terms, often associated with a particular report, like "corporate citizenship." In corporate citizenship, the lines are often blurred between sustainability/CSR and philanthropy. Little wonder that no consensus has emerged—or ever will—on the meanings of these terms.

In the investor world, the general term of "Socially Responsible Investing," which has probably been around as long as CSR/sustainability, has been subdivided into concepts such as exclusions (basically the origins of SRI based on values), impact investing (some people see this as associated with sub-market returns but others want both impact and performance to be considered),

sustainability-themed investments (relatively new), norms-based screening (also relatively new), and ESG quant (where sustainability performance is one part of a quantitative model that includes many other factors). The term “ESG integration” is gaining popularity but is as much about upgrading the methodologies for “traditional investing” to include ESG factors as it is a new term for SRI.

So what should be done? Should we simply throw up our hands and just accept a certain “Tower of Babylon” quality to the SRI world? No, I think this is too easy and too lazy an answer. The core issue, at least for me, is whether investors think ESG issues (the material ones, not all of them) are important for investment decisions. While there is mounting evidence that they are related to performance, this is still a decision that ultimately rests with fund fiduciaries. The trend, as Micilotta notes, is clearly one of fiduciary duty being interpreted as requiring ESG integration but, as yet, there are no hard laws on this subject. The current state of the world is more that it is allowed but not required.

Fund fiduciaries should publicly declare whether they support ESG integration or not. This is similar to the idea of a company board level. If they do not, the whole subject of SRI is irrelevant. But if they do support ESG integration, they then need to go further and explain exactly

what this means *for them*. Whether the strategy is one of exclusions, impact investing, sustainability-themed investments, norms-based screening, or whatever new concepts emerge (as they are bound to do), the fund’s fiduciaries should simply provide an explicit definition of what each term means for them. In this context, they should also explain how this determines their definition of “stewardship” and what this means for their engagement activities and voting policies.

This isn’t a lot to ask for. It is a simple request that fiduciaries be clear in their own minds about the meaning of the terms they and their fund manager are using. If nothing else, this will establish fund-level clarity. But, dare I hope, this might even eventually lead to a broad social consensus, something I’ve declared impossible. With explicit meanings being given, it will be possible to see if a consensus is building for a particular term and fiduciaries can judge their definitions in the light of others.

This may or may not happen, but it is less important than making ESG integration core to all investing. Doing so will improve long-term returns for beneficiaries, act as a powerful force for ESG integration by companies, and enable the capital markets to contribute to a more sustainable society.

Foreword from Eurosif President and Executive Director

Welcome to the 7th edition of the Eurosif SRI Study. This year, we invite our readers to once more explore the trends and developments in sustainable and responsible investment (SRI) across Europe. In addition to capturing the trends and factors driving change, this Study also explores the fundamental issues behind these dynamics in greater detail for the first time. The Study provides evidence that SRI continues to develop as an important part of the European financial landscape.

Reading this Study in 2016 seems particularly relevant, considering the many strategic and meaningful events that continue to build up and shape the world. These events are part of the positive trends registered by SRI in Europe throughout many EU member states. Last December, COP 21 set in motion a series of events which have continued to spur change and introduce an undeniably positive domino effect. The Green Bond market breaking through a \$150 billion barrier and with France and Finland officially becoming the first States to issue Green Bonds are just two examples of this.

Although it was certainly a catalyst for change, the Paris Agreement was not the single most important event to call for more sustainable finance and investments in general. International decision-makers have joined the long walk to sustainability inspired by the words of Mark Carney about the financial stability risks derived from climate change. Policy makers have already done much, and continue to work to ensure sustainability, transparency and accountability become ingrained in our financial and social system. Over the course of the years, they have recognized the extent to which sustainable finance can help mold more sustainable economies.

As evidence of that, the European Commission has launched some crucial consultations which have particularly marked our investor community. Let us focus

on two of the latest ones, specifically issued by DG Just and DG Fisma on Long-term investment and on the Non-binding guidelines relative to the Non-Financial Disclosure Directive (2014/95/EU) respectively. Both consultations are linked to the Capital Markets Union Framework aimed at increasing market liquidity and stimulate investments in Europe. Both underscore a renewed role for investors and specifically SRI investors, who continue to prove the relevance of transparency and of incorporating Environmental Social and Governance issues, in the evaluation of investment opportunities. Transparency, long-term and sustainable investments and accountability are only bywords for some key criteria that determine the work of Eurosif and its members SIFs. At the same time and under the Capital Markets Union, they are also increasingly becoming the key parameters European policy-makers use as basis to define their policy framework with a view to better connecting savings to investment and to strengthen sources of financing for retail as well as for institutional investors.

The current boom in Green Bonds highlights the consistent growth in Impact Investing which we have witnessed in the past few years or since the inception of this approach. Pioneered by the European Investment Bank (EIB) in 2007, the Green Bond market has now witnessed significant levels of growth which have been instrumental in highlighting the limits of climate finance. Similarly, this growth has underscored the need for a higher degree of clarification and harmonisation, and green bond issuance is creating a framework within which bond markets can become the instrument of a wider collective action to push further the accountability of environmental finance. This is an excellent sign and it helps speed up the process of transformation that our economy should be moving towards, although there is still a long way to go before it reaches the scale needed to address climate change and the other pressing environmental issues.



Eurosif's Executive Director,
Flavia Micilotta



Eurosif ad-interim President,
Will Oulton

Executive Summary

This 2016 European SRI Study bears out the sustained growth in SRI across different approaches. The data collected for this Study, at the end of 2015, allowed us to cover institutional and retail assets from 13 different European markets. The methodology was modified for some minor aspects, as a few simplifications were brought to the SRI questionnaire; but the taxonomy remains unchanged from 2012.

Some of the main growth trends highlighted in this edition have built up consistently over the past years. However, it is worth noting a number of interesting shifts. Exclusions remains the dominant strategy at over €10 trillion, covering 48% of the total of European professionally managed assets¹.

Meanwhile, Impact Investing is once again confirmed as the fastest growing strategy with a growth of 385%. Although the growth remains small in terms of assets, it has made Impact Investing, once more, the most dynamic and definitely the most promising approach for investors. This year we featured a special focus section on Green Bonds, which have characterized much of the growth in the bond market in the last two years. In 2015, the total Green Bond issuance amounted to over \$40 billion². At the time this Study went into printing the Green Bond issuance had already reached \$44 billion, with a potential to reach \$100 billion³, according to CBI (Climate Bond Initiative) estimates.

Impact Investing is followed by Sustainability Themed investments this year, with a remarkable growth of 146%. France registers the most significant growth (+881% over 2013-2015), followed by Spain (with 264%). This marks a significant change as this strategy registered the slowest growth during last review, at 22.6%. Renewable Energy and Energy Efficiency have been the top categories of investment for this strategy, which have benefitted significantly from an increasing awareness of the implications of climate change, as well as the impact that key international events have had in the past two years.

Norms-based screening is the second biggest SRI approach with over €5 trillion in AuM and a steady growth rate of 40%, demonstrating a sustained growth per annum of 31% since 2009. Typically this approach's main area of growth is the Nordics, but this year, France leads the way with €2.6 trillion in AuM, confirming a positive trend already reported in the previous Study.

Switzerland shows the biggest growth at 618% over the last two years.

The increasing relevance in stewardship and the ever more present debate around fiduciary duty, which continues at the European level, have given further impetus to Engagement and Voting, which grew by 30%. The UK continues to be the undisputed leader in this space with a growth rate of 50% (2013-2015) and over €2.5 trillion in total AuM. The significant policy drive for this strategy is underscored by the debate around the Shareholders Rights Directive (SRD), as part of the Commission's action plan to modernize corporate governance and increase corporate transparency. The aim of the Directive is to increase shareholders' ability to demonstrate further accountability and engagement - both characteristics which underpin SRI.

In the 2014 Study, Eurosif attempted to devise ESG integration categories⁴ to refine the framework around this strategy and categorise the different approaches used by asset managers. However, due to the many variables around the features that influence integration and the risk of overlap, we decided to discontinue the previous methodology and consider the approach as a whole and not on a country level.

Although institutional investors still lead the market, we noticed with interest in this year's Study that the retail sector is growing and going up from 3.40% to 22%, signalling an important shift in the industry and greater focus on other categories of investors.

The asset allocation distribution registered a significant decrease in equities, now at 30% of the total SRI assets down from last year's 50% and in favour of a sharp increase in bonds, now at 64% from the 40% registered in December 2013. This rise correlated with the surge in Green Bonds, underlining the climate concerns that were intensified by events such as the Paris COP21 Agreement.

Qualitative questions were also included to address the factors influencing investors' demand for SRI and their SRI strategies, as well as their perspectives on the legal requirements on ESG disclosure. This year, we also asked our respondents to explain the main limitations for their SRI strategy work. Fiduciary duty considerations have been recognised as a main driver for SRI, sending a very strong message to policy makers. In the fiduciary duty

debate, fund managers have come to see ESG considerations as part of their investment obligations in line with their fiduciary duty.

Concerning the top challenges for SRI for investors, we find that the top reason is linked to a theory that can now be considered largely disproved. The concern that integrating ESG factors in the investment strategy could negatively affect returns is, to some extent, the flip side of the fiduciary duty considerations that we find on the top of the list of our drivers. Increased awareness on topics such as climate change, brought by landmark events such as COP21 have once again reminded the whole investor community of the gravity of these environmental risks. These risks are so serious and pervasive that fiduciaries have a duty to specifically consider the associated financial risks. As highlighted in the eye-opening

report of the Advisory Scientific Committee group of the European Systemic Risk Board (ESRB), “Too late, too sudden: transition to a low-carbon economy and systemic risk”, published in February 2016⁵, a late transition to a low-carbon economy could have dire implications for systemic risk.

At such interesting times, policy-makers have an opportunity to steer the international debate and send the right messages to the investment community. The Eurosif 2016 SRI Study reports on the development of trends and dynamics and the direct correlation to the ever changing European policy agenda, which continues to shape the debate around finance and more sustainable economies. We have tried to capture the essence of this change and provide a platform for discussion on the most salient topics around SRI.

Survey definitions and methodology

Sustainable and Responsible Investment: a definition

Out of respect to the diverse cultural and historical interpretations of the concept of SRI in the different European member states, Eurosif and its constituency have been working with more than just one set definition of SRI. However, in view of the many different policy advancements at EU level, Eurosif's Board has recently reached a consensus on a working definition of SRI which could fit two main purposes:

- Defining a high-level framework of what is meant by SRI
- Enabling policy-makers to have a clearer view of the stakes which are part of Sustainable and Responsible Investing

"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. The definition was not imposed to shape this year's report but rather, it remains in line with the original goal of the Study to cover any type of investment process that combines the investors' financial objectives with their concerns about Environmental, Social and Governance (ESG) issues.

Even though a distinct lack of definitions still persists, we have noticed a steady increase in SRI labels over the years, signalling a pressing need to set definitions, parameters and benchmarks. The aim is to bring transparency, mainly to retail investors, by defining a set of criteria which constitutes an SRI framework. An overview of the various labels is available on page 49 of this Study.

As in past reviews, the 2016 Study tracks the metrics relating to the applications of the different SRI strategies as classified by Eurosif.

Categorisation of strategies

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

TABLE 1:
Growth of Sustainability Themed Investments by Country

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

Although Eurosif's classification closely aligns with other frameworks available to the industry, some underlying details of each definition may display some variation⁶.

Aggregating SRI strategies

As the definitions of the SRI strategies become increasingly distinct and delineated, it is easier to note a tendency in the past to aggregate figures and approaches⁷. In line with the methodological and definition evolution, and in order to give a close representation of the legal framework around SRI in the different European countries, the clear category split (as represented in table 1) was set up. These SRI strategies can be applied simultaneously and in a growing number of possible combinations. One should therefore be cautious about adding up the SRI strategies presented as part of the European Data Table, as this would yield an amount larger than the actual size of the European SRI market due to multiple counting. In order to measure the size of each market while taking into account combined strategies, Eurosif 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, 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,⁸ 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.⁹ This means that 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 markets¹⁰: Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Poland, Spain, Sweden, Switzerland and the United Kingdom.

Data collection and analysis

Data collection for this Study was conducted using an Excel-based questionnaire including both quantitative and qualitative questions, sent to key SRI market participants including asset managers, banks and asset owners (pension funds, universities, foundations, state-owned players and insurance companies). Data was collected from January to June 2016 from asset managers and asset owners regarding their self-managed and indirectly managed assets. The questionnaire was sent out to market participants by the national SIFs or, where relevant, by a partner at national level. For the Finnish market and partly for the Belgian market¹¹, data collection was done directly by Eurosif with the support of Forum Ethibel. Respondents were asked to report data as of 31 December 2015. All financial figures are presented in millions of Euros (EUR m) unless otherwise specified.

In total, 278 asset managers and asset owners with combined assets under management (AuM) of € 15 trillion participated in our survey, representing market coverage of 81%.¹² 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 by using publicly available information. Where this was not sufficient, a series of secondary information was used¹³. Overall, we are confident that our data sample represents the vast majority of SRI in Europe.

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. In the absence of an EU SRI framework, market players in different countries might have different understandings of SRI, its different shapes and forms, as well as its application. In addition, as the SRI market grows increasingly diversified and complex, often involving combinations of approaches, the risk of inconsistency in measuring SRI across markets grows accordingly.

Therefore, before aggregating data from this survey, Eurosif exercised due diligence on a best-effort basis to ensure consistency within survey responses and across countries. When inconsistencies or data gaps were identified, Eurosif, national SIFs and our research partners followed up directly with the respondent in order to clarify the reported data and to fill data gaps. On specific occasions, data reported by the respondents for the 2014 edition of the Study was used to fill a specific data gap when no other valid source of information was available. Occasionally, Eurosif noticed that questions were misinterpreted or that responses within the same questionnaire were not consistent and in these cases, direct follow-ups with respondents were conducted and data was clarified. Eurosif, the SIFs and other survey contributors also used secondary information sources where relevant, and employed their best judgement in order to ensure the accuracy and robustness of the data at the core of this Study.

Another limitation is that each survey sample contains a discretionary set of respondents, whereas market coverage and response rates in different countries may have varied from one year to another.¹⁴ Sample overlaps have slightly varied too. For most countries, the 2016 data

sample was larger than the 2014 one in terms of assets under management (AuM) covered. And yet, in some instances the sample was slightly smaller due to the absence of some large players.¹⁵ These variations in our data samples make direct comparisons between 2014 and 2016 figures suboptimal.

To mitigate the risk of error, misallocation of assets, sample biases and insufficient market coverage, Eurosif and its partners conducted double checks wherever necessary, in order to maintain the highest possible level of data quality and robustness. Consequently, Eurosif is confident that the report provides a realistic picture of the SRI market in Europe and its 2013-2015 developments.

Structure of the Report

Starting with Europe as a whole, the Eurosif 2016 SRI Study is then organised by alphabetical order for the 13 covered markets. This is the seventh Eurosif SRI Study and we invite readers to refer to our earlier studies (2010, 2012, 2014) 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 2013, 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 2013-2015 trends.

This edition features a section on policy developments with the ambition to provide our readers with an overview of how the EU policy-making agenda influences the SRI industry. In this respect, the information we provide is intended to reflect any clear implications of policy developments on the SRI market.

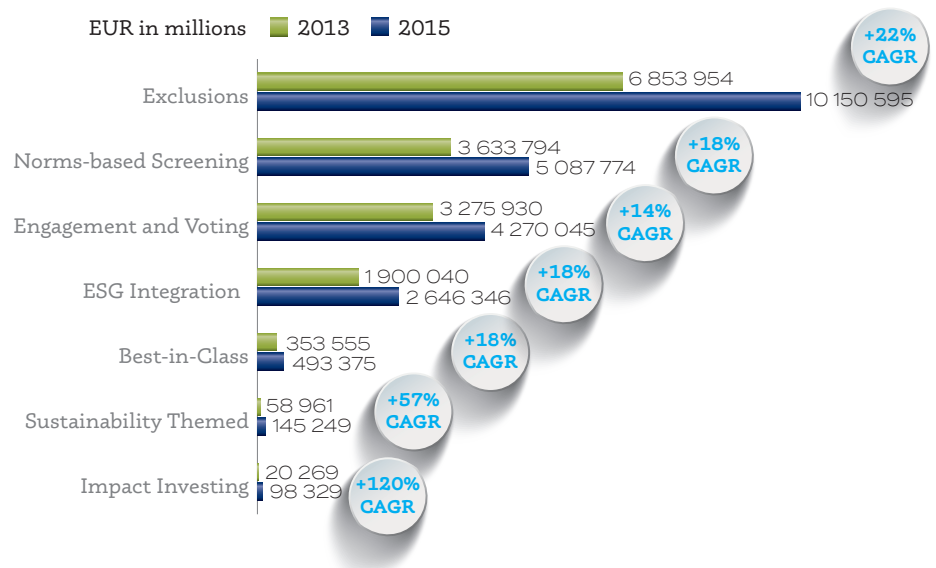
The Status of SRI in Europe

Today, several practitioners apply at least some form of extra-financial evaluation in their portfolio - though this is not sufficient to fall under an SRI denomination or to meet the requirements of one specific strategy. The different categories of SRI strategies can be applied individually or in an aggregated fashion, as already mentioned in this Study¹⁶. The fact that there are no set parameters indicating what constitutes an SRI product leaves ample room for creating products which reflect the specific needs of clients, legislative requirements at country level, specific themes or trends. Regardless of the fact that there is currently no specific regulation in place, practitioners closely follow the developments on the policy side at a national level. The recent Article 173

of the French Energy Transition Law¹⁷ clearly shows how legislation, at a country level, can be a game-changer for the industry. It makes clear quite how much this urgently needed legislation at national level can positively influence European dynamics.

Such examples will likely lead to further growth of SRI and to an increase in reporting standards which are demanding enhanced transparency and accountability. The figures on the evolution of SRI strategies this year show continued growing, with rates between 14% and 57% Compound Annual Growth Rate (CAGR)¹⁸ for the main strategies, while Impact Investing - still the fastest growing strategy - is at 120% CAGR.

Figure 1: Overview of SRI Strategies in Europe



Best-in-Class

By choosing this strategy, investors have the opportunity to pick those companies that have the best ESG¹⁹ score in a particular sector. Best-in-Class is one of those 'positive strategies'; other approaches that fall under the same classification are Best-in-Universe²⁰ and Best-Effort²¹. Unlike the Best-in-Universe approach, all sectors or asset classes can be represented with Best-in-Class. For example, an SRI fund may have a criteria which enables it to invest in the oil and gas sector, but only in those companies which are the 'best in class', meaning the top of the investment universe, based on a ESG screen.

In the last two years, Best-in-Class has grown by 40%, with AuM reaching almost €493 billion. Let's look at how the strategy has been implemented across Europe. France is once again the undisputed leader in the Best-in-Class approach with a CAGR of 36% since 2013 and a total of €322 billion. We can observe a positive trend in all the other European countries, except for Sweden, where we continue to register a reduction in the assets under management allocated to this strategy, consistent with the past reviews²². Continued growth can also be observed in the Netherlands with €56 billion AuM.

Figure 2: Growth of Best-in-Class Investments in Europe

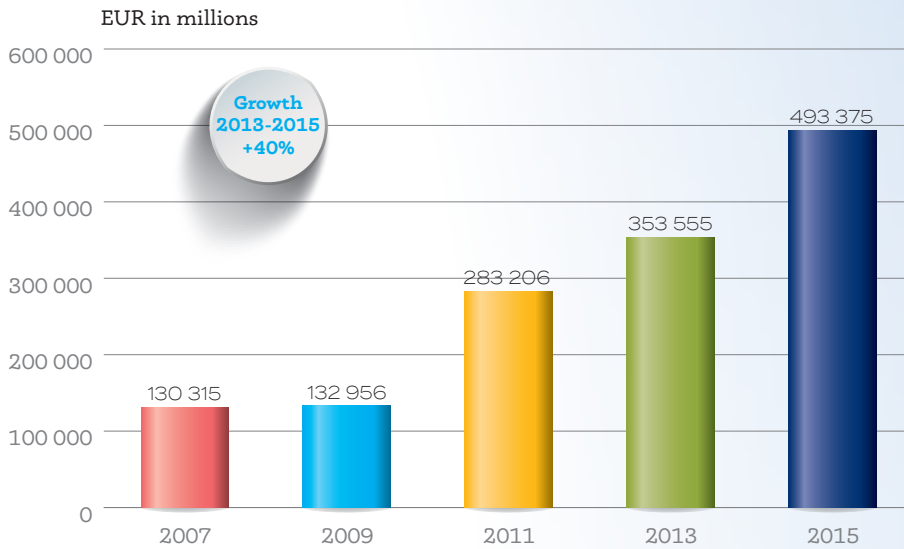
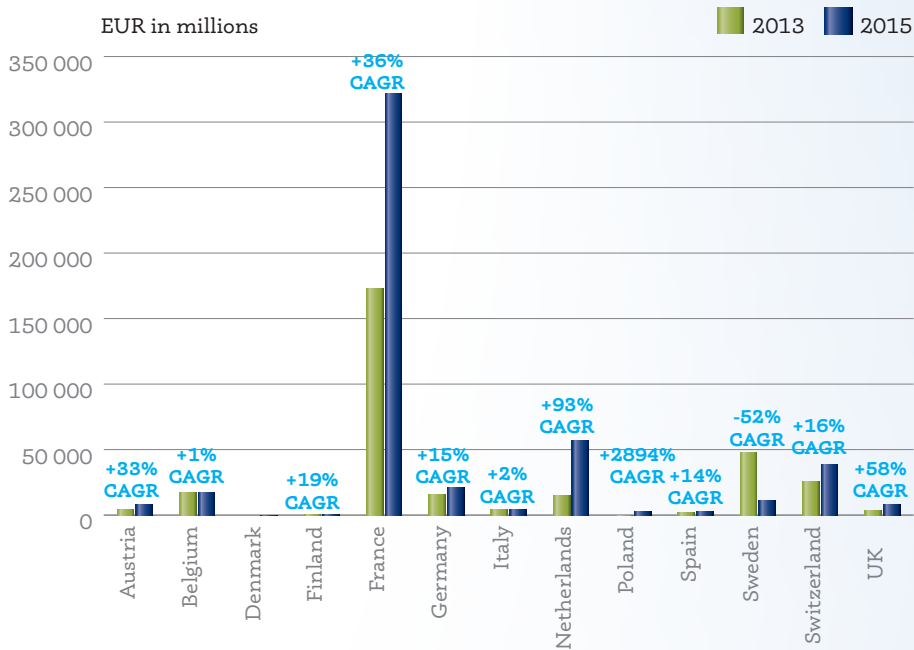


Figure 3: Growth of Best-in-Class Investments by Country



Denmark not part of 2014 SRI study

DG Justice insight

“The subject of responsible investment is an issue that has been of interest to many organisations and regulators for a long time. In the aftermath of the financial crisis, the European Commission proposed a number of policy measures that aimed at fostering long-term investment. Some of these measures, such as the pending review of the Shareholders Rights directive, aim to encourage investors to be not only more long-term-oriented, but also more engaged and responsible owners of companies. Under the leadership of Mrs. Věra Jourová, Justice and Consumers Commissioner - and also responsible for corporate governance matters - a consultation was launched in December 2015, dealing with barriers to environmental, social and governance investment. One of the responses to this consultation is that apparently short-termism remains a prominent feature in the world of investment despite many measures that have been taken in the past - and it is likely to be one of the issues to be assessed further in the context of a review of the Capital Markets Union.

Eurosif should be congratulated for its 2016 SRI Study. This provides important further input to the debate which will help policy-makers to address challenges in an intelligent and effective manner”.

Jeroen Hooijer,

Head of unit for company law and corporate governance, DG JUST, EU Commission

CASE STUDY

Strategy Case Study: Best-in-Class



Sustainable and Responsible Investing is coming of age:

Momentum is building in Sustainable and Responsible Investments (SRI) and many asset owners and asset managers face a moment of truth about integrating environmental, social and governance (ESG) issues into their investment philosophy. Although more than 1500 investors and managers representing more than \$60 trillion in assets have signed up for the UN-backed Principles for Responsible Investment, many still struggle to put their commitment into practice.

The concept of sustainability and the means by which investors can integrate ESG considerations in the investment process have greatly evolved over the last two decades, making it increasingly challenging to decide on the best method of achieving this. In parallel with the abundant utilisation of acronyms, there is a wide range of implementation approaches that can serve different objectives, be they personal (ethical or moral), economic or indeed both.

A wide selection of strategies to choose from:

Although the concept of SRI is not uniquely defined, Eurosif identifies seven distinct strategies varying from simple Exclusions and Norms-based Screening to more advanced integration methodologies like Engagement and Proxy Voting, Integration or Best-in-Class.

- Exclusions & Norms-based Screening: have their roots in values-based investing and utilise negative screening to restrict investments in certain areas (e.g. Tobacco)
- Engagement and Proxy Voting: aim to bring about improvement and change in company behaviour with respect to ESG issues via active [shareholder] dialogue
- Integration Approaches (e.g. Best-in-Class): select the best performing companies from the universe based on a given set of sustainability metrics

Depending on the approach followed, ESG investing can have very different results, from both a personal as well as financial perspective. Investors need to be aware that, under some circumstances, certain strat-

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CASE STUDY

egies may result in portfolio biases that could lead to performance differences versus the benchmark or universe in the short to medium term.

The unintended consequences:

Climate change offers an illustrative example of the impact sustainability has on a portfolio. COP21 was without doubt the tipping point for the investment industry and the reason climate change rightly became a global concern. The public, media and regulatory pressure on investors to take into account the carbon footprint of business activities they invest in is intense and still mounting. Most parties concerned are still examining how to deal with this new sustainability reality.

Divesting from polluting companies, especially those that deal in or are highly exposed to fossil fuels, can be accomplished by a basic exclusionary approach that screens out industries with the highest CO2 emissions (e.g. energy and metals & mining). At first glance, this may serve the purpose of lowering the portfolio's carbon footprint. However, it fails to take into account that companies operating in other industries may also have large direct or indirect carbon exposure.

Furthermore, this approach might also result in adverse return-risk implications for some inves-

tors as it can produce inadequate diversification. Portfolios that exclude whole industries run the risk of unintentional industry biases, concentration risk and factor risk. An investor needs to be aware that a portfolio free from carbon sensitive industries could be painful in the short term if commodity prices recover and might lack the natural inflation hedge that such investments typically offer.

The benefits of Best-in-Class:

A Best-in-Class investment process is well positioned to deal with this dilemma as the approach takes a more pragmatic and balanced view that aims at promoting the best practices of companies regardless of the industry it operates in. By screening out the worst carbon emitters in *each* industry, investors are able to lower the carbon footprint of the portfolio substantially and still hold a portfolio that largely represents the original benchmark index.

Critically for investors, the Best-in-Class approach can integrate many more dimensions than just climate change. Instead, positively identifying companies that are leading the way against a variety of global sustainability challenges that are not yet on the radar of consumers, the media or regulatory institutions but may soon become the future equivalent of 'climate change'.



We believe that Sustainable and Responsible Investment strategies make better informed investment decisions because they evaluate companies on the intangible risks and opportunities to which they are exposed as well as those found in traditional financial analysis and sector studies.



Isabelle Cabie
Global Head of Responsible Development



Wim Van Hyfte
Global Head of Responsible Investments and Research

European Systemic Risk Board

“Limiting systemic risk by early and gradual action on climate change”

Meeting the international target of limiting global warming to less than 2°C will require substantial reductions in carbon dioxide emissions at the global level over the next few decades. This will require a transition to a low-carbon economy. This, in turn, will require a decisive shift away from fossil-fuel based energy unless the cost of carbon capture and storage technology can be reduced in a major way.

Most studies show that under a gradual adjustment scenario, the adjustment costs (mitigation) would be manageable and the concomitant re-pricing of carbon assets should not be so large in scale and so abrupt to involve systemic risks.

In principle, the recent Paris agreements should lead the world towards such a gradual adjustment path. However, in reality the trends on the ground seem unlikely to change as quickly as implied by the Paris agreement. It thus seems increasingly likely that global emissions will continue to increase as before. Most ‘BAU’ (Business as Usual) scenarios foresee that 2030 would represent the last point at which decisive action could still avoid temperature increases beyond 2°C. Some time before then action will have to be taken.

A key question for financial markets is what happens if the transition away from fossil fuels is late and abrupt. In this case (i.e. a belated and sudden awareness about the importance of controlling emissions), one has to face a rapid implementation of sharp constraints on the use of carbon-intensive energy, possible more through quantity limits, rather than carbon prices. The later action is taken, the more abrupt the change will have to be, with correspondingly higher adjustment costs.

In this, we call it the adverse scenario, the economy would be adversely affected via several channels:

First, there would be a negative effect on GDP when carbon intensive energy would be reduced suddenly, which would be equivalent to much higher energy costs. Second, there would be a potentially sudden repricing of carbon-intensive assets, which become ‘stranded’. If these assets had been financed by debt, there might be large scale non-payment problems and bankruptcies. These two channels would tend to interact and reinforce each other: a weak economy would further reduce energy demand and also weaken financial intermediaries which would have to absorb the losses from stranded assets. This could be exacerbated by a growing incidence of catastrophes related to climate change, carrying particular implications for the insurance sector and emerging markets.

One issue that deserves further investigation is thus the financing patterns of carbon intensive sectors. There might be important differences across sectors and countries. The major oil and gas companies based in OECD countries appear relatively well capitalized, but little is known about the financing patterns in emerging markets.

We recommend that to better quantify the importance of these risks, policymakers all over the world should identify carbon-intensive exposures throughout the financial system and consider the development of dedicated supervisory stress tests which incorporate elements of the adverse scenario. In the short-term, joint research efforts of energy experts and macroeconomists, possibly conducted in collaboration with other institutions and countries (especially the big emitters of CO₂), could help to better quantify the risk for the economy at large and inform the design of specific scenarios for stress testing.

Daniel Gros and Dirk Schoenmaker

Members of the Advisory Scientific Committee of the ESRB (European Systemic Risk Board)

Sustainability Themed

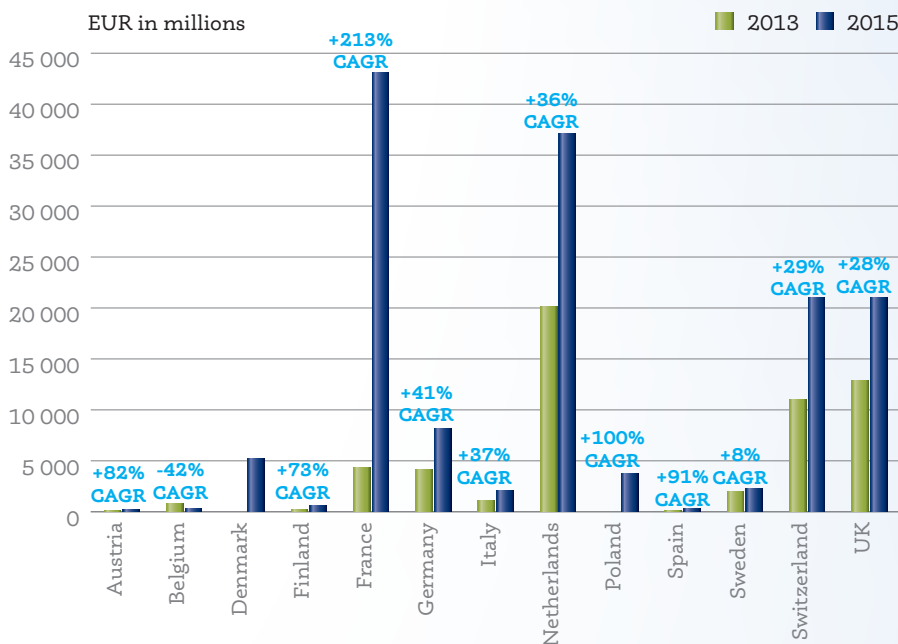
This strategy includes a variety of themes, which allows investors to choose specific areas of investments, typically with a close link to sustainable developments. There are a variety of themes that comprise this strategy, mostly preferred by investors who are keen to focus on one or more areas. We have seen how over the last few years and thanks to events such as COP21²³, held in

Paris, investors have sought to highlight how finance can redirect capital and help push forward the transition to a low carbon economy. The emergence of new products and focus on certain themes has definitely increased, as we can see from the exponential growth of sustainability themed investment in the last five years. Different investments policies at the EU member state level also

Figure 4: Growth of Sustainability Themed Investments in Europe



Figure 5: Growth of Sustainability Themed Investments by Country



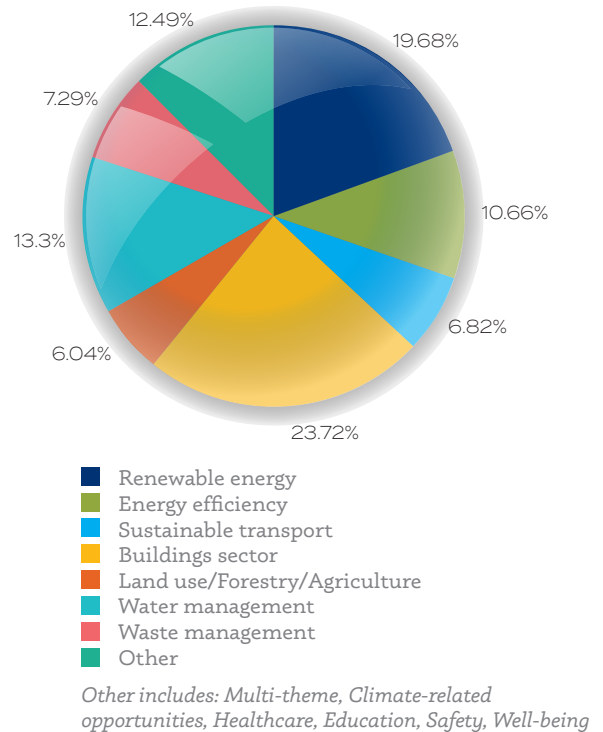
Denmark not part of 2014 SRI study

Figure 6: Sustainability themed investments

strongly influence the growth of this investment strategy and give it a clear sense of direction. The growth rate registered since 2013 is already extremely significant, as shown in the graph below. European Sustainability themed assets have now grown to reach €145 billion.

Figures 4 and 5 look at how the strategy has evolved in the last two years across the countries. By far the largest increase was registered in France, with an explosive growth of an astonishing (CAGR) 213%. In second position, the Netherlands with €37 billion AuM, after only registering 1% growth last year. The UK and Switzerland are in joint third place with €21 billion.

Investors look favourably on climate sensitive topics, echoing the trends in international policy. The result is that energy efficiency (also linked to retrofitting) and renewable energy are the most favoured themes for their investments at EU level.



CASE STUDY

Strategy Case Study: Sustainability Themed

Mirova's Europe Environment Investment Strategy

Mirova, Natixis Asset Management's Responsible Investing subsidiary, offers a range of solutions reconciling financial performance and economic sustainability. Based on European assets only, the Europe Environment strategy centers on environmental issues and aims to galvanize the energy transition and, more broadly speaking, the ecological transition. This strategy is both driven by and founded on one idea: that the innovative players developing new models of managing the environment today will be the winners of the energy transition tomorrow. They will be the first to usher in this crucial transition. Sustainability, however, must incorporate multiple elements: an investment strategy for major environmental problems necessarily presupposes the exclusion of securities with poor management both for environmental and social risks. An ambitious environmental investment strategy must also avoid the economic models that are historically built on the extraction and use of fossil fuels. Responding to the various challenges of the energy transition constitutes in itself a step towards investment diversification, which can range

from energy efficiency in public transport and construction, low-carbon power generation, sustainable waste management, water and power distribution infrastructures, food safety, etc. Selecting the players who meet environmental challenges most effectively while also excluding players with non-sustainable risk management is the most robust approach to reconciling financial and environmental value.

