European Responsible Investing Fund Survey 2015

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ALFI FOREWORD

Anouk Agnes,
Deputy Director General,
Director Communications &
Business Development, ALFI

Responsible investing is growing in popularity. With the rising demand from clients seeking to invest in companies, organisations and funds with the aim not only to achieve a financial return, but to also generate measurable social and environmental benefits, the asset management industry is broadening its range of options.

Today, investors no longer have to choose between strategies emphasising financial return and approaches that put social and environmental impact first, or between targeted products - like microfinance funds - and more traditional funds applying environmental, social and governance ("ESG") screening techniques. Now they can have both.

The Association of the Luxembourg Fund Industry (ALFI) is convinced that the concept of responsible investing has enormous potential.

Striving to help the asset management industry to capitalise on this trend, ALFI has commissioned this third responsible investing study. Its aim is to give an overview of the market by analysing recent and expected developments on both the supply and the demand side.

The study was designed by members of the ALFI Responsible Investing Technical Committee. This committee brings together fund directors, investment managers, consultants and service providers, experts in ESG, microfinance, impact investing, carbon finance and other related fields, all of whom share the ambition of fostering the responsible investing industry.

We would like to thank KPMG, the ALFI Secretariat and the ALFI Responsible Investing Technical Committee for designing and carrying out this study.

The Association of the Luxembourg Fund Industry (ALFI) is the official representative body for the Luxembourg investment fund industry and was set up in November 1988 to promote its development.

Its mission is to lead industry efforts to make Luxembourg the most attractive international centre for investment funds. ALFI sets out its ambition for the Luxembourg Fund Centre, to be a global centre of excellence for the asset management industry, thereby creating opportunities for investors, fund professionals and the global community as a whole.

KPMG FOREWORD

KPMG Luxembourg is committed to the Responsible Investing ("RI") sector recognising the significant potential and opportunities that these investment products will bring to the financial sector in the future and the positive impact that such investment strategies can bring to the world-wide community as a whole. It is an exciting area and it is fast gaining momentum with investors showing a growing interest in investment strategies that integrate Environment, Social and Governance ("ESG") criteria into their investment process.

As investors display an ever-growing demand for RI products, emphasis is being placed on ESG matters and well-implemented responsible investing strategies and related processes. The RI industry continues to be challenged on the one hand, however, we also see great opportunities and product innovation emerging. The more important of these emerging opportunities and challenges explored in this study include:

- What could an investor look like in 2030 and what about today's Responsible Investor
- Who and what is driving the sector today?
- ESG Integration continues
- Is transparency evolving in the right direction?
- Product Innovation – what is trending – green bonds, social bonds, circular economy, impact investing
- How is the responsible investing sector poised to capture the opportunities and address the challenges that the future will bring to the investment management industry?

At KPMG Luxembourg, we believe that these trends will continue to shape the future of the responsible investing universe and that this evolution will continue. As a Centre of Excellence for Investment Funds as a whole and for Responsible Investing in particular, we consider this study, commissioned by ALFI, to be an essential piece of the puzzle to obtain an overall view of the size and nature of the RI industry, its evolution, its diversity and to foster an understanding of potential future challenges and solutions.

We are pleased to see the results of this survey reflecting a growth and dynamism of this sector and that product innovation and a set of promising opportunities, for example the development of green and social bonds, have been identified. It is clear that asset managers today can no longer choose to ignore this market segment – they must be prepared to answer questions from their stakeholders around this topic. Failure to anticipate and act upon these questions is likely to result in chances missed and business lost.

We trust that this third edition of our "European Responsible Investing Fund Survey" will again fuel discussions around the evolution and state of the industry and will suggest challenges and questions which the industry will have to address to continue down this path of growth and development.

Jane Wilkinson,
Partner and
Head of Sustainability,
KPMG Luxembourg

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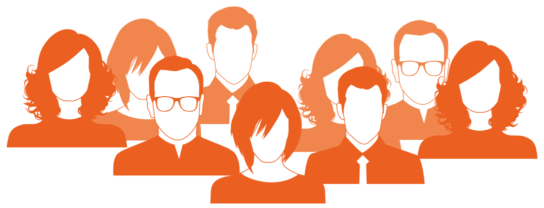
KPMG Luxembourg is a leading provider of professional services in Luxembourg and abroad.

The Climate Change & Sustainability ("CC&S") practice of KPMG Luxembourg provides sustainability services to businesses and investors wishing to gain greater understanding and improved management and reporting of Environmental, Social and Governance performance.

EXECUTIVE SUMMARY

Ongoing challenges for the RI market

- **Retail market** remains untapped
- **RI reporting** and **transparency** are strong examples for the rest of the market, but still need harmonisation
- Still **no common definition** of what RI is
- Challenges to **credibility** of certain RI strategies and their implementation - greenwashing



What worries Institutional Investors today?

- Embedding and monitoring **RI performance** in manager mandates
- Ensuring effective **risk management**
- **Fiduciary responsibilities** and short-termism versus long-term focus

The Institutional Investor of the future:

What will he want?

- **Tailored RI products** designed just for him
- Open and **simple investment platform/** portal
- Flexible and adaptable products which accompany him and his clients through their life
- Asset manager with **strong brand**
- **Product simplicity, transparency, flexibility** will become as important as financial performance
- Social media may influence many decisions

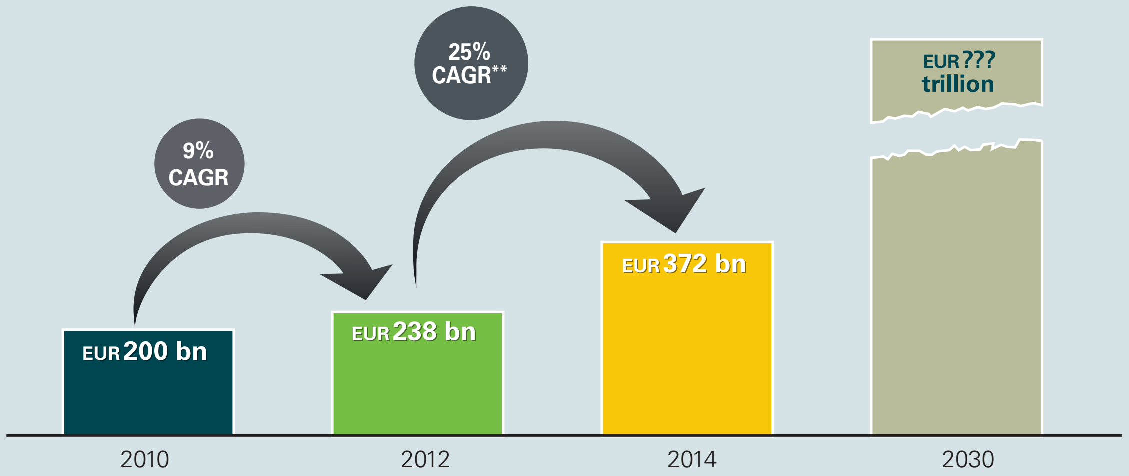
The RI market is already ahead of the game:

- Existing sector focus on simplicity, transparency, honesty and integrity
- Innovative and "niche" nature of the RI product will appeal to investors of the future
- ESG focus will help address the fiduciary duty question
- Tomorrow's investors are already more environmentally and socially conscious
- Arguably, brands can be better built on firm "responsible" foundations

All that remains is to see and seize the opportunities

STATISTICAL RESULTS*

EUROPEAN RI FUND ASSETS UNDER MANAGEMENT



ASSETS BY CATEGORY

EUR **322.8**Bn Cross-sectoral

EUR **31.8**Bn Environmental

EUR **10.7**Bn Social

EUR **6.7**Bn Ethical

ASSETS BY DOMICILE

35% Luxembourg

16% France

10% Norway

7% Sweden

6% United Kingdom

* As of 31 December 2014 ** Compound Annual Growth Rate

INTRODUCTION

The European Responsible Investing Fund 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, Cayman Islands and Bermuda. 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.

Whilst this approach excludes a potentially significant part of responsible investing, we believe that the findings of this study give an accurate view of the European responsible investment funds market, which probably is representative of the more extended responsible investment market.

This report is split into three main sections. The first part outlines the scope and definitions used for this survey. In order to position this study within the context of the broader responsible investing universe, and to show the importance of responsible investing outside of Europe, the study also includes a section on the RI landscape worldwide.

The second part of the survey gives a snapshot and summary of the highlights and key quantitative results of this year's survey.

The third part of the survey highlights key trends affecting the RI universe identified on the basis of a series of expert interviews. This section aims to raise the reader's awareness of key discussion topics that are at the core of the debates on Responsible Investing.

Lastly, we provide a breakdown of more detailed results presented by fund categories and strategies as well as by domicile. Each category is broken down by sub-category and analysed in terms of number of funds and assets under management.

This report includes:

I. Definitions

II. Responsible investing across the globe

III. Overview of RI funds in Europe

IV. Emerging Trends and Challenges

V. Key results

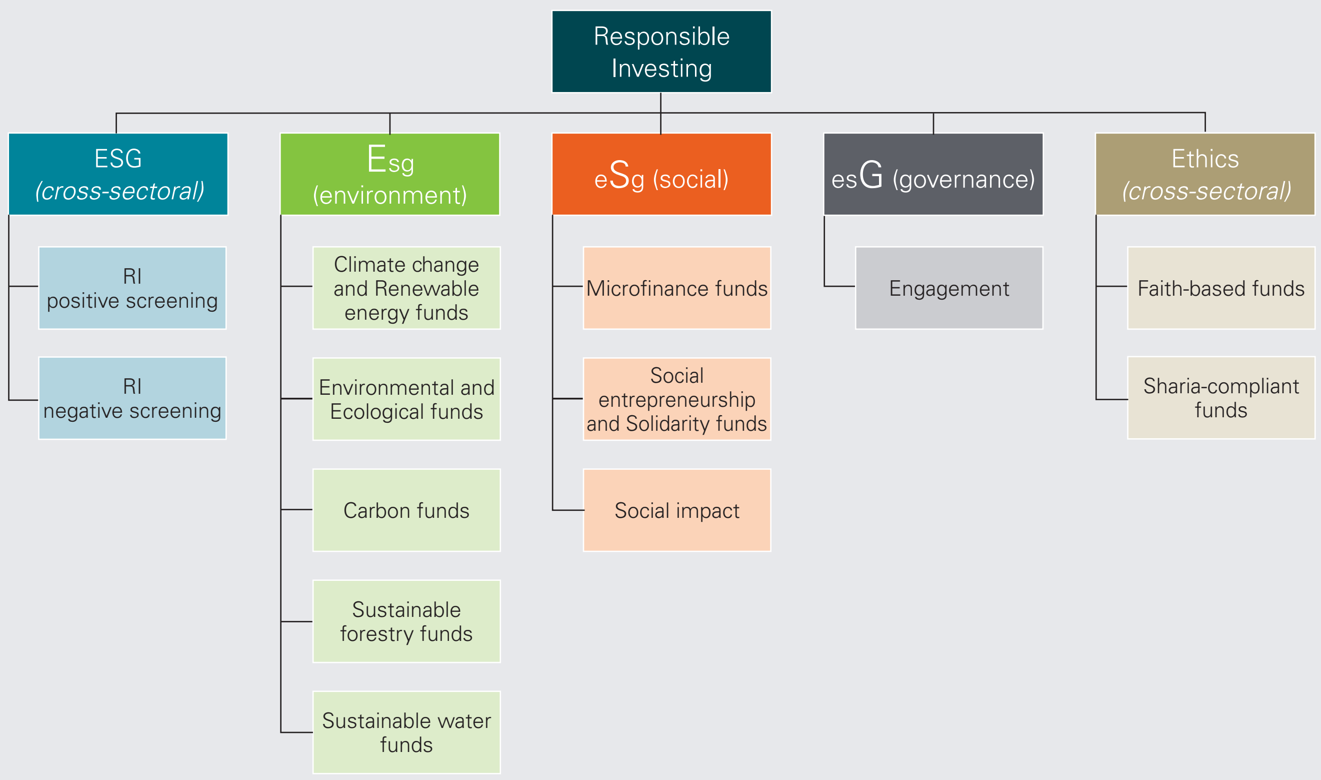
I. DEFINITIONS

Defining and categorising RI strategies

In the previous editions of this study we have addressed the difficulties faced by the industry to define, measure and report on Responsible Investing. Although the question of an international definition and classification of Responsible Investing continues to elude the asset management industry, the lines are gradually moving towards more standardisation.

In particular organisations representing the asset management industry in both France[1] and Italy[2] have progressed with a definition for responsible investment since the publication of our 2013 survey.

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. The Committee has deliberately split the fund categories between cross-sectoral funds and thematic funds, using the widely accepted concept of Environment, Social and Governance "ESG" as classification. With this classification, the Committee strove to cover all sectors in the responsible investing space, pulling together data that has traditionally been treated separately (such as microfinance investment vehicles, impact funds, faith-based funds, etc.), and using publicly available information.



Copyright: ALFI 2014

Although the approach taken by ALFI differs slightly from the Eurosif definitions, they are complementary. Whilst Eurosif identifies "strategies or approaches" to screen potential investments of a portfolio, ALFI approaches RI in a more thematic manner, categorising investment funds by themes and according to the three pillars of sustainable development: Environment, Social and Governance ("ESG").

In their "European SRI Study 2014", Eurosif continues to work with a set of seven distinct RI strategies, which we have linked to the ALFI categorisation in the table below:

#	Strategy	Description	Link with ALFI's categorisation
1	Sustainability themed	Investment in themes or assets linked to the development of sustainability. Thematic funds focus on specific or multiple issues related to ESG.	eSg (social) category Esg (environment) category
2	Best-in-Class selection	Approach where leading or best-performing investments within a universe, category, or class are selected or weighted based on ESG criteria.	RI positive screening sub-category
3	Norms-based screening	Screening of investments according to their compliance with international standards and norms.	RI negative screening sub-category Ethics (cross-sectoral)
4	Exclusions	An approach that excludes specific investments or classes of investment from the investible universe such as companies, sectors or countries.	RI negative screening sub-category Ethics (cross-sectoral)
5	ESG integration	The explicit inclusion by asset managers of ESG risks and opportunities into traditional financial analysis and investment decisions based on a systematic process and appropriate research sources.	ESG (cross-sectoral) category
6	Engagement and voting	Engagement activities and active ownership through voting of shares and engagement with companies on ESG matters. This is a long-term process, seeking to influence behaviour or increase disclosure.	esG (governance) category
7	Impact investing	Impact investments are investments made into companies, organisations and funds with the intention to generate 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 upon the circumstances.	Social impact sub-category Microfinance funds sub-category

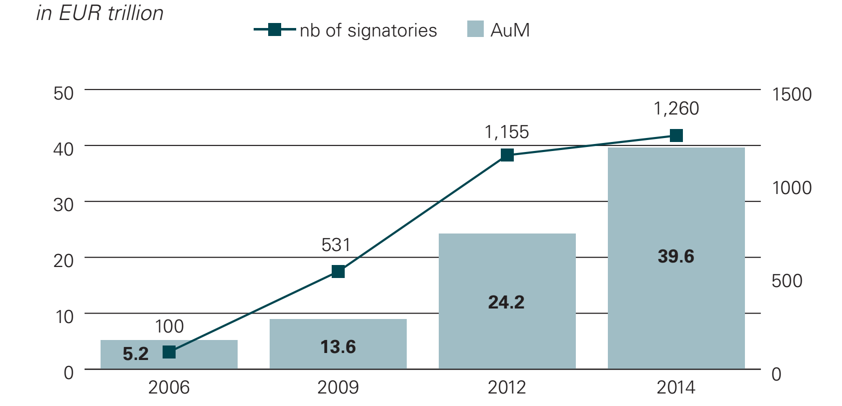
Source: European SRI Study 2014, Eurosif

It is important to note that these seven RI strategies are not mutually exclusive. A fund can use one or several of these strategies to select its investments.

II. RESPONSIBLE INVESTING ACROSS THE GLOBE

Commitment to the UN Principles for Responsible Investment ("UN PRI")

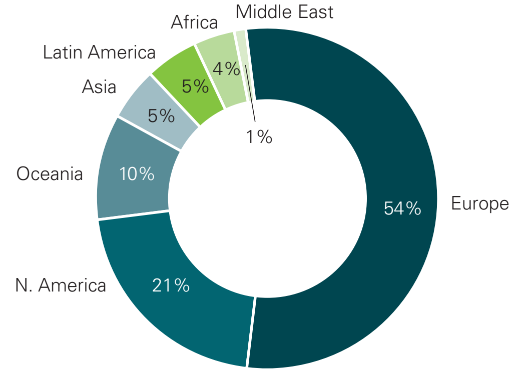
UN PRI signatories evolution
in EUR trillion



Source: UN PRI

The PRI Initiative was launched in 2006 by UNEP Finance Initiative and the UN Global Compact along with an international network of investors. Its goal is to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices. The number of PRI signatories has substantially increased to reach 1,260 with assets under management of more than EUR 39 trillion as of mid-2014.

Breakdown of PRI signatories by region
Data as of February 2015



Source: UN PRI

UN supported Principles for Responsible Investment

1. *We will incorporate ESG issues into investment analysis and decision-making processes.*
2. *We will be active owners and incorporate ESG issues into our ownership policies and practices.*
3. *We will seek appropriate disclosure on ESG issues by the entities in which we invest.*
4. *We will promote acceptance and implementation of the Principles within the investment industry.*
5. *We will work together to enhance our effectiveness in implementing the Principles.*
6. *We will each report on our activities and progress towards implementing the Principles.*

Most signatories are in Europe which has also seen strong growth in the number of signatories since the 2013 edition of our survey. However, in line with accelerating interest by the North American market in responsible investing, the American region has seen higher growth rates in signatories than all other markets demonstrating this increased interest in RI from the American market as a whole. Whilst remaining relatively small, the number of signatories in the Middle East has doubled and healthy growth in the African market continues.

The Principles are voluntary and aspirational in nature. By signing up, companies openly state their commitment to integrating RI practices into their processes and systems across the entire organisation. Whilst the ambition behind the Principles is to enable and empower change across the entire investment industry, their formulation is such that they allow for tailoring to the individual circumstances of each signatory firm.

Starting in 2014, all asset owner and investment manager signatories are required (after a grace period of one year) to complete the PRI reporting framework on an annual basis. In 2014, more than 800[3] companies submitted their report to the UN PRI. The aim of this reporting framework is threefold: increasing accountability to the PRI in general, creating a transparency tool with a certain level of standardisation, and enabling assessment of progress of signatories over time.

RI assets worldwide

In 2014, the Global Sustainable Investment Alliance ("GSIA") released its second Global Sustainable Investment Review[4], which builds upon the first edition of 2012. This report describes the growth of responsible investing across the globe and highlights regional characteristics of sustainable investment in Europe, the United States, Canada, Asia, and Australia. The review also points towards future regulatory changes which may affect the responsible investing universe.

GSIA

The Global Sustainable Investment Alliance ("GSIA") is an international collaboration of membership-based sustainable investment organisations. Their mission is to deepen the impact and visibility of sustainable investment organisations at a global level.

The GSIA is a collaboration of seven of the largest sustainable investment membership organisations in the world: Association for Sustainable & Responsible Investment in Asia (ASrIA), European Sustainable Investment Forum (Eurosif), Responsible Investment Association Australasia (RIAA), Responsible Investment Association (RIA) in Canada, UK Sustainable Investment and Finance Association (UKSIF), US SIF, The Forum for Sustainable and Responsible Investment, and Vereniging van Beleggers voor Duurzame Ontwikkeling (VBDO) in the Netherlands.

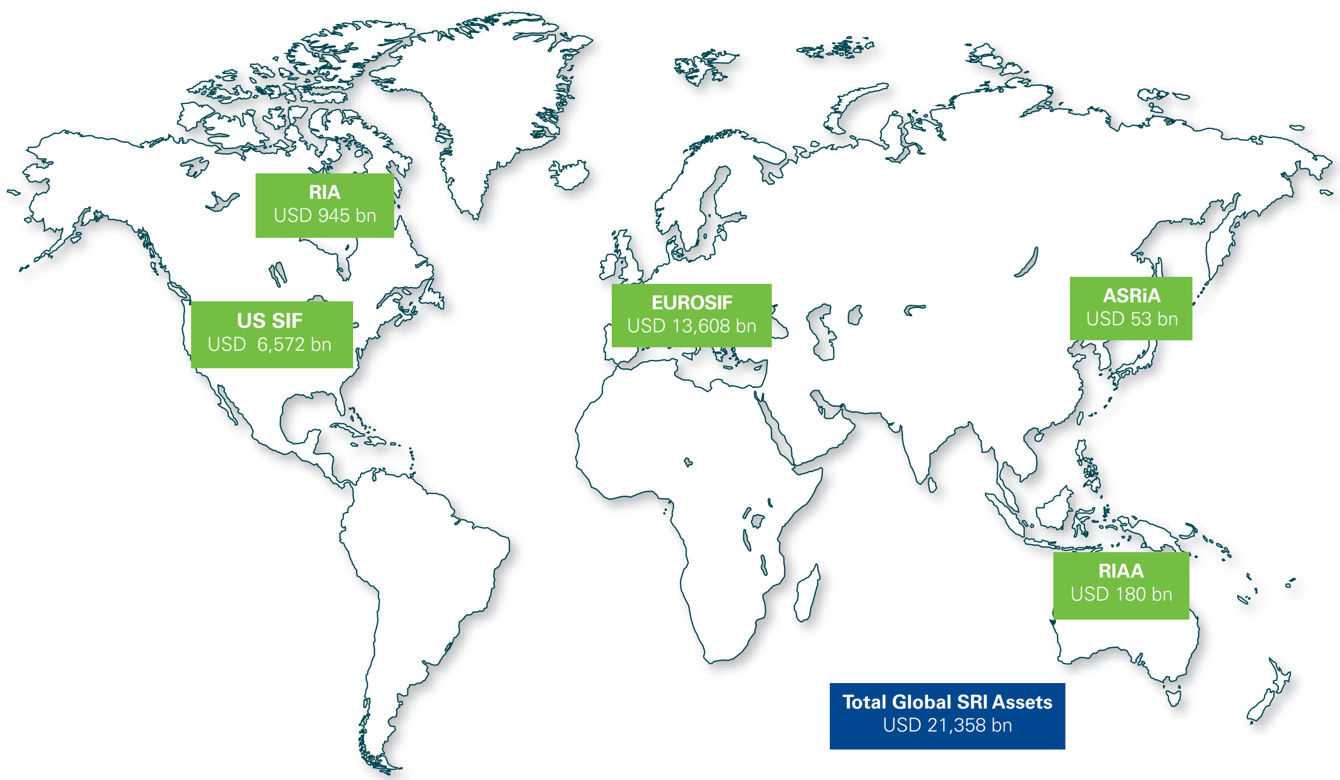
3 UN PRI Report on Progress 2014 http://2xjmlj8428u1a2k5o34l1m71.wpengine.netdna-cdn.com/wp-content/uploads/2014_report_on_progress.pdf

4 http://www.gsi-alliance.org/members-resources/global-sustainable-investment-review-2014/

According to this report, the estimated size of the global sustainable investment market managed in the regions covered, is at least USD 21.4 trillion at the beginning of 2014.

