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EFAMA REPORT ON RESPONSIBLE INVESTMENT

"There is no statistically relevant outperformance or underperformance of Responsible Investment strategies"

Introduction

The growing environmental, social and human rights challenges of today's world are changing the face of investment. With the global emphasis on a transition to low carbon and climate resilient economy, sustainable and "responsible" investment has never been so important and demand for it is growing. Many investors feel a responsibility to take part in addressing environmental, social and governance ('ESG') issues by being more selective in their investments. The European asset management industry has a crucial role to play in driving this trend: asset managers see their capacity to integrate responsible investment in investment processes and decisions as part of their operational excellence and a key element of their competitive advantage.

Underlining the basic operating principle of investment management as a fundamental service to the real economy and to society as a whole is essential to understanding EFAMA's outlook on responsible investment. Investment managers collect investors' savings and convey those assets to the real economy in the form of equity and debt financing, thereby providing a very significant form of financing for investee companies. Asset managers fulfil their fiduciary responsibility by protecting and enhancing the value of the assets entrusted by clients and engage to enhance the value of investee companies over the long-term if it is in the best interests of their clients. For investors, the returns on their long-term savings invested via investment managers form an increasingly important part of their future retirement income. By channelling the savings of millions of firms and households to companies and governments into concrete investments and projects, the asset management industry finances a sizeable share of economic activity. As intermediaries between investors and financial markets, asset managers' role and influence on responsible investment can therefore not be understated. By providing the conduit, tools and advice for selecting responsible investments, the asset management industry gives its clients an opportunity to have a significant positive influence on environmental, social and governance problems facing the world today.

This EFAMA Report assembles EFAMA's views on responsible investment. The first part of the report showcases the European asset management industry's role and involvement on responsible investment. From the importance of reliable and accurate reporting by companies to the debate about performance and responsible investment, this report sets out EFAMA's outlook and recommendations on the most important questions surrounding responsible investment. The role of legislation, the different selection methods in the responsible investment process and the emergence of new concepts such as green bonds and impact investing are also looked at in detail. Asset managers' fiduciary duty towards clients is also key to EFAMA's views on responsible investment, and this report will highlight the importance placed on asset owners to first understand and define their own values and specific objectives, and to have a clear idea on how these are to be incorporated, if at all, into their investment mandates.

The second part of the report details country-by-country descriptions of the legal frameworks and various private sector initiatives in relation to responsible investment in different Member States.

Recommendations

1. Responsible Investment & Corporate Social Responsibility

EFAMA believes responsible investment can help promote corporate social responsibility of investee companies. If it is in the best interests of the asset owner, an asset manager's engagement with an investee company on their client's behalf on the management of ESG issues can have a leveraging impact which can ultimately be beneficial to society as a whole. Successful engagement by shareholders on responsible investment issues has a multiplier effect: when a corporation changes its behaviour, all its investors become responsible investors.

Despite having reservations regarding the level of prescriptiveness and detail of the Revision of the Shareholders' Rights Directive ('SRD II'), EFAMA welcomes the legislation's objective of facilitating engagement between asset managers and investee companies. We would also support other market-led initiatives to ensure active ownership or engagement remain to the fore.

2. Procedural standards over regulatory initiatives

ESG investing is a young, innovative and still developing field, which cannot be captured by a single regime. Given that the European Commission has introduced a number of transparency requirements, particularly in relation to reporting by companies but also ex-ante responsible investment transparency in fund documentation (UCITS-KIID and PRIIPs-KID), EFAMA does not believe there is a need for additional regulatory developments in this field. Regulatory requirements would also make ESG investments a compliance issue and as a result dilute the importance of the conviction of ESG investments' positive effects.

EFAMA recommends the development of procedural standards by the industry for investment managers at European level, which would enable investors to evaluate different approaches to responsible investment and allow for informed choice in the marketplace. EFAMA believes standard setting should focus on processes rather than outcomes, given the complexity in defining socially responsible behaviour of companies beyond applicable legislation.

Self-regulatory initiatives on transparency standards for responsible investment should also be supported. This would enable investors to evaluate different approaches to responsible investment and allow for informed choice in the market place.

3. Importance of reporting by companies

Standardised and accurate reporting on corporate responsibility is vital for asset managers. The lack of standardisation on what and how to report remains an obstacle to more widespread reporting on non-financial matters by companies.

EFAMA believes that more attention should be given to market-led initiatives such as the Corporate Reporting Dialogue, which is designed to respond to market calls for greater coherence, consistency and comparability between corporate reporting frameworks, standards and related requirements.

4. Importance of asset owner & fiduciary duty

As fiduciary investors, asset managers' primary duty is to act in the best interests of clients and honour their wishes. Asset owners need to understand and define their own values and objectives, and know how these are to be incorporated, if at all, into their investment mandates.

Despite noting the difficulties caused by the onerous disclosure requirements by institutional investors of their arrangements with asset managers in the SRD II, EFAMA nonetheless welcomes the idea in the SRD II to help institutional investors integrate ESG into their investment processes.

We would also encourage other initiatives to promote reporting on responsible investment by the asset owner.

EFAMA research has found that almost all empirical scientific research into fund investments concludes that there is no statistically relevant outperformance or underperformance of responsible investment strategies compared to other investment strategies, with the exception of exclusion strategies, and possibly impact investing strategies, which are more likely to harm returns.

Given that responsible investment strategies are neutral to performance, it follows that fiduciary duty does not present an obstacle to responsible investment. Therefore EFAMA does not see any necessity for policymakers to clarify fiduciary duty in order to promote responsible investment.

EFAMA also recommends that no further obligatory exclusions be drawn up in legislation, given their likelihood to harm returns.

5. Obstacles to ESG integration

ESG integration, whereby asset managers seek to build ESG criteria into their investment analysis and portfolio construction processes, is increasingly important for the asset management industry.

EFAMA believes there are numerous obstacles to furthering this process which must be addressed by both policymakers and industry participants:

- Access to empirical data can be particularly challenging for many medium to long term risks, particularly for smaller issuers or issuers in emerging / developing markets
- Insufficient data quality can be problematic, however this has dramatically improved over the past 5 years and should continue
- The variety of responsible investment methods, while reflective of the innovative drive behind responsible investment, may be challenging for asset managers trying to reconcile the different methods of various institutional clients
- Acceptance by clients may also be problematic, for example a client may want different choices to the asset manager's ESG integration policies on offer and may therefore divest or cancel the mandate
- Technological solutions needed for integration of ESG information as well as the financial resourcing for the staffing required for multidisciplinary teams also need to be addressed

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1. What is Responsible Investment?

Responsible Investing ('RI') is any method of selecting investments where both financial and non-financial considerations, such as standards, ethical or social norms are taken into consideration. It is an approach where an asset manager considers ESG issues when analysing companies and making investment decisions. 'Sustainable and Responsible Investment' or 'Social and Responsible Investment' (both abbreviated as 'SRI') and ESG fall under the umbrella of responsible investment. The European Parliament stated that responsible investment "usually combines investors' financial objectives with their concerns regarding social, environmental and ethical and corporate governance issues"[1].

EFAMA is currently researching responsible investment methods used by its members, with the aim of assembling a package of 'accepted practices' in responsible investment investment decision making methods. This is all the more important, given the lack of standardised terminology[2]. An example of the many differences in terminology is the variations on the term responsible investment itself[3]: Socially Responsible Investing, Blended Value, Impact Investing, Mission-Driven Investing, Mission-Related Investing, Triple-Bottom Line, Social Investing, Values-Based Investing, Programme Related Investing, Sustainable and Responsible Investing, Ethical Investing, and finally Environmental, Social, and Governance Screening.

EFAMA uses the term Responsible Investment rather than the more commonly used SRI (where S denotes 'Socially' or 'Sustainable') as it indicates that investment managers' responsibility goes beyond social responsibility to encompass environmental responsibility as well as governance issues.

EFAMA believes that 'non-financial' information, on an investment is likely to have an impact on the financial performance of the company and the financial instrument.

EFAMA sees responsible investment as a voluntary and non-regulatory issue. Responsible investment acts beyond the realm of legislation. It starts with and builds on the legislative framework for investee companies, and is shaped by politics and views on corporate social responsibility. Legislation can however help to make corporate socially responsible behaviour (or its absence) more transparent. If governments want to influence or change behaviour of corporations, it is more effective for them to do this through legislation, taxation or subsidising of those corporations, than it would be through legislating on responsible investment.

RI can encourage corporate social responsibility, and therefore involves choices by individuals and making decisions on standards, ethical or social norms. As a result, a persons' view of the world, political ideas and values come into play[4]. This has two important consequences:

- The final choice on RI should always lie with the asset owner, be it institutional or retail investor.
- RI does not mean the same investment choices for all asset owners, as they may differ in views.

Individual investors' views and perceptions as to what can be described as responsible differ. There are diverging opinions, for example, on alcohol, pornography, tobacco, gambling, armaments, nuclear energy, and animal welfare[5]. What may be acceptable to one individual may not be acceptable to another.

In today's world, RI goals can lead to certain dilemmas. For example, where one would want to advance workers' rights in the tobacco industry, the management of a tobacco company can best be effectively influenced by an asset owner who actually invests in and engages with said company. Another example is the dilemma of whether you want to exclude a company with intensive efforts in the development of clean energy products because it happens to own a small brewery.

This explains the variety of approaches to RI[6]. RI and RI integration is a young and highly innovative field combining knowledge from various sciences, and where asset managers' approaches to RI vary. The concept of RI is therefore not be captured by a single regime. The aim should be to develop procedural standards at

European level for investment managers, which would enable investors to evaluate different approaches to responsible investment and allow for informed choice in the marketplace.

Ultimately, RI is an investment belief[7] or investment style[8], which can be combined with any other investment style or belief. RI is equal to and complements any other investment belief. However, given its close correlation with Corporate (Social) Responsibility, RI garners more public awareness than other investment beliefs.

2. Responsible Investment is important and growing fast

Asset owners and asset managers, in increasing numbers in the past decade, have entered into the field of RI and have developed their own methods and strategies. In recent years, the number of stakeholders of corporations such as shareholders, employees and consumers has grown and are increasingly playing a role in the value chain. These stakeholders consider the private sector accountable towards society at large and therefore urge those companies to develop CSR initiatives. These stakeholders have a responsibility beyond profit maximisation to shareholders.

The asset management industry is broadening its range of options in an area which is moving from niche to mainstream rapidly. Many asset managers now offer a sophisticated range of products and services in the field of RI.

Several important sources (which cannot be compared to each other, because they use different definitions and have a different scope of research) illustrate this point.

a. The Principles for Responsible Investment ('PRI') initiative started with 73 signatories in May 2006 and had over 194 in May 2007[9]. There were 814 signatories by October 2014, 226 of whom were asset owners and 588 were asset managers[10]. As of April 2015, PRI's signatories represent $59 trillion of assets under management ('AuM'), a 29% year-on-year increase. According to PRI, this comprises just over half of the world's institutional assets[11]. PRI now has nearly 1,400 signatories worldwide[12].
b. A survey by KPMG and ALFI found that since 2012, in terms of RI, AuM in Europe increased by 56%[13].
c. A Eurosif study[14] found that "all surveyed Sustainable and Responsible Investment Strategies are continuing to grow, in aggregate, with no exception, at a faster rate than the broad European asset management market". Some examples of growth rate between 2011 and 2013 include: sustainability themed – 22.6%, exclusions - 91%, impact investing – 132%. Eurosif notes that over this same period, the overall European asset management industry has grown by an estimated 22%. By the end of 2011, the RI market in Europe reached a total AuM exceeding EUR 6 trillion, up by 20% from 5 trillion by the end of 2009.
d. According to the Global Sustainable Investment Alliance[15], the global sustainable investment market has continued to grow both in absolute and relative terms, rising from US$ 13.3 trillion at the outset of 2012 to US$ 21.4 trillion at the start of 2014, and from 21.5% to 30.2% of the professionally managed assets in the regions covered. In Europe, RI grew from 49% to 58.8% of total AuM[16].
e. According to the CFA Institute, almost three quarters of investment professionals worldwide take ESG issues into account in their investment decisions[17].

3. Responsible Investment and Corporate (Social) Responsibility

Public policy makers view RI as a means to an end rather than an end in itself. It is a way of promoting corporate responsibility. EFAMA believes public authorities can play a role in promoting a change of paradigm and culture amongst the business community.

Corporate Social Responsibility 'CSR' is defined by the European Commission as "the responsibility of enterprises for their impacts on society[18]. The Commission elaborates by stating that "to fully meet their

corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of: maximising the creation of shared value for their owners/shareholders and for their other stakeholders and society at large; and identifying, preventing and mitigating their possible adverse impacts".

In the CSR context, the Commission looks at internationally recognised principles and guidelines, such as the OECD Guidelines for Multinational Enterprises, the Ten Principles of the United Nations Global Compact, the ISO 26000 Guidance Standard on Social Responsibility, the ILO Tri-partite Declaration of Principles Concerning Multinational Enterprises and Social Policy, and the United Nations Guiding Principles on Business and Human Rights. Most RI practitioners also refer to these sets of standards.

The end goal of Corporate (Social) Responsibility policy should be to encourage responsible leadership and behaviour amongst corporations.

RI is an incentive that can help encourage Corporate (Social) Responsibility of investee companies and sustainable development. EFAMA also believes that RI can encourage governments to change their behaviour, through investments in the sovereign bond market or infrastructure projects[19].

For asset owners and asset managers who are practicing RI, it is vital to have reliable and accurate reporting on ESG issues by corporations they invest in or are considering investing in. It improves the quality of information available to asset owners and asset managers and facilitates their own reporting on ESG issues. This is called 'integrated reporting'. An integrated report aims to provide insight about the resources and relationships used and affected by an organisation, and to explain how the organisation interacts with the external environment to create value[20]. There are three important organisations that have developed standards: the International Integrated Reporting Council ('IIRC'), the Sustainability Accounting Standards Board ('SASB') and the Global Reporting Initiative ('GRI'). An FSB taskforce also is currently reviewing how the financial sector can incorporate climate-related issues in financial reporting.

The GRI, founded in 1997[21], was the brainchild of the Coalition for Environmentally Responsible Economies ('CERES'), which had pioneered a framework for environmental reporting in the early 1990s. In 2002, GRI was formally inaugurated as a UNEP collaborating organisation. Through its GRI Sustainability Reporting Standards, the GRI helps organisations understand and communicate their ESG impacts. GRI has developed sectoral guidelines. It created the Global Sustainability Standards Board (GSSB) in 2015[22]. As of 2015, 7,500 organisations used GRI Guidelines for their sustainability reports. The GRI standards relate to reporting separately from a company's annual financial reporting.

The SASB, founded in July 2011[23], develops and disseminates sustainability accounting standards to help public corporations disclose material, decision-useful information to investors. They do this through a process that includes evidence-based research and stakeholder participation. SASB have developed industry specific standards for many but not all industries[24]. The SASB aims to integrate its standards into the US SEC Form 10-K which must be filed by public companies. In this sense it differs from the GRI by working within the current system of financial reporting.

The IIRC is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs, created in August 201025. Its goal is "to align capital allocation and corporate behaviour to wider goals of financial stability and sustainable development through the cycle of integrated reporting and thinking"26. It has developed the International Integrated Reporting Framework ('IIRF'), consisting of principles and guidance that govern the overall content of an integrated report. It is not industry-specific,

like the SASB, but it is accompanied by a database of examples, whose purpose is to establish guiding principles and content elements. Pilot programmes on the IIRF have started in 2014 and asset managers await further developments with interest.

4. The roles of asset managers and asset owners

The basic operating principle of investment management is to provide a fundamental service to the real economy and to society as a whole. Investment managers collect investors' savings and convey those assets to the real economy in the form of equity and debt financing. This provides a very significant form of financing for investee companies. For investors, the returns on their long-term savings invested via investment managers form an increasingly important part of their future retirement income. By channelling the savings of millions of firms and households to companies and governments into concrete retirement plans and projects, the asset management industry finances a sizeable share of economic activity. Asset managers bring together supply (capital from investors) and demand for that capital from companies and governments. Institutional investors and their asset managers almost always manage other people's money, that is to say the money belongs to ultimate beneficiary owners. They are, in other words, intermediaries between clients and financial markets.

Freedom of enterprise – within the boundaries of the law – is fundamental. Whether to invest or not to invest in companies living up to their corporate (social) responsibility is a choice the asset owner, or the asset manager as an agent of the asset owner, is free to make. Governments can decide whether or not to legislate on certain activities, however whether or not investment can be made in said activities is a different matter. As stated above, RI is a voluntary and non-regulatory issue, which starts with and builds on the legislative framework for all investee companies, as shaped by politics and personal views on corporate social responsibility and RI.

A client's interests and wishes are a core consideration for any asset manager, for various reasons: conviction, sound business judgement and legal requirements (UCITS Directive, AIFMD, MiFID). The freedom of an asset owner or beneficiary to use money as they wish (within the law or the philosophy of the organisation), is equally fundamental. In discretionary portfolio management, the asset owner has the freedom to choose to direct the asset manager towards RI. In fund management, for active funds, the asset owner can choose to invest (or decline to invest) in RI funds offered by the asset manager. For passive funds, the appropriate strategy is often engagement. However, if passive funds invest according to a sustainability index, that index manufacturer would make the relevant choices, often in consultation with its clients, the index users.

If a client's goal is simply the maximisation of financial returns on investments, RI may not be suitable or appropriate (in MiFID terms). However, RI can also be viewed from a purely financial perspective, as a risk management tool. In sum, RI is likely to be both suitable and appropriate:

- To either balance financial returns or avoid harm to RI convictions and wishes
- To promote RI convictions and wishes,
- Or if the client's focus is only on the impact of RI.

An individual investment management firm makes the decision whether or not to provide products promoted as RI. Firms are best positioned to evaluate the nature and level of demand for RI products from their customer base. However, an investment manager providing such products must commit to an adequate amount of transparency regarding its processes so that investors can evaluate and compare how investment managers meet demands for RI.

4.1 Fiduciary duty

Fiduciary duties are imposed upon a person or an organisation who exercises some discretionary power in the interests of another person in circumstances that give rise to a relationship of trust and confidence. Fiduciary duties exist to ensure that those who manage other people's money act in the interests of beneficiaries, rather than serving their own interests[27].

Asset managers are required by European Law to act in their clients' best interests. Furthermore, asset managers act on behalf of their clients and therefore have a fiduciary duty under Anglo-Saxon civil law – also called a duty to act in good faith under civil contract law in continental Europe.

According to the 2005 Freshfields report[28], fiduciary duty means that the institutional investor has to act in the interest of the beneficiaries of the monies invested. There is no legal impediment for the integration of RI considerations into investment decision-making, provided the focus is always on the best interest of the beneficiaries. Fiduciary duty does not mean that there is any legal obligation to exclude RI concerns from an investment decision. The 2015 UNEP-FI/PRI report on Fiduciary duty in the 21st century notes that this argument, which was controversial in 2005, is accepted ten years later. It also says there has been relatively little change in the law in the past decade, but there has been a significant increase in RI disclosure requirements[29].

When the owners or beneficiaries of the invested funds decide that monies should be invested responsibly, that by definition, does not violate the fiduciary duty of the board. Notwithstanding personal views, the asset manager should not engage in RI activities if it is not in the interest of the client. When RI considerations are financially relevant (in other words: material), there is a fiduciary duty to consider them[30]. Over the past decade, the view has increasingly spread that many RI considerations are often relevant in terms of the risk profile of the investment.

If RI is neutral to financial performance, as Annex 2 to this report shows it to be in most cases (with the exception of long exclusion lists and possibly of impact investing), it is also neutral from a fiduciary duty perspective[31]. If an RI strategy undermines returns but is nevertheless chosen by the investor, RI is not a breach of fiduciary duty. If RI should lead to outperformance or a tangible reduction of risk, of course fiduciary duty would require an asset manager to take it into account. The 2015 UNEP-FI/PRI report on Fiduciary duty in the 21st century shows that a minority of the 54 stakeholders interviewed (and not necessarily asset managers or pension fund managers)[32] argued that "fiduciary duty creates a positive duty to take RI issues into account in their investment practices, suggesting that a failure to take account of RI issues could be seen as a breach of their fiduciary duty"[33].

Asset managers may offer RI products to their clients, retail and institutional investors (the asset owners), to whom they provide services and offer a choice as to the investment approach to be adopted. Institutional investors have a fiduciary duty to act in the best interests of their end investors, the beneficiaries or clients. To comply with their fiduciary duty, institutional investors endeavour to earn an optimal return on the assets invested, allowing for applicable legal frameworks and the commitments that they have entered into.

Freshfields concluded in 2005, that under fiduciary duty, particular RI considerations must be taken into account where a consensus among beneficiaries mandates a particular investment strategy. Achieving such consensus, and taking the necessary governance measures, is the asset owner's responsibility[34]. The 2009 follow up to the 2005 Freshfields report by UNEP[35] concluded that "ESG issues should be embedded in the legal contract between asset owners and asset managers". This forms part of the revision of the EU Shareholders' Rights Directive (currently under discussion at the time of writing).

The European Commission study entitled Resource Efficiency and Fiduciary Duties of Investors[36], written for

DG Environment by Ernst & Young, also concluded there that is "no need for legal changes in relation to fiduciary duty", to promote responsible investment.

5. Standards in Responsible Investment

EFAMA recognises that there is lack of standardisation in this area and considers this to be an issue which is not easily resolved. There is no set of RI-specific regulations. What exists is, in fact, a collage of diverse statutory national requirements[37] for certain asset owners, intergovernmental ambitions, private sector initiatives, voluntary codes[38] and principles.

It is difficult to find RI standards, other than transparency in reporting on RI, regarding investment processes and selection methods and regarding the composition of investors' investment portfolios[39]. EFAMA believes standard setting should focus on processes rather than outcomes, given the complexity in defining socially responsible behaviour of companies beyond applicable legislation.

Materiality in a financial sense is important to an asset manager or institutional investor from a fiduciary duty perspective. Materiality denotes whether the RI policy or strategy affects economic behaviour[40]. However, there is also a segment of clients who want RI even if it is not material in the financial sense[41].

5.1 Reporting

Transparency in reporting on RI to investors should take place in the pre- and post-investment phases only for those investment products and services that are promoted as RI products.

In the pre-investment phase, the Key Investor Information Document (KIID) and other issuing documents such as the prospectus for a fund should indicate that the investment policy follows certain RI standards. A reference to where further information of those standards can be found should be included in the KIID, as the limited space in the KIID will not allow a lengthy description. In the post-investment phase, the periodic reports should provide transparency on the fund's and/or manager's RI policy and execution of that policy.

RI reporting to clients is fundamental for EFAMA. It is the most efficient way of demonstrating an asset manager's RI management to its clients.

The objective of RI reporting is to provide information allowing investors, the asset managers' clients, to assess to what extent the RI principles and objectives have been applied during the period. It does not replace nor substitute financial reporting but rather complements it. The RI specific reporting should contain information that is meaningful and relevant to the investment approach described. For investment funds, the report could concentrate on the integration of RI principles into investment decisions and ownership practices.

The RI reporting may either be included in the management entity's financial report or the fund, or be provided to investors as a separate document (for instance, a "sustainability" or "extra-financial" report). Frequency should be at least annually.

5.2 Transparency

For investment funds, relevant documents (KIID, prospectus, Private Placement Memorandum (PPM), SRI Transparency Guidelines, etc.) should inform investors about the frequency, nature and format of RI reporting and be made aware as to how this information will be made available to them (mail, email, website, etc.).

For investment funds, the reporting could cover the portfolio in aggregate form and/or key individual holdings. In each case, this may include qualitative comments, quantitative indicators, or a combination of both. Quantitative disclosure could be based on Key Performance Indicators representative of Environmental, Social and Governance criteria used in the investment process. This may include ratings, scores and other metrics representative of RI criteria used in the investment process. KPIs could be determined by the investment manager and supported by a summary description of the methodology used. When used at portfolio level, KPIs should allow comparison of the portfolio against its benchmark over a period of time.

Qualitative comments could provide a description of the RI characteristics of the portfolio and/or selected holdings. It may also include a description as to how RI criteria have been part of investment decisions and ownership practices (e.g. engagement, proxy voting) over the reporting period.

RI Reporting could also include information on RI labels or third-party certification obtained by the management entity and/or specific funds, if applicable.

The aim of the transparency would be to allow investors to be able to better compare products promoted as RI products. For products that are not promoted as RI products, no additional disclosure described above should be necessary.

With this in mind, EFAMA has developed European industry guidance on transparency in the UCITS KIID and has discussed similar guidance with the ESAs on the PRIIPs KID. This guidance focuses on making the RI process and method transparent through explaining whether the fund in question uses:

a. a screening method (i.e. Best-in-class, Negative screening or exclusion, Passive screening or Index tracking, Positive screening or focus on specific sectors, Thematic investment or Weighted screening or over-/under-weighting)
b. an Integrated approach, or
c. an Active Ownership/Engagement approach.

EFAMA believes that if an investment manager provides RI products, it should commit to an adequate amount of transparency regarding its processes so that end investors, its clients or beneficiaries, are able to evaluate and compare how it meets their demand for RI.

Increased transparency of client reporting, communication of investment approaches and selection methods would help investors distinguish between different RI offerings and allow them to make more informed decisions.

6. What role for governments?

Although some legislation takes into account ESG criteria, RI goes beyond legislation and can encourage corporate (social) responsibility. EFAMA believes that putting legislative requirements on investors in corporations is a far less effective, cumbersome and indirect way to achieve the public authority's goal. Legislation can however help when it makes corporate socially responsible behaviour (or its absence) more transparent.

EFAMA believes that legislation on RI could shift the moral debate to compliance. The development of RI and further innovations in this field thrives through debate. The Commission also believes that "the development of CSR should be led by enterprises themselves"[42]. Regulators can help prompt CSR cognisance and awareness, for example by implementing mandatory reporting.

At this moment in time, EFAMA does not see any role for the legislator in standardising or regulating in any way RI/SRI/ESG methods and procedures/practices. EFAMA believes decisions on application and scope of exclusions are the prerogative of the asset manager and asset owner.

Legal requirements to meet certain sustainability criteria have the drawback of being overly restrictive, hampering innovation and being unnecessarily costly, just like simplistic exclusion obligations. This young, diverse and still developing field of ESG investing would most benefit from increased transparency, followed after a certain period of time by efforts to standardise some of the transparency. Asset managers and institutional investors should be given the flexibility to innovate and to develop a tailored approach to CSR.

