



**The HLEG final report and the European Commission  
Action Plan for the growth of sustainable finance in  
Europe: A  
what opportunities for sustainable asset managers?**

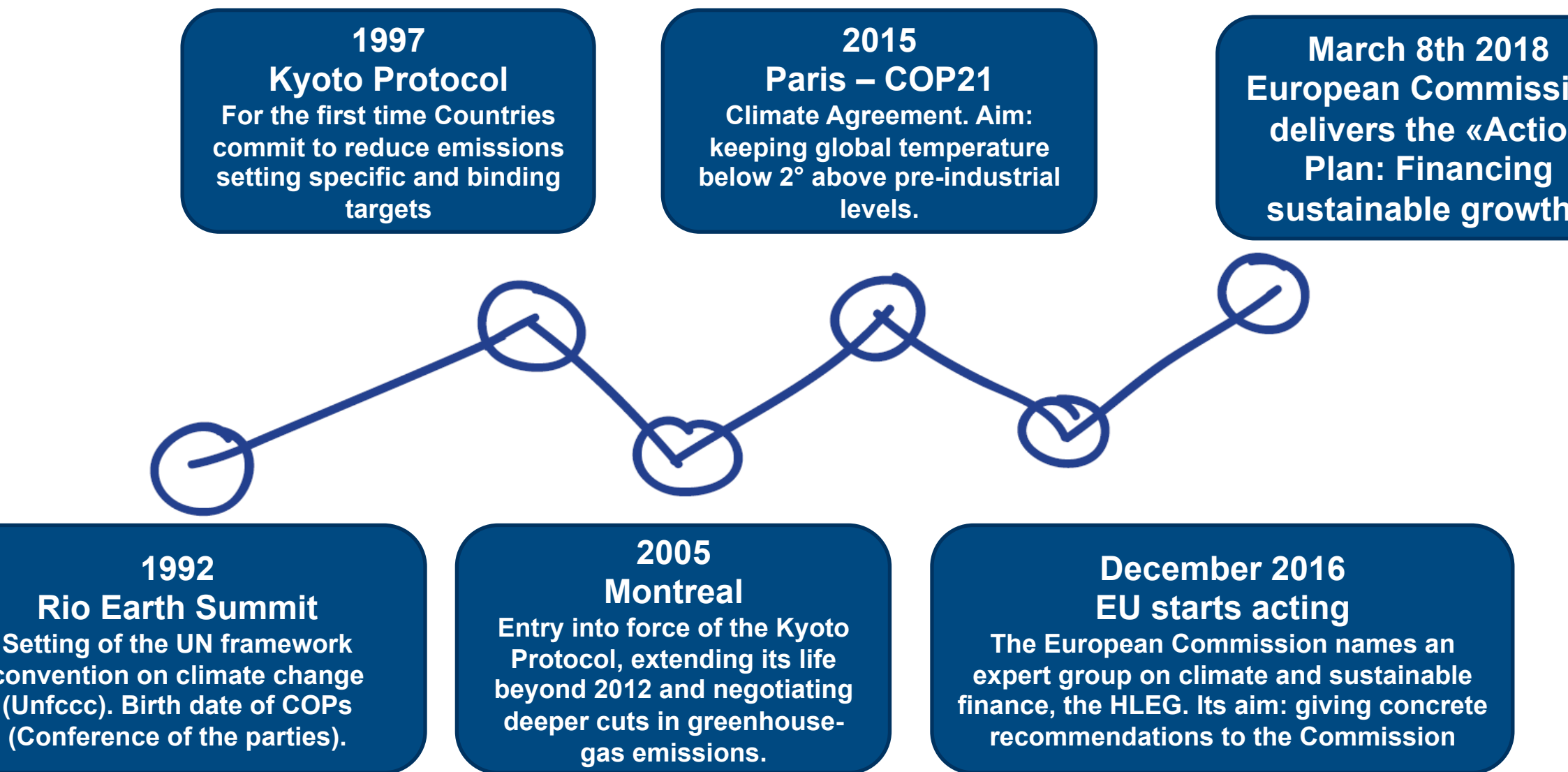
Federica Loconsolo

May, 4th 2018

# Agenda

- **Background**
- Global Risks
- A more social responsible Europe
- Challenge 1: reliable information
- Challenge 2: sustainability even in Risk Management issues
- Challenge 3: non financial accountability
- Conclusions

## 1992-2018, 25 years of Conferences with successes but even failures



*March 8th, the European Commission delivers its Action Plan*



# FINANCING SUSTAINABLE GROWTH

#SustainableFinanceEU

European Commission Action Plan



*"Moving to a greener and more sustainable economy is good for job creation, good for people, and good for the planet. Today we are making sure that the financial system works towards this goal. Our proposals will allow investors and individual citizens to make a positive choice so that their money is used more responsibly and supports sustainability."*

