# European Responsible Investing Fund market 2019

**A focus on "tagged" sustainable funds**

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# Foreword

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At KPMG Luxembourg, we believe that sustainable finance is the new mainstream. We hope that the results of this responsible investing fund survey will promote finance that contributes to a sustainable economic growth. Another aim of this survey is to encourage data-driven discussions about the evolution of the responsible investing fund industry.

The responsible investing fund market continues to adapt and evolve. In 2018, the sustainable finance industry moved even closer to a fully-integrated ESG approach, from considering ESG factors in investment analysis to integrating ESG risks in investment decisions.

In fact, we see ESG in all parts of the investment management value chain, from manufacturing to investment fund distribution. This is due to the following factors:

- Increased momentum for sustainable finance in general;
- Growing pressure from institutional investors;
- Improved awareness by investment managers;
- An overarching set of regulations for sustainable finance.

# Executive summary

## From green washing to green cautious: the good news about the investing fund industry

- **A steady increase in RI funds and Assets under Management (AuM):** As of December 2018, there are 2,816 European responsible investment funds domiciled in Europe with a total AuM of EUR 496 billion. This is an increase of 27% in the number of funds and 12.5% in AuM. Due to new subscriptions, funds created in 2018 will likely increase their AuM in the coming years.

- **Investment funds tagged as Responsible Investment products:** the 2019 edition of this study only covers regulated mutual investment funds domiciled in Europe as of December 2018. The study uses independent data sources and does not rely on self-declaration of sustainable assets.

- **Mostly driven by funds applying a positive or a multiple negative screening:** this fund category represents 77% of the number of funds and an even bigger 86% in AuM. Funds investing in specific themes or sectors, while also applying some ESG criteria, are still a small slice of the pie.

- **Environmental funds are still the largest themed category:** despite representing a relatively small total share, Environment category funds still dominate both in number and assets. This is not surprising as investments in environmental assets are more popular in private equity or through dedicated investment tools like green bonds or direct project financing.

- **Luxembourg is still on top in terms of domicile:** as of December 2018, Luxembourg is still the leading domicile for responsible investment funds with a sizeable 32% share in both number of funds and AuM.

- **But the market holds its breath for the regulation wave:** recent regulatory developments in Sustainable Finance are shaking up the market, like the EU Action Plan for financing sustainable growth. Several legislative initiatives are still ongoing, and fund promoters are holding their breath until the EU taxonomy regulation and the Delegated Acts to the UCITS and AIFM directives are issued.

- **A positive sign that the industry is becoming more rigorous:** after witnessing funds on the market that were sustainable by name but not by nature, there are signs that the asset management industry is cleaning up its act. Those who market and sell responsible investing funds face increased scrutiny from investors, civil society and soon enough, regulators. We advise caution to avoid mis-selling.

- **Asset managers now need to walk the talk:** Sustainable Finance is on everyone's lips. From a distance, it seems as if everyone is applying ESG criteria to their funds. However, when we get into the nitty-gritty, we see that it's challenging to truly walk the talk. This requires demonstrating how criteria are taken into account in the investment processes, measuring the impact of portfolios, using solid ESG data and maintaining a fully-transparent process.

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# Sustainable Finance, from a product to a new way of doing business

**Laetitia Hamon**
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KPMG Luxembourg

*"A more reasonable increase in AuMs and number of funds demonstrates that the industry is getting more rigorous about what they claim to be doing."*

While the numbers in this study may seem relatively small compared to the size of the European Investing Fund industry at large, they are really a blessing in disguise. Because they show that accountability is now king.

Recent regulatory developments in Sustainable Finance continue to shake up the market, most notably the EU Action Plan for financing sustainable growth. Fund promoters are delaying their next move until several legislative initiatives are voted on, including the EU taxonomy regulation and the delegated acts to the UCITS and AIFM directives. In other words, the industry held its breath during 2018.

