



SIFireland

Sustainable & Responsible
Investment Forum

Ireland's First
Responsible Investment
State of Play Report

Supported by



Irish Life

November 2018



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What is Responsible Investment?

I. What is Responsible Investment?

The United Nations supported Principles for Responsible Investment defines responsible investment as 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. We note that responsible investment is not the same as ethical investment, socially responsible investment or impact investing. While these approaches seek to combine financial return with moral or ethical considerations, responsible investment should be pursued even by the investor whose sole purpose is financial return, because it argues that to ignore ESG factors is to ignore risks and opportunities that have a material effect on the returns delivered to clients and beneficiaries.

Responsible investment does not require ruling out investments in any sector or company. It simply involves including ESG information in investment decision-making to ensure that all relevant factors are accounted for when assessing risk and return.

II. About SIF Ireland

Established in 2017, Sustainable & Responsible Investment Forum (SIF) Ireland is the national platform for policymakers, capital market participants and intermediaries to advance responsible investing across all asset classes. A membership based initiative, SIF Ireland believes that responsible investment practices can provide superior risk-adjusted returns and positive sustainable impact.

An output of the Irish government's IFS 2020 Strategy, SIF Ireland is modelled on similar organisations across Europe and the world. The Forum is a member of Eurosif, Europe's leading association for the promotion of responsible investment. The Forum's work is also supported by the UN supported Principles for Responsible Investment.

III. What are SIF Ireland's Objectives?

SIF Ireland's objectives are to:

- grow the market by increasing understanding, acceptance and demand;
- act as a voice for the agenda in Ireland to inform and influence stakeholders;
- provide networking and member support to maximise our collective strength; and
- collaborate with other organisations both at home and abroad to advance the agenda.

IV. How are these objectives met?

In 2018, SIF Ireland focused on baselining the degree of ESG market understanding beginning with who is doing what and why across the Irish located investment chain. This report is an output of this work, with further segment surveys to follow in early 2019. In partnership with the UN supported Principles for Responsible Investment (PRI), SIF Ireland and PRI also co-authored the Fiduciary Duty in the 21st Century – Ireland Roadmap (published in June 2018) with findings focusing on better targeted policy and advocacy activities. Supported by the Sustainability Skillnet, other activities include the continued up-skilling of the sector by means of regular leadership events, roundtables and masterclasses leading to an increased understanding of the topic and associated drivers.

The State of Play: a European perspective

Europe is bringing sustainability into the mainstream. It will take time but already ambitious steps have been taken on a journey that could re-wire our financial systems.

In March, the European Commission released an action plan for financing sustainable growth with ten areas of reform. The plan was broadly grouped under three headings:

- reorienting capital flows towards sustainable investing;
- mainstreaming sustainability into risk management, and;
- fostering transparency and long-termism into financial activity.

Following on from the action plan, the European Commission announced the first four actions to be taken. These included the establishment of a sustainability taxonomy, regulations around investment disclosures, new carbon-impact investment benchmarks and measures to better advise clients on sustainability.

A significant action is the establishment of a sustainability taxonomy. A technical expert group (including two members located in Ireland) has been established to assess the environmental impact of economic activity on a sector by sector basis, with their first taxonomy expected to be created in Quarter 1 2019. Also in the pipeline is the development of an EU system of standards and labels for sustainable financial products, expected to be in place by mid-2019.

These taxonomies and labels will assist in a major effort by the European Union (EU) to unlock capital for investment in sustainability-related projects, a key step in transitioning to a low-carbon economy. The European Fund for Strategic Investments has had 40% of its capital earmarked for sustainability projects to 2020, and the EU's External Investment plan has been similarly reorganised, with €40 billion in investments going to partner countries across Africa and the EU's southern/eastern neighbours.

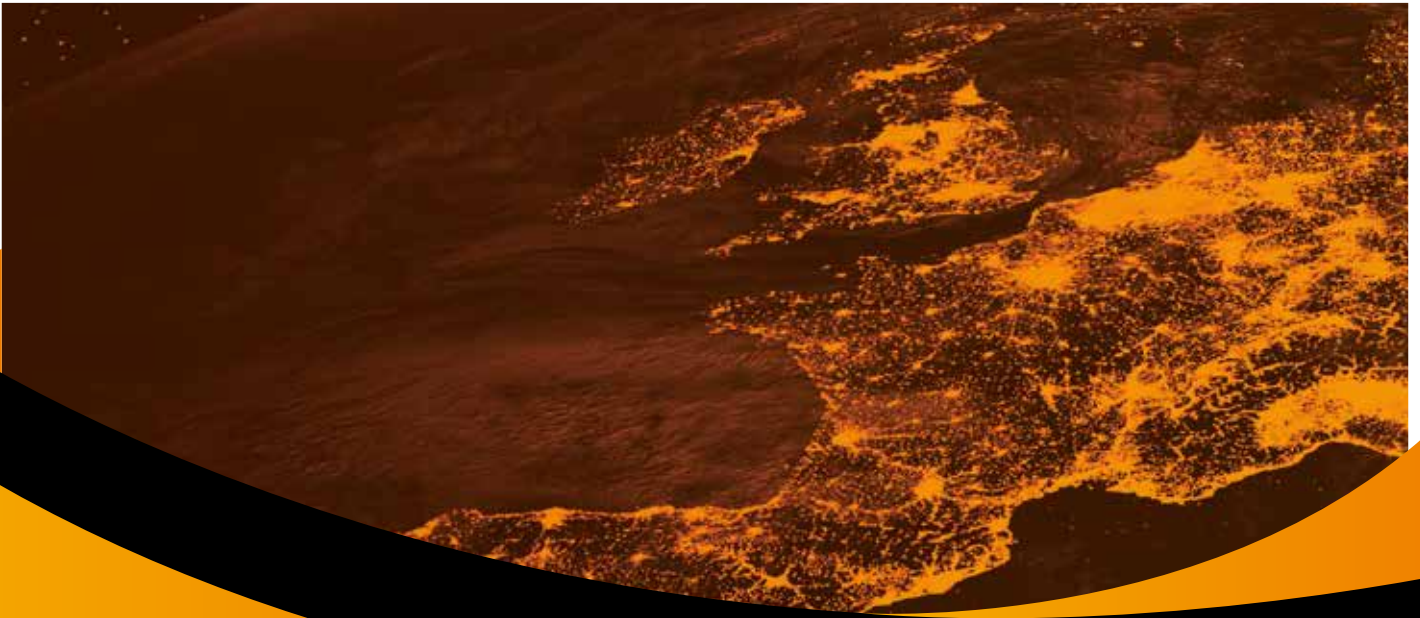
Further capital will be unlocked through plans to amend the MiFID II and Insurance Distribution Directive to ensure sustainability preferences are considered when offering financial advice, coupled with new carbon benchmarks to empower consumers to make more conscious decisions when it comes to investing. These are expected to come on-stream in 2019.

By mid-2019, the European Commission hopes to integrate sustainability into credit ratings within the EU, as well as harmonising the approach taken by Member States towards disclosures. This will mandate how asset managers and institutional investors factor in ESG considerations when making decisions, as part of their duty to act in the best interest of their clients.

Finally, in an effort to shift investing culture towards sustainability, the EU is considering including the risks associated with climate change into institutions' risk management policies and adjusting the capital requirements of banks in this light. The feasibility of this is to be investigated and submitted in a report by 2021.

Key to all aspects of the plan will be fostering long-termism within financial markets with the action plan suggesting two strategies - one is to include sustainability in public corporate reporting requirements, and, secondly, potentially mandating that corporate boards produce and disclose a sustainability strategy. These points are merely consultative, so it is unclear what impact these will have in the coming years.

The EU's objectives in the area of sustainable finance are ambitious. But with the first concrete steps being taken in 2019, we will begin to see which parts of the action plan are being implemented, and how Member States will lead in this area.



SIF Ireland 2018 Asset Manager Sustainable and Responsible Investment (SRI) Survey

Executive Summary

This survey has been commissioned by SIF Ireland. Every two years, Eurosif prepares a European SRI study; however, to date, Ireland and SIF Ireland have not participated in this European survey.

The intent of this Irish survey is an initial foray into the identification and measurement of the Irish industry as it pertains to Responsible Investment and ESG issues. This will be completed on an annual basis through to 2020, at which stage, it is envisioned that SIF Ireland will participate in the next Eurosif study.