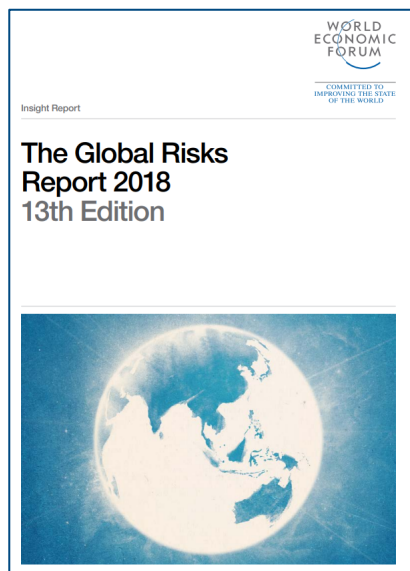
**FRANS TIMMERMANS**  
First Vice-President



# Agenda

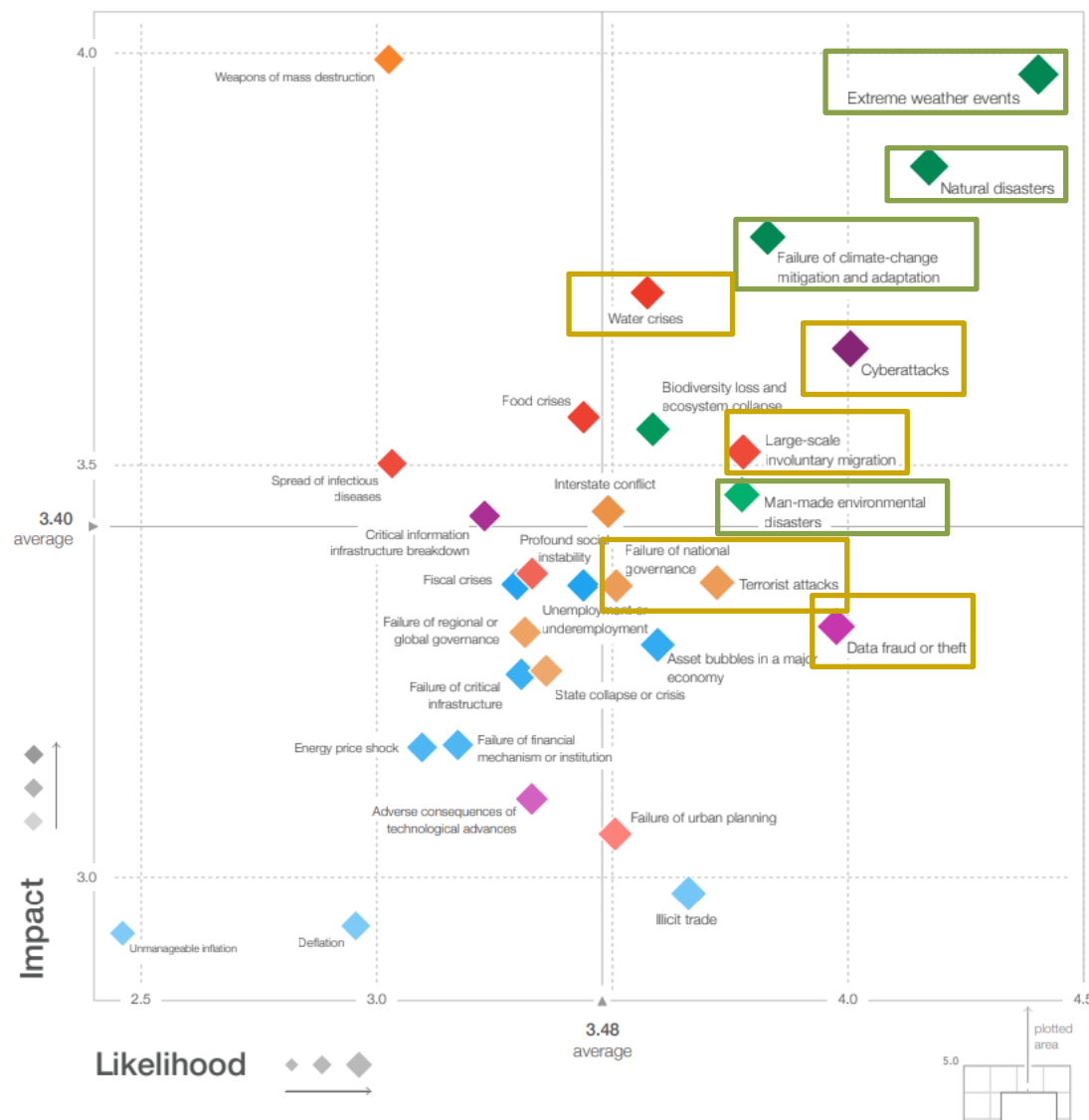
- Background
- **Global Risks**
- A more social responsible Europe
- Challenge 1: reliable information
- Challenge 2: sustainability even in Risk Management issues
- Challenge 3: non financial accountability
- Conclusions

# Global Risks with higher impacts: Environment and Social



Many emerging risks, considered more relevant by the international economic community, come from issues related to **environmental** and **social** sustainability.