After several funds emerged with "sustainability" in their names, it seems that the asset management industry has since matured and is cleaning up its act.

Those who sell and market responsible Investment funds face increased scrutiny from investors, the civil society and soon enough, regulators. So, it's a welcome sign that asset managers are growing more transparent and diligent in demonstrating how ESG criteria are considered in their investment decisions.

However, we have observed a dual trend:

- According to other studies, the larger asset managers all seem to apply ESG integration and are reporting large numbers of assets managed "sustainably".
- While at product level, fund promoters tend to be better at explaining how ESG strategies are applied to specific portfolios and are more hesitant to call and tag each and every fund as "sustainable".

Sustainable Finance is on everyone's lips. From a distance, it seems as if everyone is applying ESG criteria to their funds. However, if we zoom in closer, we can see there are still challenges that need addressing like:

- Demonstrating how these criteria are applied to the investment processes;
- Measuring the impact of portfolios;
- Using reliable and meaningful ESG data;
- Reporting to investors in a transparent manner.

Asset managers, promoters and distributors will have no other choice but to walk the talk in order to meet their client's sustainability preferences (a predicted requirement of the upcoming MiFID II amendment) and match these preferences with adequate investment products.

# General overview

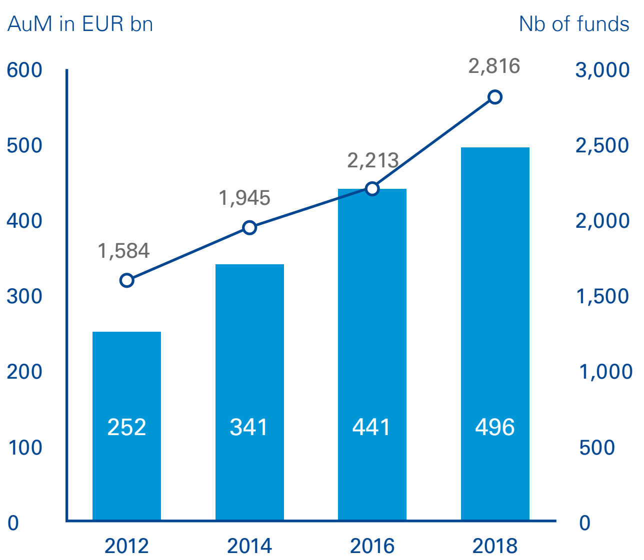
As of December 2018, the RI fund universe in Europe represented 2,816 funds with total Assets under Management (AuM) of EUR 496 billion. Since 2016, the AuM increased by 12.5% while the number of funds registered an important 27% growth.[1]

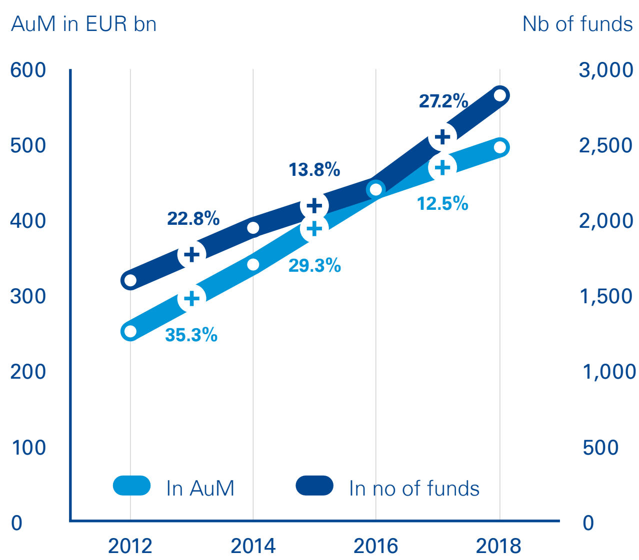
In the top 5 promoters we found ORIX Europe, Amundi, BNP Paribas, with respectively 13.3%, 8.3% and 6.8% in terms of AuM, followed by AXA IM (3.5%) and Storebrand (3.2%).