The global market for RI is driven by Europe, representing more than half of the total assets. The United States as well as Canada and Europe have seen the largest growth rates. These figures should be used with some caution as the definitions and methodologies used by the different SIFs vary quite significantly, but they do give a good indication and a base line to measure the evolution of the global market.

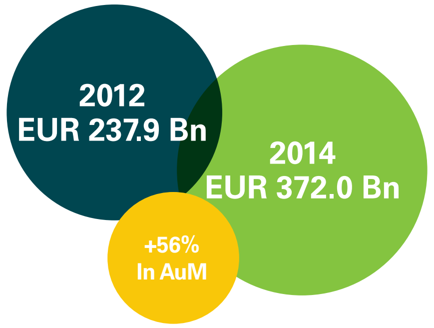
Global SRI Assets by Region (in USD billion)



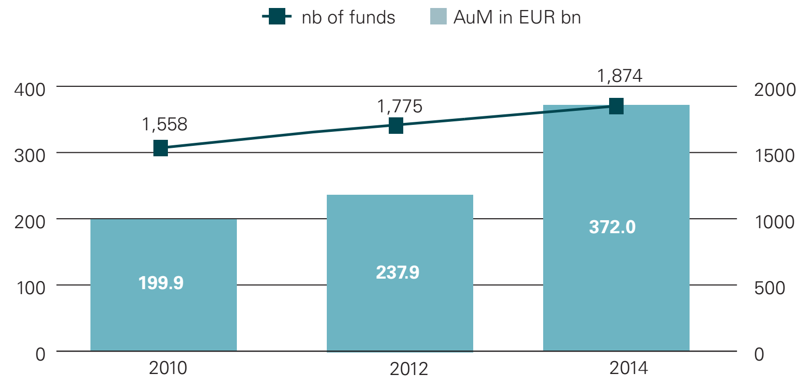
Source: Global Sustainable Investment Review 2014, GSIA

In order to appropriately understand and interpret the data sourced from the GSIA publication, Global Sustainable Investment Review 2014, we recommend that readers refer to that publication for further information.

III. OVERVIEW OF RI FUNDS IN EUROPE[5]

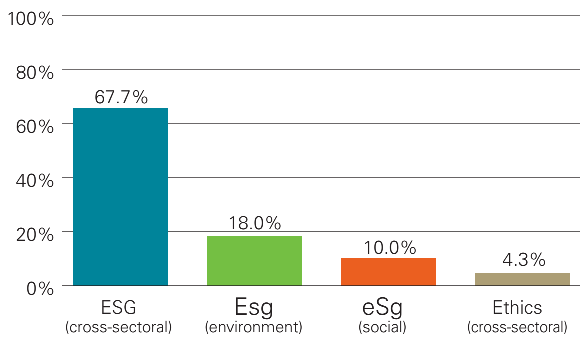


European RI funds evolution

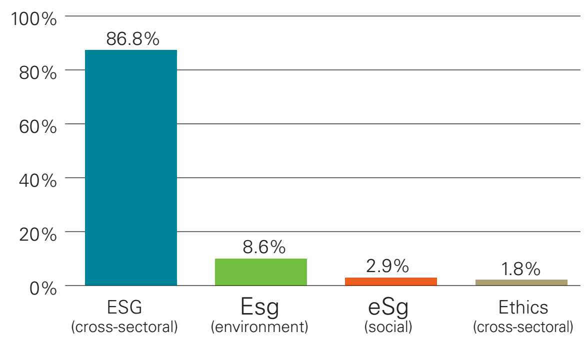


By categories

RI in nb of funds
Total = 1,874 funds

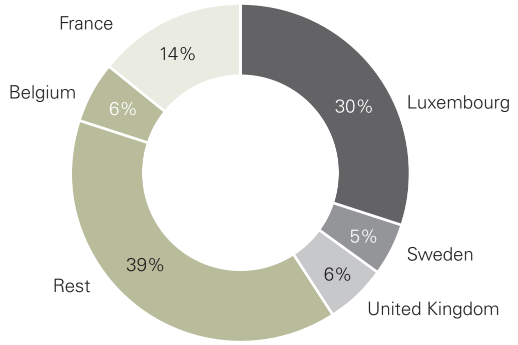


RI in AuM
Total = EUR 372.0 billion

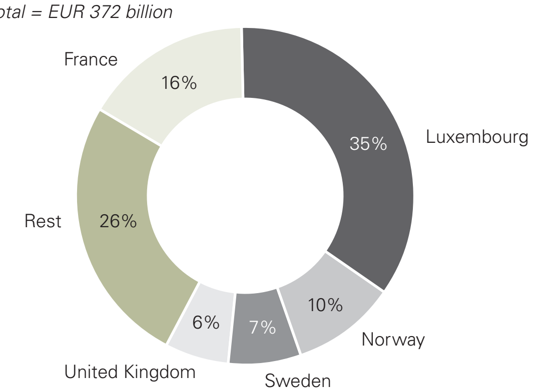


By domicile

RI in % of nb of funds
Total = 1.874 funds



RI in % of AuM
Total = EUR 372 billion



5 It is important to outline the difference in terms of scope between the previous section "Responsible Investing across the globe" and this section. Whilst the figures mentioned in the previous section include all types of investments ranging from investment funds to dedicated mandates and segregated accounts, this section will solely focus on investment funds domiciled in Europe, Cayman Islands and Bermuda.

As of December 2014, the RI fund universe in Europe represented 1,874 funds with total assets under management of EUR 372.0 billion. Since 2012, the AuM increased by 56% while the number of funds increased by 6%.

In comparison to the European fund market as a whole[6], this represents 3.3% of the total assets and 3.4% of the total number of funds. However, although still very small, the proportion of RI assets has increased by 0.5% since to 2012.

Looking at the segmentation of funds, more than two thirds of the RI funds apply either a positive or a negative screening of their potential investments rather than any particular investment theme (e.g. environmental). Back in 2012, the ESG (cross-sectoral) funds represented around 83% of the total AuM of the RI universe.This share has increased to 87% in 2014.

Thematic funds (being environmental, social or ethical in focus) represent approximately one third of the RI funds landscape in terms of number of funds, but only 13% of the AuM in 2014.

Funds investing in environmental themes remain the biggest portion of thematic funds in general. Despite a considerable decrease in AuM from 2010 to 2012, Esg (Environment) funds recovered over the past two years and reached EUR 31.8 bn as at 31 December 2014. Investments in social funds have grown by 62% since 2012 in terms of assets under management which aligns with the growing interest in this sector. Similarly, ethical funds have also experienced growth over the last two years, albeit slightly lower. Despite this growth indicating continued interest in those two categories, they still remain niche.

With regards to distribution, 22% of the RI funds[7] are sold cross-border. France and Belgium are dynamic distribution markets, certainly due to their historic commitment to RI in the early days of the industry.

The majority of the RI funds analysed[8] invest globally and do not apply geographical restrictions over their investment universe. 23% of the European RI funds invest in the Eurozone or in Europe at large.Whilst funds investing purely in emerging markets solely represent 5%, our discussions with asset managers indicate that this is a growing market for RI investing as the quality of the extra-financial information of target investments continues to improve.

Across RI funds, investments in equities represent 41% of the total AuM at the end of 2014, which represents a significant increase compared to the 34% level at end of 2012. Assets invested in bonds represent 25% of the total assets in 2014. As for money market funds, their share decreased from 22% in 2012 to 14% in 2014.This can almost certainly be attributed to the levels of returns available on different asset classes.

HIGHLIGHTS

- The RI fund universe in Europe, identified in this study, comprises 1,874 funds with total AuM of EUR 372.0 billion;
- The proportion of RI assets compared to the total assets in European funds has increased by 0.5% since 2012;
- More than 2/3 of the RI funds apply either a positive or a negative screening. They represent 87% of the RI assets;
- Thematic funds (being environmental, social or ethical in focus) represent approximately 1/3 of the RI funds landscape in terms of number of funds, but only 13% of the AuM;
- Funds investing in environmental themes remain the biggest portion of thematic funds in general, although this is declining;
- Luxembourg dominates the RI fund landscape, with about 30% of the total number of funds and 35% of AuM.

6 As of December 2014 and according to EFAMA, there were 55,550 investment funds totaling AuM of EUR 11,341 billion.

7 We were able to obtain the distribution markets for 1,492 funds (79.6% of the total number of funds).

8 We were able to obtain the geographical focus of investments for 1,492 funds (79.6% of the total number of funds).

IV. EMERGING TRENDS AND CHALLENGES

In the 2013 edition of this study, a number of industry opportunities and challenges were identified, along with where we hope to be tomorrow.

- ESG Integration, as a strategy, has been gaining ground and it was expected that we would see improved integration of ESG considerations into investment processes in a more consistent and transparent manner.
- From a Distribution perspective, it was expected that institutional investors will continue to lead the way, but that there is potential for the retail market to grow through clear and tailored messaging.
- Transparency initiatives continued to appear, and in order to add credibility to such initiatives, third party assurance was expected to become "best practice" to ensure consistency, comprehensiveness and robustness of RI reporting and processes.
- Investors had shown an increasing willingness to measure positive impact of investments, within an Impact Investing strategy and the development of meaningful indicators to demonstrate positive impact was expected.
- There was still a gap between ESG Research produced and how this research was actually used – it was expected that portfolio managers begin to systematically integrate such ESG research into investment decisions.

We believe, over the last two years, that the industry is progressing within these areas. It seems that asset managers are improving their RI processes, particularly the more specialised ones, ensuring systematic consideration of ESG research in investment decision making, as well as more robust and consistent integration of ESG factors in the application of ESG[9] Integration investment strategies. The UN PRI has now implemented its reporting framework and we see new fund labels, such as the LuxFLAG ESG fund label, or announcements of a new fund label by the FNG[10].

9 LuxFLAG is the Luxembourg Fund Labelling Agency «http://www.luxflag.org» www.luxflag.org

10 Forum Nachhaltige Geldanlagen, is the industry association promoting sustainable investment in Germany, Austria and Switzerland. http://www.forum-ng.org

Evolution and state of the RI industry

But there are new topics which are also attracting attention in product innovation, the changing profile of the "typical" responsible investor, as well as the continued discussions around the above topics already highlighted in 2013.

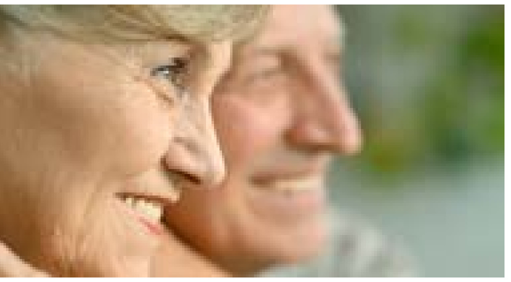
In this section of the report we hope to fuel discussions around the evolution and state of the industry, to highlight opportunities, challenges and questions which the RI industry players will need to address to continue down the current path of growth and development.

MORE SPECIFICALLY WE WILL EXPLORE THE FOLLOWING TRENDS AND CHALLENGES:

- What could an investor look like in 2030 and what about today's Responsible Investor?
- Who and what are driving the sector today?
- ESG Integration continues
- Is transparency evolving in the right direction?
- Product Innovation – what is trending – green bonds, social bonds, circular economy, impact investing
- How is the responsible investing sector poised to capture theopportunities and address the challenges that the future will bring to the investment management industry?

"In this section of the report we hope to fuel discussions around the evolution and state of the industry, to highlight opportunities, challenges and questions which the RI industry players will need to address to continue down the current path of growth and development."

What could an investor look like in 2030?



Profile

While there may be fewer 'typical' investors, there are likely to be more investors located in different places, with different needs, social, political and economic attitudes, lifestyles and income patterns.

Institutional investors are also likely to continue to change in profile. Sovereign wealth funds are likely to play an even greater role. Defined benefits providers will probably continue to decline and be replaced by new collectively defined contribution schemes, new risk-sharing pensions or healthcare savings vehicles. The advent of megacities could also act as important force shaping the institutional client landscape.

Needs

Investors are likely to need to increase their level of engagement with the industry. A greater proportion of the population will probably need to manage their finances more actively to take control of their financial future.

They are likely to look for financial support to cover a greater proportion of their lives, rather than focusing exclusively on saving for retirement.

With financial literacy remaining low across the globe, the industry may be expected to provide better advice, information, education and support as investors seek to better manage their personal finances.

As investors experience an increasing number of life events, the flexibility to adapt and change their investment portfolio will become more critical.

> "*Nobody can predict the future. However, one thing is clear, it will be very different to today. We believe that a number of deeply-rooted forces – megatrends – are driving fundamental changes within the investment management industry*[11]."

Wants and expectations

Investors are likely to expect organisations to understand them, treat them as individuals and customise and tailor service models to suit their specific requirements.

Investors will increasingly look for brands they can trust. In an industry currently suffering from high levels of consumer mistrust, investors are likely to assign increased value to trusted brands, particularly as awareness of issues such as data security, confidentiality and privacy increases.

In tomorrow's world, simplicity, transparency, honesty and integrity are likely to be regarded as more important buying criteria.

Investors will probably want less risk and more certainty so they can be confident that the products in which they are invested will deliver the intended outcomes. As a result, they are likely to expect better solutions to their individual needs and may also want to 'lock down' value earlier in a product lifecycle.

Interactive service models, 24/7 connectivity and access to relevant and timely information via a wide variety of media types will increasingly be expected as the norm.

11 Source: Investing in the future, 2014, KPMG International

Behaviours

Investors may increasingly trust and value advice from alternative sources. Decisions are likely to be influenced not only by their peers, friends and colleagues, but also the opinions of online groups and social media communities, which may span countries, cultures and which will almost certainly be comprised of strangers.

Investors are likely to be more willing to consider non-traditional alternatives to 'traditional' savings and retirement products, either as a result of increased availability and investor awareness, social and peer pressures or ongoing mistrust in the traditional financial services industry.

As the pace of technological advancement continues to increase, investors' willingness to adopt new products and technologies is also likely to grow. Their dependency on such technologies will almost certainly increase at the same time.

Multitasking and time scarcity is likely to continue to escalate, prompting more investors to look for time-saving solutions, single point of access and aggregation across a range of providers.

THE RESPONSIBLE INVESTOR IN 2030

By 2030 we can expect investors to be fully embracing the ESG factors which still seem to be optional today. Investor profiles will become more varied, institutional investors will continue to evolve – sovereign wealth funds are likely to play a greater role and new savings vehicles will emerge. Investors will become more engaged and will need longer-term, yet more flexible solutions. Investors are likely to expect a personalised service model and will look for a brand they can trust. Simplicity, transparency, honesty and integrity are likely to be regarded as more important buying criteria, maybe even at the expense of financial performance.

THE INSTITUTIONAL INVESTOR OF THE FUTURE

What will he want?

- Tailored RI products designed just for him
- Open and simple investment platform/portal
- Flexible and adaptable products which accompany him and his clients through their life
- Asset manager with strong brand
- Product simplicity, transparency, flexibility will become as important as financial performance
- Social media may influence many decisions

The profile of today's responsible investor

Profile:

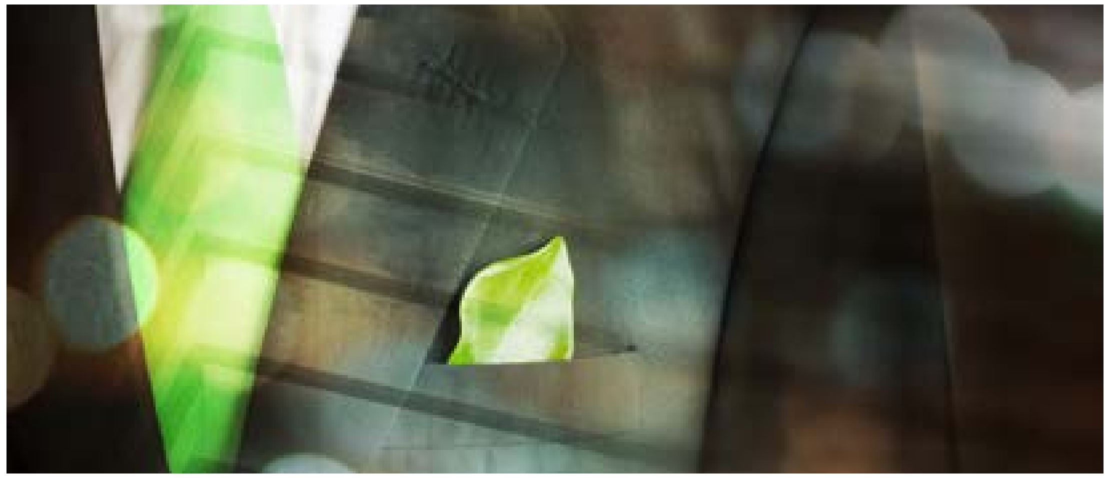
- European Insurance Company or pension fund
- UN PRI signatory
- Accountable to thousands of members for their long term savings
- His assets must be managed "responsibly"
- CSR is at the top of his corporate agenda

What he wants:

- To lead by example for fellow institutional investors less advanced than himself
- Contribute to sustainable development as a whole
- Lead the way for the retail market
- Demonstrate that it is possible to achieve financial and sustainable performance at the same time

What worries and challenges him today:

- Achieving long term sustainable financial performance
- Are asset managers using ESG appropriately to effectively manage risks?
- Fulfilling fiduciary duties towards shareholders and members – the concept encourages short termism and yet he believes in long term focus
- How to best embed RI performance into asset manager mandates, and then effectively monitor performance



Institutional versus retail investors

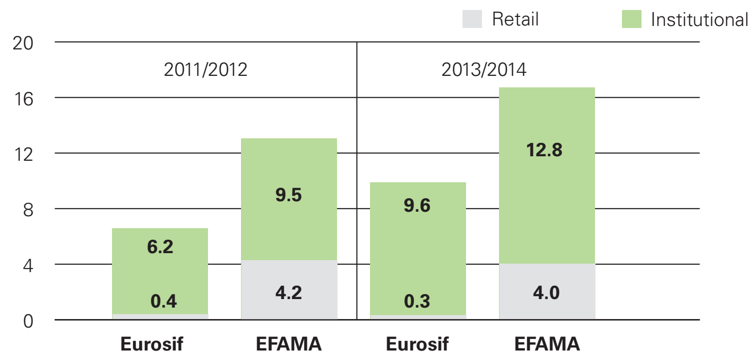
The RI market continues to be dominated by institutional investors[12], and will certainly continue on that course.

In the 2013 version of this study we asked asset managers where they saw the greatest RI growth potential - institutional or retail - and indeed whether there was place for both in the current market? Asset managers at that time indicated that there is room for both, but clearly most would devote their sales and marketing efforts towards the institutional markets, seeing significantly greater growth potential in the institutional space.

This approach has not significantly changed over the past two years and is confirmed by the Eurosif SRI Study 2014[13], which again ranks "Demand from Institutional Investors" as being the single largest driver of market growth, albeit slightly less important than in previous Eurosif studies. If we compare current attitudes towards market opportunities to those of two years ago, there appears to be little change – "the Institutional Investor is King and we will devote proportional sales efforts towards this market".

The latest Eurosif study[14] shows that the RI market continues to be dominated by institutional investors. The chart below shows that the RI retail market represents only 3.4% of the AuM (compared to 5.9% 2 years previously). Additionally, the chart shows that, as well as retail representing diminishing proportions of the total market, despite overall market expansion, absolute RI assets held by retail investors have also decreased – this is not very encouraging, although is somewhat justified by similar relative statistics from EFAMA[15] showing the state of the European asset management industry as a whole.

Institutional vs Retail AuM in EUR trillion



Adapted from Eurosif SRI Study 2014 and EFAMA 7th Annual Review 2014

We refer to Appendix 1 of this study which reproduces the challenges highlighted in the 2013 version of this survey. The Distribution challenges of two years ago remain very relevant. Although the market is evolving in areas such as transparency, and certain retail banks are taking a much greater interest in the retail sector, addressing certain of the challenges identified previously, there is still progress to be made. The sector has its work cut out to start working to seize the opportunities and meet the expectations of the "2030 investor".

12-14 Eurosif SRI Study 2014 http://www.Eurosif.org/our-work/research/sri/european-sri-study-2014/

15 Source: EFAMA – 7th Annual Review, Asset Management in Europe, June 2014 http://www.efama.org/statistics/SitePages/Asset%20Management%20Report.aspx

Institutional Investor Demand is driving RI market growth

Asset Managers lose business due to lack of RI product offering

Investors are becoming more and more demanding.

