

“ESG INVESTING. FROM NICHE TO MAINSTREAM”

ESG AND IMPACT INVESTMENTS MARKET REPORT / BENCHMARK ANALYSIS



THE ESG STRATEGY & MARKET
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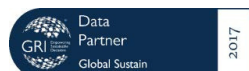


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METHODOLOGY-ADDED VALUE

Global Sustain applied for this benchmark research and analysis report a tailor made quantitative and qualitative objective and technocratic market analysis with various metrics based on international best practises. The methodology is based on a structured, detailed and in-depth analysis that allows the Report to become a tool for decision making with regard to responsible investment market and practices, without though proposing any specific investment strategies, investment decisions or specific funds or stocks. The report is based on:

- Global Sustain deep understanding of the sector under consideration and its respective business processes.
- The analysis of the processes of leading companies in the respective sector.
- Global Sustain access to international and local sustainability/ESG¹ databases.
- Global Sustain market intelligence collected through more than 12 years of engagement with international leading sustainability networks and practitioners.
- Global Sustain first level network of ESG, Green Finance Companies and Asset Management Firms and relevant associations.

The report, includes information, facts and figures and various market and firms' metrics on ESG, economic, governance, social and environmental market issues and demonstrates the way these companies address certain ESG indicators and metrics related to their investment strategy and processes. The report gives an insight view of the ESG market mainly in Europe but also in USA and globally and it is at the same time an ESG competition analysis. The report presents selected and approved leading asset management firms, examining their ESG strategy and investments and give an insight on how they address ESG issues. The report may be of help to following:

- Where does an Asset Management Firm stand in the market?
- What are other competitors and peers do in the field?
- Best Practises and Investment Models from leading companies in the sector
- How an Asset Management Firm could acquire a competitive advantage by implementing a particular ESG strategy, model, score?
- If there is risk for negative exposure or being perceived as lagging in the area?
- What metrics are used by competitors and peers?
- What steps are necessary to be taken to differentiate and / or integrate ESG, Impact Investing Strategies / Models?
- Give an opportunity to acquire a better insight view of the ESG / impact Investments market and strategies applied.



INTRODUCTION

Global climate change, limited resources, energy developments as well as developments in specific sectors like fossil fuels and coal, lignite, tobacco, alcohol, gambling industries and in general sustainability related challenges have an impact on corporate, investments and funds' performance especially over the mid-term and long-term period and in some cases even over short-term too, since they reflect specific risks and in some cases, if the developments are positive (e.g. clean energy) opportunities. Identifying and managing risks and identifying and capitalizing on business opportunities are the two pillars of capital market oriented responsible investing, so called ESG (Environment, Social Governance) investment strategy.

Definition: According to the United Nations Principles for Responsible Investments (PRI), Responsible Investing is an approach to investing that aims to incorporate Environmental, Social and Governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.

A central feature of ESG metrics is the identification and analysis of significant Environmental, Social, Governance KPIs at companies or funds as targets of investment (the combination of which reflect Risks and Opportunities) to take them into account by the design and implementation of the investment strategy and the method regarding the selection of the companies or the funds, in which an asset management company is going to invest.

The basic understanding of ESG at a company is also expressed through frameworks, such as an ESG strategy, under which company-specific fields of ESG activity are defined, as well as in more practically oriented regulations such as a code of conduct, environmental management guidelines, donation rules, or health and safety policies.

Although these topics are already operational realities for many companies, there is often a lack of adequate documentation with respect to procedures and individual measures. Current practice for ESG and CSR² is to disclose ESG-relevant information in a dedicated process and publish data in a separate report³.

It is important to take into account the following factors when it comes to ESG investment strategy and process:

- a) The underlying premise of sustainable investing,
- b) The materiality of ESG factors on financial performance and risk evaluation (minimization depending also on the strategy),
- c) The implications of sustainable investing for fiduciary duty,
- d) How sustainable investing fits into the investment process and strategy, and
- e) How to evaluate investment opportunities⁴.

