Practical SRI Handbook for emerging asset management companies

How to appeal to responsible institutional investors' expectations ?

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A practical SRI guide for emerging asset management companies

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Introduction

Since the ratification of the Paris Agreement and the implementation of the French Energy Transition Law in 2015, there has been a significant increase in demand for non-financial information related to financial market investments. This comes with an unprecedented awareness of the impact of civilisation's activities on the earth and on human beings.

This practical handbook was written by the institutional investors and investment manager of the Emergence SICAV—an innovative French investment fund promoting entrepreneurial and boutique asset management firms with the support of the Paris financial marketplace. Emergence's current investors make up a pool of 15 leading French institutional investors who are all committed to developing responsible finance, as well as the Emergence investment manager by delegation, NewAlpha AM (Emergence granted NewAlpha AM the mandate to source, select and manage investments in funds managed by emerging asset management companies).

In order to produce this practical handbook, the Emergence ESG Committee brought together a panel of experts from Aviva, Caisse des Dépôts et Consignation, MACIF and MAIF, including a dedicated resource from NewAlpha AM.

This handbook is dedicated to every emerging asset management company, regardless of preferred asset class. It aims to provide emerging asset management companies with greater insight into:

(i) how responsible investment is increasingly requested by institutional investors and is therefore a "must" to grow one's institutional-investor base;

(ii) how a robust and efficient responsible-investment approach can be easily implemented even in an emerging company;

(iii) how one can try and differentiate between responsible investments: there is room for innovation, progress and such great opportunities.

Although all the recommendations included in this guide are on a voluntary basis, more and more institutional investors require that asset management companies somehow take non-financial criteria into account in their investment decision processes. As such, this guide presents the minimum requirements for asset management companies willing to expand their pool of investors and appeal to responsible asset owners.

I. Context

a) Regulatory overview

The influence of regulations in France

As a result of the COP21 in Paris in 2015, the French government wanted to take the lead on sustainable and climate finance by publishing Article 173 of the Energy Transition for Green Growth Law. Article 173 replaced article 224 and, according to the regulator, was nothing more than an extension of the existing law requiring asset management companies to disclose their consideration of environmental, social and governance (ESG) criteria when making investment decisions (Article 224 of the Grenelle II Law).

While Article 224 only applied to asset management companies, Article 173 also requires French institutional investors to disclose how they integrate ESG criteria into their investment decisions, as well as to evaluate and disclose their investments' contribution to the international objective of keeping global warming below +2°C. This key difference reveals how the French government's strategy of turning the French financial industry into the benchmark for sustainable and green finance used soft law on institutional investors to influence the financial markets, while conducting regular controls on the information disclosed.

This strategy has been successful, as several French asset management companies and institutional investors have increased their commitments towards green and sustainable finance since 2015.

In 2018, a similar strategy was adopted by the European Commission in its action plan on financing sustainable growth. In

2021, Article 173 will be replaced by the transposition of the EU-wide disclosure framework for investors into French law.

An ambitious regulation for the European Union

In 2018, the European Commission renewed its commitment to transition to a low-carbon, more resource-efficient and circular economy in its action plan on financing sustainable growth and announced an in-depth regulatory framework.

The plan was to establish an EU classification for sustainable activities which would become a benchmark for company and investor disclosures on sustainable products (‘Taxonomy’).

Companies and market indices would be required to disclose their contribution to the transition to a low-carbon world, while asset owners (especially pension funds and life-insurance companies) and asset management companies would more broadly be asked to disclose their integration of ESG criteria into their investment process (‘Disclosures’).

At the time this guide was being written, the Taxonomy framework aiming to define sustainable activities was published under regulation EU 2020/852 and the Disclosures framework requiring institutional investors and managers to disclose their consideration of sustainability risks was published under regulation EU 2019/2088.

However, we are still waiting for regulatory technical standards to expound on these new regulatory requests. Nevertheless, in France, Article 29 of the French Energy and Climate Act will already broaden the reporting requirements to consider the impact of investments on the fight against climate change and for the preservation of biodiversity.

b) How institutional investors adapt their responsible investment approaches

Institutional investors are implementing changes to embed ESG considerations in their investment policy across all asset classes.

