

Savings and green revolution

Europe's grip on the sly foxes of sustainable investments

Governments have obtained postponement of the rules to define listed securities and funds as "ESG" until 2022. But, as early as March 2021, managers will have to communicate their strategies for environment and clean energy. Those who do not risk serious repercussions.

LUIGI DELL'OLIO

"As large investors, we expect reporting on the actions undertaken by your company in relation to what was decided in the Paris Agreement". The text is more complex and the language more formal still, but this is the essence of the letter signed by 38 of the world's biggest asset managers, who manage just under eight trillion euro. The recipients are 35 major European companies who must deal with the decarbonisation process defined in the 2015 Paris Agreement to reduce greenhouse gases and transition to renewable energies. Among them are Shell, Eni, Airbus, BASF, EDF, Enel, Volkswagen, FCA and many more.

The concern comes from the ongoing legislative changes at Community level, which is driving managers to radical decisions when building portfolios. Soon, some companies that currently boast sustainable policies will no longer be included in "ESG" branded funds, an acronym that indicates corporate strategies that focus on issues of environment, social inclusion and governance.

Morningstar reported that, in the second quarter of this year alone, sustainable mutual funds and ETFs in Europe recorded subscriptions for €54.6 billion, bringing total assets to 774 billion. The awareness of those who invest is growing, as is the knowledge that sustainable companies tend to be more concerned with medium to long-term growth and less volatile, since they offer the market more detailed indications and steer clear of many risks.

The European Union is set on sorting out a fast growing, albeit not always transparent sector, while protecting small investors from pure marketing, without suffocating the growth of such a crucial sector. In summer, the European Parliament adopted the Taxonomy

Regulation, which ratified the first classification system for sustainable activities, capable of creating a common language for investors on climate and environmental issues. Until now, it was each to their own. Some management firms had internal evaluation systems based on exclusion criteria (for example, those operating in pornography or weapons manufacturing were banned) or active selection criteria (the most virtuous companies were chosen for each segment). Others relied on specialised providers, such as Kld, Sustainalytics, Vigeo-Eiris and Asset4.

Brussels' decision promises to put a stop to the anarchy, but in the meantime, governments have obtained a one-year postponement of the taxonomy's entry into force, until the start of 2022.

In March, however, the new EU regulation came into force on the disclosure of sustainable investments, which will make it possible to clarify the key categories of investment strategies and products, so as to distinguish between those that integrate elements of sustainability into management and those that are less virtuous. Therefore, the time has come for managers to review their portfolio to avoid being unprepared. A survey by PwC found that 77% of institutional investors will stop investing in non ESG products within the next 24 months.

What needs to be done in order to comply with the EU taxonomy? "The activity must contribute substantially to at least one of the six environmental objectives defined in the regulation: climate change mitigation; climate change adaptation; the sustainable use and protection of water resources; the transition to a circular economy; pollution prevention and control; and the protection and restoration of biodiversity

and ecosystems", explains Simone Gallo of

Opinion

There are no escape routes, and greater transparency will be warmly welcomed. Those who do not embrace the change will get left behind

ANDREA ORSI
M&G INVESTMENTS

MainStreet Partners. "Additionally, the activity must not significantly harm the other objectives and must respect the minimum social and governance guarantees".

Andrea Orsi of M&G Investments is convinced that the path taken does not allow for escape routes. "We warmly welcome the greater transparency required by the taxonomy. Those who are not able to embrace the change will get left behind". He then recalls the weight of asset management companies when influencing change in listed companies. This is a crucial aspect. Regulations are needed, but alone are not enough to ensure such a momentous change. For Angelo Meda of Banor SIM, it is fundamental that, alongside the legislator's action, there are steps forward by the market, that it "self-regulate by discriminating between the lip service methodologies and terms and those of substance. It will be important to distinguish mere bureaucratic formalities, which will probably lead to an increase in indicators that are difficult to interpret and communicate, from the substantial matters that also have repercussions on performance".

BANOR SIM

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This is not enough. The European move also puts those that certify sustainability commitment to the test. "The EU legislative changes will raise the bar for sustainable investment", underlines Masja Zandbergen of Robeco, adding that, "managers must become even more transparent not only about their approach to work, but also about results". According to Beatrice Gornati of Standard Ethics, the current evolution will lead to a greater consideration of sustainability in the work of ratings agencies. She believes that, "Those who work in our profession will be favoured by the legislative changes. The sector is destined to focus on measuring the distance between an undertaking and the corpus of international indications, from tax and environment to human rights and consumer rights, before it then issues the rating".

To wrap things up, the feeling is that the effort to create clarity will only focus the objective, provided there is convergence between regulators, the incentive of large investors and clear decisions by managers. A combination of factors truly capable of allowing savers to make prudent decisions.

54.6

BILLION EURO

The investment flows in sustainable mutual funds and ETFs in Europe in the second quarter of this year

77%

OF INSTITUTIONAL INVESTORS

The number of managers that, in a survey carried out by PwC, stated that they would stop investing in non ESG stocks within 24 months

The numbers

