



Developing Sustainability through European Financial Markets

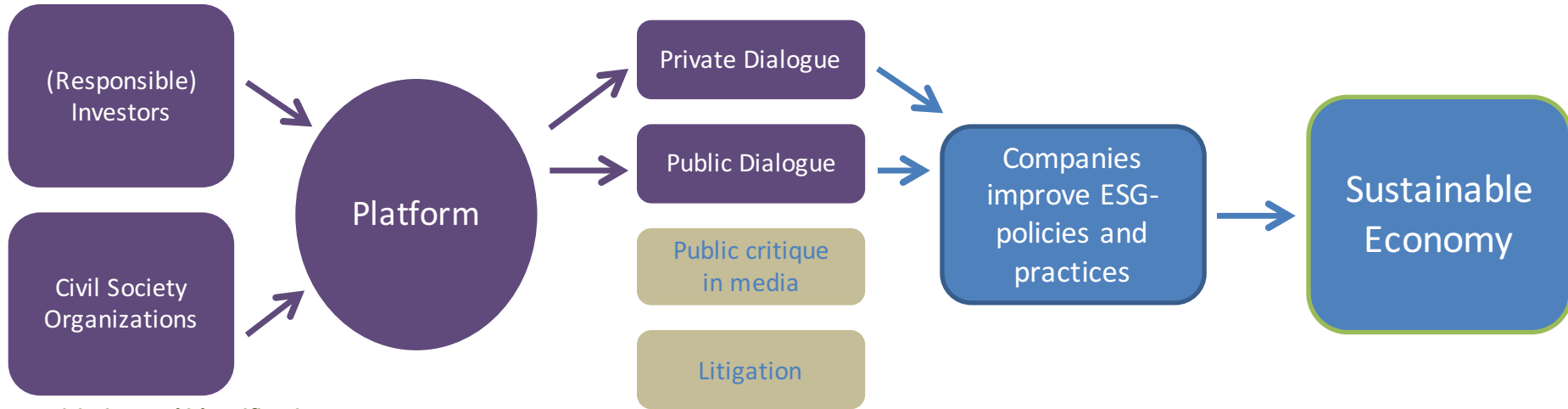
# Sustainable Investment and Long-Term Performance

*Giuseppe van der Helm*  
*9 June 2015*

*Dutch Association of Investors for Sustainable Development*



# Theory of Change and VBDO Activities



- **Initiation and identification**

- Of sustainability and Responsible investment trends

- **Research and reporting**

- On sustainability, human rights and responsible investment themes

- **Organization of multi-stakeholder dialogues**

- Towards improved sustainability and responsible investment performance

- **Actively engaging**

- With the board of directors of publicly listed companies during Annual General Meetings (AGMs) with constructive, critical questions to improve the companies' sustainability performance



# The VBDO: The Dutch Association of Investors for Sustainable Development

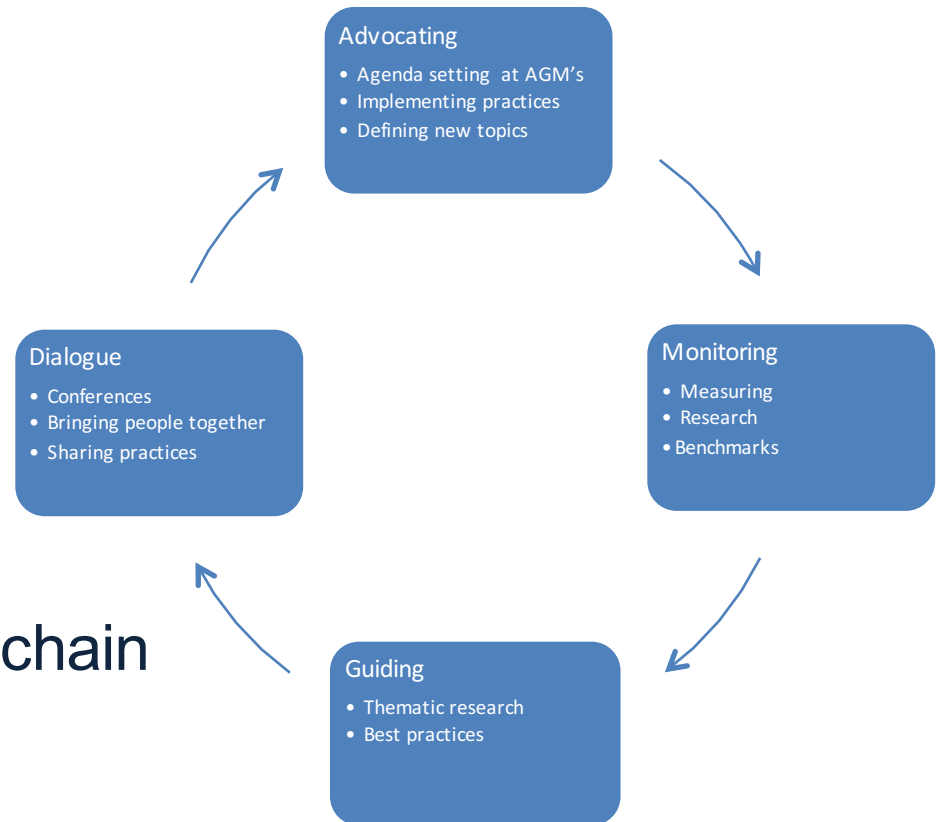


- Mission: 'to make capital markets more sustainable'
- Multi-stakeholder forum:
  - Financial sector
  - Service providers/ consultants
  - Civil society
  - Individuals
- Strengths:
  - Convening power
  - Constructive attitude
  - Practical and solution seeking approach



# Focus on Investors AND Companies

- Investors:
  - Benchmarks
  - Best practices
  - Investor network
  - Market studies
- Companies:
  - AGM
  - Responsible supply chain
  - Circular economy
  - Human rights
  - Responsible tax



# EUROSIF – The Leading Pan-European Sustainable Investment Membership Association

1

Partnership of 8 national SIFs – 10 markets

2

Multi-stakeholder organisation – About 80 Member Affiliates

3

European focus  
Policy  
Research



# A Multistakeholder Organisation with over 80 Affiliates





# The informal Global SIF network

- To exchange on best practices
- To identify common projects / synergies : **Trends report** and policy focus



# Trends in Sustainable Responsible Investment



Access the report:

<http://bit.ly/1FSoj9C>

GSIA website:

[www.gsi-alliance.org](http://www.gsi-alliance.org)

**GLOBAL SUSTAINABLE INVESTMENT ALLIANCE**  **GSIA**





# SRI covers 30% of total managed assets globally



**Table 1: Proportion of SRI relative to total managed assets**

	2012	2014
Europe	49.0%	58.8% <sup>4</sup>
Canada	20.2%	31.3%
United States	11.2%	17.9%
Australia	12.5%	16.6%
Asia	0.6%	0.8%
Global	21.5%	30.2%

Source: GSIA



# Global Sustainable Investing Assets have risen **by 61%**



**Table 2: Growth of SRI Assets by Region 2012–2014**

	2012	2014	Growth
Europe	\$8,758	\$13,608	55%
United States	\$3,740	\$6,572	76%
Canada	\$589	\$945	60%
Australia/NZ	\$134	\$180	34%
Asia	\$40	\$53	32%
<b>Total</b>	<b>\$13,261</b>	<b>\$21,358</b>	<b>61%</b>

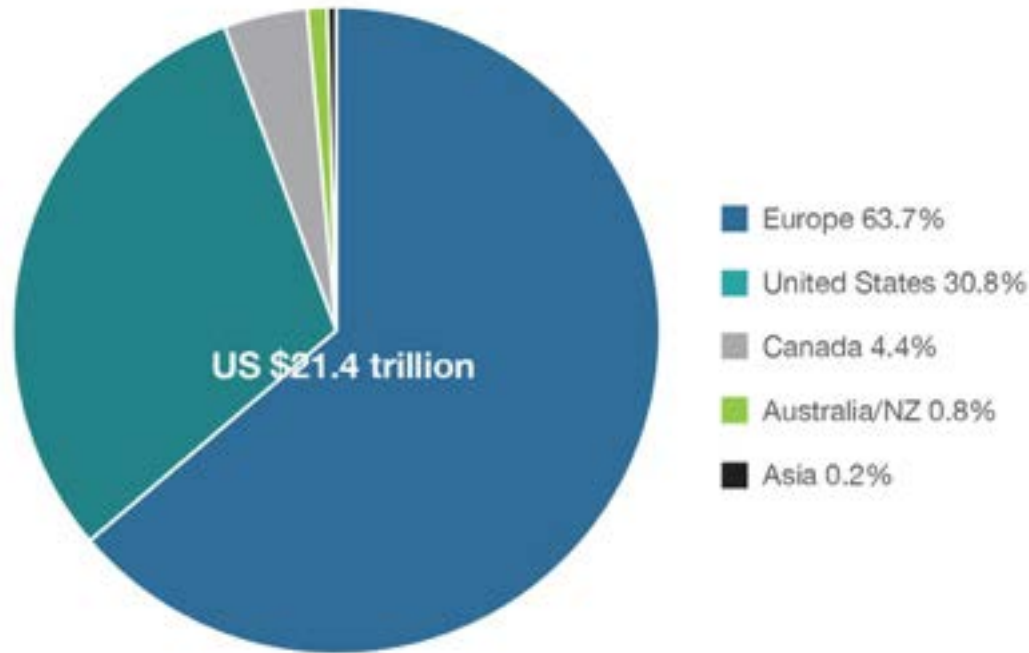
Note: Asset values are expressed in billions.