Figure I: The Global Risks Landscape 2018



# In the last 5 years Environmental and Social risks are «the leaders»

## Top 5 Global Risks in Terms of Impact

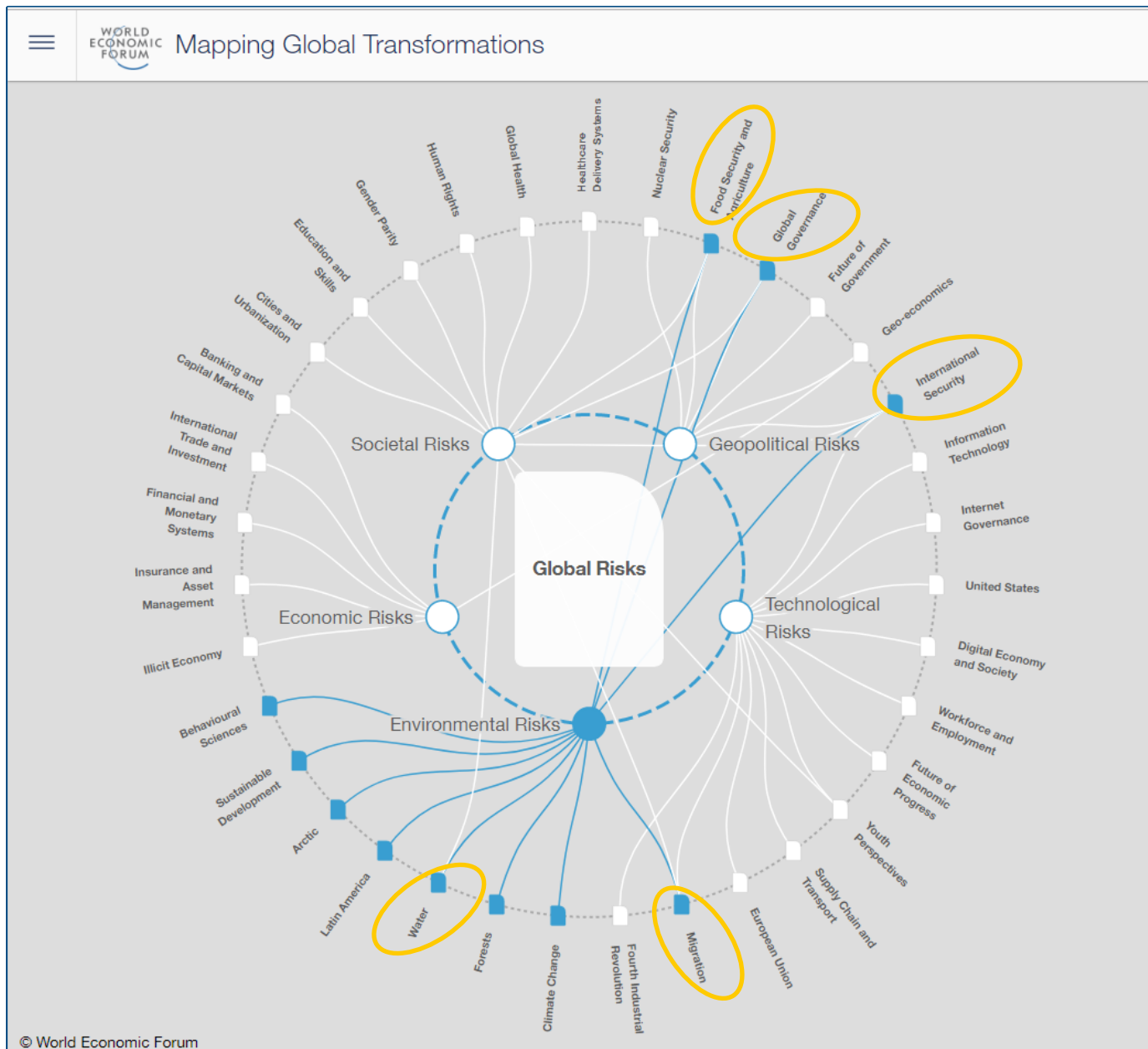
| 2008  | 2009  | 2010  | 2011                            | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  |
|---|---|---|---------------------------------|---|---|---|---|---|---|---|
| Asset price collapse                        | Asset price collapse                        | Asset price collapse                        | Fiscal crises                   | Major systemic financial failure                    | Major systemic financial failure                    | Fiscal crises                                 | Water crises  | Failure of climate-change mitigation and adaptation | Weapons of mass destruction                         | Weapons of mass destruction                         |
| Retrenchment from globalization (developed) | Retrenchment from globalization (developed) | Retrenchment from globalization (developed) | Climate change                  | Water supply crises                                 | Water supply crises                                 | Climate change                                | Rapid and massive spread of infectious diseases     | Weapons of mass destruction                         | Extreme weather events                              | Extreme weather events                              |
| Slowing Chinese economy (<6%)               | Oil and gas price spike                     | Oil price spikes                            | Geopolitical conflict           | Food shortage crises                                | Chronic fiscal imbalances                           | Water crises                                  | Weapons of mass destruction                         | Water crises  | Water crises  | Natural disasters                                   |
| Oil and gas price spike                     | Chronic disease                             | Chronic disease                             | Asset price collapse            | Chronic fiscal imbalances                           | Diffusion of weapons of mass destruction            | Unemployment and underemployment              | Interstate conflict with regional consequences      | Large-scale involuntary migration                   | Major natural disasters                             | Failure of climate change mitigation and adaptation |
| Pandemics                                   | Fiscal crises                               | Fiscal crises                               | Extreme energy price volatility | Extreme volatility in energy and agriculture prices | Failure of climate-change mitigation and adaptation | Critical information infrastructure breakdown | Failure of climate-change mitigation and adaptation | Severe energy price shock                           | Failure of climate-change mitigation and adaptation | Water crises  |