Investors are becoming more and more demanding. Due to younger generations being ever more critical of unethical behaviour, investors are beginning to expect social and ethical responsibility in all aspects of corporate operating practices. Hence, there is a growing acceptance among asset managers and investors about the importance of Environment, Social and Governance ("ESG") factors to investment returns.

Many Institutional Investors are no longer prepared to work with asset managers which do not offer RI products. We have noted a number of cases of investors withdrawing mandates from asset managers with limited or no responsible investing policy and process.

RI market players are systematically confirming that this stance taken by institutional investors is by far the biggest driver of RI market growth. Institutional Investors are also making their position clear – look at the recent lead taken by the UK pension fund sector in January 2015: sixteen of the UK's largest pension funds have joined forces to publish a guide[16] which they hope will improve how asset managers report back to their investors on the ways they are integrating ESG factors into their investment decisions. Leadership initiatives such as this, can only contribute to a positive evolution in terms of "quality" RI strategies as well as growth in terms of assets under management.

> *SRI does not generate additional costs for portfolio performance compared with conventional investments. Therefore, investors should perceive SRI as a better way to invest, as they can achieve high performance and still address environmental, social and ethical concerns. In this case, SRI provides extra-financial added value: investors obtain both financial and SRI performance[17].*

16 http://www.napf.co.uk/PolicyandResearch/DocumentLibrary/0424_guide_to_responsible_investment_reporting_in_public_equity_published.aspx

17 Revelli, C. and Viviani, J.L. (2014), « Financial Performance of Socially Responsible Investments (SRI): What have we learned? A Meta-Analysis », Business Ethics: A European Review, forthcoming, DOI: 10.1111/beer.12076.

Demand for ESG integration continues

DEFINITION

ESG integration is the explicit inclusion by asset managers of ESG risks and opportunities into traditional financial analysis and investment decisions based on a systematic process and appropriate research sources[18].

Over the last few years since KPMG has been completing this survey, we have been witnessing the emergence of ESG integration in the strategy as well as communication of many of the largest asset managers. Increasing numbers of asset managers are now declaring that they are integrating ESG considerations across all their funds, whether "pure RI" funds or mainstream funds. The figures in this study and the prior 2013 edition show that certain asset managers have already made the move to re-categorise all their funds as RI funds and others continue to move fast in that direction.

Additionally, several interviewees of this survey mentioned the increasing tendency of asset owners to request their asset managers for a higher degree of ESG integration. The necessity for asset managers to comply with the mandates given to them by asset owners requires them, in turn, to stay up-to-date and be prepared for these demands in order to not miss new business opportunities or, even worse, loose existing clients due to a lack of said preparedness. Interviewees described this to be "a healthy discussion within the market" about this relationship between asset owners and asset managers.

Although, in principle the ESG integration approach seems pretty straightforward, there is enormous disparity in the methods used by asset management companies to integrate ESG analysis into investment decisions. On the one hand, some make ESG research available to portfolio managers for consideration during the investment decision should the manager deem appropriate. Others have created qualitative rating systems, based on subjective judgments made by a specialist team and rolled out to all portfolio managers. Others have even more sophisticated approaches.

Advocates of ESG integration declare that this increasingly widespread inclusion of ESG analysis into the investment decision process is a major step forward to mainstreaming, as it moves the RI activities of the asset management company from a very often small, isolated department up to a strategic transversal level. ESG information, combined with traditional financial information, becomes an additional layer enabling a more comprehensive view of the risks and opportunities of a target investment. ESG data is therefore used not independently of financial analysis, but as a means of enhancing financial analysis directly.

18 Eurosif SRI study 2014

Critics argue that ESG integration is a diluted approach where portfolio managers are using minimum ESG standards to inflate the numbers of Responsible Investing assets under management.

In its 2014 study [19], Eurosif has attempted to tackle this debate head-on by taking the excellent initiative to divide ESG integration into three categories, attempting to allocate estimated assets to each:

Category 1 ("non systematic ESG integration"): ESG research and analyses made available to mainstream analysts and fund managers;

Category 2: Systematic consideration/inclusion of ESG research/analyses in financial ratings/valuations by analysts and fund managers;

Category 3: Mandatory investment constraints based upon financial ratings/valuations derived from ESG research/analyses.

Going forward Eurosif will only consider categories 2 and 3 as being consistent with their ESG integration definition. We see this move as a critical step in trying to separate out those asset managers which are "green washing" and those which have implemented a robust ESG integration strategy.

> *There is a big opportunity and challenge in ESG integration. Many investors are investigating how best to integrate relevant environmental, social and governance factors into the investment process, into their decisions. This is being embedded from several perspectives: risk management, investment beliefs, and values. This means that integration will mean different things to different investors.*

This approach, however, does raise an obvious question – how can an investor be sure which category his asset manager's integration strategy actually falls into – and this leads us onto another key topic for the investment management industry as a whole: Transparency.

19 European SRI study, 2014, Eurosif

Transparency

Similar to advancements and innovations in the technology industry, consumers in the financial services sector today ask for simple and transparent products [20], which facilitate the evaluation and decision-making process. As the responsible investing market progresses in terms of size and maturity, transparency and disclosure become a critical requirement for assessing RI products.

In Europe, several initiatives have been developed or are currently underway to promote transparency and accountability relating to RI products.

- The EU Directive on the disclosure of non-financial information will affect the RI industry encouraging and facilitating more investors to take ESG criteria into account in their portfolio management processes.
- Since 2004, Eurosif has been encouraging the adoption of their "European SRI Transparency Code" (last updated in 2013). The objective of this code is to enable stakeholders to understand the policies and practices of RI funds as the fund company publishes accurate, adequate and timely information. In France and Belgium, the adoption of this code is already mandatory, and Eurosif expects international acceptance of this code to grow further in the future [21].
- The EU Shareholder Rights Directive aimed at increased transparency and the facilitation of exercising shareholder rights will exert pressure on investors to publicise a complete view on long-term performance which includes the creation of both – shareholder and societal value.

Besides reporting or signing up to a set of standards, fund labelling can be another means to promoting transparency and accountability in the RI universe, which is not to be underestimated in significance in a dynamic and steadily growing market.

Labels can serve the important purpose of creating trust in the quality of the product, enhance the credibility of claims made by the organisation and demonstrate an organisation's willingness to conduct business in a responsible manner. However, in order to achieve these goals it is vital for firms to communicate clearly about the details entailed by the label and methodology applied during the labelling process.

A move towards providing a more complete view on financial as well as non-financial performance (corporate as well as societal/environmental value) is needed. Increasing disclosure could help asset owners to manage ESG-related risk exposure more effectively, optimise their longer-term investment performance, and meet their fiduciary duties [22].

20 Investing in the future, 2014, KPMG International.

21 European SRI study, 2014, Eurosif

22 A new vision of value, 2014, KPMG International

Labels often tend to be geared towards a local market, and substantial differences can be identified between the levels of detail included in such a label from one national culture to another. An international investor, therefore, faces the additional challenge of investigating varying labels and levels of detail when evaluating potential choices for his portfolio.

Although reporting, standards and labelling initiatives certainly contribute to transparency and accountability in the RI universe, the downside of all this is information overload which investors must deal with. A plethora of labels and standards will require more effort from an investor in order to make an informed decision about RI products. Moreover, any disclosure initiative, while welcomed, should not be introduced for the mere purpose of marketing and positioning of products.

Views on labels remain divided. On the one hand we have seen an acceleration of labelling activities in Europe over the last twelve months - LuxFLAG has launched a third label in 2014, focused on ESG funds, adding to their existing Microfinance and Environment labels; the French government has announced the development of a French SRI label, the FNG has announced their intention to develop a label for the German speaking fund market.

On the other hand, one of the outcomes of a recent EU multi-stakeholder forum on CSR[23], on 3-4 February 2015, was that the Commission should resist calls to establish a European SRI label as "marketing conditions vary considerably between countries".

LuxFLAG ESG LABEL

LuxFLAG launched its European ESG label on 21 May 2014. The ESG Label is granted to investment funds which meet specific criteria related to their respect of Environment, Social and Governance objectives. The Label is available to UCITS and AIFMD funds domiciled throughout Europe or in equivalent jurisdictions.

The label is in its infancy, however three funds have already been awareded the label from Nordea, Sparinvest and OFI Asset Management, with other applicant funds in the pipeline.

At the launch the Luxembourg Finance Minister, Pierre Gramegna said: "Over the past ten years, the responsible investment sector has grown at a rate that has outstripped growth in most other investment strategies. The LuxFLAG ESG Label is a new tool in the broad range of initiatives that encourage fund stakeholders to act responsibly and aim for the achievement of a better and sustainable future. We in Luxembourg strongly support this goal".

23 http://ec.europa.eu/growth/industry/corporate-social-responsibility/index_en.htm

Product innovation

The power of investors to influence the market, the growing visibility of RI and the "niche label" given to RI are all forces empowering RI industry players to develop new investment options and products. And on the back of the product innovation move by specialist RI asset managers and RI teams, the more traditional investment firms, who were not interested in RI before, are also showing interest to develop products and services to serve a market that is gradually no longer being characterised as niche.

They provide solutions to some of the most challenging issues of our time. While mainstream investors continue to learn about these new products, RI pioneers are moving towards more comprehensive integration, measurement and disclosure of investment portfolio impact, ESG opportunities and risks.

One particular area of innovation is raising capital through the debt market to fund projects or business activities with an environmental benefit ("green bonds") or with a certain social or community benefit in mind ("social impact bonds").

Both types of bonds are described in the following sections.

HIGHLIGHTS

- By the time we reach 2030, based on the wish list of our investor of the future, many investment management specialists are convinced that today's niches will be mainstream in the not too distant future – which is good news for RI.
- New products such as Green Bonds, Social Impact Bonds, Circular Economy focused products and the existing specialised areas such as impact investing are gaining popularity.

Green bonds

A green bond, like any other bond, is a fixed-income financial instrument for raising capital through the debt capital market. In its simplest form, the bond issuer raises a fixed amount of capital from investors over a set period of time, repaying the capital when the bond matures and paying an agreed amount of interest (coupons) along the way. The essential difference between green bonds and other bonds lies in the management and use of proceeds. Typically, proceeds are destined for projects such as energy efficiency, renewable energy, waste management clean transportation, etc[24].

By the end of 2014, the value of the green bond market exceeded USD 53 billion[25], indicating the fast pace at which this market is growing and the steadily rising interest in the product. Aside from the financial growth of this market, it is easy to see the increased interest in this new product by running data and analytics to assess how much focus is given to the topic in open internet sources such as Wikipedia.

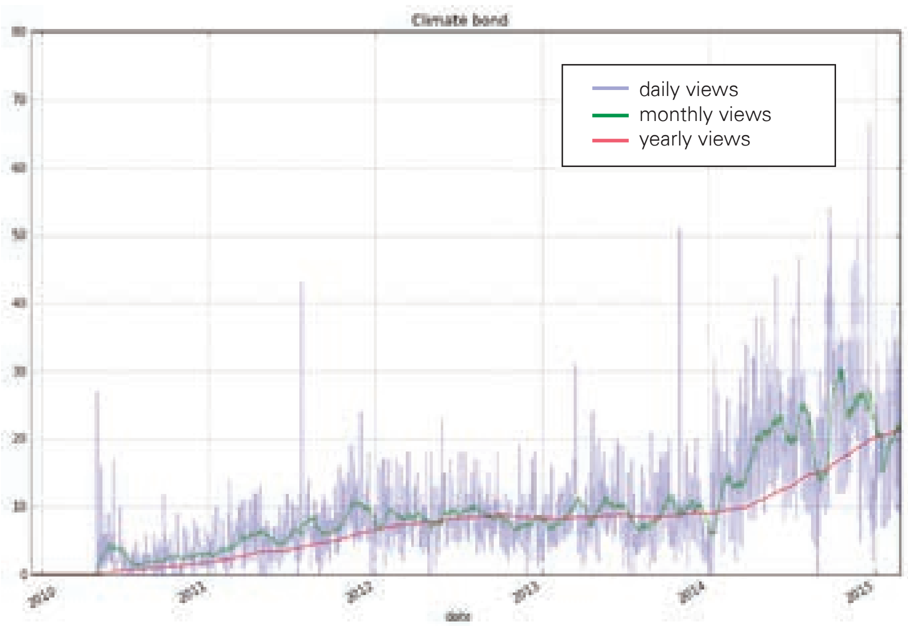
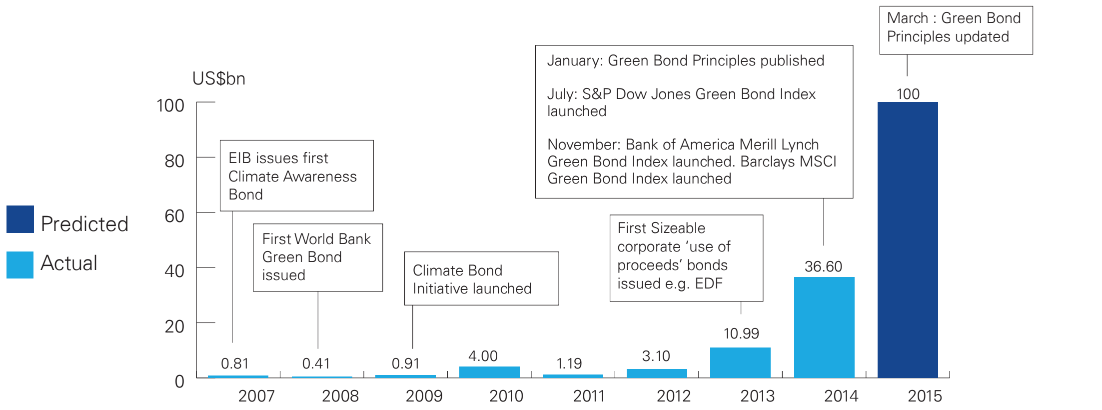


Chart «Climate Bond»: Developing SRI trends identified by the KPMG Luxembourg Data & Analytics team through an analysis of publicly available Wikipedia page view data

24 Sustainable Insight: Gearing up for green bonds – key considerations for bond issuers, 2015, KPMG International

25 http://www.climatebonds.net/files/files/Year%20end%20report%202014.pdf

In 2007, the first green bond (or "Climate Awareness Bond") was issued by the European Investment Bank ("EIB")[26]. Since then, other institutions as well as corporates have started to issue green bonds and this growth is likely to continue.



Source: Gearing up for green bonds – key considerations for bond issuers, 2014, KPMG International, adapted from Climate Bonds Initiative and Barclays MSCI
http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/sustainable-insight/Documents/gearing-up-for-green-bonds-v1.pdf

Considering the success of this financial instrument and the likelihood of the market's continued growth, the need for clarity and transparency as to what can be defined as "green" is clear. Today, issuers can self-declare their bonds to be "green". However, the lack of a market standard or commonly defined set of rules challenges the credibility and transparency of such declarations – here there is a significant parallel with the RI market as a whole and the challenge of a lack of standardised definitions. This has given rise to the development of guidance such as the Green Bond Principles ("GBP")[27] or the Climate Bonds Standards ("CBS")[28]. Both comprise a voluntary set of standards for green bond issuers, developed by a group of financial institutions and a non-profit organisation respectively. The GBP provide general guidance for the processes included in issuing green bonds, managing the proceeds, evaluating and selecting projects and reporting and are thus applicable to different types of "green" projects. The CBS on the other hand, provide specific definitions of "green" for a number of different sectors, such as solar energy, wind power, etc.

In spite of these two sets of guidelines, a clear definition of "green" still eludes the green bond market and missing assurance requirements continue to fuel the debate on the accountability and reliability of information which is reported to investors. Future discussion on the alignment of what investors consider to be "green" and what issuers self-declare to be "green" is needed, with the ultimate objective of arriving at a transparent set of standards which can be tested and assured in order to ensure credibility and enhance trust within this market segment.

26 http://www.eib.org/investor_relations/cab/index.htm

27 http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/green-bond-principles/

28 http://www.climatebonds.net/standards

Social Impact Financing

Social Impact financing, sometimes in the form of Social Impact Bonds ("SIB"), target investments, where capital is specifically directed to traditionally underserved individuals or communities with a certain social purpose. In essence, similar to green bonds, capital is raised through the debt market, but instead of earmarking proceeds for environmental purposes, social benefits are the objective. Focus areas of SIBs include (among others) the healthcare sector, education, social housing, etc.

The underlying concept of a SIB is the "pay-for-success contract" between the organisation which addresses a societal need and the investor who provides the funding. Investors receive a financial return based on the measurable success which the organisation is able to deliver. For instance, a social enterprise active in social housing, would measure the homelessness rate within a certain area and time frame. Should there be a reduction compared to the previous time period, the investor would receive a financial return[29].

The first SIB was issued in the United Kingdom in 2010 and since then, bonds have also been created in Germany, Belgium and the Netherlands, demonstrating the growing attention which this product receives.

29 European SRI Study 2014, Eurosif

CIRCULAR ECONOMY

Although specific products for the financial sector are yet to be developed, this concept should not be overlooked in connection to responsible investing.

Circular Economy allows for large scale innovation and the creation of a substantial competitive advantage for companies which choose to actively address the topic of ever-growing resource scarcity in their business models.

The economic and social risks associated with scarcity are creating a range of interesting investment opportunities which many organisations have already incorporated into investment strategies[30].

Companies buying into circular economy principles need to adopt new business models. In particular this means moving from selling products to selling services. In these business models, companies retain property rights to products, which incentivises them to reduce environmental impact by designing for longevity. Implementing and scaling these circular business models requires significant financial investment. Circular economy companies' investment requirements are twofold.

They must finance the ownership of products for a longer time than in a linear model, as the revenues from customers are linked to use or performance and trickle in over the lifetime of the product. Second, existing businesses moving from a linear to a circular business model need investment to change established systems, such as setting up a different revenue model.

The interest and ability of different sources of finance to meet these investment needs varies. Currently, debt is the primary source of finance to fund circular businesses[31]. Most debt finance comes from banks although "circular economy bonds" could be an important tool in the future – the challenge will be accessing this market for the smaller circular business which have not reached a high enough level of maturity and scale as yet. This could be another opportunity for innovation for the RI market – financing the move to a circular economy. The interest in the topic has been gaining momentum and represents a window of opportunity not to be ignored.

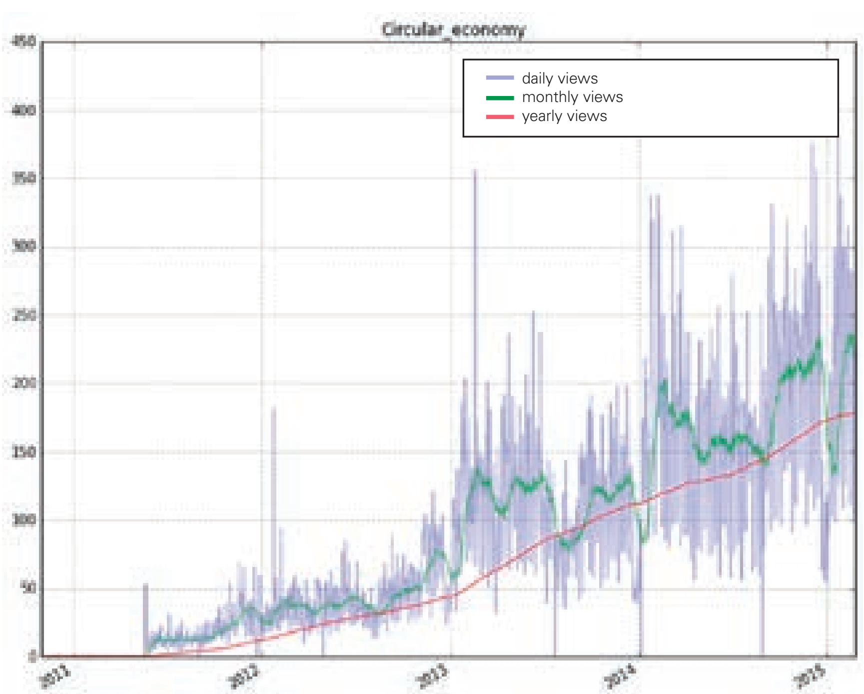


Chart «Circular Economy»: Developing SRI trends identified by the KPMG Luxembourg Data & Analytics team through an analysis of publicly available Wikipedia page view data

30 Investing in the future 2014, KPMG International

31 http://www.theguardian.com/sustainable-business/2014/sep/17/circular-economy-business-model-access-finance-investment, Beate Sonerud

Impact Investing

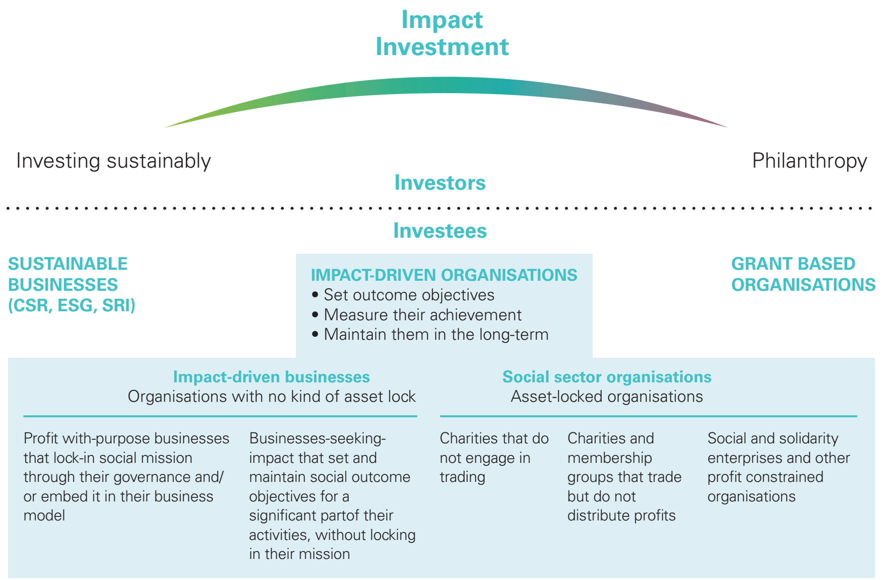
DEFINITION

Impact investments are investments made into companies, organisations and funds with the intention to generate a measurable social and environmental impact alongside a financial return. (source: the Global Impact Investing Network)

We have been seeing a flurry of international initiatives including the World Economic Forum and the G8 examining the case for Impact Investing and how it is becoming increasingly relevant in today's economic environment, as social challenges increase and yet public funds available to contribute to solutions decrease.