There is no ‘one size fits all’

Each institution has a specific context with a varying mandate, investment horizon, culture, focus, size and regulation. It is of crucial importance for every emerging fund management company to understand how the implementation of a responsible investment approach can provide critical proof of its uniqueness.

Nevertheless, for most of them, a formal Responsible Investment policy is no longer considered by institutional investors as ‘nice-to-have’, but rather as a ‘must-have’. This applies to all external managers, and even smaller/emerging asset management companies.

In this context, new, small and agile players innovating in ESG may find a significant opportunity to gain market share quickly.

Consistency and transparency

First of all, it is necessary for the way the asset management company conducts business to be consistent with the rationale for adopting a policy that incorporates non-financial criteria into the investment decision-making process.

A good starting point is to be able to define what ESG means for both the asset management company (regarding its own governance) and the investment process.

A best practice would be to explain what the associated investment priorities are. For example, some asset management companies could decide to prioritise either a low-carbon emissions strategy or one which aligns their portfolio with Sustainable Development Goals.

The next step includes thoroughly reporting information on ESG-related investments in the portfolio and progress made towards the fulfilment of ESG goals such as, for example, reporting the results of active voting on shareholder proposals.

There is a broad consensus among institutional investors that active voting and engagement with portfolio companies should be a cornerstone of a Responsible Investment policy. Good corporate governance practices are seen as an important driver of shareholder value, and voting is the primary way in which corporate governance can be influenced. That is why a high level of transparency on voting policies is expected.

Adopting reporting standards on ESG-related issues facilitates a common language and a better understanding of ESG risks in the portfolio. One example of a competitive differentiator would be custom reporting including specific features provided for each top investor. Note that emerging management companies can differentiate themselves from larger companies by providing such custom reports as they usually have a rather concentrated client base.

Moreover, it would be highly advisable for entrepreneurial asset management companies to insert ESG concerns into their answers to due diligence questionnaires as well as into their marketing materials in order to help institutional investors better understand their responsible investment approach. These investors would certainly appreciate this effort for the purposes of their own

internal Investment Committees and to facilitate their own due diligence processes.

Tackling Climate change

French players are amongst the global leaders regarding environmental issues, and more specifically regarding climate change. Thanks to the regulatory framework, the energy and ecological transition is a cornerstone of their approach. Expertise in this area is key and investors' expectations are growing very quickly. Here are some of the key factors and requirements:

- Carbon intensity calculations;
- Exposure to climate risk factors using international standards (EU Taxonomy, SASB);
- Assessment of the alignment with TCFD recommendations;
- Scenario analysis and assessment of the portfolio's alignment with the Paris Agreement goals;
- Reviews and reports on climate risk with the corresponding measurements.

International competitiveness

The implementation of a sustainable approach is also a key differentiator outside France. International investors are even more varied in their approaches and focuses.

Emerging asset management companies should be able to adapt to local practices. However, the main topics and requirements remain the same: integration of ESG criteria in investment decisions, reporting and engagement.

In Europe, exclusion is still the dominant ESG approach. Regarding voluntary exclusions (excepting exclusions mandated by law such

as investments in cluster munitions and anti-personnel mines), the most common are linked to weapons, tobacco and pornography.

Norms-based screening is the second most significant international SRI approach. The growth of this strategy is particularly noticeable beyond the borders of the Nordic region, where it has been popular for a long time.

Several major investors are also actively involved in the development of international standards. For instance, in Europe, a well-known benchmark is the list of companies excluded from the Government Pensions Fund Global (Government Pension Fund of Norway). Starting here, emerging asset management companies can benefit from such expertise to define their own exclusion list.

Another interesting shift is linked to sustainability-themed funds. The most popular environmental themes relate mostly to energy efficiency and renewable energy. These themes are closely related to impact investing. The approach has been gaining ground in several European countries.

Amongst the most popular impact themes, investors are increasingly willing to integrate biodiversity impact into their allocation: institutional investors are paying more attention to industrial behaviour in their investment decisions with a view to preserving natural habitats. The ability to report on biodiversity-related issues is a challenge.