**1.** *According to EFAMA, as of December 2018, there were 56,734 investment funds totaling AuM of EUR 15,157 billion (Source: https://www.efama.org/Publications/Statistics/Quarterly/Quarterly%20Statistical%20Reports/190308_Quarterly%20Statistical%20Release%20Q4%202018.pdf)*

# A steady increase in the number of RI funds and Assets under Management over the past six years

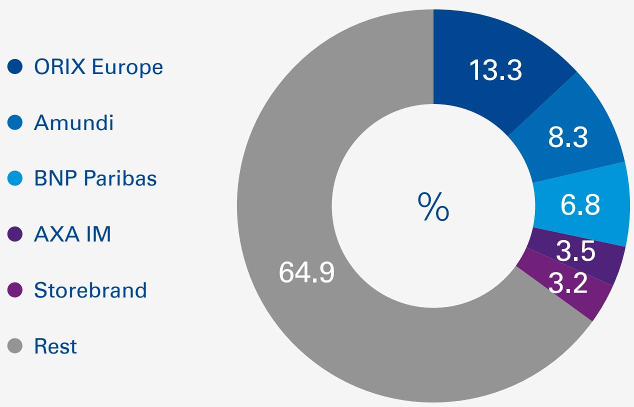
## European RI funds - evolution




## The largest promoters of European RI funds by AuM (in EUR billion)

Total = EUR 496.35 billion



# General overview

Looking at the segmentation of funds, almost two-thirds of the RI funds apply screening strategies to their potential investments rather than thematic investing (e.g. an environmental theme). Back in 2016, the ESG (environment, social, governance) cross-sectoral funds represented around 89% of the total AuM of the RI universe. This share has slightly decreased to 86% in 2018. In contrast, the number of ESG Cross-sectoral funds has increased from 70% in 2016 to 77.3% in 2018 of the total number of RI funds.

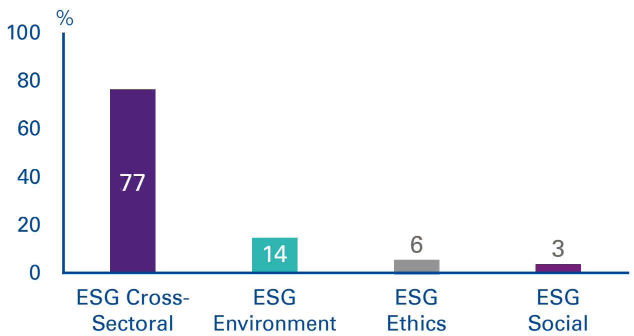
Thematic funds (being environmental, social or ethical in focus) represent approximately almost one-quarter of the RI-funds landscape in terms of the number of funds, but only 14.2% of the AuM in 2018.[2] All three sub-categories of thematic funds have registered a growth in terms of AuM compared with the 2016 data. Environmental-fund investing still represents the biggest portion of thematic funds – in 2018 they reached EUR 44.4 bn of AuM, which represents 63% of the total AuM of thematic funds.

***2.*** *Specific asset classes such as Forestry, Carbon, and Impact funds, which may be private equity funds, may not be fully represented in these statistics.*

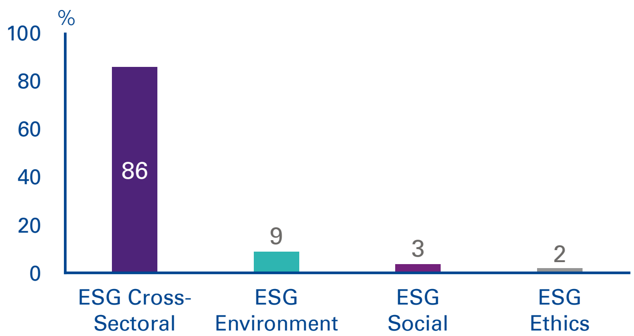
# Mostly driven by funds applying a positive or a multiple negative screening