In the recent report[32] issued by the Social Impact Investment Taskforce[33], it was highlighted that the world is on the brink of a revolution in how we solve society's toughest problems. The force capable of driving this revolution is impact investing, which harnesses entrepreneurship, innovation and capital to power social improvement. Impact Investing is at the core of a broad "impact continuum", that runs from philanthropy to responsible and sustainably investment, which includes all those seeking to achieve a positive impact[34]. Imagine if asset owners, such as the signatories of the UN PRI, with their EUR 39 trillion of assets were to allocate a mere fraction of their asset allocation to impact investing; this would start accelerating impact investing on a rapidly expanding path to mainstream, similar to that of venture capital and private equity some ten to twenty years ago.

THE IMPACT CONTINUUM



Source: Social Impact Investment Taskforce

32 Impact Investment: The Invisible Heart of Markets", a Report of the Social Impact Investment Taskforce issued on 15 September 2014

33 The Social Impact Investment Taskforce (SIITF) established under the U.K. Presidency of the G8, formed in June 2013 has a remit to catalyse a global market for impact investment by identifying what can be done to grow the market and reporting findings in a final series of thought leadership publications.

34 Impact Investment: The Invisible Heart of Markets", a Report of the Social Impact Investment Taskforce issued on 15 September 2014

The SIITF Impact Continuum shows how social impact investing lies between sustainability (specifically referring to CSR, ESG and SRI) and philanthropy, but does not include either – only investments (e.g. not grants) that proactively seek a measurable social impact alongside a financial return.

Along with the number of thought leadership reports focussed on the impact investing sector, the financials also support the big picture - the impact investing market is booming. Eurosif has found that the European impact investing market is the fastest growing of all the RI strategies with +131.6% growth between end of 2011 and 2013. Irrespective of the fact that the absolute assets remain relatively small, this development is very interesting and is perceived as a real move towards the journey to build scale.

Although impact investing has displayed impressive growth, challenges and obstacles remain to further advance the progress in this market segment. Potential barriers to future development as identified by Eurosif include:

- Lack of viable products/options
- Lack of qualified advice/expertise
- Mistrust/concern about greenwashing
- Performance concerns
- Risk concerns

These mainly concern institutional investors who currently display a tendency to refrain from impact investing. It is from the group of high net worth individuals, family offices and foundations that the majority of impact investors are coming for the time being. In the absence of a track record of success stories on how to manage risks and how to measure outcomes in a meaningful manner, as well as difficulties in identifying relevant and viable larger scale projects, large institutional investors are on the lookout for qualified support to address these topics and to contribute to this sector, albeit very niche. In order to scale up impact investments, the institutional sector will absolutely need to get involved to increase the volumes and move the sector to mainstream.

Luxembourg Impact Investing Platform (LIIP)

Growth in impact investing is also supported by many local initiatives. A recent and excellent example of this is the launch of the Luxembourg Impact Investing Platform (LIIP). The Luxembourg marketplace has recognised the potential of this sector, but also the fact that Luxembourg remains a challenging domicile for small impact investment advisors and promoters to launch their products. In response to this challenge and to continue reinforcing initiatives to support impact investing, the LIIP will be launched, to serve as an incubator with the aim to contribute to the development of this sector, by establishing an umbrella fund structure with compartments for "rent" to small impact fund initiatives on a white-labelled basis.

The readiness of the RI market

How is the responsible investing sector poised to capture the opportunities and address the challenges that the future will bring to the investment management industry?

The Responsible Investing sector is ahead of the game and certain players are poised to seize opportunities presented by the changing industry landscape. Both RI asset managers and RI investors are extremely well positioned to leverage their current operating models and translate those into tomorrow's growth and opportunities. KPMG International's 2014 report, Investing in the Future[35], has identified and examined a number of deeply-rooted forces – megatrends – which are driving fundamental changes within the investment management industry as a whole. The four principal drivers of change are the following:

Demographics

Demographic trends will not only magnify the need for effective investment management, but over time, they will radically change the nature of the challenge and an investment manager's potential client base.

Technology

Technological developments continue to act as major drivers of social, economic and environmental change, creating new opportunities and disrupting existing business models.

Environment

Resource insecurities are changing the nature of investment opportunities and demand for risk protection, as well as increasing the for risk protection, as well as increasing the importance of socially responsible corporate behaviors and investment strategies.

Social values, behavior and ethics

Technology and the internet have combined to revolutionize how a large proportion of the world's population interacts, communicates and behaves.

These megatrends will drive change across the industry, but if we drill down into certain aspects of these megatrends, it is very quickly clear that industry players embracing RI principles already have a competitive advantage. Two of the key challenges for asset managers of the future will come from product innovation and transparency.

Opportunities lie in product innovation

While the search for return is likely to further increase the diversity of the underlying investment base, it is also expected that many of the current investment niches will become more embedded in standard industry practices. As environmental and social awareness levels and concepts such as responsible capitalism continue to grow, this is expected to have a direct positive impact on the mainstreaming of SRI or ESG investment strategies. Despite the exponential growth that RI has witnessed across the globe, it still remains a small proportion of the investment management industry's total assets under management, given concerns regarding a perceived performance trade-off[36]. While in other industries, consumers may be prepared to pay a premium to support sustainable and/or ethical behaviour, fiduciary responsibilities within the investment management industry could pose a more significant barrier, although that is up for debate.

However, there are many initiatives which have been taken attempting to change this perception around performance. Research published by Bank of New York Mellon in 2012 based on a survey of 1,100 of its clients suggests that 80 % of firms believe there is no performance trade-off between SRI/ESG strategies and traditional investments. Similarly, a study by Harvard Business School, which analysed the share price of 180 companies over 18 years, found that the 90 companies at the forefront of implementing sustainability programs were significantly outperforming their peers[37].

This mainstreaming can only present opportunities for asset managers and investors, currently perceived as niche players; but who tomorrow will apply their skills and experience to effectively address the markets demand for more ESG products.

Investors will be looking for tailored products. Outcome orientated propositions will continue to gain in popularity and current investment niches will move mainstream.

35 http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/investing-in-the-future/Documents/report-fs.pdf

36 Bank of New York Mellon, "Trends in Environmental, Social, and Governance Investing", Oct 2012

37 Harvard Business School, "The Impact of Corporate Sustainability on Organisational Processes and Performance", 29 July 2013

Investors will be looking for simplicity and transparency

The other key opportunity for RI specialists which leaps out of the Investing in the Future megatrends is the investors' desire for simplicity and transparency.

The other key opportunity for RI specialists which leaps out of the Investing in the Future megatrends is the investors' desire for simplicity and transparency. Whereas in the past technological innovation and advancements often resulted in companies increasing the complexity of products and services, consumer demand is now clearly favouring transparency and simplicity. This is particularly true in the financial services industry as it grapples to restore trust, recover post- crisis and respond to a raft of regulatory changes designed to improve transparency. Many debates around product simplicity have already been raged by RI practitioners – many have already come to the conclusion "if the investor cannot understand the product, then it should not be labelled as an RI product". The RI sector is used to transparency – most RI asset managers and bigger investors now produce annual RI reports describing RI performance across their assets under management.

What we expect to increasingly see is that future success will not be solely driven by investment performance as it has so often been in the past. Investors are now looking for outcomes, solutions, information, education and greater visibility and transparency and this will be as, if not more important than performance.

Initiatives like the one implemented by RobecoSAM, where all fund fact sheets include a short qualitative commentary from the fund manager about the "Investment focus and Suitability" demonstrate the RI sectors progress towards greater transparency, which is also a clear advantage. From a product perspective, simplicity and transparency will help to deliver propositions in a more relevant and engaging way. There are numerous options and the RobecoSAM one is a good example.

Stumbling blocks and worries for the institutional investor

Leadership requires investors to engage actively with businesses and policy makers.

If investment analysis and decision making are to take account of both societal and corporate value creation, then mainstream investors must show leadership in supporting wider systemic change within capital markets. Change cannot happen without leadership and therefore we need investors to show the way, both individually and collectively.

Fiduciary duty

One of the key opportunities for investors to demonstrate such leadership is by engaging with investee companies on their long-term business strategies and their potential to create both shareholder and societal value. Active engagement – or 'stewardship' where investors act as long-term owners of the business rather than short-term shareholders - is becoming a significant investment trend in order to enhance long-term returns. This is well known to the RI sector and indeed an Engagement and Voting strategy is implemented covering one third of the total RI assets under management in Europe[38]. The example of BlackRock's chairman and CEO Larry Fink who, in March 2014, wrote to investee companies to encourage them to focus on long term growth strategies is another good example[39].

38 http://online.wsj.com/public/resources/documents/blackrockletter.pdf. Retrieved 10 July 2014

39 Eurosif European SRI Study 2014

This area of fiduciary duty has seem some interesting debate across Europeand particularly in the UK as a result of the 2011 Kay Review.

Fiduciary duty requires funds to focus not only on meeting short-term liabilities, but also to ensure the ability to pay beneficiaries in the future. In other words, it requires institutional investors to pay attention to the long-term value creation of the companies in which they invest.

Yet, many of those we spoke to acknowledged that today many funds face challenges and significant pressure in maintaining liquidity and paying their short-term liabilities. As a result, the concept of fiduciary duty is often interpreted and applied with a focus on the short-term rather than the long-term. This can lock in the type of short-term thinking that prevents funds from considering the longer-term investment risks and opportunities related to social and environmental externalities.

This limited interpretation of fiduciary duty can be exacerbated by uncertainties and misunderstandings on the part of trustees and their advisors on how fiduciary duty should be applied in the context of environmental, social and governance (ESG) factors. There is a lack of clarity over which social and environmental factors should be considered and how investors should assess whether or not they are material to longer-term financial performance.

Progressive work has been done on these uncertainties, particularly in the UK. The 2011 Kay Review, for example, called for a review of the concept of fiduciary duty. It was followed by a consultation and recommendations by the UK Law Commission.

The Commission stopped short of recommending that consideration of ESG issues should be written into law as part of fiduciary duty, but did determine that trustees should take into account longer-term risks and opportunities related to ESG factors where they are financially material[40]. This clarification on fiduciary duty is likely to accelerate the alignment between corporate and societal value creation in investment processes and decision making.

This in effect acknowledges that fiduciary duty extends to future as well as current beneficiaries, opens the door to changes in investment practice and allocations, and sets an example that other asset owners can follow.

CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM (CALPERS)

Some funds are already acting on this broader interpretation of fiduciary duty. One of them is the California Public Employees Retirement System (CalPERS) which manages retirement benefits for over 1.5 million members. In 2013, CalPERS adopted a new set of investment beliefs which commits the fund to favour investment strategies that "create long-term, sustainable value" and sets out the fund's belief that "strong governance, along with effective management of environmental and human capital factors, increases the likelihood that companies will perform over the long-term and manage risk effectively".[41]

40 http://online.wsj.com/public/resources/documents/blackrockletter.pdf. Retrieved 29 July 2014.

41 http://www.calpers.ca.gov/eip-docs/about/press/news/invest-corp/board-offsite.pdf. Retrieved 29 July 2014.

Mandates and Incentives

One of the other challenges for responsible investors, which is highlighted both in the UN PRI Report on Progress 2014 and KPMG International's report, A New Vision of Value, is that of asset management mandates and incentive structures. UN PRI has found that "asset owners drive RI during manager selection but monitoring is lacking" and that a "majority of members still feel daunted by the perceived complexity of formalising manager expectations into their contracts".

Mandates and incentive structures are therefore critical levers in driving change. The PRI is undertaking work in this area and some funds, such as the UK's Environment Agency Pension Fund, provide examples of how mandates can be designed to create societal value.

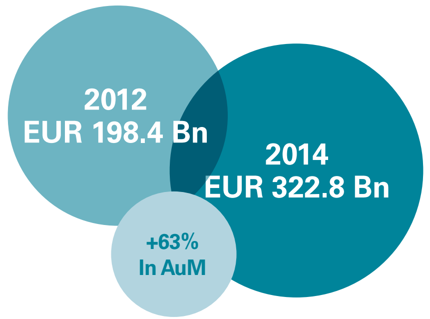
Practical solutions to incentivisation of fund managers are challenging and require innovative thinking around how performance fees can be extended across longer periods or replaced altogether by alternative incentive structures. While a complete end to short-term financially-based incentive is perhaps unrealistic, a more likely scenario is for some form of performance metrics that focus on longer-term and broader value creation and sit alongside rather than replace established financial KPIs. We should begin to see such new metrics included in investment mandates and it will be the larger institutional investors that will lead the way.

CONCLUSION

The RI sector is clearly advanced compared to the traditional asset manager and investor in certain aspects, although challenges still remain. It is not possible to tell the future, but it is our assessment that the RI sector has a card to play in addressing the opportunities and challenges to come.

Fund managers need to comply with the mandates given by asset owners and are therefore often incentivized primarily on the achievement of short-term financial results. These dynamics can create a situation where short-term shareholder value creation is prioritized at the expense of longer-term societal value creation.

V. KEY RESULTS
ESG (cross-sectoral): Overview

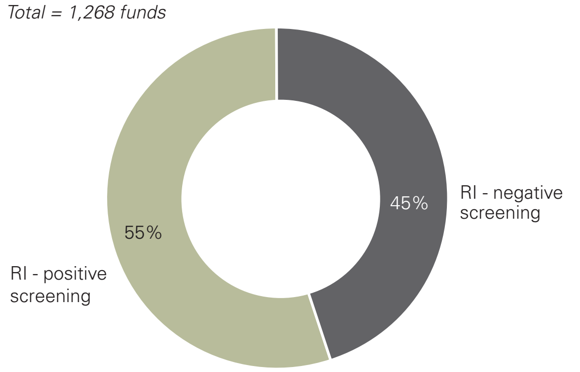


The ESG (cross-sectoral) category is by far the largest of all categories in the RI landscape, both in number of funds with 1,268 and in total AuM with EUR 322.8 billion. This category represents approximately 87% of the RI universe.

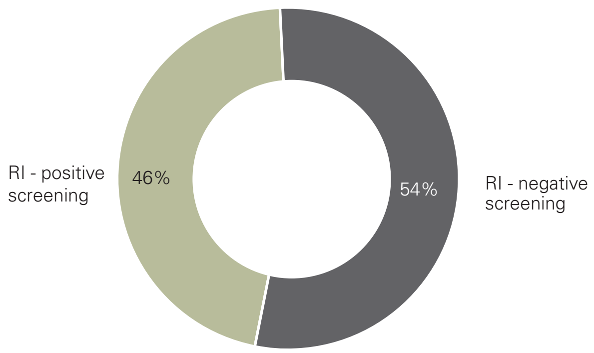
In terms of creation of new funds, the sector demonstrated a steady increase. Approximately 162 funds were created between the beginning of 2011 and end of 2012 and 133 new funds between 2013 and 2014. Concerning assets, the trend is characterised by its significant growth rate of 63% in AuM since 2012.

By categories

ESG (cross-sectoral) in % of nb of funds
Total = 1,268 funds



ESG (cross-sectoral) in % of AuM
Total = EUR 322.8 billion



HIGHLIGHTS

- ESG (cross-sectoral) represented 83% of the total assets of the RI universe in 2012, and now represents 87%;
- AuM have known a big increase;
- The favoured domiciles remain Luxembourg and France;
- There has been a slight increase in the AuM for which a negative screening is applied.

One of the reasons for the significant growth relates to the recategorisation by certain asset managers of a number of funds as RI funds, which were not specifically flagged as such in prior years' databases. This is particularly the case for certain RobecoSAM funds. The breakdown between "positive screening" and "negative screening" has been stable in terms of number of funds and assets under management. Indeed in 2012, the share of "positive screening" funds was predominant with 56% against 55% nowadays. Regarding the assets under management, "negative screening" funds are leading with 54%.

The favoured domiciles of this category remain unchanged (compared to 2012 and 2010). ESG (cross-sectoral) funds are principally domiciled in Luxembourg and France, although the positioning has switched such that Luxembourg is now clearly leading over France. This is partly linked to the recategorisation of certain RobecoSAM funds. Luxembourg is ahead with 26% in terms of number of funds, followed by France and Belgium with respectively 16% and 8%. Since 2014, Luxembourg took the lead in terms of AuM regrouping 32% compared to France which ranks number 2 with 18%.

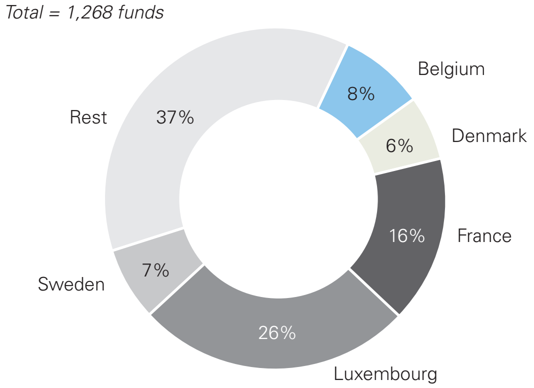
As a general observation, we noted that ESG (cross-sectoral) is a very diverse category, where funds differ greatly both in terms of asset classes and strategies.

The funds in this category apply various strategies, including negative or positive screening, engagement approaches and often a mix of these strategies. Thus, allocating funds to the different strategies while avoiding an overlap is a challenge and so it is probably more appropriate to view the split from an indicative point of view. It is, however, possible to identify two distinct strategies based on the Lipper FundFile's database flagging system[42].

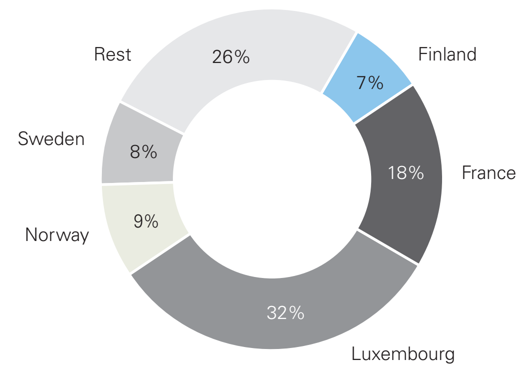
The ESG (cross-sectoral) category is by far the largest of all categories in the RI landscape, with 1,268 funds and total AuM with EUR 322.8 billion. This category represents around 87% of the total assets of RI funds.

By domiciles

ESG (cross-sectoral) in % of nb of funds
Total = 1,268 funds



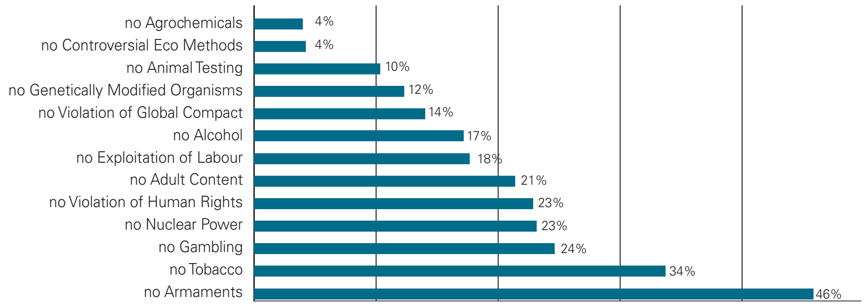
ESG (cross-sectoral) in % of AuM
Total = EUR 322.8 billion



Using yourSRI data, which covers 83.8% of the funds in this category, we were able to obtain indications on the most widely used exclusions.

Not surprisingly, armaments, tobacco and gambling continue to be the most common exclusions used by RI funds.

2014 used exclusions as a % of nb of funds (norm-based or sector-based)



Source: YourSRI data

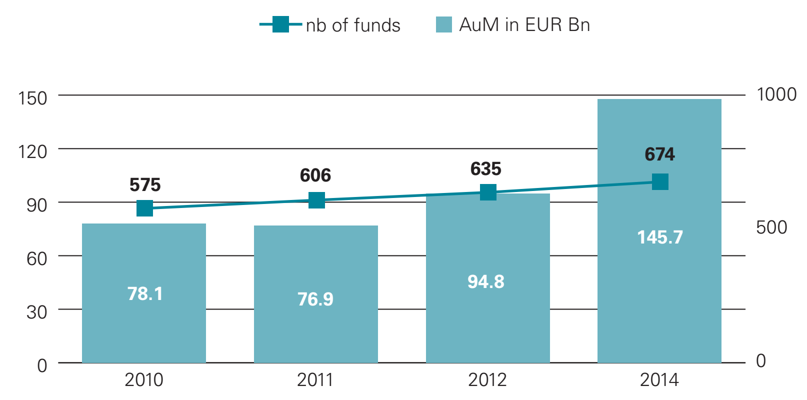
42 FundFile has two flags called "RI screened" and "RI extended" which respectively correspond to "RI positive screening" and "RI negative screening".

ESG (cross-sectoral)

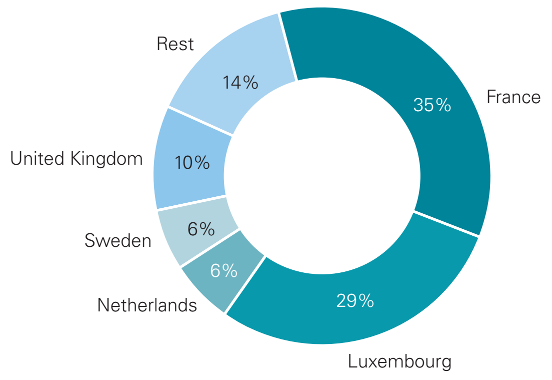
RI – positive screening funds

There were 674 funds with AuM of approximately EUR 145.7 billion as of December 2014. A 54% increase in assets compared to 2012.