Source: GSIA



# 64% of GSI assets are in Europe

Figure 1: Proportion of Global SRI Assets by Region



Source: GSIA

\*All figures are expressed in US dollars.

\*\*This figure is based on the aggregation of all SRI strategies reported in the European SRI Study 2014 without double counting, and is presented in order to be consistent with the methodology of this global report. Please note, however, that this figure is not used in the European study as there is no single European definition for sustainable investing.

# Who are these investors?

- Banks
- Insurance companies
- Pension funds
- Asset managers

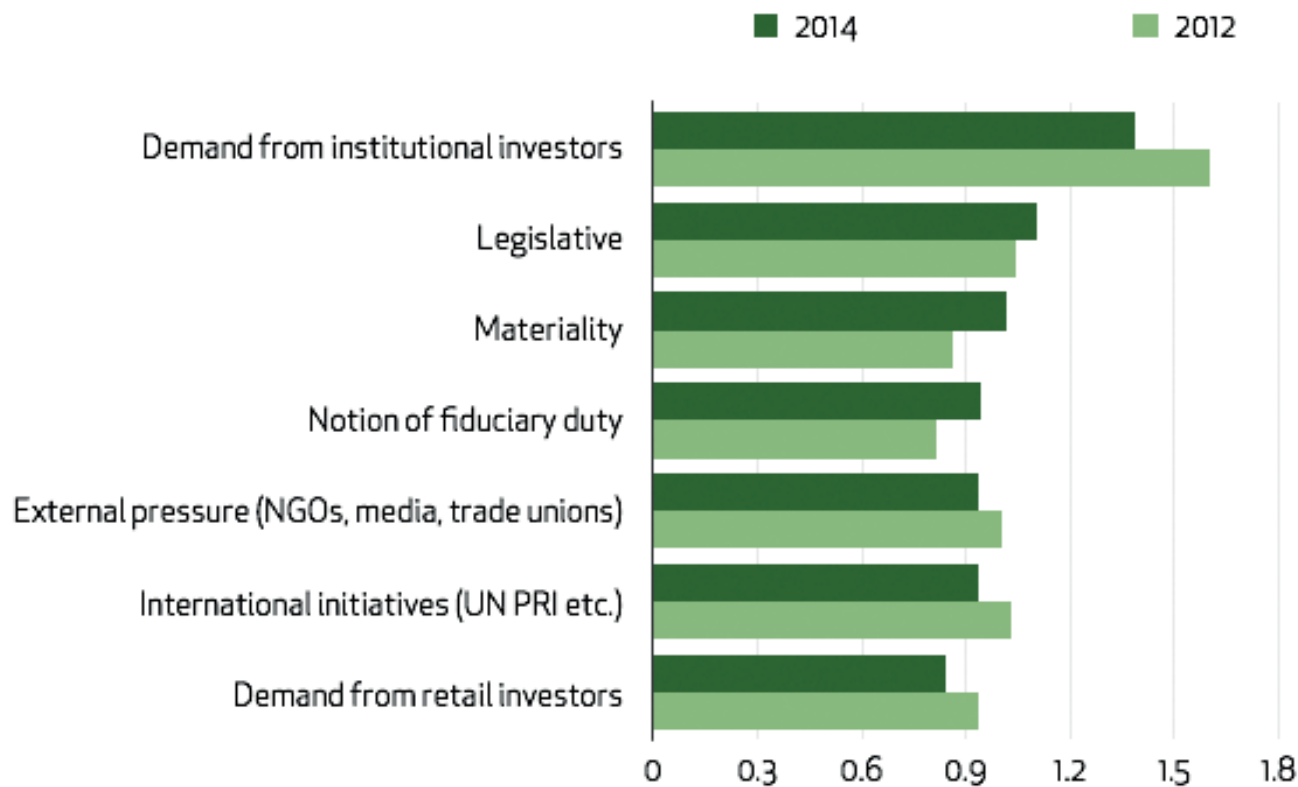


# Sustainable Responsible Investment

- ESG
- Long-term
- Real Economy



# Market Drivers of SRI Demand



\* Scores relative to least important driver in 2014

Source: Eurosif



# SRI Strategies



## Sustainable and Responsible Investment Strategies

- Sustainability themed
- Best-in-Class and Positive screening
- Norms-based screening
- Exclusions
- ESG Integration
- Engagement and voting
- Impact investing

# Market Growth by Strategy



In € million (EU 13)	2011	2013	CAGR 2011 - 2013	Growth 2011-13
Sustainability Themed	€ 48.046	€ 58.961	10,8%	22,7%
Best-in-Class	€ 283.081	€ 353.555	11,8%	24,9%
Norms-based Screening	€ 2.132.394	€ 3.633.794	30,5%	70,4%
Exclusions	€ 3.584.498	€ 6.853.954	38,3%	91,2%
ESG Integration (incl. research available)	€ 3.164.066	€ 5.232.120	28,6%	65,4%
Engagement and Voting	€ 1.762.687	€ 3.275.930	36,3%	85,8%
Impact Investing	€ 8.750	€ 20.269	52,2%	131,6%
EU Industry (EFAMA est.)	€ 13.800.000	€ 16.800.000		21,7%

Source: Eurosif



Source: Eurosif

# Three Fastest Growing Strategies:

Sustainability-themed | ESG Integration | Norms-based screening

**Table 3: Growth of Strategies 2012–2014**

	2012	2014	Growth
Norms-based screening	\$3,038	\$5,534	82%
Negative/exclusionary screening	\$8,280	\$14,390	74%
Positive/best-in-class screening	\$999	\$992	-1%
ESG integration	\$5,935	\$12,854	117%
Sustainability-themed investing	\$70	\$166	136%
Impact/community investing	\$86	\$109	26%
Corporate engagement and shareholder action	\$4,589	\$7,045	54%

Note: Asset values are expressed in billions.