This investment strategy focuses on values which best address sustainability issues and must therefore use quantitative assessments that measure impact. How can we objectively evaluate how efficient choices concerning the energy transition are? How can various sustainability matters be synthesized efficiently using a transparent, even a single measure? Mirova has decided to evaluate its investments by measuring their carbon impact since this allows for a quantification of the efficiency of its management choices. This method of impact measurement is based on a life-cycle-oriented



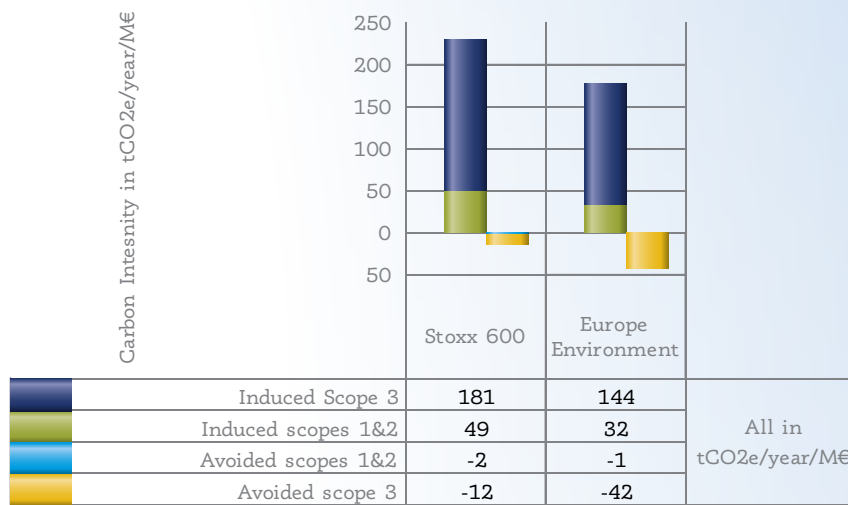


CASE STUDY

understanding of carbon and evaluates the carbon impact of products and services by assessing the whole value chain, rather than only the companies involved. This understanding of impact is crucial for evaluating both emissions induced and avoided, i.e.

the emissions that would have been produced had the company not made specific efforts to reduce them. Thus players are brought to the fore who offer more energy-efficient products and who contribute to producing low-carbon forms of energy.

Figure 7: Carbon impact compared on STOXX 600 with an Environment Strategy



Tracking the carbon impact of products and services illustrates how efficient a strategy oriented towards addressing environmental issues can be. For emissions induced, the carbon impact is significantly lower than a traditional diversified European benchmark, especially for the emissions avoided due to the absence of fossil fuels; for emissions avoided, the carbon impact is even better compared to the benchmark, reflecting the strong presence of energy transition players.

This approach is both coherent and pioneering and has seen its environmental efficacy confirmed by the quantitative measurement of external impact. The approach also forms part of the seven investment strategies which have to date been granted the TEEC Label (*Transition Énergétique et Ecologique pour le Climat*, “Energy and Ecological Transition for a Better Climate”).



Hervé Guez
Responsable Recherche ISR

Norms-based Screening

Norms-based screening allows investors to assess the degree to which each company in their portfolios respects issues that impact Environmental, Social and Governance criteria by adhering to global norms on environmental protection, human rights, labour standards and anti-corruption. Global norms 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'. Norms-based screening can be used both as a standalone strategy, or in combination with other strategies, typically Engagement and Exclusion. When companies that are in the portfolio are found to be in breach of one of these standards, investors can engage with them and decide what kind of action needs to be taken, and whether exclusion ought to be considered.

In the last two years, Norms-based screening has grown by 40%, standing at over €5 trillion.

Traditionally, this strategy has been very popular in the Nordic region. This year, we are not reporting on Norway, typically one of the countries with a distinct preference for the strategy and thus, this year's European outlook is significantly different. France leads the way with €2.6 trillion in AuM, confirming a positive trend already reported in the previous Study. The Netherlands also remains very prominent with almost €1 trillion in AuM.

The most common Norms-based screen is the UN Global Compact, with ILO Conventions coming second by a very narrow margin. The third most used category remains the OECD Guidelines. Although fragmented, a significant number of respondents have indicated the use of various other guidelines²⁴.

Figure 8: Growth of Norm-based Screening in Europe

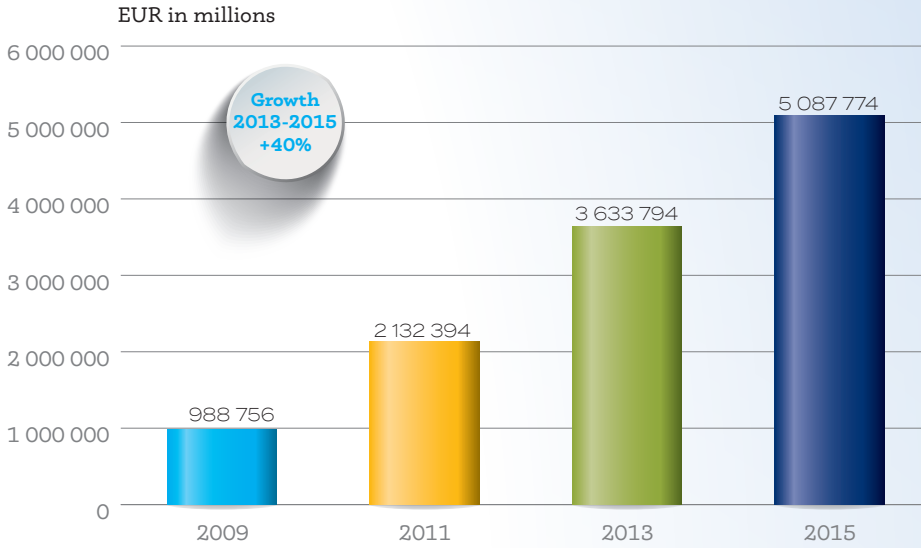
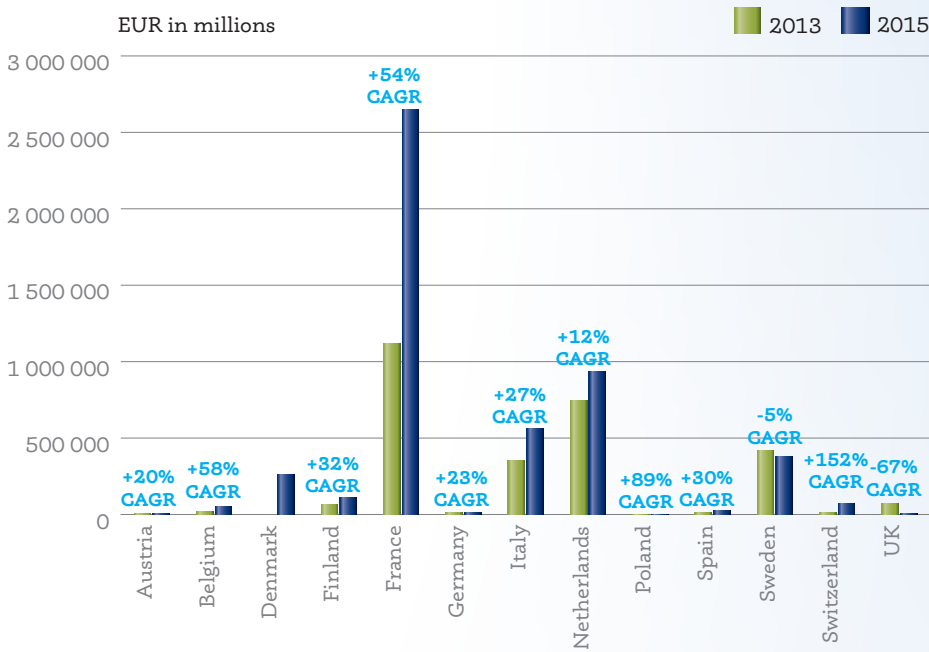


Figure 9: Growth of Norms-based Screening by Country



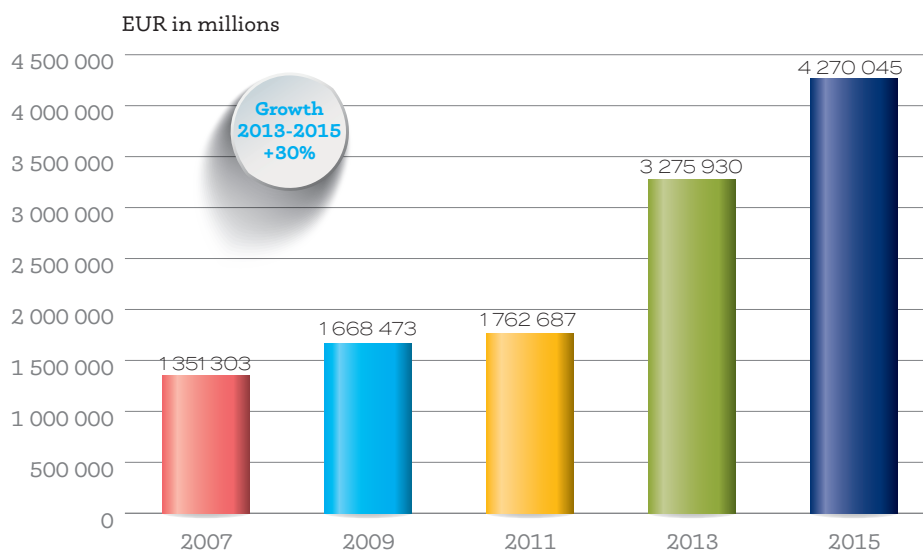
Denmark not part of 2014 SRI study

Engagement and Voting

This is the third most popular strategy in terms of AuM after Exclusions and Norms-based screening. It has a very strong link with fiduciary duty, as it is driven in large part by the view that shareholders are stewards of assets who are accountable to their beneficiaries for how they manage those assets. In the 2013 Eurosif Shareholder Stewardship report, Eurosif stressed the many different motivations behind ESG engagement: “these include maximising risk-adjusted returns, improving business

conduct, advancing ethical or moral considerations, and contributing to sustainable development. Many investors also see engagement as part of their **fiduciary duty** to beneficiaries”²⁵. Regardless of the motivation of the investor, industry experts note that one of the keys to constructive company dialogue is developing a business case for change and keeping up a good level of interaction with companies.

Figure 10: Growth of Engagement & Voting in Europe

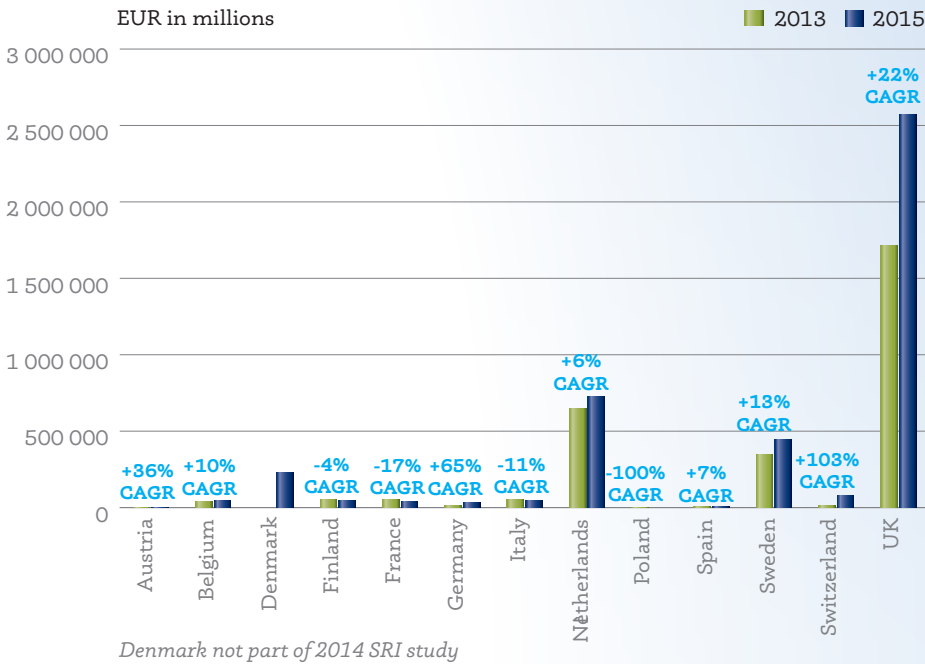


At the policy level, European regulators have discussed the roles and responsibilities in the engagement of shareholders through the Shareholders Rights Directive (SRD), as part of the Commission’s action plan to modernize corporate governance and increase corporate transparency. The aim of the Directive is to increase shareholders’ ability to show more responsibility. When this report was going to print, some controversial issues relating to the SRD were still under discussion and no formal agreement had been reached on the text.

The strategy has grown by 30% in the past two years with a CAGR of 14%.

On a national level, the UK continues to lead with dramatic growth at €2.5 trillion and a CAGR of 22%. The Netherlands follows with €726 billion. Switzerland registers a significant growth with a CAGR of 103%.

Figure 11: Growth of Engagement & Voting by Country



SPECIALIST VIEW

Fiduciary duty: the UKSIF perspective

The 2014 Law Commission report into fiduciary duties of pension fund trustees was clear: Trustees should take all financially-material factors into account and may consider non-financial factors – which may cover some ethical factors – where scheme members share the concern and where there is no risk of significant financial detriment to the scheme²⁶. The report recommended the UK investment regulations were changed to clarify this distinction.

Despite the disappointing decision by the Government in 2015 not to change the regulations, the UK’s Pensions Regulator recently updated its code of practice for defined-contribution pension schemes, and the guidance on investment-governance is particularly welcome²⁷. It reflects the Law Commission’s report and makes clear that trustees should take into account financially material factors and may consider

non-financial factors. It also outlines the importance of longer-term risks like climate change and poor corporate governance and encourages trustees to adopt good stewardship practices and be attentive to the voting policies of their managers.

This is the first sign that the Law Commission’s work is getting traction with UK regulators and a significant step in ensuring the legal duties and responsibilities of trustees are understood. Nonetheless, there is still more work to be done over the next few years on clarifying rules for investment governance for defined benefit schemes and on the contract side of the market.

Simon Howard,
Executive Director UKSIF

European Parliament - Ongoing negotiations on the Shareholders' Rights Directive

The European Commission published its proposal for a revision of the Shareholders' Rights Directive in April 2016. The revision of the shareholders' rights Directive is part of the initiatives foreseen in the Commission's Action Plan "European Company law and corporate governance - a modern legal framework for more engaged shareholders and sustainable companies", which was launched after a series of consultations on corporate governance issues.

The proposal for a revised Shareholders' Rights Directive aims at improving stability and fostering long-term oriented decision-making, by encouraging shareholder engagement and enhancing transparency for companies and investors. Amongst the main instruments proposed: the possibility for listed companies to identify their shareholders, transparency provisions for institutional investors, asset managers and proxy advisors and stronger controls over directors' remuneration (including say on pay by shareholders) and related party transaction.

After a long discussion, the European Parliament approved a common position with a very large majority in the Plenary session of July 2015. The EP negotiating position confirmed the transparency requirements proposed by the European Commission. With regard to directors' remuneration, the EP underlined the need to ensure that the evaluation criteria for directors' pay are comprehensive and take adequately into consideration the financial and non-financial performance of the companies in the long-term. The Parliament proposed furthermore to insert

a Country-by-country reporting (CBCR) obligation for large and listed companies on tax matter. According to this proposal, multinationals would have to publicly disclose the taxes paid in each country they operate in (clarifying whether these companies pay taxes where they have real economic activities).

Negotiations between the European Commission, the Parliament and the Council started with the Luxembourg Presidency and the first trilogue took place in October 2015. The institutions have different positions on several issues, in particular on CBCR, on the engagement policy and investment strategy, on the content of the remuneration policy and on the procedures for the approval of related party transactions. Negotiations with the Luxembourg and the Dutch Presidencies were however very positive and several steps forward were achieved, in particular in the first Chapter of the piece of legislation.

We also look forward to working effectively with the Slovak Presidency, in order to advance as much as possible and, if possible, to finalise a comprehensive agreement that would represent an important step forward in enhancing corporate governance, ensuring an adequate level of transparency for companies and investors and promoting long-termism.

Sergio Cofferati,
Member of European Parliament

Exclusions

In compliance with the willingness to limit potential reputational risks, investors may decide to negatively screen companies or sectors, as part of their risk management or value-based approach. The term exclusions²⁸ refers to the elimination of companies or of sectors from the investment universe of the portfolio. Exclusions can be based on ESG criteria or have a Norms-based dimen-

sion, when screening excludes companies that fail to comply with international standards or conventions²⁹. The exclusion process typically includes an evaluation of how much company revenue, or other profit, is generated from the excluded product. This strategy has shown exponentially consistent growth throughout the years.

Figure 12: Growth of Exclusions in Europe

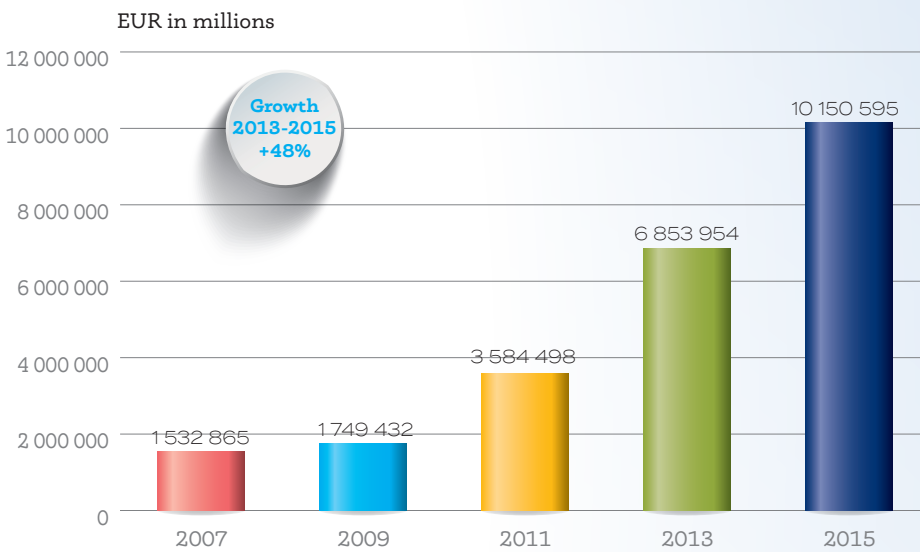
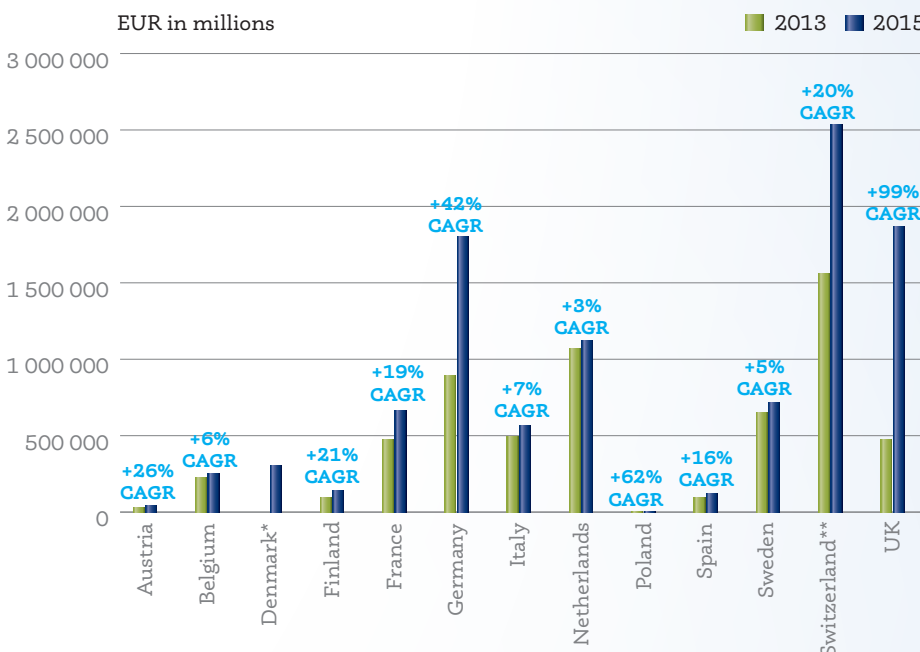


Figure 13: Growth of Exclusions by Country



*Not included in 2014 study

**Growth rates calculated in CHF

Types of exclusions

On a country level, Switzerland clearly leads at €2.5 trillion, while Germany has overtaken the Netherlands³⁰ after reaching €1.8 trillion in assets. The most remarkable data comes from the UK, with a 99% CAGR. In the past few years, rapid growth in this strategy has been attributed to the adoption of exclusions overlays, ie: deploying exclusion policies aimed at specific sectors or issues on a wide range of assets.

The most common exclusions by type are linked to weapons, following a trend related to the exclusions of controversial weapons, tracked in the table below. **It is important to note that in this SRI Study we only capture assets subject to exclusions not mandated by law, therefore the exclusion of Cluster Munitions and Anti-Personnel Landmines (CM & APL) which are required by law, are not considered SRI.** The top exclusions remain the most traditionally controversial sectors as shown in the chart, confirming historical trends in Europe³¹.

Figure 14: Top exclusion criteria (EU-13 average)

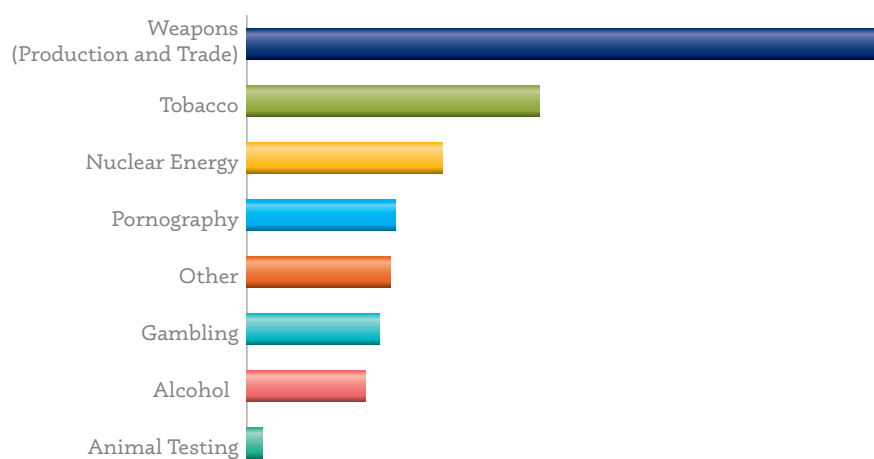


TABLE 2: Cluster Munitions and Anti-Personnel Landmines Exclusions³²

Country (€ Mn)	Exclusions without CM&APL	Exclusions All CM&APL	All Exclusions
Austria	€ 8 015	€ 34 721	€ 42 736
Belgium	€ 253 946	na	€ 253 946
Denmark	-	€ 305 109	€ 305 109
Finland	€ 41 381	€ 97 041	€ 138 422
France	€ 666 215	na	€ 666 215
Germany	€ 32 694	€ 1 770 779	€ 1 803 473
Italy	€ 3 764	€ 565 964	€ 569 728
Netherlands	€ 1 123 133	na	€ 1 123 133
Poland	-	€ 2 769	€ 2 769
Spain	€ 123 516	na	€ 123 516
Sweden	€ 30 000	€ 684 638	€ 714 638
Switzerland	€ 6 374	€ 2 529 640	€ 2 536 014
UK	-	€ 1 870 896	€ 1 870 896
Total EU-13	€ 2 173 350	€ 7 861 557	€ 10 150 595

Divestment

Divestments have been in the spotlight for the past 2 years, becoming increasingly prominent among different actors who use them to give more emphasis to their investment strategies. Growing pressure on investors to divest from fossil fuels has mainly come from two sources. The first being a strong divestment³³ movement that has emerged, led by US college campuses, using the argument that it is “morally wrong to profit by investing in companies that are causing the climate crisis”. The second is the considerable pressure coming from leading divestment campaign groups such as Go Fossil Free³⁴. This is an international network of campaigns and campaigners working to eliminate fossil fuels, by asking institutions to freeze new investments in fossil fuel companies, to divest from fossil fuel public equities and corporate bonds within 5 years, and to end their fossil fuels sponsorship.³⁵ Successes of this campaign include Stanford University’s commitment to divest its €16.2bn endowment from coal companies, and the Rockefeller Brothers Fund’s decision to divest €763m from coal and tar sands.³⁶

What’s more, the divestment debate has been influenced by risk managers’ increasing concerns about stranded assets and passive investors are looking for solutions to reduce portfolio exposure to fossil fuels. As shown by the Carbon Tracker Initiative, meeting internationally agreed climate targets and keeping average temperature increase below 2°C requires up to 80% of the existing coal, oil and gas reserves of publicly listed companies to stay in the ground and become ‘unburnable’.³⁷ The stranded assets argument has been gaining increasing clout in recent years, with the fossil fuel industry itself recognising the threat to its business and the need to adapt.

However, investors also highlight the Important role of engagement with companies and investments in clean infrastructures, as preferred alternatives to divestment. While full divestment may have negative effects, such as increased volatility of returns and risk underperforming in comparison with the benchmark, strategies such as selective and partial investment are becoming increasingly popular, as assets with the highest risk from climate action are targeted first – a prime example being the coal sector.³⁸

A parallel development is the increasing number of investors who are starting to calculate the carbon footprint of their investment portfolios. While this practice is not new (Henderson Global Investors first calculated the carbon footprint of their SRI funds in 2006), it is becoming increasingly common.³⁹ It is also at the heart

of initiatives such as the PRI-backed Montreal Carbon Pledge and the Portfolio Decarbonization Coalition. Investors signing the Montreal Carbon Pledge, launched in September 2014, commit to annually measuring and disclosing the carbon footprint of their portfolios.⁴⁰

There are arguments against divestment. For instance, Professor Lord Nicholas Stern, speaking at a Bank of England event, noted that divesting out of oil does not incentivise companies to improve performance. Instead, there are strategies - such as those used by the Swedish AP4, underweighting high carbon assets - that might prove more effective.⁴¹ In the UK, the National Association of Pension Funds (NAPF), representing some 1,300 pension funds with assets totalling €1.2 trillion, has warned that divestment from oil and gas may trigger “severe losses of revenue likely over a sustained period of time” and that it is “particularly problematic and complex for UK pension funds” due to the composition of the FTSE index.⁴²

A UK union argued that low carbon investment opportunities in the UK are still limited in number and scale, and therefore divestment from fossil fuels might trigger “high fees and huge transaction costs” for investors.⁴³

The UK’s Environment Agency Pension Fund (EAPF) and Royal Bank of Scotland (RBS) also consider engagement, decarbonisation and low carbon investments more effective than divestment in tackling climate change. Notably, EAPF prefers to approach the issue in terms of decarbonisation, which means engaging with fossil fuel-exposed companies to decrease emissions rather than divesting.⁴⁴ In a separate development, the American Petroleum Institute (API), the main US oil and gas trade body, considers divestment from fossil fuel holdings as a breach of the investors’ fiduciary responsibility, as divestment from energy stocks might reduce return on investments. To back their claim, API members cited research from Robert Shapiro, chairman of advisory firm Sonecon, showing that “investments in U.S. oil and natural gas stocks significantly out-performed the other assets held by those funds.”⁴⁵ The costs of fossil fuel divestment were also cited by Lothian Pension Fund in Scotland in July 2015 as a counter argument in response to calls from the City of Edinburgh Council to investigate divestment in terms of costs, benefits and feasibility. Another argument used against divestment was that it would remove access to company management and fail to change the level of fossil fuels consumed globally.⁴⁶

2015 and 2016 divestment highlights include:

- The divestment by the Norwegian sovereign wealth fund from 73 companies due to risk concerns linked to environmental degradation, corruption and social issues, arguing that companies with higher carbon emissions, either due to direct operations or supply chains, are facing greater regulatory risks.⁴⁷
- In spring 2015, the California State Teachers' Retirement System (CalSTRS) and the California Public Employees Retirement System (CalPERS) were targeted by a bill requiring them to engage with their coal holdings and sell the shares (divest) if the companies are not transitioning to a "clean energy" strategy.⁴⁸
- In May 2015, in response to students' calls to divest from the fossil fuel industry, Oxford University announced measures to strengthen its fossil fuel investment policy, rather than considering full divestment.⁴⁹
- In May 2015, at Climate Week Paris, French insurer AXA pledged its willingness to sell €500 million of coal assets before 2016 in favour of 3 billion worth of investments in low carbon sectors by 2020. The commitment, upheld by Henri de Castries, chairman and chief executive of the French insurer, was in line with its commitment to fight climate change.⁵⁰
- A London Assembly report focusing on the impact of climate change on London's economy found a trend towards fossil fuel divestment, but also recognised that "the value of assets held in stocks cannot all be accommodated in renewable energy or green projects." The Assembly recommended that the London Pensions Fund Authority (LPFA) divest from coal.⁵¹
- The FRC's review of stewardship in the UK in 2015 highlighted the 'Aiming for A' initiative and the Kay-inspired Investor Forum as examples of collaborative engagement. 'A number of asset owners have also publicly collectively engaged very successfully in 2015. The 'Aiming for A' initiative involved the filing of two shareholder resolutions, at BP and Shell. These resolutions followed a period of engagement with extractives and utilities companies on their management of the risks and opportunities presented by climate change. The shareholder resolutions were ultimately supported by the boards of each company, and overwhelmingly approved by shareholders. The resolutions direct the companies to feature additional information on climate strategy in their annual reports, including emissions management, portfolio resilience and key performance indicators'⁵².
- In July 2015, Aviva created a list of 40 carbon intensive companies with whom it engaged in 2015. Divestment

will be considered in cases where not enough progress is deemed to have been made by the companies in question. It also set an annual investment target of £500 million (€706.8 million) in low carbon infrastructure for the period 2015-2020.⁵³

- In the Netherlands, Pensioenfonds Zorg & Welzijn (PFZW), the €161 billion pension scheme covering the Dutch health sector, announced in November 2015 before COP21 that it would reduce the CO2 emissions of its portfolio by 50% by 2020 through divestments from fossil fuels and engagement with companies in their portfolio. In addition, it pledged to increase its investments in sustainability solutions to 12% of total assets by 2020.⁵⁴
- In the run-up to COP21 in Paris, 350.org and Divest-Invest announced that by 21 September 2015, 400 institutions representing €2.3 trillion in assets under management had made a divestment commitment. In December 2015, this number was over 500 institutions representing more than €3 trillion in assets. The divestment movement spread to major cities in France, Germany, Norway, Sweden and other countries, who committed to divest part or all of their fossil fuel assets.⁵⁵

Update on European Legislation on Investments into Controversial Weapons

As elaborated in our 2014 Study, legislations banning investments in cluster munitions are currently in place in a number of European countries including Belgium, France, Ireland, Italy, Luxemburg, Switzerland and the Netherlands.

While Belgium, Italy, the Netherlands, Spain and Switzerland have passed specific legislation banning investments in cluster munitions, other countries such as France, Norway and the UK, see investments in cluster munitions producers as prohibited under the Convention on Cluster Munitions, to which they adhere. This convention was opened for signature in December 2008 in Oslo, and entered into force in August 2010 after being ratified by 30 states. As of April 2016, 108 states have signed the Convention, while 100 have ratified it or acceded to it.

In Italy, in addition to the Law on the Ratification and Implementation of the Oslo Convention (Law No. 95) passed in July 2011⁵⁶, separate legislation is being prepared following the Italian Campaign to Ban Landmines. A legislative proposal prohibiting all Italian financial institutions from providing any form of support to Italian and foreign companies involved in activities related to antipersonnel mines and cluster munitions was put to the Parliament in 2010, and approved by the

Chamber of Deputies' legislative finance committee in 2012. However, the process stalled in 2013 after the early dissolution of parliament. Since July 2015, the proposal is once again being considered by relevant parliamentary committees. Until it is adopted, Law No. 95 remains the only Italian legislation governing investment in cluster munitions.⁵⁷ Several Italian financial institutions have put in place divestment policies from companies involved in cluster munitions production.⁵⁸

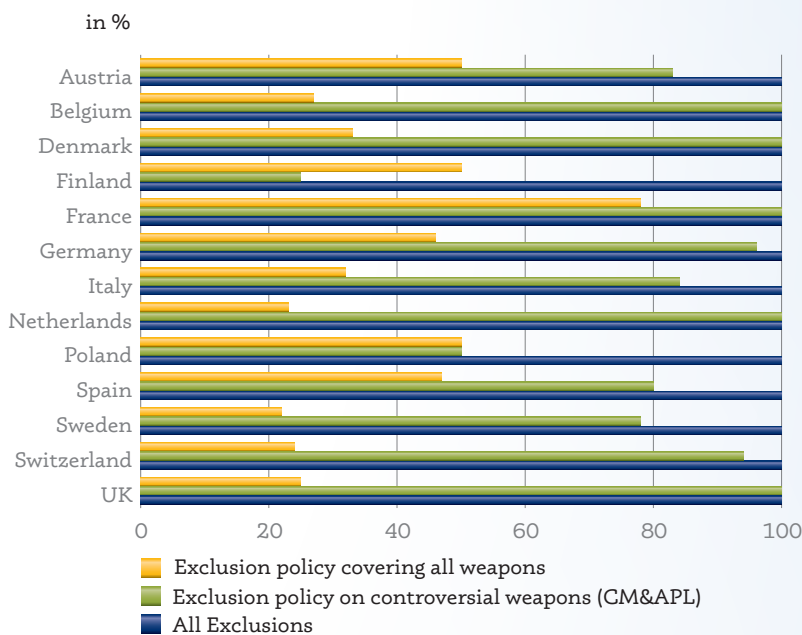
In Spain, the government started a process to amend its Mine Ban Treaty implementation legislation, Law 33, enacted in October 1998, to incorporate a total ban of antipersonnel mines and similar arms. The amendment received royal assent and was published in July 2015. The ban states that "(...) the financing or marketing of this type of arms by any means, and of all related items described in the previous paragraph, is prohibited."⁵⁹ However, the Parliament committee handling this file rejected a broader proposal to introduce a provision prohibiting "direct or indirect" financing of activities related to cluster munitions.⁶⁰

In the UK, a "Cluster Munition (Prohibition) Bill" received royal assent in March 2010. As the text did not include an

explicit prohibition of financing of companies involved in the production of cluster munitions, it was initially unclear whether such a prohibition was in place. However, a Ministerial Statement⁶¹ issued in December 2009 confirmed that "under the current provisions of the Bill, which have been modelled upon the definitions and requirements of the convention, the direct financing of cluster munitions would be prohibited. The provision of funds directly contributing to the manufacture of these weapons would therefore become illegal." This leaves out indirect financing of cluster munitions. However, the government intends to work with the financial sector, NGOs and other stakeholders, in order to develop a voluntary code of conduct preventing indirect financing, and may also initiate legislation.⁶²

In line with our research approach to go beyond legislation, we present in the graph below the significant difference between the countries that decided to apply a more restrictive approach excluding all weapons (France, Finland, Poland and Spain) as opposed to those that preferred to exclude only controversial weapons (the UK, Netherlands, Denmark, Germany, Belgium and Switzerland).