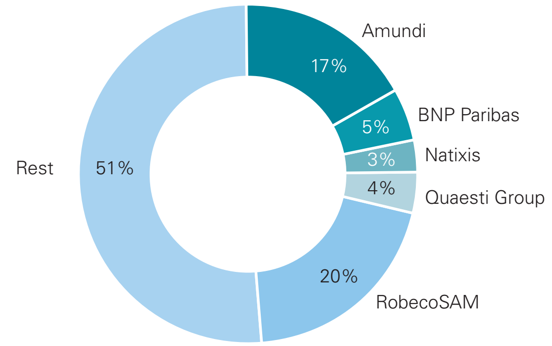
RI - positive screening funds



Top 5 domiciles in 2014
RI - positive screening funds sub-category
Total = EUR 145.7 billion



Top 5 Asset Managers in 2014
RI - positive screening funds sub-category
Total = EUR 145.7 billion



Looking at funds applying a positive screening of their investments, we identified 674 funds with AuM of approximately EUR 145.7 billion, a 54% increase in assets compared to 2012.

Regarding domiciles, France continues to lead the market with 35% of the AuM. This is explained by the fact that, historically speaking, the French market has always favoured "best-in-class" approaches, which is one of the most used positive screening methods. The share of Luxembourg increased to 29% in 2014 from only 11% in 2012.

Not surprisingly, in the top three asset managers in this sub-category, we found two French players, Amundi and BNP Paribas with respectively 17% and 5% in terms of AuM. RobecoSAM became the leader with 20% of the AuM as a result of the relabeling of its funds. In terms of asset classes, 40% of the assets in this sub-category are held by equity funds and 25% by money market funds. The largest fund of this sub-category is a money market fund domiciled in France with AuM of approximately EUR 22.5 billion, representing 16% of the AuM.

HIGHLIGHTS

- France leads the market with 35% of AuM;
- 40% of the assets are held in equity funds;
- The top 5 funds gather approximately 27% of the assets;
- The top 5 asset managers are RobecoSAM, Amundi, BNP Paribas, Quaestio group and Natixis AM. Together they manage 49% of AuM.

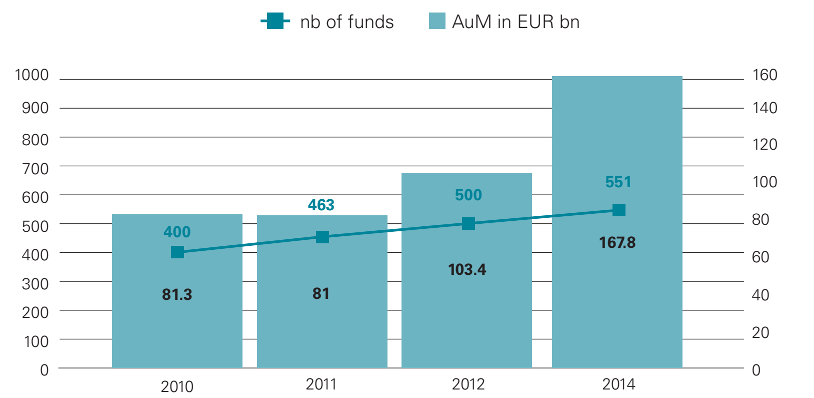
Definition
Funds which use a positive screening to select their investments. This includes either a best-in-class approach (investment in a portfolio of companies screened on their Environmental, Social and Governance (ESG) policies and performance) or an engagement approach (funds which 'engage' with companies in their portfolio to encourage them to improve their ESG performance).

ESG (cross-sectoral)

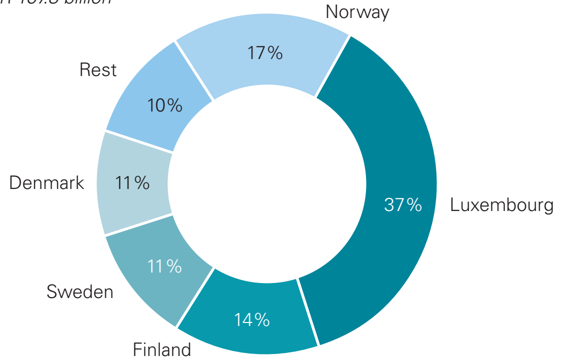
RI – negative screening funds

There were 551 funds with AuM of approximately EUR 167.8 billion as of December 2014. A 71.6% increase in assets compared to 2012.

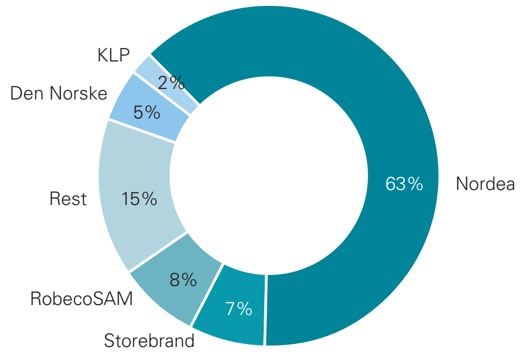
RI - negative screening funds



Top 5 domiciles in 2014
RI - negative screening funds sub-category
Total = EUR 167.8 billion



Top 5 Asset Managers in 2014
RI - negative screening funds sub-category
Total = EUR 167.8 billion



Our survey identified 551 funds applying a negative screening strategy, an increase of 10.2% since 2012. These 551 funds total EUR 167.8 billion of AuM.

These funds traditionally screen their potential investments against a list of controversial sectors or by analysing breaches of international ESG standards and laws (e.g. the ILO convention on child labour, the UN convention against corruption, the UN Global Compact, etc.).

These negative exclusions are considered as "responsible investments" as long as they are applying the screening on a voluntary basis and provided they aim to go beyond legislation. Once a law is implemented and prohibits specific investments, exclusions become mandatory and thus stop being considered as "responsible investments". In the case of cluster bombs, for instance, certain European countries (e.g. France, Belgium and Luxembourg) have ratified the Convention on Cluster Munitions. In these countries, a fund which would solely exclude investments in cluster munitions, would not be considered as RI, whereas they would be considered RI in countries where such legal compliance is not required.

In terms of asset classes, 36% of the AuM are held in bonds (compared to 46% back in 2012). Conversely, equities, which represented almost 34% of the AuM in 2012, have seen their share increase to approximately 41%. Regarding money market funds, the share slightly decreased from around 11% back in 2012 to 10% in 2014.

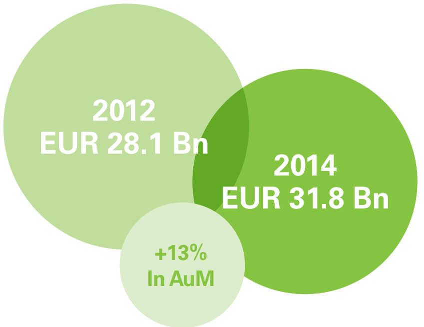
Looking at domiciles, Luxembourg ranks first with a 37% share of AuM in this sub-category. The Nordic countries also appear in the top 5, although this is clearly due to the fact that Nordea funds account for 63% of AuM as a whole, thus explaining the "Nordic" influence on domiciles. The "Nordea case" is an interesting one as it was the first asset manager back in 2012, which has formally requested the relabeling of its funds in the Lipper FundFile. Nordea was the first to make this move of relabelling all its funds as RI funds, on the basis that its RI process requires all asset managers to apply norms based screening, engagement and potential exclusion across all its funds. In 2013 and 2014 we have seen other asset managers following this lead, in particular RobecoSAM which is mentioned above, which has also relabeled its funds in the same manner. Nordea and RobecoSAM's move reflects a real trend towards ESG integration and whilst other asset managers have not yet taken this formal step, many consider that they also already have a fully integrated RI process across most of their funds, whether labelled as RI or not.

HIGHLIGHTS

- Luxembourg is the largest domicile with 37% of the AuM of RI negative screening funds;
- The top 5 funds comprise approximately 11% of the assets;
- The top 5 asset managers are Nordea, RobecoSAM, Storebrand, Den Norske and KLP. Together they account for 85% of AuM.

Definition
Funds which use a multiple-exclusion approach when selecting investments (e.g. avoiding tobacco or gambling- related securities) or a normative approach (adherence to internationally-recognised standards and principles).

Esg (environment): Overview



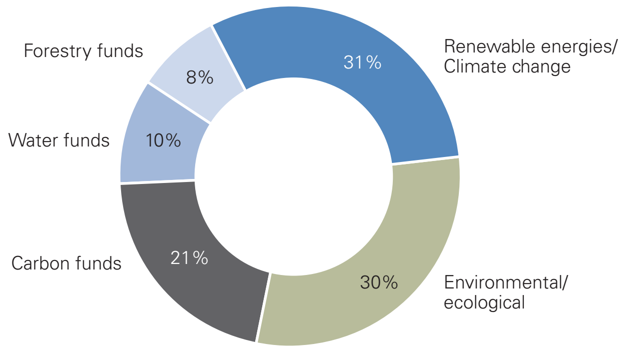
The Esg (Environment) category is the second largest of all categories both in number with 337 funds and AuM of EUR 31.8 billion.

From 2010 to 2012, these environment themed funds have been negatively impacted by a set of factors including regulatory uncertainty, difficulties in financing infrastructure projects and also a structural overcapacity of the various environmental and energy sectors.

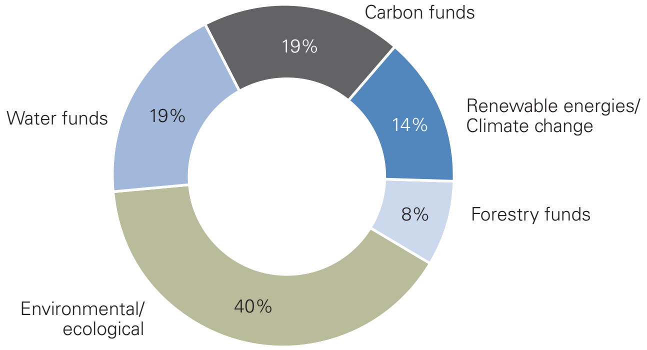
Since 2012, it would appear that there is some recovery in the sector with a small increase in AuM back to 2010 levels. This category now represents 8.6% of total RI AuM.

By categories

Esg (Environment) in % of nb of funds
Total = 337 funds



Esg (Environment) in % of AuMs
Total = EUR 31.8 billion



HIGHLIGHTS

- While this category represented 11.8% of the total RI universe in 2012, it now represents 8.6% of AuM;
- Luxembourg is by far the leading domicile for this type of fund.

When looking at Esg (Environment) funds in more detail, there are a few trends which should be highlighted and commented.

First, as a general overview it appears that the past predominance of funds in the "Renewable energy/Climate Change" has ceased to exist and that the "Environmental/Ecological" sub category of funds has increased. Indeed, the "Renewable energy/Climate Change" sector now ranks fourth in terms of AuM. It suffered a considerable decrease in terms of AuM and now represents just 14% of AuM in the category (compared to 23.5% in 2012 figures).

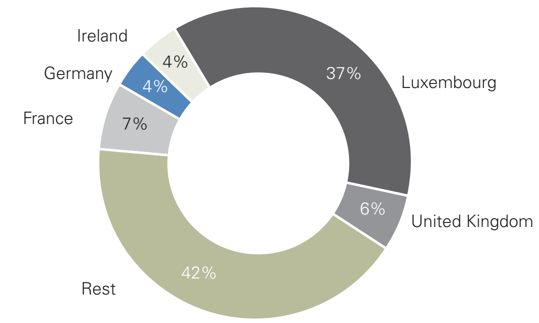
The Renewable energy/Climate change funds category has clearly followed a downward trend in terms of AuM since 2010. On the other hand Environmental/ecological funds and Water have both seen increases of more than 50% in AuM between 2012 and 2014.

In terms of domiciles, Luxembourg maintains its status of favoured domicile and is well ahead both in terms of number of funds and AuM. The Grand Duchy is particularly attractive for Renewable energy/climate change funds, Environmental/ecological funds and for water funds. The other domiciles which get a share of the market are France, the UK, Germany and Ireland.

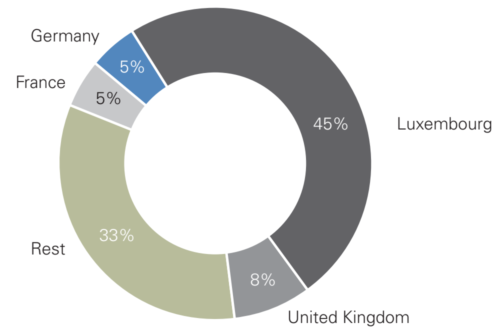
Esg (Environment) is the second largest of all categories with 337 funds and AuM of EUR 31.8 billion, This category represents 8.6% of the total assets of RI funds.

By domiciles

Esg (Environment) in % of nb of funds
Total = 337 funds



Esg (Environment) in % of AuM
Total = EUR 31.8 billion



On the Forestry funds side as well as on the Carbon funds side, the data availability was very limited, and so whilst we have made every effort to collect this data, we draw attention to this limitation and the fact that numbers of funds and AuM in those categories may be understated. We have therefore not separately analysed the evolution of these categories.

Despite the disappointing performance of this sector, we are already seeing signs of increased interest from the European market, and particularly France in the context that the next UNFCCC[43] Cop21, hosted in Paris, is committed to come to an international climate action agreement.

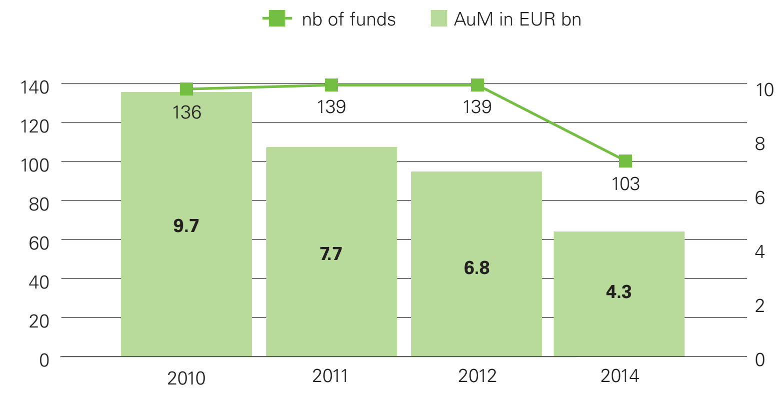
43 United Nations Framework Convention on Climate Change www.unfccc.int/

Esg (environment)

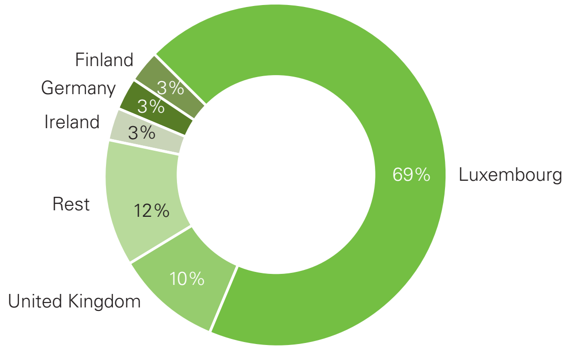
Renewable energy/Climate change funds

There were 103 funds listed in this sub-category with EUR 4.3 billion at the end of 2014. A 37% decrease in assets compared to 2012.

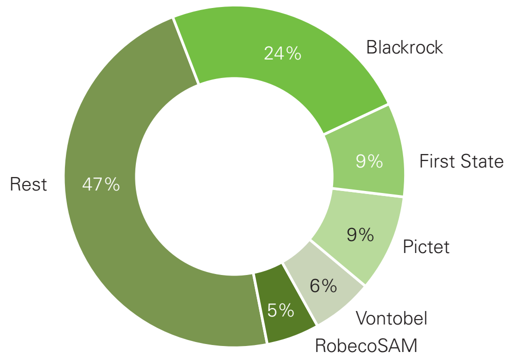
Renewable energy / climate change funds



Top 5 domiciles in 2014
Renewable energy / climate change funds sub-category
Total = EUR 4.3 billion



Top 5 Asset Managers in 2014
Renewable energy/climate change funds sub-category
Total = EUR 4.3 billion



In 2014, we witnessed the disappearance of several funds and AuM decreased to EUR 4.3 billion at the end of December 2014, a decrease of 37% from December 2012. Although this can mainly be attributed to the largest funds, which saw their assets significantly decreasing over this period, this downward trend is similar for the majority of the funds in this sub-category. This reflects the continued challenges to obtain positive returns from certain types of renewable energy projects or companies. Despite positive signals such as hardened attitudes against nuclear power in reaction to the Fukushima problems and some sources of alternative energy becoming more competitive than conventional fuels, it is still difficult to forecast the evolution of such funds in the future.

In terms of domicile, Luxembourg remains well ahead of the pack, attracting 47% of funds and 69% of AuM. The reason for this lies in the fact that out of four largest funds of this sub-category, three are Luxembourg-domiciled, and that they already hold 36% of total AuM of this sub-category.

The top 5 asset managers in this sub-category are BlackRock, First State Pictet, Vontobel and RobecoSAM. Together they comprise approximately 53% of the total AuM of this sub-category.

HIGHLIGHTS

- After 2010, the effects of the financial crisis combined with the lack of international commitment to tackle climate change, lead investors to drain from these funds;
- Between 2012 and 2014 AuM decreased by 37% to EUR 4.3 billion;
- In terms of domicile, Luxembourg is well ahead;
- The top 5 asset managers account for 53% of AuM in this sub-category.

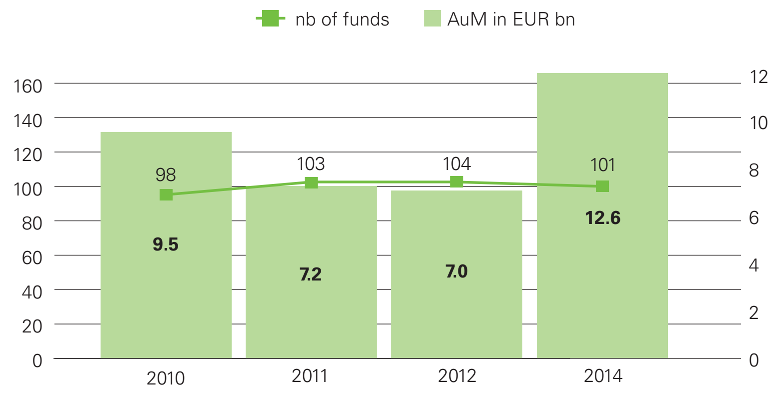
Definition
Funds investing at least 80% of the assets in equities of companies engaged in new/renewable energy (biomass, wind/solar power, etc). Funds that invest in similar sectors but are not equity funds (e.g. bonds, money market or guaranteed funds) have also been classified under this sub-category. Source: Lipper FundFile

Esg (environment)

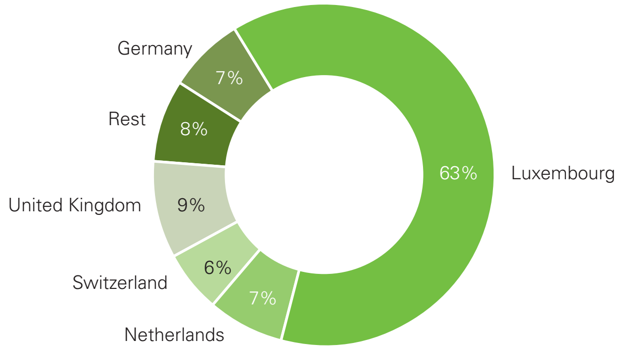
Environmental/ecological funds

There were 101 funds listed in this sub-category with EUR 12.6 billion at the end of 2014. An increase of 80% in assets compared to 2012.

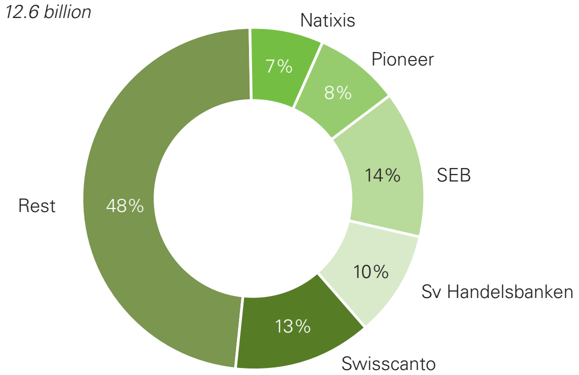
Environmental / ecological funds



Top 5 domiciles in 2014
Environmental/ecological funds sub-category
Total = EUR 12.6 billion



Top 5 Asset Managers in 2014
Environmental/ecological funds sub-category
Total = EUR 12.6 billion



Funds in this sub-category invest in a more diversified array of investments than the Renewable energy/climate change sub-category.

AuM in this sub-category increased by 80% between 2012 and 2014 to EUR 12.3 billion by the end of 2014. The number of funds slightly decreased to reach a total of 101 funds at the end of 2014.

Here again Luxembourg is ahead with 50 funds domiciled in the Grand Duchy and a total of EUR 7.9 billion in AuM or 63% of total AuM of this sub-category.

In terms of assets, the five largest funds hold approximately 41% of AuM. The top 5 asset managers, namely SEB, Swisscanto, SV Handelsbanken, Pioneer, and Natixis, account for 52% of total AuM.

Therefore, the market is very concentrated around these players.

HIGHLIGHTS

- Between 2008 and 2010, environmental funds were considered as a fast-growing sector;
- Between 2010 and 2012 AuM decreased by 26% to fall to EUR 7 billion, but recovered between 2012 and 2014 by 80% and increased to EUR 12.6 billion;
- In terms of domicile, Luxembourg is ahead with 50% of the funds and 63% of AuM;
- The top 5 asset managers hold 52% of total AuM of this sub-category.