In terms of biodiversity issues, biodiversity scores are still emerging, like CDC Biodiversité's Global Biodiversity Score (GBS), which is based on the Mean Species Abundance (MSA) indicator. The Task Force on Nature-related Financial Disclosures (TNFD) has announced it will publish its first recommendations in mid-2021.

Concerning socially responsible investing, most investors also appear to be increasingly focused on the social dimension of corporate practices and scrutinise labour relations, human rights, and equal employment opportunities. Gender equality, diversity and inclusion have become priorities on their agenda.

Overall, diversity is linked to any dimension that can be used to differentiate groups and people from one another. Yet each country approaches the definition of diversity in different ways. In a nutshell, a positive way of dealing with this issue is to consider that diversity is about empowering people by respecting and appreciating what makes them different, in terms of age, gender, ethnicity, religion, disability, sexual orientation, education, and national origin.

On the other hand, inclusion refers to the organisational effort and practices in which people having different backgrounds are culturally and socially accepted, welcomed, and equally treated.

In the US and probably more than in Europe, institutional investors prioritise diversity and fair executive compensation when dealing with due diligence for asset management companies. In terms of diversity, it may be not easy in practice to apply this criterion within a small team, as emerging asset management companies tend to be. However, founding partners should keep a diversity target in mind as early as possible when developing their business. Another way to tackle the issue may be to commit to joining initiatives focused on increasing diversity or to become a partner to a non-profit organisation dedicated to increasing the proportion of women in the asset management industry. Emerging asset management companies are expected to be innovative and should find a way to make a direct and positive impact by contributing to the United Nations Sustainable Development Goals, namely Goal 5 (Gender Equality).

Lastly, executive compensation should be consistent with the business plan and the alignment of the asset management company's interests with those of its clients. One best practice can be to integrate ESG targets within an appropriate timeframe. These ESG targets should be stringent and challenging to ensure that asset management companies would select appropriate mechanisms and structures when creating incentive pay packages. For example, incentive compensation should be subject to downward discretionary adjustments to account for unusual events or unintended consequences such as clawback provisions.

II. Minimum expectations for responsible investors

a) Acquiring knowledge of SRI

Training as a first step

Training is the first and foremost pillar of a sustainable strategy. The writers of this guide advocate responsible investment training as a minimum but affordable requirement, and all asset management companies must develop their knowledge and skills in sustainable finance in order to better integrate ESG factors and ESG-risk mitigation into their culture and strategy.

By taking sustainable factors into account from the very inception of the management process, emerging asset management companies will be able to integrate a return on their investment and avoid paying a high price (cost of adaptation, loss of opportunity) for implementing it later.

As such, emerging fund management companies are encouraged to contact UN PRI, asset management associations, Novethic, or Finance for Tomorrow for a free e-learning module and training sessions at a discount for “young shoots” covering Sustainable Finance fundamentals across France and Europe, and are also advised to subscribe for specialised sustainable publications (ESG Insight, thematic briefs) also available at a rebate for new comers.

b) Basic processes of responsible investment funds

Considering ESG factors in an investment strategy

To be efficient, the ESG strategy must be fully embedded and relevant to the emerging fund management company's investment strategy. The resources that can be used are based on an important and constantly growing set of metrics, tools, measures and marketplace initiatives.

This makes ESG a fascinating and exciting framework in which to develop one's investment culture and create opportunities.

To help small asset management companies set up their own ESG roadmaps, here are some key elements that we consider to be useful measures to implement. They can be summarised as follows:

What?	***Why?***	***Which scope?***
Exclusion lists	Reduce the investment universe by removing assets which do not meet certain standards	All assets
Selection	Select top-ranked assets based on ESG metrics	All assets
Integration	Contemplate ESG factors for each investment	All assets
Engagement	Influence corporate policies through voting actions or dialogue	Listed and private equity, corporate bonds
Impact investing	Design investment processes to have a positive impact on corporations or economies	Equity and corporate bonds, real estate, infrastructures
Social impact	Focus investments on improving society	Equity and corporate bonds, real estate
Climate risk	Reduce investments with a negative impact on the climate	All assets

Exclusion lists (all assets)

Asset management companies can choose to exclude some potential investments from their scope. These exclusions can be:

- conditional: according to standard norms and practices (such as human rights violations, weapons manufacturing, etc.);
- unconditional: according to the asset management company's philosophy and investment theme (carbon footprint, gender equality on the executive board, etc.).