² CSR stands for Corporate Social Responsibility

³ See also Report of European Federation of Financial Analysts Societies, Society of Investment Professionals in Germany, 2010

⁴ See also: Navigating the Sustainable Investment Landscape, 2016 by the World Resources Institute

THE UN PRINCIPLES FOR RESPONSIBLE INVESTMENT (UN PRI) AND THE RISE OF ESG FRAMEWORKS AND INITIATIVES

This section briefly presents the most important developments of the last years that have contributed significantly to the rise of ESG investing.

1. The rising impact of the **UN PRI Framework in the Financial Industry and the Investors Segment globally**. Significant growth of PRI signatory members the last years followed by an obligation of asset owners and asset managers to report to PRI according to the PRI reporting framework regarding the ESG investment strategy applied.
2. The European Commission appointed a **High-Level Expert Group (HLEG) on Sustainable Finance**. In its interim report (July 2017), the HLEG recommended to the European Commission to clarify that the fiduciary duties of institutional investors and asset managers explicitly integrate material sustainability factors (environment (including climate), social, and corporate governance) and long-term sustainability.
3. The 2014/95/EU **Non - Financial Disclosure Directive** with impact on large **public-interest entities (listed companies, banks, insurance undertakings and other companies that are so designated by Member States) with more than 500 employees** (or in some EU member states like Sweden, Denmark, Greece even with more than 250 employees) should disclose in their management report relevant and useful information on their business model, policies, main risks and outcomes relating to at least: environmental matters, social and employee aspects, respect for human rights, anticorruption and bribery issues and diversity in their board of directors.
4. The new **EU Capitals Markets Union Initiative**.
5. The recent **EU Shareholders Rights Directive** (May 2017), which introduces a number of transparency requirements regarding how investors integrate long-term considerations into strategies, mandates and engagement policies, including ESG.
6. The **European Supervisory Authorities (ESAs) package (2017)**. The European Commission proposed to specifically require the ESAs to take into account ESG factors.
7. The **US Sustainability Accounting Standards Board (SASB) Initiative**.
8. The **Paris Climate Agreement** and the obligation for a binding road map with impact for states, investors and firms. ESG factors are highlighted.
9. The rising importance of **Stewardship Codes, Codes of Conduct**, ESG global and European initiatives (US SIF, RIIA, Eurosif, FNG etc.).
10. The **World Federation of Stock Exchanges (WFE)** has ESG recommendations and guidance for its members and recommends specifically 34 relevant indicators to be followed and incorporated into stock exchange listing disclosures. Similar initiatives are taken by various Stock Exchanges (e.g. **The Sustainable Stock Exchanges Initiative, Nasdaq etc.**). Moreover, the importance of Sustainability Indexes and Sustainability Ratings is growing.
11. The **GRI Reporting Standards** for corporations takes into account the ESG Indicators as well as other national frameworks such as the **German Code for Sustainability**, a new German standard for sustainability reporting has incorporated ESG elements...

FACTS, FIGURES AND TRENDS IN EUROPEAN AND US ESG MARKET

The recent investors and asset management firms experience, the academic evidence but also the latest ESG market facts and figures showcase that during the last decade an increasing number of asset owners and asset management firms apply ESG metrics or plan at least to integrate ESG into their investment strategy.

The corporations try also to integrate ESG metrics (by improving their sustainability performance and their non - financial indicators) in order to attract ESG investors. At the same time the value and volume of ESG European & US Market grow in sustainable way, according to studies by the Sustainable Investment Forums (SIFs).

The reasoning behind this new positive ESG market trend is the reduction of risk and the better performance of ESG investments on mid-term and long-term, especially in turbulent times at the markets.

According to the data provided by the Global Sustainable Investment Alliance (GSIA) (consisting of the relevant SRI associations worldwide), in 2016, USD 22.89 trillion of assets were being professionally managed under responsible investment strategies, a growth rate of 25% since 2014.

In 2016, around 26% of professionally managed assets had SRI/ESG strategy elements.

According to GSIA, it is estimated that in 2016, in Europe in terms of value, total assets of over 12 trillion Euro were managed with SRI / ESG strategies.