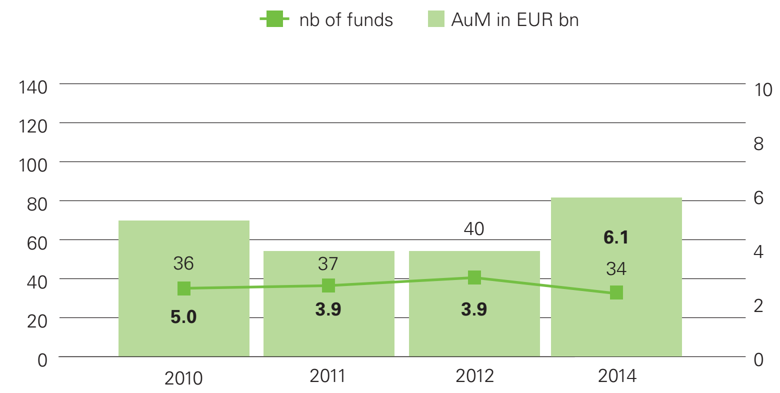
Definition
Funds investing at least 80% of their assets in equities of companies active in a mix of environmental/green sectors. Funds that invest in similar sectors but are not equity funds (e.g. bonds, money market or guaranteed funds) have also been classified under this sub-category. Source: Lipper FundFile

Esg (environment)

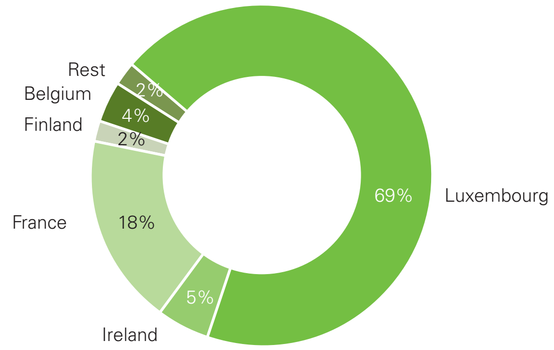
Water funds

There were 34 funds listed in this sub-category with EUR 6.1 billion at the end of 2014. An increase of 58% in assets compared to 2012.

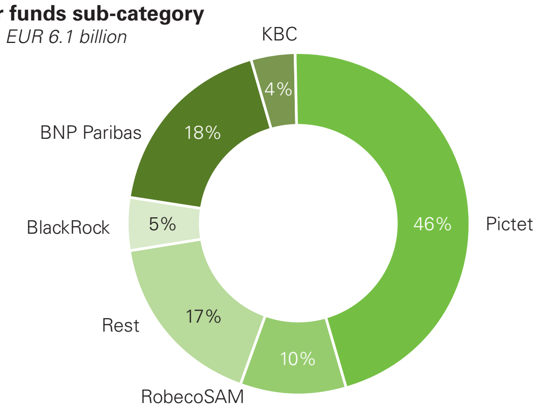
Water funds



Top 5 domiciles in 2014
Water funds sub-category
Total = EUR 6.1 billion



Top 5 Asset Managers in 2014
Water funds sub-category
Total = EUR 6.1 billion



Our survey has identified a total of 34 water funds as of 31 December 2014, a decrease of 15% compared to 2012. While the number of funds decreased, AuM increased by approximately 58% from December 2012 and reached EUR 6.1 billion at the end of December 2014.

Being a rather small category, the evolution of AuM is very much correlated to the evolution of the top 5 funds. Indeed, except for one fund which slightly decreased its AuM by 4% between 2012 and 2014, the four others faced a significant increase in their assets ranging from 30% to more than 100%. The largest fund of this category totaled EUR 2.8 billion at the end of December 2014. This sector continues to appeal to investors as AuM increase and the market is seeing certain specific water indices outperforming other more general "world" focused indices.

In terms of domicile, Luxembourg is the frontrunner and holds the biggest share with 69% of the AuM, followed at a distance by France, Ireland, Belgium and Finland.

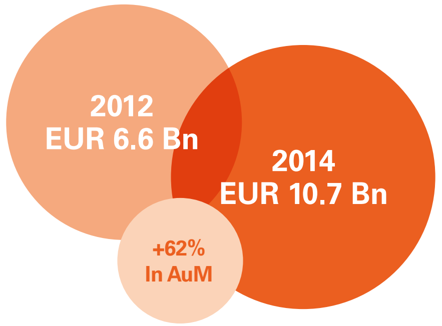
The top five asset managers of this sub-category namely Pictet, BNP Paribas, RobecoSAM, BlackRock and KBC account for 83% of the assets, in what is an extremely concentrated market.

HIGHLIGHTS

- AuM increased by 58% between December 2012 and December 2014 to EUR 6.1 billion;
- In terms of domicile, Luxembourg holds the largest share with 69% of the AuM;
- The top 5 asset managers account for 83% of AuM in this sub-category.

Definition
Funds investing worldwide in shares of companies focused on the water related sector, such as water supply and treatment, water technology, environmental services and mineral water. Funds that invest in similar sectors but are not equity funds (e.g. bonds, money market or guaranteed funds) have also been classified under this sub-category. Source: Lipper FundFile

eSg (Social): Overview



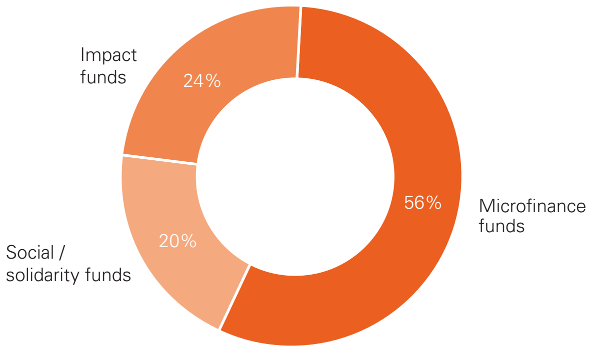
The eSg (Social) category represents 2.9% of the total Responsible Investing assets. It is the third biggest category with 188 funds identified and AuM of EUR 10.7 billion.

This category, although still representing a small share of the Responsible Investing fund universe, has been resilient and steadily increased despite the financial crisis, particularly in the last two years where we see 62% growth since 2012.

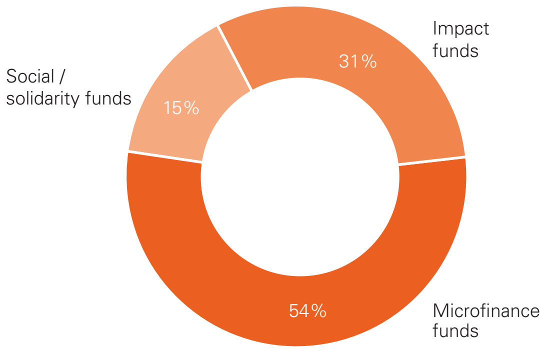
In terms of sub-categories, Microfinance funds represent the largest share of this category with approximately 54% of AuM.

By categories

eSg (Social) in % of nb of funds
Total = 188 funds



eSg (Social) in % of AuM
Total = EUR 10.7 billion



HIGHLIGHTS

- While this category represents 10% of the total RI universe in number of funds, it solely represents 2.3% in AuM;
- This category grew by 62% compared to 2012 figures;
- Microfinance funds hold the largest share of this category;
- Luxembourg is by far the leading domicile for this type of funds both in number and AuM.

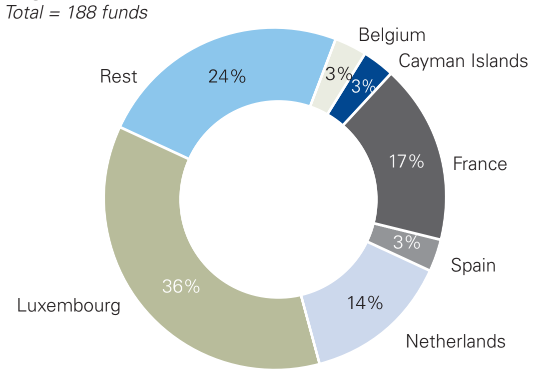
Compared to 2012 figures, the share of Impact funds increased reaching 31% while Social/solidarity funds remained rather stable at around 15% of the assets.

In terms of domicile, Luxembourg clearly dominates with 36% of the number of funds and approximately 66% of the AuM. This is not a surprise as Luxembourg has been the leading domicile for Microfinance funds for several years. The Netherlands is also active within the microfinance fund market.

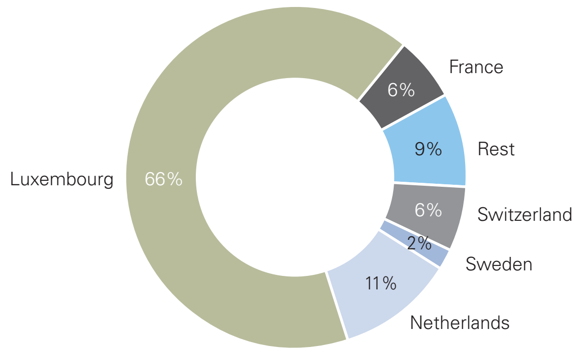
eSg (Social) is the third largest of all categories with 188 funds and AuM of EUR 10.7 billion.
This category represents 2.9% of the total assets of RI funds.

By domiciles

eSg (Social) in % of nb of funds
Total = 188 funds



eSg (Social) in % of AuM
Total = EUR 10.7 billion

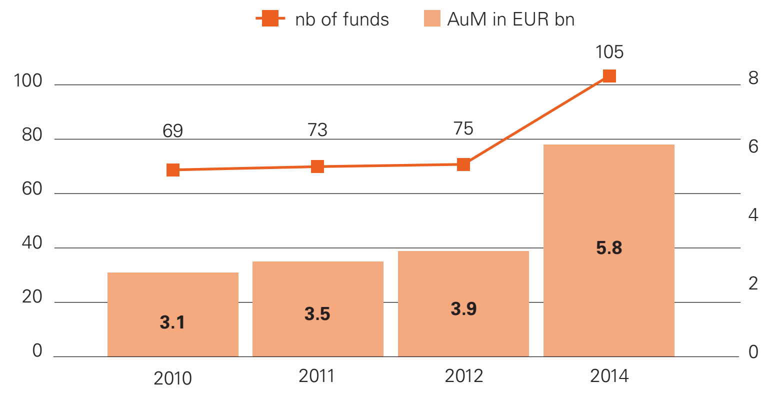


eSg (Social)

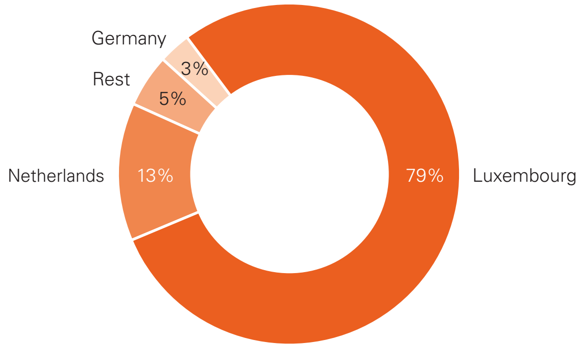
Microfinance funds

There were 105 microfinance funds with EUR 5.8 billion of AuM listed in this sub-category as of December 2014. An increase of 48% in assets compared to 2012.

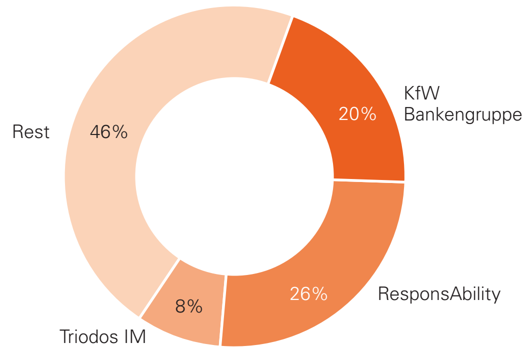
Microfinance funds



Top 3 domiciles in 2014
Microfinance funds sub-category
Total = EUR 5.8 billion



Top 3 Asset Managers in 2014
Microfinance funds sub-category
Total = EUR 5.8 billion



The Microfinance sector displayed a positive increase over the last two years. It is the largest of all the social sub-categories, with 105 funds and AuM of EUR 5.8 billion, representing an increase of AuM by 48%. In terms of domicile of Microfinance funds, Luxembourg is the historically favoured domicile, accounting for 79% of AuM at the end of December 2014. The Netherlands and Germany respectively rank as 2nd and 3rd domiciles for Microfinance funds. The largest fund in this sub-category totals circa EUR 1.0 billion of AuM, an increase of 26%, from December 2012. The top 3 asset managers in terms of AuM are ResponsAbility, KfW and Triodos IM. Together, they manage 54% of total AuM in this sub-category. These growth figures demonstrate that despite the financial crisis, Microfinance funds have proved to be quite resilient and the sector, although affected by some restructuring, remained robust and strong. The sector continues to attract investors and has gained in professionalism and standardisation.

Within the Microfinance sector, we have noted an interesting move by fund managers to broaden the scope of their investments from pure microfinance to the wider category of "impact investments", targeting a broader array of investments to serve and empower those at the bottom of the pyramid as well as widening their universe to encompass small and medium sized enterprises (SMEs). Some Microfinance funds are now relabeling themselves as "Impact funds" and have re-oriented their communication accordingly. The difference between the two sub-categories is increasingly grey and this evolution will inevitably lead to a transfer of funds from the Microfinance sub-category to the "impact funds" category in the future.

HIGHLIGHTS

- Between 2012 and 2014, Microfinance funds continued to grow both in number of funds and AuM (growth of 48%);
- In terms of domicile, Luxembourg is the frontrunner with 79% of AuM;
- The top 3 asset managers in this sub-category are ResponsAbility, KfW and Triodos IM who manage 54% of total Microfinance AuM.

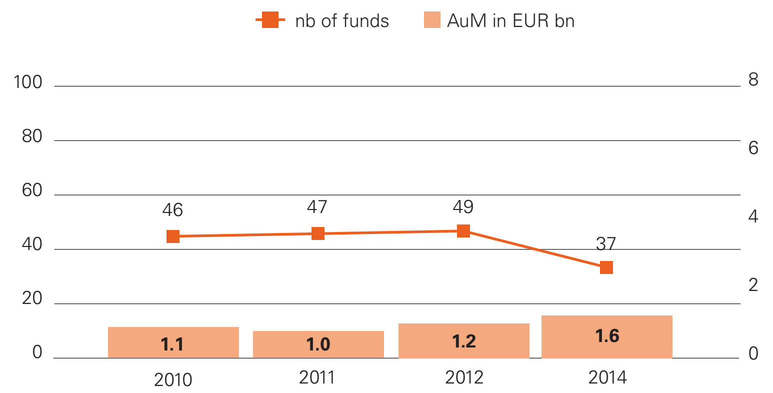
Definition

MIVs raise funds from public, institutional and private investors to support microfinance institutions worldwide. MIVs can take the form of collective investment schemes (e.g. mutual funds) or other dedicated investment vehicles. MIVs loan money to MFIs or alternatively purchase their debt or equity instruments. Although this definition includes all types of vehicles, this study solely includes investment funds. Source: LuxFLAG/ALFI eSg (Social)

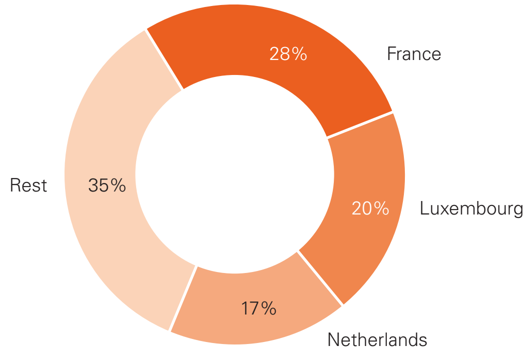
Social/solidarity funds

There were 37 funds totalling EUR 1.6 billion of AuM in this sub-category as of December 2014. An increase of 32% in assets compared to 2012.

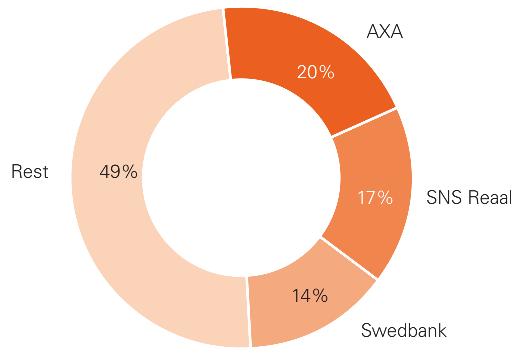
Social/solidarity funds



Top 3 domiciles in 2014
Social/solidarity funds sub-category
Total = EUR 1.6 billion



Top 3 Asset Managers in 2014
Social/solidarity funds sub-category
Total = EUR 1.6 billion



Social/solidarity funds can take two different forms:

- funds which commit to donating directly or indirectly to one or several non-for profit organisations or associations;
- funds which invest in social entrepreneurship.

This sub-category increased during the period 2012 to 2014 by 32% in terms of AuM.

Despite the increase in assets, there are now 37 funds in this sub-category with a total of EUR 1.6 billion of AuM.

Luxembourg has not yet overtaken France who is still the leading domicile for Social/solidarity funds with 28% of AuM. Luxembourg and the Netherlands are taking the 2nd and 3rd place.

The top 3 asset managers are AXA, SNS Reaal and Swedbank. Together they account for 51% of total AuM in the sub-category.

HIGHLIGHTS

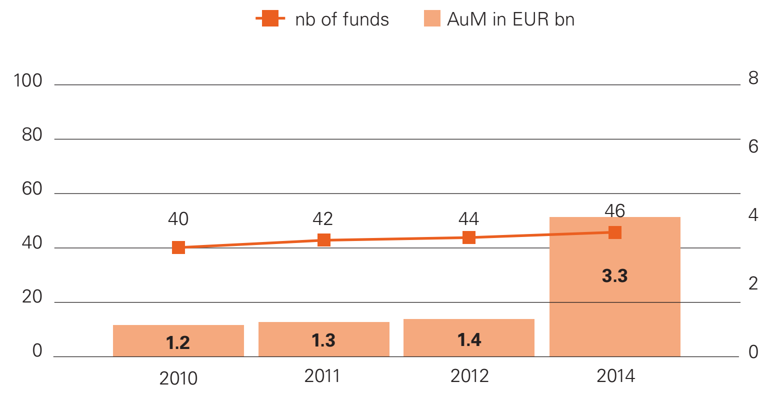
- France is the leading domicile with 28% of the AuM;
- The top 3 asset managers in this sub-category are AXA, SNS Reaal and Swedbank. They account for 51% of total AuM.

Definition
Funds investing a share of their assets in solidarity projects, or funds devolving part of their commissions raised to charitable organisations. This category also includes funds that invest in companies under the French status "entreprises sociales et solidaires." Source: Lipper FundFile

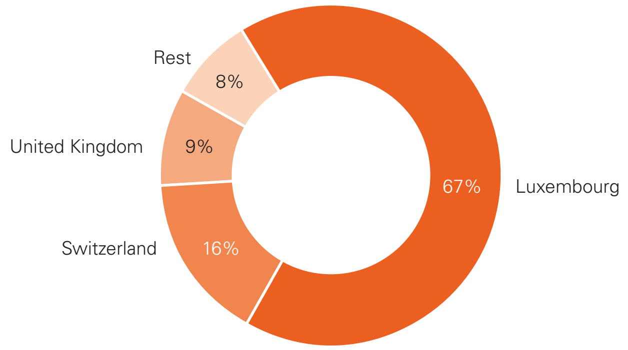
Impact funds

There were 46 funds totalling EUR 3.3 billion of AuM in this sub-category as of December 2014. An increase of 139% in assets compared to 2012.

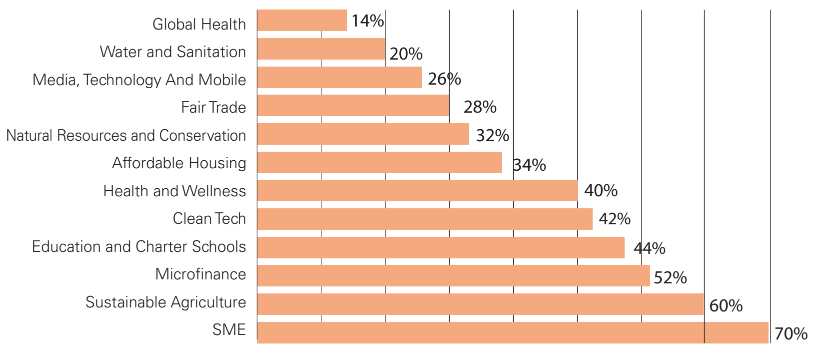
Impact funds



Top 3 domiciles in 2014
Impact funds sub-category
Total = EUR 3.3 billion



Prefered impact themes of
Top worlwide 50 impact asset managers



Source: ImpactAssets

70% of the top 50 worldwide "impact asset managers" are investing in SMEs.

The term "impact investment" is essentially used by funds which explicitly aim to create social or environmental benefits alongside financial returns so the form these investments can take is very diverse. Investment structures can range from traditional commercial pooled investments to private equity or philanthropy focused funds. Impact fund investors are usually pension funds, family offices and private foundations. As a result, the European market for Impact Investing is challenging to measure.

The "Environmental and social themed investing" Work Stream of the UN PRI, published an indicative list of "impact investing themes" dated from October 2012. This list includes themes such as clean-tech, green buildings, sustainable forestry, sustainable agriculture, microfinance, SME financing, social enterprise/community development, affordable housing, education and global health. If one removes the themes that are already addressed in other sub-categories of this survey, there remain in this sub-category funds investing in green buildings, sustainable agriculture, affordable housing, SME financing, education and global health. Hence, we identified 46 funds totalling EUR 3.3 billion of AuM in this sub-category as of December 2014.

In terms of domiciles, Luxembourg leads with 67% of AuM in this sub-category followed by Switzerland and the UK with respectively 16% and 9% of AuM.