Figure 15: Types of exclusions as % of total exclusions overlays



Strategy Case Study: ESG Exclusions



ESG Exclusions case study

The Situation

In 2013 Northern Trust Asset Management conducted a survey of key European asset owners to further understand the challenges they faced. Our clients concluded that corporate governance in emerging markets was one of their biggest concerns, with investors being particularly cautious in relation to majority owned companies, with the below factors being front of mind:

1. Companies with concentrated ownership can be prone to hidden self-dealing and exposed to asset stripping, particularly in times of economic downturn
2. Even with independent oversight in place these mechanisms may not be enough as control of information flows and cash flows will still be in the hands of a majority owner
3. Companies overly dependent on one shareholder, i.e. its managerial and administrative resources

The Challenge

Emerging market countries are attractive partly because their prospects for generating wealth are higher relative to more mature economies, but in closing the wealth gap, emerging markets companies may prefer lower standards of ESG within their own governance processes. Moreover, recent performance of emerging markets has been lacklustre, tainted by an increase of reported negative ESG issues in countries such as China, Russia and India. While financial market forces have turned more favorable toward emerging markets, the outlook for improving economic momentum remains uneven and slow, we will therefore see more scrutiny paid to emerging markets as the region tries to restore strong GDP growth.

Therefore the main challenges in emerging markets for those investors needing to adhere to ESG criteria are:

1. About 35% of constituents of the MSCI EM Index are owned or controlled by governments, powerful families or industrial groups. This isn't necessarily a bad thing – but due diligence is required when looking to invest in these companies.
2. Limited transparency - foreign investors in EM should demand greater ESG analysis today – either to ameliorate their investment strategy or comply with their governance policy.

The Solution

The 'NT Emerging Markets Custom ESG Equity Index Fund' (which uses the MSCI EM Custom ESG index built by MSCI ESG research and GMI ratings on behalf, and under the conceptual leadership of, Northern Trust Asset Management) aims to address the above challenges. Firstly, by undertaking the analysis for investors, and secondly by screening out those companies that lack sufficient executive independence and scrutiny of management. The result is an index that seeks to balance the need for tighter governance controls with investment return.

Digging deeper

The fund uses an index that incorporates traditional environmental and social screening with a sequential three-step governance screen, unique in emerging markets. It addresses the issue of excessive boardroom influence by one or more parties within emerging market corporations, using a combination of positive and negative screens.

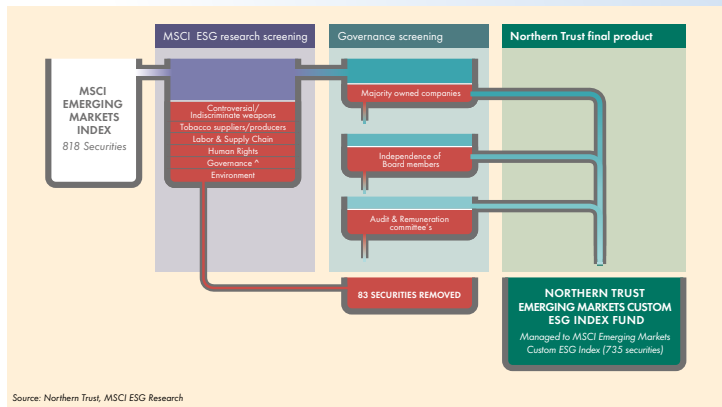
So how is this done?

First Stage

The first stage removes companies from the MSCI Emerging Markets index that fail to comply with the 10 UN Global Compact principles as well as companies that manufacture or supply controversial weapons or tobacco.



CASE STUDY



Second Stage

The second stage consists of three steps; it isolates and excludes those corporations that fail any of these sequential checks:

- **Ownership structure:** The screening out of companies with controlling shareholders that have 50% or more of the ownership interest.
- **Board independence:** Assessing the presence of independent directors on the board. Such directors should be free from inappropriate links to both the company and any controlling entity. The test identifies and fails any director who has been a recent employee or contractor of the company or any current material supplier, contractor or adviser to the company or associated entities.
- **Independence of key committees:** Applying the same independence test to members of the audit and remuneration committees of the company.

We believe that well-run companies will have in place at least some, if not all, of the universally recognised mechanisms for good governance.



Julia Kochetygova,
Senior ESG Research Analyst

The result is an index that aims to balance the need for tighter reputational and governance controls with investment return.

Wider thoughts

Integrating Environmental Social and Governance (ESG) into investments can be as different as any investment strategy, starting from most basic methods to more sophisticated and intellectually demanding forms.

ESG exclusion screening may indeed be the most basic type of ESG strategy, however at the same time, it is the clearest, most transparent and objective method. Despite some discrepancies in beliefs, it is also one of the most universally appealing, as it very clearly links investment strategy with specific investment values and principles. It also provides the easiest entry point to ESG investing for mainstream investors.

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Policy overview 2015-2016

Since our last SRI Study, Eurosif has continued its advocacy efforts and further consolidated its visibility within the EU policy arena by representing the European SRI industry in Brussels with the European institutions. Our key policy wins in 2014-2015 included:

- the adoption by the European Commission of a CMU Action Plan drawing much on Eurosif's position on long-termism and consideration of ESG issues in investment decisions; and
- the European Parliament's position on the Shareholder Rights Directive, largely in line with our demands on active, long-term oriented share ownership and scrutiny on environmental, social and governance (ESG) issues.

Capital Markets Union

The European Commission's Capital Markets Union (CMU) Initiative is a key pillar of the Juncker Investment Plan and the main political priority of DG FISMA for now and many years to come. The aim is to build an EU single market for capital and enable European companies to access capital markets in a more integrated and effective manner, in order to drive economic growth, create jobs and meet EU investment needs. The mobilised capital will be channelled into companies, including SMEs, and long-term infrastructure projects. On 18 February 2015, the Commission published a Green Paper and launched a public consultation on Building a Capital Markets Union. On 16 March 2015, Eurosif hosted a CMU webinar and gathered input from its CMU Working Group on its response to the Commission's consultation. In May 2015, Eurosif responded to the consultation through its Sustainable Capital Markets Union Manifesto. Five priority areas and 23 specific policy recommendations were made in order to ensure that the CMU Initiative delivers sustainable, long-term growth that serves the real economy and current and future generations of EU citizens. Key policy demands of our CMU Manifesto included:

- Incorporating a strong and comprehensive corporate disclosure package;
- Ensuring that environmental, social and governance considerations transcend all investment practices and asset classes;
- Aligning incentives to reward practices reinforcing the long-term dimension of capital markets;
- Scaling up financial innovation and instruments serving sustainable growth.

The document was sent out to over 400 policy-makers and Brussels-based stakeholders. From September to December 2015, Eurosif joined Aviva and E3G in specific advocacy activities with the EU institutions and other key players involved in the CMU Initiative.

On 30 September 2015, the Commission launched the CMU Action Plan defining the building blocks of an effective and integrated CMU to be put in place by 2019. Following that, Eurosif renewed its message on CMU by issuing a specific position paper on the CMU Action Plan in December 2015, advocating for further action to support sustainable long-term investment on four key pillars:

- Greater transparency via mandatory ESG disclosure;
- A clear definition of fiduciary duty as including ESG issues;
- Further legislative coherence in promoting sustainable long-term investment;
- Enhanced long-term infrastructure investment.

Revision of the Shareholder Rights Directive

Eurosif has been involved in the revision of the Shareholder Rights Directive (SRD) (2007/36/EC), which dates back to April 2014, and has engaged in informal roundtables on several occasions. The European Council published its mandate on 25 March 2015 and the Parliament (Legal Affairs Committee - JURI) adopted a draft report on the proposal on 7 May, which was voted at the plenary session of the European Parliament on 8 July. Ahead of the Parliament's vote, Eurosif and Eumedion addressed a joint letter to EPP⁶³ and ALDE⁶⁴ members of the JURI Committee urging them to ensure that the compromise text regarding the European Commission's proposal remains both ambitious and strong as it makes its way through the final stages of the European legislative process. In line with our initial position, we advocated for a revised SRD that encourages institutional investors and asset managers to adopt proactive and long-term share ownership policies and practices (engagement, voting) where ESG considerations play a central role. In particular, we supported the amendments voted by the JURI Committee linking engagement and remuneration policies to ESG criteria. The text voted for by the European Parliament in July 2015 reinforced the importance of the ESG dimensions in these areas, which Eurosif considered a very positive outcome.

Revision of the Institutions for Occupational Retirement Provision Directive (IORPs)

The Institutions for Occupational Retirement Provision (IORPs) Directive (2003/41/EC) covers all occupational pension schemes in Europe, which hold assets worth €2.5 trillion on behalf of 75 million beneficiaries. In March 2014, the European Commission adopted a legislative proposal to revise IORPs. Aims of this proposal included improving governance and transparency of pension funds, promoting long-term investment, and supporting the financing of sustainable growth in the real economy. However, after the file was assigned to the European Parliament's Economic and Monetary Affairs (ECON) Committee, the Rapporteur's text weakened IORPs' risk management criteria by removing the requirements initially proposed by the Commission focused on taking into account risks related to climate change, resource use and the environment.

In November 2015, Eurosif joined a coalition of stakeholders led by ShareAction in an effort to improve transparency and management of environmental, social and governance (ESG) risks in the revision of the IORPs Directive. Through a joint letter sent ahead of the ECON Committee vote initially scheduled for 1 December 2015, the coalition urged Members of the European Parliament (MEPs) to vote in favour of several amendments which would ensure that ESG risks are analysed, disclosed and properly considered in pension funds' risk assessment and investment decisions, to the benefit of current and future generations of IORPs beneficiaries. This effort turned out to be a success when on 25 January 2016, the ECON Committee voted for a compromise text largely in line with our demands, indicating that the MEPs have acknowledged the materiality of ESG risks for the long-term financial performance of pension funds.

After a series of interinstitutional negotiation 'trilogue' meetings⁶⁵ which lasted from January to June 2016, and continued efforts by the ShareAction-led coalition, an IORPs II compromise text was adopted at the end of June 2016. A major policy win for Eurosif and the other organisations involved, was that the compromise text included requirements for IORPs to consider ESG risks and risks relating to stranded assets, and to explain how they manage these risks in their statement of investment principles.⁶⁶ The text is due to be discussed and voted upon in the European Parliament plenary in October 2016.

Green Bonds Policy Seminar

On 15 September 2015, Eurosif with the sponsorship of Vigeo, held a policy seminar on "How can the European Capital Markets Union harness the potential of Green Bonds". The seminar was a great success as we managed to have an interesting and thought-provoking debate on the role of Green Bonds in the current sustainable investment arena. The event brought together a select mix of participants from EU policy-makers, green bond issuers and investors. Mr Aldo Romani, Deputy Head of Funding at the European Investment Bank (EIB) in his keynote speech highlighted that the growth of the green bond market increased external scrutiny (in particular from investors), and thus issuer accountability. The first panel analysed the current trends affecting the European Green Bond market, whereas the second one focused on the role of EU policy-makers and provided proposals as regards standards and metrics that they can build policies upon, such as the Green Bond Principles (GBP). Key take-aways from the seminar can be accessed on our website at:

<http://www.eurosif.org/wp-content/uploads/2015/10/Green-Bond-summary-note-6.10.pdf>

European Commission (DG JUST) consultation on long-term and sustainable investment

In December 2015, the European Commission launched a public consultation on long-term and sustainable investment, seeking to gather information on how institutional investors, asset managers and other service providers in the investment chain factor sustainability (ESG) information and performance of companies or assets into investment decisions. After a thorough consultation process with its constituency, Eurosif gave its input on the consultation, stressing the importance of key strategic points, such as:

- Integrating ESG criteria in investment decisions guarantees a holistic view of companies' performance, helping to mitigate risks and identify investment opportunities, very much in line with the concept of fiduciary duty;
- The increasing need for investors to rely on material ESG data based on reliable and harmonised reporting guidelines which take investors' needs into account;
- More transparency is needed for and from the players in the industry in order to make the right connections between investors' needs and issuers' interests.

European Commission (DG FISMA) consultation on non-financial reporting guidelines

In January 2016, the European Commission, seeking to collect views on non-binding guidance on methodology for reporting of non-financial information by large companies, launched a public consultation, so as to be able to provide further guidance and help companies implement provisions laid out in several EU, OECD and UN-based frameworks. Again, Eurosif provided its valuable feedback to the EU regulator stressing in particular:

- Non-financial information should focus on the material aspects for a company, representing a true and fair account of the way it does business and interacts with different stakeholders.
- The guidelines should determine the main issues that are material for companies and investors, and set specific minimum reporting requirements based on reporting standards that companies are already using.
- Company KPIs and other reporting requirements should be accompanied by disclosure of metrics, targets and objectives both quantitative and qualitative and they should be directly correlated to the triple bottom line.

In addition to responding to this consultation, Eurosif issued a joint statement together with the Global Reporting Initiative (GRI) highlighting our support for the Commission's initiative to develop non-binding guidelines on methodology for reporting under the Non-financial and Diversity Disclosure Directive. Our main policy asks related to the respective guidelines were:

- The guidelines should explain how sustainability information is relevant for data users, especially investors.
- The guidelines should set out general principles and key ideas, focusing on current practices by companies
- The guidelines should clearly refer to already existing and widely used corporate sustainability frameworks.

In September 2016, Eurosif was invited to a round of specialist interviews and a working group session, both held by DG Fisma, in order to give further input on the guidelines expected at the end of the year.

Public CbCR: a much needed tool for investors

Ahead of the launch of the European Commission's proposal on disclosure of income tax information by multinational corporations on 12 April 2016, Eurosif issued a statement endorsing the Commission's aims. Although not immediately obvious, the issue of corporate taxation features high on the agenda of the investors' community, particularly for long-term focused investors, as represented by Eurosif.

As highlighted in our position on CbCR, issued in July 2015, Eurosif and its constituency understand the extent to which a transparent tax system plays an invaluable role in the promotion of economic growth, by supporting governments in achieving their missions, and making the much needed infrastructure investments necessary to ensure the right premises for stable growth and advancement.

Task Force on Climate-Related Financial Disclosures (TCFD) Consultation

Seeking to facilitate a discussion on the development of a set of voluntary, consistent climate-related financial disclosures for use by companies across industries, the TCFD launched its Phase I public consultation on the subject at the start of April 2016. The survey aims to gather input to guide the taskforce's thinking throughout the year as it develops recommendations to support the industry and enhance transparency. On 2 May 2016, Eurosif published its response to this consultation, available at: <http://www.eurosif.org/wp-content/uploads/2016/05/Final-response-31.04.16.pdf>

CASE STUDY

Policy Case Study: ESG Disclosure


Article 173 of the TEE (Energy and Environmental Transition) Law: an opportunity for ESG

Following in the footsteps of COP21, the decree implementing Article 173 of the Energy and Environmental Transition Law was hailed by the SRI community as the first example of the organisation of a direct link between climate policy and its financing by the public authorities.

This law differs from the multiple investor initiatives prior to COP21 in two respects. The first is its binding character: it renders mandatory an obligation that was often implemented on a voluntary basis. The second aspect is its scope, which goes beyond the single issue of climate change. This article offers investors an approach to the issue of climate change that is integrated into an ESG whole. This law pursues a number of objectives. The first of these is promoting ESG development to investors.

By requiring institutional investors to disclose their SRI policy and to describe their methods and means of analysis, it fosters ownership of such issues. A number of medium-sized companies are going to have to find out what ESG is.

But Article 173 goes further: by holding companies to account for the impact of their SRI policies on their investment strategy, it prevents any attempt at making mere proclamations that will not be adhered to once announced. Furthermore, it contributes to raising awareness and disseminating the concept of ESG risk. The notion that managing ESG issues is a component of risk management has been making headway for quite some time within industrial companies and is already a part of daily operations for the SRI community. It is particularly central to the analysis methodology of asset management companies that are major SRI players (the OFI group being one of them). On the other hand, for many institutional investors this is an innovation and, regarding this aspect, the law opens new avenues for the analysis of risks that the selection of particular securities might pose to a portfolio. Furthermore, it is this risk awareness that is initially included in climate change considerations (the question of opportunities is also incorporated into the law in connection with financing energy transition).

The second objective is to encourage the safeguarding of assets against climate change risks. This objective corresponds exactly to that set out in 2014 by the Governor of the Bank of England in an e-mail distributed to the insurance world. The law and its implementing decree refer to physical risks and the risks associated with energy transition.

The notion of physical risk is a relatively simple one that is very familiar to insurers and re-insurers. The physical risks resulting from climate change are primarily those linked to rising temperatures leading to the loss of crop-growing resources, extreme weather events and higher ocean levels severely impacting human life, which is 50% concentrated in coastal areas.

The notion of transition risk, which is new for many institutional investors, is particularly interesting. It refers to the fact that citizen pressure against the use of energy derived from fossil fuels poses a significant risk to those companies with business models that rely on this type of energy. The scenarios laid out by the International Energy Agency describe an energy mix by 2050 that is considerably different from that of today, with a majority weighting of renewable energy. This risk has deep political roots and it could translate into regulatory changes (taxes and prohibitions), or a redirection of fossil-energy subsidies, as recently highlighted in a report by the IMF.

The third objective is to get institutional investors to participate in efforts promoting energy transition.

Investors are urged to identify investments having a positive impact on the climate and to calculate the percentage of their assets contributing to energy transition. To the investor, this section of the law provides a map of opportunities specifically offered by climate change, and, more broadly, sustainable development. The objective is to stimulate investment in energy transition. The IEA scenarios mentioned above involve a radical shift in energy financing. Transition is impossible unless it can be financed. This rests on the assumption that the financial sector will begin moving toward a low carbon economy.

For those who are unfamiliar with SRI, this law introduces a large number of innovations. Lawmakers considered that a two-year period of time might be necessary. Compliance is voluntary: comply or explain is the rule. Provision is made for an evaluation to be drawn up in 2018 and best practices will then be identified. Until that time, much work must be done by investors and asset managers since all asset classes are concerned. So far, only two asset classes would appear to have adequate coverage: equities and real estate.



Eric Van Labeck
Head of SRI Research and Development

With this law, a first step – that of transparency – has been completed on the investor side. As to the obligations of companies, Chapter 4 of the Law requires them to provide “disclosure on the manner in which the company takes account of the social and environmental impacts of its activity, **including the impacts of its activity on the climate and the use of goods and services that it produces**”. We very much look forward to the issuance of the decree, which will make it possible to evaluate the carbon impact of activities from design right through to recycling.

Impact Investing

Impact investing continues to play a key role in the SRI market, notably after the 21st UN Climate Change Conference of the Parties (COP21) which concluded with a landmark agreement, which set the framework for further investment in low-carbon technologies and infrastructure.

Eurosif has been tracking the developments of Impact investing since 2012, expanding the scope in the last two studies to include specialized niche investors. While the core philosophy - to have a positive impact on sustainable developments - remains the number one motivator for investors, the financial opportunity in returns that this strategy represents is clearly highlighted in our findings. This is a positive trend and very much in line with the key characteristic of this strategy – Return expectations⁶⁷. In the 2014 Study, we provided a table with the definitions and key characteristics of Impact Investing⁶⁸.

As with other SRI strategies, Impact Investment is influenced by local financial market characteristics including the mix of public and private capital. As in previous editions of the SRI Study, the Eurosif survey does not account for philanthropic and public money, but only for actual investments made by professional private investors.

Therefore, the figures presented here may be below the real market rate.

Although the Impact Investing market is becoming ever more innovative and sophisticated, challenges remain. As revealed by the 2016 Annual Impact Investor Survey⁶⁹, the most significant challenges identified by market players worldwide are related to the following issues:

- appropriate capital across the risk/return spectrum;
- high-quality investment opportunities (fund or direct) with track record;
- suitable exit options, innovative deal/fund structures to accommodate investors' or investees' needs;
- common understanding of definition and segmentation of the impact investing market⁷⁰.

In this year's review, we have continued to track the main factors that drive investors to choose impact investing, while also looking at the barriers to this strategy. When looking at the hurdles for investors, we continue to see (as we have been tracking it since 2011) the lack of viable products and options. Investors are looking for possibilities to scale and match the institutional minimum investment sizes, while having a track record and invest-

ment characteristics that match their asset allocation constraints⁷¹. The risk concerns are very much linked to the lack of metrics, which can hamper comparability with repercussions on the investors' due diligence process. In this sense, the role played by policy makers is key. In line with the Commission's Single Market Act, the policy makers are exploring how private investment funds might help investors and social businesses better reap the benefits of the single market⁷². This involves a spe-

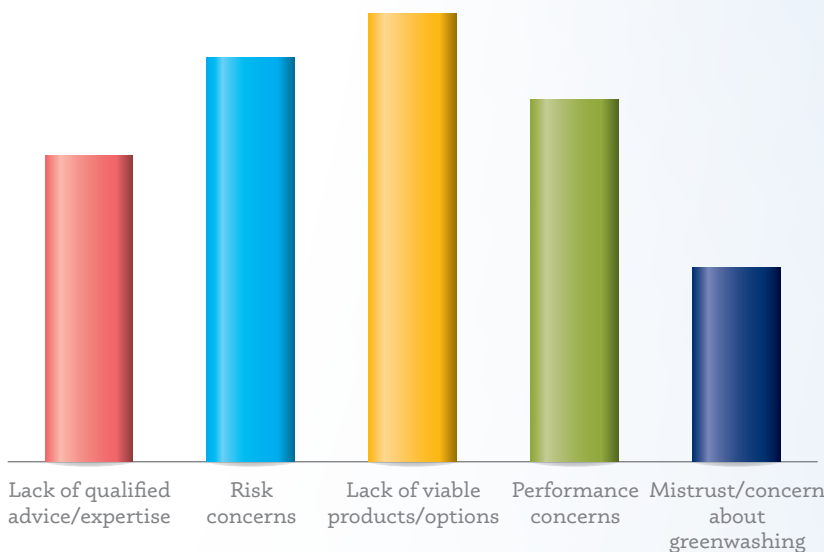
cific focus on removing any unintended barriers within EU fund rules to the efficient channelling of investments into social businesses. As part of the Capital Markets Union, the Commission has focused its attention on speeding up and scaling up such investments.

After launching a Public Consultation on the review of the European Venture Capital Funds (EuVECA) and European Social Entrepreneurship Funds (EuSEF) reg-

Figure 16: Incentives for impact investing



Figure 17: Impediments to demanding more impact investments



ulations in September 2015, the European Commission issued a Proposal for amending the existing Regulation. This would extend the range of managers eligible to market and manage EuVECA and EuSEF funds, increase the range of companies that can be invested in by EuVECA funds, and thus make the registration and cross border marketing of these funds easier and cheaper⁷³.

The impressive growth in impact investing, that was already commented on in the previous Study and which has been on-going for the last four years, continues to evolve at an equally rapid pace. With a growth of 385% in the last two years, and a CAGR of 120%, it is clear that impact investing is here to stay. In fact, it's set to exponentially gain traction as part of the more established SRI strategies.

Figure 18: Growth of Impact Investments in Europe

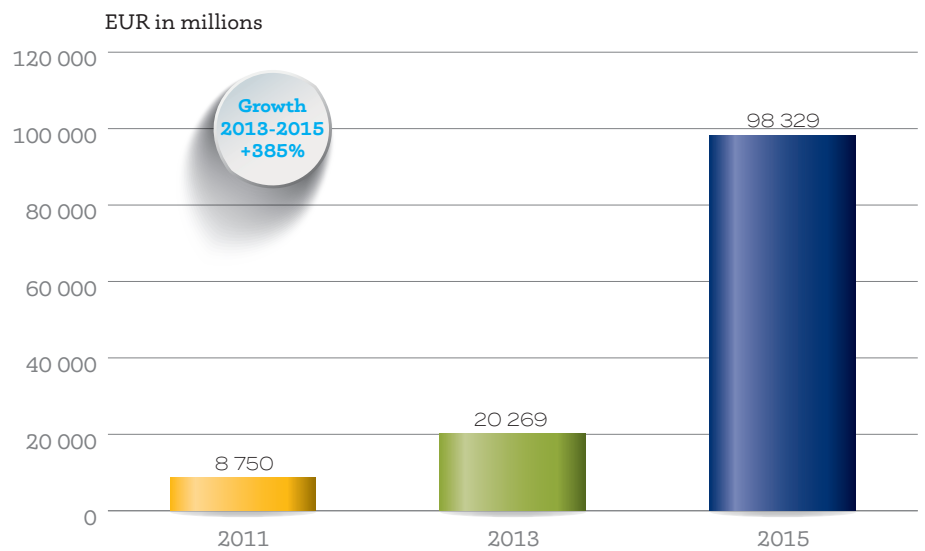
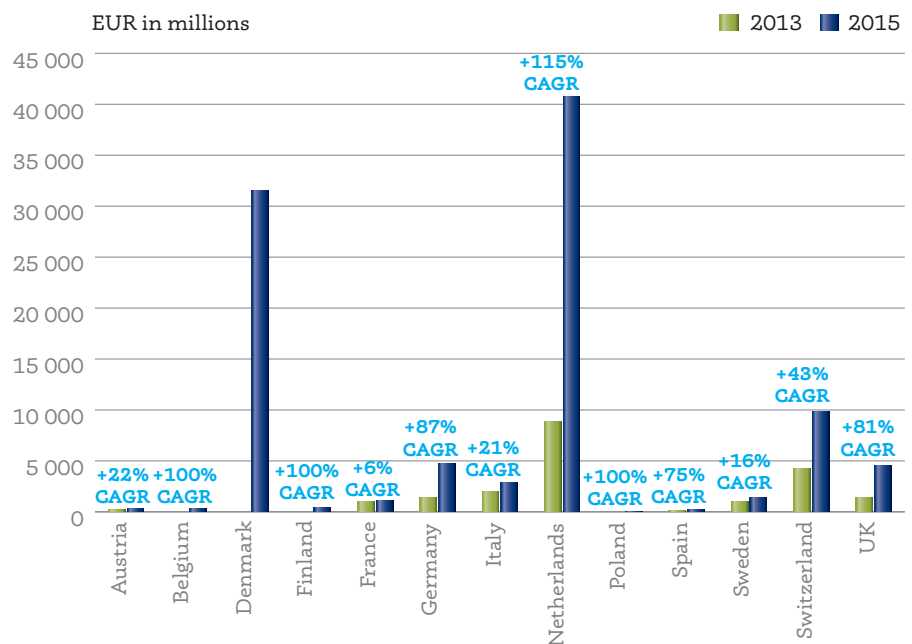


Figure 19: Growth of Impact Investments by Country



Denmark not part of 2014 SRI study

At a country level, the Netherlands remains the biggest market with €40 billion, very closely followed by Denmark with over €31 billion. At €4.5 billion, the UK also registers a very significant growth, despite this year's poor response rate from the key players. Furthermore, it is worth mentioning that philanthropic and public money - which are key sources of funding to the UK social enterprise market - are not tracked, in accordance with the Eurosif methodology.

Green Bonds

According to the International Capital Market Association⁷⁴ (ICMA)'s definition, Green Bonds are 'any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance in part or in full new and/or existing eligible Green Projects and which are aligned with the four core components⁷⁵ of the Green Bond Principles⁷⁶ (GBP). They are investment vehicles, which fall under a main set of categories:

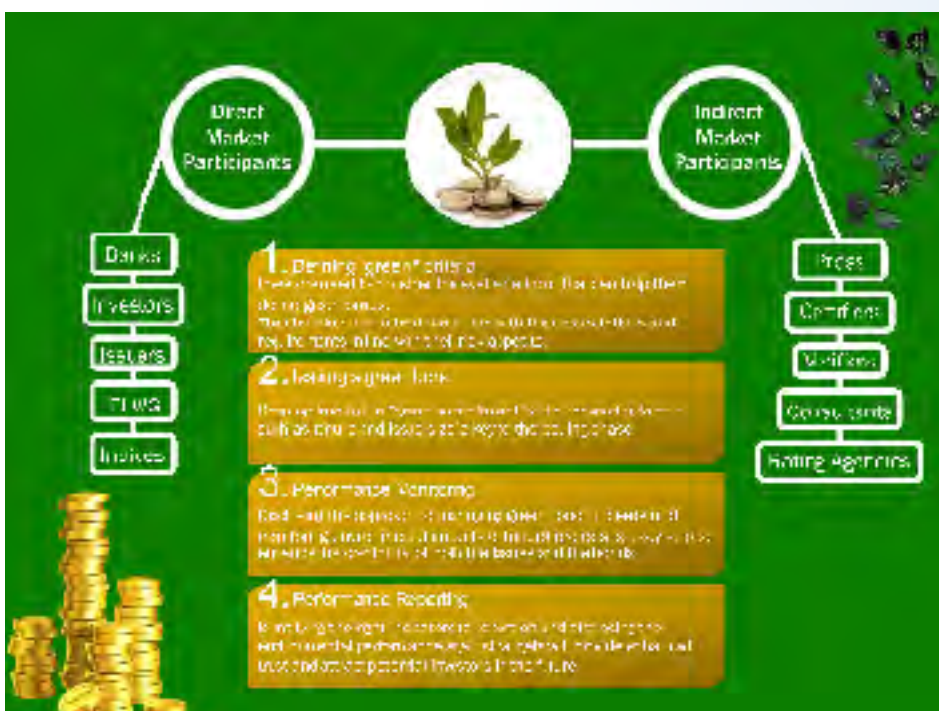
Asset backed	Tied to a specific green projects, e.g. infrastructure project
Corporate bonds	Issued by a green company
Bonds issued by	Development, international, other financial institution
Sovereign or Municipal bonds	EIB, KfW

Because of their environmental focus, Green Bonds can also feature as part of sustainability themed funds and they are considered as such by some investors in different European member states. However in the Eurosif Study, and in view of the methodological approach that falls under the definition of GBP, they are considered part of Impact Investing.

While **Green Bonds** are so far mostly governed by voluntary guidelines, market expectations for information on the use of proceeds are high. Issuers must be very clear on what the outcome of the green project concerned will be and how they will measure the impact. In order for Green Bonds to really take off, the corporate sector has to feel confident it can endorse it. Investors need to have a clear set of recognised standards and rules that determine what Green Bonds are to add credibility and avoid 'green washing'.

Today, there are two important market-led self-regulatory initiatives on the green bond market, i.e. the GBP⁷⁷ and CBI⁷⁸. Stakeholders consider these two initiatives as complementary, rather than mutually exclusive. GBP have around 200 different market participants and, since their first edition in 2014, have undergone reviews. The most recent 2016 update focused on the transparency challenges, increased the online resources for issuers

Figure 20: Green Bonds Value Chain



and external reviewers, set up new categories for use of proceeds, and clarified issuer reporting requirements and external reviews. Clarity around the reporting is the most sensitive for investors, who need to be able to have tools in place to measure the impact and validate the credentials of the bond.

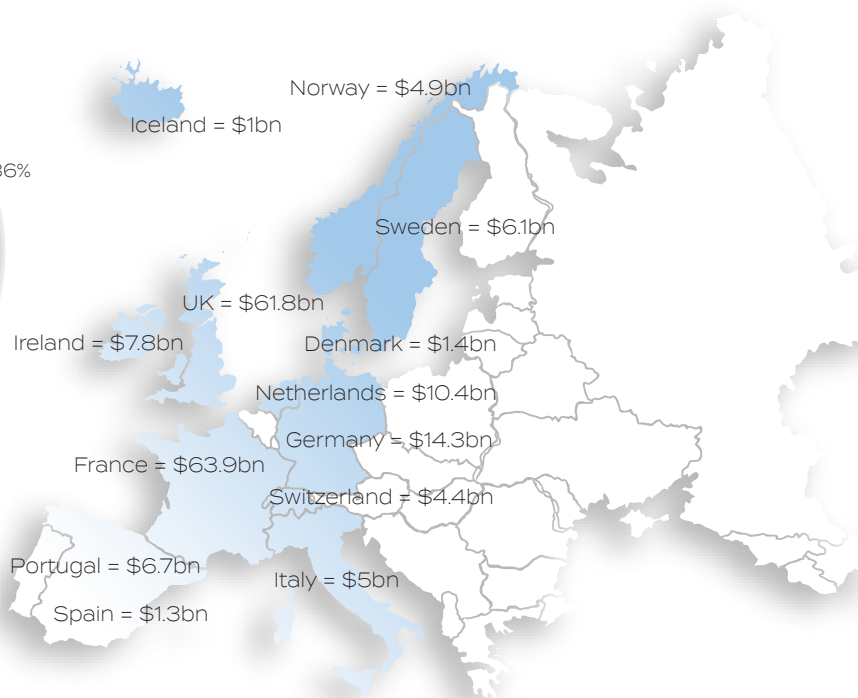
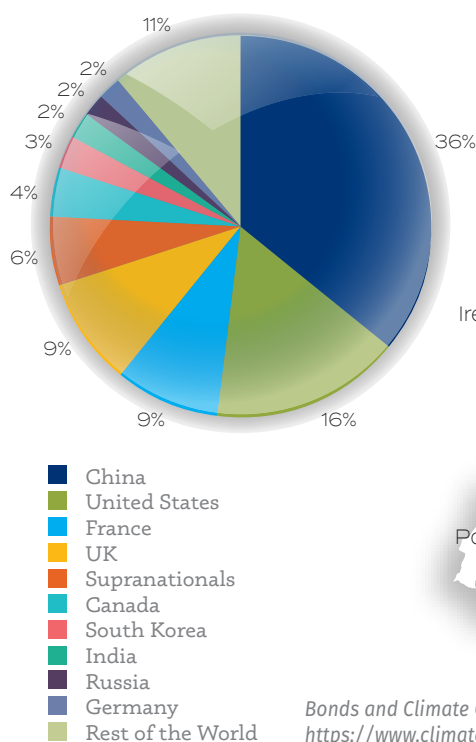
The green bond value chain entails a very complex ecosystem which involves several players. A second party opinion market has rapidly emerged for the assessment of the greenness of a project or the provision of labelling services and monitoring of the use of proceeds. This consideration also comes on top of the fact that investors are going to be looking at the overall wider ESG considerations of the issuers. In this respect, investors can do a lot to further engage companies to keep on improving their ESG performance, by focusing on the issues most relevant to them. A report issued last year by Euromoney⁷⁹, asking investors about what they really need from Green Bonds, said the most useful tool to analyse Green Bonds credentials has indeed been the screening carried out by internal CSR research teams. As expectations on the quality of the reports provided by the second party opinions continue to increase, it is important for the qual-

ity of these reports to be perceived as generally good and to be respecting a robust methodology, able to meet at least the basic requirements of most investors. This issue is consistent with the general demand for a definition of what is green. Although not all investors would advocate for asset definition, preferring to let the market develop, instead of imposing set parameters. However it is important for the market to develop in a sustainable way, to ensure a level playing field that clearly outlines the boundaries for all the players. So far, investors seem to be content with the flexibility provided by the Green Bond Principles (GBP). Another important element is the divergence between the supply and demand for Green Bonds and identification of blocking factors in this respect. Investors are also still in need of further clarity when it comes to asset classes.