Source: GSIA

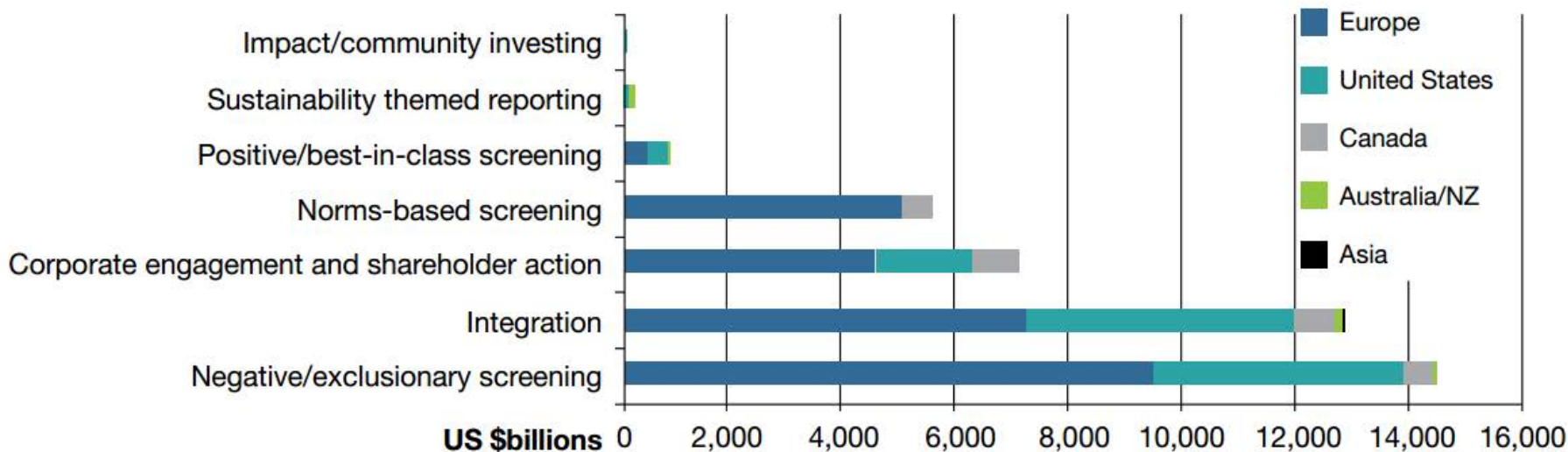


Source: Eurosif

# Negative Screening remains most common strategy



**Figure 2: SRI Assets by Strategy and Region**



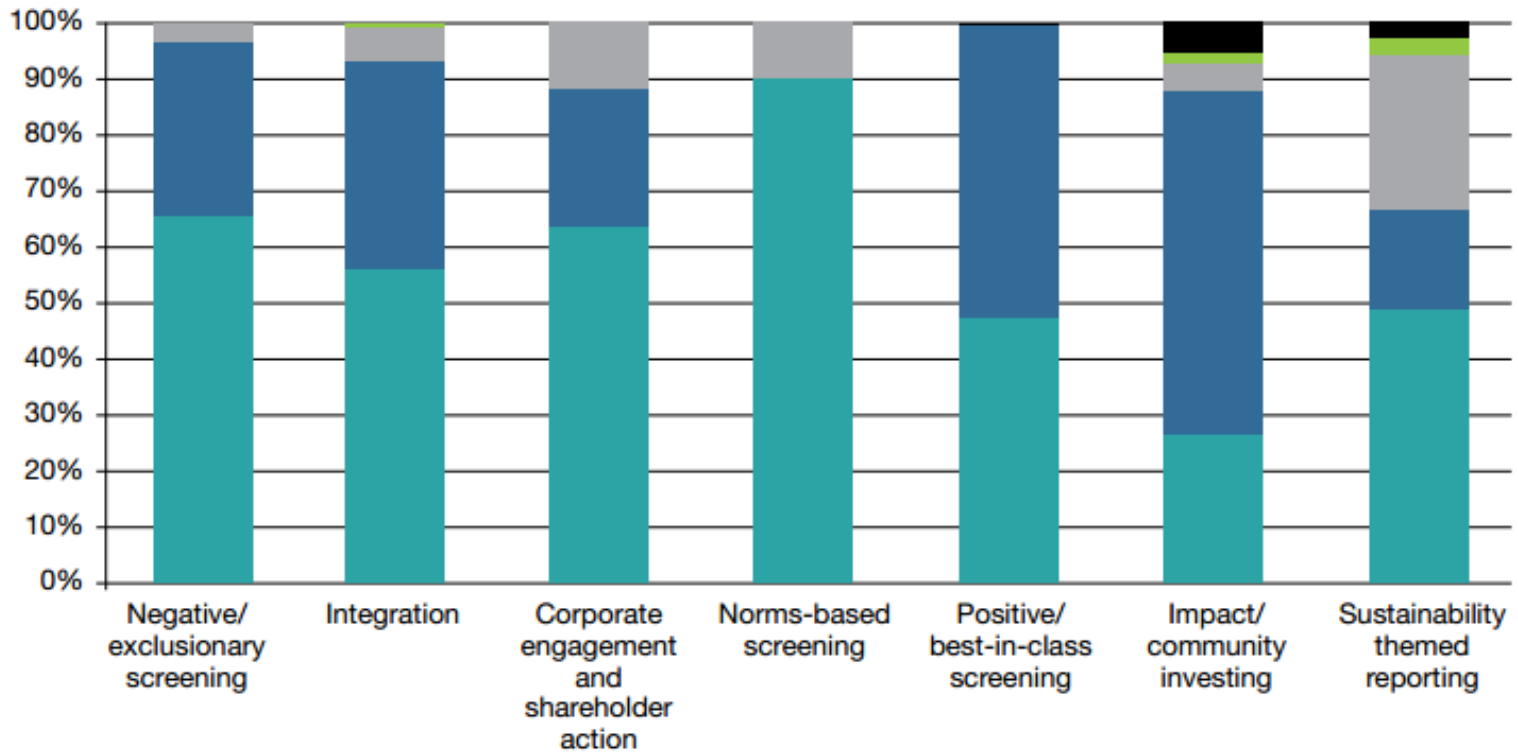
Source: GSIA



Source: Eurosif

# ESG Integration prominent in US, Australia & Asia

**Figure 6: Regional Share, by Asset Weight, in Global Use of SRI Strategies**



Source: GSIA



Source: Eurosif

# Key reasons to start with SRI

- Reputation/ scandals
- Fiduciary duty to beneficiaries
- Legislation
- Maximising risk-adjusted returns

## But also:

- Advancing ethical or moral considerations (incl. int'l norms)
- Contributing to sustainable development (E+S)



# Regulatory & Public Policy changes



**Europe:** the largest European companies could soon be required to report on diversity and other ESG information, while a proposed shareholder rights directive could require institutional investors and asset managers to disclose their voting and engagement activities.

**United States:** the anticipated regulation to require disclosure of executive relative to non-executive employee compensation will provide a key tool to investors by which to assess portfolio companies.

**Canada:** a government review of the basic corporation law is offering opportunity to press for greater corporate disclosure of various ESG issues.

**Asia:** many countries are adopting more comprehensive corporate and ESG disclosure requirements, a trend that is likely to advance sustainable investing in the region.



# Suggestion 1: Engagement Platforms



## Key Assumptions

**A. Reducing inequality in low- and low-middle income countries can be done by creating a sustainable economy**

**- Companies play a crucial role for a sustainable economy**

**B. The best way to move companies towards sustainability is by using the influence of investors**

**C. Multi stakeholder dialogue contributes, next to investors, to make companies more sustainable**

# VBDO ESG Initiative: Shareholder Engagement



**Aims to provide an instrument to civil society and responsible investors to:**

- Change performance of listed companies on Environmental, Social and Governance (ESG) practices and policies;
- Engage with listed companies in Emerging Markets;
- Enable NGOs to have a meaningful conversation with listed companies;
- Encourage shareholder engagement and responsible investment;
- Civil society and investors to be in the lead