An exclusion principle can be implemented regardless of the investment style or the asset class as it stems from the peculiar characteristics related to each asset.

> Exclusion lists are perhaps the easiest and most straightforward way to implement an ESG focus. However, the implementation of an exclusion policy is never enough for institutional investors to consider that a fund applies a sound responsible investment approach.

Exclusion rules are defined by almost every asset management company in its ESG roadmap, and usually refer to activities or sectors (sectoral exclusions) or international norms (norms-based exclusions).

As a good yardstick, emerging managers may refer to the exclusion list from the Norwegian Government Pension Fund Global.

Selection (all assets)

This approach consists of selecting the best-ranked assets according to certain ESG metrics.

The most usual approach to Socially Responsible Investment for equities and corporate bonds is to compare assets to each other in three areas: Environmental, Social and Governance criteria. Asset management companies select their top-ranked securities based on one, two or three of these areas and conduct a comparison with (i) other issuers in the same industry or with similar characteristics (best-in-class method), or (ii) issuers showing the best ESG performance within the whole universe analysed (best-in-universe method).

Scores in these areas are available from data providers and updated on a yearly basis.

Most of the funds' extra-financial reports currently include an ESG score and most of the leading investors consider this information as the minimum required data from asset management companies. However, asset management companies, in line with their fund's philosophy, may choose to focus more on either one ESG criterion or sub-criterion or even on a distinctive criterion representing their own interests. In some cases, a "thematic investment" depends on the way one criterion is prioritised over others.

Nonetheless, best-in-class scores are « spot » information and emerging asset management companies must contemplate setting up targets and roadmaps in order to give meaning to their investment philosophy.

Integration (all assets)

This approach is similar to the selection approach but is less systematic since investments do not need to be top-ranking for ESG criteria.

Integration implies that ESG criteria are embedded within standard financial analysis, meaning that the pros and cons have to be assessed for every investment decision.

However, balancing the pros and cons in the investment decisions is a standard claim in asset management, making the integration approach seem like an inconsistent way to deliver a robust ESG strategy.

Engagement (corporations)

Asset management companies can be engaged with corporations through two different kinds of actions, which can be cumulative:

- Proxy voting: in principle to use the voting rights at Annual General Meetings;
- Dialogue: as a commitment to a bilateral or coordinated discussion with the corporation’s representatives.

Asset management companies should keep in mind that there is always a way to influence companies or projects they invest in, even if they do not hold voting rights.

To make their voices heard, we suggest emerging asset management companies should join a coordinated initiative such as the UN PRI (Principles for Responsible Investment), Climate Action 100+ or regional sustainable forums in order to leverage major shareholders’ engagement actions.

Impact Investing (equity, corporate bonds, real estate and infrastructures)

Impact investing is the way to initiate and drive positive change in the world through investments. This change applies mostly to social

or environmental matters and is perhaps the best way to engage investors.

Even on a small scale, impact investing is an area that should be contemplated by every asset manager, as shareholders have a crystal-clear view about which goal their investment aims to serve. Developing impact funds is a perfect opportunity for asset management companies to align their offering with their investors' considerations.

Impact investing can be undertaken by setting impact objectives for the fund and:

- identifying lagging companies in the portfolio in order to engage in a dialogue with them, have them improve their practices or performance and reach the fund's impact objectives;
- investing in companies or projects that share the fund's impact objectives;
- implementing improvement plans that aim to reach the fund's impact objectives for real estate and infrastructure funds.

A dialogue engaged early enough in the investment process will help asset management companies influence the companies and projects that they invest in.

However, to be fully relevant, impact investing needs to be properly designed and carefully tracked by using precise metrics regularly. If not, asset management companies' initiatives may fail and the company may be accused of greenwashing or mis-selling.

Social Impact (equity, corporate bonds and real estate)

Social impact investing aims to enhance individual well-being through corporations that display the best practices in human resources management.

Today, the “S” in ESG is perhaps the least explored aspect of extra-financial criteria, as Socially Responsible Investment metrics require more perspective than those on Environment and Governance.