There was a growth rate of around 12% between 2014 and 2016. Over 11 trillion Euro of them were managed by implementing exclusionary screening...

Top 10 Performing ESG Funds Worldwide

This section lists the Top 10 performing ESG Funds from all over the world. Between June 2016 and June 2017 each fund had at least USD 100 million under management and at least three years track record. (Source: Morningstar) ...

ESG Investment Strategies

The main ESG investment strategies; from research to proxy voting are the following: ...

ESG Investment Strategies, Climate Risk and Carbon Exposure in a Portfolio investment Strategy

This section presents some key findings on how certain global environmental challenges like climate risk and carbon emissions and footprint are addressed by ESG investment strategies...

ESG Benchmark Analysis of selected Asset Management Firms

This section outlines the ESG strategies, products and performance as well as the sustainability strategy in details of five asset management companies, namely:

1. Arabesque Asset Management www.arabesque.com
2. RobecoSAM www.robecosam.com
3. Sycomore Asset Management <http://en.sycomore-am.com>
4. Calvert Research and Management www.calvert.com
5. Trillium Asset Management <http://www.trilliuminvest.com/>

Company	City/Country	Est.	Personnel	AuM	PRI
Arabesque	London United Kingdom	2013	24	USD 50 million	Yes
RobecoSAM	Zurich Switzerland	1995	120	USD 19.3 billion	Yes
Sycomore	Paris France	2001	50	EUR 7.2 billion	Yes
Calvert	Bethesda, MD United States	1976	154	USD 12.3 billion	Yes
Trillium	Boston, MA United States	1982	48	USD 2.8 billion	Yes

.....

The report outlines as well models, strategies in a more brief way about **AXA Asset Management, Allianz Global Investors, Union Investment and Deutsche Bank Asset Management.**



CONCLUSION AND RECOMMENDATIONS

As it was analyzed above, academic studies, financial and investment analysis, market experience and market stats and trends indicate that ESG Screening, Selection and Integration pays off especially on mid-term and long-term investment strategy.

There is growing consensus but also evidence, which indicates that ESG integration into investment strategy identifies and reduces risks, identifies hidden opportunities and hidden champions and contributes to mid-term and long-term outperformance of investments. That is confirmed by the positive trend in last years of the ESG market metrics and the outperformance of ESG funds.

Moreover, is important to overcome stereotype perceptions about ESG strategies such as the one that ESG integration means sacrifice of financial returns. Numerous studies indicate that there is correlation between financial performance and ESG performance.

The number of asset owners and asset management firms which include ESG metrics into their investment strategy is also growing steadily. For asset owners and asset managers, ESG relevant investment strategies become gradually from niche strategies to mainstream strategies and a regular component of investment decision-making.

Although many asset management firms as well as the selected ones analyzed above use ESG metrics, it is clear each of the applied ESG investment strategy does not lead to the same results, since different sub investment strategies, different methods and different tools are used.

LITERATURE AND RESOURCES

- Arabesque Asset Management
- Calvert Research and Management
- CAPITALS Circle Group Presentation on Risk Assessment (2017)
- European Commission
- Eurosif SRI Study (2016)
- FNG Annual Report (2017)
- Global Sustain
- Green Bonds Initiative
- GSIA Annual Report (2016)
- KPIs for ESG. A Guideline for Integration of ESG into Financial Analysis and Corporate Valuation, Version 3.0, EFFAS, DVFA (2010)
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- PIMCO
- RobecoSAM Asset Management
- Sustainable Financial Report (Issue 2), Deutsche Asset Management (2017)
- Sustainanalytics
- Sycomore Asset Management
- ShareAction Survey on Lifting the Lead: Responsible Investment Performance of European Asset Managers (2017)
- The Investing Enlightenment, State Street (2017)
- The Morningstar Sustainable Investing Handbook
- Thomson Reuters Lipper
- Trillium Asset Management
- UN PRI Website
- UN PRI Study on Shifting Perceptions, ESG, Credit Risk and Ratings (2017)
- US SIF Website
- White Paper on Piloting ESG Integration, AXA Investment Managers (2017)