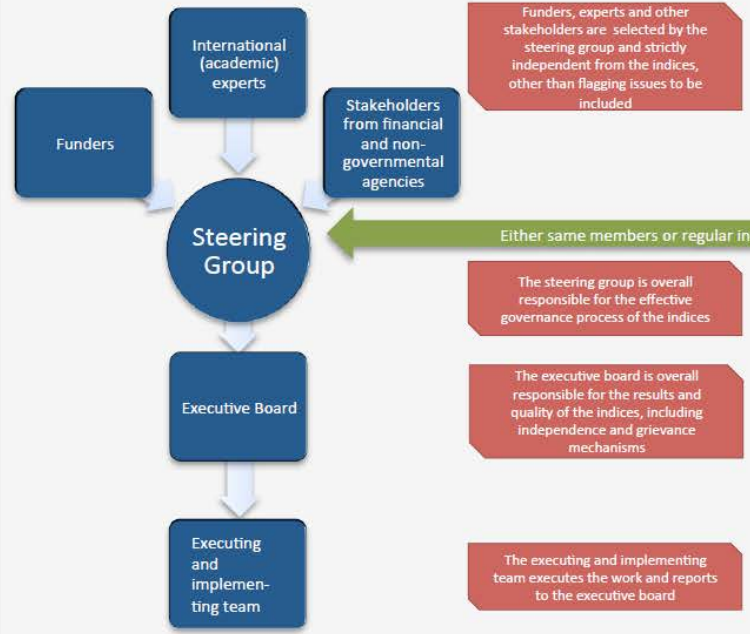


# Suggestion 2: Global Sustainable Indices

## Global Capital Markets

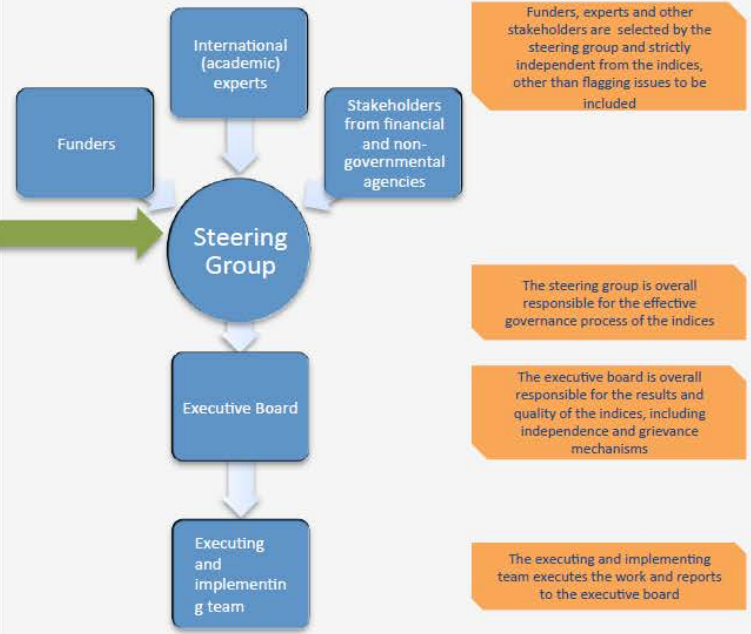
### Supply: investors

#### Global Responsible Investment Indices



### Demand: companies

#### Global Sustainability Indices

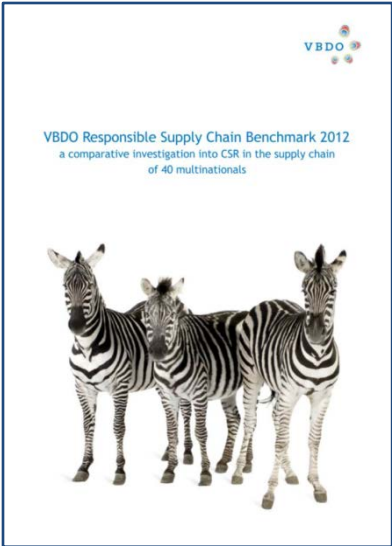


Either same members or regular interaction

# Benchmarks



- Defining
- Best practices
- Race to the top



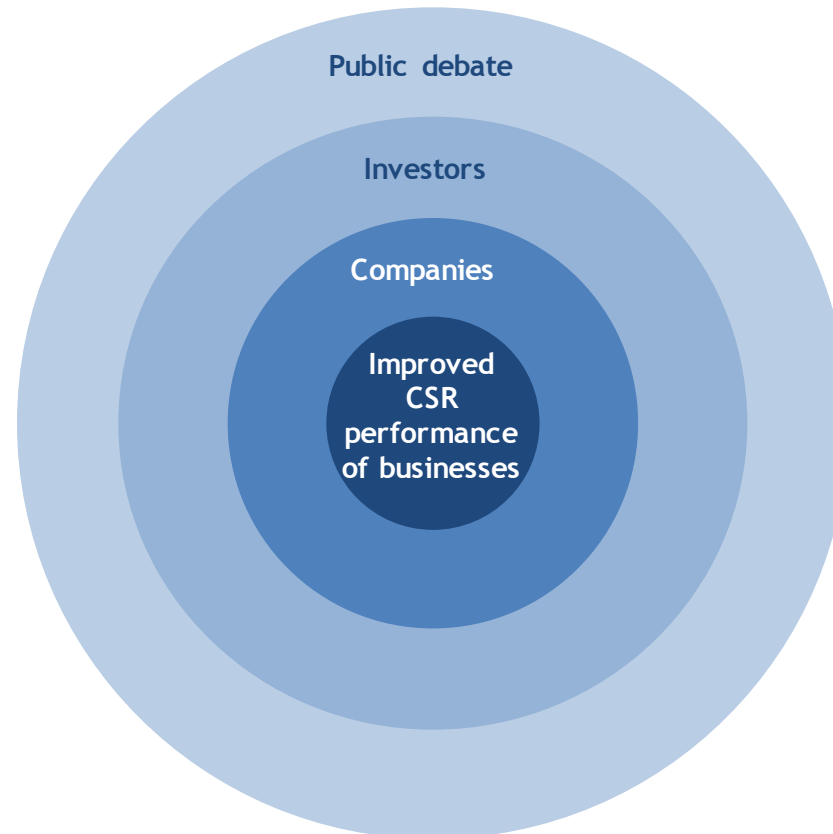
Existing	In development
Responsible Supply Chain Benchmark	Corporate Human Rights Benchmark
Benchmark Responsible Investment by Pension Funds	International Benchmarks
Benchmark Responsible Investment by Insurance Companies	
Tax Transparency Benchmark	



# Global Sustainable Development Indices: Feasibility Study



Benchmarks are great influencers for all parties





# Thank You!



Giuseppe van der Helm  
President of Eurosif  
Director of the VBDO

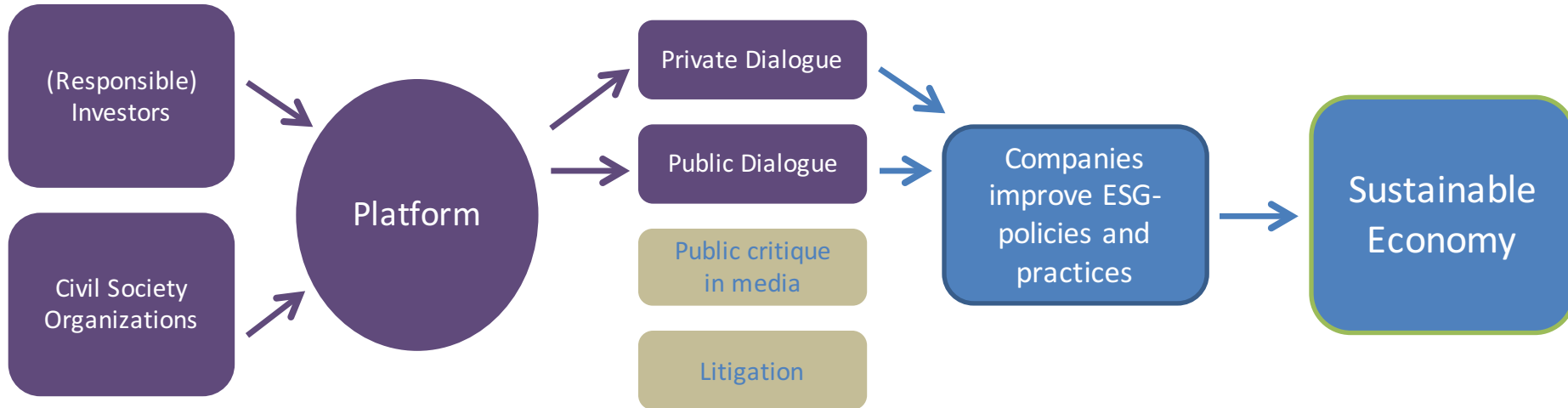
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# Theory of Change



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# Contact / Follow Eurosif



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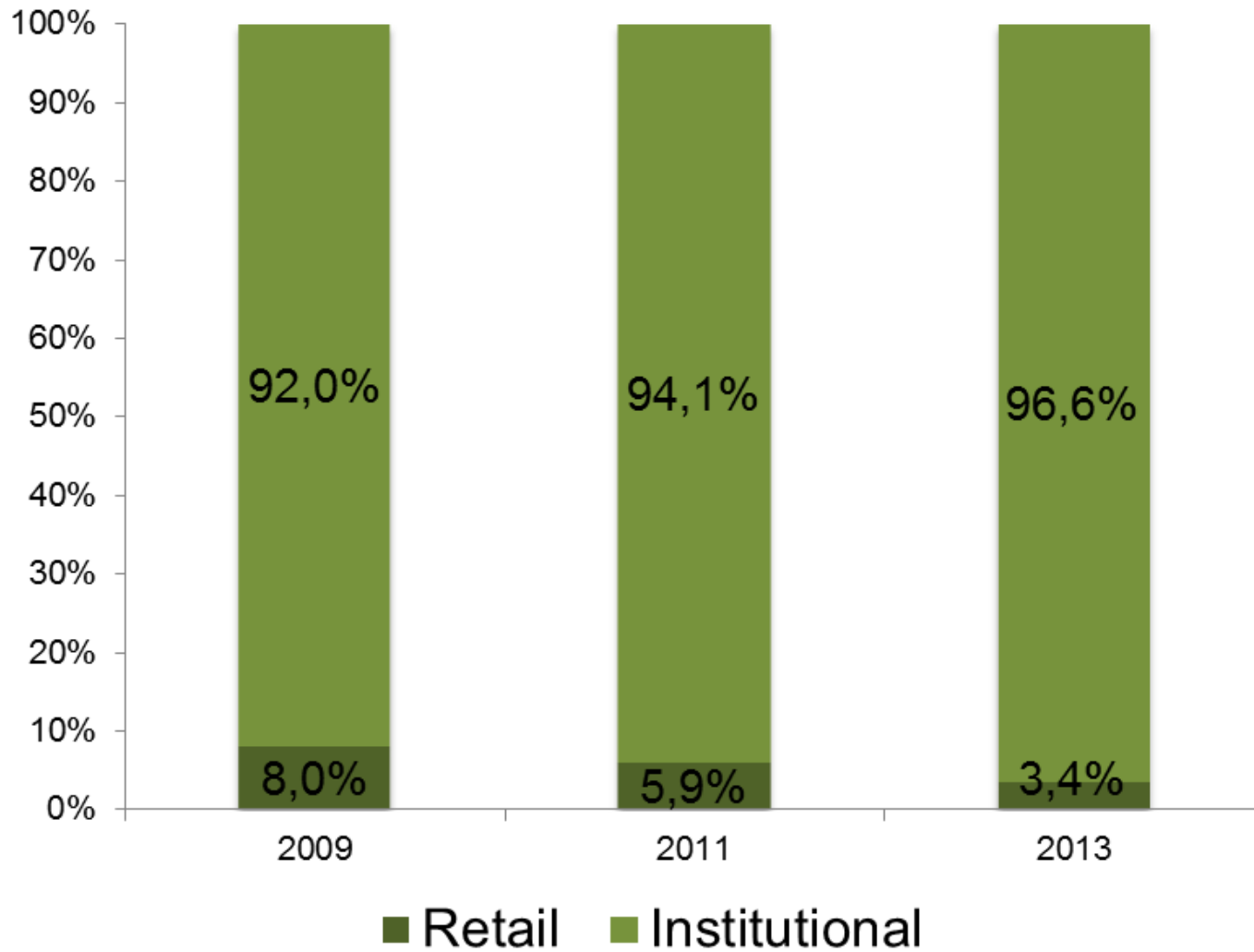