ImpactAssets[44], a non-profit financial services company in the area of impact investing, lists the top 50 impact asset managers worldwide. According to data published by ImpactAssets, the favoured impact themes are Small and Medium Sized companies ("SMEs"), sustainable agriculture, and microfinance.

However the themes are extremely varied and address both social and environmental challenges. It is also worth noting that these funds usually invest in multiple areas and the classification of a fund in one or another theme gets more difficult. In addition to the fact that impact investment themes are so broad, and therefore present certain classification difficulties, and the trend for microfinance funds be rebranded as Impact funds, one of the bigger challenges for impact funds remains the lack of standardisation in systems to measure and report on impact.

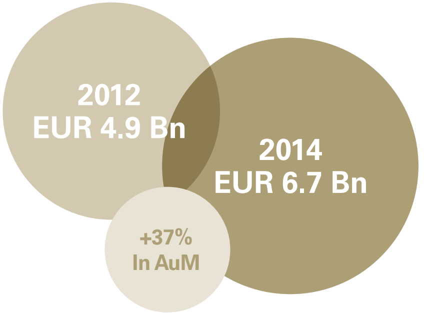
HIGHLIGHTS

- Luxembourg is the leading domicile with 67% of AuM;
- Impact funds tend to invest in multiple sectors. Their favourite impact investment themes are SMEs, sustainable agriculture, and microfinance.

Definition
Impact investments are investments made into companies, organisations, and funds with the intention to generate social impact alongside a financial return. This sub-category includes funds investing in one or multiple impact areas such as education, sustainable health, food and nutrition, community development, fair-trade, sustainable agriculture, sustainable infrastructure.
Source: Global Impact Investing Network ("GIIN")

44 www.impactassets.org

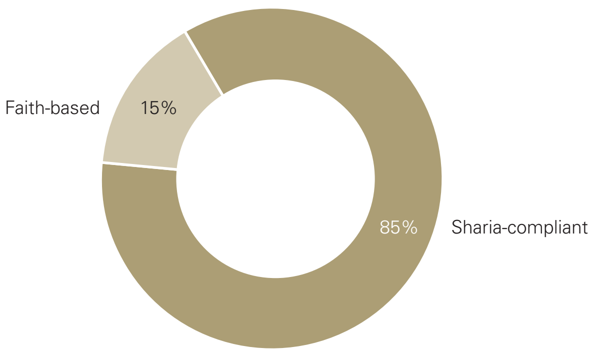
Ethics (cross-sectoral): Overview



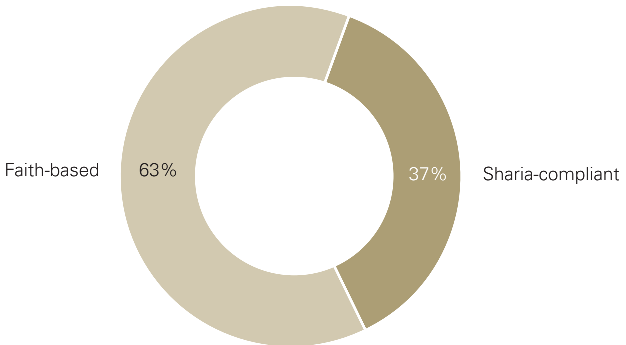
This year again, the Ethics (cross-sectoral) category, which comprises both Sharia-compliant funds and Faith-based funds, still remain niche both in number of funds and AuM with 81 funds in total and AuM of EUR 6.7 billion.

By categories

ESG (Ethics) in % of nb of funds
Total = 81 funds



ESG (Ethics) in % of AuM
Total = EUR 6.7 billion



HIGHLIGHTS

- While this category represents 4.3% of the total RI universe in number of funds, it solely represents 1.8% of AuM;
- The UK is the leading domicile in terms of AuM while Luxembourg is the leading domicile in number of funds.

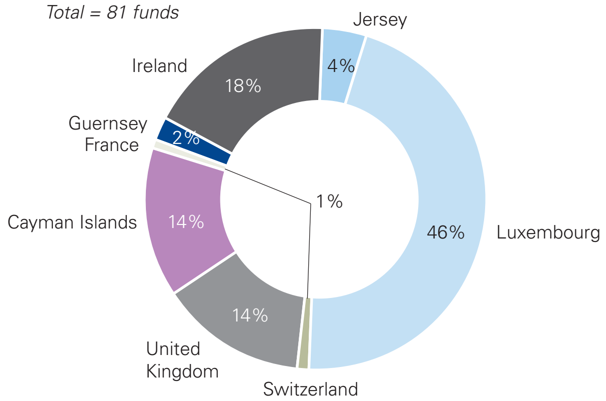
This category remains very small in terms of AuM, as it solely represents 1.8% of the total assets of the RI funds universe. Similarly to what was observed in 2012, the majority of the funds listed in this sub-category are Sharia-compliant funds. Whereas Faith-based funds are small in terms of numbers of funds, they represent approximately 63% of AuM in this sub-category due to a smaller number of very large funds.

The majority of Sharia-compliant funds are domiciled in Luxembourg, which is why the Grand Duchy leads in terms of number of funds. On the contrary, the largest Faith-based funds in terms of assets are domiciled in the UK which explains the UK's 62.5% share of AuM in the sub-category.

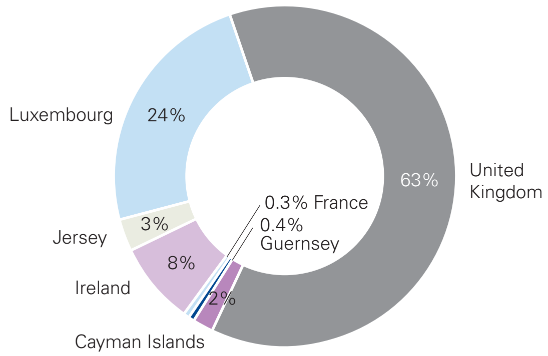
Ethics (Cross-sectoral) categories still remain niche with 81 funds and AuM of EUR 6.7 billion. This category represents 1.8% of the total assets of RI funds.

By domiciles

ESG (Ethics) in % of nb of funds
Total = 81 funds



ESG (Ethics) in % of AuM
Total = EUR 6.7 billion

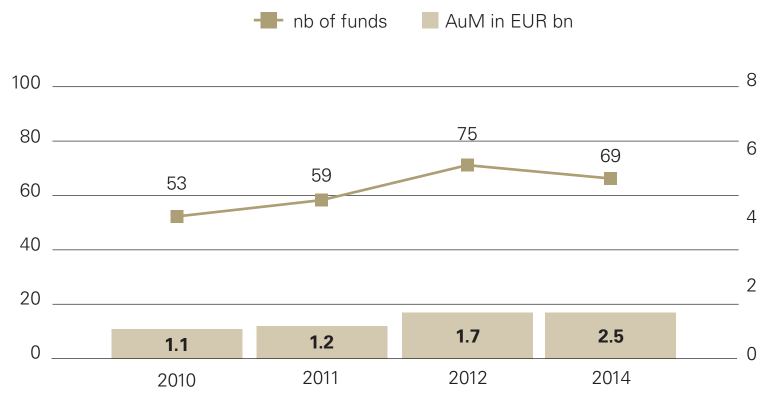


Ethics (cross-sectoral)

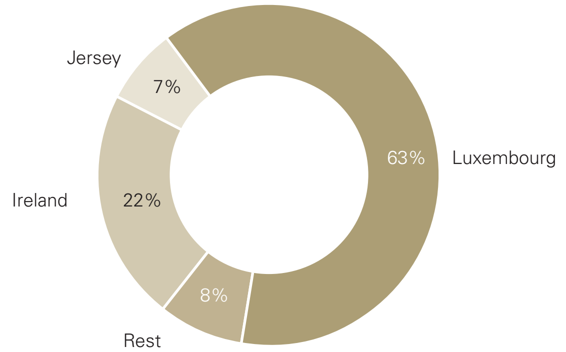
Sharia-compliant funds

There were 69 funds totalling EUR 2.5 billion at the end of December 2014. An increase of 45% in assets compared to 2012.

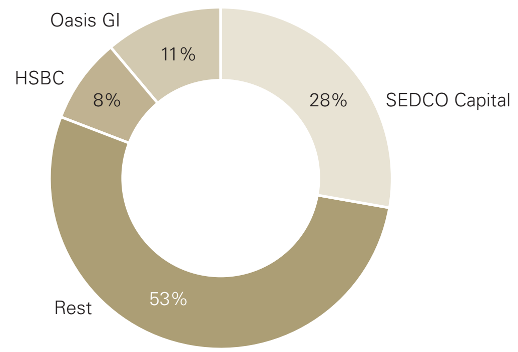
Sharia-compliant funds



Top 3 domiciles in 2014
Sharia compliant funds sub-category
Total = EUR 2.5 billion



Top 3 Asset Managers in 2014
Sharia-compliant funds sub-category
Total = EUR 2.5 billion



AuM increased by 45% from 2012 to 2014 to reach approximately EUR 2.5 billion at the end of December 2014. When it comes to domiciles, three main financial centres are positioning themselves, namely Luxembourg, Ireland, and Jersey. Luxembourg is, for the time being, the most attractive domicile for Sharia-compliant funds holding 52% of the number of funds and 63% of AuM.

The popularity of Sharia-compliant products is increasing, and in particular there have been a number of discussions around whether a fund manager implementing a Sharia-compliant investment strategy is automatically implementing some kind of RI strategy. Indeed we have now seen examples of Sharia managers labelling their funds as RI funds based on the principle that they are also applying additional screening, on top of the basic Sharia investment policy. This data is not available for the time being however this development is expected to continue over the next few years in line with the the general pressures on asset managers to better embed ESG into their investment decisions.

Over the last few years, Luxembourg deployed significant efforts to attract such funds and rank first domiciled for Sharia-compliant funds in Europe. In 2012, The Islamic Finance Professionals Association[45] ("IFPA") was founded by a small group of individuals. The aim of this non-profit organisation is toenhance interactivity and knowledge sharing between professionals active in the Islamic finance field and thus developing this industry in and from Luxembourg. Even more recently, four Luxembourg-based companies have joined forces to create a specialised platform, the Alliance for Luxembourg Islamic Finance[46] ("ALIF") that will service Sharia-compliant investment funds.

HIGHLIGHTS

- Luxembourg is the most attractive domicile for such funds with 63% of AuM;
- The top 3 asset managers in this sub-category are SEDCO Capital, Oasis GI and HSBC.

Definition
Funds investing according to the Sharia principles and with a certain number of exclusions such as:
- Prohibition of Haram investments;
- Prohibition of Riba (usury);
- Prohition of Gharar (deception, speculation);
- Prohibition of Gambling;
- Prohibition of Short Sales.

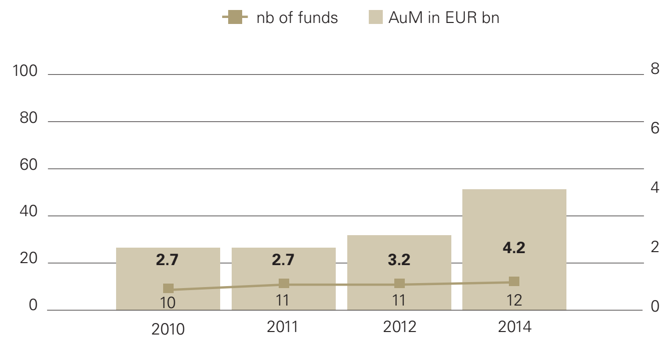
45 http://www.ifpa.lu/
46 http://www.alif-lux.com

Ethics (cross-sectoral)

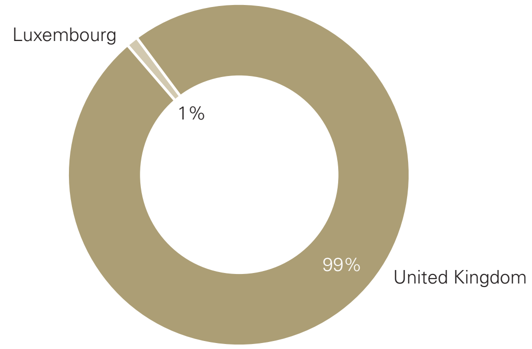
Faith-based funds

The faith-based sub-category gathers 12 funds with AuM of almost EUR 4.2 billion. An increase of 32% in assets compared to 2012.

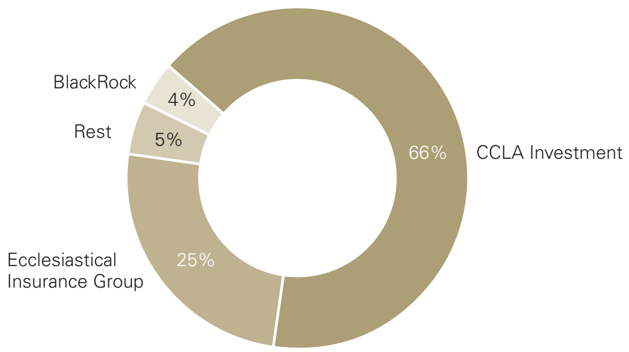
Faith-based funds



Top 3 domiciles in 2014
Faith-based funds sub-category
Total = EUR 4.2 billion



Top 3 Asset Managers in 2014
Faith-based funds sub-category
Total = EUR 4.2 billion



Looking at the Faith-based funds, the market displays slight changes, with a few funds disappearing in 2014. The faith-based sub-category now comprises 12 funds with AuM of EUR 4.2 billion (a 32% increase from 2012 to 2014). AuM are mainly driven by two funds with a total AuM of EUR 1.2 billion and EUR 1.6 billion, which are both domiciled in the UK. We also noted that the majority of faith-based funds are invested in equity.

This strategy of following faith based principles to select investments is historically more prominent in the Anglo-Saxon countries and is more used by pension funds, religious investors, foundations and endowments in the form of institutional mandates than by fund vehicles. The top 3 asset managers of this sub-category are CCLA investment, Ecclesiastical Insurance Group and BlackRock. The three of them account for 95% of AuM in the sub-category.

HIGHLIGHTS

- The largest fund of this sub-category is domiciled in the UK and comprises EUR 1.6 billion;
- The top 3 asset managers in this sub-category are CCLA Investment, Ecclesiastical Insurance Group and BlackRock.

Definition
Funds investing according to faith-based principles, such as Christian or Catholic funds for instance.

APPENDICES

Appendix 1: CHALLENGES
Extract from 2013 Survey

Integration: is the widespread incorporation of ESG criteria into investment decisions by many asset managers good for the RI industry ?

WHAT IS ESG INTEGRATION?

ESG integration is the explicit inclusion by asset managers of ESG risks and opportunities into traditional financial analysis and investment decisions based on a systematic process and appropriate research sources.

Source: European SRI Study 2012, Eurosif.

> *In our experience, integrating ESG considerations into the investment process is an enhancement, not a limitation. Having greater access to risk information in all its forms should neither limit the investable universe nor the potential returns, quite the opposite. Over time, we expect many other mainstream investors to reach the same conclusion we have and, as ESG risk information becomes a natural concern of the mainstream investment industry, pressure will grow to set a transparent price-tag on ESG risks. This will be the driver that will put ESG concerns high on corporate agendas and SRI-enhanced investment results will undoubtedly follow.*
>
> **Per Noesgaard, CEO Sparinvest Group**

Over the last couple of years we have witnessed the emergence of ESG integration in the strategy as well as communication of many of the largest asset managers. Some are now declaring that they are integrating ESG considerations across all their funds, whether "pure RI" funds or mainstream funds. The figures in this study show that certain asset managers have already made the move to re-categorise all their funds as RI funds and others are moving fast in that direction.

Although in principle the approach seems pretty straightforward, there is enormous disparity in the methods used by asset management companies to integrate ESG analysis into investment decisions. On the one hand, some make ESG research available to portfolio managers for consideration during the investment decision should the manager deem appropriate. Others have created qualitative rating systems, based on subjective judgments made by a specialist team and rolled out to all portfolio managers. Others have even more sophisticated approaches.

Advocates of ESG integration declare that this increasingly widespread inclusion of ESG analysis into the investment decision process is a major step forward to mainstreaming, as it moves the RI activities of the asset management company from a very often small, isolated department up to a strategic transversal level. ESG information, combined with traditional financial information, becomes an additional layer enabling a more comprehensive view of the risks and opportunities of a target investment. ESG data is therefore used not independently of financial analysis, but as a means of enhancing financial analysis directly.

Critics argue that ESG integration is a diluted approach where portfolio managers are using minimum ESG standards to inflate the numbers of Responsible Investing assets under management.

Fundamentally, it is not difficult for an asset management company to make quality ESG analysis and research available to its team of portfolio managers; nor it is difficult to oblige investment managers to follow a number of basic rules prior to investment decision. Most big asset managers will tell you that this is what they are doing. But the crux of the matter really comes at the moment when the portfolio manager makes the investment decision.

No amount of available information is useful if the portfolio manager does not understand or is not convinced by the relevance of ESG data when he hits the return button on his computer to complete a buy or sell investment decision.

And the question could be raised – how certain can asset management companies really be, when they say their portfolio managers are incorporating ESG analysis alongside financial analysis when making decisions? Do portfolio managers really understand ESG and use it in a systematic and appropriate way? Indeed, interpreting and incorporating ESG information into a disciplined, fundamental investment process takes some time and effort.

When debating the pros and cons of ESG integration, the views of the investor cannot be ignored. Institutional investors conduct more or less extensive due diligence on their asset managers and already assess whether they are comfortable with the extent that ESG criteria are incorporated into the management of their assets. When considering retail investors, who, granted, comprise a small part of the market for the time being, ESG integration is rather more difficult for the man on the street to fully understand. The average retail investor would rightly assume that portfolio managers should already be incorporating some of the more obvious ESG related risks into their analysis in any case – so why try to sell the funds as something special or "RI".

The debate around ESG integration continues and there remain a number of burning questions: How far should ESG integration go in order to be reasonably called "responsible investing"? Is a simple negative screening approach enough? Can investors believe that asset managers really do what they say they do? Are we seeing the end of RI funds labelled as such?

Despite these questions, ESG integration will, without a doubt, become an increasingly important part of the RI industry in the future. As we have seen with other RI strategies, the application of the ESG integration strategy will evolve. Those asset managers able to formalise their approach and prove that they have robust processes in place to integrate ESG will certainly succeed. Models and methods to assess this in an independent, external manner are already being developed to assist asset managers in this process.

> *Some may argue that the frontier between ESG integration and Responsible Investing gets tenuous. ESG integration does not seek to have an impact (be it social or environmental), whereas, in my view, Responsible Investing should and does. This is a significant difference, a difference that must be preserved and further developed; this is also a difference that will allow getting attention and obtaining incentives from the public authorities. I do not believe that integration can be "dissolved" into responsible investing.*
>
> **Philippe Zaouti, CEO, Mirova**

Distribution: Where do RI asset managers see the greatest growth potential - Institutional versus Retail? Or is there place for both?

SRI remains led by the demands of the institutional market. Unfortunately, the retail SRI market has struggled over the years to show significant increase in market share against other types of investment options. The reasons for this are three fold: First, there is not a commonly understood definition of SRI which makes it challenging for front-line sales people to push these products. Second, many SRI products are based on the equities asset class and investors have shied away from this area since the beginning of the global financial crisis. Finally, the one area that has seen growth in the retail SRI market has been the notion of 'themes'. These themes range from clean technology, water scarcity and others – while this is an encouraging sign, a thematic approach has proven to be limited by the number of different topics that have been found to be sellable. Indeed, there is still a great opportunity for investment houses that can find the right offer in order to take advantage of the latent demand among SRI investors.

Matt Christensen, Global Head of Responsible Investment at AXA Investment Managers

The latest Eurosif study[24] shows that the RI market is dominated by institutional investors and that the RI retail market represents only 6% of the Assets under Management; as compared to a 31%[25] retail share of all European fund assets. Why are institutional investors dominating the RI market? Clearly as within many markets, it is the big players that lead the way. Companies like Unilever with its "Sustainable Living Plan", or Puma's Environmental Profit and Loss Account, a world first, are setting the global example for international corporations. And the asset management industry is no different: leading institutional investors such as the Norway Government Pension Fund set the tone for RI investors and asset managers. It is clearly these institutional investors which are able to influence others and facilitate responsible investing innovation throughout the market, benefitting institutional and retail investors alike. There has been significant growth in the number of UN PRI signatories within the last two years which is also an indication of growth in the RI market. Many major investors are now requesting asset managers to commit to the PRI. As a result, the PRI has seen increasing interest from newer sectors such as hedge fund managers, which to date have not considered traditional responsible investing principles relevant to their funds due to the short term and complex nature of their investment products.

This trend of increased demand for RI products from institutional investors was noted as the single biggest driver of RI demand expected over the next few years in Eurosif's study[26]. But is all this progress in the institutional market positively impacting the retail market? The retail market share, despite positive developments in the institutional market, remains relatively small.

Is there a gap between supply and demand? Possibly not – there is no sign that the retail market is crying out for RI products and asset managers are not yet pushing RI products to the market to "create" demand. It is a strategic choice for asset managers with widespread retail distribution channels, such as retail banks and insurance companies, whether they wish to pursue the RI route across their full portfolio of funds.

There is no need to mention the commercial and reputational benefits of pursuing such a strategy within the retail market; it should be seen as purely positive by retail investors. But this strategy is not without risk, and in particular major reputational risk. We are painfully aware of public opinion towards the financial sector in the wake of continued financial crisis.

24 Source: "European SRI Study 2012", Eurosif

25 Source: "Asset Management in Europe, Facts and Figures, 5th annual review", EFAMA

26 Source: "European SRI Study 2012", Eurosif

If an asset manager intends to adopt RI throughout its retail market product offering, and leverage off this strategy to win market share, then it is critical for the reputation of the asset manager as well as the industry as a whole, that RI processes are transparent, clearly understandable and properly integrated.