Within this report, it has been identified that 81% of those surveyed have a formal Responsible Investing policy in place within their organisation. Further to this, whilst 69% of those surveyed identified that they did not have a general exclusion policy in place, 63% stated that they do have a fund specific exclusion policy in place. The most commonly identified exclusions were perhaps, unsurprisingly, tobacco and weapons.

50% of those surveyed identified that they operated a sustainability themed investment strategy, and the themes identified as being most dominant related to renewable energy, energy efficiency, the building sector, land use / forestry / agriculture, fossil fuels, sustainable transport and finally water management.

When asked whether they had included impact investment into their investment strategy, 25% responded that they incorporated it, identifying microfinance, community investment, social business/entrepreneur funding and sustainable natural resources as areas of investment.

It is noted that in the first year of this report, a 43% response rate was achieved from those surveyed. SIF Ireland extends its thanks to those Irish domiciled Asset Managers as outlined on page 29. It is hoped that Irish domiciled Asset Owners will also be included in the survey which will be completed during 2019.



Methodology

The purpose of this survey – the first of its kind in Ireland - is to look to measure growth in Sustainable and Responsible Investment (SRI) strategies and assets in Ireland as well as to measure other key SRI indicators. Data was collected for this report by asking both qualitative and quantitative questions to Irish based investment firms.

Participants were requested that all information included in the responses provided was as at 31 December 2017.

Considering the timing of the data gathering exercise - from September through to the start of October 2018 - the 43% response rate achieved from investment firms regulated in Ireland was considered a good basis for this report.

Limitations of the Study

Whilst definitions were provided of the various terms used within the survey, due to the nature of the market, different applications of these definitions may have brought inconsistencies into the reporting received.

It is also acknowledged that due to time constraints, a limited number of responses were received and therefore the results of this survey may not be fully representative of the current market.

Also, as the information on which this report is based on data as reported as at 31 December 2017, more up to date information may be available.

For some respondents, whilst they are based in Ireland, some of the responses given indicated that ESG/SRI decisions and policies etc. are undertaken by teams outside Ireland. However, for the purposes of this report, these responses have been included within this report as if the decisions etc. were being made in Ireland.

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Where possible, if inconsistencies and gaps in the responses received were identified, these have been directly clarified with the respondent, though it is acknowledged that not all areas of inconsistency may have been identified and some of the gaps which may have been identified may have been due to the questions not being directly relevant to the individual respondent.

In cases where no response was given in relation to whether certain policies are in place, it has been assumed that no such policy currently exists.

It should be noted that those surveyed are some of the larger asset managers that operate within Ireland and also on a global scale.

The population of respondents who responded to this survey may be positively biased towards SRI and responsible investment.

The responses received may not be representative of the overall market. Furthermore, as the survey focuses on the views of asset managers, it should be noted that there may be a difference between their views and the views of asset owners.

Introduction

If you work in the asset management industry you will have seen the increasing focus on investment strategies which have positive environmental, social and governance (ESG) characteristics. For many years, ESG investing or Sustainable and Responsible Investing (SRI) had been the preserve of a limited number of firms. This is changing fast. Indeed, according to a European Asset Manager, over half of fund assets will be invested in line with environmental, social and governance criteria by the end of 2018.¹

Some of the largest asset management firms in the world, and many others, are now strongly behind ESG investing. In January, Larry Fink the Chairman and CEO of BlackRock issued a warning to firms across the globe to consider their impact on society as the US fund giant sharpens its focus on stewardship. He tells them that it is time for “a new model of shareholder engagement”, underlining that firms need to “deliver financial performance [and] show how it makes a positive contribution to society”.²

In the recently published SIF Ireland and PRI co-authored report, “Fiduciary Duty in the 21st Century - Ireland Roadmap”, it was identified that the global momentum around responsible investment is being driven by a number of factors.³

These included a recognition within the financial community that ESG factors play a material role in determining risk and return and the legal requirements which protect the long-term interest of beneficiaries and the wider financial system. Additionally, the understanding that incorporating ESG factors is part of investors’ fiduciary duty to their clients and beneficiaries was emphasised as being a factor which was driving global momentum around responsible investment.

Momentum is also being driven by a growing concern of the impact of short-termism on company performance, investment returns and market behaviour. Many investment managers see responsible investment as a method of differentiating themselves from their competitors by offering responsible investment services as a competitive advantage. Beneficiaries are also becoming increasingly active and demanding transparency as to how and where their money is being invested. A final factor related to the potential impact of value-destroying reputational risk from issues such as climate change, pollution, working conditions, employee diversity, corruption and aggressive tax strategies in a world of globalisation and social media.

In a report issued in 2017 by PricewaterhouseCoopers, “Asset & Wealth Management Revolution: Embracing Exponential Change”,⁴ it was stated that ESG investing will increasingly be accepted in the US due to rapidly increasing client demand and regulatory influence. Further, millennials, high net worth individuals (“HNWI”) and institutional investors are increasingly raising demand for forms of ESG investments and that this is evident within thematic and ESG integrated styles across mutual funds, impact investing private equity and bespoke institutional mandates. In Europe, it was identified that ESG investing is already integrated into many institutional mandates and part of a favoured approach by HNWIs, whilst in Asia, institutional investors are increasingly looking for asset managers with ESG capabilities.

¹ <https://www.ft.com/content/53c1d3c4-63f0-11e8-90c2-9563a0613e56>

² <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

³ <https://www.unpri.org/fiduciary-duty/fiduciary-duty-in-the-21st-century-ireland-roadmap/3343.article>

⁴ <https://www.pwc.com/gx/en/industries/financial-services/asset-management/publications/asset-wealth-management-revolution.html>

ESG: THE BASICS

Environmental issues concern any aspect of a company’s activity that affects the environment in a positive or negative manner. Examples include greenhouse gas emissions, renewable energy, energy efficiency, resource depletion, chemical pollution, waste management, water management, impact on biodiversity, etc.

Social issues vary from community-related aspects such as the improvement of health and education to workplace-related issues including the adherence to human rights, non-discrimination and stakeholder engagement. Examples include labour standards (in supply chains, child labour, forced labour), relations with local communities, talent management, controversial business practices (weapons, conflict zones), health standards, freedom of association, etc.

Governance issues concern the quality of a company’s management, culture, risk profile and other characteristics. They include the board **accountability, dedication and strategic management** of social and environmental performance, and principles such as transparent reporting and the realization of management tasks in a manner which are essentially free of abuse and corruption. Examples include corporate governance issues such as executive remuneration, shareholder rights, board structure, bribery, corruption, stakeholder dialogue, lobbying activities, etc.

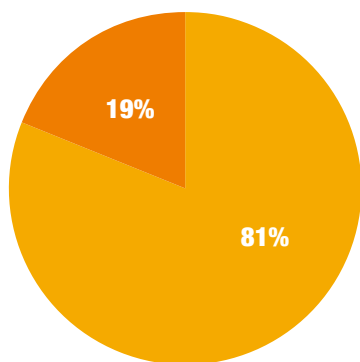
Key findings

While responsible investment may not have been a focus for Irish asset owners and, in turn, investment managers to date, large asset owners and investment managers are starting to review their approaches in light of the introduction of the Directive on the activities and supervision of Institutions for Occupational Retirement Provision (IORP II).⁵

Indeed, almost all firms that were surveyed have put a more formal Responsible Investing Policy in place (Figure 1). One of the companies who responded in the negative said that while, at 31 December 2017 they did not have a formal policy in place, they are currently taking steps to implement such a policy.

FIGURE 1: DO YOU HAVE A RESPONSIBLE INVESTMENT POLICY?