# Overige slides, welke bewaren?

# Shareholder Engagement Strategies

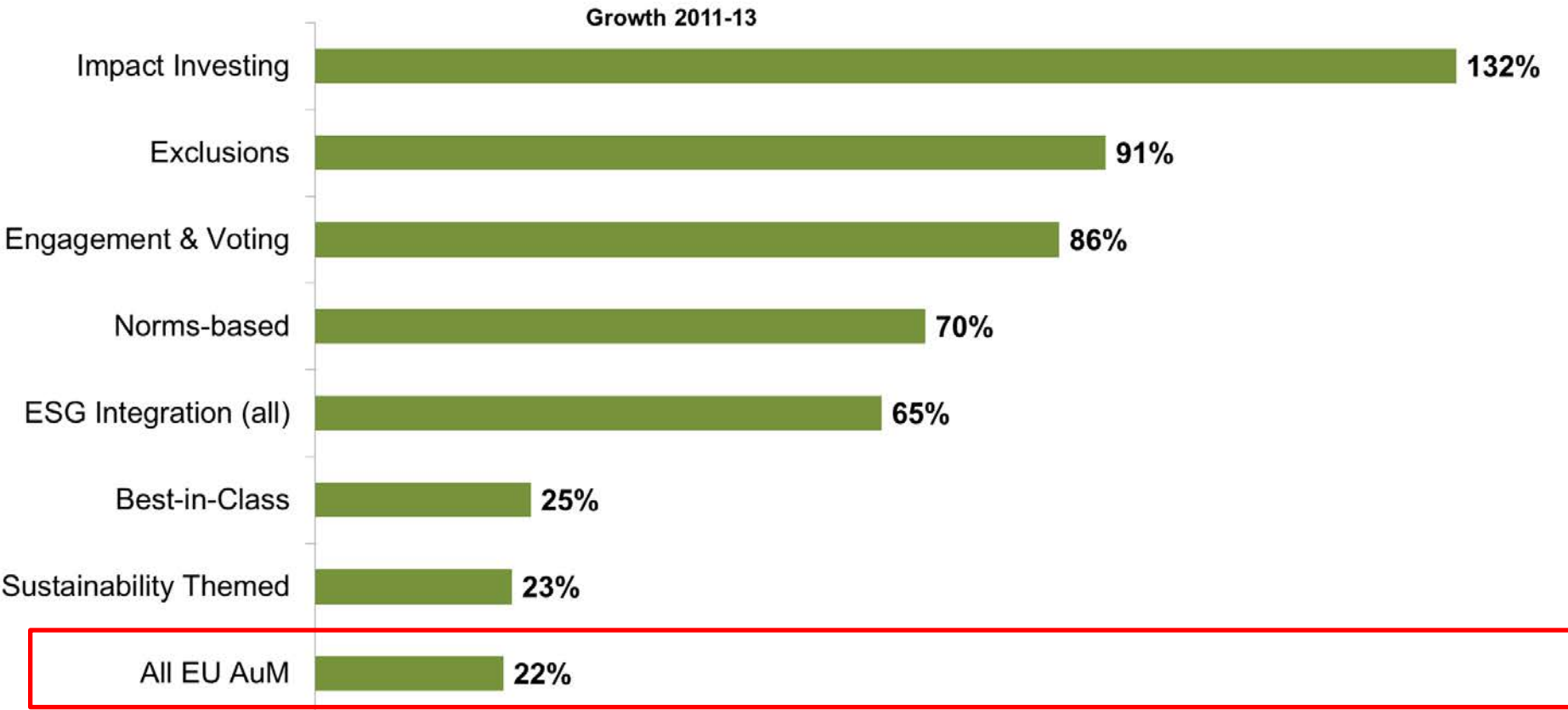
<u>Category</u>	<u>Methods</u>	<u>Characteristics</u>	<u>Countries</u>
<b>1. Private dialogue</b>	One-on-one meetings with Board Directors or Investor Relations	Low-key instrument, used in most countries, direct contact between investors and company without involvement of others	England Asia Brazil
<b>2. Public dialogue</b>	Asking questions at AGM	(Constructive) questions that are sent in to company before the AGM. Other investors are aware of issues and the minutes of AGMs are public in most Western countries	Continental Europe Australia India Japan
	Filing proposals/ resolutions/motions at the AGM Jawboning Filing a 'counter motion' (motion in opposition to previous motion)	Only asking questions is not common/sufficient. Motions are sometimes discussed/agreed on before, with threat of filing them at the AGM	United States Australia Germany
<b>3. Public critique in media</b>	'Naming and shaming' attack company and company policy openly in the media	Aggressive method, not often used in most countries	United States (rare) Europe (rare)
<b>4. Litigation</b>	Filing lawsuits, including derivative suits (lawsuit by a shareholder on behalf of the corporation against third party, often against an executive officer or director)	Depends on legislation and shareholder rights. Not common in most countries, but very common in e.g. South Korea	South Korea

# The European SRI Market Is Increasingly Driven By Institutional Investors





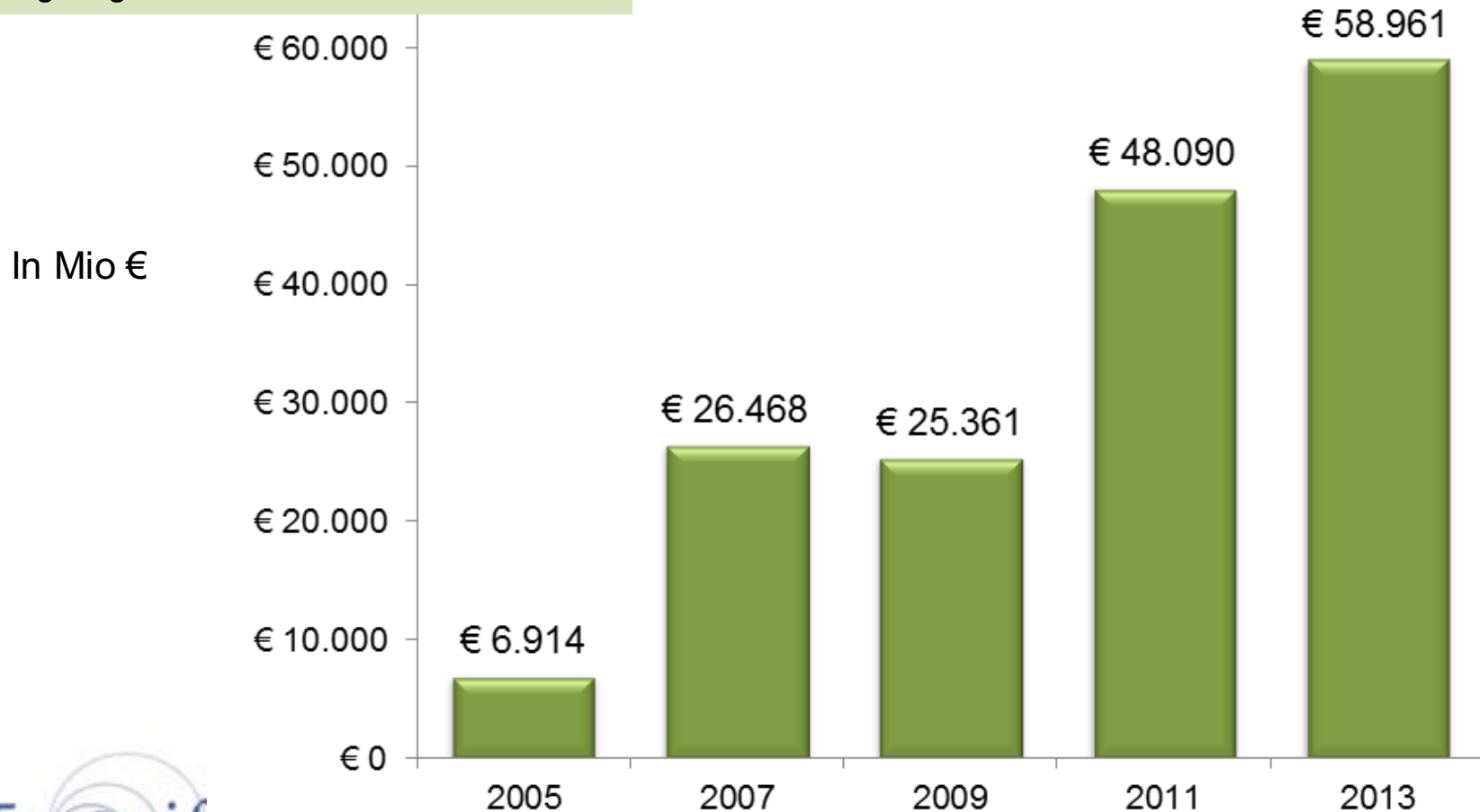
# All Strategies Have Experienced Double Digit Growth