EFAMA believes tax incentives are not the most adequate means of promoting RI. Contrary to a specific product or service which would be readily taxable, RI integration impacts the asset manager's entire operation. Tax incentives can also lead to inefficient capital allocations, and tax rules are a national, rather than EU competence. Finally, in situations where such tax incentives have been introduced, the net effect after abolishment is debatable[43].

EFAMA believes the European Commission can play a role in promoting a change of paradigm and culture amongst the business community.

6.1 Recent legislation

The EU has in recent years started to regulate RI, particularly by reinforcing transparency. The most important recent pieces of EU legislation in this field are:

- Transparency Directive (2013/50/EU) requires companies whose securities are admitted to trading on a regulated market and who operate in 'extractive industries' (i.e. oil, gas, mining and forestry) to publish payments to governments in countries where they operate (country-by-country reporting). Member States had to transpose the Directive by November 2015[44].
- Country-by-country reporting in art. 89 of the Capital Requirements Directive (CRD IV, 2013/36/EU) started for financial years of banks and other CRD IV institutions after January 1, 2015.
- Disclosure of non-financial and diversity information by public interest entities and groups with over 500 employees in Directive 2014/95/EU (which amends the Accounting Directive, 2013/34/EU). The rules will apply to all undertakings for the financial years starting in 2017.
- The Key Information Document (KID) accompanying Packaged Retail and Insurance-based Investment Products (PRIIPs regulation 1286/2014) requires the KID to include in the product information, "where applicable, specific environmental or social objectives". The Regulation enters into force on December 31, 2016 and the Commission will review it on December 31, 2018 at the latest.
- The Key Investor Information Document (KIID) accompanying UCITS according to the UCITS IV Directive (2009/65/EC) and Regulation 583/2010 which requires in the KID a description of the investment policy including RI elements, where "these elements are necessary to adequately describe the objectives and investment policy" (art. 7(4)). These rules entered into force in mid-2011.
- In March 2014, the European Commission introduced a proposal for a Directive of the European Parliament and of the Council on the activities and supervision of institutions for occupational retirement provision (IORP II, COM/2014/0167 final), in which the Commission proposed to amend the IORP I directive to include inter alia the provision that "the institution shall ensure that prospective members are informed about all the features of the scheme and any investment options including information on how environmental, climate, social and corporate governance issues are considered in the investment approach" (art. 55)[45].
- In April 2014, the European Commission published a proposal for a review of the Shareholders Rights Directive (SRD II) (2014/0121 (COD), COM(2014) 213 final) to include inter alia transparency by institutional investors and asset managers on their long-term focus of the investment strategy.
- In March 2015, the European Commission proposed a new regulation with respect to a Union system for supply chain due diligence self-certification of responsible importers of tin, tantalum and tungsten, their ores, and gold originating in conflict ('conflict minerals') affected and high-risk areas (COM(2014) 111 final, 2014/0059 (COD)). On 20 May 2015, the European Parliament voted to reject

the proposal for a voluntary system after it had been amended to include mandatory compliance by all importers.

These rules have only just come into effect or are due to come into effect. EFAMA believes their implementation and impact needs to be evaluated.

6.2 Legislation on responsible investment standardisation

EFAMA does not consider that standardisation of RI/ESG investment should be undertaken by the European Commission. A vast array of methods have been developed to implement and execute various RI/ESG methods such as screening, active ownership, integration. Given the evolving nature of the industry, which is currently developing new and better methods of achieving its goals, it would be too premature to discuss standardisation of processes, beyond retail investor information which has been standardised in the UCITS-KIID and will be in the PRIIPs-KID.[46]

It is EFAMA's view that the EU should support self-regulatory initiatives on transparency of RI.

EFAMA is also of the view that issuers' enhanced disclosure of RI policies is decisive to enable asset managers increase RI investment. Public authorities could require more transparency in this field by amending the rules on CSR reporting in annual reports.

Furthermore, the EU could endorse RI in the management of its own EU-state owned or controlled funds and investment schemes, and highlight the benefits to institutional asset owners (particularly public pensions and other public institutional investors) of adopting RI practices.

While EFAMA believes there is no room or need for further legislation, there is ample scope for the European Commission (and any other public authority) to incentivise RI by:

- Highlighting how some evidence shows the positive influence of RI on investment returns
- Encouraging scientific research on RI (risk, performance, reporting), for example through the creation and sponsoring of an RI research prize and an RI promotion prize[47]
- Facilitating the cross-border investment in RI products
- Promoting specific RI market segments for the stock exchanges
- Promoting RI in the European Fund for Strategic Investments (EFSI); RI should play a role in the selection of projects
- Further promoting reporting by the asset owner[48]

In addition, the European Commission could also support and promote private sector initiatives on corporat social responsibility ('CSR') codes of conducts, and Member States could act as role models, by, for example, taking RI into account for all investments in the public sector.

7. Will Responsible Investment harm financial returns?

RI can reduce investment risk involved with similar investments, while keeping up with returns. For example, a company acting responsibly vis-à-vis its employees, is less likely to lose productive days to strikes and may therefore produce more and make more of a profit. A company conscientiously managing environmental risks is less likely to be sued in court for large sums of damages, affecting its profitability. This is why asset managers are increasingly incorporating RI analysis into the selection and management of investments as a means of reducing risks.

Academic research can be found to support the theory behind any investment belief or style. This is also true for responsible investment, which is another investment belief or style[49]. RI has generated mixed performance results in the past, just like any other investment style. However, claims of financial outperformance, which are inherent to any investment style, are notoriously difficult to substantiate in the case of RI (see Annex 2)[50] [51] [52]. There is also not any consensus in academic research on the question of whether RI harms financial returns[53].

In recent years, many explanations have been put forward in an attempt to answer the inconclusiveness and lack of consensus in academia:

a. The inconclusiveness of the large body of academic papers may be linked to researcher methodologies (what are we really measuring?)[54];
b. RI methods are not the only factors contributing to performance. Factors such as market movements, asset allocation and active management are at least as important, if not more so[55];
c. RI as an investment style or belief can be combined with or integrated with any other investment style or belief, and often is. It is therefore hard to discover whether the performance is mainly due to the RI dimension or the other investment style;
d. It follows from the theory on markets that superior stock performance is not assured, and RI investors will only earn a superior return over time if the market consistently underestimates the impact of CSR initiatives;
e. Materiality is important: not all sustainability data on RI or CSR measures by a company will have a material impact on the performance of the financial instrument in question[56]. RI and CSR often address 'external effects' in economic terms, which are by nature very hard to quantify financially;
f. It is also possible that markets already expect above-average growth from CSR companies (growth bias)[57];
g. There is the question of causality: is CSR not just an effect instead of a cause, because only profitable companies have enough financial room to manoeuvre and invest in CSR initiatives[58]?
h. It is likely that positive returns from CSR measures would emerge in the long run[59], and are therefore difficult to find in financial markets data[60], especially as the field of empirical research on RI and financial returns is only a little over a decade old;
i. The financial success of an RI policy will also depend on the chosen selection method and the quality of execution[61].

While results will, according to UNEP-FI[62], vary depending on the factor being studied, the region, the sample period, (and, EFAMA adds, also depending on the RI method, the quality of implementation and of RI measures taken), the evidence suggests that there does not appear to be a performance penalty from taking ESG factors into account in the portfolio management process. RI is at a minimum an opportunity to improve the risk management within the chosen investment strategy[63].

This does not mean that all asset managers and funds promote themselves under an RI flag automatically perform in a similar way to (or better than) those who do not. As with any investment style, results will vary depending on execution method.

7.1 Responsible investment is a risk management tool

RI is also a risk management tool[64]. It offers asset managers an extra dimension by which to monitor risk, in addition to traditional financial risk measures[65]. One such traditional risk measure is Beta, which comes from Modern Portfolio Theory. Beta defines risk as a single number, namely volatility compared to the volatility of the market as whole. It is measured by the variance (or standard deviation) of returns around a mean. A more recent measure, Value at Risk ('VaR'), uses probability distributions to measure the magnitude of expected losses over a particular period of time, typically using historical data to develop statistical probabilities. RI can also be used as a portfolio diversification tool[66].

RI can also offer insight into the unquantifiable concept of uncertainty (for which a statistical expectation value cannot be calculated), as well as the multidimensionality of risk, while at the same time it does not depend on historical data[67]. The debate about the risk of stranded assets[68] connected to climate change is a case in point[69] [70].

This does not mean that RI is always about risk reduction. Some approaches, such as thematic investing are higher risk (and investors may expect higher returns as a consequence) as sector specific risks are involved. This is one reason why transparency on CSR issues is of importance in for example the extractive industries, which potentially have substantial externalised costs in economic terms and tail risks.

8. Selection methods

8.1 Integrated approach

In an integrated approach, asset managers seek to build RI criteria into their investment analysis and portfolio construction processes. This means that portfolio managers and research analysts of an asset manager take material RI issues into consideration.

This can be done using any of the selection methods mentioned above, and it can be combined with an engagement policy.

Many asset managers integrate RI in their investment process[71]. EFAMA believes further integration of RI factors into the investment process is key because it is part of their operational excellence and a key element of their competitive advantage. There are, however, obstacles to this integration, such as insufficient data quality, different levels of acceptance of RI and disagreements over methods.

8.2 Exclusion approach

Currently, the most popular ESG strategy is the exclusion approach[72], also known as a negative screening approach. EFAMA describes exclusion as "avoiding investments in businesses, industries, countries or behaviours on the basis of criteria laid down in the policy on responsible investment". This was the first strategy promoted by pressure groups and it is the easiest to understand. It has also become the most criticised strategy, even by experts in the field[73].

Academic research[74] points to the fact that sectoral screens in particular reduce performance. Calls for negative screening or divestment are often part of a political campaign (as the 1960's calls for divesting defence stocks during the Vietnam War or the 1980's boycott of South Africa over apartheid[75]) to "delegitimise"[76] an activity, a government or a corporation. While such political goals may be achievable by divestments, this does not mean that exclusions make good business sense from an investor's perspective or from a fiduciary duty perspective. However, when exclusions are enacted into national law, an asset manager has no recourse but to comply with that investment prohibition[77], even though they create a cumbersome patchwork of rules and associated costs of compliance. Of course, active management could compensate for performance reductions caused by such exclusions.

Even though exclusion is an excellent choice for investors who want to create portfolios consistent with their moral beliefs[78], EFAMA would make the point that it does not encourage changes in companies' behaviour. In our view, this is a lost opportunity given that companies that are the "least responsible" have the greatest capacity for improvement. In addition, unlike other RI strategies, an inappropriately executed exclusion policy harms returns. Exclusion strategies can also potentially have adverse effects from a public policy point of view; exiting "sinful" stocks may lead to higher returns being offered to those less troubled by ethical

considerations. However, empirical research does not confirm the view that, in general, ‘sin stocks’ generate above-market returns[79].

Portfolio diversification is not at the core of the matter. Most institutional investors have other risk reducing measures in place, meaning they may have a policy not to invest beyond a certain threshold of their own AuM in any one company, or alternatively cannot invest above a certain percentage of outstanding shares or market capitalisation in one company. Investors with larger amounts of money to invest – usually institutional investors – therefore become unnecessarily constrained by exclusion lists, imposed by lawmakers.

Major institutional investors (notably pension funds, insurance companies and some of the larger endowments, foundations and charities) have to fully diversify their assets and must therefore own stock and/or bonds in a very broad range of companies. Owning shares in companies whose behaviour is objectionable or harmful is often inevitable. They are ‘universal owners’, who have become so large and so broadly invested that in essence they own a slice of the entire global economy. They hold investments in virtually every asset class, every industry sector, and every national and regional market in the world. The universal owners’ interests therefore go beyond those of any single country, industry sector or company; they have a vested economic interest in all of them[80]. Therefore, long term profit maximisation for the portfolio of a universal owner involves enhancing not just the returns on a firm-by-firm basis, but enhancing productivity in the economy as a whole[81].

Any investment selection process, even without RI, reduces portfolio diversification (relative to the investable universe). Even index investing products involve a reduction of diversification compared to the investable universe, as the index maker often rigorously selects among available investments in most mainstream benchmarks. RI only reduces diversification in circumstances where selection methods involve the exclusion of certain companies, countries, industries, etc. Even then, the list of exclusions is usually small relative to the investable universe, so that mathematically, diversification is usually not reduced significantly[82].

For smaller asset owners, exclusion lists are not likely to have a detrimental effect on return if they are not excessively long. Otherwise the portfolio may become overly constrained, or even unable to invest in much of the investment universe[83]. Scientifically speaking, the risk in a portfolio of investments is not proportionately reduced with each additional uncorrelated investment. In fact, the risk reduction is smaller for each added individual investment. An investor would come very close to achieving optimal diversification after adding the 20th to 50th uncorrelated investment to the portfolio. An additional 1,000 investments will reduce the portfolio’s risk by just 0.8%. Please see annex 1 to this document for further explanation of this mathematical point[84].

Therefore, while a fund manager may not feel comfortable managing clients’ assets with only 20 holdings (there may for example be unknown correlations between individual investments), reducing diversification is not a major issue in responsible investment for most retail clients in most investable universes in discretionary portfolio management. For retail funds the size of the fund is a major factor determining whether exclusions could cause too many constraints.

However, it must be acknowledged that, while RI generally speaking does not significantly reduce diversification in practice, it does reduce the freedom of choice of the asset owner or the asset manager. That is why it is vital that the asset owner agrees with any RI approach.

8.3 Active ownership or engagement

Active ownership or engagement, also called shareholder engagement or shareholder advocacy (sometimes going by the name of shareholder activism, which EFAMA believes is a different concept), is an RI strategy involving the investor or potential investor approaching businesses, industries (or even countries) in order to enter into a dialogue on ESG issues, and to exercise actively any voting rights acquired. It is, of course, possible to combine engagement with a screening policy as well as an integrated approach[85].

Some RI methods do not reduce diversification at all. 'Engagement', for example, does not involve any additional selections on top of existing investment selection methods which do not involve RI[86]. In an engagement strategy, there is no divestment as long as the company has a remediable problem and is willing to address that problem. Engagement strategies take a long term view when working with companies to address issues – divestment often is a last resort only when engagement fails[87].

Successful engagement can also have multiplier effect benefits. When a corporation changes its behaviour, all investors in that company become responsible investors.

One of the most important preconditions for shareholder engagement lies with the governance of the corporation, which allows shareholders to influence the decision making process. Good corporate governance is of importance to asset managers and asset owners, irrespective of the still undecided debate on the correlation between good governance and financial performance[88].

According to the European Parliament[89], good governance is a key element of RI, as it harnesses shareholder engagement. The governance of a corporation is the formal way to implement and control all ESG issues, and therefore plays a crucial role for any RI investment. If the governance of a corporation is such that shareholders have little formal power, they have less leverage over the management of the corporation to persuade them to change their behaviour on any RI issue.

Research on effectiveness of engagement shows that it can have a material impact on the value of investments[90], but that impact will depend on its form, type of investor and the nature of the investors' proposals[91]. Some research will not show any impact, and this is explained by the fact that impact is likely to be largely external in the economic sense[92]. Proof of effectiveness of engagement strategies can also be found in the existence of alternative investors, particularly those with event driven strategies, usually considered to be the principal activist shareholders in Europe.

Effectiveness of shareholder engagement also depends on the size of the shareholder(s) involved. Shareholder engagement is most effective when shareholders communicate amongst each other and cooperate on issues affecting their interests. However, shareholder cooperation could be deemed under certain circumstances as acting in concert under the EU Takeover Bids Directive and the EU Transparency Directive. As a consequence, shareholders could be required to have the voting rights of the other party attributed or could even be required to launch a public takeover offer.

EFAMA would highlight the need for more clarity and harmonisation in relation to the acting in concert rules. The risks caused by the legal uncertainty of acting in concert make it virtually impossible for shareholders who want to engage on CSR issues to acquire an absolute majority. Although ESMA has clarified this matter[93], national authorities still do not have a uniform approach, leading to active ownership varying between Member States[94].

Furthermore, shareholders who have engaged could acquire insider information with the consequences of having to comply with the Market Abuse Regulation. It is difficult for an investor to sell shares after an attempt to engage has failed, until that information is in the public domain. An investor speaking to another

investor about such engagement usually does not undertake this alone. It has to be carefully considered what conversations can be held without it getting to the stage of inside information and whilst also ensuring that no inside information regarding other investors' intentions is received.

8.4 Other selection methods

Other RI selection methods such as best-in-class[95], passive screening or index tracking, positive screening or focus on specific sectors, thematic investment, and weighted screening have a moderating effect on reducing diversification.

A best-in-class approach does not so much exclude sectors or countries as look within a sector or country to see which companies best meet the given criteria. This prevents the returns varying too much from the benchmark, which is an issue in an exclusion strategy.

In a positive screening policy, or norms based approach, certain criteria must be met for the investor to invest in the company. A variety of requirements are possible, such as good relations with employees and trade unions, good corporate governance, product safety, donations to charities, etc. It does not exclude businesses or industries, but certain industries may be selected (e.g. clean technology). Thematic investment is another form of positive screening. Selections can be made on the basis of, for example, sustainable energy technology, water management or microfinance.

Weighted screening or over-/under-weighting is an approach where the investor allows businesses, industries or countries to be over-weighted or under-weighted in the portfolio on the basis of the policy on responsible investment.

While it is sometimes assumed that responsible investing requires an active investor approach, index tracking can also be used in a passive screening approach. The Dow Jones Sustainability Index[96] and the FTSE4Good[97] are indices which may be followed by investment institutions within the framework of a responsible investment policy. Reference may also be made to, for example, the Dow Jones Islamic Market Index and KLD's Domini 400 Social Index. It is important to note which selection method is used to compile the index. In the case of the Dow Jones Sustainability Index, for instance, it is a best-in-class approach. Sustainability indices may use any of the selection methods described above.

These selection methods have both advantages and disadvantages. All of them mean compromises on the norms or values involved. Whereas asset owners set the RI vision, asset managers must be practical.

9. Impact investing

It has been said that impact investing makes positive choices, whereas 'traditional' RI only has negative screens[98]. However, EFAMA believes the positive impact of 'traditional' RI is also quite possible, particularly when shareholder engagement methods are used[99]. We believe impact investing can be combined with any other RI strategy.

EFAMA is of the opinion that impact investing differs on two essential points from positive screening and thematic investment. Firstly, the principal's return is a main goal – these returns on investment may be social instead of financial. A below-market financial return is accepted instead of a social return. Secondly, returns are measured in social and environmental terms, rather than financial.

According to the Global Impact Investing Network ('GIIN'), impact investments are investments made into companies, organisations, and funds with the intention of generating measurable 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 circumstances[100]. Social investments are seen as a means of stimulating business-based solution to social problems. Financial returns are seen as subordinate or coincidental to, or as an equal goal with, social returns[101].

It is said that intensions are a core element of impact investments[102]. Investments motivated by the intention to create a social or environmental good are considered impact investments. EFAMA has questioned the objectivity of intentions. For example, an investment in a pharmaceutical company that is on the cusp of producing a life-saving medicine has a social impact, even if the investment is made in part for reasons of financial performance.

One may ask – What is the difference between charity/philanthropy and impact investing? In charity/philanthropy terms, funds paid out as grants are permanently lost to the owner, while impact investing or social investing returns the capital used, "recycling" the funds. Charity/philanthropy do not usually employ business methods, which is why some distinguish impact investing from 'venture philanthropy'[103], where philanthropic entities use techniques of Venture Capitalists in order to optimise management and use of resources by their ventures.

Impact investing has been called many names. It has been called '(proactive) social investment' or 'investment in social enterprises'. The drawback of that name is that it excludes the environmental impact dimension. The World Economic Forum has called it 'blended value investing'[104]. Yet another name for this investment style has been 'mission investments', which are financial investments made with the intention of furthering an organisation's (usually a charity's) mission and recovering the principal invested or earning financial returns[105].

Eurosif has called impact investing 'venture capital for sustainability'[106], which also addresses the risk profile of this type of investments. It is a lot like venture capital or high yield debt[107], but it should be emphasized that impact investing is an investment style, rather than an asset class[108]. Many of these impact investments lack exit options and require a long investment horizon, if only because measuring social or environmental impact can often only be done over the long term. That means that recovery of the principal investment is not guaranteed, as in other forms of investing. Of course, this means that not only the risk profile is similar, the advantages are also similar to venture capital[109].

The most well-known segment of this market is microfinance[110]. Clean technology and job creation on SMEs is also a field in which impact investors are active[111]. Historically, high net worth individuals (HNWI), segments of the retail market, charities and religious organisations[112] have been involved in impact investing[113]. Recently, institutional investors have also shown interest.

9.1 Measuring impact

Measuring performance of impact investing differs from traditional RI. Measuring social or environmental impact is a new field and a more complex, and arguably subjective, science when compared to the measurement of financial returns. Critics may argue that impact investing could exploit certain situations, so investors need to ensure that the social impact and outcomes are delivered by monitoring social performance.

Impact investors have supported the development of standard reporting and social measurement frameworks. The Impact Reporting and Investment Standards ('IRIS')[114] provides a taxonomy to standardise social impact reporting and facilitate the creation of industry benchmarks[115]. The GIIN has recently launched the Impact Investing Benchmark[116]. IRIS has found that it is possible to combine a financial profit with a social or environmental impact[117].

Measuring impact is complex: cause and effect have to be attributed cautiously[118].

Impact measurement is also relevant for other forms of RI where considerations of responsibility are a positive input in the investment approach, i.e. where the investment approach is not only exclusions.

9.2 Future prospects

Impact investing has the attention and support of political leaders at the highest level. In June 2013, the G8 summit in London[119] established a task force[120] on impact investing to help accelerate the development of impact investing around the world. The OECD[121] and the World Economic Forum have also done work on the subject.

Impact investments are likely to have a low correlation with other investments, and therefore have diversification advantages. However, some issues need to be resolved before it is likely to become mainstream, the most important of which are the lack of substantial evidence on performance across all kinds of impact investments and standards on measuring performance[122].

EFAMA also believes that further clarity on the concept of impact investing is also necessary, as this would develop the impact investing market, especially to retail clients[123].

Impact investments have many advantages as an investment approach for universal owners, because it allows them to make a social impact.

Another issue for institutional investors is the small average deal size in impact investments. This could be addressed through fund solutions. This is why the EU has created European Social Entrepreneurship Funds ('EuSEFs')[124] in 2013, even though similar products could already be offered through the AIFMD.

10. Green bonds

10.1 What are green bonds?

Green bonds, or climate bonds, are fixed income securities issued by an organisation, whose use is predefined and made transparent by the issuer to finance specific environmental (or, according to some[125] social) activities. These activities are often designed to align with climate change mitigation and adaptation.

As green bonds are fixed income, the instruments' return is fixed over a fixed time period, and linked to the issuer, and (unlike impact investing) not to the success of the project which is financed. Green bonds can also help investors achieve ESG goals in different ways to equity investments.

Green bonds are issued by organisations such as, initially, development banks, utilities, and in recent years also municipalities and corporations. In 2013, the French company, Electricité de France, the Swedish real estate company, Vasakronan, and Californian electric car company, Tesla, issued the first corporate green bonds. Since then, other corporate issuers have made their entry into green bonds. In early 2014, after less than a year, corporate green bond issuance has reached over $10 billion and represented 30% of total labelled green bonds issued[126]. The European Investment Bank, the World Bank and the German development bank KfW are, however, still the biggest single issuers[127].

10.2 Size of green bond market

The global green bond market is much bigger than many people think. According to the Climate Bond

Initiative in 2011, ‘labelled green bonds’ (bonds that were not only issued for ‘green’ purposes, but were actually labelled as such) were still a niche market pioneered by a handful of development banks, but by 2013 $11bn worth of ‘labelled green bonds’ were issued. In 2014, this grew to almost US$ 40 bn. Total volume of the ‘labelled green bond’ market was US$ 35.8 bn. in 2014 and US$ 66 bn. by July 2015[128]. Some 35 organisations participated in green bond issuance in 2014, three times more than a year earlier, with the top ten underwriters brokering nearly 190 deals[129].

The total green bond market is much bigger, however, than the ‘labelled green bond’ market[130]. The total universe of green bonds (‘labelled’ and not labelled as ‘green’) was estimated by the Climate Bond Initiative to be US$ 502.6 bn. in 2014 (US$ 597.7 in July 2015), comprising 1,900 bonds by 280 issuers. Some 70% of this is transportation related, usually railway companies, and 15% is energy related. The largest issuers are from China, the UK, the USA and France.

However, it is also a small market in relative terms. In 2014, the Bank of International Settlements (BIS) estimated the total bond market universe to be over US$ 100,000 bn. (or 100 trn.)[131], so green bonds are just 5-6% of the total bond market and ‘labelled’ green bonds were projected to grow to only 1% during 2015. It is also small compared to the US$ 53 trn. investment in energy supply and energy efficiency, which the International Energy Agency (IEA) says is necessary until 2035 to achieve the Intergovernmental Panel on Climate Change (‘IPCC’) goal of a 2°C maximum global warming[132].

10.3 Characteristics of green bonds

As green bonds are conventional bonds used to finance ‘green’ projects, proponents of green bonds say the yield is usually similar to comparable conventional bonds. However, independent research by HSBC (the Hongkong and Shanghai Banking Corporation) and Skandinavia Enskilda Banken (‘SEB’) shows that yields resemble those of treasury securities, because the associated green projects usually have government sponsorship or some kind of tax exemption[133].

The issuer of a green bond absorbs the additional work required for a green bond issue. Therefore some say investors do not have to pay for their principles, while sceptics ask whether they actually make a difference or are simply clever marketing or ‘greenwashing’.

There is no common standard definition on what makes a given bond ‘green’. Issuers’ definitions of eligible project types vary. In some 60% of issued volume, their ‘green’ characteristics are independently reviewed by organisations such as the Oslo University’s climate change research centre CICERO (30-33% market share according to the Climate Bonds Initiative[134]), Paris based sustainability assessment company Vigeo (18-29%), maritime classification society DNV GL (2-4%), the German rating agency Oekom Research (4%) or the accountancy firm KPMG.

Governments are thinking about and introducing credit enhancement programmes (i.e. guarantees, subordinate debt or insurance), tax incentives or financial regulatory measures to improve the risk-return profile of green bonds or generally boost demand, especially in the context of climate change programmes. This could make them more attractive for issuers and investors alike, than comparable conventional bonds. Some governments already have tax incentives for ‘green investing’, but they are not always tuned to bonds[135].