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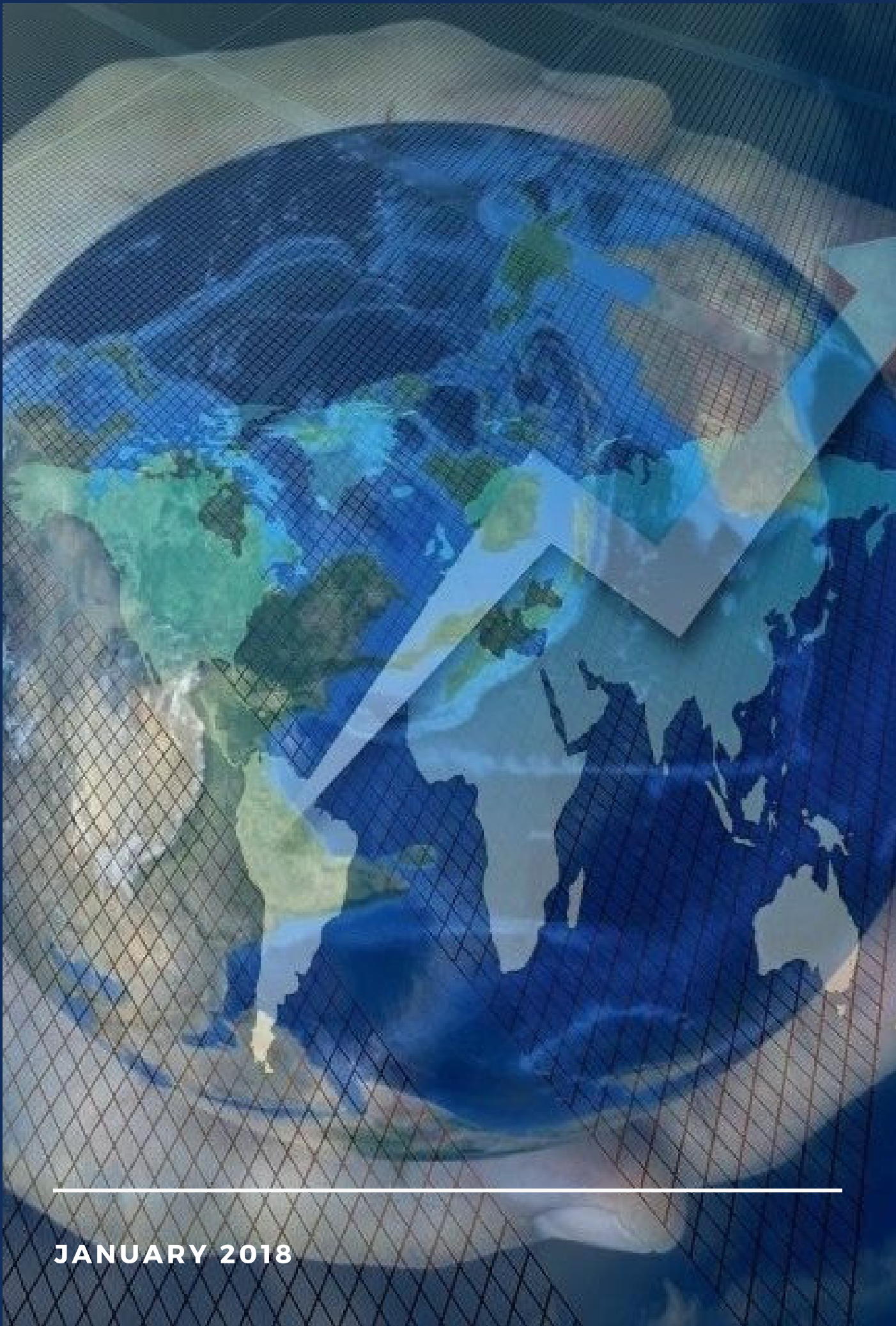
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