■ Economic
 ■ Environmental
 ■ Geopolitical
 ■ Societal
 ■ Technological



# Environmental and Social risks effects

Migration  
Water  
Food Security



International Security  
Global Governance

# Agenda

- Background
- Global Risks
- **A more social responsible Europe**
- Challenge 1: reliable information
- Challenge 2: sustainability even in Risk Management issues
- Challenge 3: non financial accountability
- Conclusions

# Europe for a more socially sustainable economy

31 January 2018: HLEG unveils its Final Report

EU HIGH-LEVEL EXPERT GROUP ON  
SUSTAINABLE FINANCE



Final Report 2018  
the High-Level Expert Group on Sustainable Finance  
Secretariat provided by the European Commission

## HLEG 8 recommendations:

- To introduce a **common sustainable finance taxonomy** to ensure market consistency and clarity, starting with climate change and including **ESG issues**
- To clarify **investor duties to extend time horizons** and bring greater focus on ESG factors
- To upgrade **Europe's disclosure rules** to make climate change risks and opportunities fully transparent.
- To **empower and connect Europe's citizens with sustainable finance issues**.
- To develop **official European sustainable finance standards**, starting with one on green bonds
- To establish a '**Sustainable Infrastructure Europe**' facility to expand the size and quality of the EU pipeline of sustainable assets.
- To **reform governance and leadership of companies** to build sustainable finance competencies.
- To enlarge the role and capabilities of the ESAs to **promote sustainable finance as part of their mandates**.



# By the recommendations to the Action Plan: Financing Sustainable Growth

## The Aims

Re-orient capital flows towards sustainable investment, in order to achieve sustainable and inclusive growth

Manage financial risks stemming from climate change, natural disasters, environmental degradation and social issues

Foster transparency and long-termism in financial and economic activity

## Action Plan: the 10 Actions

- Establishing an **EU classification system** for sustainable activities
- Creating **standards and labels for green financial products**
- Fostering investment in **sustainable projects**
- Incorporating sustainability when providing financial advice (including **modification to MiFID II and ISS Directive as well as ESMA guidelines**)
- Developing **sustainability benchmarks**
- Better **integrating sustainability in ratings and market research**
- Clarifying **institutional investors' and asset managers' duties**
- Incorporating sustainability in **prudential requirements**
- Strengthening **sustainability disclosure and accounting** rule-making
- **Fostering sustainable corporate governance** and attenuating short-termism in capital markets




# A concrete action plan with a precise timing

March 2018



2019

The European Commission will report about the Action Plan implementation

| WHAT CHALLENGES DOES THE ACTION PLAN ADDRESS?   |   |  |
|---|---|--|
| KEY CHALLENGES  | ACTIONS   |  |
| No common definition of 'sustainable investment'  | EU classification (taxonomy) for sustainable activities   | <br><b>RELIABLE INFORMATION</b>               |
| Risk of 'greenwashing' of investment products   | Standards and labels for 'green' financial products give investors certainty                    |  |
| Banks and insurers often give insufficient consideration to climate and environmental risks | Study if capital requirements should reflect exposure to climate change and environmental risks | <br><b>SUSTAINABILITY AND RISK MANAGEMENT</b> |
| Investors often disregard sustainability factors or underestimate their impact              | Clarify institutional investor duties to consider sustainable finance when allocating assets    |  |
| Too little information on corporate sustainability-related activities                       | Enhancing non-financial information disclosure  | <br><b>LONG-TERMISM IN GOVERNANCE</b>       |

1

2

3

# Asset managers are key in supporting the private sector



*"Inspired by the work of the High-Level Expert Group, we are today presenting our plans for a far-reaching reform that could set the global benchmark for sustainable finance. Only with the help of the financial sector can we fill the annual €180 billion funding gap to reach our climate and energy targets. This will help to support a sustainable future for generations to come."*

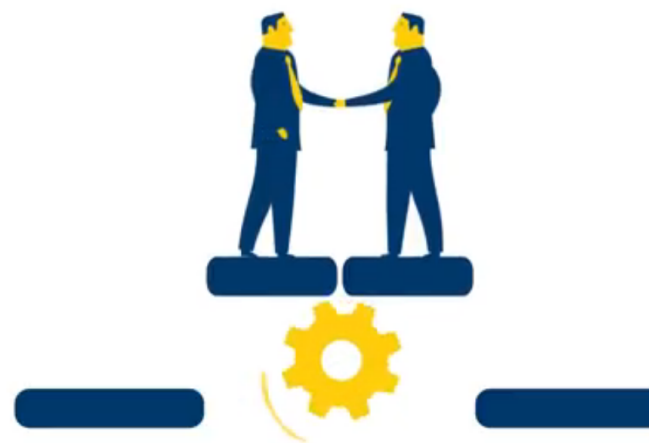
**VALDIS DOMBROVSKIS**

Vice-President in charge of Financial Stability,  
Financial Services and Capital Markets Union