10.4 Standards on green bonds

The ‘greenwashing risk’ has led to the creation of the Green Bond Principles[136] in March of 2015 by the International Capital Market Association (‘ICMA’). These guidelines focus on process, transparency and disclosure. The aim is to assure investors that labelling a bond green has substance.

There is also a Climate Bond Standard[137] produced by the Climate Bonds Initiative, containing industry-specific standards for green bond issuances, analogous to SASB's industry-specific standards for company sustainability disclosures. Their aim is to give investors the assurance that a given bond will be supporting projects that are consistent with the IPCC's 2 degree Celsius climate scenarios.

The Investor Network on Climate Risk (INCR), a network of over 110 institutional investors, has made additional guidelines[138] on project selection and evaluation, the spending of borrowed capital, management of returns, reporting, benchmarking for reductions in greenhouse gasses and stimulations to have issuers audit their green bonds on procedures and compliance with the guidelines.

10.5 Future issues and prospects for green bonds

Future prospects for the green bond market look good, given current trends in the energy and utility sector, or the car and truck manufacturers, to build 'greener' infrastructure and 'greener' means of transportation respectively. These could be financed by green bonds. There also could be opportunities in energy-neutral housing and offices, alternative energy production, forestry and agriculture as well.

A fundamental question is that of 'additionality'. There is a finite amount of capital available for the bond market, just as there is limited capital available for the equity market. The question is, whether green bonds raise new financing for RI investing or whether they just shift or repackage existing financial products.

Another aspect of 'additionality' is whether a green bond finances a project that would not have otherwise been funded - i.e. if the project would also have proceeded without a green bond, the net 'green' impact is zero. Some see this as an example of 'greenwashing'. However, if the project itself is green, EFAMA would wonder why that would not be a good thing if it is not financed green.

Another issue in public debate on green bonds is whether an energy company which issues a green bond to fund a renewable energy project is greenwashing its fossil fuel power generation or nuclear power generation. EFAMA believes this demands in the first instance clear communication and management of expectations by the issuer. After that, the investor makes the decision. The asset manager can offer financial instrument selection processes to cater for such demands.

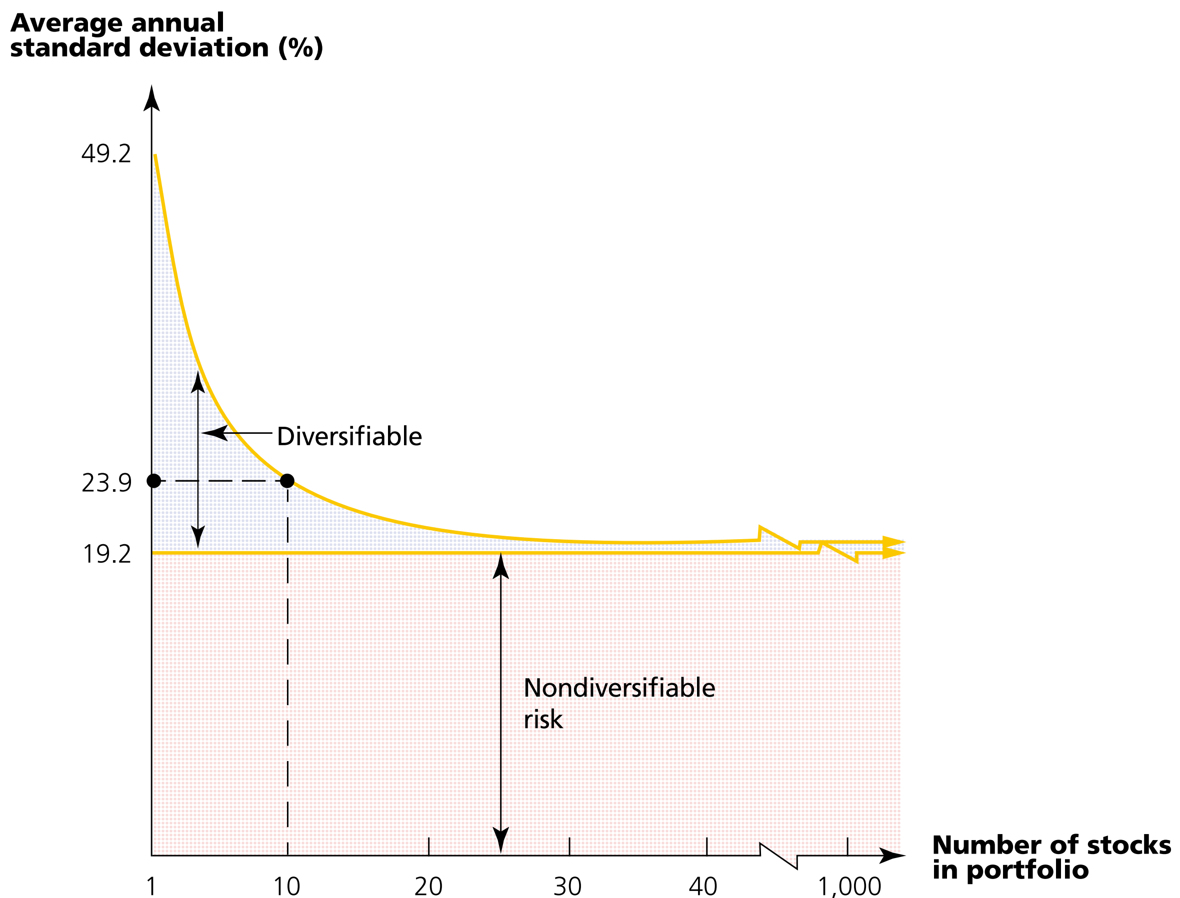
EFAMA believes the green bond concept will lead to both a shift of capital streams and the raising of new financing. Repackaging is inevitable, but brand diversification usually adds to the volume (both supply and demand) of the total market. More importantly, there is already anecdotal evidence[139] that clients interested in RI are likely to prefer green bonds above ordinary bonds, which may in the future affect their relative pricing, and thus yield. Issuers are also speculating that increased future demand will lead to more favourable terms and a better price for the issuer.

EFAMA believes that, generally speaking, there is ample capital to fund green bond projects. The main issue is whether there are insufficient investible projects or solid project pipelines to generate the level of investment that should make faster growth possible.

Finally, the generally small issue sizes are likely to be 'hold-to-maturity' types of investments, as they tend to be illiquid. There is also an issue with the already fragmented corporate bond market and the potential involvement of many more stakeholders than is the case with conventional bonds. EFAMA believes that issues such as limited capacity for analysis of green bonds and deal size could be mitigated through fund solutions.

Annex 1
Portfolio Diversification Effect

The academic theory on how to construct a portfolio of investments with optimal diversification (the modern portfolio theory by Harry Markowitz) says that the portfolio standard deviation (=risk) versus the number of different uncorrelated investments is a hyperbolae, the 'bottom' of which represents the market risk, which cannot be diversified away, even if one bought every available investment in the investable universe (see graph below).



An investor would come very close to achieving optimal diversification after adding the 20th to 50th uncorrelated investment to the portfolio (there is no magic number, scientists obtain varying results). The average standard deviation of a portfolio of one stock is 49.2%. With a portfolio of 20 stocks the risk is reduced to about 20%. Diversification has no maximum. Every equally weighted, uncorrelated asset added to a portfolio can add to that portfolios diversification. However, additional investments from 20 to 1,000 will reduce the portfolio's risk by just 0.8%. There is also a point where further additions to the portfolio leads to over-diversification, to the detriment of performance while adding transaction costs.

Annex 2
Overview of Research on Responsible Investment and Performance

In this overview EFAMA has collected all research available, on which either the full text or at least an abstract is available online. In each case the quoted findings are from the conclusions or abstract of the study.

Arlow and Gannon (1982) find from "Empirical research on corporate social responsiveness, including its relationship to economic performance" that "The relationship between social responsiveness and economic performance is inconclusive."

Luther, Matatko and Corner (1992) find weak outperformance of RI funds. They examine "the impact on investment returns of stated non-financial criteria by utilizing information on UK 'ethical' unit trusts. Over a limited period of observation there was weak evidence of some overperformance on a risk-adjusted basis by 'ethical' unit trusts. Suggests arguments that might intuitively explain overperformance or underperformance. There is clear evidence that the 'ethical' trusts have UK investment portfolios more skewed towards companies with low market capitalization than the market as a whole. Associated with this, they tend to be invested in low dividend yield companies. The degree of international diversification varies and a suitable international benchmark may be needed to separate out any 'ethical' effect.

Luther and Matatko (1994) examine "the characteristics of the returns realised by 'ethical' trusts, using a comprehensive unit trust price database. In particular, empirical results show that over the period studied 'ethical' trusts (i) had returns which were, in general, at least as highly correlated with a small-company index as with a comprehensive market index; (ii) are more appropriately evaluated, in terms of financial performance, by reference to a model which recognises that their returns are influenced both by general market movements and by factors specific to smaller companies; (iii) points out that because of high correlation between indices, estimation of separate small company and market sensitivities is unstable.

Diltz (1995) finds "Analysis of eleven distinct ethical screens and three combinations of screens reveals little impact. To the extent that any impacts are observed, the market appears to reward good environmental performance, charitable giving, and an absence of nuclear and defence work, and it appears to penalize firms that provide family-related benefits such as parental leave, job sharing, and dependent care assistance".

Mallin, Saadouni and Briston (1995) find that the performance of ethical funds is slightly superior to the performance of traditional funds and the authors explain this by an infatuation of the public with ethical investing.

Opler and Sokobin (1995) find on the governance element of ESG investing "that coordinated institutional activism creates shareholder wealth".

Hart and Ahuja (1996) examine "the relationship between emissions reduction and firm performance [...] empirically for a sample of S&P 500 firms using data drawn from the Investor Responsibility Research Center's Corporate Environmental Profile and Compustat. The results indicate that efforts to prevent pollution and reduce emissions drop to the 'bottom line' within one to two years of initiation and that those firms with the highest emission levels stand the most to gain. [...] emissions reduction enhances the operating and financial performance more for firms with high emissions levels than for firms with low emissions levels."

Smith (1996) finds on shareholder activism "72 percent of firms targeted [by CalPERS] after 1988 adopt proposed changes or make changes resulting in a settlement with CalPERS. Shareholder wealth increases for firms that adopt or settle and decreases for firms that resist. No statistically significant change in operating performance is found.

Abramson and Chung (2000) find "that a rebalancing strategy of ranking Domini Social Index stocks by valuation each quarter yields an 18.9% average annualized return versus an average of 16.7% for three value benchmarks for the time period fourth quarter 1990 through first quarter 1999".

Cummings (2000) finds "that on a risk-adjusted basis there is an insignificant difference in the financial performance of [... responsible] trusts against three common market benchmarks. However as to the extent of the directional effect, there

does exist slightly superior financial performance by ethical trusts against their respective industry average indexes, but an underperformance against a smaller company's index and the market as a whole. The lack of a distinct advantage in the short to medium term for applying an ethical screen, may in part be due to the recent development of ethical investments in Australia. Stronger performances by older ethical investment trusts may indicate superior returns are more likely to occur over a longer term.

Statman (2000) finds "Conversations about socially responsible investing are difficult because they combine facts with beliefs. Proponents of socially responsible investing believe that combining social goals with investments does good; opponents believe that such combinations are unwise or even illegitimate. […] I report that the Domini Social Index, an index of socially responsible stocks, did better than the S&P 500 Index and that socially responsible mutual funds did better than conventional mutual funds over the 1990–98 period but the differences between their risk-adjusted returns are not statistically significant. Both groups of mutual funds trailed the S&P 500 Index".

Konar and Cohen (2001) find "that bad environmental performance is negatively correlated with the intangible asset value of firms. […] We conclude that legally emitted toxic chemicals have a significant effect on the intangible asset value of publicly traded companies. A 10% reduction in emissions of toxic chemicals results in a $34 million increase in market value. The magnitude of these effects varies across industries, with larger losses accruing to the traditionally polluting industries".

Plantinga and Scholtens (2001) find "that funds that to some extent mirror well known social responsibility indices tend to perform better than funds that bear no relationship with social responsible investment strategies".

Simpson and Kohers (2002) find "The empirical analysis solidly supports the hypothesis that the link between social and financial performance is positive."

Orlitzky, Schmidt and Rynes (2003) conclude that "The meta-analytic findings suggest that corporate virtue in the form of social responsibility and, to a lesser extent, environmental responsibility is likely to pay off, although the operationalizations of corporate social/environmental performance and corporate financial performance also moderate the positive association".

Bello (2005) shows that "socially responsible funds do not differ significantly from conventional funds" on i.a. performance.

Derwall, Guenster, Bauer and Koedijk (2005) find "The high-ranked [SRI] portfolio provided substantially higher average returns than its low-ranked counterpart over the 1995–2003 period. This performance differential could not be explained by differences in market sensitivity, investment style, or industry-specific factors. Moreover, the results remained significant for all levels of transaction costs, suggesting that the incremental benefits of SRI can be substantial".

Geczy, Stambaugh and Levin (2005) find "The SRI constraint imposes large costs on investors whose beliefs allow a substantial amount of fund-manager skill, i.e., investors who rely heavily on individual funds' track records to predict future performance".

Shank, Manullang and Hill (2005) find "Careful selection of socially responsible investments over broader market investments may actually represent a value-maximizing strategy".

Scholtens (2005) found "that the [responsible] investments earn returns that do not significantly differ from the return on their benchmarks. The risk, however, is significantly above that of the benchmark. In contrast, socially responsible savings earn a higher (after-tax) return and have equal risk in comparison with ordinary savings".

Statman (2005) finds "that the returns of the DS 400 Index were higher than those of the S&P 500 Index during the overall May 1990 - April 2004 but not in every sub-period. In general, SRI indexes did better than the S&P 500 Index during the boom of the late 1990s but lagged it during the bust of the early 2000s. The correlations between the returns of SRI indexes and those of the S&P 500 Index are high, ranging from 0.939 of the DJ Sustainability Index during January 1995 - April 2004 to the 0.985 of the DS 400 Index during September 1999 - April 2004. But tracking errors are substantial. For example, the expected difference between 12-month returns of the DS 400 Index and the S&P 500 Index, based on correlation and standard deviations during May 1990 - April 2004, was 2.84% and the realized mean difference was 2.49%.".

Van de Velde, Vermeir and Corten (2005) find that "on a style-adjusted basis, high sustainability-rated portfolios have performed better than low-rated portfolios, but, probably due to the short horizon, not to a significant extent. The same results are found for four out of the five sub-ratings of which the sustainability rating is composed, suggesting that

sustainability is a broad and multidimensional concept that cannot be attributed to one specific theme or topic. The results also indicate that investors are ready to pay a premium for companies with good management of their relations with shareholders, clients and suppliers".

Von Arx (2005) finds that "Green investors have to accept lower returns from shares of clean firms, even in the case of positive externalities".

Barnett and Salomon (2006) find "that as the number of social screens used by an SRI fund increases, financial returns decline at first, but then rebound as the number of screens reaches a maximum. That is, we find a curvilinear relationship, suggesting that two long-competing viewpoints may be complementary. Furthermore, we find that financial performance varies with the types of social screens used. Community relations screening increased financial performance, but environmental and labor relations screening decreased financial performance".

Bauer, Otten and Rat (2006) "observe no evidence of significant differences in risk-adjusted returns between ethical and conventional funds".

Benson, Brailsford and Humphrey (2006) find "SRI funds exhibit different industry betas consistent with different portfolio positions, but that these differences vary from year to year. It is also found that there is little difference in stock-picking ability between the two groups of fund managers".

Brammer, Brooks and Pavelin (2006) find "While scores on a composite social performance indicator are negatively related to stock returns, we find the poor financial reward offered by such firms is attributable to their good social performance on the environment and, to a lesser extent, the community aspects. Considerable abnormal returns are available from holding a portfolio of the socially least desirable stocks".

Burlacu, Dupre and Girerd-Potin (2006) find "a highly significant, negative relation between performance and ES for equity funds. This relation is robust to traditional performance determinants, such as funds' size, turnover rate, expenses, or portfolio concentration".

Chong, Her and Phillips (2006) find that the risk and performance of the Vice Fund is better than that of SRI funds.

Core, Guay and Rusticus (2006) find "that firms with weak shareholder rights exhibit significant stock market underperformance. […] We find that firms with weak shareholder rights exhibit significant operating underperformance. However, analysts' forecast errors and earnings announcement returns show no evidence that this underperformance surprises the market".

Dupre, Girerd-Potin, Jimenez-Garces and Louvet (2006) find that the most ethical companies are the ones with the weakest financial performance.

Bauer, Derwall and Otten (2007) find "Our Canadian evidence supports the conjecture that any performance differential between ethical mutual funds and their conventional peers is statistically insignificant".

Jiraporn and Gleason (2007) find "an inverse relation between leverage and shareholder rights, suggesting that firms adopt higher debt ratios where shareholder rights are more restricted".

Olsson (2007) finds that "the evidence thus indicate that a portfolio of stocks with low EV risk, intended to be more responsible, neither underperform nor outperform on a risk-adjusted basis".

Renneboog, ter Horst and Zhang (2007) found that "good corporate governance, sound environmental standards, and good management towards stakeholder relations […] may create value for shareholders, participating in other social and ethical issues is likely to destroy shareholder value. Furthermore, the risk-adjusted returns of SRI funds in the US and UK are not significantly different from those of conventional funds, whereas SRI funds in Continental Europe and Asia-Pacific strongly underperform benchmark portfolios.".

Renneboog, ter Horst and Zhang (2007), an earlier paper by the same authors found "SRI funds in many European and Asia-Pacific countries strongly underperform domestic benchmark portfolios by about 5% per annum, although UK and US SRI funds do not significantly underperform their benchmarks. […] The screening activities of SRI funds have a significant impact on funds' risk adjusted returns and loadings on risk factors: corporate governance and social screens generate better risk-adjusted returns whereas other screens (e.g. environmental ones) yield significantly lower returns."

Richard, Murthi and Ismail (2007) find "Although we find evidence of a U-shaped relationship between racial diversity and productivity, the relationship is stronger in service-oriented relative to manufacturing-oriented industries and in more stable vs. volatile environments. For longer-term profitability, we propose and find support for more of a positive linear relationship between diversity and performance (i.e., Tobin's q) than a nonlinear one. This linear effect is stronger and more

positive in munificent compared to resource-scare environments".

Stenström and Thorell (2007) conclude "Results from the study indicate that an exclusion of companies according to norm-based screening can improve a fund's performance. However, when looking specifically at the fund management of SRI funds, the results point towards inferior performance compared to regular funds".

UNEP-FI (2007) concludes that "the evidence suggests that there does not appear to be a performance penalty from taking ESG factors into account in the portfolio management process".

Amenc and Le Sourd (2008) find negative alphas for the majority of ESG funds but not significantly negative, indicating that the ESG-investment selection process did not on its own generate outperformance, but that the performance of the funds was explained by their orientations or style biases and the market cycle.

Consolandi, Jaiswal-Dale, Poggiani and Vercelli (2008) find that "the performance of SR firms is in any case very similar to that of the other firms".

Jones, Van der Laan, Frost and Loftus (2008) found that "both the Australian and international research literature [on performance of responsible investments] have yielded largely mixed results. However, several of these studies are hampered by methodological problems […], such as the use of small sample sizes, inconsistencies in the time frames selected to analyse performance and different modelling frameworks used to estimate investment returns. This study attempts to redress some of these issues […] we find that ethical funds significantly under-perform the market in Australia, particularly in the most recent 5 years of our sample period (2000–2005). Risk adjusted returns (using Jensen's alpha) indicate that average annual underperformance is around 1.52% in the 2000–2005 period for our sample and .88% over the whole sample period. Our results contrast with many previous studies (both Australian and international), which have not found statistically significant differences in the performance of ethical funds relative to market benchmarks and/or a matched sample of conventional funds.".

Nilsson, Cunningham and Hassel (2008) find "that only 35 per cent of financial analysts' reports have environmental information", is listed in the Mercer study commissioned by CalPERS (Mercer (2011), but the writers do not give any conclusions on performance.

Oehri and Fausch (2008) find "From the investor's point of view, the economic benefit of a MFIF is money market adequate returns, low volatility and a low correlation to traditional asset classes (stock, bond & hedge fund)".

Renneboog, ter Horst and Zhang (2008) find "SRI funds in the US, the UK, and in many continental European and Asia-Pacific countries underperform their domestic benchmarks by - 2.2% to - 6.5%. However, with the exception of some countries such as France, Japan and Sweden, the risk-adjusted returns of SRI funds are not statistically different from the performance of conventional funds. We also find that the underperformance of SRI funds is not driven by loadings on an ethics style factor. There is mixed evidence of a smart money effect: SRI investors are unable to identify the funds that will outperform in the future, whereas they show some fund-selection ability in identifying funds that will perform poorly. Finally, corporate governance and social screens yield lower risk-adjusted returns".

Semenova and Hassel (2008) find "The inherent environmental industry risk has a significant moderating effect on the form of the relation between environmental preparedness/performance and operating performance of the companies. In high risk or polluting industries, environmental management is costly and reduces the operating performance of companies. In low risk sectors, such as banking and insurance, leading companies on environmental management are also more profitable. […] A significant direct effect of environmental preparedness on the market value of the companies is present, while the relation between environmental performance and market value is stronger in low risk industries than in high risk industries. In low risk industries, the market value of the companies is also on average higher and more attuned to benefits to environmental performance than in high risk industries".

van Beurden, T. Gössling (2008) say that "The results of the literature study performed here reveal that there is indeed clear empirical evidence for a positive correlation between corporate social and financial performance. Voices that state the opposite refer to out-dated material."

Yosihida (2008) found that "theoretically, SRI can deliver higher returns than standard benchmark portfolios, but such higher returns are likely to be temporary. The shareholders of a company with a high standard of Corporate Social Responsibility can earn high returns while the market valuation of the company is revised upward. However, return reverts to the original level or lower afterwards. Japanese SRI data support this hypothesis […] Theoretical predictions in this paper are helpful in understanding mixed results on SRI returns in the past empirical research."

Cortez, Silva and Areal (2009) find "that European socially responsible funds present in general neutral performance in relation to both conventional and socially responsible benchmarks. However, performance estimates seem to be slightly higher when funds are evaluated in relation to socially responsible indices".

Fu and Shan (2009) find "that, between 2002 and 2006, firms with a higher degree of corporate equality [= how companies treat their gay, lesbian, bisexual, and transgender employees, consumers, and investors] have higher stock returns and higher market valuation […] We provide suggestive, causal evidence that corporate equality enhances firm value through better performance in product markets and labor markets: Firms with a higher degree of corporate equality also tend to have larger sales, higher profit margins, higher employee productivity, and attract more employees […]".

Hong and Kacperczyk (2009) find "that sin stocks are less held by norm-constrained institutions such as pension plans as compared to mutual or hedge funds that are natural arbitrageurs, and they receive less coverage from analysts than do stocks of otherwise comparable characteristics. Sin stocks also have higher expected returns than otherwise comparable stocks, consistent with them being neglected by norm-constrained investors and facing greater litigation risk heightened by social norms. Evidence from corporate financing decisions and the performance of sin stocks outside the US also suggest that norms affect stock prices and returns".

Klein and Zur (2009) are listed in the Mercer study commissioned by CalPERS (Mercer (2011)), but the writers do not give any conclusions on performance.

Lee and Faff (2009) find that "leading sustainability firms do not underperform the market portfolio".

Margolis, Anger Elfenbein and Walsh (2009) find that "the overall effect is positive but small […], and results for the 106 studies from the past decade are even smaller."

Chang and Witte (2010) find that "[…] although SRFs [=socially responsible funds] have had a relative advantage in terms of lower expense ratios, lower annual turnover rates, lower tax cost ratios, and lower risk, SRFs also exhibit lower returns, and two risk-adjusted return measures indicate SRFs have inferior reward-to-risk performance. In particular, domestic stock SRFs have not generated competitive returns relative to conventional funds in the same categories over the past ten to fifteen years. […] not all SRFs have similar relative performance. SRFs in balanced fund and fixed-income fund categories, especially during the past three years, have performed better than the category averages with lower risk, higher returns, and higher risk-adjusted returns".

Cheung, Li and Roca (2010) find "that SRI has higher returns than non-SRI across three different regimes, but there is no difference between the SRI and the non-SRI in terms of risk-adjusted returns. Our results imply that there is no financial sacrifice by SRI investors even when market conditions change".

Copp, Kremmer and Roca (2010) find "The beta risk of SRI, both in Australia and internationally, increases more than that of conventional investment during economic downturns".

De and Clayman (2010) find "that overall ESG scores have a predictive and positive association with subsequent total stock returns and financial performance measured by ROE, and this result holds even after controlling for the sector effect. The three component subscores have different impact, with corporate governance scores being the best predictor of medium to long run (three- to five-year) stock returns. The social scores have a greater positive impact on ROE. We also find that the ESG factors have stronger predictive power in the mid- and small-cap range".

Jacobs, Singhal and Subramanian (2010) "examine the market reaction to two categories of environmental performance. The first category includes 417 announcements of Corporate Environmental Initiatives (CEIs) that provide information about self-reported corporate efforts to avoid, mitigate, or offset the environmental impacts of the firm's products, services, or processes. The second category includes 363 announcements of Environmental Awards and Certifications (EACs) that provide information about recognition granted by third-parties specifically for environmental performance. Although the market does not react significantly to the aggregated CEI and EAC announcements, we find statistically significant market reactions for certain CEI and EAC subcategories. Specifically, announcements of philanthropic gifts for environmental causes are associated with significant positive market reaction, voluntary emission reductions are associated with significant negative market reaction, and ISO 14001 certifications are associated with significant positive market reaction. The difference between the market reactions to the CEI and EAC categories is statistically insignificant. Overall, the market is selective in reacting to announcements of environmental performance with certain types of announcements even valued negatively."

Jiao (2010) finds results which "suggest that stakeholder welfare (in particular, employee welfare and environmental performance) represents intangibles (such as reputation or human capital) crucial for shareholder value creation rather

than private benefits managers pursue for their own social or economic needs."

Monjon and Capelle Blancard (2010) have argued that "for now, SRI does not have a significant impact on firms' cost of capital. Additionally, a careful review of the academic literature shows clearly that the financial performances of SRI funds are neither better –nor worse– than those of traditional mutual funds".

Rodriguez (2010) finds "On the basis of the raw returns, socially responsible funds performed better than some market indexes but this evidence of outperformance disappears once risk is incorporated into the analysis. Consistent with previous studies, no evidence was found of outperformance by socially responsible funds. Also, the difference between the performance of socially responsible mutual funds and conventional mutual funds is not statistically significant. This result is robust to the use of two additional measures of risk-adjusted performance".