## By category

### RI in number of funds
Total = 2,816 funds



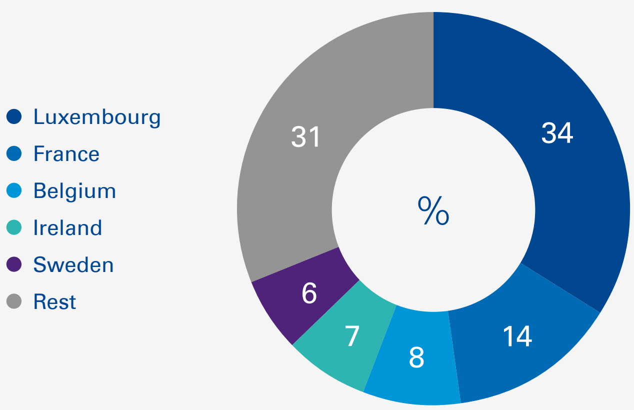

### RI in AuM
Total = EUR 496.35 billion



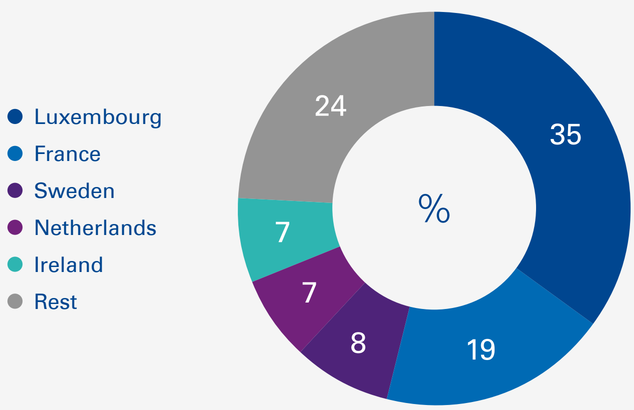

Luxembourg remains the leading domicile for European responsible investment funds.

## By domicile

### RI in % of number of funds
Total = 2,816 funds




### RI in % of AuM
Total = EUR 496.35 billion



# ESG Cross-sectoral

The ESG Cross-sectoral category remains the largest category by far within the RI universe, both in number of funds and AuM.

The ESG Cross-sectoral funds registered a steady increase in terms of number of funds, growing by almost a third since 2016. By contrast, AuM increased at a very slow pace, registering less than 1% growth.

This slow growth could potentially be explained by two important trends:

1) According to EFAMA, 2018 was a difficult year for the European asset management industry;[3]

2) ESG integration has gained momentum, meaning that asset managers now claim to integrate ESG factors across their product range, without particularly focusing on creating specifically-tagged "sustainable Investment funds".

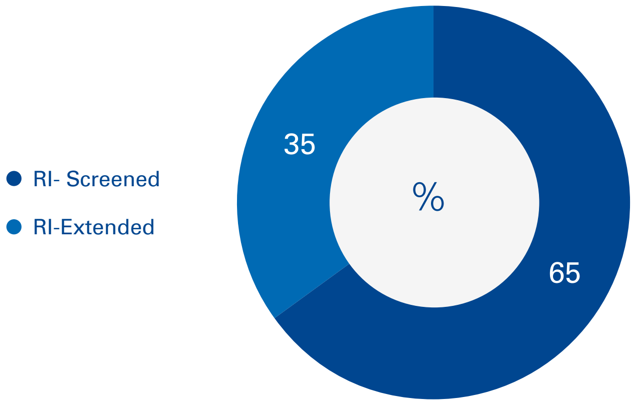
The top three favored domiciles of this category remain largely unchanged compared to 2016 – nearly a third of the ESG Cross-sectoral funds are domiciled in Luxembourg.