As predicted by analysts, the total Green Bond issuance in 2015 amounted to over \$40 billion⁸⁰ and volumes issued by corporates exceeded the volumes of the SSA (supranational, sub-sovereign and agency) sector for the first time.⁸¹ What's more, 2016 Green Bond issuance has already reached \$44 billion (as of 9 August 2016) and the CBI estimates that it could reach \$100 billion.⁸²

Size of the market and Corporate Green Bonds:

Figure 21: Top 10 countries for Climate-Aligned Bonds



Bonds and Climate Change: the state of the market in 2016 – pages 14 and 15
<https://www.climatebonds.net/files/files/CBI%20State%20of%20the%20Market%202016%20A4.pdf>

Until 2012, the Green Bond market was dominated by Multilateral Development Banks (MDBs), but now the market is characterised by a wide variety of new issuers. As a matter of fact, the last four years saw a **more active participation from private sectors issuers, including corporates and banks**. However, despite its rapid and substantial growth, the Green Bond market still represents only a small percentage (less than 1%) of the total bond market, estimated at \$100 trillion⁸³. There's a long way to go before it reaches the scale needed to address climate change and the other pressing environmental issues.

Initially driven by issuers, in particular Multilateral Development Banks (MDBs), the Green Bond market has reached a new level of maturity. Now, both investors and policy-makers have a key role to play – investors by driving further improvements in the quality and accountability of green bond issuance via scrutiny and active engagement, and policy-makers by adopting policies that acknowledge the value of Green Bonds and further promoting this market segment. The European Investment Bank (EIB), the EU Bank, pioneered the Green Bond market in 2007 by issuing the first bond with a transparent allocation of proceeds to climate action.

The EIB and Green Bonds

The EIB's Climate Awareness Bonds (CABs) have their proceeds earmarked for allocation to eligible renewable energy and energy efficiency disbursements. The project evaluation and selection involves a thorough process of environmental and social due diligence, an audited tracking, allocation and reporting system ensuring the delivery of relevant and reliable information on the flow of eligible disbursements, as well as the expected impact of the recipient projects. EIB's activity in the area of Green Bonds has been linked to

key policy developments like the EIB's first green bond issue, which came in response to the EU's Energy Action Plan. Other important pieces of EU guidance and legislation historically influencing EIB's green bond issuance include the Financial Services Action Plan 2005-2010, the Prospectus Directive (the first CAB tested the pass-porting mechanism in the whole EU for the first time) and the Luxembourg Law on Dematerialised Securities; In response to investors' demand for liquidity in the Green Bond market, in 2013 EIB adopted a benchmarking approach, which helped to raise the profile of the market. In 2014, Green Bonds gain traction: the Green Bond Principles emerge as voluntary guidelines and backbone of governance structure for the Green Bond market; several MDBs commit to promoting the sustainable growth of the green bond market through a joint statement on climate finance, and the role of 'climate bonds' is explicitly recognised at the 2014 UN Climate Summit. In March 2015, EIB publishes its 2014 Climate Awareness Bond (CAB) Newsletter in concomitance with the presentation of the 2015 Green Bond Principles (GBPs) and the proposal of a harmonised framework for green bond impact reporting initially developed by AfDB, EIB, IBRD and IFC. The Newsletter discloses the details of EIB's Green Bond practice, outlining its alignment with the Green Bond Principles, and includes detailed impact reporting, applying the proposed harmonised framework for the first time. The three documents together highlight the motors of progress in the Green Bond market: minimum requirements, open market discussion on best practice, and leadership by example. In October 2015, the EIB CAB Newsletter becomes semiannual and links for the first time project allocations to individual bonds. This is an important development in Green Bond best practice by the EIB, as transparency and accountability are key topics in the run-up to COP21. In April 2016, the EIB published its 2015 CAB Newsletter.

The European Investment Bank (EIB)

Green Bonds should be seen more as a process than as a product. Originally intended to serve mainly capital market objectives, in 2015, green bond issuance became an autonomous strategic goal of the EIB's Corporate Operational Plan 2015-2017. Lack of commonly accepted climate finance tracking definitions, project assessment methodologies and reporting formats still limits comparability and compatibility of climate action data from different issuers even when transparent tracking and allocation procedures exist.

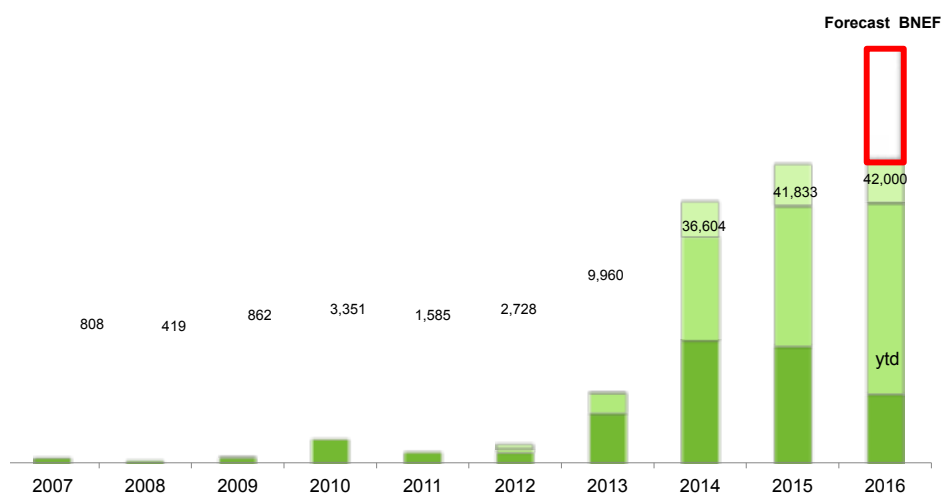
The growth of the Green Bond market has increased external scrutiny (in particular from investors), and thus issuer accountability, fostering the public discussion on common metrics and the transparency of accounting and reporting frameworks. More engagement by external stakeholders is incentivising better and more comparable reporting, which in turn creates peer pressure on issuers to improve practices, contributing to the establishment of assessment standards and the convergence of assessment rules. All these developments have increased the public visibility of the green bond market, and should help its recognition in the policy arena. Inter alia, the official recognition by policy-makers would help to develop this market by increasing the opportunity costs for non-issuers (i.e. the cost linked to the negative public perception associated with not issuing Green Bonds).

Recent governance improvements (GBP) have increased investors' trust in the value of Green Bonds and helped the development of ad hoc investment policies which are increasingly driving the market; corporates and municipalities have become key market players; there is increasing attention to sustainable transport and infrastructure, increasing issuance in emerging markets (China, India), an increasing number of standard proposals (e.g. CBI), increasing diversity of market players and products (e.g. covered bonds, green project bonds, municipality bonds), and a lot of room for growth. EU policy-makers need to create incentive mechanisms to facilitate scale in the Green Bond market with a view to helping to bridge the current gap in sustainability financing.

Green Bonds: ongoing engagement for more credibility in environmental finance

The idea of Green Bonds is simple: the proceeds are allocated exclusively to projects with environmental benefits, based on clear eligibility criteria whose application can be monitored by investors. They thus promote reporting by policy objective and live up to both increasing demand for impact investment and increasingly demanding regulatory requirements with regard to transparency, accountability and compliance in the context of the Paris agreement.

Figure 22: Growing volumes of issuance



SPECIALIST VIEW

In the most popular format, ‘green use of proceeds bonds’, the use of funds is not ‘back-to-back’ – the investor’s risk lies with the issuer, and cash flows do not differ from those associated with the issuer’s conventional bonds. The link between the bond proceeds and the environmental projects is established by the issuer via, on the one hand, **ad-hoc administration**, which enables reliable allocations to actual eligible disbursements using a trustworthy record keeping to match in- and outflows; and, on the other hand, **ad-hoc reporting**, which enables external monitoring of the allocations as well as of the expected impact from the recipient projects.

Higher volumes of issuance (see figure 22), fostered by increasing investor demand and facilitated by inclusive guidelines (the Green Bond Principles, “GBP”) elaborated by the market at large under coordination of the International Capital Markets Association (ICMA), enable greater transparency, which in turn motivates issuers to improve the quality of their assessment, allocation and reporting practice incrementally.

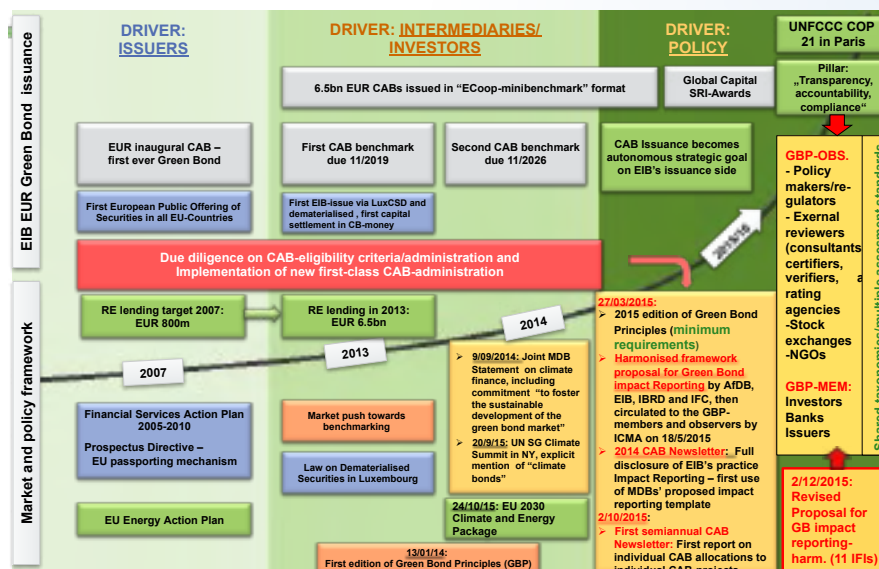
In this virtuous circle, public monitoring and peer pressure play an important role. Comparability, reliability and standardization of Green Bond information for the relative assessment of issuers and projects are thus essential for both the sustainable growth of

the Green Bond market and its use for environmental policy purposes.

A due diligence has made capital markets aware of the deficiencies that affect environmental finance in these areas, notably: the lack of a single set of environmental finance tracking definitions; the absence of common impact assessment methodologies (notably with regard to GHG-emission calculations), often exacerbated by the absence of joint data sets; the unavailability of shared impact reporting principles. “Second party opinions” have provided an *interim* response to the quest for trustworthiness, but are themselves affected by the lack of reference standards. An exhaustive, standard description of the core features of a Green Bond is still far from customary.

EIB’s contributions (see figure 23) are part of an active and constructive dialogue among capital market and projects experts on how to improve the *status quo*. The challenge (see figure 24) lies, first, in the itemization of shared holistic taxonomies for each of the GBP-pillars (use of funds, project selection process, management of proceeds, reporting) and, second, in the selection by each market participant (issuer, investor, public authority, stock exchange, external reviewer, NGO, etc.) of the subsets reflecting his preferences (evaluation standards). Easier comparisons lead to easier choices.

Figure 23: Green Bonds as process



Important progress has been achieved in the 2016 GBP, which reference the IFI-Framework for RE/EE-impact reporting harmonization (“IFI-Framework”) and an External Review Form. Further work is ongoing within the GBP in the following areas: centralization of issuer information in ICMA’s online resource center; harmonization of use of proceeds taxonomies; collection of project selection standards; adaptation of the IFI-Framework to the needs of non-IFI issuers; extension of the IFI-Framework to other climate

action areas; joint development of a synergic operational framework by markets and official authorities (*in primis*: European Commission, who is establishing an Expert Group on Green Finance, PRC and Germany, who hold the G20 Presidency in 2016 and 2017, and France, who has recently announced the intention to issue the first sovereign Green Bond in 2017).

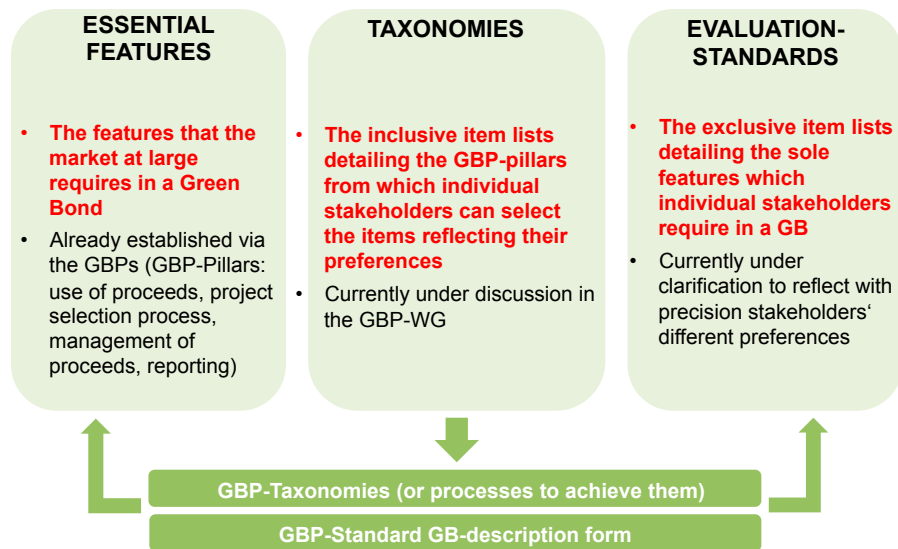
Aldo M. Romani

is Deputy Head of Funding – Euro at EIB and

Dominika Rosolowska

is Capital Markets Officer – Americas, Asia, Pacific at EIB

Figure 24: The challenge of standardization



EIB's contributions to the development of the Green Bond market

- **07/2007:** EIB's Climate Awareness Bond is the first ever Green Bond, which remains a *niche* funding instrument until 2012;
- **2014:** extensive due diligence of EIB's Green Bond administration involving all relevant services – project assessment, back-office, treasury, legal, accounting, risk management, capital markets, etc.;
- **Q1/2015:** upgrade of Green Bond administration;
- **27/3/2015 (upon announcement of the 2015 GBPs):** a) disclosure of new GB-administration; b) publication of a first proposal for Green Bond impact reporting harmonisation, a joint initiative of AfDB, EIB, IBRD and IFC, initially drafted and coordinated by IBRD; c) publication of EIB's first impact report in accordance with such proposal;
- **04-11/2015:** EIB involves seven additional IFIs (ADB, AFD, EBRD, FMO, IDB, KFW, NIB), collects their views and drafts a revised proposal for Green Bond impact reporting harmonisation;
- **2/12/2015:** publication of the revised proposal (the "IFI-Framework") with the support of all institutions involved; <http://www.eib.org/attachments/fi/informationonimpactreporting.pdf>
- **2-4/2016:** EIB coordinates the GBP working groups on:
 - **impact reporting**, launching a consultation among the GBP-issuer members, which confirms the IFI-Framework's adaptability to the needs of all issuer categories;
 - **external review**, clarifying the scope of different forms of external review as well as adopting the first External Review Form (ERF) itemizing GB-core features;
- **16/6/2016:** explicit reference in the GBP to the IFI-Framework and to the ERF;
- **27/9/2016** EIB publishes a "CAB statement" describing in detail its GB-activities in 2015 (management responsibilities, operational criteria, allocation/impact reports) and accompanied by an **Independent Reasonable Assurance Report (IRAR) by KPMG Luxembourg including a standard ERF**, thereby establishing a new best practice. On the same date, a dedicated Green Bond platform is announced at the Luxembourg Stock Exchange and the IRAR is uploaded onto its improved security cards. <http://www.eib.org/attachments/fi/cab-statement-2015.pdf>
- **5/10/2016** ICMA posts EIB's IRAR on its online resource center. <http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/gbp-resource-centre/>

Social Bonds

As we analysed the rapid development of the Green Bond market, another bond market aimed at projects with a social objective or, so far, with a combination of both social and environmental goals, also started to emerge. Because of a certain degree of similarity when it comes to denomination, investors still need some guidance. Due to the fact that issuers may still intend for the proceeds to be applied to both social and green projects, it is all the more important for investors to receive proper guidance and information in order for them to fully understand the implications⁸⁴.

Under its Green Bond Principles, the International Capital Markets Association has set out guidelines for and a definition of Social Bonds: “Social Bonds are any type of bond instruments where the proceeds will be exclusively applied to finance or re-finance in part, or in full, new and/or existing Social Projects as defined in this document, and which follow the four core components of the GBP (use of proceeds, process for project evaluation and selection, management of proceeds, and reporting), as well as its recommendations on the use of external reviews”⁸⁵.

At the time this report was being written, the Social Projects categories had been presented in a non-exhaustive list: affordable basic infrastructure, access to essential services, affordable housing, food security, employment generation, socio-economic advancement and empowerment.

The Social Impact Bonds are designed to address systemic issues that make services ineffective for the most vulnerable and marginalised communities. A Social Impact Bond is essentially a public-private partnership, funding effective social services through a performance-based contract. The partnership is based on a private investment which is used to develop, coordinate, or expand effective service programs. In case the program does not reach its expected outcomes, no payments have to be made for unmet metrics and outcomes.⁸⁸

Since the world’s first Social Impact Bond was issued in the UK (Peterborough) in September 2010, the Social Impact Bond market has evolved considerably. Notably, almost 60 projects linked to Social Impact Bonds have been launched in 15 countries (as of June 2016) which raised over 200 million USD in capital. From these projects, 22 have reported performance data, 21 have indicated positive social outcomes, 12 have made outcome payments and 4 have fully repaid investor capital.⁸⁹

In parallel with the Green and Social Bond market, another distinct but interconnected type of bonds has emerged – the sustainability bonds. Sustainability bonds are seen as an overlap between Social and Green Bonds, including either type of transaction or a combination of both. As a hybrid, sustainability bonds can raise capital for both green and social objectives. For instance, proceeds from sustainability bonds issued so far have been used to finance energy efficient buildings for disadvantaged people, clean public transport, social housing, or education, youth and employment projects.⁸⁶ HSBC estimates that social and sustainability bonds reached almost \$15.6 billion in issuance in the first four years of their existence.⁸⁷

Under current market conditions, Social and Green Bonds provide investors with environmental and social benefits without sacrificing on financial returns. For issuers, they impose higher reporting costs but no reductions in the cost of capital. While issuers seek reduced financing costs for their Social and Green Bonds, investors look for high returns on investment, comparable to those of conventional bonds. Therefore, some players have argued that green and social bonds should receive a more favourable prudential treatment (e.g. through the EU Solvency Directive). By aligning the interests of issuers, investors and society, regulators would help the Green and Social Bonds market to develop and reach the scale required to affect significant change.⁹⁰

INTERVIEW

Interview with Paolo Capelli, Head of Risk Management at Etica SGR.



ESG analysis: a tool for controlling and reducing portfolio risk

Can ESG analysis make a tangible and measurable contribution to controlling the financial risks of portfolios? To what extent and in what way?

We interviewed **Paolo Capelli**, Head of Risk Management at **Etica SGR**, the asset management company of Banca Popolare Etica Group, the leading Italian player in the SRI sector.

1) At Etica SGR, you have developed a model to measure ESG risk. What does this term mean?

ESG risk means risk arising from factors associated with ESG issues, i.e. related to environmental, social and governance issues, which have an impact on the performance of securities held in fund portfolios.

2) How does this model work?

Our method breaks down into four key points.

The first involves our Research Area, that is to say our team of analysts, which selects companies within the investment universe of our funds and assigns them an ESG score. This initial aspect does not identify a strictly financial risk, but is definitely a valuable part of identifying and avoiding reputational threats. This is important, given that in some cases, reputational damage to a company can reduce the value of its equities and bonds, a correlation that is particularly clear in the case of small and mid-caps.

The second aspect regards ESG scores assigned to the various companies. These scores are used to calculate the weighted average score of each fund, representing a judgement on the ESG quality of the portfolios and not a risk measurement in its strictest sense.

The third aspect relates to the estimated financial loss of the equity portfolio, under stress and via Value at Risk (VaR), due to ESG risk factors alone. Using our model, we estimate that the risk of the ESG component alone amounts to around 5-10% of the overall risk. We regard this as a very significant result.

The final point relates to the creation of a purely statistical proprietary metric that is closely correlated to financial risk. In other words, starting with the concept that a measure of the disorder of a system is an estimate of its risk, we use a function based on the level of the ESG scores and their distribution in the fund portfolios. The result is very interesting: at sector level (not for each individual security), there is a strong statistical correspondence between the ESG risk thus expressed and the financial risk, first broken down into undiversified VaR.

3) So there is a correlation between good ESG selection and reduced financial risk?

Precisely. The results of our analysis seem to support the view that, for the funds of Etica SGR, the traditional assumption of moderate financial risk goes hand-in-hand with the decision to allocate in an investment universe of companies with high ethical value, that is to say with high ESG ratings.



Paolo Capelli,
Head of Risk Management at Etica SGR.

Transparency in SRI through European Labels



The Eurosif Transparency Code

Tracing its roots back to the European Transparency Guidelines unveiled in 2004, the Eurosif Transparency Code was first launched in May 2008 by Eurosif and its national member SIFs to increase the accountability and transparency of SRI products to users.

Its driving principle is that asset manager signatories should be open and honest, disclosing accurate, adequate and timely information to enable stakeholders - in particular retail investors - to understand the policies and practices of a given socially responsible investment (SRI) fund.

The Code focuses on SRI funds distributed publicly in Europe and has been designed to cover a range of asset classes, such as equity and fixed income.

GUIDING PRINCIPLE

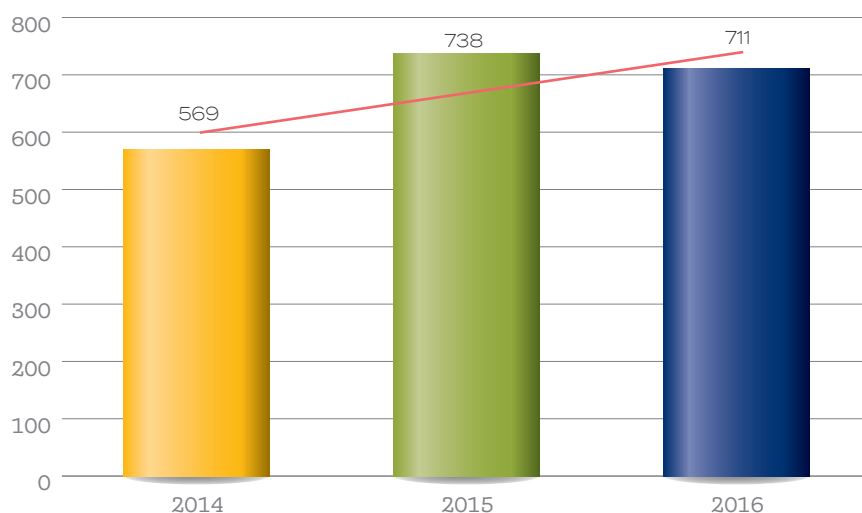
Signatories to the Code should be open, honest and disclose accurate, adequate and timely information to enable stakeholders, in particular consumers, to understand the ESG policies and practices of the fund. In the updated version, the objectives remain:

1. To clarify the SRI approach of publicly-available funds for investors in an easily accessible and comparable format.
2. To strengthen a self-regulation that contributes to the development and promotion of SRI funds by setting up a common framework for transparency best practices.

To better reflect industry developments, the new version includes a more compact and investor-friendly document with fewer sections and fewer questions. Better comparability of answers through sub-questions, drawn from the previous Guidance Manual, is designed to enhance the standardisation and the precision of the answers.

Over time, the Code has had an exponential growth, peaking in 2015. This growth confirms a rising interest in the Code, linked to Eurosif's brand and the recognition of the guidelines' value in terms of promoting the sustainability of SRI products.

Figure 25: Evolution of signatories over the last three years up until September 2016



Labels in Europe

The rise in SRI products over the last decade has been matched by a growth in the development of labels, especially in the past two years and in the wake of Article 173⁹¹ and COP21. Their aim has primarily been to inform investors of the characteristics of the products they were buying but the labels also foster a better understanding of what is meant by SRI and what the products are actually able to deliver. In Europe, the labels can even exist on a governmental level. In that respect, some countries, like France, are experimenting with SRI labels at

a governmental level. Meanwhile Austria has examples of products that were established over 10 years ago⁹². Finding their origins in the Eurosif Transparency Code, many of these labels have been transposing its criteria as part of their methodology. In this Study, we describe the relevance of a clear reference in allowing the industry to thrive in a transparent way.

The following list gives a partial overview of the various labels and awards that are currently available for investing:

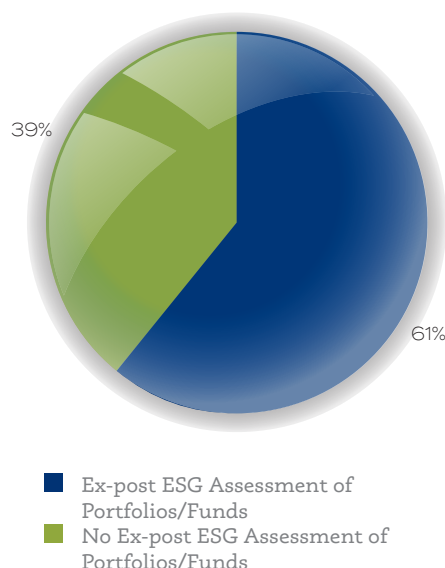


Source: Candriam Investors Group – SRI Labels in Europe: What to choose
 Last Novethic ISR and Green labels attributed in 2015 can be used by some fund until the end of 2016.

ESG Integration: choosing the right approach

Integration is the explicit inclusion of ESG factors by asset managers into traditional financial analysis. The strategy has become one of the most readily adopted SRI strategies and at least for the past five years, over 80% of the respondents to the Eurosif questionnaire have indicated that they have a formal integration policy document. Due to the significant lack of clarity in the perimeter of the integration of ESG factors, it still remains very difficult to assess the extent to which one can actually compare strategies that fall under the same denomination. In the 2014 Study, Eurosif attempted to devise categories⁹³ that could be used to 'frame' the Integration approach applied by asset managers. However from this year's findings, we were able to estimate that there are still too many unknown variables that play a role and significantly influence the practices of integration. We therefore concluded that the concept of integration remains a challenge to determine and its understanding varies from one country or asset manager to the next. A big part of the equation, of course, remains the asset owners. They can exert influence on their asset managers in determining and monitoring the ESG quality of their portfolio by requesting reports from, or making ex-post assessments of, their ESG character-

Figure 26: integration Practices



istics. It is encouraging to note that there is a good ratio of ex-post ESG assessments (see figure 26) and this is in line with the rising trend also tracked by the [Novethic 2015 review of responsible investors in Europe](#), which refers to an increase by 3% between 2014 and 2015⁹⁴.

CASE STUDY

Strategy Case Study: ESG Integration

The integration of environmental, social and governance criteria (ESG integration) is an investment process gaining momentum, not only in Europe, but across the globe.

This is based on the conviction that it is imperative to reconsider traditional financial analysis and look at companies from a holistic point of view. The objective is to take into account all stakeholders that may be impacted by a company's economic activity.

ESG integration is about more than just gaining a clear conscience, it is about unlocking long term economic and social value. As Marc Carney, the Governor of the Bank of England, has mentioned *"Alongside major technological, demographic and political shifts, our very world is changing. Shifts in our climate bring potentially profound implications for insurers, financial stability and the economy."*

The financial industry has come to realise the importance of tackling ESG issues as part of the financial valuation of a company.

However, there are still some hurdles to integrating extra-financial criteria into an investment process. These include access to information, materiality of criteria, forward looking data and reliability of data. Nevertheless, the progress that has been made over the past three years in improving knowledge and expertise is impressive. It has resulted in an enhanced ESG integration methodology.

ESG integration is also a pragmatic answer to some biases of traditional restrictive SRI approaches. Although access to information has improved substantially – thanks notably to stricter regulation – the bias towards larger market capitalisations tends to persist. After all, the latter are better placed to perform well in terms of extra-financial criteria than their smaller peers.

**Materiality**

Materiality is a major challenge as analyses primarily focus on criteria which are the most likely to have repercussions on a company's performance in the mid to long term.

Therefore, the challenge consists of reconciling two time horizons: investors' short-term quest for performance on the one hand; and on the other, the materiality of ESG challenges, which are more geared towards the mid to long term.

Added value

The media are constantly reminding us that we live in a global and interconnected economy. Therefore, it is no longer possible to single out one specific element which would then be autonomous and independent of any other external influence. Putting a company in a global context makes sense when establishing a qualitative and fundamental analysis of its value and future potential. All economic stakeholders, no matter what level they are at, need to address macro-economic challenges such as demographics, climate change and resource scarcity.

France's recent willingness to implement a CO2 floor mechanism and its impact on CO2 price is a relevant example of how investors have reconsidered traditional financial analysis. Companies' fundamentals should be reviewed within a global long-term framework in order to guarantee the sustainability of this 'new finance', which will eventually be characterized by greater stability, not only on the micro level, but also on the macroeconomic level.



Ophélie Mortier
Responsible Investment Strategist

Key Features of the European Market

Characteristics of investors

In the past two years, the registered growth of SRI has witnessed a variety of interesting and changing patterns across Europe, in terms of the players and the types of investments. For instance, looking at the split between retail and institutional assets, we note a significant increase in favour of retail investors who seem to be taking the lead – at least in some countries.

The country breakdown clearly illustrates the extent of this changed scenario. Belgium shows the most impressive increase in the retail market, which has clearly overtaken the institutional side. In fact, throughout Europe the retail side has witnessed an interesting growth mainly due to the launch of new products by asset managers and growing trend to focus on private clients, like High Net Worth Individuals (HNWI) in the last two years.

Figure 27: SRI asset breakdown by type of investor 2011-2015



Figure 28: Retail/Institutional breakdown by country

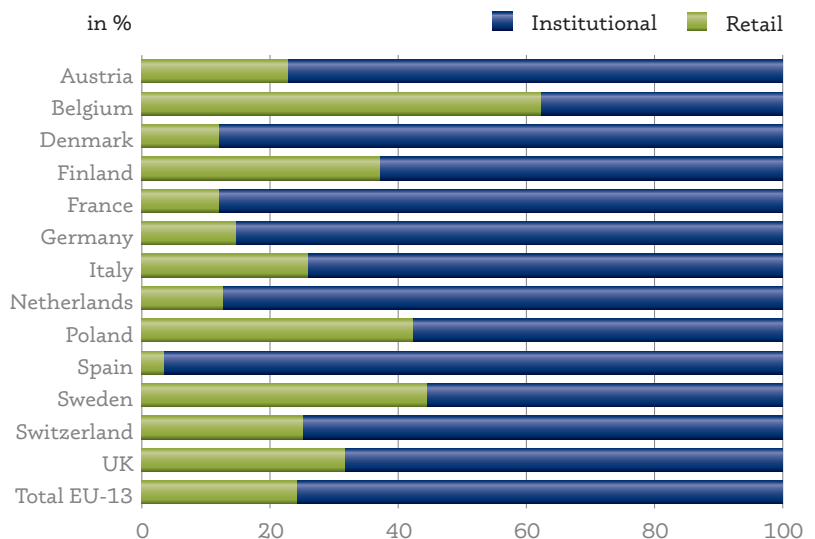


Figure 29: SRI asset allocation by country

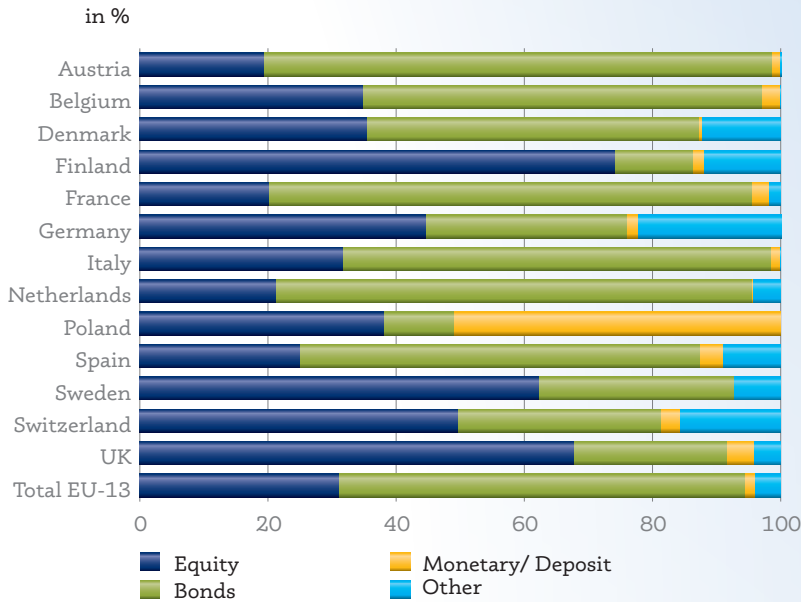
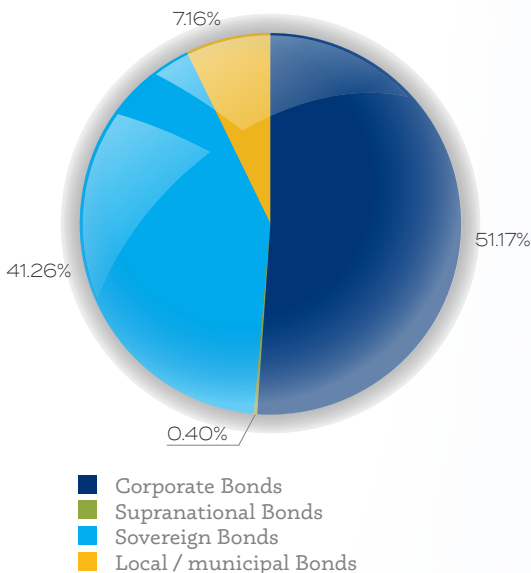


Figure 30: Breakdown of European SRI bond assets



Asset Allocation

Figure 29 shows the SRI asset allocations by country and provides an asset-weighted European average. At a European level, equities represent over 30% of the SRI assets in December 2015, a significant decrease from last year's 50%, and bring us back to the 2011 and 2009 levels. Of note, there is a sharp increase in bonds, at 64% from the 40% registered in December 2013. Looking in more detail at the bond allocation, we notice that corporate bonds increased significantly by over 142%⁹⁵ to this year's 51%.

Similarly, sovereign bonds went from 16.6% to a remarkable 41.26%. This staggering growth is a reflection of the more prominent role played by Green Bonds. As many private sector banks joined the ranks of green bond issuers, they have made a significant impact on growth - together with other corporate issuers, they contributed an additional €10 billion of new issues out of a total market of €39 billion in 2015⁹⁶.

Market drivers and future trends

As part of our survey, we asked our respondents to list what elements they believed held more potential to stimulate the industry growing further. This exchange fostered a debate around the present and future needs of the different players and which of the main drivers were key ones. It is interesting to note how the strong pull from institutional investors has virtually doubled since 2012, showing the extent to which this investors' class retains the power to shape the industry. The slight decrease in the degree to which external parties (NGOs, media,...) can influence the debate just proves that the industry is becoming increasingly mature and that the endogenous drivers are the strongest ones. Materiality consistently remains a key aspect for investors. We are hoping that the regulators, today so involved in directives that carry key value in this sense, will do much to respond to their needs.

This year we asked our respondents to explain the main drivers and deterrents to their SRI strategy work. What follows is a compilation of answers that gathers the main sentiment among SRI professionals.

The leading role played by fiduciary duty as a main driver for SRI sends a very strong message for policy makers. In the fiduciary duty debate, fund managers have come

to see fiduciary duty as a deterrent to ESG criteria incorporation into their investment process. A critical piece of evidence for this argument is the lack of consistency in the correlation between non-financial indicators and fiduciary duty. In December 2015, Eurosif issued its policy position for regulators on the Capital Markets Union Action Plan, as a follow-up to the Manifesto published in May of the same year. One of the main recommendations made was in favour of a clear definition of fiduciary duty as including ESG issues. As climate and wider ESG risks are material to business, we believe that acting in the beneficiaries' best interest means having a long-term approach to business and fully factoring in ESG issues in investment decisions⁹⁷.