Ammann, Oesch and Schmid (2011) find "a strong and positive relation between firm-level corporate governance and firm valuation. In addition, we investigate the value relevance of governance attributes that document the companies' social behavior. Regardless of whether these attributes are considered individually or aggregated into indices, and even when 'standard' corporate governance attributes are controlled for, they exhibit a positive and significant effect on firm value".

Capelle-Blancard and S. Monjon (2011) find "evidence that a greater screening intensity reduces SRI financial performance, but the relationship runs in the opposite direction when screening gets tougher. Further, we show that only sectoral screens – such as avoiding "sin" stocks – decrease financial performance, while transversal screens – commitment to UN Global Compact Principles, ILO/Rights at Work, etc. – have no impact. Other characteristics of the screening process like shareholder activism, or the overall quality of the SRI process do not have any significant impact either".

Dhaliwal, Zhen Li, Tsang and Yang (2011) "find that firms with a high cost of equity capital in the previous year tend to initiate disclosure of CSR activities in the current year and that initiating firms with superior social responsibility performance enjoy a subsequent reduction in the cost of equity capital. Further, initiating firms with superior social responsibility performance attract dedicated institutional investors and analyst coverage. Moreover, these analysts achieve lower absolute forecast errors and dispersion. Finally, we find that firms exploit the benefit of a lower cost of equity capital associated with the initiation of CSR disclosure. Initiating firms are more likely than non-initiating firms to raise equity capital following the initiations; among firms raising equity capital, initiating firms raise a significantly larger amount than do non-initiating firms."

Edmans (2011) finds that "A value-weighted portfolio of the "100 Best Companies to Work For in America" earned an annual four-factor alpha of 3.5% from 1984 to 2009, and 2.1% above industry benchmarks. The results are robust to controls for firm characteristics, different weighting methodologies, and the removal of outliers. The Best Companies also exhibited significantly more positive earnings surprises and announcement returns".

El Ghoul, Guedhami, Kwok and Mishra (2011) find "that firms with better CSR rankings exhibit cheaper equity financing. In particular, our findings suggest that investment in improving responsible employee relations, environmental policies, and product strategies contributes substantially to reducing firms' cost of equity. Our results also show that participation in two "sin" industries, namely, tobacco and nuclear power, increases firms' cost of equity".

Fisher and Thorburn (2011) find that "overall, corporate commitments to reduce greenhouse gas emissions appear to conflict with firm value maximization."

Guenster, Bauer, Derwall and Koedijk (2011) "report that eco-efficiency relates positively to operating performance and market value. Moreover, our results suggest that the market's valuation of environmental performance has been time variant, which may indicate that the market incorporates environmental information with a drift. Although environmental leaders initially did not sell at a premium relative to laggards, the valuation differential increased significantly over time."

Hoepner, Rezec and Siegl (2011) conclude that "we find zero indications that the integration of aggregated or disaggregated corporate environmental responsibility ratings into pension fund investment processes has any detrimental financial effect" and "[…] the downside volatility is substantially lower".

Humphrey and Lee (2011) find "no significant difference between the returns of SRI and conventional funds.

Wittwer (2011) concludes that regarding financial performance no systematic difference between SRI and traditional investing is to be expected.

Chung, Lee and Tsai (2012) find "there is no consistently significant difference between performance of green funds and conventional funds. […] green funds are more sensitive to market and size risks compared to conventional funds,

while they are less sensitive to value and momentum factors than conventional funds. […] fund flows of green funds are significantly related to lagged positive return but not significantly associated with lagged negative returns in normal market conditions. During the subprime mortgage crisis, both mature green and mature conventional funds experienced fund outflows. However, volatility of green funds flows is much lower than their conventional counterparts".

Cortez, Silva and Areal (2012) find "Most European global socially responsible funds do not show significant performance differences in relation to both conventional and socially responsible benchmarks. US funds and Austrian funds show evidence of underperformance".

Fulton, Kahn and Sharples (2012) conclude that "89% of the studies we examined show that companies with high ratings for ESG factors exhibit market-based outperformance, while 85% of the studies show these types of company's exhibit accounting-based outperformance. […] we have found that SRI fund managers have struggled to capture outperformance in the broad SRI category but they have, at least, not lost money in the attempt.".

Hirschberger, Steuer, Utz and Wimmer (2012) find "that expected financial portfolio returns […] do not significantly differ between conventional and socially responsible mutual funds. Although the average ESG-scores of socially responsible mutual funds are significantly higher than the ones of the conventional mutual funds, we show that the risk tolerance parameter of conventional mutual funds is significantly higher than the one of the socially responsible mutual funds".

Managia, Okimoto and Matsuda (2012) find "two distinct regimes (bear and bull) in the SRI markets as well as the stock markets for all the three countries. These regimes occur with the same timing in both types of market. No statistical difference in means and volatilities generated from the SRI indexes and conventional indexes in either region was found. Furthermore, we find strong co-movements between the two indexes in both the regimes."

Mollet and Ziegler (2012) find "this [responsible] investment strategy generally leads to insignificant abnormal returns when all four risk factors are considered so that we find no evidence that SRI is either penalized or rewarded by the stock markets".

Revelli and Viviani (2012/2014) find "the consideration of corporate social responsibility in stock market portfolios is neither a weakness nor a strength compared with conventional investments".

Shalchian, Mzali, Lilti and Elbadraoui (2012) find that sustainable "portfolios provide, in most cases, higher average returns than their low-ranked counterparts over the 1995-2006 period. In addition, we observe that the relation social-financial performance depends also on the economic cycle and consequently, on the market performance. Socially responsible investments seem to be more popular during bearish market periods and less popular during bullish market periods. Finally, our results suggest that in some industries, the differences of performances are more significant than in others".

Eccles, Ioannou and Serafeim (2013) find that "high sustainability companies significantly outperform their counterparts over the long term, both in terms of stock market and accounting performance."

Lee, Faff and Rekker, (2013) find "no significant difference in the risk-adjusted performance" between high- and low-ranked corporate social performance (CSP) portfolios and "little evidence was found that high- or low-ranked CSP-formed portfolios, irrespective of the portfolio formation type, systematically differ with regard to performance, size, book-to-market or momentum factors".

Ooi and Lajbcygier (2013) find "that the exclusion of the SRI-prohibited industries leads to subtle and complex changes to the risk factors that drive SRI returns. […] we find, in contrast to the conventional Fama–French model, evidence of statistically and economically significant alpha".

Rathner (2013) finds no difference in financial performance between Austrian SRI funds and Austrian conventional funds, but "SRI equity (debt) funds significantly outperform (underperform) their conventional peers. SRI funds significantly outperform (underperform) conventional funds in the second (first) half of the sample period", which was from February 1992 to March 2012.

Slapikaite and Tamosiuniene (2013) find a "higher financial return of SRI funds" and "SRI funds recovered faster and more significantly after the world financial crisis" but also that "SRI funds compared to Morningstar Asset Allocation Index shows slightly lower results, but it may be characterized by the lower risk as well".

Torres, Cerqueira and Brandao (2013) find that European socially responsible mutual funds present, in general, neutral performance when compared with both benchmark portfolios.

Bassoa and Funari (2014) find that "the ethical objective can be pursued without having to renounce financial rewards".

Belghitar, Clark and Deshmukh (2014) find "strong evidence that there is a financial price to be paid for socially responsible investing".

Borgers (2014) finds "[…] that it is possible to get abnormally large returns when overweighting firms with high CSR ratings" and that "norms and values have the potential to affect asset prices and that this form of tastes can affect mutual fund performance".

Chan and Walther (2014) find "positive and statistically significant excess returns for our environmentally-friendly firms and their IPOs and SEOs, in contrast to our control IPO and SEO samples which underperform".

Clark and Viehs (2014) conclude from their literature study that "good corporate governance standards, as well as superior corporate social and environmental standards lower a firm's costs of financing significantly because those firms tend to exhibit lower risks". They also conclude from four meta-studies "which have in common that they do not find very strong and significant evidence in favour of a positive or negative relationship between CSR and corporate financial performance" that "there is at least some positive correlation between CSR and corporate financial performance".

Clark, Feiner and Viehs (2014) conclude that "sustainability topics can have a material effect on a company's risk profile, performance potential and reputation and hence have a financial impact on a firm's performance. […] Meta-studies generally show a positive correlation between sustainability and operational performance".

Dias Curto and Vital (2014) find "[…] sustainable indexes outperform traditional stock indexes in all the periods under analysis [i.e. 2001-2011]; however the differences on average returns are not statistically significant".

Mollet and Ziegler (2014), building on their research paper from 2012 (see above) find "for the US and the European stock markets that SRI is associated with large-sized firms. The insignificant abnormal stock returns for SRI in both regions are the main result of our paper".

Nofsingera and Varmab (2014) found that "compared to matched conventional mutual funds, socially responsible mutual funds outperform during periods of market crises. This dampening of downside risk comes at the cost of underperforming during non-crisis periods. […] This asymmetric return pattern is driven by the mutual funds that focus on environmental, social, or governance (ESG) attributes and is especially pronounced in ESG funds that use positive screening techniques. […] the observed patterns are attributed to the funds' socially responsible attributes and not the differences in fund portfolio management or the characteristics of the companies in fund portfolios.".

Peylo and Schaltegger (2014) find "a distinct yet nonlinear relationship between sustainability and investment performance that is especially strong in phases of crisis".

Tripathi and Bhandari (2014) find "find that almost in every study related to performance evaluation; socially responsible funds/companies perform better or at least not inferior to conventional funds or respective benchmarks. We also find that costs of socially responsible investing were less than or equal to conventional funds. So, there is no penalty for investing in socially responsible stocks. Rather, it is more rewarding especially during the time of financial crisis".

Yu (2014) finds "socially responsible mutual funds have a superior return on both average and risk-adjust returns. Further analysis shows that the superior return of socially responsible funds over propensity-score-matched funds only exists in the funds satisfying social and governance screening criteria".

Albuquerque, Durnev and Koskinen (2015) find "The model predicts that CSR decreases systematic risk and increases firm value and that these effects are stronger for firms operating in differentiated goods industries and when consumers' expenditure share on CSR goods is small. We find supporting evidence for our predictions."

Charfeddine, A. Najah, F. Teulon (2015) find "that ethical investment has inferior performance compared with their unscreened benchmarks."

Clark, Deshmukh and Belghitar (2015) find "no significant differences" in the performance of 'ethical funds' and conventional funds.

Dener Ribeiro da Silva, Pinheiro de Lima, Gouvêa da Costa and Oliveira Sant'Anna (2015) find "that in spite of having a differentiated theoretical portfolio, focused on social, environmental and ethical issues, the profitability of companies that compose the ISE Group is similar to or lower than that of companies of the reference group. Nevertheless, the results show that the companies of the ISE Group have other ways to create shareholder value, such as lower volatility and risk exposure."

Dumas (2015) says in her thesis "most literature on RI, and on the value of sustainability in general, adopts a neoclassical approach focusing on financial return, with inconclusive results".

Elaut, Frömmel and Verbeeck (2015) find "a potential pitfall in using current holdings of ethical mutual funds for the

historical analysis of socially responsible investing, which may cause a potential look-ahead bias. Based on current holdings SRI in the BRICS countries significantly outperform their benchmarks. However, we find that using historical holdings substantially reduces the outperformance of SRI in BRICS countries and it becomes insignificant. Our results thus lend support to a "no effect" hypothesis of SRI in emerging markets."

Engen, Ausen and Nylander (2015) find "no abnormal returns, but there is a significant decrease in risk. This supports previous studies of best-in-class investment strategy, which have detected lower volatility. We also find that the results are highly dependent on the fund's geographical origin and year of signing."

Halbritter and Dorfleitner (2015) conclude "ESG portfolios do not state a significant return difference between companies with high and low ESG ratings. […] The results suggest that investors should no longer expect abnormal returns by trading a difference portfolio of high and low rated firms with regard to ESG aspects.".

Humphrey, Warren and Boon (2015) "find that SRI managers have longer tenure and are more likely to be a female. However, these differences do not result in any significant difference in the performance of SRI and conventional funds. […]".

Junkus and Berry (2015) find "Despite the large and extensive amount of empirical research published on SRI in recent years, the authors find no definitive answer to the question of SR actions for either the firm or the investor. For firms, evidence linking corporate social responsibility (CSR) rankings with higher value is mixed, and depends on the type of CSR behavior studied as well as the measures of firm performance used. The performance of SR mutual funds and indexes generally are not significantly different from conventional funds or indexes, but again these results are also highly dependent on model specification, time period, benchmark, and other characteristics of the study."

Khan, Serafeim and Yoon (2015) conclude that "firms with good ratings on material sustainability issues significantly outperform firms with poor ratings on these issues.".

Lesser, Rößle and Walkshäusl (2015) find "that socially responsible, green, and faith-based investments have to be considered as different approaches within the broader field of sustainable investing. While socially responsible and green funds tend to underperform in non-crisis markets, faith-based funds perform similar to the market and their conventional peers during any market state. We provide evidence that the funds' specific screening activity significantly impacts the financial performance of sustainable investing vehicles in international markets. In particular, social screens lead to the underperformance of socially responsible funds, while energy screens drive the performance of green funds."

Ko and Kim (2015) find that "SRI fund firms performed better in the capital market".

Morgan Stanley (2015) says "investing in sustainability has usually met, and often exceeded, the performance of comparable traditional investments. […] manager selection is crucial; there is a high dispersion of returns and volatility across the spectrum of sustainable and traditional investment strategies alike.".

Muñoza, Vicenteb and Ferruz (2015) say "our results show that there is a little difference between conventional and SR fund managers".

Seddik Meziani (2015) says "contrary to studies that paint an utterly favorable picture of ESG investing, the results portrayed in this chapter are mixed. Although their yearly growth and their risk-adjusted returns in relation to the market benchmark used are notable, the same cannot be said of their performance in terms of the risk taken to achieve these returns and with regard to the important systematic risk they contribute."

Tripathi and Bhandari (2015) find that "despite having higher risk, socially responsible stocks portfolios generated significantly higher returns and hence outperformed other portfolios on the basis of all risk-adjusted measures as well as net selectivity returns during both recession and boom periods".

Von Wallis and Klein (2015) "provide a thorough analysis of a wide set of studies that cover two key topics […]: the first research objective is to determine the relative performance of SRI vehicles in comparison to their conventional benchmarks. Our meta-analysis shows that most research studies find that socially responsible (SR) investments perform equal to conventional investments, but these findings are challenged by contradictory results from other studies. […]"

Wang, Dou and Jia (2015) say "this study estimates that the overall effect size of the CSR–CFP relationship is positive and significant, thus endorsing the argument that CSR does enhance financial performance. […] Subsequent financial performance is associated with prior social responsibility, while the reverse direction is not supported […]".

Xiao, Faff, Gharghori and B-K. Min (2015) find "that socially responsible investments have no asset pricing impact on the US market. We argue that this 'no financial impact' finding indicates that investors will not be disadvantaged financially by investing in socially responsible funds or corporations."

Yen, Lin and Sun (2015) find "Although the study shows that portfolios of high CSR-rated companies generate higher

average returns from 1991 to 2008 relative to their low CSR-rated counterparts, the difference in returns, after controlling for the four-factor model, is not statistically significant. We find no return premium of CSR-efficient stocks against CSR-inefficient stocks. The results from the four-factor model suggest that portfolios of low environmental ratings, low social ratings and low total CSR ratings tend to generate a statistically significant negative alpha. However, the environmentally differenced portfolio is reported to have earned a significant, positive factor-adjusted return in the future 5th year. This result suggests that SRI can be incrementally profitable over long-run horizons".

Annex 3
Country Specific Developments

1. AUSTRIA

1.1. Legal framework

Currently there is no specific legal obligation for (management) companies and investors to report on ESG aspects of their business. Neither the Austrian Investment Fund Act (InvFG 2011) nor the Alternative Investment Fund Act (AIFMG) or the Austrian Real Estate Investment Fund Act (ImmoInvFG) contain specific ESG provisions. However, some indirect implications in terms of ESG can be found in the Austrian Code of Corporate Governance.

1.2. Private sector initiatives

Most of the Austrian management companies are members of Forum Nachhaltige Geldanlagen (FNG) which is an industry association promoting sustainable investment in Germany, Austria and Switzerland. FNG aims to provide comprehensive information to the public, investors, politicians, businessmen as well as academics, to increase awareness of sustainable investment in the financial sector and to highlight the positive impact of sustainable investment on the direction of social and environmental change.

The Austrian Association of Investment Fund Management Companies (VÖIG) is active in the field of responsible investment. In this respect, the VÖIG Working Group on "Responsible Investments" as well as the national classification of investment funds which - since 2010 - only classifies those investment funds as "sustainable" that adhere to the Eurosif transparency standards.

2. BELGIUM

2.1. Legal framework

As stated in the Royal Decree of 12 November 2012 (execution measure of UCITS IV in Belgium) and the Law of 19 April 2014 (transposition of AIFMD in Belgium), funds are obliged to clarify to what extent they are taking social, ethical and environmental aspects into account in the implementation of their investment policy.

Furthermore, several political parties regularly speak of private Member's bills/Government bills aimed at imposing compliance with a "set of minimum requirements" for social, ethical and environmental commitments in the outline of the investment policy.

In addition, in Belgium, several non-profit organizations are active in the field of sustainable investments, for example: FAIRFIN and RFA (Réseau Financement Alternatif). These NGOs state that their ambition is to give "money" an added value in terms of social and environmental quality. They recommend public enforcement for the purpose of transparent fostering of responsible investment vis à vis the citizens.

2.2. Private sector initiatives

2.2.1. The Belgian Asset Managers Association (BEAMA) – Code of Conduct

The General Meeting of the Belgian Asset Managers Association (BEAMA) adopted in June 2009 a Code of Conduct (as part of the Constitution of the Association). This document describes the "best practices" concerning Principles of Governance in Asset Management and their implementation.

The code takes the "fiduciary duty" as a starting point: any entity and/or individual assuming responsibility for any aspect of portfolio management in the broadest sense of the term recognises the principle of fiduciary duty and adheres to it when exercising their activities. Generally speaking, fiduciary duty requires that all parties, in the course of their duties, pledge to act in a fair and equitable manner in the clients' best interests and in respect of market integrity, as provided in the legal and regulatory framework. The Code of Conduct deals specifically with the principles arising from the general principle of fiduciary duty, which covers all the others, and the practical interpretation of this principle. The document treats e.g. the following aspects:

- Strategic principles and organization of various asset management activities
- Principles and measures of good operating management
- Customer information
- Clients and intermediaries
- Principles of external governance: exercising shareholder/creditor rights.

2.2.2. The Belgian Asset Managers Association (BEAMA) & the Belgian Financial Sector Federation (Febelfin) – An all-encompassing concept of "SRI Funds"

Since 2001, BEAMA has been active in monitoring sustainable and socially responsible investment UCIs (Undertaking for Collective Investment) as well as taking care of their quality control. The method is regularly improved and updated in the light of the changing interpretation of sustainability and social responsibility. BEAMA informs the public about the SRI Funds that match the profile. A list of SRI Funds commercialized on the Belgian market can be found on www.beama.be. Furthermore, BEAMA provides quarterly statistics about these SRI Funds.

During 2012, Febelfin developed a recommendation for sustainable financial products. This recommendation was inspired by the existing BEAMA SRI Methodology - which served this purpose for many years – and enlarges the scope to include savings accounts and credits besides investment funds. In order to be able to develop this overarching Febelfin recommendation, the BEAMA SRI Methodology underwent some minor changes. More concretely: on the one hand fund managers are required to publish a policy on controversial activities and on the other hand the transparency/disclosure requirements are elaborated. This interaction between BEAMA and Febelfin has led to the fact that, as of early 2013, an equivalent methodology is used in Belgium when it comes to defining sustainable financial products for retail clients (funds, savings accounts or credits).

The BEAMA SRI methodology can be summarised as follows: In addition to the common financial criteria, SRI Funds structurally and systematically take into account the aspects relating to the environment, society and governance when they make an outline of their investment policy. This can be done on the basis of several strategies (Best-in-class method, normative screening, thematic approach, Shareholder engagement). Furthermore, a policy regarding controversial activities should be drawn up.

In the screening process, the following minimum standards must be met:

- Compliance with the UN Global Compact principles (http://www.unglobalcompact.org/);

- Exclusion of companies, as laid down in the Belgian law, that, in a broad sense, are involved in the production of anti-personnel mines, sub-ammunition and depleted uranium weapon systems;

- Exclusion of companies directly (i.e. more than 5% of their turnover) involved in the production of non-controversial weapons (end product conceived for killing);

- Over and above those minimum standards, additional screening will take place on the basis of at least one of the strategies mentioned above.

Supervision on the way in which a fund complies with the SRI investment policy and processes should have a public character. Much weight is placed on accountability:

- Transparency & disclosure: An extended number of publications – such as: policy/strategy/implementation of sustainability, policy on controversial activities, detailed listing of the sustainable assets, transparency document, etc. – must be made publicly available. Explanation of compliance is best offered in line with the Eurosif Transparency Guidelines.

- Audit & Supervision: SRI Funds must have a quality management system that is both clear and elaborate, for the supply chain as a whole. Regular verification and audit by an independent third party is required.
- Reporting: Clear, regular and extended reporting/justification are performed by the UCI itself.

The independent third party can be an auditor, an independent research institution with the right competence or an advisory body.

3. DENMARK

3.1. Legal framework

According to a statutory requirement from 2009, large companies in Denmark must take position on CSR in their annual reports and in 2013 a new requirement was introduced making it mandatory for businesses to also expressly account for their policies for respecting human rights and for reducing climate impact.

Companies covered by the statutory requirement must report on:

- The company's social responsibility policies
- How the business translates its social responsibility into action
- The company's evaluation of what has been achieved through social responsibility initiatives during the financial year, and any expectations it has regarding future initiatives.

The same reporting requirement has also been introduced for institutional investors and investment funds, however the corporate social responsibility reporting to the PRI is considered to be particularly relevant for financial companies.

In 2015, changes to the legislation from 2009 were adopted, and the changes are in lieu of the new EU Directive 2013/34/EU with new requirements for non-financial reporting. The changes in the Danish Reporting Act are also required in the annual financial reports for financial funds and must be adopted in 2018 at the latest. Therefore, the reports for investment funds must also include statements regarding how the investment policy affect environment and the climate, social and employee relations, anti-corruption and bribery, as well as other non-financial key performance indicators.

3.1 Recommendations

The Danish Council on Corporate Social Responsibility has published three sets of guidelines and recommendations about responsible investments. The Danish Investment Fund Association and the Danish Insurance Association have contributed to the guidelines.

3.1.1. Guide to responsible investment

In 2009, the Danish Council on Corporate Social Responsibility published a guideline with an introduction to the concept of responsible investment and in particular the Principles of Responsible Investment ('PRI'). The purpose of the guide is to encourage investors to include social responsibility considerations in their investment decisions.

3.1.2. Guide to responsible investments in sovereign bonds

In 2013, the Council published a guideline concerning responsible investment in sovereign bonds. This included how to gather relevant information, e.g. from the OECD and IMF, as well as a description of some of the approaches normally used and the dilemmas investors have to consider.

3.1.3. Recommendations for investments in companies producing convention banned weapons

In 2014, the Council recommended that no Danish investors should invest in companies producing certain types of weapons, among others cluster ammunition and anti-personnel mines which is prohibited according to the Ottawa and Oslo-conventions, both of which Denmark has acceded.

In December 2015, the Council was closed and replaced by a new forum which is supposed to support the activities of companies and stakeholders in the fields of social responsibility.

3.1.4. Recommendations on Corporate Governance

The recommendations on Corporate Governance are aimed primarily at Danish companies whose shares are admitted to trading on a regulated market. The objective is that the recommendations are appropriate for such companies and comply with Danish and EU company law, OECD's Principles of Corporate Governance and recognised best practice. The recommendations are based on, and supplement, company law and stock exchange regulation.

The Danish Government has suggested the recommendations be supplemented with recommendations on active ownership and engagement by Danish institutional investors, inspired by the UK stewardship code. The recommendations on active ownership are expected to be published end of 2016 after an initial hearing in the summer of 2016.

3.2 Private sector initiatives

Most of the largest Danish investment funds and pension funds are members of Dansif which is an impartial forum for stakeholders with a substantial interest in SRI. All the largest Danish investment funds have also signed the PRI principles, and Denmark has a very high proportion of UN PRI signatories.

3.2.1. Study of the state of responsible investment in Denmark

The latest Dansif study published in August 2015 shows a continuous commitment to responsible investment practices among the 50 largest institutional investors in Denmark. The wide use of negative screening processes still make Denmark stand out internationally, but the survey and other studies show signs of international convergence of practices and tools, where Danish investors increasing apply integration strategies and international investors adopt the negative screening tools.

Some of the main results are:

- Danish investors benchmark favourably internationally, in particular with regards to norm-based screenings, exclusions and engagement.
- 44 of the 50 largest institutional investors in Denmark – investing 98 percent of the Assets under Management (AuM) have a policy for responsible investment.
- 66 percent of the investors (93 percent of the AuM) have a specific engagement policy.
- Negative screening, value based or norm-based, continues to be the most widely used responsible investment tool.

4. FRANCE

4.1. Legal framework

4.1.1. Corporate Social Responsibility reporting requirements for companies

Since the NRE law (Loi sur les Nouvelles Réglementations Economiques – 15 May 2001) listed Companies are now required to disclose in their annual report, information regarding their social and environmental impacts.

The Grenelle 2 law (article 225), adopted in July 2010, applies these requirements to unlisted companies with at least 500 employees. The information is subject to third party verification.

4.1.2. ESG disclosure for asset managers and asset owners

- Since the Grenelle 2 law (article 224), adopted in July 2010, management companies are subject to new disclosure requirements. They have to describe how they take into account ESG criteria in their investment policies.
- The Law on Energy transition (article 173) published in summer 2015 has extended the obligation of publishing an ESG report to institutional investors. Both asset managers and asset owners should describe how they take into account ESG criteria in their investment policies. Moreover, a climate dimension has been added. Asset managers and institutional investors should describe their climate risks exposure and how they deal with it.

In 2015, the Autorité des Marchés Financiers 'AMF' published a report on SRI funds focused on information given to retail investors.