***3.*** *EFAMA, Quarterly Statistical Report – Q4 2018 https://www.efama.org/Publications/Statistics/Quarterly/Quarterly%20Statistical%20Reports/190308_Quarterly%20Statistical%20Release%20Q4%202018.pdf*

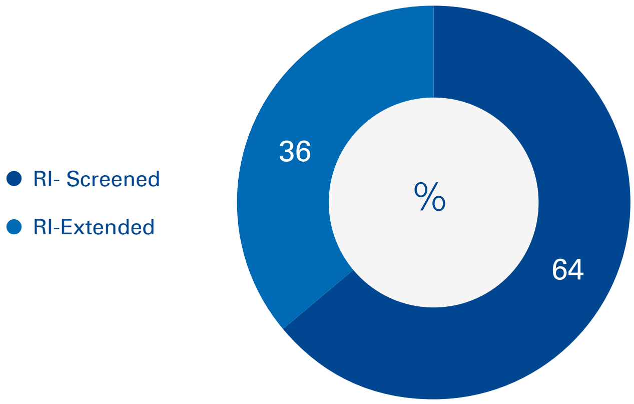
# Luxembourg stays in the lead in terms of domicile

## By category

### RI in % of number of funds
Total = 2,178 funds

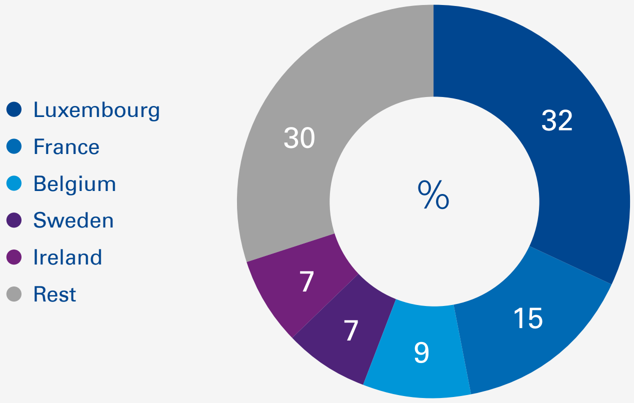



### RI in % of AuM
Total = EUR 426 billion

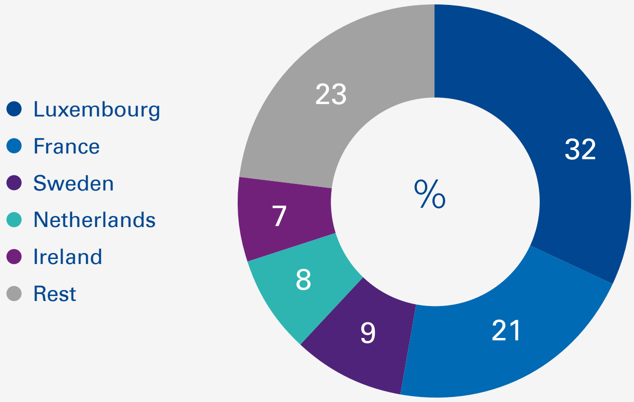



## By domicile

### RI in % of number of funds
Total = 2,178 funds




### RI in % of AuM
Total = EUR 426 billion



# Esg Environment

The Esg Environment category remains the second largest of all categories, both in number of funds and AuM.

Compared with 2016 data, the predominance of "Renewable energy and climate change" funds has ceased to exist in 2018. While the "Environment/ Ecological" funds have become the leading category of Environmental thematic funds with 44% of funds and 40% of AuM.

This may be surprising at a first glance regarding the importance of climate finance over the last years. However, we found that asset managers have a much better understanding of climate change and how funds can invest in assets enabling climate change adaptation or mitigation. We have therefore observed a more granular approach. Funds in the "climate change" sub-category are better defined and more targeted towards climate than in the past. Carbon funds have also matured and we found a majority of Carbon Index trackers. We have also added a new sub-category that did not exist two years ago: the "green bond" funds that will probably grow in importance in the future. Aggregated "climate", "carbon" and "green bonds" reach 44% in number of funds and 34% in AuM.