Concerning the top deterrents to SRI for investors, we find that the top reason is linked to a theory that can now be considered largely disproved: the concern that integrating ESG factors in the investment strategy could negatively affect returns. In second place, we find the lack of viable products. This is potentially linked to a bigger concern for the industry regarding the future of the European retail demand for SRI, which as we argue in this report, offered interesting pockets of growth across EU members states over the past two years.

Figure 31: Drivers of SRI demand

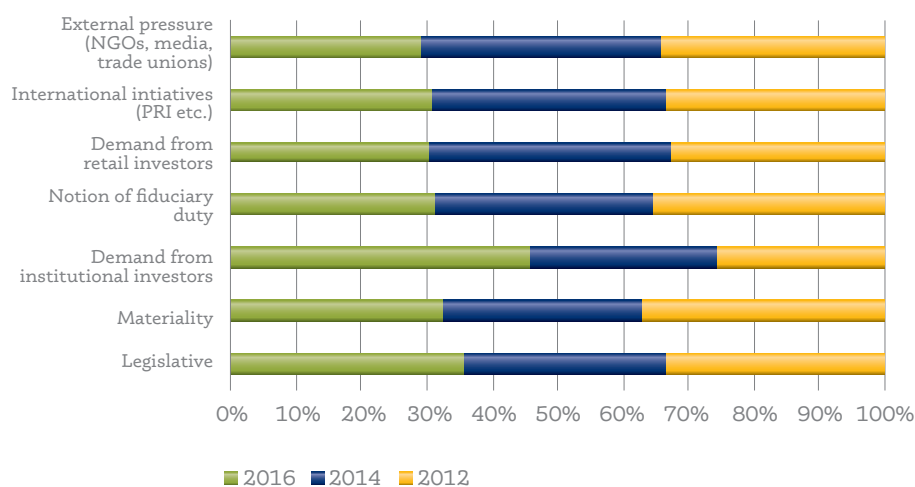


Figure 32: Deterrents to SRI strategies

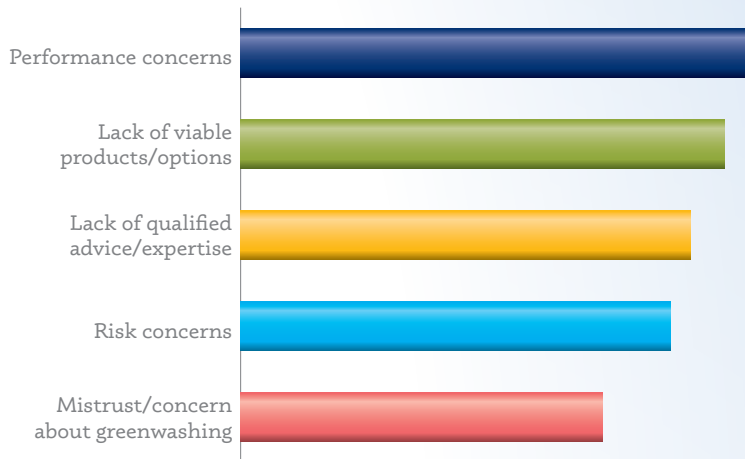
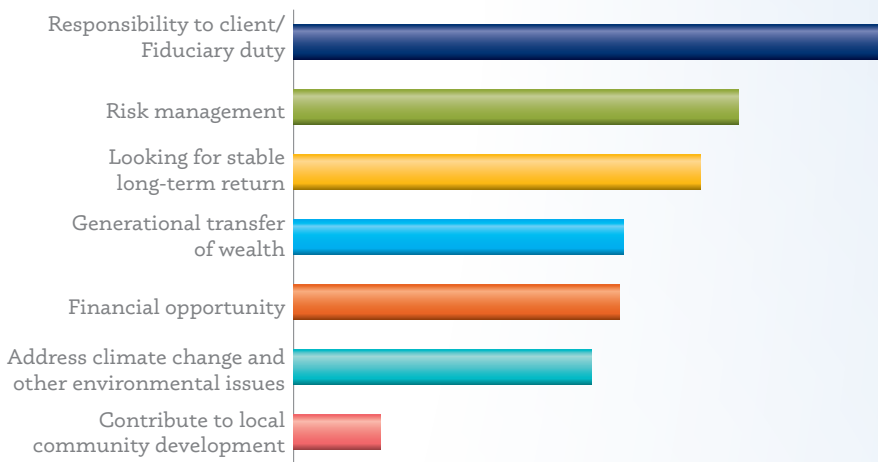


Figure 33: Drivers to SRI strategies



Summary and Conclusions

Some of the main growth trends highlighted in the previous SRI Study have been reaffirmed in this edition, but there have also been some interesting shifts. Growth is consistent across all strategies at the European level, with rates ranging from 30% for Engagement and Voting, up to 385% for Impact Investing - still confirmed as the fastest growing SRI strategy this year and at €20 million in 2013.

Perhaps the most interesting shift is linked to Sustainability Themed, which this year registers the spectacular growth of 146%, after being the slowest last year with a growth rate at 22.6%. A series of high level events and international agreements have pushed sustainability themed investments to feature heavily in investors' strategies. The preferred themes relate mostly to energy efficiency and renewable energy, very much in accordance with the Global Climate Conference (COP21).

Exclusions⁹⁸ is still the dominant SRI strategy with over €10 trillion, demonstrating strong growth at 48%. Switzerland continues to definitively lead the way with €2.5 trillion, while the UK registered the highest growth at 296%. If one only considers voluntary exclusions related to investments in cluster munitions and anti-personnel landmines (CM&APL), this makes up about 80% of total exclusions, whilst other types of exclusions make up over 21% of the total exclusion figure.

Norms-based screening is the second most significant SRI strategy with over €5 trillion AuM and a growth rate of 40%. This strategy's growth is noticeable beyond the borders of the Nordic region, where it has been popular for a long time, with peaks in France and the Netherlands.

Engagement and Voting follows quite closely in terms of popularity with AuM at over €4 trillion and a steady growth of 30%.

In terms of the characteristics of the players, although institutional investors still lead the market, this year we registered an interesting growth in the retail sector, which went from 3.40% to 22%, signalling an important shift mainly in countries like Belgium where private investors and the developments of new financial products are making a change.

The asset allocation distribution registered a significant decrease in equities, now at 30% of the total SRI assets down from last year's 50% and back to the 2011 and 2009 levels. There was a sharp increase in bonds, which was worth noting at 64% from the 40% registered in December 2013. This rise correlated with the surge in Green Bonds, underlining the climate concerns that were intensified by events such as the Paris Agreement.

TABLE 3: Market Growth by Strategy

In € million (EU 13)	Impact Investing	Sustainability Themed	Exclusions	Norms-based Screening	Best-in-Class	ESG Integration	Engagement and Voting	EU Industry (EFAMA est.)
2013	20 269	58 961	6 853 954	3 633 794	353 555	1 900 040	3 275 930	16 800 000
2015	98 329	145 249	10 150 595	5 087 774	493 375	2 646 346	4 270 045	21 000 000
CAGR	120%	57%	22%	18%	18%	18%	14%	NA
Growth	385%	146%	48%	40%	40%	39%	30%	25%

European Data Table

The table below presents a total sum of each individual strategy per country and the total of all strategies grouped together without overlap.

Countries	Best-in-Class	Sustainability Themed	Norms-based Screening	ESG Integration	Engagement and Voting	Exclusions (All)	Impact Investing	All strategies combined
Austria	8 153	271	7 920	1 363	3 791	42 736	323	52 184
Belgium	17 542	275	50 426	90 384	45 645	253 946	340	315 900
Denmark	15	5 232	261 776	63 149	227 651	305 109	31 500	118 376
Finland	439	656	111 868	44 210	46 711	138 422	444	67 978
France	321 984	43 065	2 650 582	338 170	38 500	666 215	1 138	3 121 081
Germany	21 088	8 157	15 379	27 733	31 880	1 803 473	4 763	1 786 398
Italy	4 058	2 064	565 607	45 008	43 303	569 728	2 927	616 155
Netherlands	56 645	37 114	936 399	440 695	726 314	1 123 133	40 791	991 427
Poland	2 717	3 762	2 769	-	-	2 769	34	5 998
Spain	2 535	300	24 003	8 283	10 455	123 516	267	95 334
Sweden	10 967	2 315	378 189	358 520	444 719	714 638	1 421	791 739
Switzerland	38 866	21 017	75 051	92 876	77 345	2 536 014	9 818	1 527 582
UK	8 368	21 022	7 806	1 135 955	2 573 731	1 870 896	4 564	1 555 328
Europe (13) in € million	493 375	145 249	5 087 774	2 646 346	4 270 045	10 150 595	98 329	11 045 479

Country Profiles

Austria



Financial industry overview

The Austrian banking and asset management industry is both strongly diversified and well established, with public and cooperative banks playing a particularly important role. The cooperative 'Sparkassen' is organised collaboratively and operates under the serving of the principle of common public interest. Other cooperative banks are the 'Volksbanken' and the 'Raiffeisenbanken'. Austria possesses one of the most dense bank nets in Europe.

In Austria, there are around 24 investment companies, offering 2.067 Funds with a volume of €162.7 billion. Of these, 1.235 are funds and 832 are discretionary mandates. The largest group are mixed funds (1.095), followed by bond funds (528) and equity funds (343).⁹⁹

Characteristics of SRI market

The Austrian SRI market continued to grow sustainably over the last two years as the overall market share grew by 6.3 %, but it has to be noted that asset overlays are not counted¹⁰⁰.

The main drivers for the growth of SRI are demand from institutional investors, external pressure (NGOs, media), and fiduciary duty. The main institutional investors are the severance pay funds (betriebliche Vorsorgekassen).

SRI Market and strategy overview

In this year's review, the total figure for Exclusions is €10 billion. This figure includes criteria especially applied to funds and segregated mandates (product specific). These represent the majority and total

Figure 34: Overview of SRI strategies in Austria

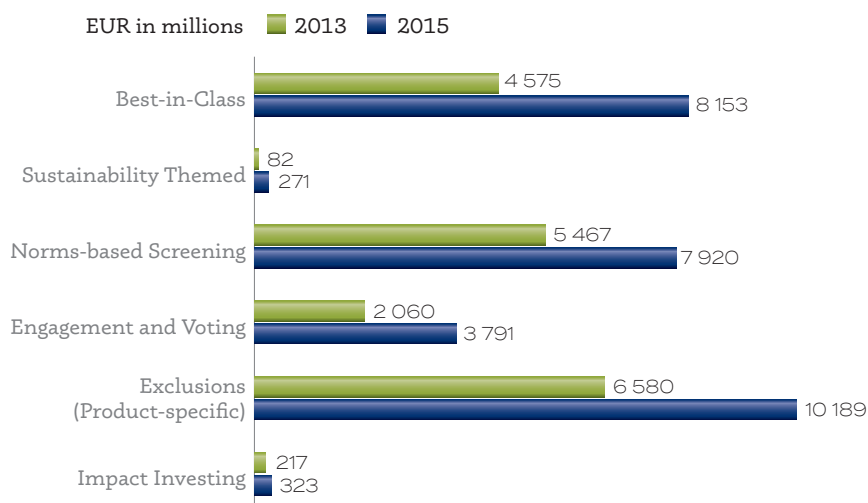
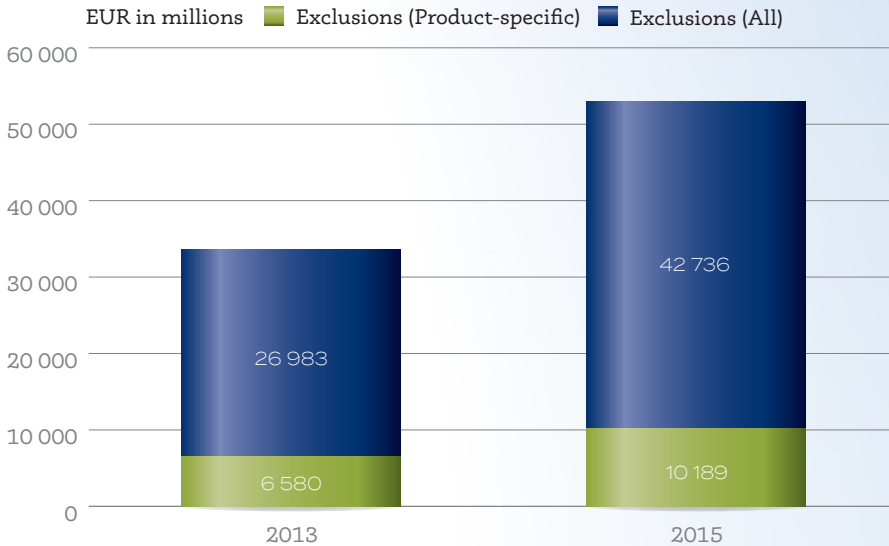


Figure 35: Exclusions in Austria (EUR m)



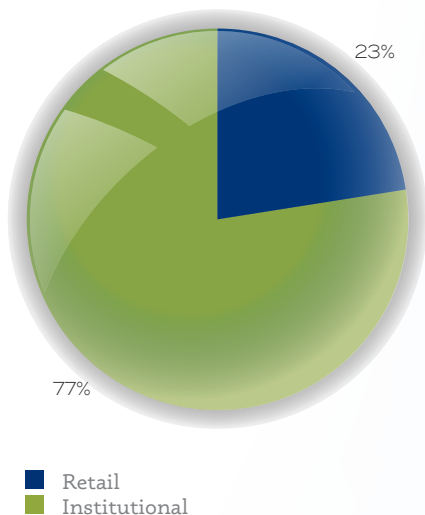
€10 billion¹⁰¹. In Austria, investment in cluster munitions and anti-personnel mines and speculation involving foodstuffs are criteria used as asset overlays Exclusion.

TOP 5 Exclusion Criteria in Austria	
1	Weapons (Production & Trade)
2	Nuclear energy
3	Pornography
4	Violation on Human Rights
5	Tobacco

The main sustainable investment approach in Austria is Exclusion. Nearly 100 % of all funds, mandates and self-managed assets in Austria apply Exclusion criteria. There is an almost equal level of preference for the Exclusion criteria with no real favourite, which is a rather unusual trend.

Best-in-Class and Norms-based screening, follow with a CAGR of 33% and 20% respectively, very much in line with the previous year, with AuM at €7,92 billion for the latter. Austrian asset managers most commonly use: ILO conventions and UN Global Compact principles.

Figure 36: Retail/Institutional breakdown



In the case of Engagement and Voting, this year we have a compound annual growth rate (CAGR) of 36%, making this strategy the fourth most popular in the country.

Asset managers in Austria normally combine different strategies.

The Austrian Ecolabel (österreichische Umweltzeichen), which is granted by the Austrian Ministry of Environment, was established in 2004 and is the oldest Label for SRI-Funds in Europe. The Austrian “Umweltzeichen” is a state-run quality label for thematic funds and SRI funds as well as certificates. Over the years, demand has increased and there are around 70 funds certified at present.

The launch of the new quality Label in 2015, by FNG for sustainable mutual funds and audited by Novethic, has been the most relevant innovation on the market.

The ÖGUT Sustainability Certification for severance pay funds (Betriebliche Vorsorgekassen) has evolved since it was first established in 2004 and now covers 100% of the local severance pay funds market.

Legal/Regulatory Framework

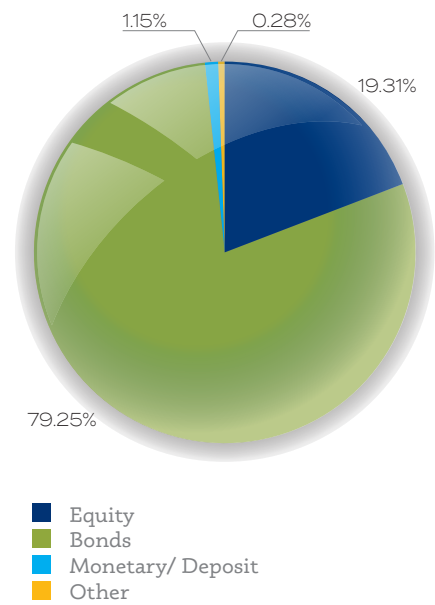
Austria has not seen any remarkable legal changes concerning SRI or CSR since the last edition of the SRI Study. Nevertheless, like other EU member states, the country will have to implement the reporting guidelines under the Non-financial directive of the European Commission, due at the end of the year. Specific disclosure requirements for pension funds were already introduced in 2005. Since then, pension funds have been required to report on ESG issues, provided they are implementing an ESG approach.

Asset allocation shows that bonds are still the predominant asset class with a market share of 79% in 2015. Equity had a market share of almost 20% in 2015 and other asset classes had hardly any significance in Austria, only about 2%.

The SRI asset managers believe that the market development will be mainly driven by demand of institutional investors. External pressure, e.g. from NGOs, trade unions or the media, is considered the second most

important key driver, followed by fiduciary duty, the demand of retail investors and international initiatives like PRI. Sustainable investments have grown substantially within the last two years in Austria and reached double-digit growth.

Figure 37: SRI asset allocation



Belgium

Financial industry overview

The asset management sector provides the economy with an important source of funding. In Belgium, the assets that are being managed represent 68% of the Belgian GDP, while UCIs¹⁰² made up 14,5%¹⁰³ of the households' financial assets at the end of 2015. The total AuM were at €279.12 billion, leading up to an 11% growth during the course of the same year.

Both the institutional and the retail/private banking segments have shown solid rates of growth, supported by favorable asset price evolutions (roughly 40% of asset growth over the past two years) and by net asset inflows (60%).

Bonds have historically constituted the most important asset class (approximately 70% of AuM), followed by equity (22%) and cash (4%). The rest is 'other assets', including private equity, structured products and hedge funds. It seems that the extremely low interest rate environment will continue to support asset management markets for a number of years to come.

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.

Nevertheless, the SRI industry has not grown at the same pace as the fund industry. This could still be due to a general lack of harmonised SRI-product definitions and much needed regulatory initiatives. This adds further to the legacy of the collapse of capital-protected products, which also include savings accounts and which are not taken into account in the Study. Belgium is one of the countries where the retail market is rapidly evolving compared to the institutional one and this is due to a series of factors. On one hand we have historical reasons linked to the country being a hub for savings' products and therefore targeting mainly retail clients. On the other, we have some of the major players directing their SRI offer to private clients, therefore the surge in demand in the retail sector can also be chalked up to the interest of high net worth individuals (HNWI).

Positive signs for the industry may be coming from a continued interest in the potential of SRI, coupled with raised awareness amongst new actors. On the one hand, institutional investors have been progressively more exposed to and acquired increasing experience in SRI strategies, offering a broader set of ever more sophisticated SRI solutions. Nearly all financial institutions are gradually elaborating CSR and SRI strategies, including: by hiring increasing numbers of ESG/SRI specialists, by linking credit policies to assets gathered on SRI savings accounts or longer term products, by publicly defining sector policies, by announcing SRI-defined asset management policies and by integrating ESG research into security selection processes. On the other hand, universities have been setting up ethical committees and categorising "ESG-issues" in the portfolios managed by their asset managers, while local authorities are taking their 'fair-trade community' or CO2-reduction plans to the next level, by introducing sustainability into their finances. This shows a clear trend of the importance of the institutional market in Belgium taking the lead for growth in SRI. To a large extent, asset owners and SRI investors lean on financial institutions while defining their proprietary SRI policies, underlining a major need for further SRI education.

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 (CSR) performance. Forum Ethibel also developed SRI indexes. The ESI Excellence Europe index selects the 200 best companies rated according to Forum Ethibel's methodology. After the latest review in March 2015, this index contained 198 companies. The ESI Excellence Global index selects the best rated companies among the largest companies worldwide, again based on Forum Ethibel's methodology. After the 2015 review, this index included 85 companies.¹⁰⁴

Figure 38: Retail/Institutional breakdown

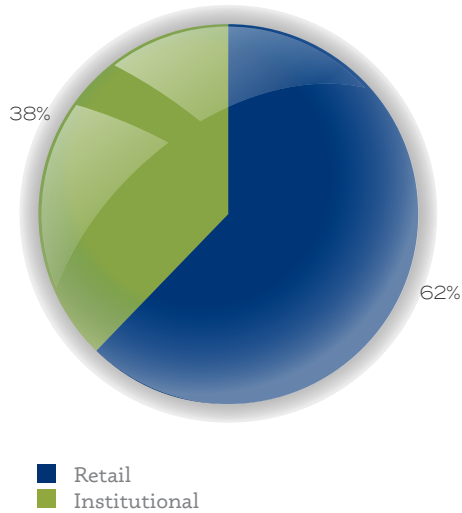
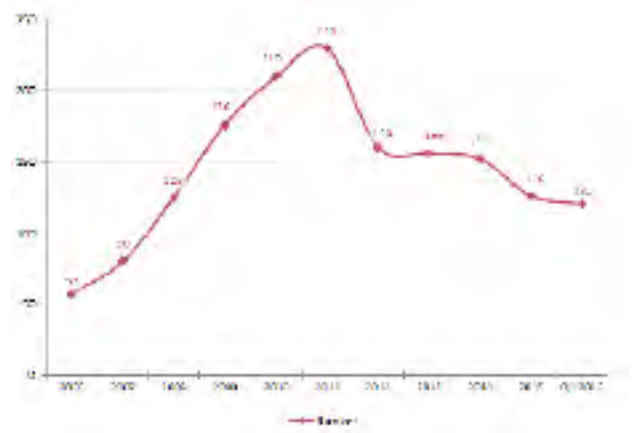


Figure 39: Net Assets of SRI Funds and their share in the total Belgian Fund market, source BEAMA website



Figure 40: Number of SRI Funds, source BEAMA website



SRI Market and strategy overview

There is an overall positive growth on almost all SRI strategies this year, with the most striking one being Impact Investing, as foreseen in the previous Study. The growth is mainly significant given the fact that it marks the inception of this strategy in Belgium. We anticipate that this figure will become significantly larger in the years ahead and that this growth will be increasingly due to High Net Worth Individuals (HNWIs).

Exclusions still remains the dominant strategy at € 253 billion, and together with Norms-based screening, which registers a CAGR of 58%. Conversely, the significant drop in Sustainability Themed investments can largely be attributed to the change in strategy of one of the main players.

Engagement and Voting continues to be on a rising trend, with a 20% increase of AuM, mainly thanks to the continually growing interest from the insurance sector and the fact that over half of this year’s respondents declared that they had a formal engagement policy, indicating a better understanding of the advantages in the formalisation of practices.

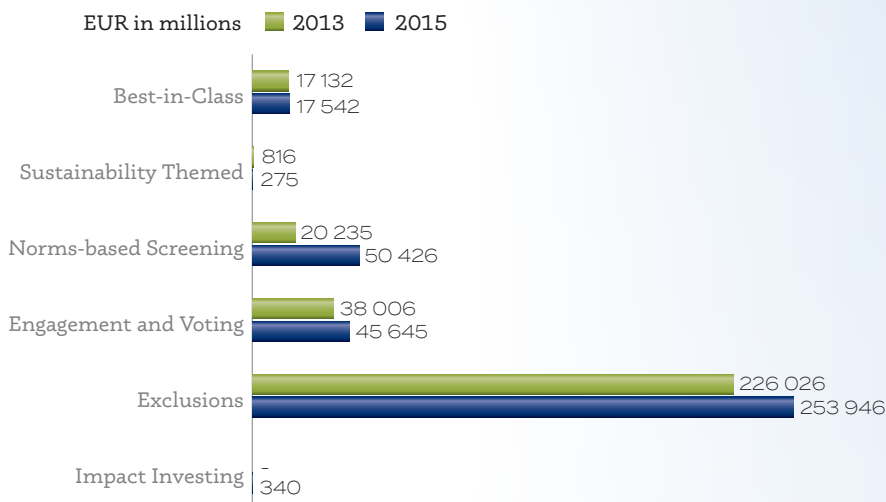
Regulatory Framework

Since the previous Eurosif Study, Belgian public authorities and trade bodies have shown only very timid interest in further promoting Responsible Investment in Belgium.

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 a 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.

Figure 41: Overview of SRI strategies in Belgium



Denmark

Financial industry overview

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.

28 of the largest 50 institutional investors are asset owners who with a total AuM of €386 billion (at the end 2014), almost “equally split” the market with asset managers at €436 billion. It is important to note that this category also includes asset managers such as banks with pension funds which are asset owners at the same time¹⁰⁵.

Characteristics of SRI market

SRI is well-established in the Danish financial sector with a set of rather mature players. In the past couple of years, several Danish institutional investors have dropped out of PRI due to governance concerns with the organization of PRI. This has led to a significant drop from a 54% membership rate of PRI in 2012 among the 50 largest Danish institutional investors to currently 32%¹⁰⁶.

In the same period, Dansif has experienced a constant increase in membership, now representing close to half of the 50 largest institutional investors. The commitment to the UN Global Compact has slightly increased in the past year.

Dansif serves as the key convening actor for SRI in Denmark with a broad membership base of asset owners, asset managers and service providers. The organisation regularly launches surveys and hosts debates among investors, NGOs and other interested parties, as well as experts from both Denmark and abroad. Dansif also initiates in-depth studies on specific focus areas chosen by the members and thus contributing to the specialisation.

SRI Market and strategy overview

All the surveyed asset owners and asset managers have a general exclusion policy in place and Exclusions remain the most popular strategy with AuM at €305 billion with an increase of 25% over four years (Dansif did not feature in the Eurosif 2014 SRI Study). Norms-based Screening follows closely, registering an increase of 22% at €261 billion of AuM.

Engagement and Voting has also increased significantly by 21%, confirming a strong interest in the local market and a rising trend since 2012. The top 5 issues on

Figure 42: Retail/Institutional breakdown

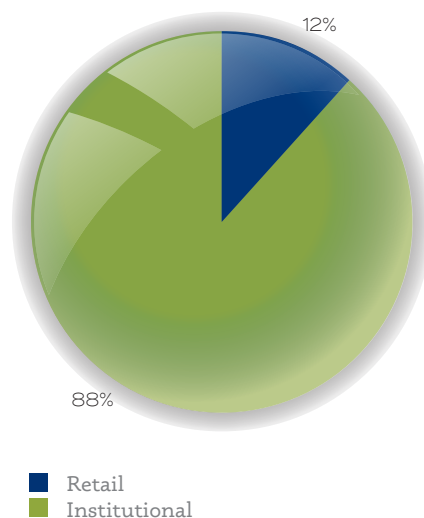
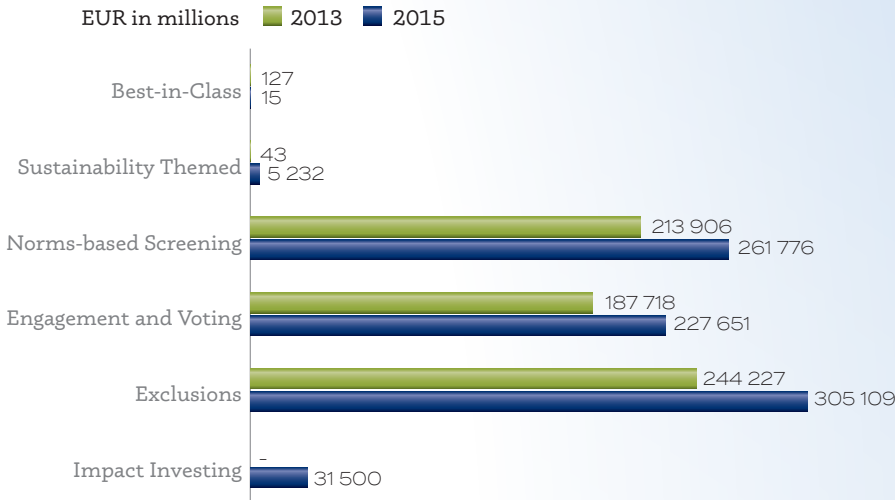


Figure 43: Overview of SRI strategies in Denmark



engagement - 3 of which are environment focused - are human rights, corporate governance, climate change, environmental controversies and environmental impact related. Over 75% of respondents have a formal policy on Engagement and Voting which specifically focuses on ESG issues.

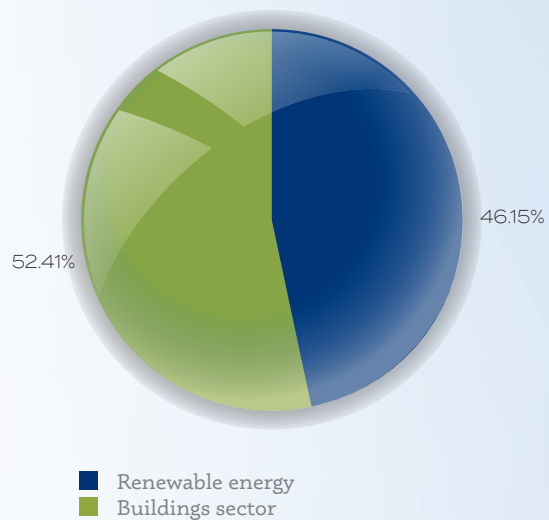
Danish institutional investors are highly involved in alternative investment with a focus on low-carbon and climate-friendly infrastructure such as on and offshore wind farms. This is in line with one of the most significant trends regarding Sustainability themed Investments, which reached a total AuM of €5 billion against €43 million in 2012. There are clearly two preferences of themes for investors, almost equally split amongst the building sector and renewable energy. Denmark set a new world record for wind production in 2014, getting 39.1% of its overall electricity from the clean energy source. The latest figures put the country well on track to meet its 2020 goal of getting 50% of its power from renewables¹⁰⁷.

This year's results indicate a decrease in the use of Best-in-Class investment strategies. However, this is due to the absence of a large Asset Manager whose assets this year were allocated under the Swedish market.

Regulatory Framework

The Danish government has set the goal to be independent of fossil fuels by 2050, with the 2020 targets of reducing gross energy consumption by 12% from a 2006

Figure 44: Sustainability themes applied



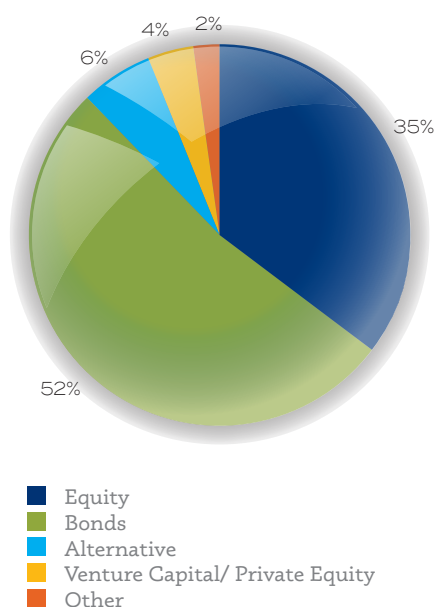
baseline, reaching a share of 35% renewable energy and 50% wind energy in Danish electricity consumption. According to the Danish Ministry of Foreign Affairs, Cleantech has been the fastest-growing sector of Danish exports in recent years and a large growth in Cleantech exports is expected over the next four to five years.¹⁰⁸ The ambitious climate targets and the rising Danish Cleantech industry are expected to boost sustainability themed investments, in particular in the areas of renewable energy and energy efficiency. These developments are already apparent in the findings of this Study.

Denmark is also a signatory of conventions that prohibit the production and use of landmines and cluster bombs. In 1998, Denmark ratified the Ottawa Convention's ban on the production, use, stockpiling and transfer of landmines. In 2006, the Norwegian government initiated the so-called Oslo Process, aiming to secure a new convention against cluster weapons. Denmark has actively supported the Oslo Process. The Danish Parliament has approved Denmark's ratification of the convention on

cluster munitions, which entered into force on 1 August 2010. Moreover, as a NATO ally, Denmark recognises the Treaty on the Non-Proliferation of Nuclear Weapons. Given these processes, the Danish government has developed soft law initiatives, including recommendations for investing in controversial weapons.

According to the Danish Financial Statements Act, the Danish financial sector is subject to reporting requirements for social responsibility which needs to cover the core business of investors, i.e. their investment policy. Additionally, more than 90% of investments by institutional investors are either directly covered by the conventions or subject to policies for responsible investments. Under these policies, enterprises manufacturing weapons subject to the conventions are screened and can lead to the systematic exclusion of such enterprises. With regard to pension assets managed by life-assurance and pension companies, over 99% are covered by policies against investments in weapons subject to the conventions and by screening and systematic exclusion).¹⁰⁹

Figure 45: SRI asset allocation



In the coming years, we foresee an increase in the use of active ownership among investors in Denmark. Furthermore, climate will play an increasing role in both investments as well as in RI policy through Engagement and Exclusion.

The Danish Committee for Corporate Governance is expected to start work on a stewardship code for investors in 2016. However, most Danish investors have already implemented guidelines for active ownership, so the impact of a new stewardship code is not expected to have major implications for most investors.

As regards asset class allocation, no major changes can be foreseen although alternative investments are expected to increase in infrastructure and real estate.

The contents of this country profile are based on research and analysis conducted by Dansif and Eurosif.

Finland



Financial industry overview

At the end of 2015, the Finnish financial market¹¹⁰ comprised 281 credit institutions including deposit banks, finance houses, credit card companies, mortgage credit banks and others.

The Finnish banking sector maintained good results in 2015 and increased its capital adequacy, despite the challenging market environment and economic situation in Finland, which required the sector to adapt its business models and strategies¹¹¹. Influencing factors included low or even negative market rates, stricter regulation, increasing digitalisation and weak national economy development. However, even under these difficult conditions, the strength of the Finnish banking sector has enabled the real economy by supporting growth of lending.

The insurance sector in Finland also achieved good results in 2015, with equity and real estate investments yielding the highest returns. However, the premium income development was negatively impacted by the unemployment rate, which did not show signs of recovery throughout the year. At the end of 2015¹¹², the Finnish insurance market included 55 licensed insurers with 38 specialising in non-life business and reinsurance, 11 in life insurance, and 6 in statutory employee pension insurance.

Characteristics of SRI market

Finland remains a relative newcomer to the SRI space compared to the other Nordic countries, but since 2013, the Finnish SRI market has grown in size and importance. As of June 2016, Finsif had over 60 member organisations, including not only all of the largest pension funds and asset managers, but also a wide variety of other institutional players such as trade unions, endowments and municipalities.

All of the largest asset managers and asset owners have started or have at least taken the first steps to initiating carbon footprinting and reporting for their investment portfolios. Moreover, the largest fund management companies have already started or will start to report the carbon footprint for mutual funds before the end of 2016. These actions followed commitments made under initiatives such as the Montreal Carbon Pledge and the Portfolio Decarbonization Coalition, which mobilises investors to measure, disclose and reduce their port-

folio carbon footprints. Investors signing the Montreal Carbon Pledge, launched in September 2014, commit to measuring and disclosing annually the carbon footprint of their portfolios.

In 2016, the Finnish pension system communicated on its commitment to take environmental considerations into their investing¹¹³. Varma, Finland's largest statutory earnings-related pension insurance company, has calculated the carbon footprint of its own investments in listed shares, corporate bonds and real estate assets. Their goal is to reduce the carbon footprints by 25%, 15% and 15% percent respectively by the year 2020.