4.1.3. Employees Saving Schemes and Impact Investing ("investissement solidaire")

Impact investing funds invest up to 10% of their assets in non-listed companies, which have as business targets the development of the local economy, job creation, and social housing. These companies have to comply with a set of requirements defined by the Labour Law and must be referenced as such by local authorities. Since 1st January 2010, all companies have to offer their employees at least one impact investing fund in their respective Employee Savings Scheme. Taking ESG criteria into account for the remaining 90-95% of listed assets in these funds is not mandatory but, in practice, it is often the case.

4.1.4. FRR (Fonds de Réserve pour les Retraites) – ERAFP (Etablissement pour la Retraite Additionnelle pour la Fonction Publique) – IRCANTEC (Institution de retraite complémentaire des agents non titulaires de l'État et des collectivités publiques)

The investment policies of these three major French public institutional investors require them to take into account ESG in their investments.

4.2. Private sector initiatives

Several initiatives or working groups within institutions, made up of corporate and/or finance industry members have been formed over the past years: AFG (Association Française de la Gestion financière), FIR (Forum pour l'Investissement Responsable), ORSE (Observatoire pour la Responsabilité Sociale de l'Entreprise) CIES (Comité Intersyndical de l'Epargne Salariale), Paris Europlace, Novethic and Finansol. These working groups aim to contribute to the setup and development of the industry and to the improvement of the transparency and also aim at to raise investors' and savers' awareness on SRI.

4.2.1. Private Sector Initiatives aimed at setting up the industry improving transparency

4.2.1.1. Eurosif AFG/ FIR Transparency Code[140] Eurosif, AFG (Association Française de la Gestion financière) and FIR (Responsible Investment Forum) have set up a Transparency Code compulsory for all SRI Funds. This Transparency Code was updated for the second time in February 2013 in line with market trends and requirements.

The objectives of the Code are to:

- improve transparency and understanding of SRI funds for investors, savers and other stakeholders
- contribute to an approach based on pro-active, self -regulation in favour of the development of the SRI market.

In adhering to the Transparency Code, management companies share information regarding:

- Basic details about the fund management company and SRI funds
- Approach to ESG evaluation of companies
- Fund management process
- Controls and ESG reporting

The new version complies with the new regulation on ESG disclosure (article 224 Grenelle 2 law). By signing up to the Transparency Code, management companies will be in compliance with the legislation.

4.2.1.2. Creation of a public SRI label & TEEC label

First announced in September 2012 during the French Environmental Conference, the SRI label supported by the French ministry of economy and finance was launched by a decree published in January 2016. The public label will apply to retail funds that will have to comply with detailed rules and publish some measurable ESG indicators in their reporting.

The TEEC label was created by the Ministry of environment for retail funds invested in energy transition projects.

4.2.1.3. CIES Label[141]

- The CIES (Comité Intersyndical de l'Epargne Salariale) was established in 2002 by 4 trade unions (CGT, CFTC, CFE-CGC and CFDT). It aims at:
- Better securing assets invested by employees by offering a socially responsible investment (SRI) option;
- Influencing corporate behaviour by using employees' savings to serve SRI objectives, especially by voting at the annual general assembly ('AGM') of shareholders of companies.
- The CIES has created a label, attributed to products offered by various asset management companies. It is an incentive for employees to select these products. Criteria to obtain the Label cover:

    - » Use of ESG rating agencies and internal resources dedicated to ESG
    - » Low management fees
    - » Fund supervisory committee composed of a majority of employees representatives (2/3)
    - » Fund supervisory committee consulted for proxy voting
    - » Control and Audit structures

4.2.1.4. The Sustainable Financing and Socially Responsible Investment Chair[142]

At the behest of AFG, asset management companies and other institutions, decided to finance an academic Chair in responsible investment and sustainable finance. The work done under this scheme should help develop new valuation models that factor in the environmental and social impact of companies' actions in the long term.

4.2.1.5. Corporate governance and proxy voting[143]

Since 1999, AFG has established a monitoring and alerts programme to draw the attention of the 400 Asset Management Companies members of AFG on resolutions which do not comply with AFG Corporate Governance Recommendations.
These alerts point out all resolutions submitted to the AGMs of SBF 120 listed companies which do not comply with AFG Corporate Governance Recommendations. Such alerts are sent to the members of AFG and are made available to the public on AFG website.

4.2.2. Private Sector Initiative to increase SRI awareness

4.2.2.1. The SRI Week organised by the FIR (French Social Investment Forum), under the high patronage of the Sustainable Development Ministry[144]

The first French SRI Week took place in October 2010 and aimed at increasing the awareness of retail investors on SRI, its methods and its objectives. Various events on this topic, such as conferences, working groups, meetings, chats on the internet, were organised all over the country by retail banks and insurance companies.

4.2.2.2. The Impact Investing ("investissement solidaire") Week organised by Finansol[145]

The Impact Investing Week organised annually in November intends to demonstrate the possibility of making profitable investments, while funding activities with high social benefit (employment, housing, environment, international solidarity).

4.2.2.3. Guide Les clés de la Banque – L'Investissement Socialement Responsable[146]

This guide aims at helping savers discover SRI and give them tools when talking with their financial advisors for selecting the type of product that best fits their ideas, values, and investment goals.

4.2.2.4. Promotion of SRI by financial institutions - Guide on best practices to help retail banks promoting SRI[147]

5. GERMANY

5.1. Legal framework

The existing framework for Companies including fund management companies is based on German and European law, global principles including the pertinent environmental and social standards 'UN Global Compact' and 'OECD Guidelines for Multinational Enterprises' as well as the 'UN Convention on Cluster Munitions'. The Federal Republic of Germany ratified the application of these standards.

As of today, the legal framework provides for the following ESG disclosure and reporting standards as follows:

- For certified pension products such as certified fund saving plans, the supplier has to inform the investor whether and how ethical, social and environmental concerns have been taken into account when using contributions (see Sec. 7a para. 1 of the Pension Provision Agreements Certification Act – Altersvorsorgezertifizierungsgesetz).
- The management and the supervisory board of listed corporations have to declare on an annual basis, to what extent they comply with the recommendations of the German Corporate Governance Code. In addition, they have to explain any deviation from the Code (see Sec. 161 of the German Stock Corporation Act – Aktiengesetz). The aim of the German Corporate Governance Code is to make Germany's corporate governance rules transparent for both national and international investors, thus strengthening confidence in the management of German corporations.
- All companies have to include non-financial performance indicators in their year-end report, like information regarding environmental issues and employee matters, provided they are relevant for business development or the general position of the company (see Sec. 315 para. 1 and Sec. 289 para. 3 German Commercial Code – Handelsgesetzbuch).

5.2. Private sector initiatives

The legal environment is associated by a variety of private sector initiatives:

5.2.1. Forum Nachhaltige Geldanlagen (FNG)[148]

Forum Nachhaltige Geldanlagen (FNG) is a multi-stakeholder association promoting sustainable investment in Germany, Austria and Switzerland. German management companies are members of FNG. FNG aims to provide comprehensive information to the public, investors, politicians, businessmen as well as academics, to increase awareness of sustainable investment in the financial sector and to highlight the positive impact of sustainable investment on the direction of social and environmental change. It is also the Austrian/German/Swiss national member of Eurosif.

In 2015, FNG launched a label with the aim of providing evidence that labelled funds meet a minimum standard in terms of sustainability and transparency and that they implement their sustainability claims in practice. The FNG so far awarded more than 30 funds with the label. The minimum requirements focus on transparency and process, exclusion criteria for nuclear power and armaments and the four areas of the UN Global Compact, i.e. human rights, labour, environment and anti-corruption, as well as a high level of transparency. Funds which gain additional points regarding their sustainable strategy may be awarded a higher grade (i.e. stars). The French company Novethic acts as label auditor. In addition, an independent committee monitors the auditing process. For more details see www.fng-siegel.org.

5.2.2. BVI: Guidelines on responsible investment and other activities

In November 2012, the German asset management association BVI published guidelines for responsible investment. BVI members (asset managers and management companies) are aware of their key role in pension provision, their role as trustee and their social responsibility accordingly. According to the guidelines, BVI members are obliged to take soft law such as codes into account in the investment process appropriately. In addition, they are obliged to inform investors about the codes and processes they apply. Furthermore, BVI members managing real estate funds have developed a standard for measurement and comparability of sustainability objectives for real estate funds. This standard takes into account ESG aspects both at the level of specific assets such as buildings as well as at the portfolio level. BVI is increasingly active in the field of responsible investment. In this regard, BVI launched its first RI Conference in January 2016.

5.2.3. Corporate level: Policies/Collaborations/Initiatives

At a corporate level, a wide range of voluntary activities can be identified:

- Deutscher Nachhaltigkeitskodex ('DNK')[149]
- UN Principles of Responsible Investing ('UN PRI'), of the Carbon Disclosure Project ('CDP') and the Investor Network on Climate Risk ('INCR')
- Proxy voting policies containing ESG aspects
- ESG policies
- Memberships of Eurosif and Forum 'Nachhaltige Geldanlagen'
- Memberships of the DVFA non-financial working group (ESG key performance indicators) and the CDP Working Group Germany
- Memberships of the World Bank / OECD Global Corporate Governance Forum, International Corporate Governance Network (ICGN) and the German Corporate Governance Commission

Fund companies show ESG- and CO2-ratings embedded in proprietary research platforms. They support research projects on analysis of extra-financial risks and climate change with selected universities and institutes.

Portfolio Managers are encouraged to take advantage of "non-financial assessments". Industry targets include an extension of credibility and transparency Key Performance Indicators (KPIs) for Environment, Social, Governance (ESG) of Deutsche Vereinigung der Finanzanalysten (EFFAS/DVFA)[150] as well as international rules and regulations like UN Global Compact[151] and the Global Reporting Initiative (GRI G3)[152] support reporting according to global ESG standards.

6. ITALY

6.1. Legal framework

6.1.1. ESG disclosure

Currently, a legal obligation for companies and investors to report on ESG aspects of their business does not exist. However Decree 32/2007, enforcing the EC Directive 2003/51, envisages the possibility of integrating financial indicators with extra-financial indicators related to the company activities, such as the information concerning environmental and the human capital policies.

In addition, since 2005, pension fund managers are required (DL 252/05) to include in their annual report and their communication to investors whether and to what extent ESG criteria are adopted in the management of assets.

As transparency is concerned, CONSOB - the public authority responsible for regulating the Italian securities market - intervened in 2007 with the Decision n. 15691, requiring those asset managers and insurance companies offering products and services labelled as "ethic" or "socially responsible" to inform and account to investors in what way those qualifications have affected their investment choice.

In 2010, ISVAP – the public authority responsible for regulating the Italian insurance companies – approved Regulation n. 35, providing dispositions on the information to be disclosed on insurance products, labelled as "ethic" or "socially responsible".

6.1.2. Active ownership

The right of the shareholder to intervene at the General Meeting is stated in Article 2.370 of the Civil Code. The D.Lgs 58/1998 (Testo Unico della Finanza) devotes a full section (articles 125-134) to the shareholders' rights; specifically, the article 127-ter states the right to formulate questions before the General Meeting, in order to receive an answer during its course.

Banca d'Italia (2008) – Disposizioni di vigilanza in materia di Organizzazione e governo societario delle banche - contains guidelines to be followed in the organisation and governance of banks; the regulation regarding active ownership refers to remuneration policies and plans (stock options) as well as the remuneration of the bodies appointed by the shareholder meeting. Additionally, banks must guarantee a complete information and effective way of communicating among and within corporate governance bodies.

In 2015, Assogestioni, the association of Italian asset managers, adopted the Italian stewardship principles for the exercise of administrative and voting rights in listed companies, accompanied by a series of best-practice recommendations. The adopted Principles are inspired by those contained in the EFAMA Code for External Governance.

The purpose of the Principles is to provide a set of high-level best practices designed to promote discussion and cooperation between Investment Management Companies and listed issuers in which assets are invested.

Though aimed primarily at portfolio managers, these Principles indirectly reflect on the conduct (i) of the listed issuers, which are called upon to promote dialogue with investors, asset managers and their respective advisors, and (ii) of institutional investors that entrust the management of their assets to third parties, and are requested to share with their managers certain decisions on how to interact with the investee listed issuers.

The Principles support and guide Investment Management Companies in monitoring, engagement and voting actions with investee listed issuers, in relation to:

- the strategy and performance of an investee listed issuer;
- ordinary corporate governance matters, such as establishment, election, successions and remuneration of the Board of Directors;
- approach to corporate social responsibility;
- risk management.

Compliance with these Principles is voluntary and based on a 'comply or explain' principle; the investment management companies that comply with the Principles also commit to annually publish a report on the application of the Principles.

6.2. Private sector initiatives

Companies and organisations, including Assogestioni, gather in the Forum for Sustainable Finance (FFS) as part of the Eurosif network to promote and support the adoption of RI criteria in finance. Besides organising events and training activities on the subject, the FFS publishes a range of Guidelines to assist investors and asset managers in the implementation of responsible investment principles.

6.3. Assogestioni and the Charter of Sustainable and Responsible Investment of the Italian Finance

Assogestioni has been active since 1994 in the promotion of more transparent and fair corporate governance both within the asset management industry and in the investee companies. With regards to the former, Assogestioni has drafted and promoted among its members a Code for the Governance of Conflict of Interest.

As for the latter, since 1996 the association has been supporting the active participation of asset managers in investee annual meetings and assisting in the presentation of slates of candidates for the appointment of independent minority directors and statutory auditors in Italian listed companies.

In June 2011, the Italian representatives of the banking, insurance and financial sectors - ABI, ANIA and ASSOGESTIONI - and their Federation (FeBAF), co-signed the "Charter of Sustainable and Responsible Investment of the Italian Finance", considering it crucial to promote the integration between the criteria driving the decision making of financial institutions and a sustainable development perspective, generally understood as the search for a balance between social, environmental and economic elements when investing.

By subscribing to the document, the signatory organisations declared to share its objectives and to renew the common effort in spreading the culture of sustainability and social responsibility amongst their members and the business community as a whole. They also reaffirm their willingness to promote the debate on social responsibility within the financial community and to support the adoption of sustainable and responsible investment practices. They aim at encouraging dialogue between the Italian financial sector, the civil society and European and international institutions.

The key principles supported by the Charta are:

- the key role to be played by sustainable and responsible investments practice and their integration within the more traditional financial analysis;
- the importance of disclosure and transparency in the financial activity and in the implementation of SRI principles;
- The adoption of medium-long term view as a mean to alleviate market distortion caused by short-termism.

In line with the commitments undertaken, all signatories including Assogestioni have strengthened their financial education activities on SRI.

7. LUXEMBOURG

7.1. Legal framework

Currently there is no legal obligation for companies or institutional investors to disclose or report ESG aspects as regards their businesses or investment activities nor is there any specific legislation on responsible investment.

The Luxembourg Government, together and in coordination with the associations of the Luxembourg financial market place, has decided to support the development of responsible investing in Luxembourg.

To highlight this support, microfinance funds investing into microfinance institutions were exempted from the subscription tax, upon certain criteria being fulfilled.

7.2. Private sector initiatives

ALFI, the Association of the Luxembourg Fund Industry, has defined its ambition for the Luxembourg Fund Centre being a global centre of excellence for the asset management industry, creating opportunities for investors, fund professionals and the community as a whole. Amidst a challenging international context, ALFI's action plan for the next years foresee the fostering of a beneficial environment for funds, and proving their positive contribution to investors and to society, by stimulating innovation within the funds industry. Within this context, ALFI aims to establish Responsible Investing as a third pillar of the Luxembourg investment fund centre, alongside UCITS and alternative investments.

In particular, the recent market turmoil has encouraged investors to reconsider their behaviour and, as a consequence, interest in long-term or socially responsible savings products has increased. Recent EU Commission work such as the consultations on long-term investing, pensions or social investment funds reflects this trend.

To respond to these new needs, ALFI has created two technical committees, one focusing on Long-term savings and pensions, and the other focusing on responsible investing. Various working groups focusing on specific sub-topics have been created under the umbrella of these two technical committees in order to encourage innovation and dialogue in the Luxembourg Fund Centre.

Furthermore, ALFI commissioned KPMG in 2015 to conduct the third edition of the "European Responsible Investing Fund Survey". The Survey covers the European responsible investment fund market as at 31 December 2014, including the size of the market, investment categories and the domicile of such funds. This report focuses essentially on mutual funds domiciled in Europe. It does not address pension fund assets, segregated managed accounts or insurance company assets due to the relative difficulty of accurately measuring the size, nature and domicile of such assets. The survey shows that assets under management in European responsible investment funds have seen a Compound Annual Growth Rate (CAGR) of 25% between 2012 and 2014, growing from EUR238 bn to EUR 372 bn. Previous editions were published in May 2013 and May 2012 and gave a snapshot of the RI fund universe as of December 2011 and December 2012.

Finally, ALFI organises annual conferences dedicated to Responsible Investing, Microfinance or Impact Investing to raise awareness and to encourage the development of Responsible Investing in Luxembourg and in Europe. The latest edition of "Impact Investing & Microfinance Conference" took place in May 2016 in Luxembourg.
In July 2006, seven private and public founding partners (Charter members), created in Luxembourg The LUXEMBOURG FUND LABELLING AGENCY ('LuxFLAG'). LuxFLAG is an international, independent and

neutral agency, supporting the financing of sustainable development by providing clarity to investors. LuxFLAG is an integral part of the Luxembourg global funds industry, which is the largest in Europe and the second-largest globally after the US. HRH the Grand-Duchess Maria Teresa is Honorary President of LuxFLAG. LuxFLAG promotes fundraising and branding focused on Responsible Investing sectors by awarding an independent, transparent and recognisable label to Microfinance, Environment and ESG funds. To be granted the respective LuxFLAG Label, applicant investment funds have to meet predefined eligibility criteria assessed by independent Eligibility Committees composed of industry experts, academicians and analysts. LuxFLAG Labels are recognised worldwide and available for internationally distributed funds irrespective of their country of domicile. The objective of the Label is to reassure investors that the labelled fund invests most of its assets directly or indirectly in a responsible manner. As of September 2015, LuxFLAG labels 43 funds with a total of approximately USD 10 billion Assets under Management. LuxFLAG Labels are valid for a period of one year and must be renewed on expiry. Further information is available on www.luxflag.org.

8. NETHERLANDS

8.1. Legal framework

As of January 1, 2013, there is a legal obligation for Dutch financial institutions (such as banks, insurers, pension funds and asset managers) to have controls in place which prevent investing in cluster munitions manufacturers, stockpilers or transporters, as defined in the Treaty on Cluster Munitions. In addition, pension funds are legally obliged to be transparent about their responsible investment strategies if they have them.

The Dutch government introduced a SRI "Transparency benchmark" for companies in 2007[153]. On that occasion[154], the government stated that SRI is essentially out of reach of the law and there is no standard recipe, because every company faces different challenges and dilemmas. SRI by pension funds is their responsibility, not the governments. Their investment policies should be prudent and in the interest of the stakeholders in the fund (pensioners, sleepers, contributors). The Dutch government is of the view that companies should be transparent with regard to their considerations regarding decision to invest or not in the framework of their SRI policy, and be prepared to enter into a serious dialogue with their stakeholders[155].

The government expects the road of transparency to work best, because it attributes responsibility to those who should be responsible and it allows for more tailor-made solutions. The government has pointed to several indicators that this approach is working.

8.2. Private sector initiatives

Although there was a debate in the Netherlands about the (un)desirability of investments and interests in South Africa during the apartheid regime ("Boycott Outspan" and campaigns against Shell) in the 1980s, and the trade union movement has for decades taken into account social and ethical problems in its investments, concern did not extend much further. In Europe and the Netherlands, there was no broad movement such as n the United States. The first Dutch investment product in line with this development was Triodos Bank's Meerwaarde Polis in 1989, in cooperation with Delta Lloyd. In 1993, the ASN Aandelenfonds was the first Dutch capital stock fund that enabled private investors to explicitly opt for social, ethical and environmental criteria.

Since 1995, VBDO (Vereniging van Beleggers voor Duurzame Ontwikkeling = Association of Investors for Sustainable Development)[156] asks questions on shareholders' meetings on sustainability. VBDO has a large numbers of Dutch institutional investors and asset managers as members, in addition to individual members. VBDO also researches the level of sustainable investment by pension funds, insurers, charities, churches, etc. Recently VBDO has entered the field of sustainable investing and private equity.

Since 1999 the pensions sector has, at the initiative of the trade unions discussed the subject. In 2007 an investigative reporting television programme revealed that pension funds were investing in cluster munitions and other controversial weapons. The evolution of the responsible investment market in the Netherlands continues to be influenced by the focus on cluster munitions and other controversial weapons. Most exclusion policies now still begin with excluding these controversial weapons.

As a result of this television broadcast the Dutch pensions industry published a 75-page SRI investment policy document on November 14, 2007[157]. The report was focused on pension fund boards wishing to know more about SRI and handing them tools for implementation of a policy. The report stated that every pension fund board was responsible for its own investment policy, including SRI. The VBDO has published its annual benchmark report on the responsible investment policies of pension funds since 2007.

In July 2009 the Dutch Fund and Asset Management Association (DUFAS) published a follow up on the pension industry report, providing tools to asset managers to help investors design and execute their SRI policy.

In late 2015 the Dutch Central Bank announced that it would be inquiring about stranded assets policies of financial institutions, but also about policies with regard to responsible investing generally.

9. NORWAY

9.1. Legal framework

In Norway, there is no specific legal framework regarding RI. However there are mainly three approaches used by fund managers.

1. No specific ethical guidelines: This approach comprises fund providers which do not at all or only in a limited way refer to ethics or other forms or normative restriction for their investments.

2. Supplementary ethical guidelines: This includes fund managers that do not offer any ethical or environmental funds. However the management companies following this approach make clear (i.e. on their websites) the way in which they evaluate and handle companies that consciously violate fundamental human rights or damage the local population, environment or the chosen form of government in their home country. In addition these fund managers avoid unnecessary economic risk by investing in companies that through their activities may incur significant and unwanted liabilities due to health related claim, legislative changes and environmental abuse. Normally these issues will be considered as part of a thorough analysis before the fund manager invests in a new company. In the evaluation of companies in this context, their intentions shall count more than the companies' record.

3. Ethical Guidelines for the Government Pension Fund Global (GPFG): This approach is primarily related to the welfare state and the creation of the GPFG which is managed by the Norges Bank Investment Management (NBIM) on behalf of the Ministry of Finance, which owns the fund on behalf of the Norwegian people. The Ministry determines the fund's investment strategy, following advice from among others NBIM and discussions in Parliament. The GPFG is strictly regulated by the Government Pension Fund Act no. 123 of 21 December 2005 and the Regulations of 22 December 2005 no. 1725 regarding the management of the GPFG.

The original ethical guidelines for the GPFG have recently been replaced by two sets of guidelines: one on work linked to exclusion and observation of companies and one for Norges Bank's work on responsible management and exercise of ownership rights. Funds that follow this approach used these guidelines as their benchmark when investing and offer ethical and environmental funds[158].

9.2. Private sector initiatives

The Norwegian Forum for Sustainable and Responsible Investments (NORSIF) is an independent, neutral forum which promotes work and cooperation in sustainable and responsible investment. NORSIF's focus areas are:

- Collect and disseminate information on sustainable and responsible investing
- Promote and coordinate sustainable and responsible investment initiatives
- Contribute to the development and exchange of new information on sustainable and responsible investing
- Be a forum for sustainable and responsible investors and asset managers, as well as for others interested in sustainable and responsible investing
- Initiate research on responsible investment

10. PORTUGAL

10.1. Legal framework

In Portugal there is no specific legal framework regarding responsible investment, despite the existence of some disperse provisions related to this subject.

In relation to collective investment schemes, Portuguese Law establishes the need to disclose in the Fund Rules, as well as in the Key Investor Information Document, details related to the investment policy of the Fund, its objectives and any specialisation in terms of geographical or industrial sectors or any type of asset. This type of requirement is also foreseen in the Key Investor Information Document applied to individual subscription to Open Pension Funds.

As for companies, the Portuguese Commercial Company Act demands that the annual report contains a description of the evolution of the company's business, its performance and market position, as well as a description of the main risks and uncertainties to which it shall be subject. To the extent that it is necessary to understand the evolution of the business, its profits and market position, the analysis must include both financial issues as well as, whenever appropriate, reference to relevant performance issues of a non-financial nature, such as environmental and labour related issues.

Regarding the social investment perspective, the requirements and conditions laid down in Regulation (UE) n. ° 346/02013 for European Social Entrepreneurship Funds ("EuSef") were integrated in the Portuguese legislation, in March 2015, as part of the revision made to the Private Equity Regime. In this field, the Supervisory Authority has also issued further regulation about these investment funds that pursue positive social impacts as their main focus.

10. 2. Private sector initiatives

Acknowledging the growing importance of responsible investment in the international agenda, APFIPP promoted a special session for its Members, in 2014, about this important subject, providing them a view of the European landscape on Environmental, Social and Governance factors and their impact on the companies' financials. More recently, further action about this matter lead to the organisation, in April 2016, of a Conference about "Socially Responsible Investment", addressing SRI status and its evolution in Europe, as well as the challenges that are being experienced in this area. This initiative gathered, as speakers, representatives of the Portuguese Securities Market Commission, Eurosif, Spainsif and several national and European market players.

11. SPAIN

11.1. Legal framework

In Spain, no legal requirements are put on investment funds in relation to responsible investment. For the moment, inclusion of information on the ESG criteria is to be provided on a voluntary basis, as there is no obligation to inform on ESG criteria legally foreseen. Being an issue driven mainly by client demand, ESG investment funds are interested in including said information. This information is always publicly available and any prospective investor can read it before investing.

Notwithstanding, for pension funds there is a different regime applicable to occupational pension plans and to personal pension plans.

According to article 69.5 of Royal Decree 304/2004, occupational pension plans must disclose whether they take into account ESG criteria or not in their investments, and where ESG criteria are applied, the procedure to follow in order to implement, manage and monitor ESG criteria and the fund ratio invested in ESG factors. Besides, occupational pension funds must disclose extra-financial risk between different assets within the portfolio, among others:

a. The specific principles applied in order to consider the existence of extra-financial risks in an investment including ESG issues.
b. The pension fund assets classes on which the analysis is carried out regarding the consideration of non-financial risks.
c. The minimum percentage of the portfolio invested in assets that take into account extra-financial risks.
d. The procedure for the implementation, management and monitoring of defined principles. They should specifically note the measures provided for verification in order to comply with the specific principles defined in the fund's investments that take into account extra-financial risks.

On the other hand, personal pension plans must inform on ESG criteria only when they apply them. In this case, the aspects to be informed are the same as those legally foreseen for occupational pension plans.