Yes ■ No ■



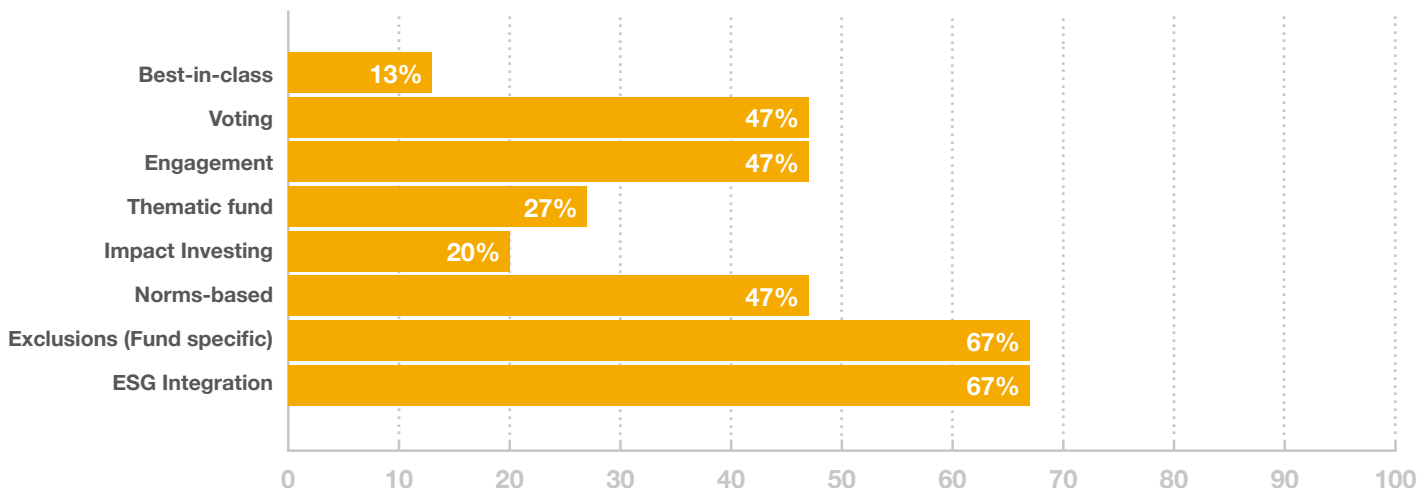
Note: Based on the number of respondents selecting Yes or No.

⁵ <https://www.unpri.org/download?ac=4932>

SRI STRATEGIES

Recent research has shown that, in the case of the larger asset managers operating in Ireland, many have already developed and implemented responsible investment strategies.⁶ The majority of survey respondents who addressed this question have focused their efforts on applying such strategies, with fund specific exclusions and ESG integration emerging as the main areas of focus for the participating firms (Figure 2).

FIGURE 2: WHICH SRI STRATEGIES DO YOU APPLY?

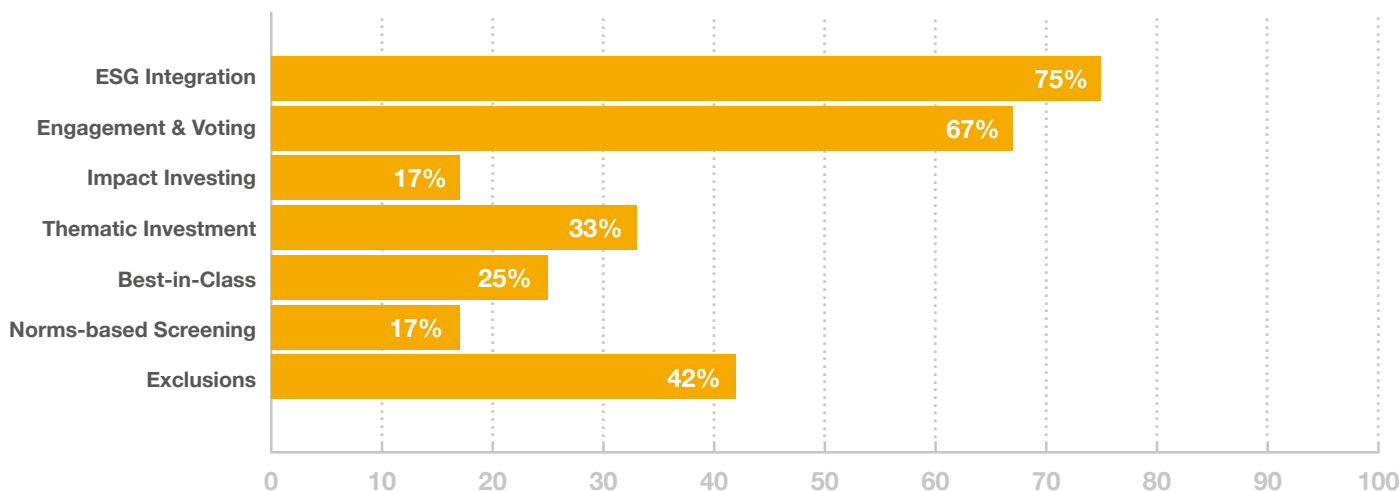


Note: respondents had the option to select all that applied.

By means of comparison, asset management firms in the UK indicated that across SRI strategies, the most significant growth took place in Exclusions over the past two years, according to the European SRI Study published by Eurosif in 2016.⁷

For those who responded, Figure 3 identifies the type of SRI strategy/approach that brings most value to the respondents' clients.

FIGURE 3: WHICH TYPE(S) OF SRI STRATEGIES/APPROACHES BRING MOST VALUE TO YOUR CLIENTS?



Note: respondents had the option to select all that applied.

6 <https://www.unpri.org/download?ac=4932>
 7 <http://www.eurosif.org/wp-content/uploads/2014/09/Eurosif-SRI-Study-20142.pdf>

When asked what the key drivers for demand in SRI over the next three years would be, the primary drivers of demand were identified as being demand from institutional investors; demand from retail investors; the notion of fiduciary duty; materiality; and legislation.

To get some insight into what was driving the SRI strategy, we asked the participants to rank in order the most important drivers of SRI. Options given were: financial opportunity, risk management, looking for a stable long-term return, a responsibility to their client/fiduciary duty, addressing climate change and other environmental issues, the generational transfer of wealth and the contribution to local community development. Participants who responded identified the most important drivers as being the responsibility to client/their fiduciary duty, risk management, financial opportunity and looking for stable long term returns.

What are the main drivers that determine your SRI strategy?

Addressing the Sustainable Development Goals

Financial opportunity

Responsibility to client/fiduciary duty

Generational transfer of wealth

Risk management

Looking for stable long-term return

Address climate change and other environmental issues

Contribute to local community development

When asked about what the main deterrents were as they related to their SRI policy, there were a number of reasons were cited by those responding. These ranged from performance concerns, a lack of viable products / opportunities, a lack of qualified advice / expertise, a lack of client demand, risk concerns and mistrust or concern about greenwashing.

What are the main deterrents to SRI strategy?

Lack of qualified advice/expertise

Mistrust/concern about greenwashing

Performance concerns

Risk concerns

Lack of viable products/options

Lack of client demand

DETAILED SRI STRATEGIES

Exclusions

EXCLUSION OF HOLDINGS FROM THE INVESTMENT UNIVERSE:

This is an approach or strategy which excludes specific investments or classes of investment from the investable universe (such as companies, sectors or countries). This approach will systematically exclude companies, sectors or countries from the permissible investable universe if involved in certain activities which are based on specific criteria. Common criteria for exclusion include weapons, pornography, tobacco, and animal testing. Exclusions can be applied at individual fund level, but increasingly also at asset manager or asset owner level, across the entire range of assets. This approach is also referred to as ethical or values-based exclusions, as exclusion criteria are typically based on the choices made by asset managers or asset owners.

Figure 4 identifies that 69% of those questioned do not have a general exclusion policy which they apply to both mainstream funds and assets under management. For those that have a general exclusion policy, exclusions which were being applied covered: controversial weapons (cluster munitions and anti-personnel landmines), all weapons (both production and trade), pornography, alcohol, tobacco, gambling, genetically modified organisms and fossil fuels.

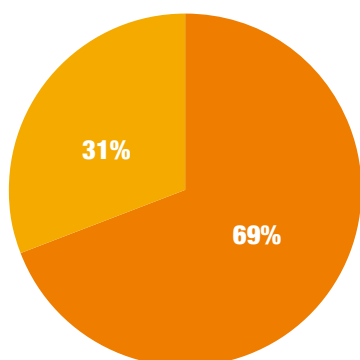
Other exclusions referenced by participants related to stem cell research, human rights violations, International Norms (OECD) Guidelines, UN Global Compact, MSCI screening, the Office of Foreign Assets Control (OFAC) list and, for some, the general exclusion policy related to the exclusion of companies with a low ESG rating as defined by their specialist ESG team.