Source: Eurosif, EFAMA

# Sustainability-themed Grows But Remains Concentrated And Niche

- ~+31% CAGR since 2005
- Netherlands, UK, Switzerland: >90% market
- Strongest growth in France & Sweden

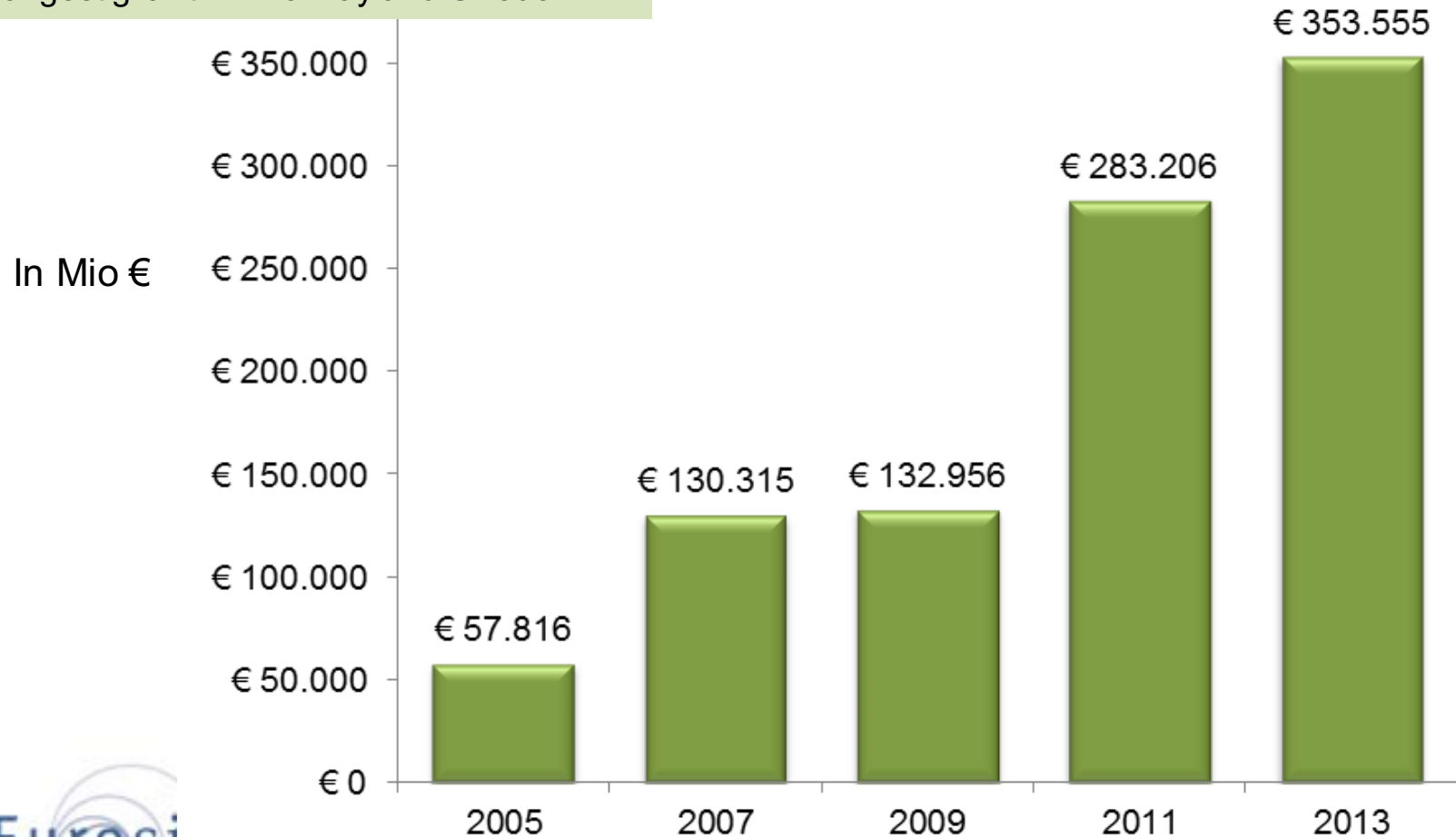


Source: Eurosif

© Eurosif, 2014

# Best-in-Class Follows A Similar Narrative: Strong Growth But Concentration

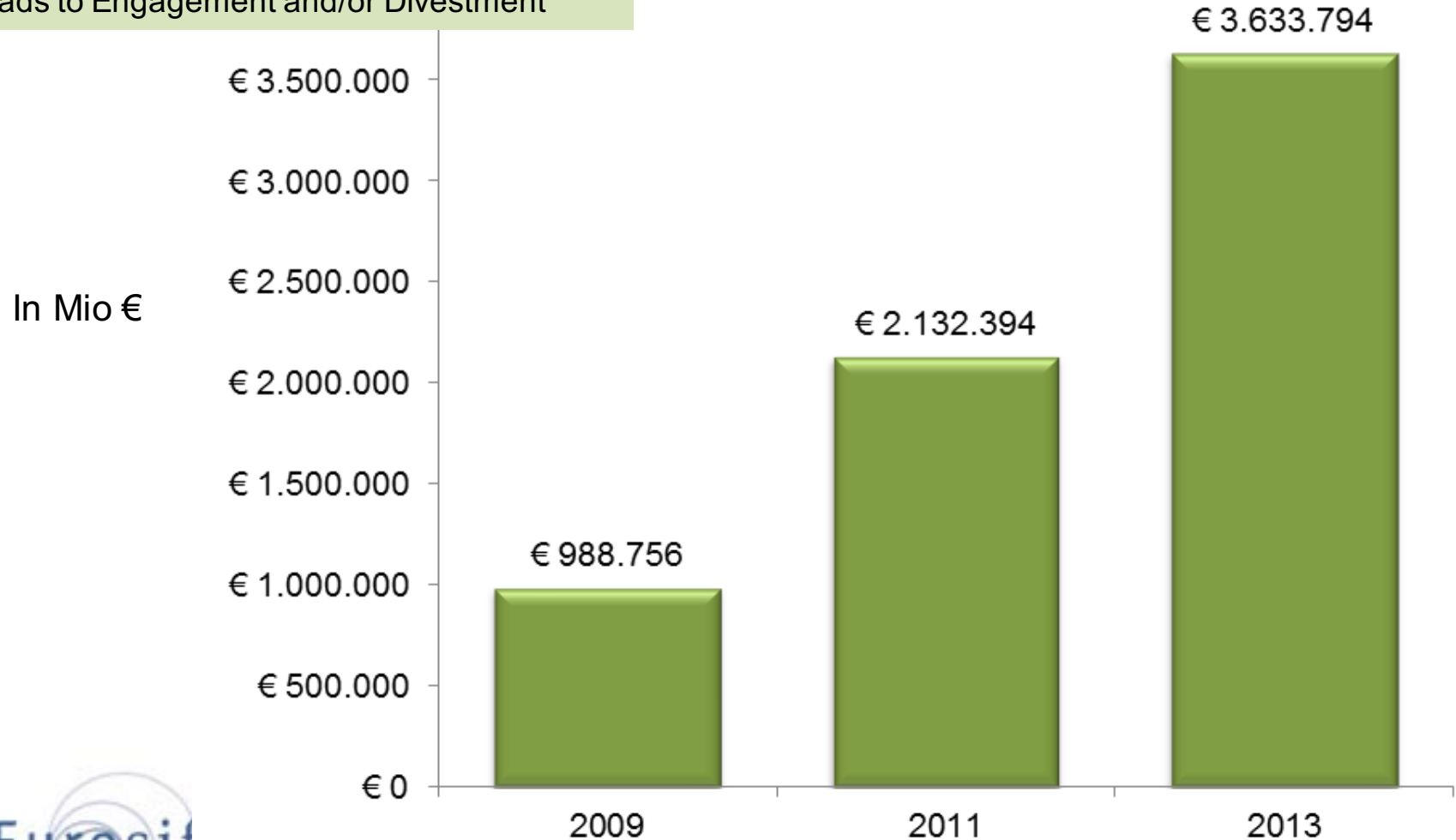
- ~+26% CAGR since 2005
- France ~ 50% market share
- Strongest growth in Norway and Sweden