11.2 Private sector initiatives

INVERCO, the Spanish Association of Investment and Pension Funds, promoted the Responsible Investment Circular 1999 refreshed by Responsible Investment Circular 2014 (SRI Circular, hereinafter) in order to define the application of ESG criteria on investment funds.
According to SRI Circular, only those Collective Investment Schemes (CIS) fulfill the mandatory requirements may include in its name the particle "ESG", "RI" or equivalent. These requirements are as follows:

1. Responsible investment policy criteria

A CIS has a responsible investment policy when the assets of its portfolio or the most of them comply with ESG issues. ESG criteria must be reflected in the fund prospectus.

2. Determination of eligible assets for ESG product

Identifying eligible assets for CIS with ESG investment policy is based on two analysis:

- Financial analysis, to identify and evaluate the most suitable assets from a financial point of view

- The extra-financial analysis, to identify and assess ESG practices of different assets

3. Warning advertising messages

For the purpose of avoiding misleading advertising, it is mandatory to include in publicity messages the sentence: "Please refer to the prospectus the environmental, social and governance criteria (ESG) of the Fund or Entity" and provide a reference to the fundamental questions that define ESG criteria of the investment fund policy.

4. Information to be disclosed

Regarding the information to be disclosed by investment funds of ESG policy, it is distinguished by:

- Key Information Documents (KID): Those CIS with ESG policy must include in the paragraph "Objective and investment policy" the statement: "This CIS applies ESG criteria in its investment policy".

- Fund Prospectus : investment managers must disclose the most fundamental information of the CIS with ESG policy:
  - » Whether they take into account ESG criteria or not in their investments, where ESG criteria are applied, the guidelines or recommendations they are based on.
  - » Detailing how the analysis is structured: the tools and resources applied, and information about which assets are affected by the ESG analysis.

- Quarterly/biannual reports: The fund managers will inform the most important aspects developed during the period, regarding the ESG policy, such as:
  - » Communication to the investors about the changes in the investment policy related to ESG criteria.
  - » Affected assets by the ESG policy and their influence on the fund portfolio.
  - » Information about politics rights: how to vote and proxy advisors used.
  - » The existence, just in case, of audits, certifications, verifications or independent label.
  - » Commitments, initiatives and ESG networks in which fund manager participates.

12. SWEDEN

Responsible investment has been applied to Swedish investment portfolios for more than three decades. An early adapter was the Church of Sweden, who started with a negative screening approach in 1980. Since then analysis models used has evolved from a focus on negative screening to more of a positive sustainability approach. RI got a boost around the millennium shift when the government proposed that the national pension funds should consider ethical issues and the environment in its investments. Institutional investors have been the primary driving force and today it is not possible for an asset manager to gain an institutional mandate without having some kind of RI policy. In the Swedish government proposition 1999/2000:46 on the AP funds in a reformed pension system it was stated that "environmental and ethical issues shall be considered in the investment activity [of the national Swedish pension funds 1-4] without wavering the overall purpose of good returns". Although the sentence above never entered into law, preparatory work is very important in Swedish legal tradition and the statement has had significant impact not only on governmental management but on fund management in general.

12.1. Legal framework

No legal requirements are put on private institutional investors and asset managers in relation to RI in Sweden. However, in 2015, the government launched a committee of inquiry to investigate how information about RI from Swedish fund companies can be improved. The investigation will publish its report in June 2016.

The Swedish financial market shows a high degree of self-regulation. One part of that self-regulation is the Ethical Marketing Committee for Funds ('ENF'), a body whose task is to prevent misleading marketing of investment funds. In 2009 the committee issued new rules targeting funds that include RI as part of the value proposition. In 2015, ENF updated the statement and clarified the requirements for the marketing of funds as responsible or sustainable. According to the statement, seven requirements must be met for the marketing of funds to be allowed to contain expressions and formulations that somehow emphasizes that the fund invests sustainably. According to the statement all fund managers that market their funds as sustainable or responsible in Sweden are required to, as a minimum obligation, sign PRI or another corresponding initiative.

Other requirements in the statement are:

- that fund managers marketing their funds as sustainable in Sweden must have a well-defined process for selecting its investments,
- that the fund manager clearly and in and easily accessible manner must publish, among other things, the investment policy of the fund including information on selection criteria,
- how the process is ensured and controlled, and
- that the management company shall, at least once a year, report on how the investment policy has been complied with and if any deviations has occurred.

The statement has been incorporated into the guidelines of the Swedish Investment Fund Association and is considered best practice for marketing of funds in Sweden. The main difference compared to previous best practice is that those fund managers who market their funds as sustainable must sign PRI or another corresponding initiative. Currently 29 of the Association's 43 member companies, either directly or through group affiliation, has signed up to the six principles for responsible investments of the UN's PRI initiative.

Another initiative launched in December 2015 is the requirement for all fund management companies to draw up a sustainability review that describes how the fund management company works with sustainability issues and with concrete examples of practical work in this area over the preceding year. The requirement has been incorporated into the Association's guidelines. The sustainability review must be updated annually

and shall be easily accessible on the fund management company's website. The Association has published a manual that includes a template for structuring the sustainability review. The aim of the review is to increase the transparency and comparability of fund management companies' work with sustainability issues. The sustainability review requirement comes into force as of the 2016 operating year, i.e. the first review must be published no later than March 2017. Earlier publication is voluntary.

12.2. Other private sector initiatives

In the retail space most major fund management companies today offer RI funds. Sweden's sustainable investment forum, Swesif, in December 2010 launched a SRI profile for usage on a fund level. The purpose of this initiative is to establish a market standard for investor information on funds with RI features. The profile describes which criteria are used in the fund's investment process to include or exclude companies on the basis of ESG factors as well as on what basis the asset manager of the fund try to impact companies the fund invests in.

In 2013 it became mandatory for those funds that want to be labelled as RI-funds in the governmental premium pension system to publish the profile. Through the Swedish Investment Fund Association's manual for Key Investor Information Document fund companies are recommended to refer to the profile in their Key Investor Information Document.

In the spring of 2016, the Swedish Investment Fund Association introduced a recommendation on how to calculate the carbon footprint of the fund. A low number means the fund is largely invested in companies operating a low-emissions business relative to their revenues. The recommendation is purely voluntary and intended for those companies already publishing their carbon footprint. The work continues, however, and reporting will be further developed as the data and methods evolve. The figure will be reported on the fund company's website, in the fund's annual report or in a special report, together with an explanatory text which clarifies the limitations within the reporting. The figure is not intended to be used in marketing to retail investors, but could be a starting point for dialogue between clients and fund companies. The figure can also be analysed and used by advisors and businesses that rank funds based on different sustainability criteria.

In relation to governance, the Swedish Investment Fund Association introduced new recommendations in its guidelines for investment funds as shareholders (the Swedish stewardship code) relating to responsible investments in 2014. The Swedish Investment fund Association recommends all fund companies to include in their corporate governance policy the fund manager's principles for working with environmental issues, social responsibility and governance. Fund companies are also recommended to ensure that companies in which the investment funds invests are operated in a sustainable and responsible manner, have a Board of Directors with a balanced composition with regard to competence, versatility and gender balance and otherwise comply with the requirements laid down in the Swedish Code for Corporate Governance. The Association recommends that the fund manager always strives to ensure that companies in which the fund invests act in accordance with relevant codes and guidelines and otherwise in accordance with good practices in the stock market, and report the company's work on environmental issues, social responsibility and governance.

13. SWITZERLAND

13.1. Legal framework

Article 73 of the Swiss Constitution refers to sustainable development, but it does not specifically extend to investment activities. Since 2002, based on the national law ruling occupational pension funds, pension funds must declare whether or not they exercise their voting rights. However, overall and to this date, there is no coherent framework, legal or other, neither for companies nor for asset owners and managers to consider, disclose or report specifically on ESG aspects.

Nevertheless, the RI, and particularly the 'governance landscape' in Switzerland is currently being reshaped by several political initiatives: on 3 March 2013, the Swiss approved an initiative giving more rights to shareholders, by among other things giving them a binding say on executive pay, banning golden hellos as well as parachutes and introducing annual re-election for directors. The initiative also stipulates the introduction of mandatory voting for Swiss institutional investors. Some other more radical advances supported by the political left are in the pipeline. They aim to curb max/min salary dispersion down to a ratio of 12:1, and also ask for a much stricter regulation of commodity trade and commodity trade finance, as well as an outright ban on 'speculation' in soft commodities, which – allegedly – increase volatility and the level of food prices. Although, at this point in time, these initiatives are believed to have a much lower chance of going through, the public discussion surrounding these postulates will almost certainly heighten the awareness for issues of corporate governance and financial responsibility in general, and thus are not unlikely to trigger eventual further and voluntary developments in this direction.

Another landmark development with likely tangible consequences for investment is the International Convention on Cluster Munitions (CCM) that Switzerland, too, ratified in 2012. On 1 January 2013, the Swiss Federal Act on War Materials came into effect and applies to Swiss companies globally. The Act bans the use, stockpiling, production and transfer of cluster munitions and anti-personnel mines, as well as the direct and indirect financing of these controversial weapons. The law follows Switzerland's ratification of the Convention on Cluster Munitions (known as the Oslo convention of 2010) in 2012. The law prohibits banks from providing credit facilities to and conducting capital market transactions for companies involved in developing, producing or purchasing such controversial weapons ("affected companies").

As opposed to some other European countries such as Belgium and The Netherlands, Switzerland do not intend to come up with an 'official' list of companies ineligible for investment. The identification of respective companies is considered to be the business of banks and other financial institutions. Many banks have already adopted their own policies or black lists in this regards.

13.2. Private sector initiatives

Corporate governance codes or guidelines have been published by the Swiss Stock Exchange for listed companies and the "economiesuisse", the largest umbrella organisation representing the Swiss economy based/inspired largely by OECD standards. An influential private sector initiative is the Geneva-based Ethos foundation. Originally created by two large public pension funds, it currently consists of over 100 Swiss-based institutional investors interested in RI. Ethos has been promoting active ownership and better ESG standards since its inception in 1997, and its influence in the investment community has been growing steadily. Development of RI in Switzerland has been primarily private sector and supply-side driven. The financial industry in Switzerland has been very innovative in developing RI investment products since the early 1990s and several of Europe's leading RI asset managers and index providers can be found among Swiss financial service providers (Pictet, Sarasin, SAM etc.). Apart from some information platforms on RI investment vehicles powered by NGOs and for profit organisations, there is no official Swiss labelling scheme or project in the RI field. However, all the major providers adhere to the Eurosif transparency guidelines for

retail funds and some of them have gone for the Novethic SRI label in France. In general, therefore, quality and transparency regarding RI products is rather good due to the relatively long experience of the Swiss players, their intense competition and the high level of scrutiny from clients, the media and the public that RI investment are faced with. The active RI market in Switzerland has also led to the early establishment of independent RI rating agencies (Centre Info, Inrate) and the early build-up of in-house RI research teams within the financial industry. More recently, a centre of excellence for research on finance and development (CFD) was created at the Graduate of International and Development Studies (IHEID) in Geneva. The main goal of this centre is to increase the share of competences between international finance and development studies.

According to Eurosif, the latest figures for the Swiss RI AuM (all strategies taken together, net of double counting) amounted to CHF 440 bn at the end of 2011. Unlike in most other European countries, where a high percentage of RI AuM is in overlay strategies such as normsbased screening, engagement or voting, the SRI market in Switzerland is still dominated by focused and actively managed approaches such as 'best-in-class' or environmentally-themed funds. Of the overlay strategies, proxy voting has experienced the largest growth lately, but this is, at least in part, certainly also due to the new UCITS 4 rules that mandate active exercise of voting rights. Another differentiating feature of the Swiss RI market is its high proportion of retail investors versus institutional investors (approximately 50%:50%), whereas this ratio is very heavily skewed in favour of institutional investors in most other European countries.

Furthermore, Switzerland is member of the Forum Nachhaltige Geldanlagen (FNG) which is an industry association promoting sustainable investment in Germany, Austria and Switzerland.

14. UNITED KINGDOM

14.1. Legal framework

Asset Managers: Since December 2010, it is a requirement of the FCA's Conduct of Business rules that all UK-authorised asset management firms must disclose the nature of their commitment to the UK Stewardship Code (see below) or explain their alternative investment strategy in instances where they have opted not to follow the principles in the Code.

Pension Funds: The Pensions Act 1995 includes a requirement that pension funds with at least 100 members must maintain a statement of investment principles (SIP) which states the funds' investment policy and principles governing its decisions about the investment of fund money.

UK Local Authority pension funds must adhere to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. This states that the SIP must include the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments. The terms of appointments of external fund managers include a provision that the fund manager must take account of, and shall not contravene, this Statement in undertaking its management role.

Private pension funds comply with the Occupational Pension Schemes (Investment) Regulations 2005. This does not set out any requirements in relation to RI.

14.2. Private sector initiatives

Stewardship Code: In July 2010 the UK Financial Reporting Council ('FRC') published a stewardship code to set out best practice for institutional investors with regard to exercising their stewardship responsibilities in relation to the UK listed companies in which they invest[159]. It includes principles and guidance for best practice in the following areas:

- Disclosure of a policy on stewardship
- Conflicts of interest
- Monitoring
- Escalation
- Collective engagement
- Voting and disclosure
- Reporting

Institutional investors are expected to "comply or explain" against the principles and to publish their policy in this area on their website. The FRC publishes links to all responses on its own website[160]. As at July 2016, there are currently 196 asset management signatories, 87 asset owner signatories and 14 service provider signatories who have published their policy on compliance with the Code.

FRC Tiering: The FRC announced in December 2015 that it will be reviewing the responses of all signatories to the Stewardship Code and assessing their reporting against the Code and making this assessment public. Signatories will be placed in one of two tiers:

Tier 1: meeting reporting expectations in relation to stewardship activities
Tier 2: not meeting these reporting expectations.

The FRC stated in its announcement that firms will be contacted and given feedback prior to the public assessment to allow signatories to make improvements and engage with the FRC. The final tierings will be announced later in 2016.

Annex 4
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Annex 5
Useful links

- Report of the World Commission on Environment and Development: Our Common Future (Brundlandt report)
- Freshfields Bruckhaus Deringer, A legal framework for the integration of environmental, social and governance issues into institutional investment ("Freshfields report")
- Mercer Investment Consulting, The Language of Responsible Investment, An industry guide to key terms and organisations
- Pocantico Declaration on transparency in microfinance
- Mark Carney, Governor of the Bank of England, speech at the Conference on Inclusive Capitalism in London, entitled Inclusive capitalism: creating a sense of the systemic.
- UK Law Commission, Fiduciary Duties of Investment Intermediaries. The UK Law Commission "looks at the investment market through the lens of pensions. It considers how fiduciary duties currently apply to those working in financial markets, and clarifies how far those who invest on behalf of others may take account of factors such as social and environmental impact and ethical standards."
- Proposal for UN Sustainable Development Goals (SDGs) (UN document A/68/970).
- UK Law Commission, Social investment by charities.
- KPMG, The Business Codes of the Fortune Global 200.
- CSR-Europe, European Business Network for Corporate Social Responsibility
- Environmental, Social, and Governance Factors at Listed Companies, A Manual for Investors, CFA, 2008.
- Environmental, social, and governance issues in investing, A Guide for Investment Professionals, CFA Institute, 2015.
- M. Viehs, Understanding ESG investing: fundamentals and implementation, CFA Institute Conference Proceedings Quarterly, Third Quarter 2015, pp. 56-63.

Annex 6
Notes

1 European Parliament (2013), para 21.
2 An excellent start was made by Mercer (2008).
3 Monitor Institute, 2009, p. 11.
4 Sandberg, Juravle, Hedesström and Hamilton (2009) offer "at least three explanations which […] can account for the heterogeneity [of RI …]: cultural and ideological differences between different regions, differences in values, norms and ideology between various SRI stakeholders, and the market setting of SRI".
5 Which is probably why the OECD in 2012 found it difficult to find agreement on what an accepted definition of 'green' investing is See Inderst, Kaminker and Stewart (2012).
6 Mercer has rated over 6,000 different ESG investment strategies. See Mercer's ESG ratings surpass 6,000 strategies (accessed August 26, 2015).
7 The terms 'investment style' and 'investment belief' are used interchangeably. But Koedijk and Slagter (2007) developed a theoretical framework for investment beliefs and counted 'investment style' as an 'investment belief'. They define an 'investment belief' as "an observation of a mechanism of human behavior in the financial market place […] There is usually a judgmental element included in this". According to Koedijk and Slager 'investment theory' argues whether there is a theoretical basis behind the investment belief. The next step is an 'investment strategy', which describes how the investment belief can be exploited and finally there is the organization which has to execute a trading strategy tailored to the investment strategy. These four elements Slager and Koedijk call an 'investment belief system'. They define 'investment philosophy' as "the collection of investment beliefs that the asset management organization considers part of its added value". Koedijk and Slager (2009) give examples of investment beliefs, such as market (in)efficiency, risk premium, risk diversification, investment horizon, focus on asset allocation, risk management in the implementation and monitoring of the investment process, cost focus, organizational beliefs, in/outsourcing, corporate governance, and sustainability. See also Koedijk and Slager (2010) which gives the following additional examples long term investing, diversification, active management, passive management and innovation.
8 Examples of investment styles are active vs. passive, growth vs. value, small cap vs. large cap, equity vs. bonds, dividend investing, momentum investing, fundamental analysis, technical analysis, contrarian investing, thematic investing, concentrated vs diversified investing. For hedge funds Eichengreen and Mathieson (1998) give as possible investment styles 'global' 'macro', 'market-neutral', event-driven', 'sector', 'short sales', 'long only', and 'fund of funds'. There are no generally accepted descriptions of what the difference is between an 'investment belief' and an 'investment style' and the terms are used interchangeably. See Koedijk and Slager (2009) and Koedijk, Slager and Bauer (2010).
9 KPMG (2015).
10 PRI Report on Progress 2014, p. 6.
11 PRI itself says this.
12 PRI Report on Progress 2007, p. 7.
13 KPMG (2015).
14 Eurosif, European SRI Study 2014.
15 Global Sustainable Investment Review 2012 and Global Sustainable Investment Review 2014.
16 Global Sustainable Investment Review 2014, p. 7. The 58.8% 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 (…) however, (…) this figure is not used in the European study as there is no single European definition for sustainable investing".
17 ESG issues in investing: investors debunk the myths, CFA Institute, 28 October 2015. See also M. Viehs, Understanding ESG investing: fundamentals and implementation, CFA Institute Conference Proceedings Quarterly, Third Quarter 2015, pp. 56-63 and C.M. Klein, Integrating ESG into the fixed-income portfolio, CFA Institute, CFA Institute Conference Proceedings Quarterly, Fourth Quarter, 2015, pp. 1-8.

18 Communication from the Commission, A renewed EU strategy 2011-14 for Corporate Social Responsibility, Brussels, 25.10.2011, COM(2011) 681 final. The Commission says that "the number of EU enterprises that have signed up to the ten CSR principles of the United Nations Global Compact has risen from 600 in 2006 to over 1900 in 2011".

19 Nevertheless, on the other side of the coin, UNCTAD have proposed to make rules of conduct for sovereign lenders as well as sovereign borrowers. See Buchheit and Mitu Gulati (2010).

20 The International Integrated Reporting Framework, IIRC, December 2013, p. 4.

21 See the website of the GRI.

22 GRI annual report, 2015.

23 See the SASB website. In 2010, researchers at the Initiative for Responsible Investment (IRI) at Harvard University began researching non-financial materiality and its application at an industry level. The results were published in August, 2010, as From Transparency to Performance.

24 The SASB website provides standards for health care industries (biotechnology, pharmaceuticals, medical equipment & supplies, health care delivery, health care distributors, managed care); financials (commercial banks, investment banking & brokerage, asset management & custody activities, consumer finance, mortgage finance, security & commodity exchanges, insurance); technology & communication industries (electronic manufacturing services & original design manufacturing, software & IT Services, hardware, semiconductors, telecommunications, internet media & services); non-renewable resources industries (oil & gas exploration, production, midstream, refining, marketing and services, coal operations, iron & steel producers, metals & mining, construction materials); transportation industry (automobiles, parts, rental and leasing, airlines, freight and logistics, marine, rail and road transportation); services (education, professional services, hotels & lodging, casinos & gaming, restaurants, leisure facilities, cruise lines, advertising & marketing, media production & distribution, cable & satellite); resource transformation industries (chemicals, aerospace & defence, electrical & electronic equipment, industrial machinery & goods, containers & packaging); consumption industries (agricultural products, meat, poultry & dairy, processed foods, non-alcoholic beverages, alcoholic beverages, tobacco, household & personal products).

25 See the first Newsletter the IIRC produced.

26 See the IIRC website.

27 UNEP-FI/PRI (2015), p. 11.

28 Freshfields (2005) examined the legal frameworks in Australia, Canada, France, Germany, Italy, Japan, Spain, the UK and the US. In contrast with the traditional view of fiduciary duty, the Freshfields report presents three sorts of circumstances where it is argued that taking ESG concerns into account is either permissible or obligatory for institutional investors (pp. 10 13). Firstly, choosing investments on the basis of their ESG characteristics is permissible when deciding between investments with exactly similar financial characteristics. Secondly, taking ESG concerns into account is obligatory when such concerns are financially relevant – that is, when they can reasonably be expected to have an impact on its financial performance or valuation. Thirdly, trustees/fiduciaries to some degree have an obligation to consider certain non financial interests of their beneficiaries, but only if this could be reasonably expected to be unanimously supported by the beneficiaries. Sanders (2014) explains that the word "fiduciary" comes from "fiducia," the Latin word for "trust." As a legal the word "fiduciary" refers to a person who acts for the benefit of another. A fiduciary duty is a duty to act with the highest degree of honesty and loyalty toward another person and in the best interests of the other person. Agents are fiduciaries to their principals. See also for example Gary (2015). See for a critical evaluation of the Freshfields report Sandberg (2010). See for an alternative approach Lydenberg (2014) who argues an interpretation of fiduciary duty that existed before neoclassical liberals reinterpreted it to mean the fiduciary should only financial performance, that existed "drew on a conception of prudence characterized by wisdom, discretion and intelligence, one that accounts to a greater degree for the relationship between one's investments and their effects on others in the world. The reasonable approach allows fiduciaries to a greater degree to assess the objective well-being of beneficiaries, to recognize fundamental sources of investment reward in the economy, and to fulfill their obligations to allocate benefits impartially between current and future generations. Reason and rationality can work in a complementary fashion to make investment long-term in its perspective and beneficial to society and the economy as well as to specific funds or portfolios. Determining how to accomplish this challenging task is part of the obligation of fiduciaries as they seek to realize the full potential of the investment assets entrusted to their care".

29 UNEP-FI/PRI (2015), p. 12-14.

30 The Freshfields report itself gives just one example, namely climate change (p. 11). Some argue that the prudent man principle, which is part of fiduciary duty, focuses more on the process of decisions rather than their outcomes, as measured exclusively by rate of return. See for example Martin (2009).

31 When RI is neutral from a financial performance perspective, this leads some observers to suspect that, where this is the case, RI is not real but just a marketing gimmick. Empirical scientific research has refuted this suspicion, see for instance Benson, Brailsford and Humphrey (2006), who find "that SRI funds exhibit different industry betas consistent with different portfolio positions, but that these differences vary from year to year. It is also found that there is little difference in stock-picking ability between the two groups of fund managers".

32 See p. 81-83 of UNEP-FI/PRI (2015). The 54 stakeholders interviewed include 26 persons from 20 asset managers or pension funds, 14 people from 10 governmental organisations (mostly financial sector regulators), 11 law experts and 4 people from pressure groups.

33 UNEP-FI/PRI (2015), p. 15.

34 Borgers and Pownall (2014) find that "[Dutch] institutional investors invest billions of dollars on behalf of investors whilst knowing little about investors' social preferences. […] we find significant variation in attitudes towards proposed social investment screens. Although individuals are able to express their attitudes towards social investment criteria they have difficulties making financial decisions while simultaneously taking their non-financial preferences into account. […] we show that the majority of beneficiaries derive positive utility from environmental and social pension investment screens and that expressing a positive attitude towards screened pension investments is the most important driver of this effect.

35 UNEP-FI (2009).

36 Resource Efficiency and Fiduciary Duties of Investors, European Commission, DG Environment, produced by Ernst & Young Cleantech and Sustainability Services (France) on behalf of the European Commission.

37 PRI provide a Global ESG Regulatory Mapping document.

38 PRI provide a document with Examples of ESG-related codes and standards which are relevant for both issuers and investors.

39 Also in ESG indices, ratings and data providing agencies, methods vary. See Escrig-Olmedo, Munoz-Torres and Fernandez-Izquierdo (2010).

40 There are many accounting organisations who define 'materiality', and they all define it more or less the same way. The IASB says "Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity" (IASB 2010, 17). ESMA describes the concept of 'materiality' the same way (see ESMA/2011/373) and so does the US Securities & Exchange Commission (see the SEC Staff Accounting Bulletin 99). See also Amel-Zadeh (2015).

41 Corbett (2015) calls non-financial return a 'psychic dividend' (p. 133).

42 COM(2011) 681 final, p. 7.

43 The Dutch Association of Investors for Sustainable Development (VBDO) has published a report entitled Duurzaam Sparen en Beleggen 2013, Keuze te over! in which VBDO say that changing government policy regarding tax treatment of 'green' investments has had adverse effects on the green savings- and investment market, because withdrawal of investors led to liquidations of ventures and projects. Scholtens (2005) found "that special tax regulation can be held responsible for more than half of the growth in socially responsible savings and investments [in the Netherlands] during the period 1995-2001. It has resulted in socially and environmentally worthwhile projects that would otherwise not have had access to finance. Furthermore, it appears that investors in the Netherlands are sensitive to changes in the underlying regulation. However, an important fraction of the investors is likely to keep their investments if the favourable tax treatment were to be abandoned." Scholtens (2007) also finds that "in the Netherlands, tax policy significantly affects financial results and the government can affect the CSR impact of some financial instruments too."

44 Unfortunately the review of the impact of the directive by the Commission is provided for two weeks later, on November 27, 2015, (art. 5 of the directive).

45 The Council of Ministers is proposing to delete the whole provision (see file 2014/0091 (COD), 12278/14 and 15901/1/14). The Greens have suggested (amendment 707) to expand the article with transparency on stranded assets (see the draft report by Brian Hayes, MEP, of October 20, 2015).