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FIGURE 4: DO YOU HAVE A GENERAL EXCLUSION POLICY

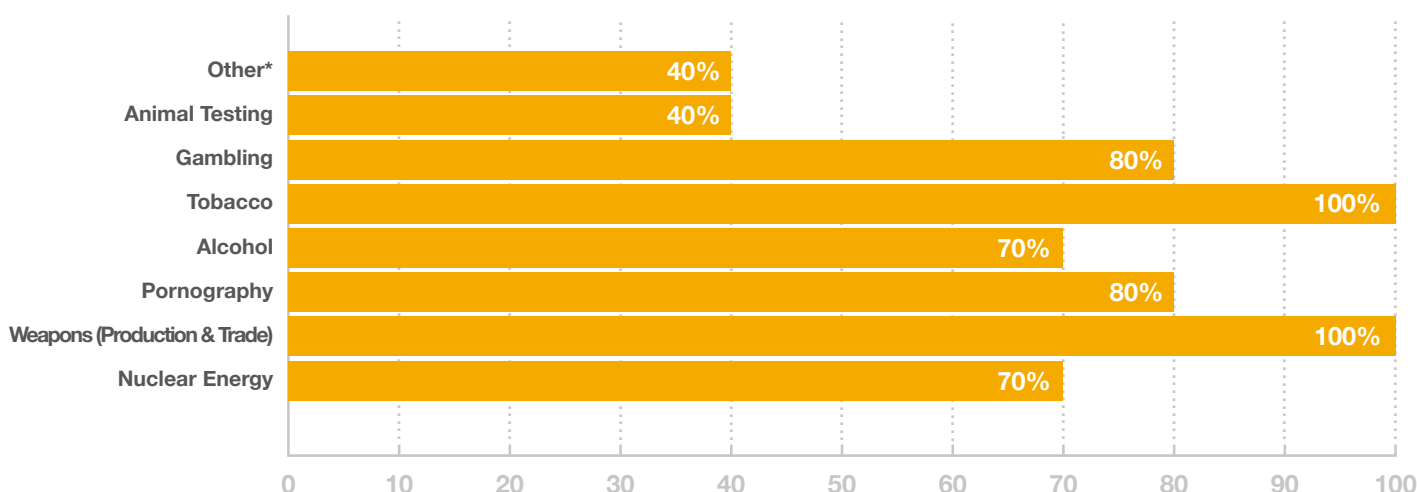
Yes ■ No ■



Note: Based on the number of respondents selecting Yes or No.

63% of those who completed the survey identified that whilst there may have been no general exclusion policy in place, they did operate a fund specific SRI strategy. Figure 5 identifies the exclusions which were being operated under this SRI strategy.

FIGURE 5: WHICH EXCLUSIONS DO YOU APPLY?



Note: respondents had the option to select all that applied.

*Other: Fossil Fuel Free, human rights violations, stem cell research, fossil fuels and coal.

For those who indicated that they operate a fund specific exclusion policy, all identified that exclusions relating to tobacco and also to weapons (being the production and trade) were in place.

Sustainability themed investments

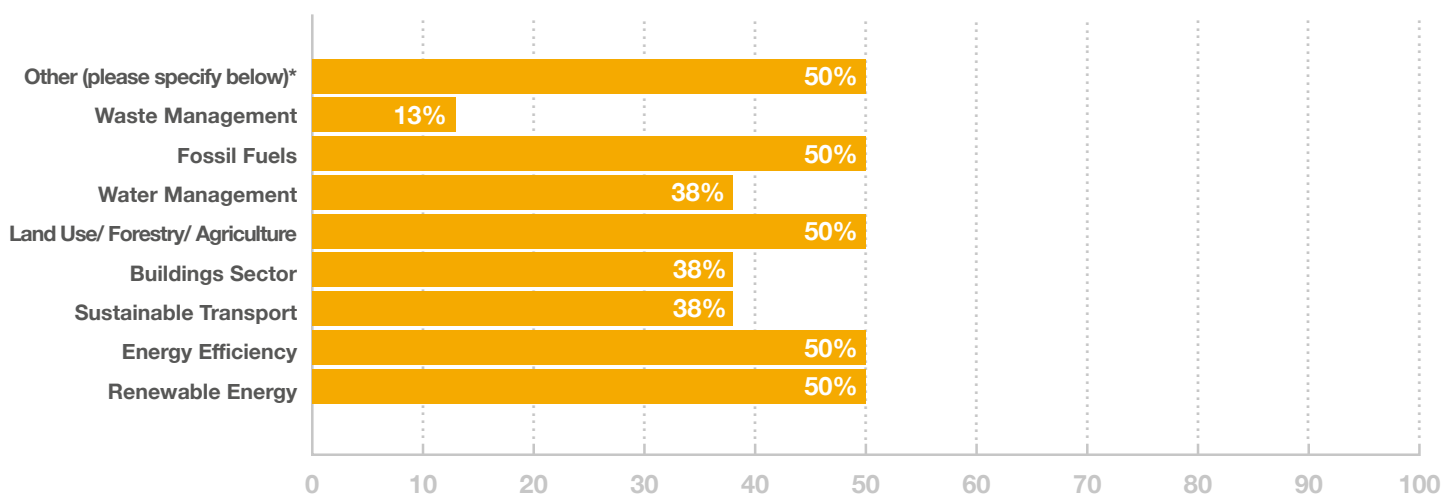
The definition adopted in this report for a sustainability themed investment is that it is an investment in assets that best exploit opportunities from major long-term sustainability-related trends that will drive value across industries.

Sustainability-themed investments contribute to addressing social and/or environmental challenges such as climate change or natural resource depletion. Thematic funds focus on specific or multiple issues such as renewable energy, energy efficiency, eco-mobility, sustainable buildings, waste or water management.

For those who identified that they operated a sustainability themed investment strategy (being 50% of total respondents), investment themes, listed within their responses included renewable energy, energy efficiency, building sector, land use/forestry/agriculture, fossil fuels, sustainable transport, water management and waste management.

These categories are represented within figure 6 below (some are classified as “Other” and are not individually split out). From this we can see that the most common sustainability themed categories which were identified by 50% of respondents relate to fossil fuels, energy efficiency, renewable energy and land use/forestry/agriculture.

FIGURE 6: SUSTAINABILITY THEMED INVESTMENT: WHICH THEME(S) DO YOU APPLY?



Note: respondents had the option to select all that applied.

**Other: investment in sustainable companies, climate change and carbon emissions, sustainable infrastructure, bottom of the pyramid, migration, women effect, health and wellness and longevity.*

Impact investment

These are investments made with the intention of generating a social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below market to market rate, depending on the circumstances. These investments are often project-specific, and distinct from philanthropy, as the investor retains ownership of the asset and expects a positive financial return. Impact investment includes microfinance, community investing, social business/ entrepreneurship funding and French fonds solidaires. The growing impact investment market provides capital to support solutions to the world’s most pressing challenges in sectors such as sustainable agriculture, affordable housing, affordable and accessible healthcare, clean technology and financial services.

A hallmark of impact investing is the commitment of investors to measuring and reporting the social and environmental performance and progress of underlying investments. Investors’ approaches to impact measurement will vary based on their objectives and capacities. The choice of what to measure usually reflects investor goals and, consequently, investor intention.