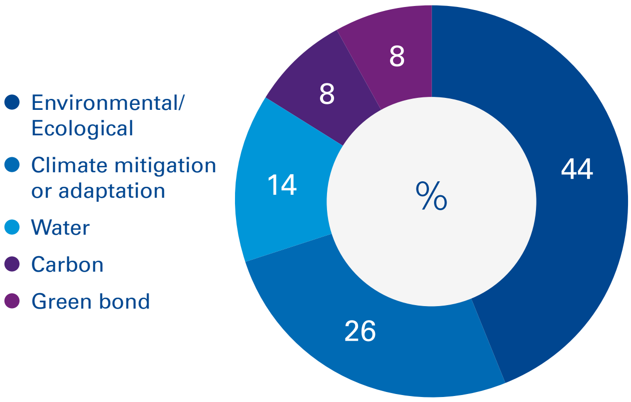
As in previous years, Luxembourg continues to be first in the category of environmental thematic funds and accounts for 38% of the number of funds and 57% of the AuM. However, the top three favored domiciles of this category have slightly changed compared with 2016. Whilst environmental funds are principally domiciled in Luxembourg and France, Germany and Ireland entered into the top three domicile countries in terms of number of funds and AuM, respectively.

# Environmental funds remain the largest thematic category

## By category

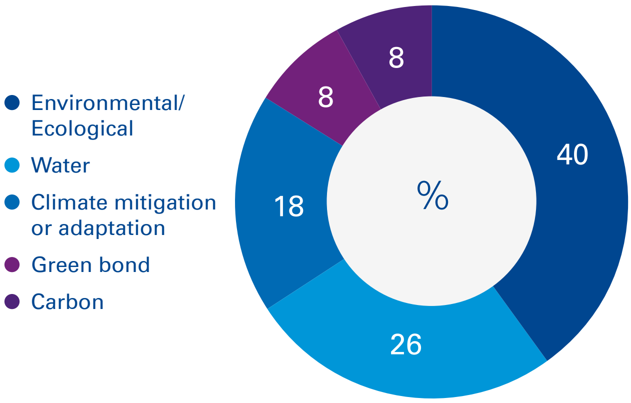
### RI in % of number of funds

Total = 402 funds




### RI in % of AuM

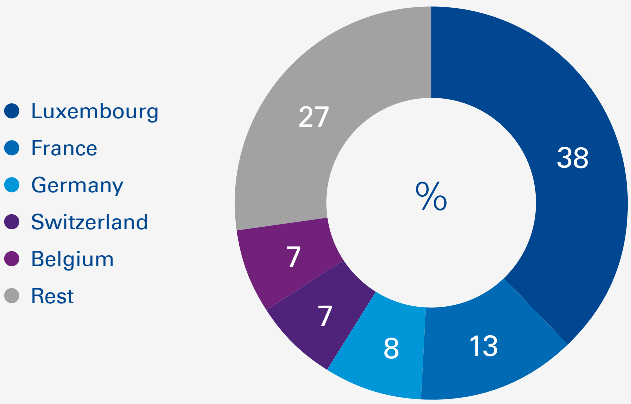
Total = EUR 44.4 billion




## By domicile

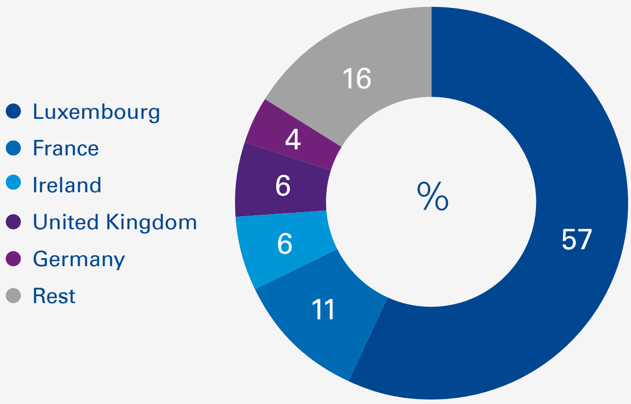
### RI in % of number of funds

Total = 402 funds




### RI in % of AuM

Total = EUR 44.4 billion



# eSg Social

The eSg Social category represents 2.8% of total RI assets and it's the smallest category in terms of number of funds with 76 vehicles in total.