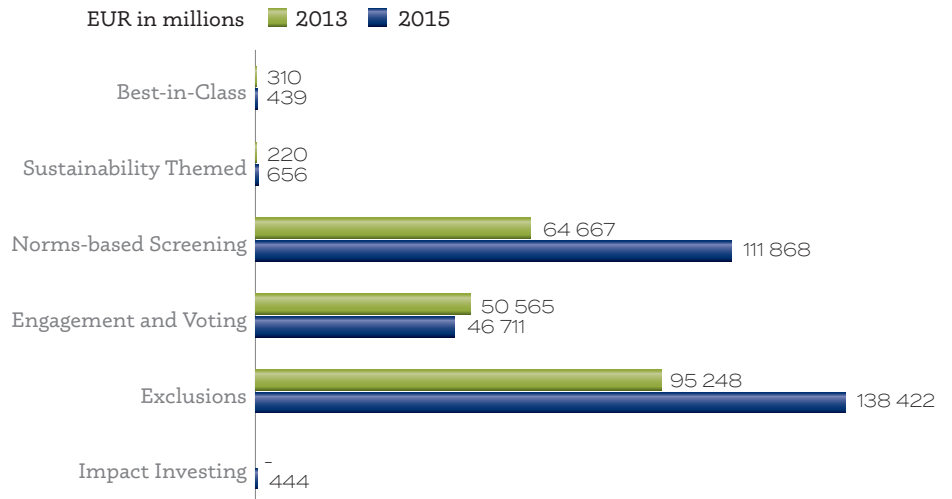
During 2015, investors strengthened their ESG capacities by recruiting more ESG professionals, or putting in place new ESG departments or teams. Key drivers for these developments are certainly an increasing client demand for SRI and related SRI market growth, carbon footprinting and reporting commitments, new engagement strategies and competitive advantage, as well as pressure from media, NGOs and other key stakeholders. Asset owners and asset managers are now using more external ESG data and services than ever before. This is partly linked to the carbon footprint trend, but also to the increasing need for broader ESG data.

Impact Investing has also reached the Finnish market. There have been product launches and other events linked to this topic (for example as part of Finsif's anniversary event in June 2015). In addition, the Finnish Innovation Fund Sitra has been actively promoting the field of Impact Investing focusing on developing the first Finnish social bond. Through another project, Sitra has been driving carbon footprinting among Finnish investors, for example by providing a free carbon footprint calculator for Finnish listed equities, developed in cooperation with the Southpole Group.

SRI Market and strategy overview

Two of the most popular strategies highlighted in our previous Study, Norms-based screening and Exclusions, are leading again this year. Norms-based screening witnessed a very significant increase of 72% reaching AuM of €111.8 billion. Exclusions increased by 45% and it is interesting to note the sharp focus of categories that interest Finnish investors. Tobacco exclusion is at 50% followed closely by nuclear energy at 42%.

Figure 46: Overview of SRI strategies in Finland



There is a small decrease in Engagement and Voting. However, this is due to the absence of a large Asset Manager whose assets this year were allocated to the Swedish market.

The Finnish market opens its doors to Impact Investing for the first time, a strategy which has been gaining traction amongst a number of consultancies and state-owned investment companies.

Equity represents a large proportion of SRI assets in Finland, closely followed this year by venture capital and corporate bonds.

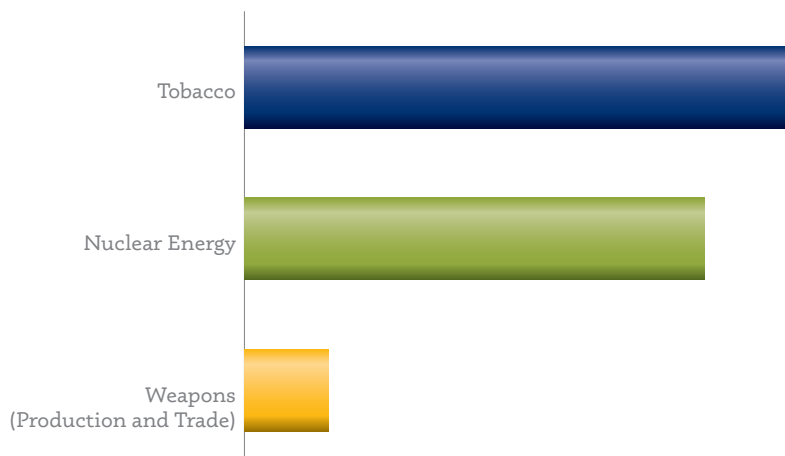
Sustainability themed investments have witnessed an interesting growth in the country, largely due to the change in strategy by one local asset manager and the presence of a new player specialised in timberland investments.

A key driver for growth is derived from the appetite of institutional investors and the pension fund space clearly favours SRI.

Regulatory Framework

The key pieces of national legislation influencing the Finnish investment landscape are the Companies

Figure 47: Top Exclusion Criteria in Finland



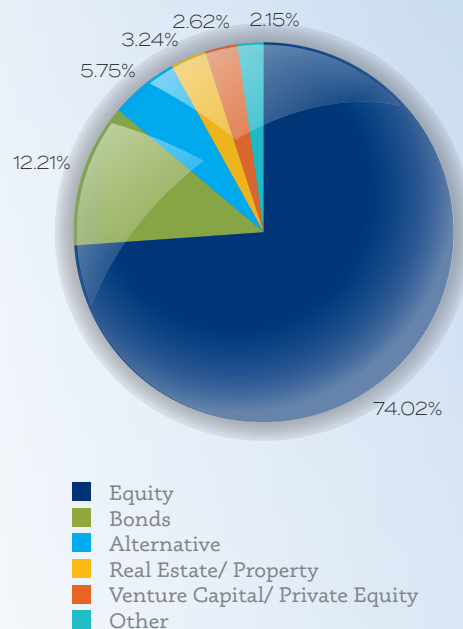
Act, the Employment Contracts Act, the Employment Accidents Act, as well as social security and legislation and the extensive environmental protection legislation in place. For instance, the Finnish Accounting Act states that company financial accounts need to be accompanied by an annual report containing information on employment and environmental issues that can affect the company's economic performance.

Finland still has no direct legislation in place focusing on sustainable investment. In 2016, however, the EU Non-financial and Diversity Disclosure Directive with its supporting changes is being transposed into Finnish legislation on a comply or explain basis. Other pieces of SRI-related EU legislation are also implemented in Finland, and the government supports the voluntary implementation of the OECD and UN guidelines on sustainable business conduct. As regards self-regulation of stock markets and listed companies, there are many good governance guidance documents for listed companies, which non-listed companies often use voluntarily. For instance, the Finnish Securities Market Association, whose main task is to promote and define good securities market practice, approved a new version of the Finnish Corporate Governance Code for Finnish listed companies in October 2015. The recommendations included in this code are complementary to Finnish law and include a new guideline on diversity policy whereby companies are recommended to define a diversity policy and report on their objectives regarding the representation of both genders on the board and the measures taken to achieve those objectives¹¹⁴.

Furthermore, the Finnish government has recently developed CSR guidance for wholly and partly state-owned companies. The latest guidance document is the Government Resolution On State-Ownership Policy from May 2016 and focuses on changes necessary in the State's ownership strategy in order to make sure that CSR is at the core of state-owned companies and that they contribute to sustainable development, among other goals. In addition, companies are encouraged to apply to internationally recognised CSR guidelines and principles such as the OECD Guidelines for Multinational Enterprises, the UN Global Compact, the ISO 26000 Social Responsibility Guidance Standard and the UN Guiding Principles on Business and Human Rights¹¹⁵.

Another notable development which impacted the Finnish SRI market was the introduction of a tool – evaluating how well the companies in a fund's portfolio manage the ESG investing factors relevant to their industries – by Morningstar Sustainability rating for funds.

Figure 48: SRI asset allocation



In a separate development, the Nordic Ecolabel has gathered Finnish investors to comment on a new label they are preparing for mutual funds.¹¹⁶

The Finnish equity market continues to be a small and concentrated market, both in terms of investors and listed companies. There are only 125 companies listed in the main market, with the largest three companies representing on average 80% of each sector. The five largest pension funds together with the five largest asset managers manage a total of around €175 billion, a dominant market share. Given the nature of the Finnish market, is fair to estimate that Engagement and Voting will remain highly valued among domestic investments.

Like other Nordic countries, Finland scores relatively highly on development indexes, such as the Corruption Perception Index, the Freedom of the Press, Equality and Diversity Indexes. Therefore, one can argue that sustainable development and corporate responsibility come naturally to Finnish investors from a moral standpoint. This explains the prevalence of Exclusions and Norms-based Screening as well as the high penetration of responsible investment in general in the Finnish investment market.

France



Financial industry overview

France's pension system is made up of a public pillar financed on a pay-as-you-go basis, a mandatory occupational system, and voluntary occupational and personal arrangements¹¹⁷. 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 schemes are known as AGIRC (for executives) and ARRCO (for non-executives), and are based on collective agreements. They offer defined benefit (DB) plans. The AGIRC and the ARRCO schemes merged in 2003. 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, which represents €2 trillion in assets as of 2015¹¹⁸. The French financial industry is made up of more than 1.500 actors. There are nearly 840 asset owners of which 620 are registered with the French Financial Markets Authorities. Most of them are small structures - personal insurance companies, in particular

complementary health insurance entities - with limited scopes. The field is completed by a few large asset owners, especially state linked asset owners and insurance companies.

The French asset management industry is the second largest at European level with AuM worth €3.600 billion, and €1.900 billion for discretionary mandates and foreign funds managed at national level.¹¹⁹

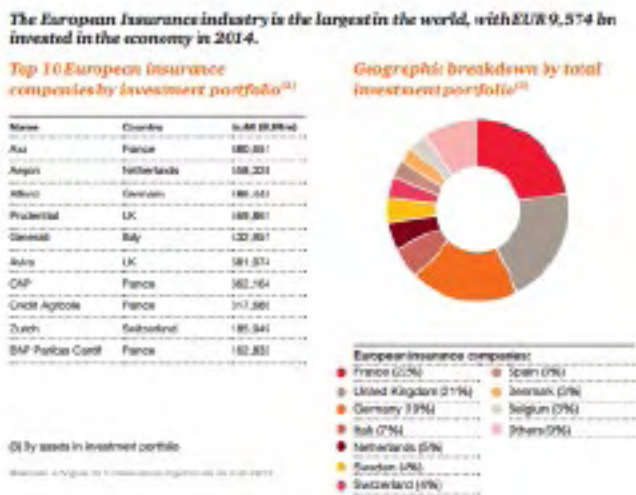
Characteristics of SRI market

France remains among the most developed SRI markets in Europe with around 50 Asset Managers and Asset owners. The SRI market has grown significantly over the last two years resulting in an increase of 61.7% in AuM. This growth for the 2013-2015 period has outpaced the 2011-2013 growth of 47.2%.

Insurance companies are the main contributors to this growth as the French SRI market is driven by asset owners who own 90% of assets. ESG integration, in particular, is gaining ground with insurance companies.

Along with the French SIF (FIR)¹²⁰, Novethic is a key partner in the Eurosif Study. In 2016, Novethic launched a new Study on the SRI market in France¹²¹ and developed a new methodology to assess SRI approaches in terms of impact (high-impact, significant impact and limited impact).

Figure 49: Overview of the European Insurance market- The place of France in the European Insurance sector



SRI Market and strategy overview

All Responsible Investment strategies have continued to grow, and two in particular have increased substantially in 2015. Best-in-Class and ESG Integration account for more than €300 billion each.

The French SRI market is traditionally defined by the Best-in-Class approach. The significant growth of 36% can essentially be explained by the major conversions of funds by a few big asset owners and asset managers.

In line with the previous Study, there is still a significant increase in Sustainability themed strategies, as the total amount of sustainability themed assets has increased exponentially, reaching €43 billion in 2015. The COP21 and the reporting obligations arising from Article 173 (see page 73) of France’s Energy Transition law prompted this phenomenon.

This is due to many investors’ engagements to integrate climate-related issues into their investment policy. The most popular theme applied is renewable energy with almost 40%, followed by water management at 25% and energy efficiency at 18%.

ESG integration in financial management covers a broad range of approaches. The Study reviews the assets covering ESG constraints and which totalled €338 billion in 2015.

Cluster munitions and anti-personnel mines exclusion overlays are mandatory by law in France. Hence, they are not included in the Exclusions figures.

Exclusions of weapons, tobacco and the extraction or production of asbestos fibre are being applied by a growing number of investors up to €666 billion, from €473 billion in 2013. This evolution is mainly due to new Exclusions applied by some asset owners.

Moreover, a large number of French asset managers and investors adopted norm-based Exclusions strategies, applied to a large share of their assets, accounting for €2,650 billion in 2015.

Shareholder engagement is becoming formalised in France, especially through stronger requirements from policies of public asset owners. Two trends have been noted:

Voting at general meetings follows a comply or explain rule, which has led to an increase of the voting rate by responsible asset managers, practised by 84% of those surveyed (35% in 2010) for a majority of their shares.

In June 2013, “say-on-pay” was introduced in the AFEP-MEDEF¹²² Governance Code, encouraging listed companies to let investors vote on executive remuneration at AGMs. In 2016, the French Government introduced a project law in the “SAPIN 2” law that is expected¹²³ to make the “say-on-pay” vote binding.

Some asset managers conduct engagement activities around specific SRI products but shareholder engagement is mostly conducted by asset owners. The assets covered by such activity represent about €38.5 billion. This figure does not account for engagement activities

Figure 50: Overview of SRI strategies in France

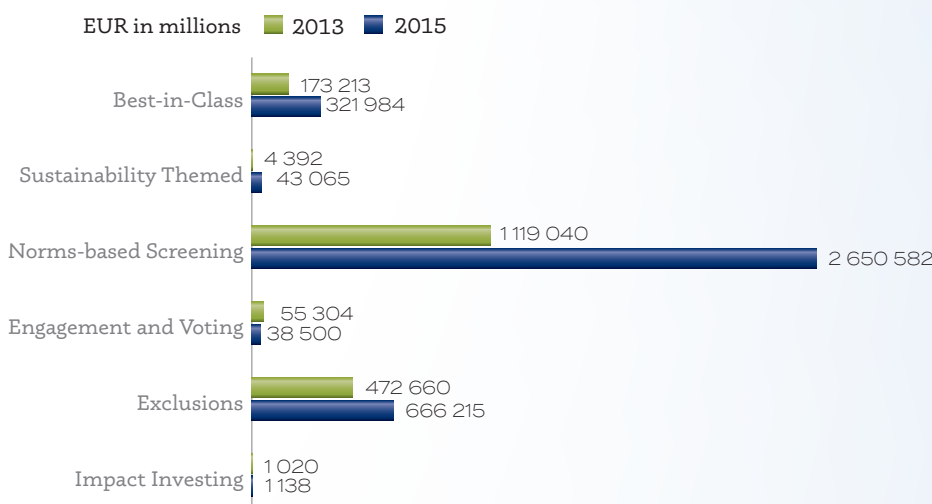


Figure 51: Sustainability themes applied

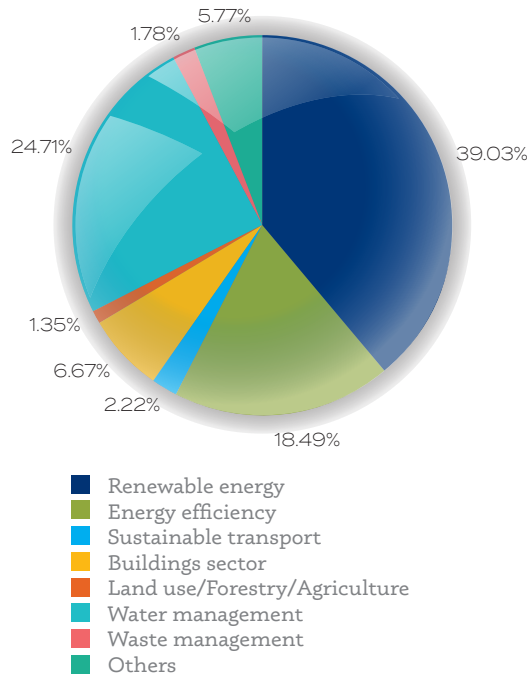


Figure 52: Retail/Institutional breakdown

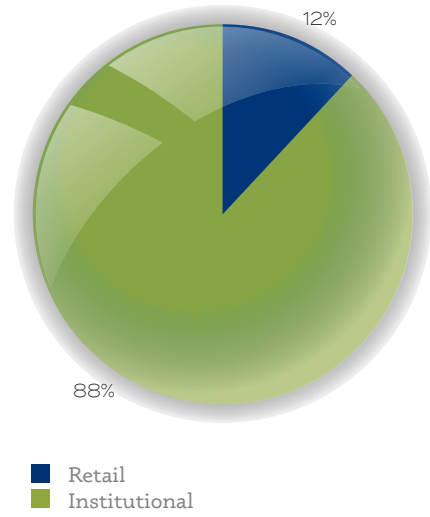
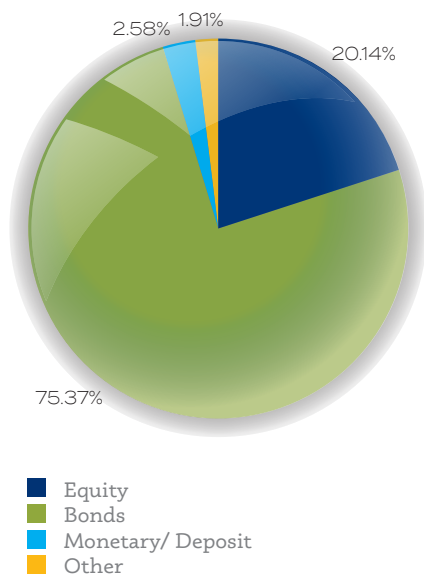


Figure 53: SRI asset allocation



carried out across various products as such statistics do not exist. The figure is therefore not comparable to other European country data in this Study but tends to indicate that there is ample room in the French market for more engagement.

The French Responsible Investment market was primarily boosted by state-linked asset owners like the French Reserve Fund (FRR), the French civil servants complementary pension schemes (ERAFP and IRCANTEC) and the Caisse des Dépôts. Over the last two years, growth in the French SRI market was again driven by asset owners and specifically by private and mutual insurance companies.

As previously mentioned, institutional investors today hold approximately 90% of SRI assets. Insurers have spearheaded the growth of the French market and represent more than 60% of SRI assets with total AuM of €465 billion in 2015. They have generated 55% of the increase in the volume of Responsible Investment in 2015.

On the individual investors' side, employee savings saw the strongest growth (+14% in 2015). In total, the assets held by individual investors amounted to €63 billion and accounted for 12% of the SRI market. According to the AFG (the French asset management association), SRI AuM in employee savings rose to €22 billion. Besides employee savings, French retail and high net worth individuals SRI asset saw a timid growth.

Three quarters of SRI assets in the French market are bonds, while shares represent approximately 20% of total assets. This breakdown by asset allocation is linked with the large share of institutional investors in the French SRI market, as the latter are mainly fixed income oriented.

Regulatory Framework

In France, the main innovation in the legal regulatory framework is the Article 173 of the France's Energy Transition law of August 2015. Asset owners and asset managers are now required to disclose information on their management of climate-related risks, and, more broadly, on the integration of ESG parameters in their investment policies. This regulation is clearly a step forward, and France is the first country to introduce such disclosure requirements. In all likelihood, a few more years may be necessary to measure its impact on asset owners' practices.

The French Sustainable Investment Forum (French SIF) has published a guidance booklet¹²⁴ to support and facil-

itate the implementation of this article by asset owners. Other associations (asset owners, asset managers, insurers, etc.) also released documents for their members and the French SIF's publication reflects the singular identity of the association, which brings together asset owners, asset managers, but also rating agencies, brokers, trade unions, consultants, academics, etc.

In France, the context of fund labelling has greatly evolved over the last two years. Two new labels have been introduced in 2015, both supported by the French government. They take over Novethic's SRI and green labels which stay in effect until the end of 2016. The SRI label was launched by the Minister of Finance in September 2015 during the Responsible Finance Week. The Energy and Ecological Transition for Climate label (so called TEEC) run by the Ministry of Environment was launched during COP21.

For both labels, requirements have been defined and auditors are accredited by a specific body called COFRAC. Asset managers are free to contract with accredited auditors.

The SRI label's methodological framework introduced an impact dimension through mandatory reporting on at least one indicator in each Environmental Social and Governance pillar. At the beginning, each asset manager will choose indicators they find relevant for each pillar, and then the framework should evolve following best practices. These new requirements complement other transparency and technical requirements. As of today, Afnor Certification and EY France have been accredited to audit and deliver certification to SRI funds. Discussions are on-going for the accreditation of other auditors. First labels were attributed in September 2016 and at least 50 funds should be labelled by the end of 2016. The promotion of the SRI label is ensured by a dedicated committee formed with representatives of French SIF, AFG, the French asset management association and the Ministry of Finance. Label promotion towards the general public started in the autumn of 2016, through the launch of a website and social network communications. This promotion will progressively reach other mass media.

The TEEC label's methodological framework is based on the Climate Bond Initiative taxonomy to define green investment themes, and requires fund managers to exclude fossil fuels and nuclear power. The investment universe is limited to Europe. TEEC label is open to a wide range of fund types (listed equity, green bond funds, private equity and green infrastructure).

EY France and Novethic have been accredited to audit and deliver certification to green funds. The first certifications were granted in May 2016 and AuM targeted by Minister of Environment, Ségolène Royal is € 1 billion by the end of 2016.

The CIES label is delivered by the French CIES (Inter-Union Employees Savings Fund Committee), an entity gathering four trade union organizations (CFDT, CGT, CFTC and CFE-CGC). It ensures that the range of funds

proposed as part of employee savings scheme are taking into account ESG criteria in their asset management. The range of funds has to fulfil several requirements like socially responsible asset management, fund governance or price level, to obtain the label. Some 15 ranges of funds are CIES-labelled.

Table 4
Article 173 - FIR guidance booklet for investors

The article 173-VI of the French Energy Transition Law incentivizes investors to integrate climate and ESG issues through a mandatory reporting on how they integrate these issues into their investment policies, how they contribute to the energy transition to limit global warming to 2°C.

The text has a “comply or explain” approach and investors will have to report starting 2017 on 2016 data. The French government has planned to review the implementation decree by the end of 2018, after two years of experimentation. This ground-breaking law is the first of its kind to make ESG and climate reporting mandatory and it could inspire similar bills in other countries and at European level.

The booklet on this article released by French SIF is divided in two parts: the first one is focused on the spirit of the law in order to understand its objectives and principles. The second one is a roadmap designed to help newcomers on these topics to initiate an ESG-Climate process by having a look at best practices. Aiming to be clear and pedagogical, the booklet includes a glossary and a bibliography, but also testimonies from experts, leading French figures like Nicolas Hulot, Ségolène Royal, Minister of Environment or Michel Sapin, Minister of Finance but also international experts from FSB climate disclosure taskforce.

This booklet, available in both English and French, also aims to open a dialogue platform and allow readers in its online version to post comments, share views, experience or good practices.

Germany

Financial industry overview

Although only one German bank ranks among the 25 largest banks in the world, the German banking industry is one of the largest in the world and the financial sector constitutes 4% of the country's 2015 GDP.

The German finance industry is highly diversified and home to more than 361 asset management companies. The market is largely driven by the public sector and cooperative banks. The German fund industry managed €2.6 trillion as of December 2015. €378 billion of this was collected as assets outside investment funds, while retail funds and mandates accounted for €883 billion and €1.3 trillion respectively. Insurance companies continue to be the largest investor group for mandates, making up just under 48% of all AuM, or €530 billion. Fund companies are managing a further €276 billion for retirement benefit schemes, such as pension funds. Since the end of 2009, equity funds have been the largest group among retail funds in terms of volume. Since then, their AuM grew from €180 billion to €322 billion. This equates to a current market share of 36%¹²⁵.

Characteristics of SRI market

All three pillars of the German banking industry – public-owned as well as private and cooperative banks – are important with respect to the SRI market. The government-owned bank KfW is active in the field of sustainable investment. Several private banks, including the market leaders, offer a broad variety of SRI products.

A few other SRI specialised fund management companies are less important in quantitative terms but vitally important with regard to standard setting and best practice.

Another characteristic of the German SRI market is the high amount of sustainability-oriented specialist banks in Germany, which play an important role within the German sustainable finance and investment market. These include players such as Triodos, Umweltbank, GLS-Bank, Bank im Bistum Essen, DKM Münster, Bank für Kirche und Caritas, Evangelische Bank, Bank für Kirche und Caritas, Bank für Kirche und Diakonie and Bank für Sozialwirtschaft. Some of these contributed decisively to the development and promotion of SRI in its early days, dating back to the last century. They play a significant role in the financing of companies, projects and initiatives that contribute to sustainable development. Moreover, they employ a broad set of ethical criteria in their investment decisions that comprise Exclusions as well as ESG screenings.

SRI Market and strategy overview

The overall outlook across SRI strategies in Germany is very positive and made of double- and triple-digit growth. In the case of Engagement and Voting, we have a CAGR of 65% this year, an outstanding result considering that the CAGR in the previous review of just above 20% was already remarkable.

Figure 54: Overview of SRI strategies in Germany

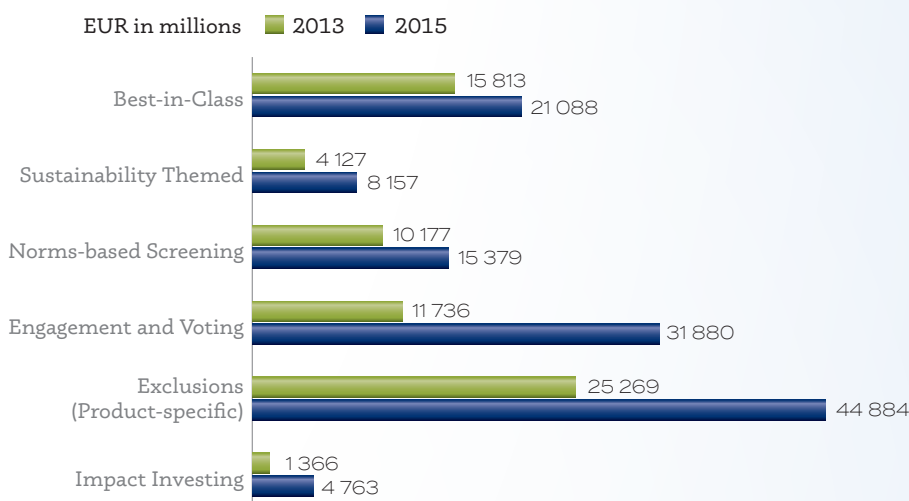
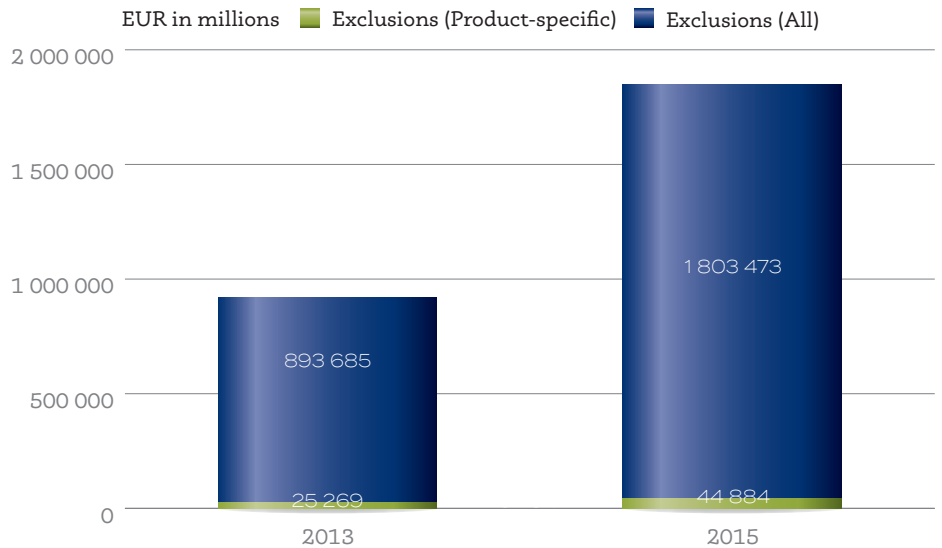


Figure 55: Exclusions in Germany (EUR m)



The overall market share in Germany for funds and mandates is at 2.7%, but it has to be noted that asset overlays are not counted¹²⁶.

In this year's review, the total figure for Exclusions is €1.8 trillion. This figure includes criteria especially applied to funds and segregated mandates (product specific), which totals €44,884 million, plus exclusions applied as asset overlays to product ranges.

Since the inception of SRI in Germany, the country's main sustainable investment approach has been the application of Exclusion criteria. These are mainly focused on weapons (both production and trade), violation of labour rights, violation of human rights, environmental damage, and corruption. In the past two years, ESG integration has become the second most important SRI Strategy.

The non Product-specific Exclusions are usually anti-personnel mines and cluster munitions.

TOP 5 Exclusion Criteria in Germany

- 1 Weapons (Production & Trade)
- 2 Nuclear energy
- 3 Pornography
- 4 Violation on Human Rights
- 5 Tobacco

The Best-in-Class approach in Germany has gone from being the second most important sustainable invest-

ment strategy to this year being the seventh in terms of growth. Nevertheless, it still registers an important growth of 33% this year and a CAGR of 15%.

The main drivers for this category are demand of institutional investors, legislative, and external pressure (NGOs, media).

Impact Investing is largely driven by two specialised players, who represent 81% of the AuM for this strategy. Microfinance still features as one of the main categories of investment, representing 75% of all the categories looked at.

The main motivators for Impact Investing are linked to the wish to contribute to sustainable development and local community development – very much in line with the drivers linked to these strategies¹²⁷.

Another related category of investment which also closely monitors impacts is Sustainability Themed investment, and it has grown by 98% since the previous review with a CAGR of 41%. Renewable energy and energy efficiency are the most popular categories of investment. This is fitting, considering Germany's position as the second biggest player in the European market for investment in renewables, which reached \$8.5 billion¹²⁸ in 2015. This is closely linked to Germany's Renewable Energy Act (Erneuerbare-Energien-Gesetz, EEG), which first came into force in 2000 and has since been continuously revised. The act promotes the gen-

eration of electricity using renewable energy sources. The initial goal of the EEG was to facilitate market entry for new technologies - such as wind and solar - through fixed payments, guaranteed purchase, and preferential feed-in. The EEG created the basis for the development of renewables in Germany and their transition from niche to a key pillar representing 25% of the German electricity supply. However, this exponential growth also resulted in an increase of the EEG levy. A reformed version of the EEG came into force in August 2014. The main objectives of this reform were to put a halt to cost increases, to steer the further development of renewables, and to better connect them to the market.¹²⁹

An important development in 2015 was the launch of a new quality label for mutual funds, the FNG Label for sustainable mutual funds, audited by Novethic. In Germany, no new formal SRI initiatives have been launched since the last edition of the SRI Study. However, the strong focus on ESG consideration on the part of the banking and investment sector are still worth noting. Nearly every important financial industry organisation has implemented taskforces on sustainability. For instance, the BVI, the largest asset management association,

launched a voluntary guide for SRI as early as 2012, and in 2015, the GDV - the German Insurers - followed suit. Furthermore, foundations continue to be engaged in SRI. The church is traditionally active in this field, and after the launch of the Guideline "Leitfaden für ethisch Nachhaltige Geldanlagen in der evangelischen Kirche" in 2011, they published a renewed version in 2013. The Catholic Church - Deutsche Bischofskonferenz (German Bishops' Conference) und Zentralkomitee der deutschen Katholiken (ZdK- Central Committee of German Catholics) - followed in 2015 with its guide "Ethisch-nachhaltig investieren".

Regulatory Framework

No specific regulation on SRI or CSR has been enforced since the previous edition of the Eurosif SRI Study. There was nevertheless an update, as reforms of the Renewable Energies Act are being made.

By the end of 2016, the EU-Directive on disclosure of non-financial and diversity information by certain large undertakings and groups will be implemented in German law.

Figure 56: Sustainability themes applied

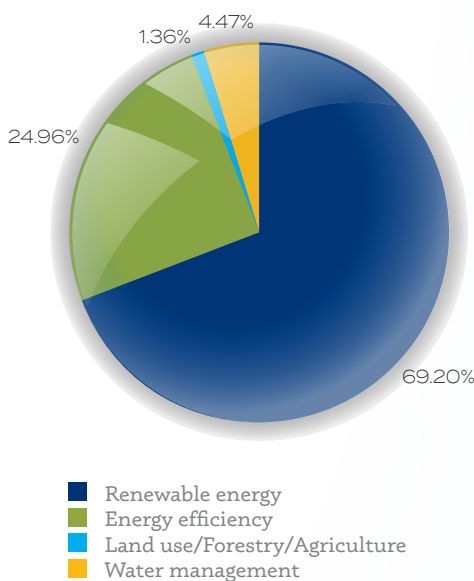
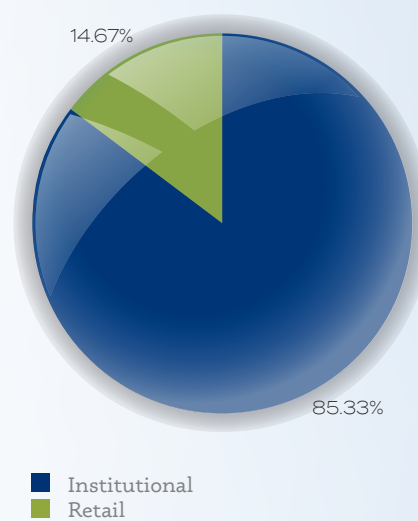


Figure 57: Retail/Institutional breakdown



German authorities are taking important steps to implement strategic sustainability goals in the financial sector. The UN Sustainable Development Goals as well as the targets of COP-21 in Paris are increasingly focusing on the financial sector.

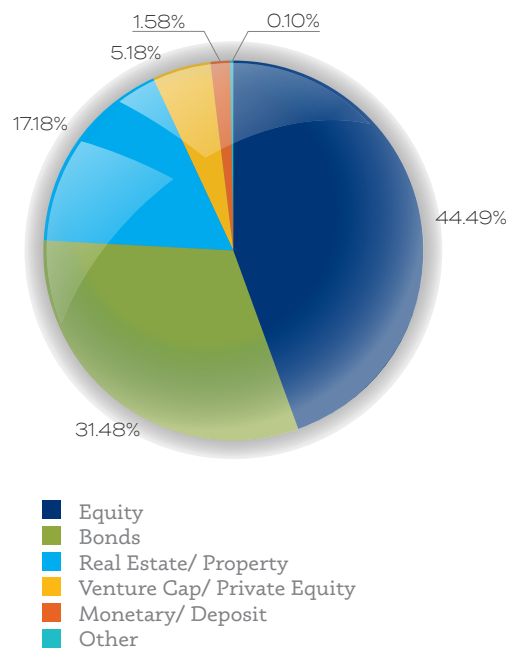
As in previous years, survey participants from Germany see institutional investors as key drivers to SRI market growth over the next few years. Today, institutional investors represent 85% of the total AuM invested in SRI. Other main drivers for SRI are legislation and external pressure from NGOs, media and other stakeholders. As for the types of institutional investors, public pension funds play the most significant role with a share of 48%. They are followed by religious institutions and charities, at 24%, and foundations, at 12%.

With respect to asset allocation, the importance of bonds decreased. Their market share went from 48% in 2013 to 31% in 2015. Conversely, equity gained market share in 2015 (44% compared to 30% in 2013).

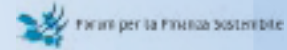
The following years could see an increase in new activities developing around SRI. In particular, the 2015 Paris Climate Conference raised awareness of green finance and both investors and authorities have begun to react to the risks and opportunities posed by climate change.