In general, components of impact measurement best practices for impact investing include:

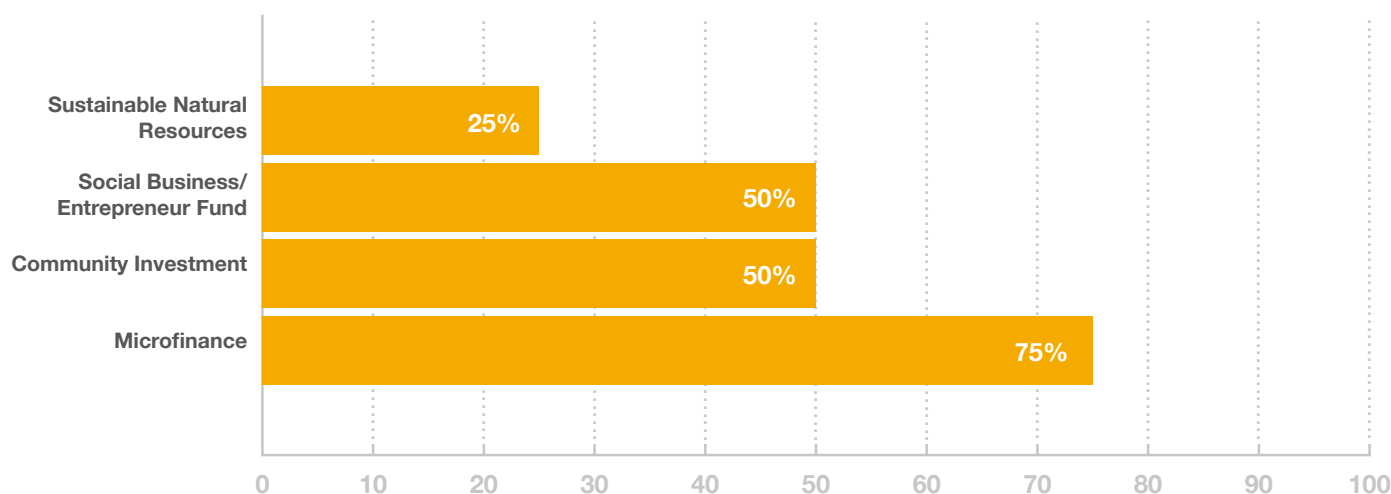
- Establishing and stating social and environmental objectives to relevant stakeholders;
- Setting performance metrics/targets related to these objectives using standardised metrics wherever possible;

- Monitoring and managing the performance of investees against these targets;
- Reporting on social and environmental performance to relevant stakeholders.

25% of those surveyed identified their impact investing strategy in response to the questions asked. The types of impact investing that were identified included microfinance, community investment, social business/entrepreneur funding and sustainable natural resources (as outlined in Figure 7 below). Of those who said they have adopted impact investing, 50% would be willing to accept a financial return which was lower than the market rate and their motivation was identified as being their responsibility to their client / fiduciary duty, and to contribute to sustainable development.

When asked what factors would prevent them from making more impact investments, of those who have adopted impact investing (25% as above), 50% responded and identified that risk concerns was the primary determinant in preventing them from making more impact investments.

FIGURE 7: IMPACT INVESTING: PLEASE SELECT THE RELEVANT INVESTMENT TYPES THAT APPLY



Note: respondents had the option to select all that applied.

Formal policies in place

Integration of Environmental, Social and Governance (ESG) factors in financial analysis

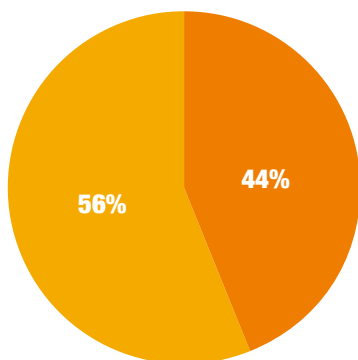
The integration of ESG factors into financial analysis for the purposes of this survey was defined as the mandatory investment constraints on investment decisions based on financial ratings/valuations derived from ESG research. These constraints may consist of measures such as underweighting or reducing the number of shares from certain issuers, etc.

Participants were asked whether there was a formal ESG integration policy/approach in place and 56% of the respondents responded in the affirmative. Of those who did have a formal ESG integration policy in place (56% of the total population), 56% identified that their ESG integration approach included ex-post ESG assessments of portfolios/funds. When asked what percentage of their assets under management was covered by these ex-post ESG assessments, the range was between 98% to 100% (inclusive) of their assets under management.

Of those 56% who identified that they had a formal ESG integration policy / approach, for those whose ESG integration approach did not include an ex-post ESG assessment (being 44%), 75% identified that the areas of ESG which were covered by ESG integration represented the E, the S and also the G aspect of this approach.

FIGURE 8: ESG INTEGRATION - DO YOU HAVE A FORMAL ESG INTEGRATION POLICY/APPROACH?

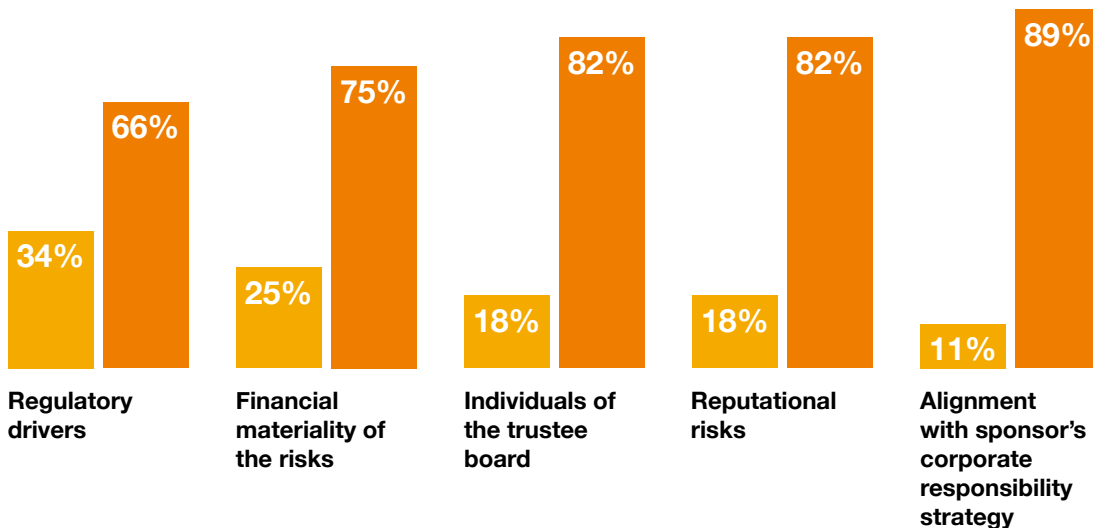
Yes ■ No ■



Note: Based on the number of respondents selecting Yes or No.

In Mercer’s “European Asset Allocation Survey 2018” a key theme to emerge from the results of their survey was the importance of the changing regulatory environment across Europe.⁸ In contrast to the above chart, only 40% of the asset owners surveyed considered ESG risks. Further, the survey conducted by Mercer identified that regulatory drivers are the key motivator for plans to consider ESG issues with 34% of participants citing this as the key driver for integration. However, given the regulatory changes which have occurred over the past 12 - 18 months within Europe and the UK, this is perhaps unsurprising. The following chart has been taken from Mercer’s report and shows the key drivers behind the consideration of ESG risks:

Yes ■ No ■



8 <https://www.uk.mercer.com/our-thinking/wealth/european-asset-allocation-report-2018.html>

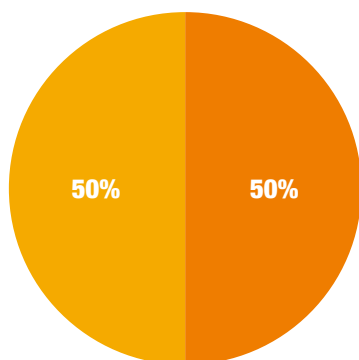
Engagement

Similar to the policies surrounding the integration of ESG factors within financial analysis, participants in the survey were asked as to whether they have a formal engagement policy. This was defined for the purposes of this survey as being active share ownership through engagement used to open channels of communication between shareholders and issuers in order to improve the ESG strategy and performance of issuers. Engagement on ESG could take the form of formal letters, calls, emails, meetings, etc. When asked whether a formal engagement policy is in place, 50% of respondents indicated that this is the case.

Of those who indicated that they did have a formal policy on engagement, the issues included in their top three most common ESG issues on their agenda for 2017 were climate change, corporate governance, human rights, environmental management system and reporting, business ethics, the environmental impact of investments/products and services, supply chain, employment, community involvement and environmental controversies. (To clarify, included in the narrative above are the top three issues from all respondents. Some respondents identified more than one issue per ranking.)

FIGURE 9: DO YOU HAVE A FORMAL POLICY ON ENGAGEMENT?

Yes ■ No ■



Note: Based on the number of respondents selecting Yes or No.

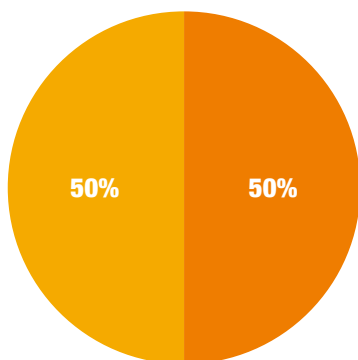
Voting

Voting in the context of the survey relates to active share ownership by voting or proxy voting at the Annual General Meeting (AGM) of companies and the means by which shareholders can influence issuers' ESG strategies and practices. Responses demonstrated a high level of engagement in ESG voting, with 50% indicating that a formal policy is in place.

