

## THE RAPID MAINSTREAMING OF ESG INVESTMENT PRACTICES AMONG EUROPEAN ASSET OWNERS



ESG is mainstreaming in the European institutional market, driven by a combination of factors such as new regulations, ethical considerations, increased reputational concerns and risk management practices. Recently, impact investment opportunities have taken centre stage, underpinned by the growing use of the Sustainable Development Goals (SDGs), which are becoming a universal impact assessment framework.

INDEFI’s pan-European research covers over 200 of Europe’s largest asset owners\*. Its findings point towards high levels of ESG disclosure, spearheaded by the Nordics, the Netherlands and France.

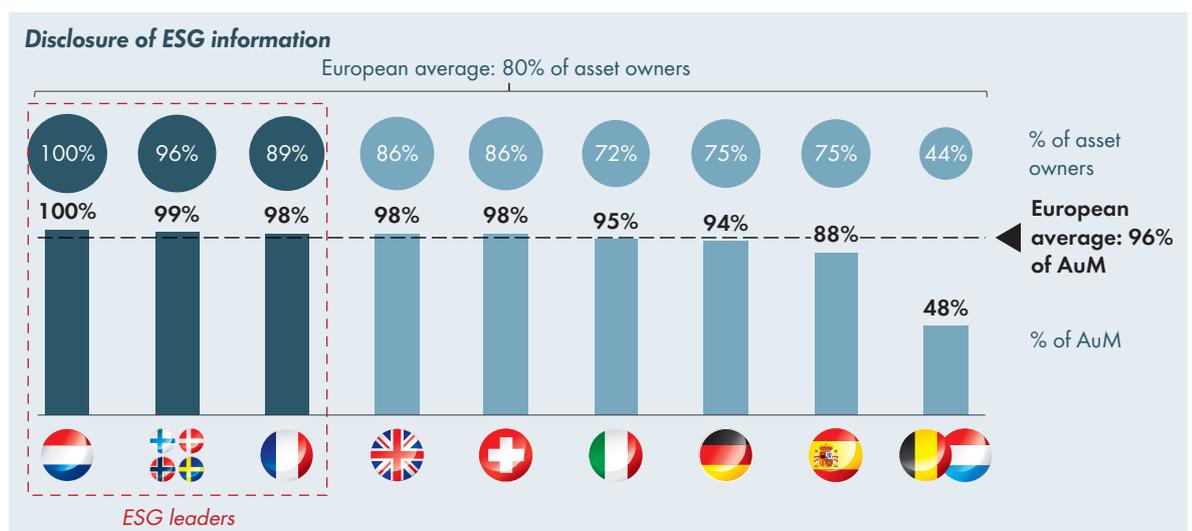
The diffusion of ESG practices is heterogenous: while exclusions, integration and stewardship remain fundamental pillars of ESG policies, impact investing and climate analyses are paving the way for the future of responsible investment. The recent European taxonomy is expected to foster asset owners’ investment allocations in green and sustainable products.

In light of these trends, market competitiveness and asset owners’ expectations towards third-party asset managers have increased. The ability to implement specific ESG considerations, provide detailed ESG reporting and offer innovative sustainable products appears as a key success factor for asset managers to seize the European institutional outsourcing opportunity.

### A PANEL OF 205 ASSET OWNERS AMONG THE LARGEST IN EUROPE\*

Evidence of ESG mainstreaming: ESG disclosure covers 80% of the largest asset owners representing 96% of assets under management (AuM).

Dutch, Nordic and French asset owners can be considered “ESG leaders” given their high level of disclosure and the quality of ESG information.



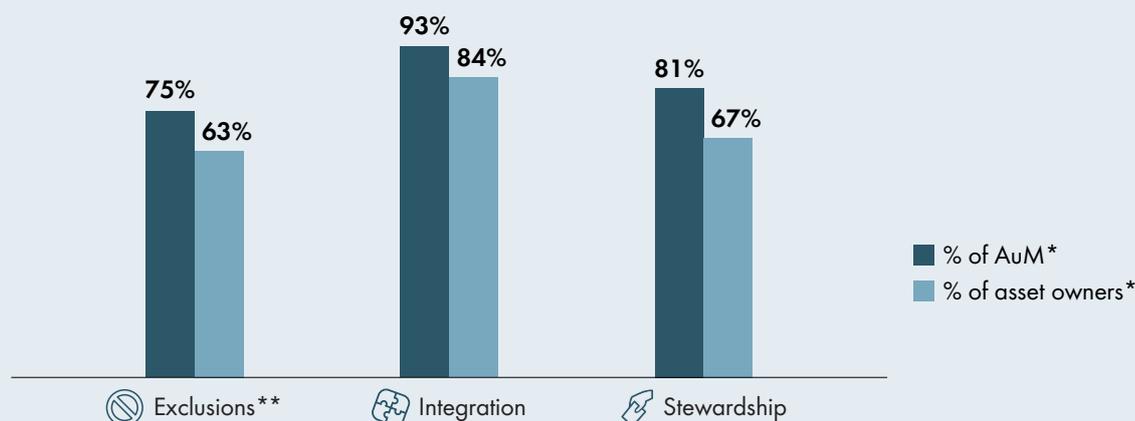
Notes: \*Long-term institutional investors managing assets for their own account, including: insurance companies, pension institutions and other institutions (churches and church-related institutions, foundations, associations, public institutions, banking foundations, investment foundations), based in 9 markets. The “Nordic” market includes Denmark, Finland, Norway and Sweden; the “BeLux” market includes Belgium and Luxembourg.