Source: Eurosif

# Norms-based Screening Has Grown By 39% CAGR Since First Measured in 2009

- Mainly UNGC but also ILO and OECD
- Leads to Engagement and/or Divestment

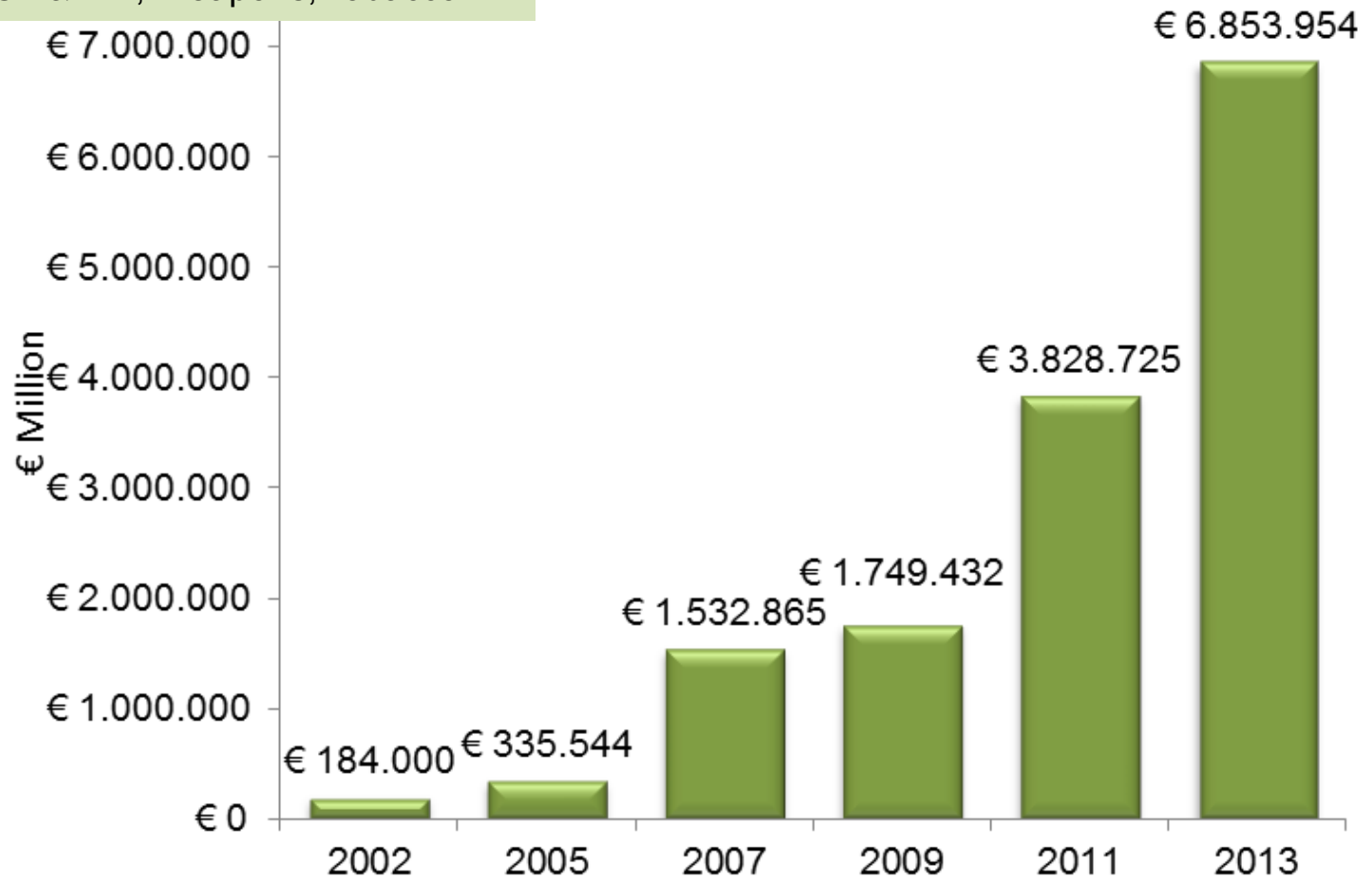


# Norms-based Is Not A Nordic Phenomenon (Only) Anymore

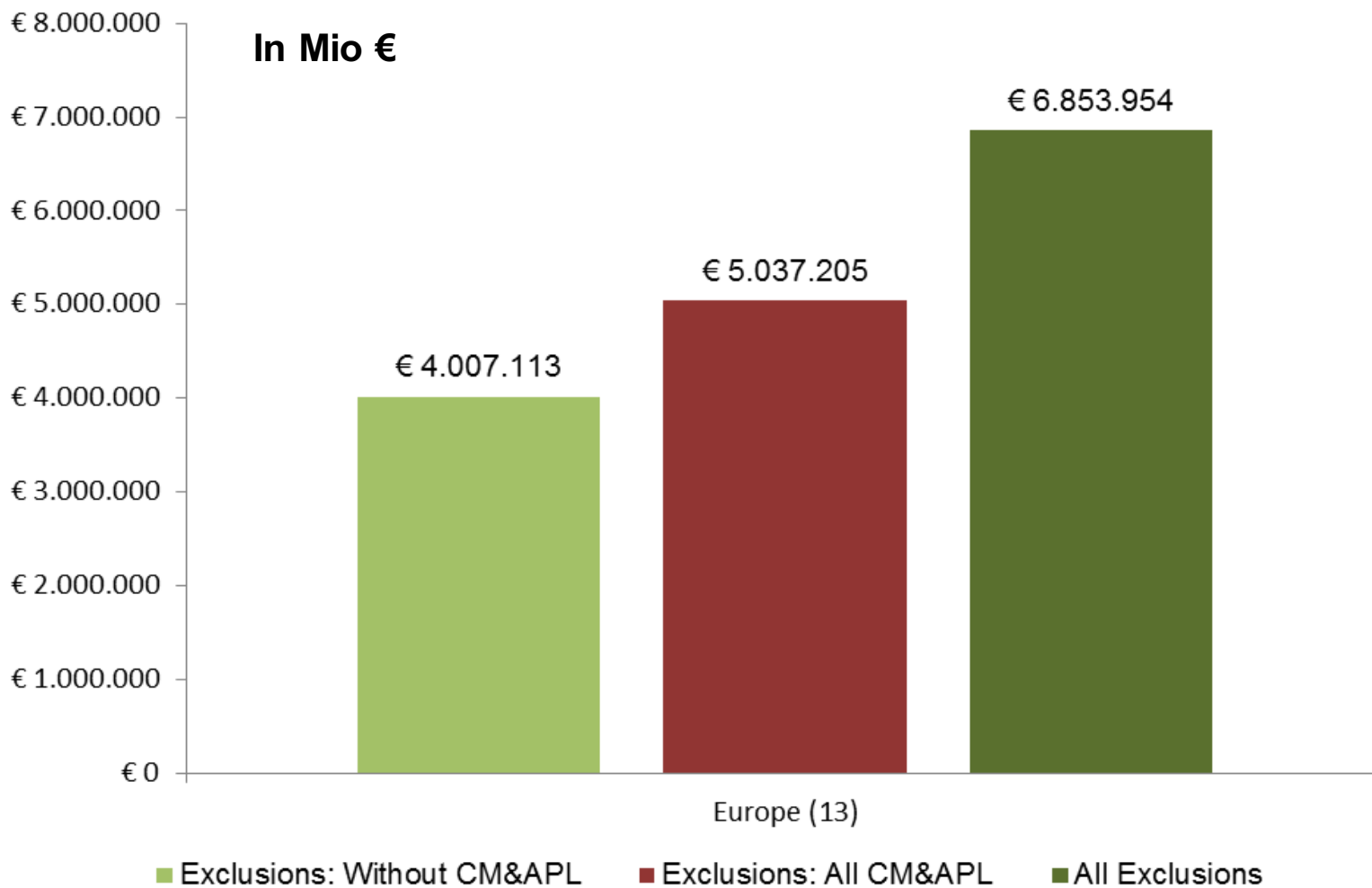
Country (€ Mn)	2011	2013	CAGR
Austria	€ 3,862	€ 5,467	19%
Belgium	€ 19,744	€ 20,235	1%
Finland	€ 62,336	€ 64,667	2%
France	€ 679,566	€ 1,119,040	28%
Germany	€ 11,255	€ 10,177	-5%
Italy	€ 314,248	€ 351,754	6%
Netherlands	€ 166,359	€ 746,125	112%
Norway	€ 550,834	€ 798,682	20%
Poland	€ 13	€ 773	671%
Spain	€ 1,119	€ 14,247	257%
Sweden	€ 259,346	€ 420,718	27%
Switzerland	€ 192	€ 10,454	638%
United Kingdom	€ 63,520	€ 71,456	6%
Europe (13)	€ 2,132,394	€ 3,633,794	31%