Of those who have a formal policy in place, for 75%, their voting policy covers the E, the S and the G factors, and for 12.5% the policy only covers the G factor. The rest of the population (12.5%) did not specify further. When asked what percentage of their portfolio over which they exercised their voting rights in 2017, responses ranged from 0% through to 100%.

FIGURE 10: DO YOU HAVE A FORMAL POLICY ON ESG VOTING?

Yes ■ No ■



Note: Based on the number of respondents selecting Yes or No.

Norms-based screening:

The definition that has been applied to this strategy within the report is the screening of investments according to their compliance with international standards and norms based on ESG criteria, such as those developed by the OECD, the United Nations (UN), and various UN agencies/programs, such as the UN Global Compact, International Labour Organisation (ILO), United Nations Children's Fund (UNICEF), and the United Nations Human Rights Council. This approach involves the screening of investments based on international norms or combinations of norms covering ESG factors. International norms on ESG are those defined by international bodies such as the UN. They are generally understood to be universal, even if not universally applied or adopted. This typically involves judging a company against peers or certain minimum standards.

At the margin, exclusions (1) and international norms (2) may converge, and a certain judgement is required to assign the correct classification. The threshold can often be seen in the fund manager referring specifically to outside norms such as the UN Global Compact or OECD guidelines for multinational corporations. Another distinction is that norms-based screening involves an analysis where a company is judged on a standard against peer companies or minimum standards covering ESG criteria.

It was clear from the participants who applied norms based screening (being 25% of total respondents), that the majority identified the UN Global Compact as being a norms which was applied. Other norms which were applied included ILO Conventions and OECD Guidelines for MNCs. When asked about other norms based screening actions which they have taken, all excluded companies from their investable universe. Additionally, some identified that they would enter into engagement with companies (with possible divestment in the future) and others identified that they would look to their under/over-weight holdings.

Best-in-class:

This is defined as the approach where leading or best-performing investments within a universe, category, or class are selected or weighted based on ESG criteria. The approach involves the selection or weighting of the best performing or most improved companies or assets as identified by ESG analysis, within a defined investment universe. This approach includes best-in-class, best-in-universe, and best-effort.

When asked as to what percentage of companies remained on average from the participants' investable universe following the best in class screening, only 25% responded, and their responses included 0.25% through to 50% to 100% (or alternatively, no measure was provided).

ASSET ALLOCATION, ASSET LOCATION & TYPES OF INVESTORS

In order to ascertain a picture of where survey respondents' assets are, we asked them to provide detail on the breakdown of asset class, types of investor and geographic breakdown.

FIGURE 11: BREAKDOWN OF SRI ASSETS BY ASSET CLASS

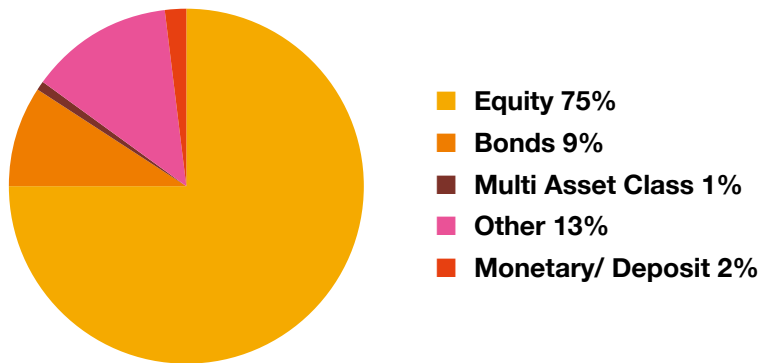
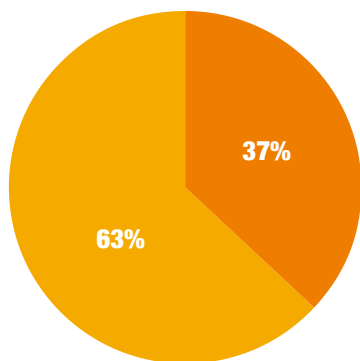


Figure 11 shows the breakdown of SRI assets by asset class (this section of the survey was completed by 88% of participants). Included within the broad category of bonds are sovereign bonds, corporate bonds, local/municipal bonds and supranational bonds. Included within the “Other” category are alternative assets, venture capital/private equity assets and real estate/property assets.

The above also provides detail on the SRI assets split of the respondents as at 31 December 2017. Based on the input received, equity assets emerge as by far the most common SRI asset class. It will be interesting to see how this changes over time as it was reported by Bloomberg in August 2018 that whilst ESG investments are booming, asset managers are seeking fixed-income options and that bonds have the potential to be a popular ESG asset class for impact investors.⁹

FIGURE 12: BREAKDOWN OF SRI ASSETS BY TYPE OF INVESTOR

Institutional ■ **Retail** ■

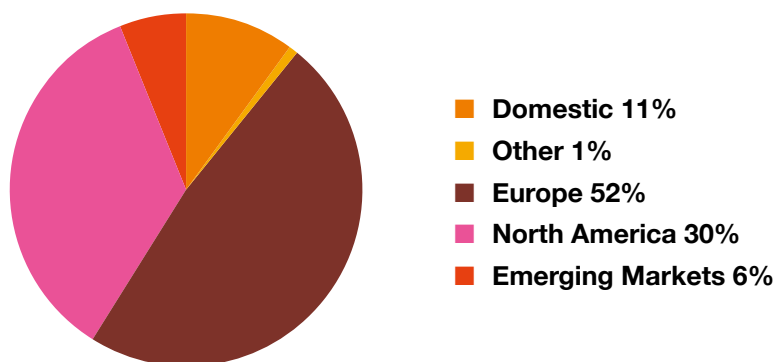


⁹ Bloomberg: “As ESG investments boom asset managers seek out fixed income options.”

Further to figure 12 above, when asked to identify their investor base, of those who responded (81%), 31% identified that their product was directed only toward the retail investor, 46% marketed their product to institutional investors and 23% marketed to both the retail and the institutional investor.

81% of those questioned provided information relating to where their assets were invested, and this information is aggregated into the below chart (figure 13). Perhaps unsurprisingly, the majority of the assets were identified as being invested in Europe as at 31 December 2017.

FIGURE 13: BREAKDOWN OF SRI ASSETS BY GEOGRAPHY



Institutional investing

Institutional investors were primarily identified as being public pension funds/reserve funds, corporate or occupational pension funds, religious institutions and charities, insurance companies and mutuals, universities and other academics, endowments and foundations, wealth managers, fund of funds, wholesale and public authorities and government.

Mercer's "European Asset Allocation Survey 2018" provides a comprehensive overview of investment strategies across the European pension industry and identified a number of emerging trends in the behaviour of institutional investors. One of the key findings identified that whilst consideration of climate change has tended to be fairly low on investor agendas, the 2018 survey showed a material jump in the number of investors considering the investment risks posed by climate change (from 5% in 2017 to 17% 2018).¹⁰

MANDATORY ESG DISCLOSURE

As noted earlier in this report within "The State of Play: A European Perspective" section, during 2018, the European Commission released their action plan for financing sustainable growth with ten areas of reform. According to this plan, by mid-2019 the Commission hopes to harmonise the approach taken by Member States towards ESG disclosures. In this survey, participants were asked about the main benefits and drawbacks of mandatory ESG disclosure, and how existing national legislation on ESG disclosure had impacted their SRI strategy and practices.

In response to the questions about the main benefits and drawbacks of mandatory ESG disclosures, differing views were offered. There was acknowledgement that this would enhance transparency, force action and bring credibility to the industry. More specifically, it would bring much needed harmonisation and consistency to a market inundated by a multitude of terminology and definitions.

It was felt that this would accelerate investment to address key sustainability challenges such as climate change, and that it would draw

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¹⁰ <https://www.uk.mercer.com/our-thinking/wealth/european-asset-allocation-report-2018.html>

attention to ESG which is still not well-understood. Others felt that required disclosure would drive change in companies and raise the profile of sustainability issues to board level.