### ESG INVESTMENT PRACTICES

#### ESG INTEGRATION IS NOW COMMONPLACE

Exclusions, ESG integration and stewardship can be considered “traditional” ESG practices. Most large asset owners (84%) integrate ESG considerations in investment decisions. However, there is a limited level of transparency on the methods used (best-in-class, minimal ESG score, fundamental analysis, etc.). Excluding controversial assets remains a common practice but is no longer considered the only norm, in particular in the Netherlands and in Nordic countries, where investors prefer to engage in dialogue with issuers. In Europe, stewardship practices mainly consist in voting policies while engagement initiatives are still scarce.

Use of traditional ESG practices



Notes: \*Panel of asset owners disclosing ESG information; \*\* The exclusion of controversial weapons is a regulatory imperative and is therefore not taken into account in our analysis.

#### IDENTIFIED BEST PRACTICES



A German Church places stewardship at the core of its strategy, through voting and continuous dialogue on specific topics such as climate or working conditions in the supply chain. For each topic, the companies must set objectives and regularly report on their implementation.



A Dutch pension institution has created a €300m impact portfolio dedicated to four topics: energy transition, access to finance, circular economy and affordable housing. It also measured that 11% of its overall portfolio contribute to the SDGs.



A French insurance company performs a carbon analysis on all its securities. Scope 3\* emissions have been calculated for specific sectors (e.g. automobile constructors). Results have been used to compare the portfolio’s climate trajectory to a 2°C trajectory.



When investing in new funds, a Swedish pension institution assesses their 1) level of ESG integration in investment decisions, 2) stewardship practices and 3) ESG reporting. This ESG assessment is one of the six components of the overall score attributed to each fund.

Note: \*According to the GHG Protocol definition, scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

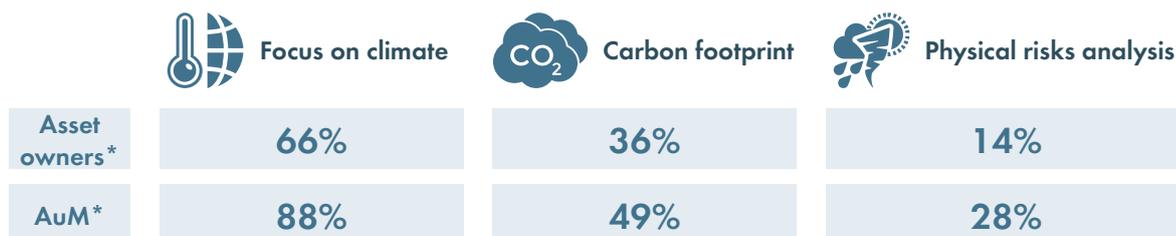
### CLIMATE ANALYSES

#### CLIMATE ISSUES ARE MOVING TO THE FOREFRONT OF ASSET OWNERS' PRIORITIES

66% of asset owners address climate issues in their ESG policies and reporting. However, climate disclosure remains the preserve of large investors with internal ESG capabilities.

Despite recent initiatives such as the Task Force on Climate-related Financial Disclosure (TCFD), climate methodologies are still heterogeneous.

France is by far the most advanced region on climate disclosure, thanks to the French Energy Transition Law (83% of all French asset owners publishing ESG information report on climate issues).

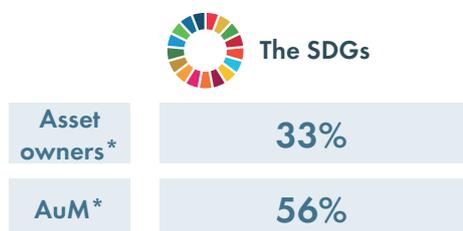


### IMPACT INVESTING

#### THE SDGS ARE THE LINGUA FRANCA OF IMPACT

Impact investing is a growing trend and the SDGs are considered the reference framework. Among the largest European asset owners disclosing ESG information, a third (33%) mention the SDGs in their report.