46 Sandberg, Juravle, Hedesström and Hamilton (2009) noted that "many writers have commented on the

heterogeneity of the socially responsible investment (SRI) movement." They "distinguish between four levels on which heterogeneity can be found: the terminological, definitional, strategic and practical." Whilst acknowledging there is much talk about the definitional ambiguities of SRI, they "suggest that there is actually some agreement on the definitional level". They offer "at least three explanations which […] can account for the heterogeneity […]: cultural and ideological differences between different regions, differences in values, norms and ideology between various SRI stakeholders, and the market setting of SRI". They "suggest that there is reason to be sceptical about the possibilities of standardisation if not standardisation is imposed top-down. Whether this kind of standardisation is desirable or not, we argue, depends on what the motives for it would be. To the extent that standardisation may facilitate the mainstreaming of SRI, it could be a good thing – but we entertain doubts about whether mainstreaming really requires standardisation."

47 See for example Hoepner, McMillan and Fraser (2009).

48 The European Commission's legislative proposal for a Directive amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement and Directive 2013/34/EU as regards certain elements of the corporate governance statement has taken steps to encourage greater reporting by the asset owner (2014/0121 (COD), COM(2014) 213 final)).

49 CalPERS is maintaining one of the largest databases on research into RI. See CalPERS Sustainable Investment Research Initiative, Review of evidence: database of academic studies, Compiled by UC Davis Graduate School of Management, 2013. An older database is www.sristudies.org.

50 Most research on RI and performance focuses on equity, not bonds. Research focusing on sovereign bonds and RI is even more rare. Derwall and Koedijk (2009) find "that the average SRI bond fund performed similar to conventional funds, while the average SRI balanced fund outperformed its conventional peers by more than 1.3% per year. The expenses charged by SRI funds, match those charged by conventional funds and, evidently, do not cause SRI funds to underperform". Drut (2010) shows that "for a global rating of socially responsible performances, we show that it is possible to build portfolios with an increased average rating without significantly harming the risk/return relationship." Weber, Scholz and Michalik (2010) find that "sustainability criteria can be used to predict the financial performance of a debtor and improve the predictive validity of the credit rating process. We conclude that the sustainability a firm demonstrates influences its creditworthiness as part of its financial performance". Bauer and Hahn (2010) find "that (i) environmental concerns are associated with a higher cost of debt financing and lower credit ratings, and (ii) proactive environmental practices are associated with a lower cost of debt. The results are robust to numerous controls for company and bond specific characteristics, alternative model specifications, and industry membership". Hoepner and Nilsson (2015) find "that overall, the SRI funds in our sample perform 0.23% per annum better than conventional funds, although not by a statistically significant amount. On average, the SRI funds in our sample also displayed higher average return, lower risk, and higher reward to risk ratios than conventional funds. We also found that those SRI funds investing in a mix between corporate and government bonds perform significantly better than pure SRI corporate and government bond funds. In addition to this, we found that US funds performed significantly worse". Clark and Viehs (2014) conclude from their literature study that "a better CSR quality, and in particular better environment management and corporate governance standards, can lead to lower cost of debt". See also C.M. Klein, Integrating ESG into the fixed-income portfolio, CFA Institute, CFA Institute Conference Proceedings Quarterly, Fourth Quarter, 2015, pp. 1-8.

51 Also in terms of performance persistence responsible investing doesn't seem to distinguish itself. See Das and Uma Rao (2014).

52 Most scientific research in the field of responsible investment is about financial performance. Capelle-Blancard and Monjon (2012) comment that "this profusion of research is somewhat puzzling as most of the studies used roughly the same methodology and obtained very similar results. So, why are there so many studies on SRI financial performance? We argue that the academic literature on SRI is mostly data driven: the famous 'looking for the keys under the lamppost' syndrome." The expression 'looking for the keys under the lamppost' is an example of 'observational bias': looking for whatever one is looking for where it is easiest and not necessarily everywhere where it might be or looking where you think you will find confirmation of your theory and not anywhere else.

53 While there is research which contradicts or puts into doubt the RI investment belief, those studies usually involve screening strategies. See for example the overview of studies in UNEP-FI (2007).

54 Griffin and Mahon (1997) conclude "The results indicate that the a priori use of measures may actually predetermine

the CSP/CFP relationship outcome." Galema, Plantinga and Scholtens (2008) find that "socially responsible investing (SRI) impacts on stock returns by lowering the book-to-market ratio and not by generating positive alphas. Our result is consistent with the theoretical work suggesting that SRI is reflected in demand differences between SRI and non-SRI stock. It also explains why so few studies are able to establish a link between alpha's and SRI". Rathner (2012) finds that the most studied time period is 1991-2000, half the studies concern the USA, three quarters find neutral results for RI and survivorship bias is an important factor. See also Rather (2013a). Chow, Durand and Koh (2014) find "that there are positive and statistically significant long-run abnormal returns for firms being included in the MSCI KLD400 Social Index. These abnormal returns are associated with higher shareholdings by institutional investors (who are subject to higher public scrutiny), higher analyst coverage and higher growth opportunities." Tebini, M'Zali, Lang and Méndez-Rodríguez (2014) say "Different factors explaining divergent results on the relationship between corporate Social Performance (SP) and Financial Performance (FP) can be found in the academic literature. [...] The results of our experimental research show that the estimated relationship depends on the methodological choice. More specifically, the relationship varies according to the measurement of the SP, the measurement of FP and the chosen sample. This relationship is neither stable nor necessarily linear, as many relevant academic works in the literature assume". Revelli and Viviani (2015) conclude that "The results indicate that the consideration of corporate social responsibility in stock market portfolios is neither a weakness nor a strength compared with conventional investments; the heterogeneous results in prior studies largely reflect the SRI dimensions under study (e.g. thematic approach, investment horizon and data comparison method. Hoepner (2015) found in his thesis that "responsible assets with their ceteris paribus under-proportional total risk might appear artificially unattractive when assessed by the most common investment performance measure, the Sharpe ratio, which is biased in favour of high risk assets due to its currently unsolved negative excess return problem. [...]" Dama and Scholtens (2015) found: "Studies that link corporate social and financial performance usually find a positive association between the two. However, the literature does not establish a significant impact of socially responsible investing on stock market returns. [...] We associate corporate social performance with key financial accounting ratios [...]. We conclude that there is a strong theoretical foundation for a positive relationship between corporate social responsibility and financial performance, though the relation is conditional on which financial performance measure is considered". Halbritter, G. Dorfleitner (2015) say that "Although the Fama and MacBeth (1973) regressions reveal a significant influence of several ESG variables, investors are hardly able to exploit this relationship. The magnitude and direction of the impact are substantially dependent on the rating provider, the company sample and the particular subperiod". Shahzad and Sharfman (2015) say their "study confirms the positive impact of CSP on FP."

55 Amenc and Le Sourd (2008) concluded that the performance of the funds was explained by their orientations or style biases and the market cycle. Shalchian, Mzali, Lilti and Elbadraoui (2012a) find "that the relation social-financial performance depends also on the economic cycle and consequently, on the market performance. Socially responsible investments seem to be more popular during bearish market periods and less popular during bullish market periods". Areal, Cortez and Silva (2013) find "that socially responsible and morally responsible funds exhibit different performance across different market conditions, thereby supporting the use of performance evaluation models that take into account different market regimes. Overall, different types of ethical screens seem to lead to different performance patterns across different market regimes". Brière, Peillex and Ureche-Rangau (2014) conclude "SR screening does explain the variability in mutual fund performance, alongside asset allocation and active management. However, the sum of these three components accounts only for 30% of total performance. SR screens matter but, like active portfolio choices, they have a limited impact on total equity fund performance, heavily dominated by market movements." Mattingly (2015) finds "although accounting measures of financial performance were a positive outcome of CSP, the same was not often true of stock returns."

56 Amaeshi (2010) says "CSR, as a complex private governance of externalities, does not easily lend itself to measurability and profitability. In other words, not everything about CSR is measurable and profitable as much as the financial markets would expect."

57 Lopatta, Buchholz, and Kaspereit (2015) "argue that firms which score high on CSR activities build investor confidence and find evidence that they benefit from lower information asymmetry. [...] Using a sample of U.S. firms listed in the MSCI World Index during the period 2004 to 2013 and the firm- and industry-level CSR rating from Global Engagement Service (GES), the authors show that insider transactions in firms with a high score on CSR activities lead to lower abnormal returns."

58 Borghesia, Houston and Naranjo (2014), for example find that "larger firms, firms with greater free cash flow, and higher advertising outlays demonstrate higher levels of corporate social responsibility".

59 Rathner (2012) says survivorship bias of funds is a factor that needs to be considered, because SRI funds more often last throughout a sampled period than do conventional funds. See also Rathner (2013a). Meng-Feng Yen, Jia-Hui Lin and Yu-Ting Sun (2015) conclude: "Although the study shows that portfolios of high CSR-rated companies generate higher average returns from 1991 to 2008 relative to their low CSR-rated counterparts, the difference in returns, after controlling for the four-factor model, is not statistically significant. We find no return premium of CSR-efficient stocks against CSR-inefficient stocks. The results from the four-factor model suggest that portfolios of low environmental ratings, low social ratings and low total CSR ratings tend to generate a statistically significant negative alpha. However, the environmentally differenced portfolio is reported to have earned a significant, positive factor-adjusted return in the future 5th year. This result suggests that SRI can be incrementally profitable over long-run horizons."

60 This would be the case when, for example a large retail distribution chain for food or consumer goods would spend large sums on community work and charity, on the philosophy that many of its stores would not survive if urban disorder would become a regular fact of life.

61 Gil-Bazo, Ruiz-Verdú and Santos, (2010) find "that in the period 1997–2005, US SRI funds had better before- and after-fee performance than conventional funds with similar characteristics. The differences, however, are driven exclusively by SRI funds run by management companies specialized in SRI. While these funds significantly outperform similar conventional funds, funds run by companies not specialized in SRI underperform their matched conventional funds. We find no significant differences in fees between SRI and conventional funds except in one case: SRI funds are cheaper than conventional funds run by the same management company." Derwall, Koedijk and Ter Horst (2011) find that values oriented (ethical) strategies indeed underperform mainstream strategies, whereas profit oriented SI strategies (that seek to make better decisions based on ESG data) actually outperform mainstream strategies. Capelle-Blancard, and Monjon (2014) find that "[…] when the quality of the SRI selection process is proxied by the rating provided by Novethic, its impact is not significant, while a higher strategy distinctiveness amongst SRI funds, which also gives information on the quality of the selection process, is associated with better financial performance.". Morgan Stanley (2015) finds "manager selection is crucial; there is a high dispersion of returns and volatility across the spectrum of sustainable and traditional investment strategies alike."

62 UNEP-FI (2007).

63 Lee and Faff (2009) find "that (1) leading sustainability firms do not underperform the market portfolio, and (2) their lagging counterparts outperform the market portfolio and the leading portfolio. Notably, we find leading (lagging) corporate social performance (CSP) firms exhibit significantly lower (higher) idiosyncratic risk". Mercer (2011a) concluded i.a. that "Traditional approaches to modelling strategic asset allocation fail to take account of climate change risk. […] The 'TIP' framework suggests that climate change policy could contribute […] 10% to overall portfolio risk. […] To manage climate change risks, institutional investors need to think about diversification across sources of risk rather than across traditional asset classes. […] Managing climate change risks could lead to increased allocation to climate sensitive assets […] Investors can take steps now to improve the resilience of their portfolios to climate-related risks". Oikonomou, Brooks and Pavelin (2012) find "that corporate social responsibility is negatively but weakly related to systematic firm risk and that corporate social irresponsibility is positively and strongly related to financial risk. The fact that both conventional and downside risk measures lead to the same conclusions adds convergent validity to the analysis. […] Overall volatility conditions of the financial markets are shown to play a moderating role in the nature and strength of the CSP-risk relationship." Rong Ang and Lean (2013) find "that the SRI funds have higher return during the financial crisis". Leite and Céu Cortez (2015) find that "SRI funds significantly underperform characteristics-matched conventional funds during non-crisis periods, but match the performance of their peers during market downturns. The underperformance of SRI funds during good economic states is driven by funds that use negative screens, since funds that use only positive screens perform similarly to conventional funds across different market conditions. SRI and conventional funds show significant differences in risk exposures during non-crisis periods but exhibit much more similar investment styles during crises. […]." Bourdon and Stack (2015) find that there is "direct relationship between Risk Maturity and organizational resiliency as judged by the relative resilience of an organization's stock price" (p. 5) and "researchers have continued to find a strong statistical correlation between risk maturity and reduced stock price volatility. This further validates the findings that

advanced risk management practices are one of the factors that smooth out volatility in an organization's stock price. During the period June 2014 – June 2015, researchers found a stronger correlation between the two factors than during the period June 2013 – June 2014, demonstrating that during periods of plunging equity sentiment, robust risk management practices are essential to an organization's performance" (p. 4).

64 Semenova and Hassel (2008) find "The inherent environmental industry risk has a significant moderating effect on the form of the relation between environmental preparedness/performance and operating performance of the companies. In high risk or polluting industries, environmental management is costly and reduces the operating performance of companies. In low risk sectors, such as banking and insurance, leading companies on environmental management are also more profitable. […] A significant direct effect of environmental preparedness on the market value of the companies is present, while the relation between environmental performance and market value is stronger in low risk industries than in high risk industries. In low risk industries, the market value of the companies is also on average higher and more attuned to benefits to environmental performance than in high risk industries". Humphrey and Lee (2011) find "no significant difference between the returns of SRI and conventional funds. […] We find little evidence of positive or negative screening impacting total return, but find weak evidence that funds with more screens overall provide better risk-adjusted performance. Positive screening significantly reduces funds' risk. However, negative screening significantly increases risk and reduces funds' abilities to form diversified portfolios." Hirschberger, Steuer, Utz and Wimmer (2012) find "that the risk tolerance parameter of conventional mutual funds is significantly higher than the one of the socially responsible mutual funds". Jo and Na (2012) conclude "Employing an extensive US sample during the 1991–2010 period from controversial industry firms, such as alcohol, tobacco, gambling, and others, we find that CSR engagement inversely affects firm risk after controlling for various firm characteristics. To deal with endogeneity issue, we adopt a system equation approach and difference regressions and continue to find that CSR engagement of firms in controversial industry sectors negatively affects firm risk. To examine the premise that firm risk is more of an issue for controversial firms, we further examine the difference between non-controversial and controversial firm samples, and find that the effect of risk reduction through CSR engagement is more economically and statistically significant in controversial industry firms than in non-controversial industry firms." De and Clayman (2014) say "There was a strong negative correlation between ESG ratings and stock volatility, and this relationship was stronger when market volatility was higher. This implied that asset managers could get diversification benefits by choosing better ESG stocks (through a reduction of the average stock specific risk) and this benefit strengthened when markets were more volatile. The correlation between ESG rating and risk-adjusted return turned significantly positive in the recent years and this positive correlation strengthened further by excluding the lowest ESG stocks. […] high ESG stocks tended to be in the low volatility group, and low ESG stocks tended to be in the high volatility group, in a statistically significant way in almost all time periods. Both (high) ESG and (low) volatility positively impact stock returns, but the ESG effect was independent of the low volatility effect, and ESG was a positive contributor in its own right." Becchetti, Ciciretti, Dalò and Herzel(2015) find "socially responsible funds (SRFs) […] played an 'insurance role' outperforming CFs [conventional funds] during the 2007 global financial crisis." Van Duuren, Plantinga and Scholtens (2015) "find that ESG information in particular is being used for red flagging and to manage risk." Bertrand and Lapointe (2015) find "that the use of the SRI universe has a positive contribution to risk-adjusted performance of risk-based allocations. However this contribution is not uniform among all the risk-based allocation strategies and, can represent only a small part of the total alpha that is observed." Nakai, Yamaguchi and Takeuchi (2015) confirm that SRI funds better resisted the bankruptcy of Lehman Brothers than conventional funds.

65 Christian (2011).

66 Mercer (2015). Alvarez and Rodríguez (2015) "found that their sample of water-related mutual funds neither outperform nor underperform two benchmarks. However, the authors also found that they offer potential diversification gains for international mutual funds' portfolios."

67 Mandelbrot (2006). Mandelbrot's ideas were popularized by Taleb (2007) and Taleb (2001). See for a practical example Mercer (2011a): "Traditional approaches to modelling strategic asset allocation fail to take account of climate change risk. […] climate change policy could contribute […] 10% to overall portfolio risk. […] To manage climate change risks, institutional investors need to think about diversification across sources of risk rather than across traditional asset classes. […] Managing climate change risks could lead to increased allocation to climate sensitive assets […]".

68 According to the International Energy Agency, stranded assets are "those investments which have already been

made but which, at some time prior to the end of their economic life (as assumed at the investment decision point), are no longer able to earn an economic return, as a result of changes in the market and regulatory environment brought about by climate policy" (International Energy Agency (2013). See also Calvello (2009); Ansar, Caldecott and Tilbury (2013). The term 'stranded assets' was coined by B. Aldecott of the Smith School of Enterprise and the Environment in Oxford, England in 2012. The school focusses on the impact of environmental change on economic policy, enterprise management and the behaviour of financial markets.

69 The European Investment Bank said in 2012: "it is essential to convince investors that typically more expensive low-carbon investment will be more profitable in the longer-term than high-carbon investment. The main problem is that the higher cashflow from low-carbon investment is based on political intervention […]. Hence, investors face the risk that as soon as their irreversible investments have been implemented, policymakers change the policy framework in order to reduce costs for consumers and thus implicitly expropriate the investment and lock in the investor for decades. […] deviating from long-term commitments compares to defaulting on public debt. In the presence of a long memory of financial markets, the increase in the interest rate for public debt can have adverse consequences for governments in the medium run […]. Consequently, creating a long-term stable environment and credibly promising to compensate any investor that might lose money when the framework is changed would reduce investment costs." (Kolev, Riess, Zachmann and Calthrop (2012). Mercer (2015a) concludes that "Climate change, under the scenarios modelled, will inevitably have an impact on investment returns, so investors need to view it as a new return variable. Industry sector impacts will be the most meaningful. For example, […] average annual returns from the coal sub-sector could fall by anywhere between 18% and 74% over the next 35 years […] the renewables sub-sector could see average annual returns increase by between 6% and 54% over a 35 year time horizon […] a 2°C [global average temperature rise] scenario could see return benefits for emerging market equities, infrastructure, real estate, timber and agriculture. A 4°C scenario could negatively impact emerging market equities, real estate, timber and agriculture. Growth assets [listed equity, private equity, real assets (such as real estate, infrastructure, timber, and agriculture), growth fixed income, hedge funds, and multi-asset funds] are more sensitive to climate risks than defensive assets [cash, sovereign bonds and index-linked bonds (long dated), absolute return bonds, and Investment-grade credit]. A 2°C scenario does not have negative return implications for long-term diversified investors at a total portfolio level over the period modelled (to 2050), and is expected to better protect long term returns beyond this timeframe."

70 The Bank of England has announced that they are investigating the stranded asset risk for insurers (speech by Paul Fisher entitled Confronting the challenges of tomorrow's world at the Economist's Insurance Summit 2015 in London. See also p. 36 of the BoE Research Agenda.

71 Van Duuren, Plantinga and Scholtens (2015) "find that many conventional managers integrate responsible investing in their investment process. Furthermore, we find that ESG information in particular is being used for red flagging and to manage risk. We find that many conventional fund managers have already adopted features of responsible investing in the investment process."

72 EuroSIF figures and Global Sustainable Investment Review 2014.

73 See i.a. Von Arx (2005); De Colle and York (2009); Lee, Humphrey, Benson and Ahn (2010); Fulton, Kahn and Sharples (2012); Trinks and Scholtens (2015); Leite and Céu Cortez (2015). It seems that the International Labour Office of the International Labour Organisation in 2001 was skeptical about the exclusion approach, when they say "in some cases, the act of divestment could amount to nothing more than a silent withdrawal of money" (ILO (2001)). Jégourel and Maveyraud (2010) show "that both alpha and beta are negatively correlated to the intensity of negative screenings. Thus, it appears that the risk-adjusted returns of SRI funds significantly differ from the returns of conventional funds if this latter criterion is taken into account". Ransome and Sampford (2010) consider exclusion as a "bystander approach". Herzel, Nicolosi and Starica (2011) find that "socially responsible screening implies a small loss in terms of Sharpe Ratio even though it has a strong impact on the market capitalization of the optimal portfolio. The spanning test shows that the ex-post differences between the two frontiers, when short selling is not allowed, are significant only in the case of Environmental screening". Louche and Lydenberg (2011) argue that "after selling one's stock, shareholders typically lose their ability to continue dialogue with management". Humphrey and Tan (2011) found "positive screening results in increased returns, but also increased total risk and beta." They did "not find support for the conjecture that positively screened firms have lower unsystematic risk. Return results from negative screening are not as clear, but we do find that increasing the number of stocks excluded

from a portfolio may impede the ability to fully diversify." Some research indicates that exclusion lists are also not preferred by investors. See Berry and Junkus (2012) find "that investors prefer to consider the SRI question in more holistic terms rather than using the exclusionary format favored by most SRI funds. Investors seem to prefer to reward firms who display overall positive social behavior rather than to exclude firms on the basis of certain products or practices". Humphrey and Tan (2014) found no difference in return or risk of screened and unscreened portfolios, after correcting for manager skill, transaction costs and fees. Trinks and Scholtens (2015) find that "investing in controversial stocks in many cases results in additional risk-adjusted returns, whereas excluding them may reduce financial performance". Barwick-Barrett (2015) finds "that the requirement to screen can detrimentally affect the performance of SRI portfolios, but that these effects are more pronounced for UK funds which predominately employ negative screening techniques, than US SRI portfolios (indices and funds) which principally employ positive and restricted screening methodologies. The investigation also discovers that SRI portfolios with smaller investment choice, such as those that can only invest in the UK stock market are more affected by SRI screening than those with large investment universes such as global or US equity funds. […] SRI screening also affects the sector exposures, industry exposures, systematic risk and idiosyncratic risks of UK SRI funds, indicating that screening can result in SRI portfolios holding significantly different assets from conventional funds. In addition, the intensity with which a UK SRI fund screens is shown to significantly affect risk-adjusted performance".

74 Capelle-Blancard and Monjon (2014).

75 Teoh, Welch and Wazzan (1999) found that "corporate involvement with South Africa was so small that the announcement of legislative/shareholder pressure or voluntary corporate divestment from South Africa had little discernible effect either on the valuation of banks and corporations with South African operations or on the South African financial markets. There is weak evidence that institutional shareholdings increased when corporations divested. In sum, despite the publicity of the boycott and the multitude of divesting companies, political pressure had little visible effect on the financial markets". On the other hand there are other boycott activities that are described as successful. The Ethical Consumer has published such a list. Alam (2013) discusses a number of other boycotts as well.

76 See for example Cleveland and Reibstein (2015). Derwall, Koedijk and Ter Horst (2011) find that "the segment of values-driven investors primarily uses "negative" screens to avoid controversial stocks, while the profit-driven segment uses "positive" screens".

77 Investments in cluster munitions are for example prohibited in Belgium, France, Ireland, Italy, Luxemburg, the Netherlands and Switzerland, but the scope of the prohibitions differ. See the PRI Global ESG Regulatory Mapping document.

78 Fulron, Kahn and Sharples (2012) say "Exclusion, in many senses, is essentially a values-based or ethical consideration for investors."

79 Dimson, Marsh and Staunton (2015). Chong, Her and Phillips (2006) find that the risk and performance of the Vice Fund is better than that of SRI funds. Fabozzi, Ma and Oliphant (2008) "studied a small subset of the stock universe that has been generally associated with sin-seeking activities, such as consumption of alcohol, adult services, gaming, tobacco, weapons, and biotech alterations. The sin portfolio produced an annual return of 19%, unambiguously outperforming common benchmarks in terms of both magnitude and frequency. […] The evidence is also consistent with the position that a sin stock is initially undervalued due to the negative affect of the average investor, although previous evidence shows that sin stocks are not underpriced (Salaber [2007]). […]" Hong and Kacperczyk (2009) find "that sin stocks are less held by norm-constrained institutions such as pension plans as compared to mutual or hedge funds that are natural arbitrageurs, and they receive less coverage from analysts than do stocks of otherwise comparable characteristics. Sin stocks also have higher expected returns than otherwise comparable stocks, consistent with them being neglected by norm-constrained investors and facing greater litigation risk heightened by social norms. Evidence from corporate financing decisions and the performance of sin stocks outside the US also suggest that norms affect stock prices and returns". El Ghoul, Guedhami, Kwok and Mishra (2011) find "that participation in two 'sin' industries, namely, tobacco and nuclear power, increases firms' cost of equity". Areal, Cortez and Silva (2013) find "The Vice Fund, which invests in unethical firms, outperforms in low-volatility regimes, but underperforms in high-volatility regimes". Durand, Koh and Limkriangkrai (2013) find "In almost all instances, where an effect on "Sinners" is positive (negative), we find that the effect for 'Saints' is negative (positive). […] This paper finds that social norms exert positive pressure on both investors and firms in the US equity

market. Hoepner and Zoeme (2014) studied the Vice Fund's returns, whose "abnormal return [is found] to be statistically indistinguishable from zero". They comment however, that "the Vice Fund managers possess significantly value destructing directional trading and crisis management skills". Hoepner & Zoeme criticize the 2009 Hong and Kacperczyk paper, saying "they regressed equal weighted sin stocks against a value weighted market benchmark and economy wide investment style controls, which means that their significant positive alphas could have resulted from a clever portfolio weighting instead of any sin characteristics (i.e. the overproportionally weighted small sin stocks could have outperformed the underproportionally weighted large sin stocks)." Capelle-Blancard and Monjon (2014) "show that only sectoral screens – such as avoiding 'sin' stocks – decrease financial performance […]." Ming Yan Cheung, and Lam (2015) conclude that casino gaming stocks perform much better than the market. Brown (2015) theorized that "Social attitudes regarding sin may cause these firms' stocks to be overlooked in the equity market. […] Evidence is found in support of the norm-constraint hypothesis in the form of lower institutional ownership and analyst coverage of sin stocks relative to the wider stock universe, controlling for financial variables. Since the financial crisis, a period not previously explored in the literature, the difference in investment in sin and non-sin stocks has reduced, implying greater importance of financial incentives relative to social concerns to investors in the weaker economic climate. The difference in analyst coverage of sin and non-sin stocks has broadened, arguably attributable to individuals being more susceptible to social norm constraints than institutions in economic downturns". Soler-Domínguez and Matallín-Sáez (2015) find "the VICEX Fund, which […] is morally controversial due to its higher return premium on investments in well-established vice companies […] outperforms the market and provides higher return premiums than [socially responsible mutual funds] during expansion periods, but underperforms during times of economic distress."