Existing metrics, even if quantitative, need to be put in context to be meaningful. For example, a traditionally monitored metric in social impact investing is the salary gap between women and men, however a zero salary gap on average between women and men does not prevent other inequalities.

In any case, emerging managers should keep in mind that social impact investing should cover the full social spectrum to be fully relevant.

It is important to underline that social impact investing is perhaps the best way to understand how a company really works. It requires having a good overall picture of a company and, at the same time, it implies exploring the company’s inner-workings, the interactions between employees, its dynamic with the outside world, and how it can make a better society.

When implementing their social impact investing strategy, emerging asset management companies are advised to carefully study corporates’ yearly reports, investigate all corporate staff (not only the board), and explore relevant news about the impact of corporate decisions on employees and society.

Climate risk measurement and mitigation (all assets)

Climate change is the most debated and critical topic of this century. Furthermore, the financial system massively contributes to

this change, for better or for worse. Through their investments, financial institutions support or restrain corporate activities with a negative impact on the planet.

The first step to contributing to the fight against climate change is for companies to define and assess the set of metrics they use to monitor their contribution in this regard.

In line with the Paris Agreement to limit the temperature increase, most efforts to achieve the temperature goal are monitored by two main indicators:

- Carbon footprint (using CO_2-equivalent intensity per million invested by the funds or per unit of corporate revenue);
- Total greenhouse gas (GHG) emissions.

GHG emissions are split into three categories:

- Scope 1: direct GHG emissions are caused by energy sources (excluding electricity) directly created by manufacturing goods (such as coal consumption to produce electricity);
- Scope 2: indirect GHG emissions from energy result from purchased electricity, steam and heating/cooling generated when manufacturing goods (e.g. electricity used by a company);
- Scope 3: other indirect GHG emissions stem from counterparties' energy consumption (such as energy consumed by providers, subcontractors or for transporting goods) or from the use of the product (such as driving the vehicles produced by a company).

As information on one's carbon footprint is easier to acquire than total GHG emissions, we suggest emerging fund managers first collect and report on their carbon footprint and later collect and

report on GHG emissions as a subsequent step. Furthermore, scope 3 emissions can be difficult to assess nowadays.

The goal of the Paris Agreement is to urge corporations and governments to target carbon neutrality by 2050, which implies a 7% carbon-intensity reduction per year.

Emerging asset management companies showing this kind of ambition in the management of their funds would be positively perceived by potential investors.

Developing a strong approach

- Measurement as a guarantee of trustworthiness

To be robust, a sustainable investment policy requires uninterrupted and rigorous monitoring of processes based on specific sustainability KPIs determined by the asset management company (using internal or external methods provided by consultants or service providers) and fully implemented in the portfolio management system.

Therefore, asset management companies should be able to monitor the sustainability KPIs which they define, including following up on their roadmaps/objectives and any violations of their sustainable investment policy. It is advisable that these KPIs be reported to the management board and used as sustainable performance measures for the asset management company's employees and managers.

The chosen sustainable investment policy must be adapted to each underlying asset class and must be flexible enough to be applied to all the assets under management to establish its overall consistency.

- Report on ESG integration

Clients, both institutional and private, are increasingly concerned about being regularly informed of the methods used to implement the sustainable investment policy, especially in terms of the data sources used. For an emerging asset manager, there are several ways to ensure this transparency and provide unambiguous reporting. Existing models which set out reporting recommendations for sustainable investments are preferrable as they make information more easily comparable.

c) Being a responsible asset management company as a prerequisite

Last but not least, asset management companies should be highly committed to internal management issues related to their own corporate social responsibility (CSR) as this is sometimes neglected by emerging fund managers. This is unfortunate and the management must bear in mind that CSR issues may be crucial for their institutional investor clients.

How the asset management company handles its social issues is key for institutional investors

Institutional investors most often satisfy their fiduciary duty by using due diligence questionnaires to select the best investment teams according to their own criteria for the team's skills, experience, diversity and stability, as well as the investment decision processes implemented.

These elements help evaluate the ability of the asset management company to generate resilient returns over time. For that reason, it

is critical that they be carefully addressed by any asset management company.