Chancellor Angela Merkel mentioned the importance of sustainable and responsible investments in a welcoming address to the Council for Sustainable Development.¹³⁰

Figure 58: SRI asset allocation



Italy



The Financial industry overview

In the last two years, and especially in 2015, the Italian financial market has benefited from the start of economic recovery and an expansionary monetary policy. Indeed, the value of corporate shares and bonds increased while yields on government bonds decreased¹³¹.

At the end of 2015, the total assets managed by institutional investors in Italy (insurance companies, pension funds, mutual funds and wealth management) amounted to about €1,400 billion¹³².

The market is mainly driven by a few big players, in particular insurance companies. Indeed, Italy represents one of the top four insurance markets by GWP at European level¹³³.

Furthermore pension funds increased their market presence over the last two years, although their assets are still limited: according to the data published by COVIP (the Italian Supervisory Commission on Pension Funds and Plans) voluntary pension schemes (Second Pillar) represent a total AuM of around €140 billion as of December 2015. €55,3 billion are represented by Fondi Pensione Preesistenti and €42,5 billion by Fondi Pensione Negoziati.

As of December 2015, the Italian asset management industry was responsible for the management of about €1,900 billion and approximately 10% of Italian household financial portfolios for both retail and institutional investors¹³⁴.

Characteristics of the SRI Market

Institutional investors continue to lead the Italian SRI market, mainly driven by a few large insurance companies. Pension funds are also showing an increasing commitment to SRI, but there is still room for improvement – as highlighted in the first and second edition of the *SRI Benchmark on pension plans* launched in 2015 by FFS and MEFOP using VBDO's methodology¹³⁵. Similarly, Foundations display an interesting potential that needs to be further developed in the coming years.

The retail side has also witnessed interesting growth as several Italian asset managers recently decided to launch SRI products, in order to meet the increased awareness level of private investors. Over the last two years, as monitored by FFS, the retail sustainable funds distributed by Italian asset managers have increased by a staggering 26%¹³⁶. Leading the way, Etica SGR – the

Italian asset manager that promotes and manages exclusively socially responsible investments – has reached almost €2 billion in AuM in the last two years.

A series of events aimed at raising investors' awareness took place in the country. 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. In 2015, the initiative gathered over a thousand participants and was granted the patronage of four Italian Ministries. The Economy and Finance Minister Pier Carlo Padoan participated at the opening conference. The rising importance of sustainability in the financial sector has marked the 2016 edition of *Salone del Risparmio*¹³⁷ – the main event organized by Assogestioni, the Italian investment management association – where SRI and Impact Investing were explored during several events and ad-hoc training sessions.

Also, the Italian Stock Exchange, in partnership with FFS, has this year launched a renewed section of its institutional website focused exclusively on sustainable finance.

SRI Market and strategy overview

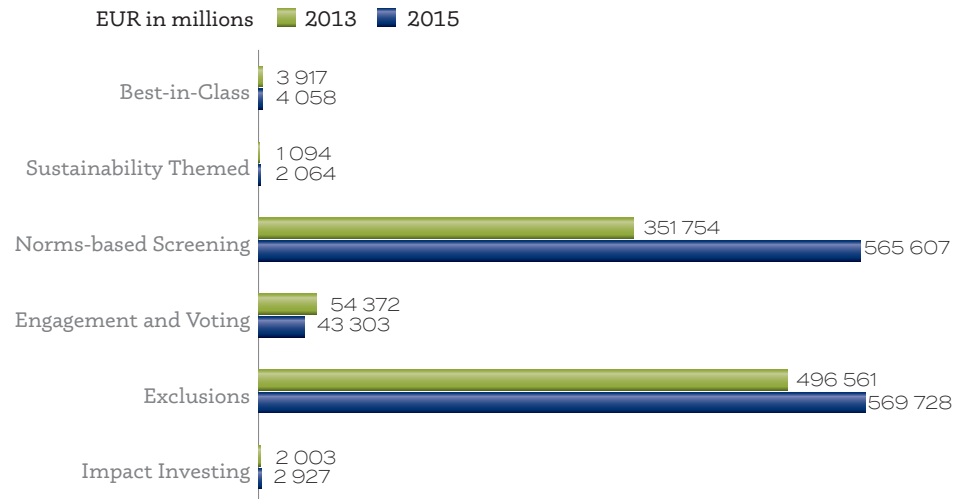
For the majority of the strategies, the Italian SRI market has experienced a slow but steady growth over the last two years.

Sustainability themed investments have experienced the largest increase, driven both by some “traditional” players in the Italian SRI market having augmented the assets reported for this strategy and by a few new players, also coming from the private equity sector. The integration of environmental – particularly climate-related – concerns can be identified as the main catalyst for this strong growth, especially in the post COP21 context.

Italian investors seem to have moved towards Sustainability themed to the detriment of other SRI strategies, such as **Best-in-Class** (+2%) and **Engagement**, that this year registered a slight decrease. This is largely due to the fact that one of the biggest players on the Italian market has considerably reduced the amount of assets reported under this strategy. Meanwhile, other key actors, such as pension funds, have shown an increasing activism towards engagement and promoted a few interesting initiatives within the last two years.

For instance, at the end of 2014, a group of 14 pension funds, led by Fondo Cometa – the largest of the coun-

Figure 59: Overview of SRI strategies in Italy



try – and coordinated by Assofondipensione, launched **the first collective engagement action in Italy**. The initiative¹³⁸, following the one launched by Boston Common Asset Management through the PRI Collaboration Platform, was aimed at encouraging banks to disclose more information about climate-related risks. Fondo Cometa continued to lead engagement initiatives in 2015, launching a new project focused on children’s rights that was supported by more than 30 institutional investors (mostly pension plans but also asset managers, representing approximately €50 billion AuM).

Even if traditional strategies such as **Exclusions** and **Norms-based screenings** still represent the largest amount of assets, an interesting growth can also be recorded on more innovative approaches such as **Impact Investing** – a strategy, which we are reporting on at member state level this year for the first time. In Italy, it registered a significant growth over the past two years. This can be explained by an increase in social housing investments, driven by the national programme promoted through “**Fondo Investimenti per l’Abitare-FIA**”, managed by CDP Investimenti Sgr¹³⁹. The fund invests in several local funds, also collecting resources from other investors (mainly Foundations); the general aim is to increase the availability of accommodation that is affordable for people on low incomes, who can neither access the traditional public housing sector (Edilizia Residenziale Pubblica - ERP) nor afford market rents.

Regulatory Framework

The regulatory framework has been rather stable for the past two years, without any major developments.

Nevertheless, this period has been instrumental for FFS in building a constructive dialogue with several Italian ministries – namely Economy and Finance and Environment. The end goal is a fruitful collaboration, where the FFS will be able to play an increasingly advisory role in shaping a more promising legal framework and promoting the actions needed to push sustainable finance in Italy; also in the context of the financial package to stimulate growth “Finanza per la crescita”. FFS’ SRI definition outlined in the previous edition of the Study¹⁴⁰ has served as a reference point in the discussions with Italian institutions.

Moreover, FFS has co-led, together with Fondazione Cariplo, the working group on “Greening institutional investors” in the framework of the Italian National Dialogue on Sustainable Finance promoted by UNEP and the Ministry of Environment.

The adoption of the Directive 2014/95/UE on disclosure of non-financial and diversity information is also set to be introduced in Italian legal framework by the end of 2016.

Looking ahead, the SRI market in Italy will be facing key challenges in the coming years. First of all, the market players – especially institutional investors such as insurance companies and pension plans – will need to properly understand and address the emerging environmental and climate change issues, in line with the post COP21 scenario and the commitment to keep average temperatures well below 2°C.

Italian Asset Owners and Asset Managers will need to systematically take into account ESG aspects across the different asset classes, including real estate, private equity and project financing at a multi-scale level, both national and local. These important challenges cannot be tackled without a systemic perspective and a strong institutional backing: that's why the Italian government and the financial authorities will be playing a central role in shaping the discussion and promoting a framework capable of unlocking the much needed reforms.

Those financial players that are already integrating ESG aspects will also be instrumental in fostering further developments of the Italian market, by making the business case for sustainable finance and debunking the persistent prejudices against SRI.

Insurance companies and pension funds will continue to be the actors with the biggest potential for growth; while Foundations are expected to show a growing appetite for SRI as an investment strategy fully aligned with their mission and fiduciary duties.

On the retail side, asset managers will continue to widen their offer, in response to the increasing awareness shown by investors. This is particularly true for the private banking sector, where there is already a growing demand for SRI products aimed at High Net Worth Individuals (HNWI).



The Netherlands

The Financial industry overview

Over the past few years, the Netherlands has seen a considerable increase in fund sponsors and asset managers establishing Dutch vehicles for holding international investments. The Netherlands has a strong financial sector and is an attractive asset management location, as it does not levy taxes such as stamp duties or other taxes 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. According to OECD 2015 findings on pension funds, the Netherlands is, together with the UK, one of the two biggest countries in Europe in terms of pension funds' assets¹⁷¹. With a long-standing savings and investing tradition, the insurance sector is also strong with over €500 billion AuM. There are five categories of funds: Undertakings in Collective Investments in Transferable Securities (UCITS), Alternative Investment Funds (AIFs), Funds managed by managers domiciled in jurisdictions with adequate supervision, Funds managed by exempted fund managers, and Funds managed by fund managers subject to voluntary supervision¹⁷².

Characteristics of the SRI Market

The SRI market in the Netherlands has become increasingly mainstream. This is clearly reflected by the exponential growth rate for most of the SRI strategies, even taking into account that some large players decided not to collaborate on the questionnaire this year. Although not all players have the same level of maturity, most of the asset managers and asset owners at least have a responsible investment policy in place. Levels of SRI implementation tend to vary according to market sectors - banks, pension funds or insurance companies - but there are also interesting variations within each sector.

This makes the SRI market in the Netherlands rather fragmented. Although not the strongest in size, the two **ethical retail banks** - ASN and Triodos - are the most developed in terms of their SRI offer - thanks to their long-established experience and specialisation in SRI. Due to their large presence in the market, pension funds and insurance companies remain the most important players. The 30 biggest insurance companies and 50 largest pension funds manage assets for over €1,370 trillion in total and therefore have a big impact on the financial services industry. The Federation of the Dutch Pension Funds (Pensioenfederatie) has recently published a Service Document on Responsible Investment¹⁷³, a framework with guidelines for pension funds' responsible investment policies. The framework offers guide-

lines to pension funds on how to develop, implement, monitor, and evaluate sound policies for responsible investing¹⁷⁴.

The majority of the investments which today make up the Dutch market do not all take into account all of the four key characteristics, leaving us to conclude that 'just over half of impact investments by Dutch institutional investors can be typified as 'light impact investments'¹⁷⁵. In fact, as highlighted in the VBDO Study, the monitoring part still does not follow a formalised approach and therefore remains the most problematic characteristic.

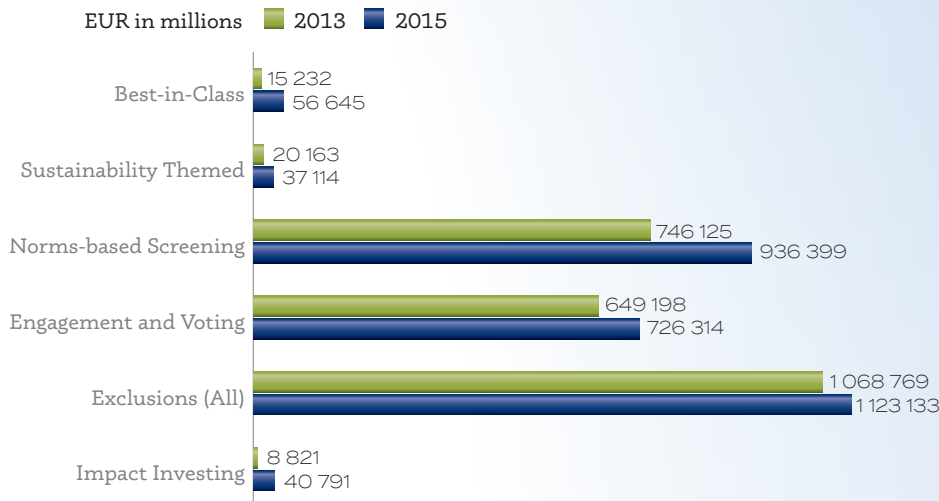
Responsible investing has a long history in the Netherlands, starting back in the 1970s with the first introduction of ethical banks. Over the course of the 2000s, more and more retail banks started practicing SRI and since 2007, institutional investors have also turned to responsible investments due to increasing attention to the topic in the media.

It is common practice for Dutch pension funds to appoint a fiduciary manager to manage their portfolio. These fiduciary managers are often asset managers that manage several pension funds' assets. This implies an important role of asset managers in the SRI market as they play a central role in the investment decision-making.

Although pension funds and their asset managers have relatively well developed SRI practices, collaboration with other funds and consultation with participants, governmental or civil society organisations about SRI is limited and could restrict development. In the last decade, transparency has changed fundamentally, due to an increase in societal and regulatory requirements. In response to this phenomenon, the quality of reporting has increased and now third parties auditing is increasingly common practice. While pension funds are required to report on their responsible investment strategies, many insurance companies do not yet disclose their strategies on responsible investment¹⁷⁶.

An obvious trend in the Netherlands is that frontrunners in the financial industry increasingly implement SRI strategies for their whole portfolio, developing specific targets. Overall, several players in the Asset Owners space, like insurance companies, work through ad-hoc Responsible Investment Departments. On the one hand, this is a way to encourage a further elaboration of SRI strategies, but on the other hand, there is a lower degree of engagement at strategic level with management.

Figure 60: Overview of SRI strategies in the Netherlands



SRI Market and strategy overview

During the last years, SRI strategies have developed both in terms of scale and diversity.

Exclusions continue to feature as the most popular strategy at €1.123 trillion, registering a slight growth, followed by Norms-based screening with €936 billion.

Engagement and Voting, as part of Active ownership, is a well-established practice within pension funds and insurance companies; which has continued to show stable growth this year, with €726 billion in assets. However, it is mostly outsourced and not always solely focused on sustainability topics. Dialogue and debate are part of sector-wide engagement. Pension funds are also increasingly engaging with policy-makers, something which is becoming an established practice for most players now. Tracking and monitoring the outcome of these active ownership practices is not yet a shared common practice.

ESG-integration has kept delivering a positive trend which, culminated this year with a total of € 440 billion. A positive evolution, as **ESG information** is increasingly considered part of the standard information for financial analysis. Basic ESG-integration is increasingly becoming mainstream with 94% of pension funds applying at least some ESG criteria in the evaluation of equity investments¹⁷⁷. The same is true for insurance companies, albeit to a lesser degree¹⁷⁸.

Best-in-Class is the strategy that registers the second highest level of growth of over 272% with €56 billion.

This is mainly due to the fact that some of the main players who were seemingly not applying this strategy in the past or only in a very limited fashion, this year reported a generally high degree of involvement.

Although it is still early days, **Impact Investing** is becoming a firm fixture on the Dutch SRI market. This year, it was the strategy registering the highest growth rate over the last two years; clearly indicating that the category is getting important buy-ins from a wide variety of players. According to the VBDO's 2016 report on **Impact Investing**, the strategy has been defined as one that 'aims to generate both financial and social or environmental return'¹⁷⁹. The Study found the Dutch impact investment market rather 'fragmented, comprising several sub-markets'. Composed of newer (social impact bonds) and more established (microfinance) investment vehicles, impact investing is today very broad and for this reason, it is challenging to have one definition which captures all the different nuances and types of impact investments across all asset classes.

The market is largely dominated by a few of the largest pension funds and insurance companies which alone represent almost 90%¹⁸⁰ of the impact investment market. In their report, VBDO highlighted specific key characteristics of this strategy (see table 5 on page 84).

Regulatory Framework

One important step in 2015 was an announcement from the governor of the Dutch Central Bank (DNB), the main supervisor on the Dutch market, that the DNB sees sustainability as a part of its mandate and will step up its

Table 5
VBDO Impact Investing key characteristics

1. Intention to achieve a positive societal impact: The intention can originate from the investor or from the investee
2. Competitive financial return: This characteristic distinguishes impact investing from philanthropy. The financial return can range from below market to above market financial returns
3. Impact measurement: The commitment from investors to measure the social and environmental performance and progress of their investments.
4. Long-term horizon: Impact investments focus on addressing social and environmental challenges and creating long-term value in these areas.

efforts in the coming years in this field. Therefore, the DNB is also set to publish several studies in the field of SRI and energy transition in 2016¹⁸¹.

The distinction between institutional and retail investors regarding SRI strategies will remain. The retail investors focus mainly on Best-in-Class and thematic/impact investing strategies. This, however, is a relatively small portion of the SRI market in the Netherlands and will probably not grow significantly in the coming years.

In the institutional market (pension funds, insurance companies and asset managers), a variety of instruments will be used. As a base line, the organisations will have a screening and excluded companies from the investable universe. This will probably not increase in the future, since many institutional investors agree that Exclusion is not an effective method to make the capital markets more sustainable. But when it comes to the integration of ESG-criteria into the investment decision, more institutional investors are of the opinion that it will provide better risk-adjusted returns. It is therefore expected that there will be an increase in not only the

number of investors that apply ESG-integration, but also the quality of the integration and the asset classes on which it applies.

The same applies for active ownership practices. The quality of the engagement is expected to improve, since it is regarded as an effective tool for making the market more sustainable. The largest Dutch investors work together at AGMs to ask questions regarding sustainability.

Another interesting topic is the inclusion of sustainability in strategic asset allocation. Megatrends, such as climate change, have a large impact on different assets in the portfolio. Investors are increasingly looking at the effects of these megatrends on the entire portfolio, as opposed to just the single asset. Related to this, some large investors have set targets (KPIs) to reduce the carbon footprint of their portfolio by 25 or 50%. It is expected that others will follow suit, although it is not always clear how this will be measured, as these tools are still being developed.

Poland

The Financial industry overview

Compared to the economic slow-down that characterised Poland's economy up until 2013, the last two years have been significantly more dynamic. 2015 has witnessed a GDP growth rate of 3.6%, up from 3.3% in 2014, according to Central Statistical Office of Poland (GUS) estimates. This growth is nearly twice as large as the EU average, estimated at 1.9%. The asset management industry in Poland continues to grow at a fast pace and the Warsaw Stock Exchange (WSE) continues to be a financial center of both European and international relevance. At the end of 2015, 487 companies with a combined market capitalisation of €117 billion were listed on the WSE Main Market. During 2015, there were 30 initial public offerings (IPOs) compared to 28 in 2014. The total value of IPOs on the WSE Main List in 2015 amounted to €2 billion. WSE is also a member of the UN Sustainable Stock Exchanges (SSE)¹⁴¹.

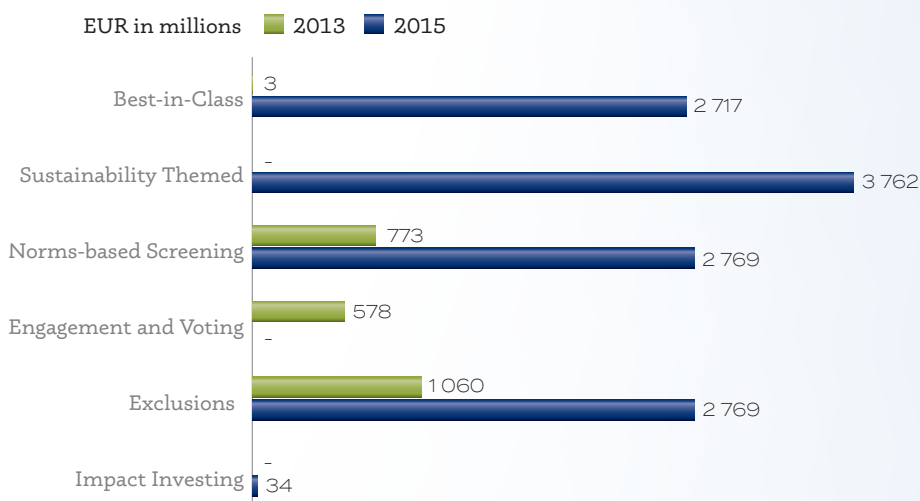
Characteristics of the SRI Market

The SRI market in Poland remains in the very early stage of developments. 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. Moreover, the link between the financial performance of SRI and traditional investments, although widely analysed and proven by certain scientific studies, is still controversial¹⁴². While there is still no SRI leader in Poland building its portfolios

entirely on a 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 (NFEP&WM) was established in 1989 in cooperation with Voivodeship funds for environmental protection and water management. Together, these funds form Poland's system of financing environmental protection projects. The National Fund is regulated by the Act of the Environmental Law and according to the EU 'polluter pays' principle. Foreign funds are also absorbed by the National Fund, for example, from the Cohesion Fund, the European Regional Development Fund, the LIFE+ Programme, the Norwegian Financial Mechanism and the European Economic Area Financial Mechanism. Over the period 1989-2014, the National Fund contributed with some €8463 million from its own funds to the co-financing of environmental projects, and supported ecological projects with approx. €5411 million from the European funds at its disposal.¹⁴³

In 2009, the WSE initiated the RESPECT Index Project, promoting high ESG standards among its listed companies and investors. The index portfolio includes companies listed on the WSE Main Market which follow the highest environmental, social and corporate governance standards. The portfolio selection is carried out by WSE and the Association of Listed Companies, and audited by Deloitte. So far, eight editions of the survey have been

Figure 61: Overview of SRI strategies in Poland



completed with 16 to 24 companies included in the index portfolio at each time¹⁴⁴.

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 Services. The aims of this project is to analyse the ESG performance of all WSE listed companies and engage with them on increasing the quantity and quality of their ESG disclosure, using an internet platform available in English and Polish. The project is already in its fourth edition.

SRI Market and strategy overview

Although there is a wide-spread perception that the demand for SRI products is almost non-existent, investors are increasingly taking ESG risks into account and trying to include them in their investment analysis and decision-making processes. In addition, the reporting of ESG data following the transposition of the EU Non-financial and Diversity Disclosure Directive is expected to lead to a greater use of ESG information by investors.

The SRI market in Poland would profit from the presence of a large international player able to engage in the marketing and promotion of SRI. This would certainly increase customer awareness of SRI investment and stimulate the growth of the market.

This year, we are able to have a much clearer picture of the extent to which the different strategies are actually implemented and almost all the strategies witnessed at least a double-digit growth. The most striking data is certainly that concerning Best-in-Class which grew to €2 billion, registering a CAGR of almost 3000%. Also impressive is the growth of Sustainability themed funds, – the most popular strategy amongst the actors in the market, which went from non-existent in the last review to a total AuM of € 4 billion. Norms-based screening grows steadily with a CAGR of 89%, mainly due to one of the leading asset managers in Poland currently managing close to 70 investment funds. Due to the non-partici-

pation of a large institutional player mainly focused on Engagement and Voting, we are not able to report data on this specific approach this year.

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 Organised 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 fulfil this obligation.

In January 2016, the Warsaw Stock Exchange published updated Exchange Rules, which determine the rules of trading on the regulated market, while also introducing a new code of corporate governance: “Best Practice of GPW Listed Companies 2016”. The goal of this revised corporate governance code is to enhance the quality of corporate governance standards of companies operating in the Polish capital market, and to support efficient management, effective supervision, respect for shareholders’ rights, and transparent communications between companies and the market.¹⁴⁵

Regarding the disclosure of social and environmental issues, the Polish Ministry of Finance is implementing the Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups. Poland has not communicated on the transposition of measures to the European Commission so far. Nevertheless, Poland is experiencing an increase in ESG corporate reporting with around 290 non-financial reports currently on the market and over 40 reports being published yearly¹⁴⁶.

Spain



The financial market

After years of continued recession, the Spanish economy continues to be on a rising trend, already observed in our 2014 Study and which has been confirmed by a positive GDP growth of 4.6% over the past three years.

Boosted by a stronger economy, the financial services industry has grown by 3,66% in the last two years. 100% of the growth experienced was due to the collective investment institutions (CIIs), which are companies that publicly recruit funds or assets to invest and manage them jointly.

Spain’s financial services industry remains dominated mainly by **deposits**, which represent 38,64% of all financial products in the country in the end of 2015. This is still an interesting characteristic of the Spanish market but it is important to note that it has shrunk by about 5% in five years.

Nevertheless, the Investment and Pension Funds represented 18.07% of the total of financial products in Spain at the end of 2015, in comparison to 13.2% in 2010. This is a growth of 4.87% in the last five years. These two types

of financial products are the most representative of the SRI market in Spain and their growth is aligned with the growth of SRI market.

Characteristics of the SRI market

The main players in the SRI space are the larger banks, Santander and BBVA with a 23% and a 34% of SRI market share respectively. The other main players are the occupational pension funds, considered the pioneers of SRI in Spain. They have over € 35,000 million in AuM, 65% of which is backed by an SRI strategy.

The SRI market is dominated by institutional SRI, but the SRI retail continues to develop, as indicated by the growth of both retail impact investment initiatives and investment products that focus on individual investors.

For the graph of investor type, we have used a weighted average, according to the SRI AuM of each respondent company.

The SRI market is almost equally split between equity and bonds and almost equally split between corporate and sovereign.

Figure 62: Retail/Institutional breakdown

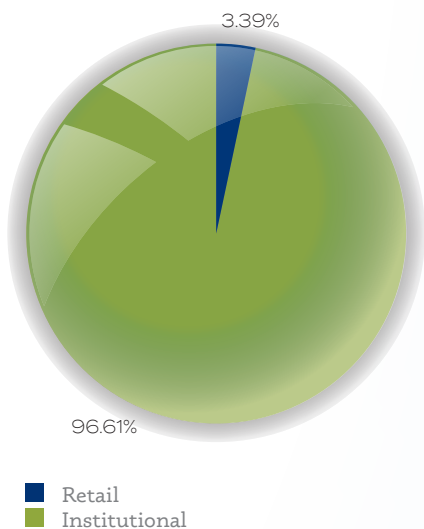
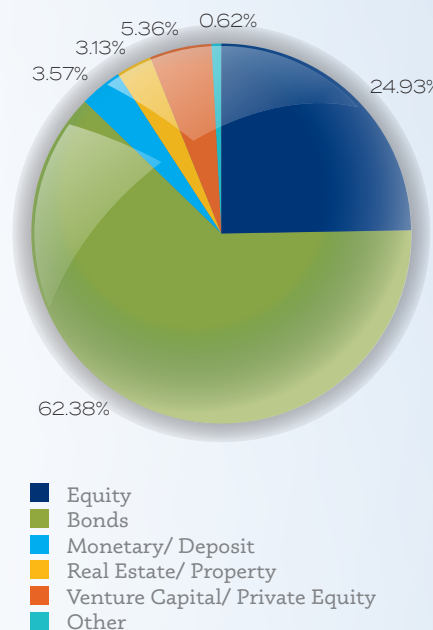


Figure 63: SRI asset allocation



SRI Market and strategy overview

This year is marked by the exponential growth of sustainability themed investments, reaching €300 million AuM, a record growth of 267% since the last review. This underpins a developing interest from pension funds, mainly on themes relating to renewable energy. This trend clearly shows Spain's willingness to reclaim the position it lost during the financial crises as a global champion of renewable energy. The fact that renewable companies can no longer count on as many subsidies as they once could have reduced the value of their assets, making them more attractive for buyers. This is also in line with Spain's commitment to meet 20% of its energy needs through renewables by 2020, compared to the current 15%.

Impact investing is the second fastest growing strategy in the country this year, with a growth of over 200%. This is mainly down to the two social impact funds targeting innovative and operating projects, aiming to create social value (B-Ready¹⁴⁷) and accelerate start-ups with a social impact 'that provides - with proven success - networking, mentoring, financing, capacity building and visibility to promising initiatives¹⁴⁸'. The important growth in Impact Investing supports the exponential increase in renewables investments, which has flourished amidst the country's crises and the insecurity of the Spanish financial world. This phenomenon has led to the devel-

opment of new financial tools, which have also garnered great interest among the public financial players, such as the "Instituto Oficial de Credito" (ICO), which in 2015 issued the first Social Bond of Spain, in order to create or maintain employment in economically disadvantaged Spanish regions. This issue was a success and in 2016, ICO launched a second bond.

Norms-based screening has also registered a significant increase since the last review, mostly linked to Allianz Popular Asset Management, which has made this strategy a main pillar of its portfolio together with Exclusions. Exclusions still remain an important strategy for both Asset Managers and Asset Owners with a growth of 16%.

In the autumn of 2014, the Ministry of Employment and Social Security published the official Spanish CSR strategy, which focuses one of its main lines of action on SRI and innovation. This line of action has resulted in an agreement between the Ministry and Spansif. Another important collaboration supported by Spansif involves the general administration of pension funds and insurance from the Ministry of Economy and Competitiveness. The goal is to develop an SRI information datasheet for employee pension funds, in order to generate quality and transparent information.

Regulatory Framework

The SRI market's growth rate has increased exponentially in comparison to the growth rate of the financial service industry over the last two years. This fact is a very significant indicator of the strength that the SRI market is beginning to have in the Spanish financial services industry. The legal framework has been encouraging reporting and further transparency for issuers. This has not gone unnoticed by institutional investors eager to add further value to their investments¹⁴⁹.

Interesting developments in corporate governance have taken place in Spain this year. The reform of the Capital Companies Law has become a mandatory standard for reporting, with a specific focus on article 538. This article concerns the inclusion of the corporate governance report in the management report¹⁵⁰.

The steps taken by the National Stock Market Commission (CNMV) are also noteworthy. In 2015, the CNMV published a voluntary guide for companies on corporate governance, including 25 guiding principles for a company committed to good corporate governance and going beyond the standards outlined in previous legislation.

Figure 64: Sustainability themes applied

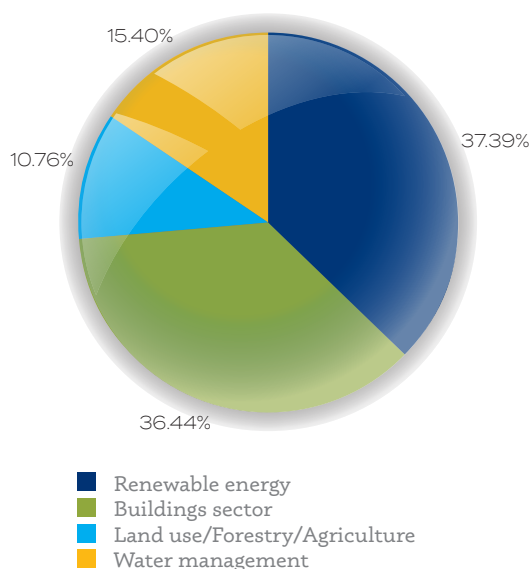
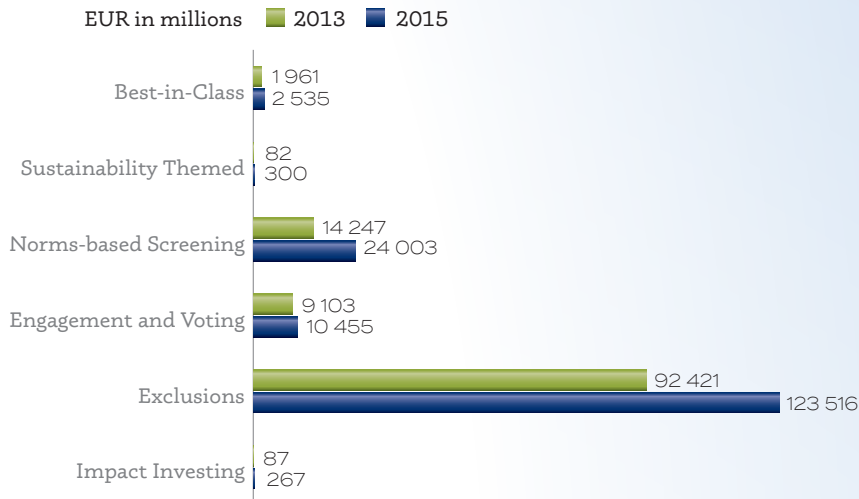


Figure 65: Overview of SRI strategies in Spain



Pension funds have also seen some interesting advancements. As of August 2014, through the modification of a Royal Decree¹⁵¹, occupational pension funds are now mandated to include in their investment policy if and how they are taking into account in their investment decisions, extra-financial risks affecting the assets in their portfolio.

In the coming years, the financial services industry will keep on developing and so will the SRI market. At the same time, Exclusion will be the most relevant strategy used, although its growth rate will keep on decreasing. Regarding the SRI products, the most developed ones are those related to the Impact Investment, like Green and Social Bonds.

We hope that the regulatory framework enriches the way the ESG reporting works and develops SRI. The European directives of non-financial reporting and the SRI labels in some European countries are among the important indicators.

Institutional investors will remain the dominant investors in the SRI market. But the development of ESG criteria tools measurement for investment funds and an increasing awareness of the benefits of financial institutions using ESG criteria will probably lead to an increase in retail investment.

Sweden

Financial industry overview

In 2015, a net total of € 9 billion was invested in investment funds. During 2015, total fund assets under management in Sweden increased from € 27 billion to € 353 billion, the highest year end figure ever recorded. The interest for index funds remained very strong. Despite an overall net outflow from equity funds, index funds recorded net inflows of over € 2 billion in 2015. At the end of 2015, index funds accounted for over 13% of the total assets in equity funds.

Characteristics of SRI market

Most of the Swedish financial institutions can be considered mature SRI players as a large number of asset owners and asset managers have been active in the Swedish SRI space for more than ten years. Almost all of the large institutional investors in Sweden have some form of policy for Sustainable, Responsible and/or Ethical investing in place and they constitute the majority of the leaders in this industry.

Sweden's commitment to the EU Roadmap 2050 sets the overarching goal of a society with zero GHG emissions by the year 2050¹⁵². Related targets include reducing GHG emissions from a 1990 baseline by 40% by 2020 and having a completely fossil-free vehicle fleet by 2030¹⁵³.

Investments in environmental R&D have made Sweden an innovation leader for several clean energy technologies, including biofuels, smart grids and carbon capture and storage (CCS)¹⁵⁴.

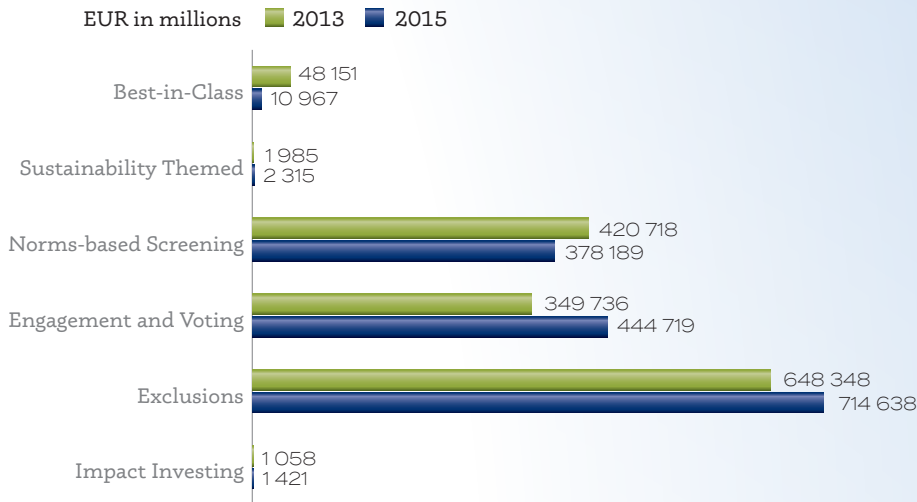
Despite the mature SRI market, SRI practices in Sweden are not governed by an explicit legal framework, but are driven bottom-up by frontrunners such as the national pension funds (AP funds), the Swedish Church and Folksam. All of the major banks have established SRI policies and procedures and provide the SRI market with a wide variety of SRI products and solutions, and a fast growing number of investors are following suit. A leading driver continues to be the pension fund initiative 'Ethical Council', which consists of the collaboration between four of the Swedish pension system funds (AP1, AP2, AP3 and AP4), aiming to make a difference by acting as **'strategically accountable and committed owners who exert influence on companies worldwide to improve their efforts on environmental and social issues'**¹⁵⁵. In 2015, the Ethical Council conducted dialogues with 178 portfolio companies worldwide concerning a total of 254 incidents, pertaining mainly to business ethics, human rights, labour rights, corruption and the environment. In most cases, the discussions have led to improvements and the dialogue was considered successful.