## INVESTMENTS SELECTION



## ENGAGEMENT



# Asset managers are key in supporting the private sector

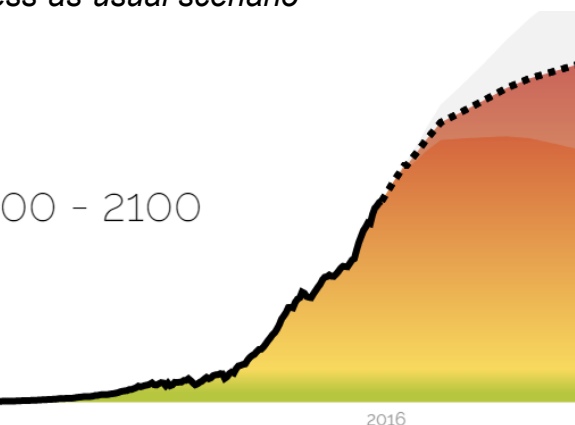
- 40% cut in greenhouse gas emissions compared to 1990 levels
- At least 27% renewables in the final energy consumption
- At least 30%\* energy savings compared with the «business-as-usual» scenario

**Additional  
investments are  
needed**



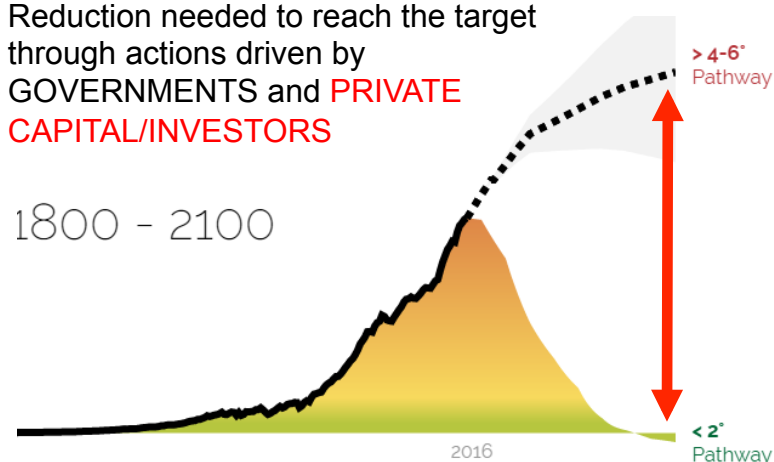
**Around €180 billion a year**  
(that rises to **270 billion** if  
energy, transport, water and  
waste sector are also included)

Business-as-usual scenario

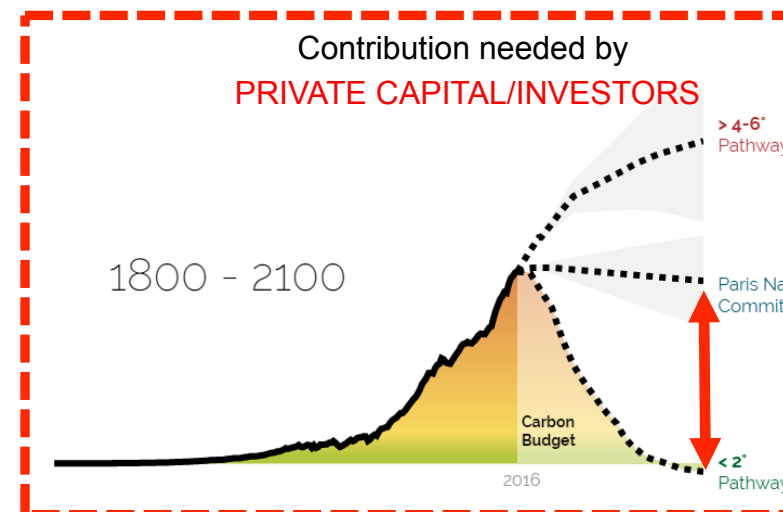


<http://sciencebasedtargets.org/>

Reduction needed to reach the target  
through actions driven by  
GOVERNMENTS and **PRIVATE  
CAPITAL/INVESTORS**



Contribution needed by  
**PRIVATE CAPITAL/INVESTORS**



# Agenda

- Background
- Global Risks
- A more social responsible Europe
- **Challenge 1: reliable information**
- Challenge 2: sustainability even in Risk Management issues
- Challenge 3: non financial accountability
- Conclusions

# Challenge 1. Reliable Information. Common definitions fighting «greenwash»

Example of Italy

Forum Finanza  
Sostenibile 2014



«L'Investimento Sostenibile e Responsabile è una **strategia di investimento** orientata al **medio-lungo periodo** che, nella valutazione di imprese e istituzioni, **integra** l'analisi finanziaria con quella ambientale, sociale e di buon governo, al fine di **creare valore** per l'**investitore** e per la **società nel suo complesso**»