In order to meet institutional investors' expectations regarding the management of ESG criteria, emerging asset management companies are encouraged to:

- ⇨ build a team with multiple, complementary skills;
- ⇨ rely on people with experience in ESG factors, even if their involvement is limited to investment committees;
- ⇨ pay attention to diversity at every level of the company;
- ⇨ make sure that employees are willing to stay with the company and participate in its growth;
- ⇨ define processes to govern investment decisions.

On the specific point of defining processes to govern investment decisions, defining a responsible investment policy is a very good start, and may become a prerequisite to attract institutional investors.

A responsible investment policy is very similar in its content to an investment policy with no extra-financial targets. It sets out the investment frameworks and objectives according to pre-defined non-financial criteria related to ESG factors. A best practice would be to include a description on how the asset management company intends to implement it.

The responsible investment policy is a key item to present to institutional investor clients, as it is a reference document for the responsible investment approach of the asset management company. It should be easy to share while carrying out due diligence.

Adapting tools and resources

The asset management company is expected to be equipped with all the resources and processes required in line with the implementation of the responsible investment policy.

These may be either external resources, like subscribing to non-financial analyses or hiring a responsible investment consultant to help screen the ESG characteristics of the investment universe, or internal resources based on a dedicated manager, recruited or trained, linked to the asset management team and in charge of delivering ESG analyses and assisting asset management companies on ESG related issues.

It is worth noting that the responsible investment business is full of opportunities and is a constantly evolving field.

Originally limited to ethical exclusions for investors primarily linked to religious organisations, responsible investment was then associated with the development of ESG analyses as a complement of financial analysis. Nowadays, the related scopes have broadened towards sustainable development and the fight against climate change.

Thanks to the current increase in tools and sustainable issues, asset management companies have plenty of room to express their uniqueness through the non-financial issues they decide to focus on, regardless of their preferred asset classes.

Nevertheless, an emerging asset management company should avoid a responsible investment approach if it fails to update ESG factors as part of a continuous improvement process.

III. Going further

a) Joining collaborative initiatives

Numerous collaborative initiatives exist to help investors integrate ESG factors into their investment decisions. Several, like the UN Principles for Responsible Investment (UN PRI), operate under the auspices of the United Nations, while others, like sustainable investment forums, are independent.

A growing number of requests to join collaborative initiatives

Although there is no regulation urging investors to join one or more collaborative initiatives in favour of responsible investment, the French Energy Transition for Green Growth Law required investors to disclose their participation in such collaborative initiatives.

In addition, the UN PRI require all signatories to ask their investment partners to integrate ESG factors into their investment decisions and, ideally, become UN PRI signatories themselves. For that reason, an increasing number of institutional investors require their asset management companies to join the UN PRI and implement a responsible investment approach.

UN PRI membership has become the number one screening criteria for many institutional investors working with asset management companies. The reporting obligations related to this initiative are proof of the desire to implement a responsible investment approach, and a way to make sure that signatories have formalised the steps required to integrate ESG factors into their investment decisions.

How can it be beneficial for the asset management company?

In addition to being a way to meet investor expectations, collaborative initiatives are first and foremost a tremendous source of information for any asset management company willing to learn about responsible investment and integrate ESG factors.

Multi-theme initiatives like the UN PRI or sustainable investment forums usually provide guides and tools to implement an ESG approach for most investments.

Specialised initiatives such as the Global Impact Investing Network or the CDP (formerly the Carbon Disclosure Project) usually focus on tools designed to help investors address more specific ESG factors.

Every initiative uses working groups to share knowledge and practices amongst members and develop news ESG standards.

These working groups are a good opportunity to embrace most issues related to the integration of ESG into investment decisions, but they also take time, and may not fit the specific circumstances of every asset management company.

Lastly, collaborative initiatives are powerful places to benchmark ESG practices and market approaches, and also offer a good opportunity to meet other responsible investors, especially amongst working groups or during events organised by the initiatives.

What about labels?

Although the European Commission is considering defining an EU Ecolabel for investment funds as this guide is being written, there is presently no internationally standardised label available for

responsible investment funds. However, a host of labels exist today throughout different countries.