Yet some did not see there being any drawbacks associated with mandatory ESG disclosures, while others saw it leading to an increase in the administrative burdens for those involved, with additional resources being required from asset managers to meet these potential reporting requirements (during a time when fee pressures are mounting). In particular, this would affect smaller companies, leading to a negative impact on growth potential.

Additionally, some think that mandatory disclosure may lead to the disclosures becoming a box ticking exercise, that it would encourage homogeneity in asset managers and would reduce points of differentiation, and that it may lead to 'reporting fatigue' if efforts are half-hearted. Moreover, there were concerns that a movement toward disclosure may lead to a disclosure being required for something which cannot be measured and for those who are a multi-product asset manager, it is very challenging to apply a one size fits all approach.

When asked how existing national legislation of ESG disclosure has impacted their SRI strategy and practices so far, some respondents identified that so far, there was no impact/no material impact on their existing business. Yet others responded that it had triggered reviews and accelerated their firm's progression towards their ultimate goal in terms of ESG and SRI strategies.

As noted within Mercer's "European Asset Allocation Survey 2018" as outlined previously, it was identified that there was a year-on-year growth in the number of asset owners considering the investment risk and opportunities posed by climate change, and that this had moved from 5% in 2017, to 17% in 2018.¹¹ It was believed that regulatory drivers were an important factor in this growth as investors also would have reviewed the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) which was released in the summer of 2017. Further, it was identified that over two-thirds of those clients that have considered climate change risks have also considered the findings of the TCFD.

Therefore, as legislation progresses to make ESG disclosures mandatory, it will be interesting to see how this will impact the result of future surveys in this area given the above correlation between the requirements of TCFD and the increase in consideration of climate change risk.

NEXT STEPS

Within the "Fiduciary Duty in the 21st Century - Ireland Roadmap" report (Roadmap Report) a recommended roadmap for Ireland was outlined and some of these recommendations related specifically to SRI.¹² For example, in relation to regulations, the Pensions Authority should ensure that the ESG-related provisions of IORP II are effectively implemented. Moreover, it was recommended that they should issue guidance for pension funds and trustees as to how to ensure they are in compliance with the relevant provisions. Additionally, it was recommended that a process is set up for reviewing compliance and annual reporting on progress, lessons learned and the actions taken by the Pensions Authority where non-compliance is identified. As a key element of its wider programme of work, the Pensions Authority should continue to raise standards of Irish pension fund governance and risk management, including asset allocation. ESG considerations should be an integral part of these efforts.

¹¹ <https://www.uk.mercer.com/our-thinking/wealth/european-asset-allocation-report-2018.html>

¹² <https://www.unpri.org/fiduciary-duty/fiduciary-duty-in-the-21st-century-ireland-roadmap/3343.article>

The European Commission's legislative proposal on investor duties signals a move to mandatory ESG integration in investment processes and decision-making, and to mandatory ESG disclosures by certain asset owners. In order to prepare the market for these new requirements, the Roadmap Report suggested that the Department of Employment Affairs and Social Protection should give the Pensions Authority a leading role in encouraging greater focus on ESG factors for pension funds. Whilst it is noted that this is specific to the area of pensions, this is a likely recommendation which would also be applicable to the wider community within financial services.

The above mentioned Roadmap Report also suggested that the Central Bank of Ireland should issue guidance to encourage asset managers under its supervision to:

- 1) have a clear understanding of the interests and preferences of their clients on ESG issues;
- 2) adopt responsible investment policies that commit them to integrating financially material ESG factors into their investment research and decision-making, and to engaging with companies to encourage high standards of corporate governance and corporate Responsibility performance;
- 3) look to integrate financially material ESG factors into their investment research and decision-making;
- 4) engage with companies to encourage high standards of corporate governance and corporate responsibility; and
- 5) report on how they take account of ESG issues in their investment practices and processes, including reporting on the outcomes of these efforts.

To make informed voting and investment decisions and to direct meaningful engagement activities, investors require timely, decision-useful information on a firm's operating performance and financial prospects, including ESG factors. Recognising the increasing levels of EU legislation and guidance relating to ESG disclosures, the Roadmap Report recommended that the following principles shape the Department of Business, Enterprise and Innovation requirements for corporate disclosures:

- ESG factors should be disclosed within the annual report, with clear links between ESG factors and the company's business model and risk factors;
- ESG factors should, over time, be subject to the same levels of assurance as financial data;
- companies should report using common performance metrics to allow for comparability; and
- companies should also disclose additional company specific ESG risks and opportunities.

Furthermore the Roadmap Report recommended that the Department of Business, Enterprise and Innovation should continue to promote and enhance the adoption of forward-looking and scenario-based frameworks on climate change with companies, including the recommendations set out by the Task Force on Climate-related Financial Disclosures.

Our survey found that 81% of the Irish domiciled asset managers surveyed have a formal Responsible Investing policy in place which is an excellent starting position. SIF Ireland plans to run this survey again in 2019 and to extend it to Irish domiciled asset owners at this time. We look forward to measuring the trajectory of growth in the level of adoption of Responsible Investment/ESG by asset managers and asset owners, given the impetus from the European Commission and regulators to promote responsible investment, not to mention the increased demand from investors for such products and strategies.

Case Studies



KBI

KBI has been managing some form of ESG-based investment strategies for more than 30 years. It started with faith-based exclusions for Irish-based charities in the 1980s, expanded to manage ESG-thematic portfolios (e.g. water, clean energy) for Irish and international investors, and in recent years KBI has integrated ESG criteria into the more than €10bn of assets it manages across its portfolios, including its flagship Global Equity range.

KBI took the decision some years ago to integrate ESG across all of its investment range because it believes that this helps investment performance. KBI do not believe that there is a trade-off between investment performance and investing responsibly. In fact, KBI think that – as a matter of common sense – companies which have good governance and which take a responsible approach to their impact on the environment and society as a whole are also likely to be well-managed generally and have a lower risk profile, and thus likely to outperform.

KBI implements Responsible Investing in a number of ways.

Firstly, it takes a company's ESG performance into account when investing in that company its ESG behaviour directly influences whether KBI will invest in the company.

Next, it actively engages with companies to request improved ESG behaviour. This engagement can cover a multitude of issues from poor governance to a lack of disclosure of greenhouse gas emissions to whether the company can be sure that there is no child or slave labour used in its supply chain.

KBI also applies responsible Investing principles when voting at the annual meetings of hundreds of companies. After consideration of the issues from an ESG point of view, it may often vote against the recommendation of a company's management on ESG issues. In fact, it has voted against management in about 60% of all votes on shareholder resolutions relating to health or environmental issues in recent years.

KBI believes that ESG investing/responsible investing will increasingly be at the core of best-practice investment management. Ultimately, ESG investing/responsible investing will have succeeded when investors regard it as being as core to what they do as any other valuation metric. It may well be the case that in a few years it will be as surprising to find an investor who doesn't have regard to the ESG characteristics of a company as to find an investor who doesn't have regard to basic valuation metrics of a company.

Ireland Strategic Investment Fund (ISIF)

The Ireland Strategic Investment Fund (ISIF) is approaching its 4th birthday but the NTMA's Sustainability and Responsible Investment journey started over well over a decade ago in the National Pensions Reserve Fund (NPRF), the predecessor to ISIF.

NPRF was a sovereign wealth fund and a truly global investor with assets managed by the best-in-class managers around the world. It had a long term growth orientated mandate and was very focused on operating within prudent risk parameters aligned with that mandate. Early discussions about Responsible Investment were framed in that context and it became clear that it wasn't about ethical or socially responsible investment, but it was in fact a way of thinking about investing sustainably for the long term. Responsible investment was (and still is) about understanding Environmental, Social and Governance risks and opportunities within the portfolio and how they align with a Funds mandate. It simply made good investment sense.

We signed the Principles for Responsible Investment (PRI) alongside some of the world's largest asset owners and together committed to think a bit differently about how we invested. More than 10 years later a lot has changed in the world of sustainability and responsible investment. We are no longer part of a small group of 20 founding signatories; we are part of a global movement of more than 1800 signatories representing \$80trn of assets – officially mainstream. The issues have changed to reflect the big risk of our time - Climate Change and new social issues for a tech generation such as device addiction or responsible sourcing in the electronics supply chain have arisen. Other issues simply haven't changed enough and lack of diversity at board and executive level remains a prominent theme.