Table 6

Fondbolagens forening Swedish Investment fund association Yearly report: Fund Saving 2015 page 3; originally in SEK, converted into EUR using 31 December 2015 exchange rate

Net sales of funds, EUR billions			
	Net sales December 2015	Net sales excl. PPM December 2015	Total net sales 2015
Equity funds	2.8	0.30	-0.28
Balanced funds	1.1	0.26	8.37
Bond funds	0.0	-0.51	0.01
Money market funds	0.5	0.50	-0.35
Hedge funds	0.0	0.03	1.23
Other funds	0.0	0.00	0.17
Total	4.4	0.59	9.17

Figure 66: Overview of SRI strategies in Sweden



SRI Market and strategy overview

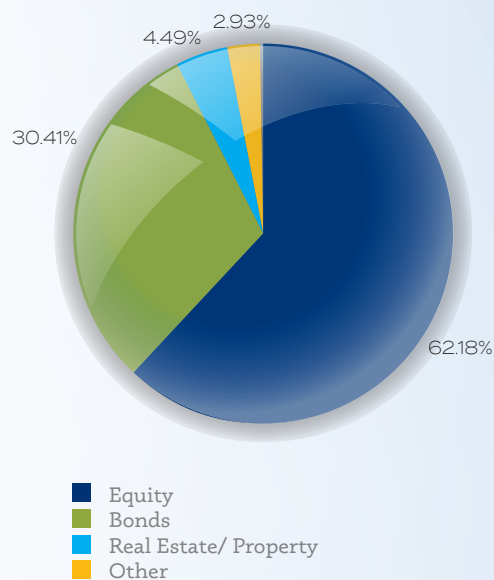
Over the past two years, Sweden has continued to witness a modest growth in SRI which signals a trend among all major investors and asset managers to apply a mix of SRI strategies to their portfolios. In fact, a common practice among Swedish institutional investors is to combine several strategies including Exclusions, Engagement and Voting as part of a holistic approach to integrating ESG factors into the investment policy, process and decision-making.

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. As of 31 May 2016, there are 1525 signatories of the PRI globally, including 51 signatories from Sweden, split between asset owners, investment managers and professional services providers.

Swedish initiatives such as Sustainable Value Creation¹⁵⁶ and Swesif’s ESG Profile¹⁵⁷ have also been well received in the market and support increased transparency and disclosure within the business community and the fund management industry. The Sustainable Value Creation initiative is a collaboration between 17 of Sweden’s largest institutional investors and, since spring 2015, also the NASDAQ Stockholm which operates the Stockholm Stock Exchange. The cooperation was initiated in 2009 when investors and owners of Swedish companies saw a need to further highlight the importance of compa-

nies working systematically with sustainability issues. The Swesif’s ESG Profile (“Hållbarhetsprofilen”) was developed by Swesif together with its member companies. The ESG Profile is a standardized information leaflet describing the fund’s work on ethics and sustainability issues, and is a supplement to the financial fund fact sheets, developed in 2013 to help fund investors by giving them easier access to information. In May 2015,

Figure 67: SRI asset allocation



Swesif launched the ESG profile on the private market in Sweden. After one year, 38 fund companies have already joined and today more than 670 funds are reporting their sustainability efforts¹⁵⁸.

Some specific areas of development over the past two years have been in relation to Impact Investing, Green Bonds and Sustainably Themed. Notably, there is a growing interest in Green Bonds – or sustainable bonds, and in the last few years, the number of Green Bonds launched has increased greatly. The Swedish city of Gothenburg became the first Nordic city to enter the climate bonds space, closing a € 54 m, 6-year green bond to fund public transport, water management, energy and waste management projects. The bond is part of a potential € 218 million green bond programme for such projects in Gothenburg¹⁵⁹.

As mentioned, the growing interest in Sustainability Themed investments tends to focus mainly on the environment and specifically on climate change. This strategy has grown by 16% since the last review and, as shown in the graph, the most popular categories are energy efficiency, renewable energy and water management. The Swedish Government is actively encouraging the Swedish investment community including the public pension funds, the banks and the fund industry to agree on a common standard for reporting their funds'

carbon footprints, while Sweden's Minister of Financial Markets has spoken in favour of self-regulation as the best alternative.

Furthermore, the Swedish Investment Fund Association representing the Swedish fund industry has taken the first step towards creating additional transparency and comparability regarding the carbon footprint for funds' holdings by producing a guide for coordinated reporting. At this stage, the reporting is still voluntary.

Exclusions remain the dominant strategy, preferred by asset managers and asset owners, with a total of €714 billion AuM and a growth of over 10%. Over 83% of respondents report on general exclusion policies and in terms of preferential categories, weapons remains the Exclusion selection most often applied by 37%.

Engagement and Voting also registers a significant increase of 27% with total AuM at €444 billion. Active corporate governance continues to be on the rise and is well on its way to becoming an alternative to Exclusions.

The SRI market in Sweden is predicted to continue to grow and develop in terms of assets under management using a diversity of SRI strategies, approaches and products.

Figure 68: Breakdown of SRI bond assets

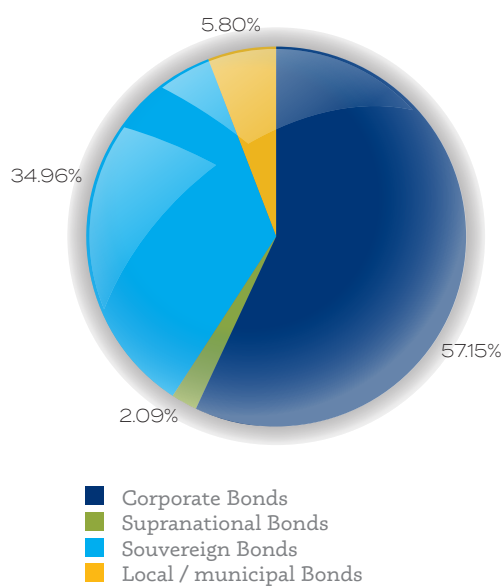
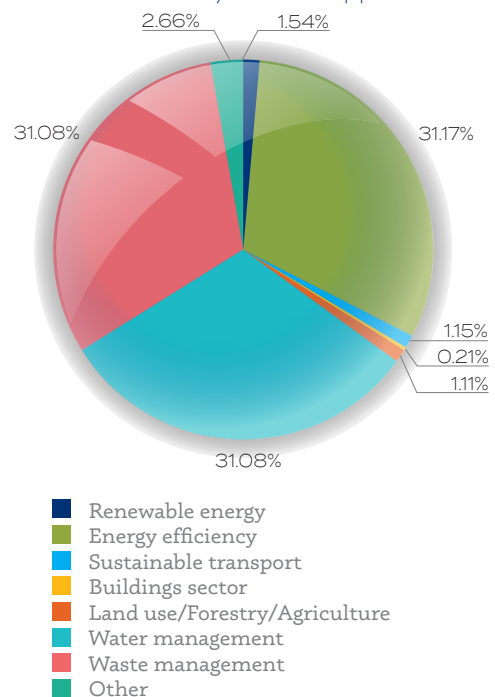


Figure 69: Sustainability themes applied



Legal/Regulatory Framework

With the state pension funds and other asset owners willing to increase their transparency on their strategies and, showing that SRI can be implemented without harming performance and with positive impacts on companies and markets, the likelihood of others following suit is high.

Furthermore, the growth of the market for Sustainable and Responsible Investment in Sweden is supported by the active participation of asset owners, investment managers, service providers, academia, and other stakeholders in debates, discussions and collaboration aiming at increasing knowledge and competence. Although there are no legal requirements on private institutional investors and asset managers in relation to SRI, the Swedish financial market shows a high degree of self-regulation¹⁶⁰. For instance, the 'Ethical Marketing Committee for Funds (ENF), was set up as an independent committee whose task is to monitor that fund management companies follow the marketing rules in their information and marketing,¹⁶¹ in order to prevent misleading marketing of investment funds.

In May 2016, the Swedish fund industry agreed on a method of reporting carbon footprint for the funds' holdings¹⁶². This initiative was taken to compensate the lack of coordination and supply of data around the carbon footprint of funds' holdings. This is why the Swedish Investment Fund Association produced a guide for coordinated carbon footprint reporting in the spring of 2016¹⁶³.

Another initiative from the Swedish Investment Fund Association is an industry standard for reporting the fund management companies' sustainability work. The 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.

The sustainability review at fund management company level will be updated annually and is due to come into force as of 2016¹⁶⁴.

The contents of this country profile are based on research and analysis conducted by Swesif and Eurosif

Financial industry overview

The financial sector is one of the Swiss economy’s central components, with almost a tenth of the country’s 2015 GDP stemming from financial and insurance services; making it comparable to almost any other major hub in global finance. In addition to this status, Switzerland is also the world leader in cross-border asset management, in which it holds 25% of the global market share. The finance industry here is highly diversified and home to more than 2000 pension funds and over 200 insurance companies, while its banking sector is made up of 275 individual banks.

The peculiarity of the Swiss pension system with its compulsory second pillar makes Switzerland one of the few countries where the three pillars contribute almost equally to old-age income¹⁶⁵. Asset owners have become increasingly interested in sustainable finance and to prove it, on the 3rd of December 2015, BVK Personalvorsorge des Kantons Zürich, compswiss (Ausgleichsfonds AHV/IV/EO), comPlan, Pensionskasse Post, Pensionskasse SBB, Swiss Federal Pension Fund PUBLICA and Suva joined forces to establish the “Swiss association for responsible investing (SVVK-ASIR) “. SVVK-ASIR’s founding members manage a total of over 150 billion Swiss Francs¹⁶⁶. The fiduciary duty of the funding members requires the inclusion of ESG (Environment, Social, Governance) criteria. By setting up SVVK-ASIR, the founding members meet this requirement in the most effective way¹⁶⁷.

Characteristics of SRI market

The actors engaged with sustainable finance amount to 220 institutions. Here, Switzerland’s historically strong position in asset management is reflected by the fact that the largest category of institutions active in sustainable finance is the group of asset managers, then followed by pension funds and philanthropy organisations. Yet, despite that comparably smaller number of active institutions and an overall SRI market share of 4.5% of total investment funds, recent developments give rise to the assumption that sustainability concerns are abandoning their niche status. Over 2014, sustainable investments have grown by around 26% and over 2015 by almost 170%¹⁶⁸, with J. Safra Sarasin Group, Credit Suisse and Pictet being among the most important asset managers.¹⁶⁹

SRI Market and strategy overview

In terms of SRI strategies applied to funds and mandates, Exclusions has remained the dominating strategy at €2.5 trillion. This figure includes criteria especially applied to funds and segregated mandates (product specific), which totals €123 billion, plus Exclusions applied as asset overlays to product ranges.

2015 has also witnessed a heavy increase in the integration of ESG criteria into financial analysis, which grew by 311% since the last review. It is now the second most popular strategy. Norms-based screening registered a CAGR (Compound Annual Growth Rate) of 152% and Engagement and Voting a CAGR of 103%.

Figure 70: Overview of SRI strategies in Switzerland

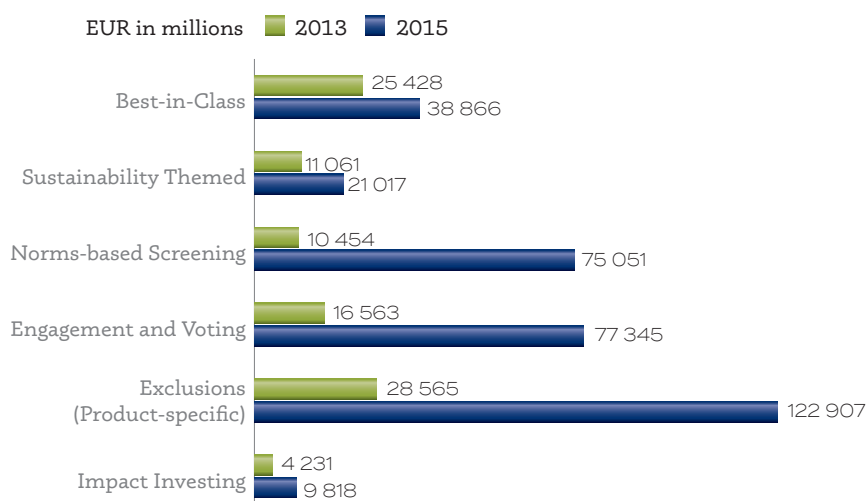
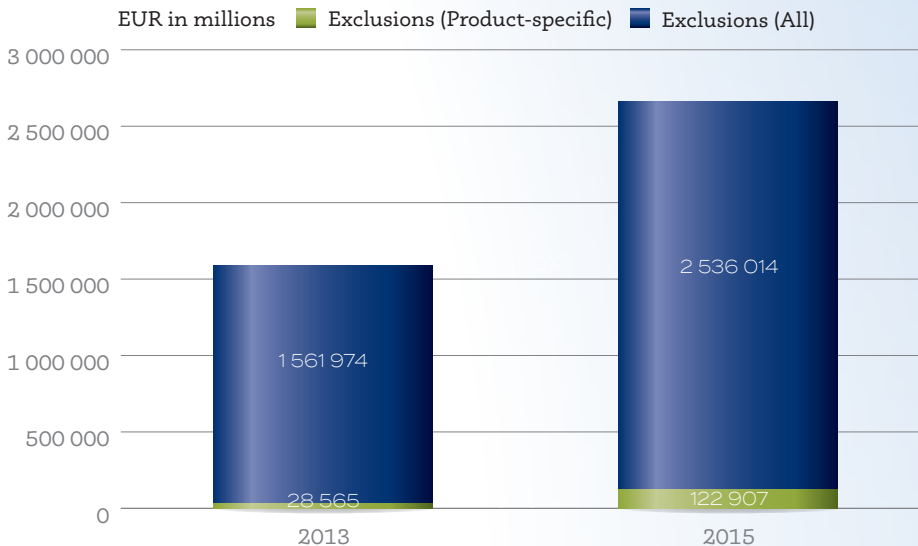


Figure 71: Exclusions in Switzerland (EUR m)



Impact Investing has been growing exponentially to the tune of 104% since the last review with a CAGR of 43%. The main players are asset managers and the main area of focus is Microfinance (73%)¹⁷⁰

Sustainability Themed investments have gone up by 67% with a strong focus on climate change investments.

ESG considerations have begun to factor more prominently into the activities of foundations. In 2015, Swiss Foundations issued a renewed version of the broadly used Swiss Foundation Code, which now incorporates guidance on sustainable investment. Another initiative which stimulated the market was certainly the FNG-Label for mutual funds. Launched in 2015, it is audited by Novethic.

Other initiatives launched in 2014 and 2015 demonstrate the extent to which SRI considerations are not confined to only a few specialist institutions. The platform Swiss Sustainable Finance (SSF), which was introduced in 2014, provides support to further increase the level of sustainability in the industry.

Legal/Regulatory Framework

No SRI specific legislative development has taken place since the previous edition of this Study. In terms of measures to directly promote SRI, Swiss authorities have taken some steps that could lay the groundwork for stronger engagement in the future. In early 2016, the

Federal Council issued its Fifth Sustainable Development Strategy, which concentrates on the implementation of the UN Sustainable Development Goals, and extending the National Action Plan Green Economy. Both foresee measures to strengthen sustainable finance and green investments as one of their focus areas. Furthermore, the Federal Council has officially defined Switzerland's international role as being able to become a global leader in sustainable finance.

The following years could generate an increase in new activities in the field of SRI. In particular, the Paris Climate Conference in 2015 has raised awareness of green finance and both investors and authorities have begun to react to the risks and opportunities posed by climate change. In September 2015, the Federal Office for the Environment published the Study Carbon Risks for the Swiss Financial Centre, which urges for more sustainable investment behaviour.

Asset allocation hereby shows that equities continue to be the most popular category by far (50%), followed by bonds (32%), of which corporate ones represent 55%.

The biggest dynamic, however, may come from institutional investors, who might increasingly engage with their investees in order to reach more sustainable business conduct and who currently represent 75% of the industry.

Figure 72: Sustainability themes applied

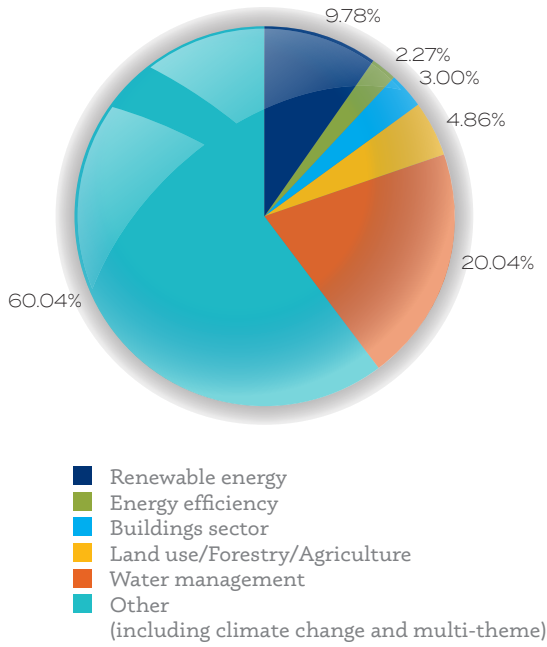


Figure 73: SRI asset allocation

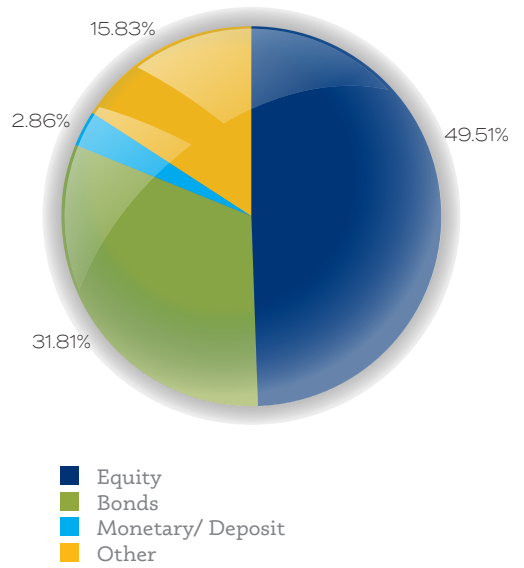


Figure 74: Breakdown of SRI bond assets

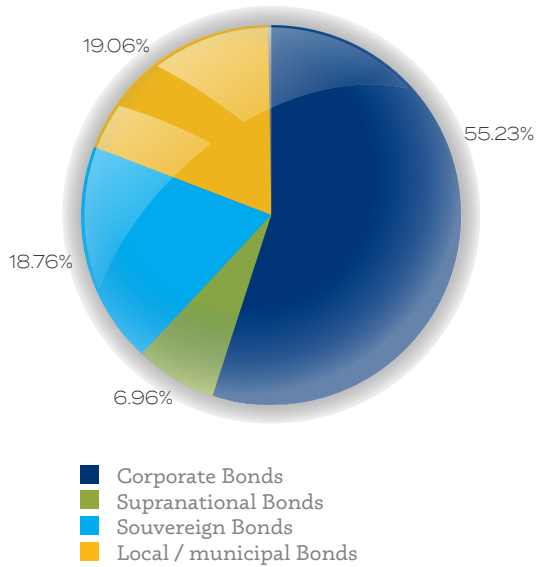
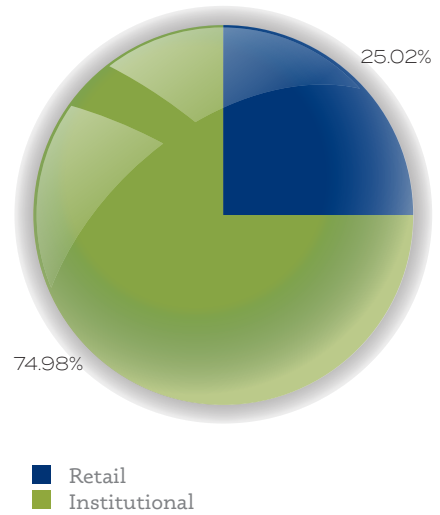


Figure 75: Retail/Institutional breakdown



TOP 5 Exclusion Criteria in Switzerland

- 1 Nuclear energy
- 2 Violation of Human Rights
- 3 Violation of Labour Rights
- 4 Corruption & Bribery
- 5 Ecological destruction

United Kingdom



Financial industry overview

As a whole, the UK's fund industry continues to grow significantly with assets growing faster in the UK than globally. The industry continues to be highly international, with around 40% of the £5.5 trillion of AuM coming from overseas clients. Pension schemes are still the largest client source, although new savers automatically enrolled into defined contributions schemes are going to influence the relation between asset managers and the pension market significantly. While savers are being offered more opportunity to invest as they choose, asset managers may also be deemed to be gaining new responsibilities. Such changes will give asset managers the opportunity to diversify their offer to provide new generations of retirees with new suitable solutions. Recently introduced "pension freedoms" in the DC area, coinciding with the wider introduction of automatic enrolment, may lead to a transformation in retirement saving, as pensioners leave their assets invested throughout their retirement. The Investment Association forecasts this may lead to increased demand for outcome-focused funds, income generation and more diversified multi-asset portfolios¹⁸².

Characteristics of SRI market

The UK SRI market is well-diversified and flourishing. Its greatest strength probably lies in its fund management community, clustered in London and Edinburgh. This group has close working relationships with networks of significantly sized pension funds, with active charity and faith investors, and with committed financial advisers serving the retail market. These market structures are supported by world-leading support services in investment consulting¹⁸³, metrics and investment banking. This value chain means that the UK is home to SRI providers in all key asset classes, usually in both retail and institutional forms. There are clear signs indicating that SRI is becoming mainstream in fund management in the UK. This is evidenced by the changing nature of fund managers' engagement in terms of the background and seniority of individuals and the strength of public commitment. In some cases, firms have explicitly told UKSIF that SRI support which was previously "philanthropic" is now being judged by conventional commercial criteria. This is a welcome sign of growing scale and maturity. The process of mainstreaming has seen an extension in the reach of SRI approaches, notably the launch of the UK's first daily priced social bond fund and the impending launch of a multi-asset class product utilising skills developed in a long-standing equity fund.

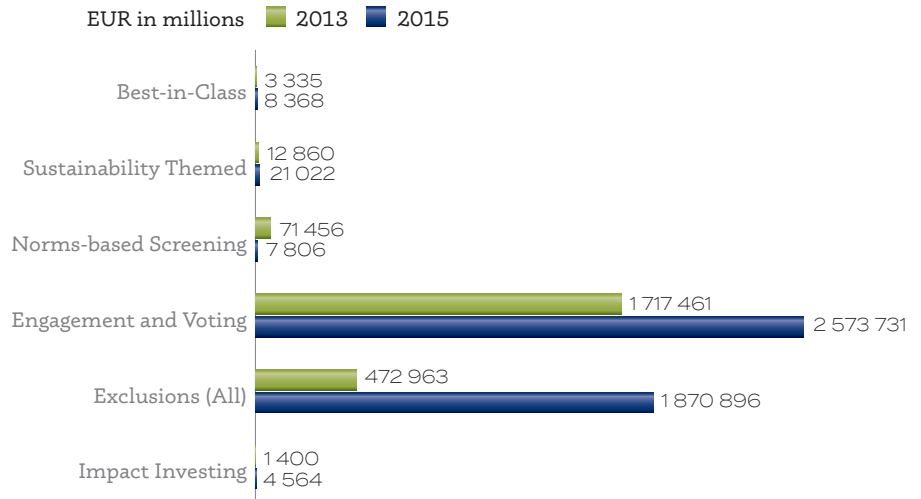
A feature of the past two years in the UK fund management space has been increased activism by institutional asset-owners. At least 3 initiatives should be noted: the Pension Fund Roundtable, an informal group of large funds, outlined what they wanted in important respects from fund managers¹⁸⁴; the *Aiming for A coalition*, despite origins in fund management, has built its profile on support from around 100 named asset owners and successfully filed shareholder resolutions on transparency at major oil and mining companies¹⁸⁵; and the Association of Member Nominated Trustees (AMNT) drafted best practice voting instructions across "E" and "S" as well as "G".¹⁸⁶ This is reflected in the continued growth in Engagement and Voting figures which have increased from € 1.7 billion to over € 2.5 billion at year-end 2015, reflecting growth across the overarching majority of Asset Managers.

In addition to the data in this report, other sources suggest strong growth in UK fund management SRI. Retail data from EIRIS and the Investment Association both suggest growth in the retail area of more than 10% p.a. The data from the IA is monthly; despite recent data revisions which cloud the picture, sales of the funds they define as "ethical" have been running at well above historic levels¹⁸⁷.

Beyond fund management, banks operating in the UK generally have a high-level of stated commitment to SRI and to disclosure on their activities and impact. However the reputation of banking generally has not recovered from the damage stemming from the financial crisis. Although less frequent, there are still new scandals and court cases continue. UKSIF worries that the level of disclosure in retail banking, as opposed to investment banking, may be too low. The past few years have seen several so called "challenger" banks emerge. These banks have a retail focus but little in the way of explicit ethical commitment. There remains, however, a small number of explicitly ethical banks and they are beginning to widen their remit. In terms of financial inclusion, the UK remains well-positioned. The proportion of UK citizens without a bank account remains low compared to the US and continental Europe, and the Government took action in 2014 on bank charges for simple bank accounts to protect this position.

Although the UK impact and social investment markets are still small compared to the whole investment field, they are growing steadily and continue to be a hub for innovation. In a recent report, Big Society Capital has

Figure 76: Overview of SRI strategies in the UK



estimated the value of social investment at the end of 2015 to be £1.5 billion while the wider impact investment market is believed to be worth around £73 billion. The report highlights the diverse mix of social investment products now available.

The UK SRI market is broadly based. Mention should be made of the large number of NGOs and think tanks which are based or active in the UK. Bodies such as WWF and Carbon Tracker have made important contributions which affect multiple sectors. In fund management, the IIGCC, CDP, PRI and AODP are UK based. A significant number of single-issue campaigns are also active in the country. Our subjective view is that the agenda and intellectual content used by the SRI community increasingly reflects work done by bodies which sit outside the financial services sector. It seems likely that SRI issues will receive more attention following the recent change in government. In particular the new Prime Minister has made comments suggesting changes in the approach to executive pay and wider corporate governance which may resonate with the drivers of the growth in engagement and voting reported above. Her attitude to climate change is not yet clear, but her government has endorsed the fifth carbon budget in line with expert recommendations.

The UK Stewardship Code, representing a series of commitments made by asset owners, continues to develop. So far, it has been signed by 196 Asset Managers, 88 Asset Owners and 14 Service Providers.

Regulatory Framework

The UK fund management sector may be about to see significant regulatory change as a result of work flagged in the 2014 European SRI report. In the spring of 2016, The Pensions Regulator (“TPR”) endorsed a legal interpretation of fiduciary duty proposed by the Law Commission, namely that “where [trustees] think ESG issues are financially significant you should take these into account”. TPR also said that “where appropriate” trustees should seek to influence managers’ stewardship policies, and “where practicable” trustees may wish to agree specific voting criteria with managers. These opinions may come to represent charters for both ESG investment and more active Stewardship by owners. There have been some similar developments in thinking on charity investment, but they are driven by a lawyer’s opinion rather than a regulatory intervention. The TPR’s thinking will most immediately support momentum in trust-based, institutional pensions. If their approach is echoed by the Financial Conduct Authority then it should support subsequent growth in the smaller, but rapidly growing personal pensions market, and it may stimulate activity in direct retail markets. All fund markets may get some stimulus from the greater availability of fund ratings, with increases in the number and reach of ratings agencies in the past 12 months, but sector opinion is divided as to the real worth of this development.

In banking, the outlook is for “more of the same” as banks seek to persuade society that they have changed and are making a worthwhile contribution to the quality of life.

The implications and impact of the recent EU referendum decision to 'leave' are as yet unclear. It is unlikely to affect the development of domestic UK SRI thought, but to the extent that UK-domiciled services are supported by sales into the EU, uncertainty has been created. UKSIF is confident that the UK will continue to remain a world leader in sustainable finance in the future and we look forward to continuing to work with Eurosif and our members to ensure that this is the case.

SRI Market and strategy overview

The most impressive growth that we observe across SRI strategies in the UK is on Exclusions which grew by almost 300% in the last two years across all Asset Managers who participated in our questionnaire.

As forecasted in the previous Study, we notice considerable growth in Impact Investing as well but it concerned mainly 3 players (Impax Asset Management, Columbia Threadneedle and WHEB Asset Management). We expect further growth in this area, with interest from individual investors spurred by the UK's 30% social investment tax relief.

After registering growth of less than 12% from 2011 to 2013, norms-based screening registers an important decrease this year to € 7.8 billion. This is mainly due to managers now classifying their process as integration rather than norms-based. UKSIF views this as evidence of the evolution of thought and approach in the UK market. Given that our subjective view is that integration has grown steadily in the UK, the small decline in the figures below almost certainly reflects the current lively debate about further developing definitions and interpretation of ESG criteria.

APPENDIX

Methodological Approach

At the end of 2015, Eurosif revised its research design in consultation with its member SIFs and a number of SRI practitioners and research partners through an iterative process that lasted until December 2015. This allowed Eurosif to make a number of simplifications and improvements to its SRI questionnaire. One of the key changes to the questionnaires was that this year's respondents did not need to list SRI funds and mandates separately, but rather, they were directly asked for a total assets figure for each SRI strategy they applied, as well as two separate sums of SRI strategies without multiple counting when several strategies applied to the same assets. This greatly simplified the data collection process for Eurosif, and also made it less time consuming for asset managers and asset owners to respond. In addition, an evaluation section was added at the end of the questionnaire in order to collect feedback and ideas for further improvement. The questionnaires 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 allocations, and customer segmentation (institutional, retail). In particular, qualitative questions¹⁸⁸ were added to address the factors influencing investors' demand for SRI and their SRI strategies, as well as their perspectives on the legal requirements on ESG disclosure. In addition, and in order to guarantee further clarity to respondents, this year Eurosif sent out two separate questionnaires to Asset Managers and Asset Owners.

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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 an direct member¹⁸⁹ 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

Sponsors:

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.

Endnotes

- 1 See EFAMA data on Summary and Conclusions page
- 2 The 2015 Green Bond issuance amounted to over 42 bn USD according to CBI's 2016 State of the Market Report, available at: <https://www.climatebonds.net/files/files/CBI%20State%20of%20the%20Market%202016%20A4.pdf>
- 3 Bonds and Climate Change. State of the Market Report 2016, p. 6, by CBI. Available at: <https://www.climatebonds.net/files/files/CBI%20State%20of%20the%20Market%202016%20A4.pdf>
- 4 Category 1: 'non-systematic ESG integration'; Category 2: 'systematic consideration/inclusion of ESG research/analyses in financial ratings/valuations by analysts and fund managers'; Category 3: 'Mandatory investment constraints based on financial ratings/valuations derived from ESG research/analyses. Source Eurosif Study 2014 page 17
- 5 See ESRB Focus Section on page 16
- 6 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).
- 7 See Eurosif 2010 Study, page 9: Core SRI (Norms-based, Exclusions, Positive screening and Best-in-Class) vs. Broad SRI (Simple screening, Engagement and Integration).
- 8 Although this could become more complicated as SRI asset management teams split across several locations.
- 9 For example, if a Danish asset manager with an SRI team based in Copenhagen 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.
- 10 Norway is not covered due to a particularly low response rate by key market participants.
- 11 Ethibel supported Eurosif with the dissemination of the questionnaires to Asset Owners
- 12 This estimation is based on EFAMA's 2014 estimate of the total assets under management (AuM) in Europe, presented in its 8th Annual Review, Asset Management in Europe from April 2015, available at: http://www.efama.org/Publications/Statistics/Asset%20Management%20Report/150427_Asset%20Management%20Report%202015.pdf
- 13 Annual RI reports, the European Transparency Code, UN-backed PRI reporting.
- 14 The data sample is different from the 2014 Study data sample as it does not cover the Norwegian market, but instead it covers the Danish market.
- 15 For instance, this is the case for Finland and Denmark, where this year a large asset manager previously partly counted to these markets, was counted entirely to Sweden.
- 16 See section 'Aggregating SRI strategies'
- 17 Refer to the page number that delves on this Law
- 18 Compound Annual Growth Rate (CAGR) calculated $(2015/2013)^{0.5} - 1$
- 19 Or they can choose amongst just one of the criteria
- 20 AMF report on socially responsible investment in collective investment schemes, November 2015 page 13
- 21 AMF report on socially responsible investment in collective investment schemes, November 2015 page 13
- 22 Eurosif SRI Study 2014, page 59
- 23 Climate Conference commonly known as COP21 (21st annual Conference of the Parties).
- 24 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)
- 25 Eurosif Shareholder Stewardship: European ESG Engagement Practices 2013" page 6
- 26 http://www.lawcom.gov.uk/wp-content/uploads/2015/03/lc350_fiduciary_duties.pdf
- 27 Guide to Investment governance – The Pensions Regulator – July 2016, <http://www.thepensionsregulator.gov.uk/docs/dc-investment-guide.pdf>
- 28 Also known as 'negative screening' as cited in the Eurosif SRI Study 2014, page 14
- 29 Read section on Norms-based screening
- 30 This is due to the fact that cluster munitions investments no longer apply.
- 31 Others include: GMOs; Human rights violations; Corruption, Fur, Unconventional oil and gas, Hazardous substances, Environmental damage (including biodiversity, climate change, deforestation and water), Factory farming; High risk companies (as per internal analysis).
- 32 Exclusions without CM&APL - assets subject to exclusions based on criteria other than Cluster Munition (CM) and/or Anti-Personnel Landmines (APL). Exclusions All CM&APL - in Belgium, France, Spain (State's Official Bulletin number 180 published on 29 July 2015. Ley 27/2015, de 28 de julio, de modificación de la Ley 33/1998, de 5 de octubre, de prohibición total de minas antipersonal y armas de efecto sim-

- ilar. Available at: http://www.boe.es/diario_boe/txt.php?id=BOE-A-2015-8471) and the Netherlands, CM & APL excluded by law. The figures have therefore been put to zero since Eurosif measures exclusions beyond law.
- 33 Divestment, also known as divestiture, is the opposite of an investment, and it is the process of selling an asset for either financial, social or political goals. Assets that can be divested include a subsidiary, business department, real estate, equipment and other property. Divestment can be part of following either a corporate optimization strategy or political agenda, when investments are reduced and firms withdraw from a particular geographic region or industry due to political or social pressure: <http://www.investopedia.com/terms/d/divestment.asp>
- 34 Go fossil free, 2016. Available at: <http://gofossilfree.org/about-fossil-free/>
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