«Si qualifica come sostenibile e responsabile un fondo che, sulla scorta di una **propria definizione operativa** del concetto di responsabilità, ha una **politica di investimento** che **vieta** l'acquisto di un insieme di titoli e/o **privilegia** l'acquisto di titoli sulla base di analisi che **integrano** criteri ambientali, sociali e di buon governo (Environmental, Social and Governance) all'analisi finanziaria(2)»

Assogestioni  
2017



Definizione che esprime la posizione ufficiale del Forum per la Finanza Sostenibile, frutto di un Gruppo di lavoro ad hoc cui hanno partecipato i principali attori della finanza sostenibile (settembre 2014). Documento ufficiale: [www.finanzasostenibile.it/images/stories/140903\\_Posizione\\_ufficiale\\_SRI\\_FFS.pdf](http://www.finanzasostenibile.it/images/stories/140903_Posizione_ufficiale_SRI_FFS.pdf)  
Definizione di Assogestioni. Nell'ottobre del 2017, in considerazione dell'evoluzione dell'approccio alla finanza sostenibile verificatesi negli ultimi anni, la qualificazione di fondo etico è costituita con quella di fondo sostenibile e responsabile. Documento ufficiale: [http://www.assogestioni.it/ass/library/78/classificazione\\_fondi\\_sostenibili\\_ottobre\\_2017.pdf](http://www.assogestioni.it/ass/library/78/classificazione_fondi_sostenibili_ottobre_2017.pdf)



**etica SGR**  
Investimenti responsabili



# Etica SGR, investments 100% SRI

**For the last 17 years pioneer of the sector in Italy**



*Etica Sgr was founded in 2000 and since 2003 is developing, promoting and managing exclusively (100%) socially responsible investments*

**Etica Sgr is the only Italian asset management company totally SRI oriented**



- **Only SRI Mutual Funds** (Etica Sgr manages only funds taking into account sustainability aspects)
- **ESG consulting** for institutional clients
- **Engagement** (soft and hard)

**The only Italian SGR with an autonomous and independent Ethical Committee**



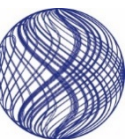
*Academics- Experts on environmental themes  
Religious- Experts on human rights*

**Strategic Partnership in international SRI networks**



Forum per la Finanza Sostenibile

# Etica SGR the Environment is key



ATE  
NGE

Oil e Coal equities - Mining

**ESCLUDED SINCE 2003**

«E» factors are taken into  
consideration in the issuers analysis

**REPUTATIONAL RISK**

**VALUATION AND  
EXCLUSION**

Etica Sgr is the first Italian Asset  
Manager complying with the annual  
calculation of Carbon Footprint  
of its equity investments

 **PRI** Montréal **PLEDGE**



**CARBON FOOTPRINT**

L'INSIEME DELLE EMISSIONI DI GAS  
AD EFFETTO SERRA ATTRIBUIBILI AD UNA SOCIETÀ,  
EVENTO, PRODOTTO O PERSONA.

Riducing the emissions,  
investments for a «Low Carbon»  
economy

**ENGAGEMENT  
THEMES**

# Agenda

- Background
- Global Risks
- A more social responsible Europe
- Challenge 1: reliable information
- **Challenge 2: sustainability even in Risk Management issues**
- Challenge 3: non financial accountability
- Conclusions

## Challenge 2: Taking into consideration the sustainability in Risk Management

We requested for a survey in late 2017

We asked to 500 potential investors to make spontaneous associations on ethical and responsible investments. What did we find out?

19% of respondents do not link any word or concept to ethical investments;

The other 81% link them to the **risk-return relationship**



## Etica Sgr, the proprietary metric «ESG Risk»

Following UN PRI's publication (*PRI a practical guide to ESG integration for equity investing 2016*) ESG indicators may be helpful to perform a more effective and complete evaluation of **ex ante risk** of an equity portfolio. An 8% ESG contribution is estimated.

Etica Sgr's analysis carried out on the basis of the **ESG Risk**, a **proprietary metric**, was able to get an interesting result:

The ESG contribution (calculated through several ESG indicators ESG and/or the solely IU) is **between 5% and 10%** of total fund risk that can be calculated starting from issuers track records.

### In particular

Several studies have shown that sustainable and responsible investment can deliver competitive market performance. At times of high volatility, it can also serve to **mitigate financial risk**. Investing in an equity portfolio of firms that ignore ESG issues can prove unwise in terms of long-term performance.



# Agenda

- Background
- Global Risks
- A more social responsible Europe
- Challenge 1: reliable information
- Challenge 2: sustainability even in Risk Management issues
- **Challenge 3: non financial accountability**
- Conclusions



## *Challenge 3. non financial accountability for long time investments*

Impact Report and Carbon Footprint: possible instruments of accounting and transparency for investors

Eurosif «European SRI Transparency Code». Version 4.0 updated in february 2018.

Why to measure the impact of Investments and/or the Carbon Footprint?