# Exclusions Continue Strong Growth Mainly Due to Deployment Over Broad Asset Ranges (“Overlays”)

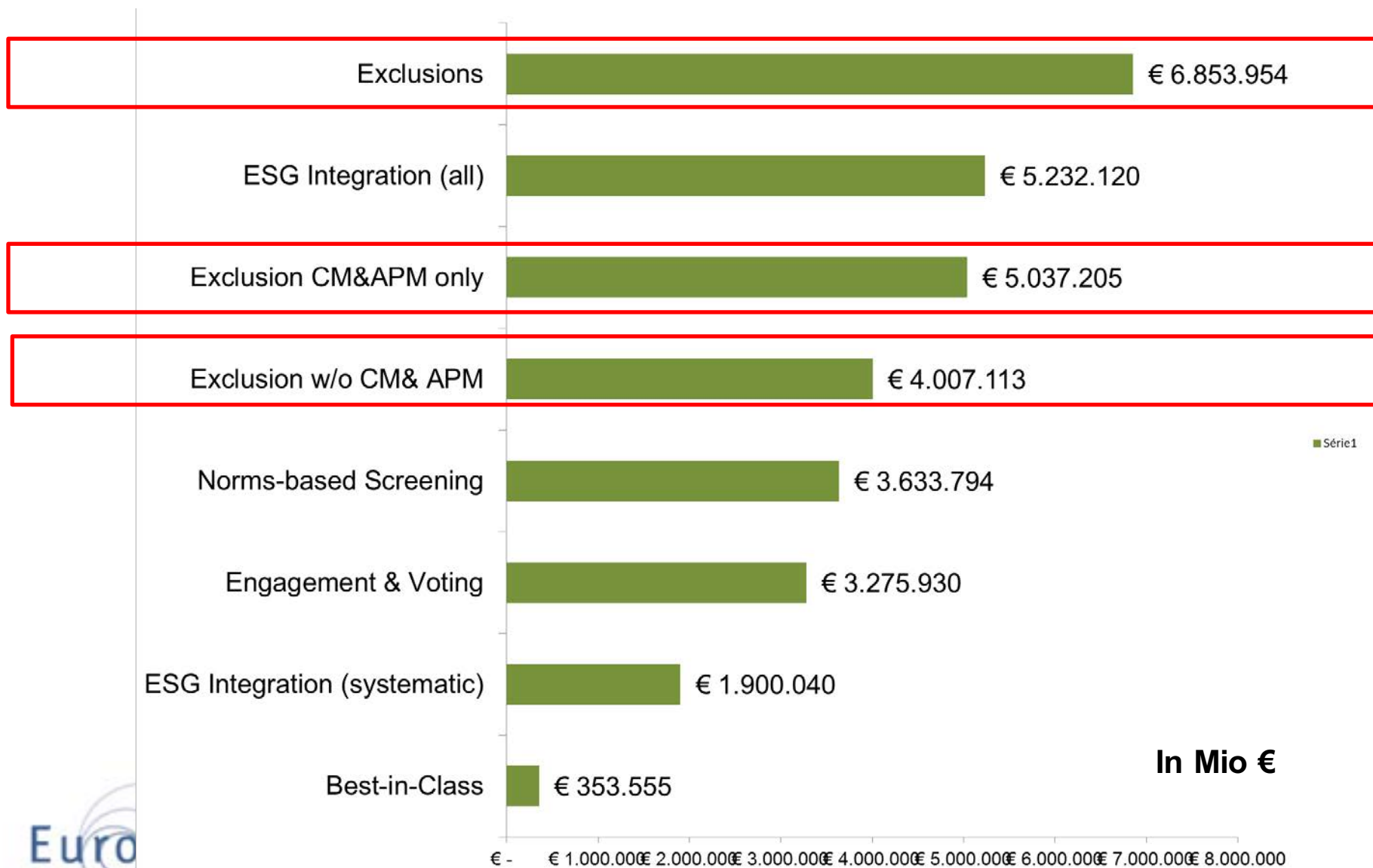
- ~+39% CAGR since 2002
- Most consistently applied strategy across markets
- Popular overlays: CM&APL, Weapons, Tobacco



# Exclusions Without (Voluntary) CM& APL Exclusions Still Cover €4T EU Assets



# Exclusions Remain The Dominant Strategy Whatever Way You Look At It





# An Example: The UK Environment Agency Pension Fund

Why do environmental issues such as resource scarcity, climate change and biodiversity matter, either to financial investors or to our pension fund?

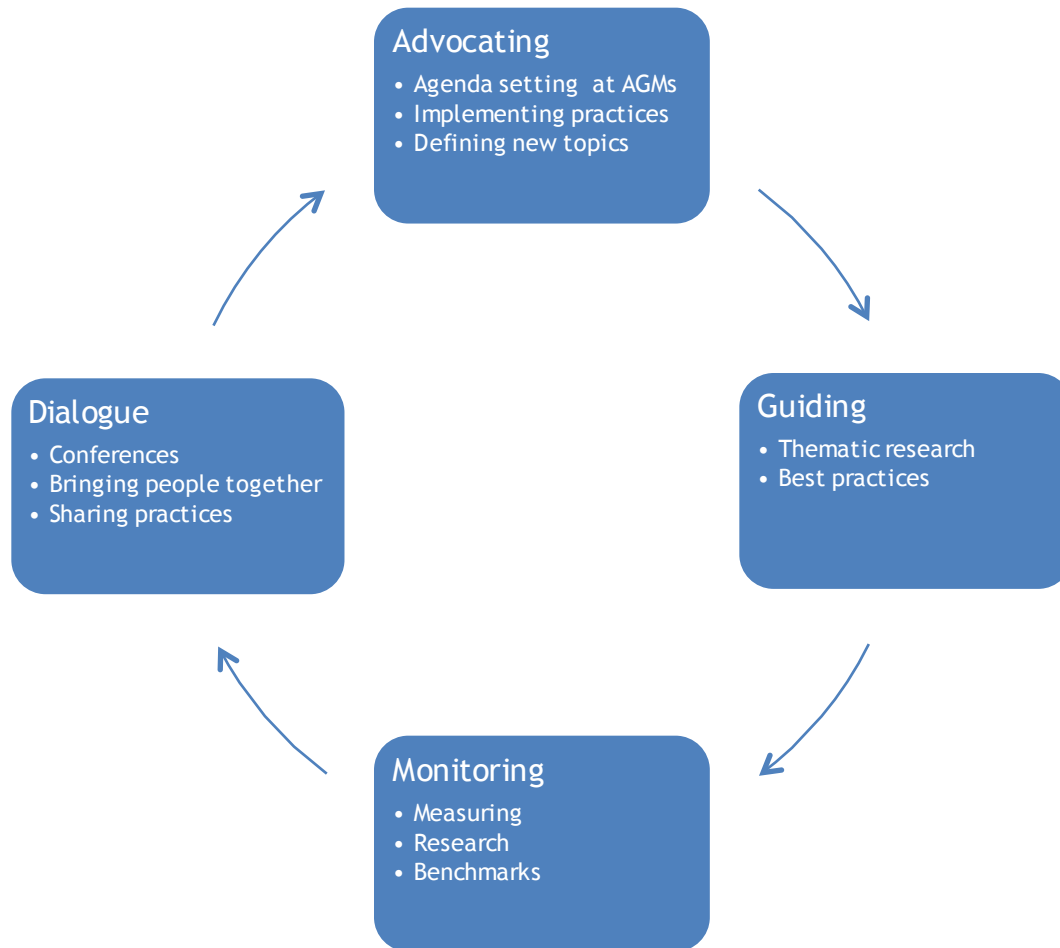
They matter because they affect all mankind and have significant implications for our financial returns. Such issues are described as being 'financially material'.

[...] we will need to be able to pay retirement pensions well into the 21st century. Over such a long time frame, we **expect future trends in global climate, population and economics to have a major effect** on the financial value of our fund's investments.

[...] For many members, their pension will be their main source of income when they retire. We want them to have a **happy retirement in a world where the environment is not deteriorating**.



# Of Deze?



# Eurosif – The leading European multistakeholder platform for the promotion of SRI\*



## Mission / Activities

- “Develop Sustainability through European Financial Markets”
- Activities cover: SRI advocacy, research and networking

## Governance

- Non-for-profit
- Governed by 8 National SIFs headquartered in these European countries: UK, FR, DE, NL, IT, BE, SW, ES

## Community of interest

- Direct Institutional Member Affiliates (over 80) but hundreds indirectly
- Multi-stakeholder, open to any organisation with a commitment to SRI
- In practice: SRI/ESG Asset Managers, ESG rating agencies, NGOs, other ESG service providers, academics



\* Sustainable & Responsible Investing

# The partnership of an extensive European SIF network