This category has registered a decrease in the number of funds, going from 197 funds in 2016 to 76 funds in 2018. However, the volume of AuM has registered a slight increase and amounted to almost EUR 15 bn.

In terms of sub-categories, microfinance funds were surpassed by social and solidarity funds, which in 2018 amounted to 61% of eSg Social funds in number and 54% of AuM.

It is important to nuance this by pointing out that one specific fund in the social and solidarity sub-category amounted to 2.4bn of AuM. This influenced the ranking of the categories.

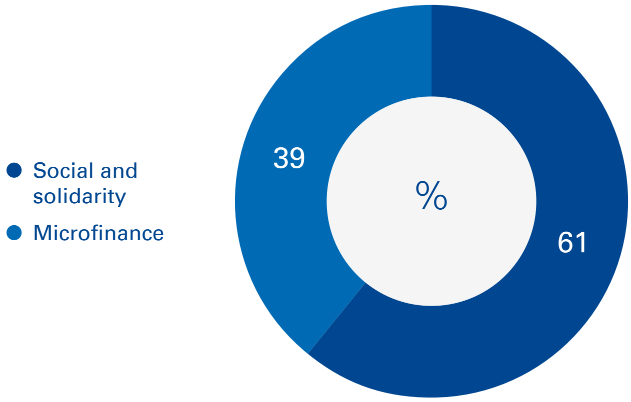
In terms of domicile, the top 5 countries in % of number of funds did not change from 2016, with Luxembourg keeping its leading position. However, the analysis of funds' domiciles in terms of AuM reveals an evolving picture compared with 2016 – in 2018 Luxembourg ceded its leading position to the United Kingdom, again due to a particularly large number of funds domiciled in the UK.

Looking at the Microfinance sub-category in detail, Luxembourg remains the domicile of choice with an impressive 76% both in AuM and number of Microfinance funds.

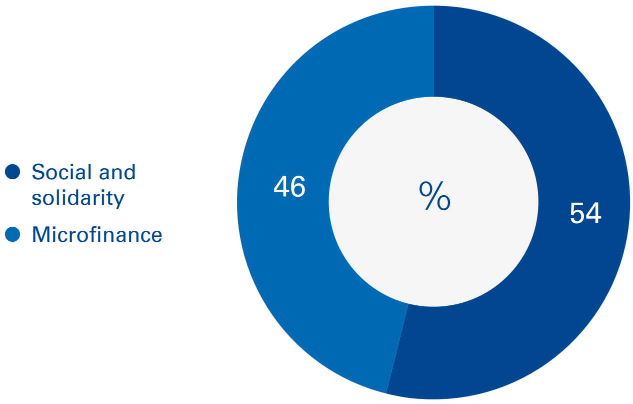
# And mutual funds investing in social themes stay niched