- To make investors more **conscious**
- To acquire internally more awareness regarding the behavior of companies in which a portfolio invests
- **Value** integration and creation of interrelationship with strategic corporate issues, such as the engagement
- Commitment in achieving a **sustainable growth**



# Etica Sgr, Measuring the impact of investments ex post

Waste reduction  
Emission reduction  
Protection of biodiversity

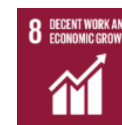
**+30%**  
**+51%**  
**+35%**



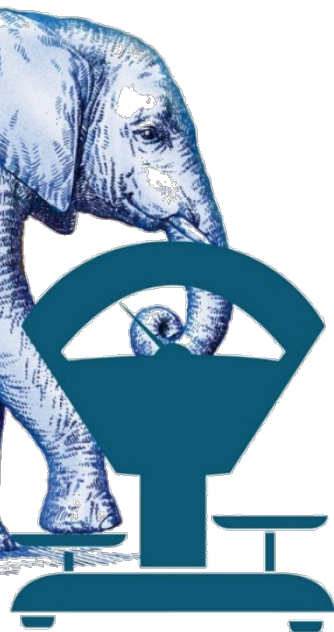
## ENVIRONMENTAL IMPACT



Occupational Health and safety **+13%**  
Job creation **+75%**  
Human rights **+33%**



## SOCIAL IMPACT



Equal Opportunities  
ESG Remuneration policies

**+13%**  
**+50%**

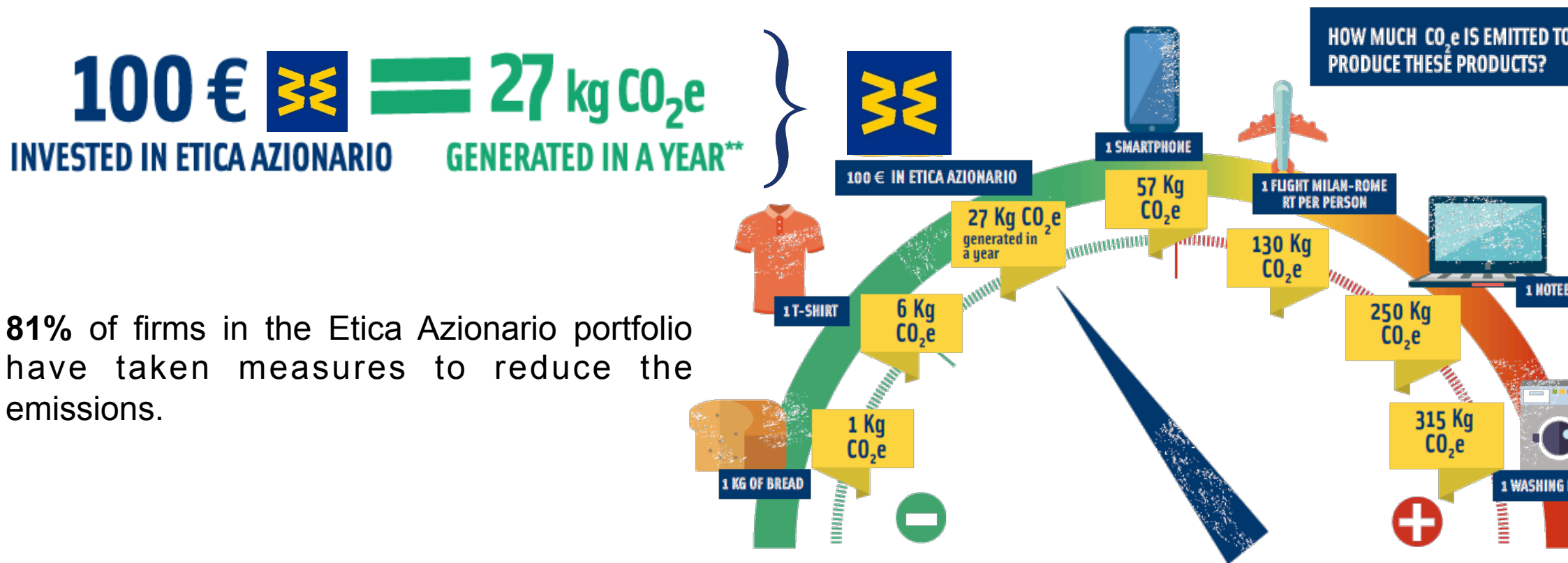


## GOVERNANCE IMPACT

Note: The data are expressed as a % of the market benchmark (iShares MSCI ACWI ETF).  
Ref. : [www.eticasgr.it/report-impatto](http://www.eticasgr.it/report-impatto)

# Etica Sgr, Measuring the carbon footprint of investments

For the third consecutive year Etica Sgr measured the carbon footprint of the Etica Azionario fund to focus in greater detail on the environmental impact of the companies in the portfolio in terms of climate change emissions.