We believe that Responsible investment and the consideration of ESG factors into investment decisions helps us to better manage risk and generate sustainable long term returns. The Funds' Sustainability and responsible Investment strategy is underwritten by ISIFs investment beliefs, the Fund's business plan and its investment strategy.

For ISIF, Sustainability and Responsible Investment is a whole of Fund issue, spanning both the Global and Irish investment portfolios. The Fund has a long history of active ownership, voting and engaging on a wide range of ESG issues across its global portfolio. It also conducts detailed portfolio analytics including Carbon footprinting and Sustainable Development Goals impact analysis. For Irish investments the Fund has designed and implemented an ESG Framework tool to assist in the identification and mitigation of material ESG risks across the Irish portfolio, together with detailed climate related analysis.

Responsible Investment also helps to guide how we behave as an investor and as a steward of public assets. It is not something that we see as in any way at odds with our mandate - it is about how we go about achieving that mandate. For ISIF, when we think about ESG we think about long term performance, about investment return, about economic impact, about risk management, about the quality of our investments, about transparency, about active ownership....and ultimately about long term value creation on behalf of our beneficial owners – the Irish tax payer.

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Our Responsible Investment journey started over 8 years ago when we became one of the first Irish signatories to the UNPRI. This was a significant commitment and set the direction for how we would evolve and manage our business. Since then it has become embedded within our organisation and is as much about how we conduct our business and interact with the market as how we manage portfolios for our clients.

Our move towards Responsible Investment was driven by our commitment to our clients and the responsibility we bear when managing assets on their behalf. Importantly, we believe in the investment case for responsible investment and our approach focuses on achieving enhanced risk adjusted long term returns for our clients.

Responsible investing means a number of things to us – from being a good steward of assets to integrating more robust decision making within our portfolios (which takes account of environmental and social issues as well as the more traditional governance and financial risks) to offering a range of thematic investment options. We also believe it goes beyond how we manage portfolios alone; we take our role as a corporate citizen seriously and recognise the role we can play in contributing to the overall longer term sustainability of the market by promoting responsible investment practices with other stakeholders for the greater benefit of all.

Active Ownership underpins our Responsible Investment practices. We aim to encourage better standards, policies and management processes covering potential key risks by using our voting power and by engaging in ongoing dialogue with the companies in which we invest.

We also recognise that our clients may wish to express their own views on responsible investment so provide a range of investment options which enable them to implement different practices within their portfolios. We provide options which facilitate exclusions (for example controversial weapons or fossil fuels) to tailored strategies which reflect a client's own bespoke Responsible Investment criteria.

We are committed to improving the financial outcomes for our clients and to managing assets entrusted to us by our clients as well as our own assets responsibly. We intend to continue to evolve our approach to Responsible Investment – further incorporating such practices within our portfolios and across asset classes and will continue to be a public advocate to encourage change in the markets in which we operate which are for the best interests of our clients.



Mediolanum

Mediolanum has been pursuing ESG ideals and the wider integration of ESG considerations across our business for a number of years. While initially we developed solutions as a response to client need and specific demand for products with an ESG objective, we have increasingly integrated ESG more widely into our investment process and in our ongoing management deliberations. This is on the back of an increasing body of academic support for ESG integration and a widening range of tools to be able to monitor ESG behaviour and credentials.

For instance, when we consider the merits of a new investment with an external partner, we view traditional ESG considerations as a likely material impact on that investment's long-term prospects. Specifically among our external investment partners, we are looking to identify key traits that suggest the asset manager will be a strong steward of capital and has a considered approach to ESG, both at the firm level and at the product level. An interesting investment process alone with a demonstrable track record is not enough: this needs to be coupled within an organisational structure and a culture which has built in high stewardship standards and that seeks to consider ESG across the various strands of the investment process and across the business. Increasingly, ESG and stewardship standards are central to our qualitative assessments and discussions with external partners, both at the selection stage as well as in ongoing monitoring.

One of the areas where we feel we can deliver most value is in our engagement with asset managers who act as key investment partners. From a top-down perspective, we are looking to drive good behaviours and promote ESG through the influence we can have as an important client to asset managers. We are developing means to be able to identify more clearly those managers who are taking up the ESG agenda in a more meaningful way compared to those who are less engaged. We believe our influence as a significant partner to a wide range of asset managers is a powerful force to promote improvement and increased awareness of the ESG imperative.



Amundi

Amundi is Europe's largest asset manager with €1.470 trillion of assets including €280 billion in responsible investments. We were one of the first asset managers to sign the Principles for Responsible Investment (PRI).

This commitment is based on two convictions: the responsibility companies and investors have in building a sustainable society, and the belief that responsible investment is a guarantee of long term financial performance.

At Amundi, we believe that value creation and sustainable development are now linked more than ever: environmental, social and governance (ESG) issues represent financial risk factors for investors, and are also opportunities.

We have adopted a Best-In-Class approach for our Responsible Investment strategy. Amundi's ESG rating of 5,500 issuers worldwide, with an objective of 100% covered by 2021 (equating to about 8,000 companies), is based on a set of 36 criteria. Fifteen of these criteria are generic, common to all companies whatever their business sector and 21 are specific, depending on each sector's issues.

The weight assigned to each ESG factor depends on the company's sector and ratings range from A (highest score) to G (lowest score). A targeted exclusion policy excludes all companies rated G that do not comply with our ESG policy, international conventions or national law regulations.

Amundi contributes to driving impact by supporting innovative projects. We also have plans to significantly increase the commitment to responsible investment. By the end of 2021, Amundi's ESG policy will apply to 100% of fund management and voting practices.

Moreover, ESG performance will be systematically considered by Amundi in shareholder dialogue with issuers and its voting policies.

Regarding thematic funds, related to the environment and social impact, our objective is to double assets under management. We will also strengthen ESG advisory activities for institutional clients to support them in their development initiatives.



L&P Cantor Fitzgerald

ESG investing began at L&P more than 30 years ago in response to demand from clients, who wanted to align their values and beliefs with their investment decisions. This continues to be our approach following the takeover of L&P by Cantor Fitzgerald Ireland in 2017.

In the beginning, the range of investments available to our clients was largely limited to Socially Responsible Investment (SRI) funds. In recent years, however, our approach evolved to include ESG screening and positive impact investing, while also meeting our clients' required return and risk criteria.

A significant area of concern for our clients is climate change. In early 2017, our clients made the decision to divest from fossil fuels and currently hold no fossil fuel reserves in their portfolios. In addition, divestment also helps deprive fossil fuel companies of capital needed to continue with exploration projects.

Investing to tackle poverty and social inequality is a further focus of a typical client portfolio to help people access financial services and basic needs such as clean water. We have increasingly focused our resources and energy on measuring these positive impacts and earlier this year produce our first positive impact report.

In our impact analysis, we assess our clients' investment portfolios against the United Nations Sustainable Development Goals (SDGs) and present details of how each investment meets various SDGs. The SDGs have become one of the most recognised frameworks for sustainable development, against which efforts to address sustainability challenges can be measured globally.

At L&P Cantor, this is the essence of ESG investing: to have a positive effect on the world while producing a strong risk-adjusted return on capital. We are committed to expanding the opportunities for our clients to exert positive change in the world, while collaborating with other stakeholders to understand complex ESG issues, how they can be addressed and what impact metrics should be collected and reported.

Acknowledgements

ACKNOWLEDGEMENT & DISCLAIMER

Sustainable & Responsible Investment Forum Ireland wishes to acknowledge PricewaterhouseCoopers Ireland (“PwC”) for preparing the analysis included within this report which was based on the figures and responses provided by the participants. These figures and responses have not been independently verified or audited by PwC. Further, the views expressed in this report are not those of PwC, unless otherwise cited.

Special thanks to those Irish Domiciled Asset Managers for taking the time to complete the survey which formed the basis of this report. Those organisations included:

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Elkstone Private Advisors Limited

KBI Global Investors Limited

Kestrel Capital Limited

Trinetra Investment Management LLP

Davy Asset Management Limited

Setanta Asset Management Limited

Amundi Ireland Limited

Irish Life Investment Managers Limited

Blackrock Asset Management Ireland Limited

Mediolanum Asset Management Limited

IG International Management Limited

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We also wish to acknowledge the assistance of the Principles for Responsible Investment (PRI).



Notes

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