## By category

**RI in % of number of funds**
Total = 76 funds

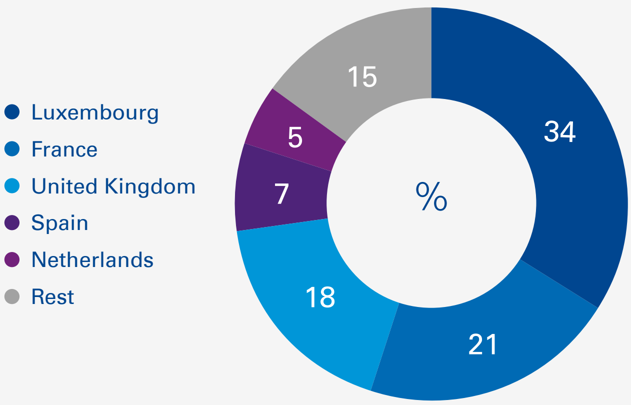



**RI in % of AuM**
Total = EUR 14.15 billion

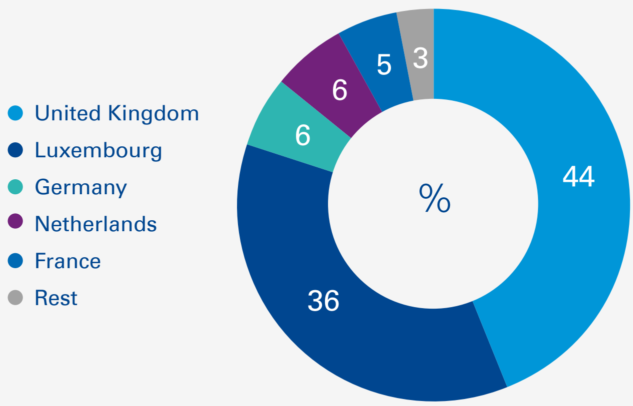



## By domicile

**RI in % of number of funds**
Total = 76 funds




**RI in % of AuM**
Total = EUR 14.15 billion



# Frequently Asked Questions

## What is the scope of this study?

The 2019 edition of this study covers:

- Data as of 31 December 2018;
- Listed mutual funds;
- Open to retail or institutional investors;
- Domiciled in Europe.

## What is not included in this study?

- Segregated mandates from institutional investors, as this data is based on self-declaration and we wanted to avoid this bias;
- Unregulated private equity funds;
- Other investment products, like insurance products and green bonds;
- Funds that merged into others or were closed during the period because they are no longer in the reference database. Therefore, the evolution in the number of funds from 2016 to 2018 is a snapshot of the existing situation as of 31 December 2018.

## What is the source of the data?

The primary data source is FundFile, a fund database owned by Broadridge Global Market Intelligence. The following information is obtained from this database:

- Number of funds;
- Assets under Management;
- Fund asset classes;
- Promoter names;
- Some specific flags like microfinance and Islamic funds.

The data is then computed, classified by the relevant categories and analyzed by KPMG Luxembourg.

## How do you know if these funds are really sustainable since there is no real definition?

The funds in this study mention ESG strategies in the investment objective section of their prospectuses. As the prospectuses are legally binding, we consider this the most reliable source for a classification decision. However, we do not verify if the strategies are actually applied and if the funds actually function as stated. Since the EU is about to publish its EU taxonomy for sustainable assets, this approach may change in the future.

# Frequently Asked Questions

## Is ESG integration captured in the study?

Asset Managers using an ESG integration strategy do not always disclose how this translates at product level. A fund was included if ESG integration is mentioned as the investment objective of the fund at product level, which was often not the case. We rejected funds if the ESG integration was at asset manager level only. While this approach may exclude a potentially significant number of sustainably managed assets, we believe that it provides a more accurate view of responsible investing funds.

## Why are figures lower than in other studies?

The figures in this study are lower than other studies, such as the flagship GSIA and Eurosif studies, because of its:

- Scope;
- Geography covered;
- Data collection method (independent databases versus self-declaration).

While different, we believe that each study has something useful to offer the market. They all have merit because they gather numbers that are challenging to find due to a lack of current standard definition, criteria or regulation.

## Who has defined the categories used in this study?

In 2014, as a result of a consultation with members of the ALFI RI Technical Committee, the following categories and sub-categories were established for the responsible investing fund market.

# Acknowledgements

We would like to thank Broadridge Global Market Intelligence and the other information providers for their contribution to this report.

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