Most SRI labels are governed by independent organisations, but some labels are also accredited by governments, like in France.

Most labels focus on the integration of ESG factors into investment decisions and a growing number applies to “green” funds, while only a few labels focus on the social impacts of funds.

Every label has its own characteristics, themes and varying scopes related to fund strategies, as well as different structures of fees varying over time. Nevertheless, all responsible investment labels share at least two interesting features for investors:

- They certify that the responsible investment process implemented by the asset management company complies with the label standards and thus are proof of its robustness.

- They aim to provide guidance regarding ESG criteria to non-professional investors in their investment choices.

Certifying a responsible investment fund according to a specific label must undoubtedly be considered once the emerging asset management company has settled on its responsible investment process.

In any case, certification must be well thought out depending on the marketing and selling targets of each fund following the decision made by the emerging fund management company. For example, in France, the “PACTE” law requires that every life-insurance company provide at least one unit-linked fund

certification from the French responsible, green and solidarity labels.

b) Improving your corporate social responsibility (CSR) management

Adapting the asset management company's governance

The integration of ESG factors into investment decisions, regardless of how the asset management company chooses to do it, may be a valuable first step towards responsible investment.

However, asset management companies willing to position themselves as most advanced in terms of responsible investment cannot be satisfied with the simple addition of an ESG section in their investment memos.

These asset management companies will be expected to identify people responsible for implementing the ESG integration and people responsible for supervising it within their teams in order to demonstrate their commitment to integrating ESG factors into their whole investment process. This will drive them to organise their own ESG governance, which will preferably be fully integrated into the asset management company's existing governance, and may imply:

- ⇨ training board members on the integration of environmental, social and/or governance factors in investment decisions;
- ⇨ defining and following the responsible investment strategy within the asset management company's board of directors;
- ⇨ setting objectives related to responsible investment for the asset management company and the investment teams;

- ⇨ assigning responsibility for monitoring the deployment of the approach to a director;
- ⇨ monitoring ESG risks as part of the asset management company's risk review;
- ⇨ monitoring the development of international standards regarding responsible investments and adapting to them.

Standing out by focusing on specific ESG issues

In addition to adapting their own corporate governance to the implementation of their responsible investment approach, asset management companies can also decide to become specialists in one area of sustainability. In doing so, more and more asset management companies now decide to become companies with a mission related to one or more sustainability issues, a mission they fulfil through their investment activities.

Choosing to focus on specific ESG factors is an excellent way to stand out from competitors, positions the emerging fund management company on issues that make sense regarding its own distinctive characteristics and also demonstrates its capacity for innovation.

Nevertheless, this approach requires the deepest commitment to considering sustainability issues as a yardstick for investment decisions and being able to fully report on them to investors.

c) What to expect in the coming months

At the time we are writing this guide, the European Commission is drafting a set of frameworks in order to regulate responsible investments in the European Union and to include the financial marketplace in its sustainable economy roadmap. The

Commission’s action plan on financing sustainable growth will be drafted on several core sustainability topics, such as:

- ⇨ the financing of sustainable projects, especially those that meet the requirements of the Taxonomy Regulation to mitigate climate change;
- ⇨ the creation of an EU Green Bond Standard and labels for green financial products;
- ⇨ the development of sustainability benchmarks;
- ⇨ the definition of asset management companies' and institutional investors' duties regarding sustainability through the regulation on sustainability-related disclosures in the financial services sector;
- ⇨ the fostering of sustainable corporate governance and the reduction of short-termism in capital markets.

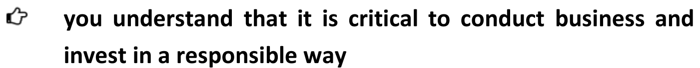
Amidst these up-and-coming EU regulations and their transposition into national law, there are other topics gaining momentum, such as:

- ⇨ the integration of sustainability targets in compensation policies;
- ⇨ the estimation of portfolios’ impact on climate change;
- ⇨ the integration of climate risks into risk-management processes;
- ⇨ the implementation of engagement strategies for influencing corporate practices;
- ⇨ the measurement of portfolios’ positive and/or negative impact on sustainability factors.