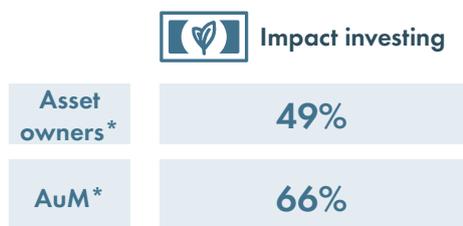
Except for thematic funds focusing on sustainable issues, only a few investors disclose detailed reports on their investment portfolios' positive and negative impacts on the SDGs.



#### IMPACT INVESTING IS GAINING IMPORTANCE

Almost half of our panel, managing 66% of AuM, invests in impact products. The most common impact investments are green bonds.

While other impact products mainly take the form of real assets, they are also spreading towards listed assets through sustainable thematic funds. These funds generally focus on social or environmental topics that can be related to the SDGs.



Note: \*Panel of asset owners disclosing ESG information.



### FOCUS ON FRANCE

#### ARTICLE 173 SHOULD MAINTAIN ITS PIONEER STATUS IN EUROPE

In June 2019, the French Government, together with the *Autorité des Marchés Financiers* (AMF) and the *Autorité de Contrôle Prudentiel et de Résolution* (ACPR), published a report on the application of the 2015 decree on extra-financial reporting for investors in France, which aims to implement Article 173 of the Energy Transition Law. The report concludes that most of the compliant asset owners still lack depth of analysis, which can be explained by the insufficient maturity of reporting methodologies and indicators.

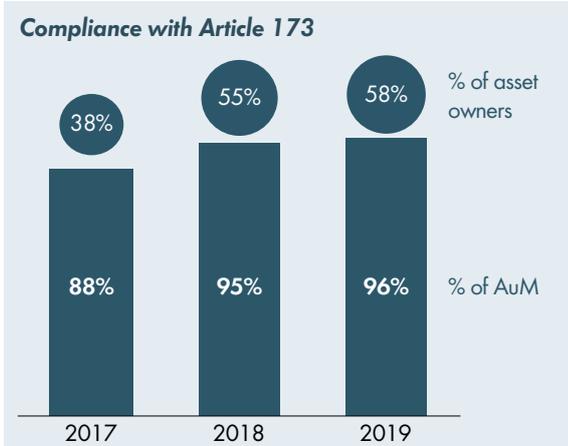
The French Government plans to publish a framework based on investors' best practices to limit global warming to 2°C. Up to now, discussions at European level have focused on sustainable assets, which should not significantly impact the French Law. Therefore, Article 173 should remain one of the broadest (in terms of assets and investors covered) and most ambitious laws on extra-financial disclosure.

#### THE NUMBER OF ASSET OWNERS COMPLYING WITH ARTICLE 173 HAS SIGNIFICANTLY INCREASED OVER THE LAST YEARS

INDEFI's analysis of 128 French asset owners' ESG reporting shows that 58% are compliant with Article 173. Almost all institutional assets are now covered by ESG disclosure.

The regulator will likely turn its focus to the quality of the reporting in the coming years.

As a consequence of the Law, climate issues are well integrated in French asset owners' reports. Furthermore, impact investments often target climate objectives. However, the SDGs are only mentioned by a limited share of asset owners.



### ABOUT INDEFI

INDEFI is a strategy advisor for the investment management business in Europe.

We help the world's leading asset managers shape their development strategies, navigate the shifts in the investment landscape and build sustainable competitive advantage. We serve our clients with unparalleled knowledge of the asset management industry. Our deep understanding of the complex environment in which they operate enables us to provide actionable insights and help create lasting value through improved performance.



**Richard BRUYERE**  
Managing Partner  
richard.bruyere@indefi.com



**Emmanuel PARMENTIER**  
Partner  
emmanuel.parmentier@indefi.com



**Clémence DROIN**  
Senior Project Manager  
clemence.droin@indefi.com



**Valentin ALLARD**  
Consultant  
valentin.allard@indefi.com



**Léonie SEGALA**  
Consultant  
leonie.segala@indefi.com

**CONTACT US TO ORDER YOUR COPY OF THE FULL RESEARCH REPORT**

30, rue La Boétie - 75008 Paris, France | [www.indefi.com](http://www.indefi.com) | +33 (0)1 56 88 34 70