80 Monks (1994) and Monks (1995), p. 132.

81 Hawley and Williams (2007). Hawley and Williams (2006).

82 Bello (2005) shows that "socially responsible funds do not differ significantly from conventional funds in terms of any of these attributes. Moreover, the effect of diversification on investment performance is not different between the two groups".

83 Dimson, Marsh and Staunton (2015). See also Grossman and Sharpe (1986), who concluded that "The minimum financial costs associated with divesting a portfolio of stocks of companies doing business in South Africa include both direct and indirect costs of buying and selling securities plus effects on risk and expected return. The magnitude of these costs depends materially on the divestment strategy chosen. Divesting only the stocks of companies not complying with the Sullivan Principles results in the exclusion of a relatively small portion of an investment universe and has little effect on portfolio characteristics and returns. A complete divestment policy – selling all South Africa-related stocks – has more meaningful consequences."

84 Branch and Cai (2012), however, show that "one can construct a portfolio of socially responsible stocks that deliver market performance. Thus, the exclusion of a set of stocks from consideration does not exhaust the existence of efficient index-tracking portfolios, especially when the exclusionary screen is for nonfinancial reasons. Our results are robust to various specifications in constructing the portfolio, for example, number of stocks included in the portfolio and weighting schemes, and robust to alternative tracking error measurement; we show that the difference induced from conducting socially responsible screen is never statistically significant".

85 Some have argued that engagement is also possible in the case of lending and private equity. See for example Scholtens (2006).

86 Solomon, Solomon and Suto (2004); Sparkes and Cowton (2004); Vandekerckhove, Leys and van Braekel (2007); Vandekerckhove, Leys en van Braekel (2008).

87 Southwood (2003) correctly postulated that "contrary to appearances in situations of conflict, the decisive long-term factor for sustainable business performance is the rationality of the proposal in question rather than the power of shareholders to enforce it".

88 Gompers, Ishii and Metrick (2001) find "a striking relationship between corporate governance and stock returns. An investment strategy that bought the firms in the lowest decile of the index (strongest shareholder rights) and sold the firms in the highest decile of the index (weakest shareholder rights) would have earned abnormal returns of 8.5 percent per year during the sample period. Furthermore, the Governance Index is highly correlated with firm value. In 1990, a one-point increase in the index is associated with a 2.4 percentage-point lower value for Tobin's Q. By 1999, this difference had increased significantly, with a one-point increase in the index associated with an 8.9 percentage-

point lower value for Tobin's Q. Finally, we find that weaker shareholder rights are associated with lower profits, lower sales growth, higher capital expenditures, and a higher amount of corporate acquisitions". Core, Guay and Rusticus (2006) find "that firms with weak shareholder rights exhibit significant operating underperformance. However, analysts' forecast errors and earnings announcement returns show no evidence that this underperformance surprises the market. Our results are robust to controls for takeover activity. Overall, our results do not support the hypothesis that weak governance causes poor stock returns". Bebchuk, Cohen and Ferrell (2009) for example, found that bad governance was "associated with economically significant reductions in firm valuation as well as large negative abnormal returns during the 1990–2003 period". Cunat, Gine and Guadelupe (2012) do find a positive correlation between good governance and positive abnormal returns and they also find that "The market reaction is larger in firms with more antitakeover provisions, higher institutional ownership, and stronger investor activism for proposals sponsored by institutions. In addition, we find that acquisitions and capital expenditures decline and long-term performance improves." Bebchuk, Cohen and Wang (2013) find that the link between governance and returns seems to have disappeared. Krafft, Qu, Quatraro and Ravix (2013) found that adoption of US best practices in corporate governance has an impact on performance. Quaresma, R. Pereira, Á. Dias (2014) found that "There is evidence that the adoption of corporate governance "good practices" generate better financial results (in terms of reliability and relevance) making them good indicators of future organizational performance [...] The adoption of corporate governance "good practices" reduces uncertainty about the organization's future increasing analysts' and/or investors' confidence in the company favoring market liquidity. This research provided evidence that better corporate governance is related to a more favorable rating (and vice versa) as well as to an improved financial performance. [...] Overall, this study found evidence that corporate governance positively impacts financial performance. Cheung, Connely, Estanislao, Limpaphayom and Utama (2014) conclude that there is a positive relation between the quality of corporate governance practices and firm value in each of the five nations" which were investigated. Gollier and Pouget (2014) find "that a large activist investor can generate positive abnormal returns by investing in non-responsible companies and turning them into responsible. We call this strategy the 'Washing Machine' and show that its successful implementation relies on a long-term horizon and a credible pro-social orientation". Parigi, Pelizzon, and Von Thadden (2015) find that various empirical tests with U.S. data using the governance index of Gompers, Ishii, and Metrick (2003) yield results consistent with the prediction that "the strictness of corporate governance is negatively related to earnings and positively to ß.". Junkin of Wilshire Associates confirmed the 'CalPERS effect' saying "CalPERS' approach to improving portfolio returns by engaging management of poorly performing companies to rethink governance and strategy continues to work".

89 European Parliament (2013) para 6.

90 Opler and Sokobin (1996). Smith (1996). Carleton, Nelson and Weisbach (1998) find "that TIAA-CREF is able to reach agreements with targeted companies more than 95% of the time. In more than 70% of the cases, this agreement is reached without shareholders voting on the proposal. We verify independently that at least 87% of the targets subsequently took actions to comply with these agreements." Bhojraj and Sengupta (2003) "find firms that have greater institutional ownership and stronger outside control of the board enjoy lower bond yields and higher ratings on their new bond issues." Ashbaugh Skaife, Collins and LaFond (2004) find that "firms reporting larger abnormal accruals and less transparent earnings have a higher cost of equity, whereas firms with more independent audit committees have a lower cost of equity. We also find that firms with a greater proportion of their shares held by activist institutions receive a lower cost of equity, whereas firms with more block holders have a higher cost of equity. Moreover, we find a negative relation between the cost of equity and the independence of the board and the percentage of the board that owns stock. Collectively, the governance attributes we examine explain roughly 8% of the cross-sectional variation in firms' cost of capital and 14 % of the variation in firms' beta. The results support the general hypothesis that firms with better governance present less agency risk to shareholders resulting in lower cost of equity capital." Ashbaugh-Skaifea, Collins and LaFond (2006) "investigate whether firms with strong corporate governance benefit from higher credit ratings relative to firms with weaker governance. We document, after controlling for firm-specific risk characteristics, that credit ratings are negatively associated with the number of block holders and CEO power, and positively related to takeover defenses, accrual quality, earnings timeliness, board independence, board stock ownership, and board expertise." Derwall and Verwijmeren (2007) "find evidence that better governance is associated with lower firm-specific risk, lower systematic risk, and a lower implied cost of equity capital". Gillan and Starks (2007) find "At the heart of shareholder activism is the quest for value, yet the empirical

evidence suggests that effects of such activism are mixed. We review the evidence on activism and, while some studies have found positive short-term market reactions to announcements of certain kinds of activism, there is little evidence of improvement in the long-term operating or stock-market performance of the targeted companies." Brav, Jiang, Partnoy and Thomas (2008) find that "activist hedge funds in the U.S. […] attain success or partial success in two-thirds of the cases. The abnormal stock return upon announcement of activism is approximately seven percent". Becht, Franks, Mayer and Rossi (2009) research a fund that "executes shareholder activism predominantly through private interventions that would be unobservable in studies purely relying on public information. The fund substantially outperforms benchmarks and we estimate that abnormal returns are largely associated with engagements rather than stock picking. We categorize the engagements and measure their impact on the returns of target companies and the fund. We find that Hermes frequently seeks and achieves significant changes in the company's strategy including refocusing on the core business and returning cash to shareholders, and changes in the executive management including the replacement of the CEO or chairman." Cremers and Ferrell (2009) "find a robust positive association between "good" corporate governance and abnormal returns for the 1978-2006 period. The abnormal returns association with governance was strongest in the beginning of our 1978-2006 time period and generally declining thereafter, consistent with an explanation of these returns based on the market learning the importance of good governance." Giroud and Mueller (2011) "find that weak governance firms have lower equity returns, worse operating performance, and lower firm value, but only in non-competitive industries. When exploring the causes of the inefficiency, we find that weak governance firms have lower labor productivity and higher input costs, and make more value-destroying acquisitions, but, again, only in non-competitive industries. We also find that weak governance firms in non-competitive industries are more likely to be targeted by activist hedge funds, suggesting that investors take actions to mitigate the inefficiency." Jo and Harjoto (2011) find "that CSR engagement positively influences firm value measured by industry-adjusted Tobin's q. We find that the impact of analyst following for firms that engage in CSR on firm value is strongly positive, while the board leadership, board independence, blockholders' ownership, and institutional ownership play a relatively weaker role in enhancing firm value. Furthermore, we find that CSR activities that address internal social enhancement within the firm, such as employees diversity, firm relationship with its employees, and product quality, enhance the value of firm more than other CSR subcategories for broader external social enhancement such as community relation and environmental concerns." Reverte (2012) finds "a significant negative relationship between CSR disclosure ratings and the cost of equity capital. We also obtain that the negative relationship between CSR reporting quality and the cost of equity capital is more pronounced for those firms operating in environmentally sensitive industries. […] improved CSR can enhance firm value by reducing the firm's cost of equity capital". Chava (2014) finds "that investors demand significantly higher expected returns on stocks excluded by environmental screens (such as hazardous chemical, substantial emissions, and climate change concerns) compared to firms without such environmental concerns. Lenders also charge a significantly higher interest rate on the bank loans issued to firms with these environmental concerns. […] Further, firms with these environmental concerns have lower institutional ownership and fewer banks participate in their loan syndicate than firms without such environmental concerns. These results suggest that exclusionary socially responsible investing and environmentally sensitive lending can have a material impact on the cost of equity and debt capital of affected firms. In a press release entitled "CalPERS Effect" Continues to Improve Company Performance on a report by their consultants Wilshire Associates, CalPERS said on October 14, 2014 that their " engagement with companies and management on corporate governance matters continues to improve stock performance […] Approximately 188 companies selected […] since 1987 on average outperformed the Russell 1000 by 14.4% over the five years after CalPERS began engagement, commonly referred to as the "CalPERS Effect." The companies lagged the index by nearly 39% in the three years prior to CalPERS involvement. […] "The evidence is equally clear that many corporate assets are poorly managed and that resources spent on identifying and rectifying those cases can create substantial opportunity and premium returns for active shareholders." […] the Wilshire analysis also measured performance against sector indices in the Russell 1000. For the three years prior to CalPERS initiation, the engaged companies returned 36.1% on a cumulative basis below their respective index peers. For the five years after CalPERS activism, the same companies returned 11.2% above their industry peers." Dimson, Karakas and Li (2015) found that successful engagements are followed by positive abnormal returns and unsuccessful engagements are followed by zero abnormal returns. See also Straight talk for the long term, an in-depth look at improving the investor-corporate dialogue, Focusing Capital on the Long Term (FCLT), March 2015. Woidtke (2015) found that

"Ownership by public pension funds engaged in social- issue share-holder-proposal activism is negatively related to firm value. This relationship is significant for the 2008–13 period […] There is no significant relationship between public pension fund ownership and firm value for funds engaging in shareholder-proposal activism focused on corporate governance rules. […] Certain funds engaged in such activism […] show significant positive relationships between their ownership and firm value for certain periods or samples. These findings suggest that public pension funds' shareholder activism influences companies but that such influence is not generally associated with positive valuation effects; when influence is associated with social-issue activism, valuation effects tend to be negative. In contrast, private pension fund ownership […] which engages in strategies designed to influence corporate behavior in its portfolio is associated with higher firm value, at least in some sample study periods."

91 Filatotchev and Dtsenko (2015). Slager and Chapple (2015). Katz and McIntosh (2015).

92 Alford and Signori (2014).

93 Public Statement, Information on shareholder cooperation and acting in concert under the Takeover Bids Directive (ESMA/2013/1642). In their Joint Consultation Paper entitled Draft Joint Guidelines on the prudential assessment of acquisitions and increases of qualifying holdings in the financial sector (JC/CP/2015/003) the European Supervisory Authorities EBA, EIOPA and ESMA further clarified 'acting in concert' with regard to takeovers.

94 Thus it is not difficult to understand that Bauer, Clark and Viehs (2013) find "a 'home bias' in corporate engagement."

95 Kempf and Osthoff (2007) find that investors can increase their performance by incorporating best-in-class screens into their investment process. They implemented a trading strategy where they bought stocks with high socially responsible ratings and sold stocks with low socially responsible ratings. They found that "this strategy leads to high abnormal returns of up to 8.7% per year. The maximum abnormal returns are reached when investors employ the best-in-class screening approach, use a combination of several socially responsible screens at the same time, and restrict themselves to stocks with extreme socially responsible ratings. The abnormal returns remain significant even after taking into account reasonable transaction costs." Statman and Glushkov (2008) find that exclusions bring to socially responsible investors a return disadvantage relative to conventional investors. "Socially responsible investors can do both well and good by adopting the best-in-class method in the construction of their portfolios. That method calls for tilts toward stocks of companies with high scores on social responsibility characteristics, but refrains from calls to shun the stock of any company, even one that produces tobacco." Przychodzena and Przychodzena (2013) found that "An investment strategy that bought companies with corporate sustainability would have earned abnormal returns of 7.4% per year during the sample period." Bleekman (thesis, dec. 2013) concludes "when value-weighted portfolios are created, stocks that score low on social performance have higher risk-adjusted returns than stocks that score high on social performance […]. This conclusion is robust when best-in-class screening is applied". Leite and Céu Cortez (2014) conclude "Our results also show significant differences in the investment styles of SRI funds according to whether they use "best-in-class" screening strategies or not. When compared to SRI funds that employ simple negative and/or positive screens, SRI "best-in-class" funds present significantly lower exposures to small caps and momentum strategies and significantly higher exposures to local stocks." De and Clayman (2014) have "tested the effect of restricting the investible universe by deleting the lower tail of ESG companies on portfolio performance. We […] found that restricting the investible universe through deletion of the worst ESG stocks imposed no cost, and actually tended to improve the probability distribution of returns with a higher average and maximum portfolio return. We got similar results using risk-adjusted returns too."

96 http://www.sustainability-index.com/

97 http://www.ftse.com/Indices/index.jsp

98 See for example Monitor Institute (2009), p. 5 and 11.

99 See also Godeke and Pomares (2009), p. 38.

100 See http://www.thegiin.org/cgi-bin/iowa/aboutus/history/index.html. Kramer and Cooch (2006).

101 Eurosif (2007), p. 1.

102 World Economic Forum (2013), p. 7.

103 Eurosif (2007), p. 3; Monitor Institute (2009), p. 5.

104 Samans (2006), p. 72. The term 'blended value investing' was first coined by Emerson (2000); Emerson (2000a); Emerson (2003). See also Hebb (2013).

105 M. Kramer, S. Cooch, Investing for impact, managing and measuring proactive social investments, Foundation

Strategy Group (FSG), 2006; S. Cooch, M. Kramer, Compounding impact: mission investing by US foundations, FSG Social Impact Advisors for the David & Lucile Packard Foundation, 2007.

106 Eurosif (2007).

107 O'Donohoe, Lejonhufvud and Saltuk (2007). This is of course not the same as venture capital corporations which focus on for example clean technology (see for example Figeac (2007).

108 World Economic Forum (2013), p. 7.

109 Bocken (2015) "found that next to financial support, venture capitalists provide triple bottom line business advice and network support. Key success factors include business model innovation, collaborations and a strong business case, whereas failure factors include a lack of suitable investors, a strong incumbent industry and a short-term investor mind-set. Sustainable start-ups should focus on triple bottom line business model innovation, find opportunity in new technology and funding platforms and develop multiple business cases to create success beyond the 'green customer base'. Sustainable venture capitalists can help prove the success of sustainable business formats, mitigate financial risk through co-investments and exercise patience by balancing financial with social and environmental returns."

110 UNEP Commission on the Private Sector & Development, Unleashing entrepreneurship, Making business work for the poor, United Nations Development Programme, 2004 is one of the first to recommend microfinance (p. 40). There is a European Code of Good Conduct for Microcredit Provision.

111 See for example Monitor Institute (2009), p. 7.

112 See i.a. Louche, Arenas and van Cranenburgh (2012).

113 Van Cranenburgh, Arenas, Louche and Vives (2010).

114 See https://iris.thegiin.org/

115 Robert Wood Johnson Foundation (2011). Best and Harji (2013).

116 The Global Impact Investing Network (GIIN) launched the Impact Investing Benchmark on June 25, 2015 in collaboration with Cambridge Associates.

117 Data driven: a performance analysis for the impact investing industry, GIIN, 2011.

118 World Economic Forum (2013), p. 26. Reeder, Jones, Loder and Colantonio (2014) find "that the connections, actual or perceived, between non-financial and financial returns are a key factor in determining what impact gets measured, and the effort put into measurement."

119 See the website of the G8 summit in London.

120 The Social Impact Investment Taskforce, who now have their own website.

121 OECD (2015). See also Wilson (2014).

122 Everett (2013) studied 'benefit corporations', for-profit entities with a social purpose in the USA, to measure the 'social responsibility discount', i.e. the degree to which investors in a benefit corporation have a lower required return on equity than they would have for traditional firms. Everett finds that the discount is approximately 35%. Brandstetter and Lehner (2015) find that "Social and environmental impact investing as an activity as well as a concept has grown in recognition on a truly global scale. Yet, apart from anecdotal success stories of some specialized forms such as social-impact bonds, little is known about the field and the complex interplay between agents, instruments and regulations. Neither the rationales of the various participants in the field, nor the evaluation criteria for some of its instruments have been scrutinized in-depth so far. Especially the important constructs of risk and returns from a financial as well as a social impact perspective have so far been used in differing fashions, thus rendering the applied logic constructs incompatible to each other. Compatibility, however, is a pre-requisite for the inclusion of impact investments into the portfolios of traditional institutional investors. […] early evidence shows that the overall performance of mixed portfolios might profit because the experienced low correlation of impact investments to traditional markets reduces portfolio risk and increases sustainability. In addition, more and more investors demand ESG (environmental, social and governance) criteria to be considered when it comes to building portfolios because of the great opportunities provided."

123 Research on attitudes of individuals toward RI investing is as yet inconclusive. Mackenzie and Lewis (1999) find "that, while they [=participants in the research] had ethical concerns, they were not prepared to sacrifice their essential financial requirements to address them. We found four common ways of dealing with this problem: they divided up their money into core and surplus accounts; they decided that it was enough to only be a partial ethical investor; they avoided detailed consideration of the costs of ethical investment; and they avoided rigorous ethical thinking. One

equilibrium position arising from these responses is a portfolio approach to ethics, which allows people to assuage their consciences by investing only a small proportion of their investments ethically, while leaving the rest in non-ethical investment vehicles. Lewis and Mackenzie (2000) conclude that "Ethical investors were found to be neither cranks nor saints holding both ethical and not so ethical investments at the same time. A case is made that people are prepared to put their money where their morals are although there is no straightforward trade-off between principles and money. A broader analysis than that based on rational economic man is recommended: an economic psychology." Lewis and Mackenzie (2000a) study attitudes among UK ethical investors to active engagement and find "general support for the current practice of passive signalling accompanied by 'soft' engagement in the form of lobbying and the development of dialogue in order to improve corporate practice. The 'harder' options of investing in companies that err in order to change them is, however, favoured by consistent minorities." Webley, Lewis and Mackenzie (2001) find "it is not unusual for people to waive the interest on their ethical investments but say they would invest more if the interest rate was raised and it is common for people to invest both in ethical and standard funds. […] The study revealed that ethical investors were generally committed to ethical investment, and kept such investments even if they performed badly or were ethically ineffective." Lydenberg (2007) theorises that there are "three types of investors in today's financial markets: Universal Investors, Social Investors and Rational Investors. […] the Universal and Social Investor are theoretically inclined to seek returns that benefit society and the environment as a whole, while the tenets of modern portfolio theory lead the Rational Investor to seek returns based primarily on market price. Because of the dominance of modern portfolio theory, the actual practices of the Universal and Social Investor reproduce those of the Rational Investor in most regards today". Benson and Humphrey (2008) find "SRI fund flows are less sensitive to returns than conventional funds. […] flow is persistent and SRI investors are more likely to invest in a fund they already own relative to conventional investors." Glac (2008) says "the framing of the investing situation influences the likelihood of engagement in socially responsible investing and how much return the individuals are willing to sacrifice when choosing socially responsible over conventional investments. The study does not find support for a relationship between expectations about corporate social responsibility and the likelihood of engagement in socially responsible investing". Renneboog, Ter Horst and Zhang (2008a) find that "the existing studies hint but do not unequivocally demonstrate that SRI investors are willing to accept suboptimal financial performance to pursue social or ethical objectives". Säve-Söderbergh (2010) found "that one out of eight investors chooses ethical funds and foregoes return for ethical principles. However, few screen completely. Human capital, being female and 'empathetic' professions all predict ethical decision-making. Interestingly, neither income nor wealth explains screening". L. Renneboog, J. Ter Horst and C. Zhang (2011) find "SRI money flows are less related to past fund returns. Ethical money is less sensitive to past negative returns than are conventional fund flows, especially when SRI funds primarily use negative or Sin/Ethical screens. […] However, money flows into funds with environmental screens are more sensitive to past positive returns than are conventional fund flows. Stock picking based on in-house SRI research increases the money flows. These results give evidence on the role of nonfinancial attributes, which induce heterogeneity of investor clienteles within SRI funds. We find no evidence of a smart money effect, as the funds that receive more inflows neither outperform nor underperform their benchmarks or conventional funds". Nilsson, Jansson, Isberg and Nordvall, (2011) find "that […] although social, ethical and environmental quality is important to customers, marketers of pro-socially profiled products should primarily focus on conventional quality attributes, as a good SEE record unlikely to generate customer satisfaction alone". Barreda-Tarrazona, Matallín-Sáez and Balaguer-Franch (2011) findings "suggest that although individuals' criteria for investment are essentially guided by returns and diversification, participants invest significantly more in a fund when they are explicitly informed about its SR nature. […] the level of SR faithfulness among a small group of investors is such that they invest the main share of their budget in the SR fund, even when the return differential is highly unfavorable". See also Reeder and Colantonio (2013), who show "that the sector does not yet appear to have found a pragmatic, participative, systematic way forward." Peifer (2014) finds "that dual investors (i.e., those who invest in both SR and conventional funds) are more loyal to their SR fund than to their conventional fund. This suggests that a corporation's ethical behavior attracts more patient investment capital […] In addition, this article empirically demonstrates that economic motivations reduce SR fund loyalty and that ethical motivations induce SR fund loyalty". Dorfleitner and Utz (2014) find "[…] there are indications that a very important inducement for SR investing [among both retail and institutional investors] is the expectation of a high financial performance". The Bertelsmann Stiftung (2015) concluded: "Understanding the highly varied motives for investment, the return expectations, the risk problems and

uncertainties that exist among the examined groups of investors as well as cutting through these issues to provide suitable investment products are efforts still at an early stage on the part of SII providers."

124 See Regulation 346/2013.

125 Insights into the future market of green bonds, EY, Let's talk sustainability, Nov. 2014, Issue 3.

126 Green bonds, the growing market for environment-focused investment, PIMCO Viewpoints, September 2014.

127 Climate Bond Initiative, Bonds and climate change, the state of the market in 2014.

128 Climate Bond Initiative, Bonds and climate change, the state of the market in 2014.

129 Abramskiehn, Wang and Buchner (2015), p. 12.

130 Climate Bond Initiative, Bonds and climate change, the state of the market in 2014. See also Bonds and climate change, the state of the market in 2015.

131 Bank of International Settlements Quarterly Review, March 2014, p. 18.

132 World Energy Investment Outlook Special Report, International Energy Agency, 2014.

133 Green bonds, the growing market for environment-focused investment, PIMCO Viewpoints, September 2014.

134 Climate Bond Initiative, Bonds and climate change, the state of the market in 2014. See also Bonds and climate change, the state of the market in 2015.

135 The Dutch 'green saving and investing' tax rules, for example, focus on projects in agriculture, nature and sustainable raw materials.

136 See the ICMA Green Bond Principles 2015.

137 See http://www.climatebonds.net/standards

138 A Statement Of Investor Expectations For the Green Bond Market, INCR, 2015.

139 The US State of Massachusetts issued both a regular corporate bond and a green bond in 2013. Both issues were priced identically and the green bond was 30% oversubscribed while the regular bond was undersubscribed. See Gearing up for green bonds, key considerations for bond issuers, Sustainable Insight, KPMG, 2015, p. 3.

140 http://www.afg.asso.fr/index.php?option=com_docman&Itemid=234&lang=fr

141 http://www.ci-es.org/membres

142 http://www.idei.fr/about-us

143 http://www.afg.asso.fr/index.php?option=com_docman&Itemid=151&lang=fr

144 http://www.semaine-isr.com/index.php

145 http://finansol.org/fr/actualites.html

146 http://www.lesclesdelabanque.com/Web/Cdb/Particuliers/Content.nsf/DocumentsByIDWeb/86UKSS/$File/Guide-HS-ISR.pdf

147 http://www.orse.org/force_document.php?fichier=document_1195.pdf&fichier_old=2009_promotion_SRI.pdf

148 http://www.forum-ng.org.

149 http://www.nachhaltigkeitsrat.de/projekte/eigene-projekte/deutscher-nachhaltigkeitskodex

150 www.effas-esg.com

151 www.unglobalcompact.org

152 www.globalreporting.org

153 Unfortunately, most of the information is in Dutch only and most of the links in the webpage are for participating companies only. http://www.rijksoverheid.nl/

154 Kabinetsvisie Maatschappelijk Verantwoord Ondernemen (MVO), Kamerstuk 26.485, nr. 53.

155 Aanhangsel Handelingen II 2008/09, nr. 3720 (answer to parliamentary questions by Kalma and Tang, MPs, on investments by financial institutions in arms manufacturers and arms exports).

156 See www.vbdo.nl

157 De gearriveerde toekomst, Nederlandse pensioenfondsen en de praktijk van verantwoord beleggen.

158 http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/responsible-investments/Guidelines-for-observation-and-exclusion-from-the-Government-Pension-Fund-Globals-investment-universe.html?id=594254

159 http://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Stewardship-Code.aspx

160 http://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Stewardship-Code.aspx

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