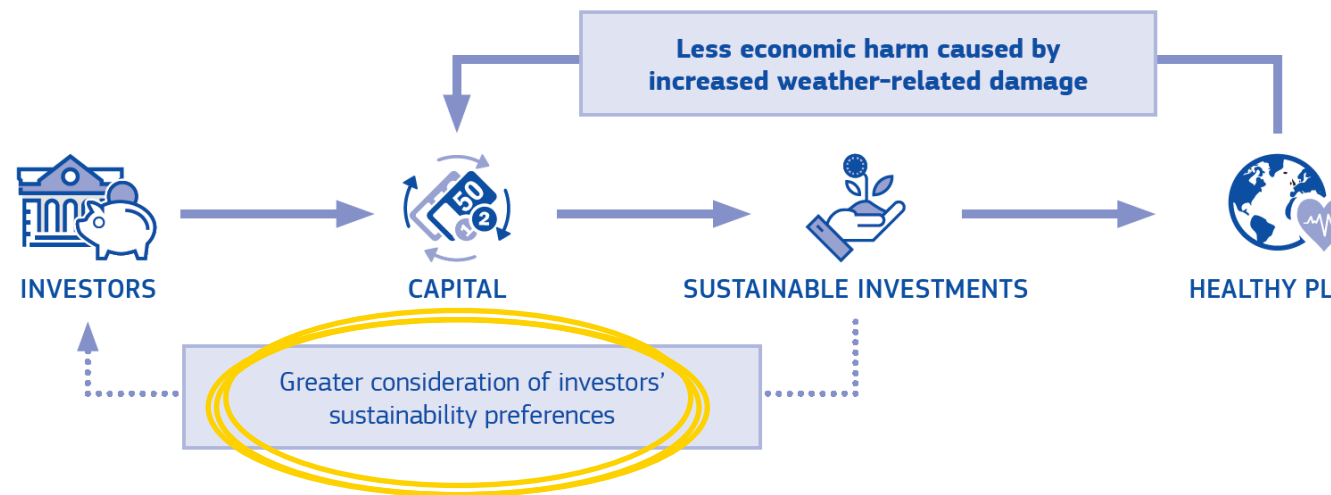
Source: EPA (US Environmental Protection Agency); BCFN Foundation; [www.lastoriadellecose.com](http://www.lastoriadellecose.com).

## *Moreover: the Action Plan focuses on the role of financial intermediaries*

**Financial intermediaries** and their advisory activities are crucial to **address** their clients' **investments** towards **sustainability**

The Commission will therefore amend MiFID II and Insurance Distribution Directive delegated acts to enhance also **consideration of sustainability in suitability Assessment**

The Commission exhorts ESMA to update by the end of 2018 MiFID II Product Governance's guidelines



# Agenda

- Background
- Global Risks
- A more social responsible Europe
- Challenge 1: reliable information
- Challenge 2: sustainability even in Risk Management issues
- Challenge 3: non financial accountability
- **Conclusions**

# Our conclusions

**European Commission's direct stance** on sustainable finance is crucial

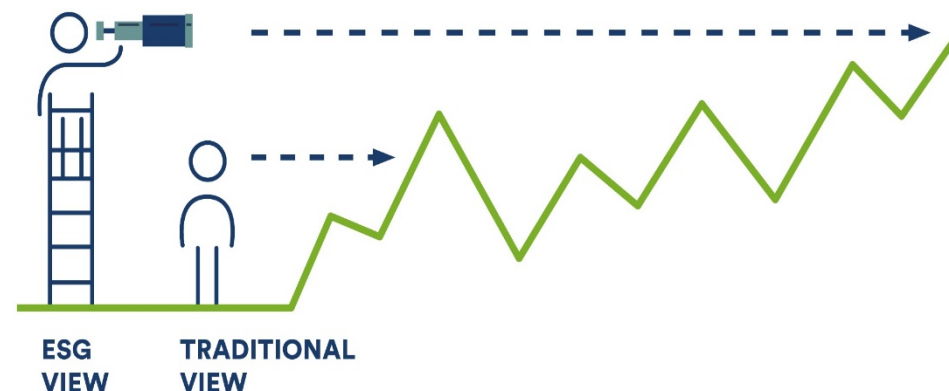
The European Commission has declared the need of a **common and coherent definition** (taxonomy) of 'sustainable investments'

The Action Plan often refers to «*sustainable*» as a synonym of *green* but S (*social*) and G (*governance*) are nonetheless origin and consequence of E (*environment*)

- A **socially responsible and inclusive finance** – as it is wanted - should take into consideration the very close connection existing between E, S and G
- Sustainable finance includes and is at the same time something more than solely «*green*» issues



- Main asset managers and institutional investors are already moving towards ESG issues
- The European Commission's intervention deserves credit for having made official and having done importance to investments themes that otherwise could have been considered just as marketing







## Contacts

[institutional@eticasgr.it](mailto:institutional@eticasgr.it)

[www.eticasgr.it](http://www.eticasgr.it)



### Disclaimer

This document does not represent solicitation to the public. Etica Sgr is exempted from any liability resulting from disclosure of this material to the public, in violation of the provisions of the Supervisory Authorities on advertising. Past performance is not indicative of future results. Before investing, you must read the Prospectus and KIID, which are available at the headquarters of the company, the distributors and at the website: [www.eticasgr.it](http://www.eticasgr.it)