These are many factors which asset management companies will likely have to report on in the future for institutional investors.

IV. Conclusion: beginning the journey towards responsible investment

Now that you have reached the end of this handbook:



you understand that it is critical to conduct business and invest in a responsible way

- ⇨ because you are concerned about our planet, “coexisting” and the benefits of promoting inclusive transitions (and regulations encourage everyone to do so!);
- ⇨ because you understand that ESG factors offer investment opportunities you can benefit from in your investment business;
- ⇨ because dealing with those factors when managing your own corporate business will help you attract, retain and develop the best talents;
- ⇨ ultimately, because this has become essential to growing your assets and your firm.

you have the toolkit to get started

In order to implement a responsible investment approach within your firm in a practical way, we would recommend emerging asset management companies to do the following:

- ⇨ Get information about ESG approaches, aspects, and what your competitors are doing, especially regarding the standard in your specific area of business;
- ⇨ Put the right processes in place for meeting standard/minimum requirements (as you have identified them: regulations, reporting, risk, etc.);

- ⇨ Determine which aspect of an ESG approach best suits your investment philosophy and could help differentiate your approach;
- ⇨ Be as focused as possible: as an emerging asset management company, you are not expected to address all the issues, but select those that enable you to differentiate yourself from competitors;
- ⇨ Put the right processes in place at the corporate level: the way you conduct business must be consistent with the way you invest and the way you ask the companies you invest in to behave. This is crucial to demonstrate your sincerity and credibility;
- ⇨ Strengthen your entire approach with factual measurements; they need not be comprehensive, but they should be precise and consistent with your size, investment philosophy and requirements for the companies you invest in;
- ⇨ Devote the right amount of time to educating your management and more broadly educating staff internally in order to unlock all available long-term resources on this journey;
- ⇨ As a second step, take the opportunity to look for the right labels if appropriate and devote time to engagement;
- ⇨ Finally, do not forget this is an ongoing effort and you will have to evolve and adapt over time.

☞ **Last but not least, we encourage emerging fund management companies to work on reporting as early as possible.**

- ⇨ As the sixth PRI, reporting one's ESG approach is crucial. The more financial players disclose, the more people will be concerned by this matter. This is a soft and very efficient way of instilling best practices within the financial community;

- ⇨ We recommend a candid disclosure of who you are and how you fulfil your promises;
- ⇨ Reporting with measurements based on pre-established metrics has proven to be very powerful to assess the quality of an approach.

References

- Autorité des marchés financiers (www.amf-france.org/en)
- CDC-Biodiversity Global Biodiversity Score (www.cdc-biodiversite.fr/gbs/)
- CDP (www.cdp.net)
- Climate Action 100+ (climateaction100.org)
- Emergence SICAV (www.emergence-incubation.com)
- EU Disclosures Regulation (EUR-Lex - 32019R2088 - EN - EUR-Lex (europa.eu))
- EU renewed Action Plan on Sustainable Finance (Renewed sustainable finance strategy and implementation of the action plan on financing sustainable growth | European Commission (europa.eu))
- EU Taxonomy Regulation (EUR-Lex - 32020R0852 - EN - EUR-Lex ((europa.eu))
- European Fund and Asset Management Association (www.efama.org)
- European Sustainable & Responsible Forum (www.eurosif.org)
- Finance for Tomorrow (Finance for Tomorrow - The Sustainable future begins in Paris)
- French Asset Management Association (AFG – Association Française de la Gestion Financière)
- French Law on Energy Transition and Green Growth (www.gouvernement.fr/en/energy-transition)
- Global Impact Investing Network (The GIIN)
- Novethic (www.novethic.com)
- Paris Agreement (The Paris Agreement | UNFCCC)
- Exclusion policy of the Government Pension Fund Global (Guidelines for observation and exclusion of companies from the Government Pension Fund Global (etikkradet.no))
- SASB (www.sasb.org)
- Swiss Funds & Asset Management Association (www.am-switzerland.ch/en)
- Task force on Nature-related Financial Disclosures (Home – TNFD)
- UN Principles for Responsible Investment (www.unpri.org)
- UN Sustainable Development Goals (THE 17 GOALS | Sustainable Development (www.un.org/en/))

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