The market needs to be able to trust the asset manager. One of the biggest challenges in approaching the retail market lies in the area of financial education, both of distributors and investors. A typical retail investor trusts his financial advisor to suggest appropriate investments. It is already clear that many advisors are not sufficiently comfortable with RI strategies and techniques to "sell" the product. Selling sustainability themed products to a retail investor is certainly easier, but selling funds which use ESG integration or best in class strategies can be more difficult. It is becoming best practice to produce an "RI annual report" which can be used as a transparency tool to explain RI policies and practices to investors. But is this helping distributors to sell RI to retail investors?

In fact what retail investors are really looking for is simplicity, whether this be with regard to the RI investment policy adopted by the fund they are investing in or with regard to other important elements such as fees charged to investors. This is a challenge across all funds whether RI or not and there are various debates and legislations addressing the fixing of fees as well as disclosure of fee structures to investors. Simplicity and clarity is the key, whatever the topic for the retail investor, and this equally applies to RI.

A final point which is also influencing distributors selling RI products to the retail market is the perceived risk of being criticised if an RI fund underperforms the market and the fear that this will be blamed on the RI nature of the investment policy. There is currently no conclusive research which proves that RI strategies are better or worse than more "traditional" non RI strategies. However some asset managers are scared of this potential risk, even though they would not admit it. Harmonised definitions of what RI is and what it is not might help towards solving this problem, as will, of course, more widespread use RI strategies across investment portfolios.

SRI and Impact Investing are still largely untapped, and we believe in a strong potential there, both for retail and institutional investors. The recent banking-scandals and the economic crisis that are being felt by consumers around the world are making people think more consciously about what they do with their money, especially with whom they invest and in what they invest in. Our positioning as a sustainable bank and the fact that we have developed our range of products to address some of today's greatest sustainable challenges, such as climate change, access to finance and sustainable real estate, makes it easier for us to attract retail investors that are interested in RI products.

Eric Holterhues, Head of Social Responsible Investments & Head of Arts and Culture, Triodos Investment Management

Information and disclosure: How to make sure investors understand what's in a fund?

"The fundamental issue for SRI going forward lies in its ability to demonstrate social and environmental benefits. This requires developing a new set of metrics and reporting tools based on standardised and reliable performance indicators, such as carbon footprint, water intensity, employment creation or safety statistics. Such ratios have been in place for many years in the financial domain (eg sharpe ratio PE, tracking error) and it is vital for the SRI industry to agree upon such metrics to measure and compare the ESG characteristics of portfolios. The recent Novethic panorama of ESG reporting showed that much has already been done by a handful of players. It is time to take stock and find a common ground for the benefit of all."

Eric Borremans, Sustainability Expert, Pictet Asset Management

Transparency on the responsible investment approach followed by asset managers and asset owners has considerably increased over the last years. In 2012, 44% of the respondents to the PRI's survey made their responses publicly available through the PRI's website, compared to 25% in 2009[27]. In addition, the PRI is currently[28] revising and strengthening its reporting requirements for PRI signatories such that all signatories will be required to report against this framework from 2013 onwards.

Beyond this initiative, a growing number of asset managers now provide information on their approach to RI. A majority of RI managers provide at least some information on their website on how they integrate ESG issues into their investment process. Some publicly disclose their voting policy on listed equities, and others publish a "responsible investing report". Both disclosures of voting policy as well as issuing an RI report are fast becoming a minimum requirement for the largest asset managers.

The breadth and depth of the information requested by sophisticated investors is certainly not the same as the level of information requested by a retail investor in his local bank. Language must be tailored to the type of investor according to the level of financial literacy. A number of market initiatives exist assisting in this process, in particular with regard to retail investors.

Use of external transparency initiatives such as logos or labels granted at product level has multiplied. These "labels" tend to be used more in the case of retail or private investors as an investor communication and assurance tool.

In the case of institutional investors who are asking for specific dedicated mandates, the question is more at the level of the asset manager and its capacity to prove that its RI methodology is robust enough and in line with the institutional investors' expectations. In that sense, certain managers are having their RI methodologies and processes audited by independent third party experts.

This demonstrates the trade off between responsibility and transparency. Now with the development of environmental and social indicators, RI reports and the like, the accuracy, completeness and robustness of data and information will be questioned and the need for external verification and assurance is certainly emerging.

"Some stakeholders argue that investors should disclose all of their engagements on an ongoing basis. However, our experience suggests that transparency too early can be counter-productive to the goal of well governed, responsibly managed companies. For example, many of our engagements concern sensitive topics that require careful relationship building and support between investors and company representatives. If we were to publish on our website a status update on all our company engagements, we often would not be able to develop the confidential dialogues that enable us to bear influence on companies. End investors, particularly retail investors and pensioners, deserve transparency from their fund managers including in the area of engagement. However, the timing, context and shape of that transparency should be viewed with the end goal of long-term sustainable companies in mind."

Alexis Cheang, Senior Responsible Investment Consultant, Mercer Investments

27 Source: UN PRI website

28 European Responsible Investing Fund Survey 2013, KPMG - data dates back to February 2013

Impact investing: How does impact investing fit into the big picture?

WHAT IS IMPACT INVESTING?

Impact investments are investments made into companies, organisations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.

Source: the Global Impact Investing Network

There has been a shift focus in recent years from general concern about poverty alleviation to a desire for more disciplined measurement of the direct impact of MIV investments, Microfinance investors have also moved away from a unilateral and simplified view of the sector and have developed a more elaborate understanding of its shared profits and mutual social benefits in the current context of on-going globalisation. This has led investors and practitioners to increase their emphasis on the level of social responsibility provided by each stakeholder in the value chain in order to safeguard and ensure long term positive impact and sustainable wealth creation.

Roland Dominicé, Executive Officer, Symbiotics

There has been a shift in recent years by fund managers away from looking at ESG aspects as a way of managing risks and opportunities to a desire to measure direct positive results of investments, be they social, environmental or both. This trend has been mainly pushed forward by investors who are looking at ways to place capital in businesses or funds which, alongside a financial return, can address the world's most pressing social and environmental challenges.

Discussions with the largest traditional asset managers reveal that the concept of measuring the "impact" of a fund is rather used by thematic funds (environment and social) than by what we have identified in this study as "ESG cross-sectoral" funds (which is the biggest share of the RI market). As a result, impact investing should be considered more as an evolution of the thematic funds towards measurement rather than a new and separate asset class.

This is corroborated by the Illustrative "Map of Capital Market Strategies", produced by Bridges Ventures[29] in 2012 and used by Eurosif to explain where Impact investing fits in the broader Responsible Investing landscape. Bridges Ventures places Impact Investing at the level of thematic funds and Impact-first funds. The "Environmental and Social themed investing Work Stream" of the UN PRI, also adopts this view and provides a non-exhaustive list of impact themes.

But the biggest challenge facing the trend towards impact measurement is the lack of standardised frameworks to calculate and communicate the impact performance. Certain tools exist, such as the Impact Reporting and Investment Standards (IRIS[30]), however no commonly accepted tool is being used on a widespread basis.

Apart from side discussions about semantics and the place that Impact investing occupies in the RI market, practitioners recognise that it is a buoyant trend. Specialised asset management boutiques and platforms dedicated to meeting the needs of impact investors are flourishing. Furthermore, the adoption by the European council of the European Social Entrepreneurship Funds Regulation ("EUSEF")[31] can only assist in encouraging development in this area.

29 www.bridgesventures.com
30 http://iris.thegiin.org/
31 The Regulation (EU) No 346/2013 was officially published in the Official Journal of the EU on 17 April 2013.

ESG Research: Does using ESG research really add value to investment decisions?

Before 2009, ESG research companies mushroomed in most European countries. After a consolidation period, during which large financial information provider companies acquired ESG research boutiques, ESG research has been professionalised and significantly improved in quality. However, there is still a gap between the research produced and how it is actually used by portfolio managers.

Indeed, there is no "one size fits all" approach. The integration of ESG issues into investment research and decision-making can take a variety of forms. There are many barriers that limit the systematic use of ESG research by portfolio managers.

According to a survey undertaken by the UN PRI in February 2013, investors tend to think that the ESG information generated by specialist research providers or contained in companies' reporting is "relatively static, often qualitative, often subjective, often lacking rigour (or, at least, not assured to the same degree as financial data), and frequently concerned about low probability or longer-term events or impacts".

One of the most important barriers to effectively using ESG research is the mismatch of timeframes between the short-term drivers that characterise most of the investment decision processes, and the long-term issues highlighted by ESG specialists that may not be material enough to be taken into consideration in investment decisions.

As a result of this, many investment analysts and fund managers believe that it is extremely difficult to demonstrate that ESG issues have a direct effect on investment value. Moreover, the return on investment of the potential research costs engaged (time and money) is not clearly established.

While investors are paying increased attention to ESG issues and recognise that the data and information provided is getting more robust and "investment" oriented, the reality is that "most ESG issues are either intangible or long-term and it is, therefore difficult to reflect them in current valuations given that the market tends to discount or even ignore longer-term impacts ".

In order to further embed ESG research into investment decisions, the UN PRI has listed a number of concrete recommendations on which the industry should focus, in order to address the following issues: 1) changing attitudes, values and beliefs; 2) developing skills, knowledge and expertise; 3) strengthening market demand for RI; 4) increasing the resources for RI; 5) Improving access to information for companies and investors 6) encourage a longer-term approach to investment.

While discussions intensify around integrated reporting[32] for companies and ESG integration for asset managers, it is quite obvious that discussions around integrated research will also gain in importance.

Analyzing companies' risks and opportunities arising from environmental, social, and governance (ESG) factors can reveal hidden investment risks or opportunities that may not be captured by conventional financial analyses. Such research should complement the purely financial approach and should be integrated into investment decision-making and the portfolio management process so that portfolio construction and optimisation, back-testing, or performance and risk attribution can also be run through the lens of ESG risks.

Perrine Dutronc, Managing Director, Inflection Point Capital Management

There are an increasing number of private and institutional investors, who are actively incorporating ESG-issues in their investment decisions. At the same time, the number and diversity of market participants offering a wide range of responsible investment products and services are steadily growing. An orientation in the market of Responsible Investing is therefore often becoming time-consuming and difficult. For this purpose, sustainable information portals respectively specialized fund databases help in understanding the specificities of each RI product and in line with this are useful tools for investors to take conscious investment decisions.

Christoph Dreher, MSc., Founding Partner, YourSRI

32 Reporting integrating both financial and extra-financial information on a company

Appendix 2: METHODOLOGY

Scope

This study includes regulated mutual funds available to the general public and open-ended in nature. A mutual fund is a professionally-managed collective investment scheme that pools money from many investors (e.g. Undertakings for Collective Investment in Transferable Securities "UCITS" or Undertakings for Collective Investment "UCI" funds). The study also includes other types of fund vehicles e.g. Specialised Investment Funds (SIF), as far as such data is available.

In the case of umbrella funds, the study addresses data at sub-fund level. Assets under management for each share class are therefore aggregated at sub-fund level.

Funds of funds have been excluded from the list to avoid double-counting.

In terms of geographic universe, the study includes funds domiciled in Europe, Cayman Islands and Bermuda. A clear distinction has been made between where a fund is domiciled and where it may be registered for distribution. This survey addresses fund domiciles only.

The assets under management are presented in Euro billions as at 31 December 2014. Funds created after December 2014 are not included in this study.

Methodology

This market study was developed following three key phases detailed below:

Phase 1	Development of clear definitions of the different responsible Investing sectors and classifications based upon validated data sources
Phase 2	Collection of data and classification of assets under management statistics per sector and per country of domicile
Phase 3	Analysis of data sets and drawing of conclusions based on such analysis

The principal and basic data source used for the study is the Lipper FundFile database[47]. Lipper FundFile is a database specially designed for the European and Asian fund industry. It is a data mine that tracks over 45,000 funds sold throughout Europe and Asia each month and provides comprehensive information on the funds and companies that sell them. The Lipper FundFile database uses various flags (such as: RI screened, RI extended, Sharia-compliant or Microfinance) that are applied to funds on the basis of the information provided in each prospectus.

This database was cross checked and supplemented with a number of other databases as further explained below. All data sources used are publicly available databases, either free or on the basis of specific fees payable. An extensive list of databases used and details of these databases is included in Appendix 3 of this report.

The majority of definitions used were those of Lipper FundFile, being the principal data source. For each classification and sub-category, Lipper FundFile definitions were reviewed for consistency with other data sources and modified where considered relevant. Where Lipper FundFile did not include a specific definition and classification, other sources were used.

This same process with regard to the content of the databases has been carried out whilst validating the definitions and classifications. Secondary sources have been used to assist more accurate categorisation, to supplement missing data e.g. assets under management statistics, and in certain cases, to provide full data for categories not provided by Lipper FundFile.

Following collection of data, cross checking and reclassification of data, a final data collection step was carried out to check certain information back to fund prospectuses and to also request certain assets under management data directly from asset managers as such data is not publicly available.

The following sections aim to further detail the methodology used to collect data for each of the categories identified by ALFI.

ESG (cross-sectoral)

The funds in this category apply various strategies, including negative or positive screening, engagement approaches and often a mix of these strategies. Additional cross checks were performed with various other sources:

- The Eurosif list of funds which obtained the Transparency logo;
- The Novethic list of funds which obtained the Novethic Label;
- The Fundsquare list of funds flagged "ethical";
- The SRI Fund advice database;
- The Sustainable Investment database.

47 www.lipperfmi.com

Esg (Environment)

This category has been divided into five sub-categories, namely Renewable energy/Climate change funds, Environmental/Ecological funds, Water funds, Carbon Investment Vehicles and Sustainable Forestry Funds. The first three sub-categories correspond to sector classification in Lipper FundFile. On the Forestry funds as well as the Carbon funds side, the data availability was very limited, and so whilst we made every effort to collect this data, we draw attention to this limitation of the study and the fact that numbers of funds and AuM in those categories may be understated. We have therefore not analysed the evolution of these two categories separately. Additional cross checks have been performed with the Fundsquare list of ecology flagged funds.

The classification of funds belonging to the first three sub-categories, Renewable energies/climate change, Environmental/ecological and water is based on the Lipper FundFile sector classification.

Funds listed in these three categories are also flagged as RI screened or RI extended by Lipper FundFile which means that these funds also apply certain ESG screening thus ensuring that funds which invest in the above categories with the sole objective of a financial return are excluded. In order to avoid double-counting (e.g. a fund may be allocated to the sector "renewable energies/climate change" and flagged RI extended in Lipper FundFile), KPMG has removed these funds from the sub-categories RI screened and RI extended and classified such funds on a thematic basis only.

eSg (Social)

This category has been broken down into three sub-categories namely Microfinance Investment Funds, Social Solidarity funds and Impact funds. In order to allocate funds to these sub-categories, KPMG used multiple sources of information to perform cross-reference checks:

- The CSSF list of Microfinance Investment Vehicles;
- The Fundsquare list of funds flagged "Microfinance";
- The Lipper FundFile list of funds flagged "Microfinance";
- The funds classified under the "equities social/solidarity" category from Lipper FundFile;
- The LuxFLAG list of MIVs;
- Syminvest tool of Symbiotics.

Ethics (cross-sectoral)

This category has been broken down into three sub-categories namely Faith-based funds and Sharia-compliant funds. In order to allocate funds to these sub-categories, KPMG used both the Lipper FundFile list of funds flagged "Islamic" and the Fundsquare list of funds flagged "Islamic" to perform cross-reference checks.

While the validity of including Islamic Finance as a responsible investing segment is debated, it was decided to cover all possible themes that could be considered as responsible investing and leave the reader to decide whether these funds meet their own definition of responsible investing.

Limitations of the study

Whilst numerous cross-reference checks of the reference database have been made to ensure the integrity and reliability of data, the completeness of the reference database may still be questioned due to the fundamental reliance of Lipper FundFile on the accuracy and completeness of data provided by asset managers and administrators. The Lipper FundFile database is updated on a monthly basis and can be considered as a reliable and consistent source of data whereas the other sources used to perform cross-reference checks may not have been updated in a regular manner. In some cases funds may have been renamed, merged into other funds or even closed, leaving space for slight discrepancies in terms of number of funds and assets under management.

It should also be noted that, in terms of completeness, KPMG identified 1,874 funds and obtained assets under management data for 1,602 of them, representing 85% coverage. The 272 funds for which KPMG could not obtain accurate data are still included in the list. However, they display assets under management of 0. The total assets under management figure for the survey is therefore slightly understated by the amount of assets of the 272 funds for which such information was not publicly available.

KPMG used a set of definitions[48] to classify funds in their relevant categories and in some cases challenged the initial category of the fund. However, KPMG relied on the appreciation of Lipper FundFile and other relevant sources and did not perform a check against the prospectuses for each of the funds in the reference database.

An important limitation to the study was identified during our discussions on the "ESG integration" strategy with various asset managers. Indeed, this strategy of incorporating certain ESG criteria across the whole range of funds of an asset manager (being traditional funds or specific RI funds), may have a significant impact on the perceived size of the RI market.

In this survey, two large asset managers (Nordea Investment Management and RobecoSAM) practicing ESG integration have requested Lipper FundFile (our main data source) to flag all their funds as RI funds. As a result, all funds managed by these asset managers have been included in the survey results. This may have an impact both in terms of figures and also in terms of methodology. In order to avoid distortion when comparing with figures from the prior study, those figures have been restated, based upon Lipper FundFile which retroactively applies the RI flag within the database. To read more on the evolution of the "ESG integration" strategy, please see Chapter IV: Emerging trends and challenges.

48 The definitions are available at the end of each sub-category

Appendix 3: INFORMATION SOURCES

One challenge of this piece of research is to deal with numerous publications and data sources available on the market. It was therefore decided that KPMG would use a reference database that would be challenged by other independent sources during a desk review.

The reference database used for this market study is Lipper FundFile, a Lipper FMI database. Lipper FundFile has been challenged with the following sources in order to ensure completeness of data:

- **Climate Bonds Initiative:** Climate Bonds Initiative promotes investment in projects and assets necessary for a rapid transition to a low-carbon and climate resilient economy and is an investor-focused not-for-profit. Moreover, CBI is developing an independent, third party standard for labelling climate bonds; (source: www.climatebonds.net)
- **Climatefinanceoptions:** The UNDP/World Bank Climate Finance Options (CFO) Platform addresses the need of policy makers and project planners in developing countries at national and city levels to access information on all aspects of climate finance by providing a window to such information. The web platform is the go-to site for information on climate finance. Within the framework of global negotiations on climate change, the UN Development Programme (UNDP) and the World Bank Group have jointly developed the web-based knowledge platform, which a number of UN agencies and multilateral development banks (MDBs) use as a joint conduit of information on investment finance. It is also building an interactive community of practice to share South-South experience and best practices in climate action for better development impact; (source: www.climatefinanceoptions.org)
- **EFAMA:** EFAMA is the representative association for the European investment management industry. EFAMA represents through its 26 member associations, 62 corporate members and 24 associate members about EUR 17 trillion in assets under management of which EUR 11 trillion managed by 55,000 investment funds at end September 2014. Over 36,000 of these funds were UCITS (Undertakings for Collective Investments in Transferable Securities) funds; (source: www.efama.org)
- **European Sustainable Investment Forum (Eurosif):** Eurosif is the leading non-for-profit pan-European sustainable and responsible investment (SRI) membership organisation whose mission is to promote sustainability through European financial markets. As such, Eurosif performs a number of EU advocacy and public policy related-activities, informed by in-depth primary or secondary research and the expertise of its network. As an authoritative thought leader on SRI matters, Eurosif engages in a range of promotional activities such as public events or discussion fora, both with the industry and policy-makers; (source: www.eurosif.org)
- **Fundsquare:** Born from the initiative of the Luxembourg Stock Exchange, Fundsquare's mission is to deliver to the fund industry an efficient and standardised infrastructure for the exchange of information and related transaction messages through cost mutualisation and quality management using state-of-the-art technology. For this study, KPMG has used the following flags to cross-check the reference database: Ethical, Ecology, Islamic, Microfinance, Energy; (source: www.fundsquare.net)
- **Luxembourg Fund Labelling Agency (LuxFLAG):** LuxFLAG is an independent, nonprofit making, association that aims to promote the raising of capital for Microfinance and Environment related sectors by awarding a recognisable label to eligible Microfinance Investment Vehicles (MIVs), Environment related Investment Vehicles (EIVs), and funds integrating ESG strategies into their portfolios; (source:www.luxflag.org)
- **Novethic:** Novethic, part of Caisse des Dépôts et Consignations, is a French research centre on Corporate Social Responsibility ("CSR") and Socially Responsible Investment (SRI) and a sustainable development media expert. The Novethic Label, launched in 2009, aims to provide individual investors with a framework for SRI products offered by investment managers; (source: www.novethic.fr)
- **Oekom research:** Oekom research AG is one of the world's leading rating agencies and offers a comprehensive package of research services for the integration of ethical, social and environmental aspects in the investment management of companies; (source: www.oekom-research.com)
- **Partners for Sustainability AG:** The website "SRI Funds Advice" is owned by the company " Partners for Sustainability AG" which developed research instruments such as the SRIFundsAdvice.com platform that scrutinizes the objective sustainability as well as the financial performance of funds; (source: www.srifundsadvice.com)
- **Syminvest:** The Syminvest "funds gateway" is a Symbiotics tool that includes a global list of Microfinance Funds, an up-to-date catalogue of all the specialised funds active in microfinance, and a Luxembourg list, which provides a focus on the funds incorporated in Luxembourg, with a monthly assessment of the asset size and microfinance portfolio; (source: www.syminvest.com)
- **Vigeo:** Vigeo was founded in 2002 and has established itself as a leading European expert in the assessment of companies and organisations with regard to their practices and performance on environmental, social and governance ("ESG") issues; (source: www.vigeo.com)
- **World BANK:** The World Bank is a source of financial and technical assistance to developing countries around the world. They work in partnerships to reduce poverty and support development. The World Bank Group comprises five institutions managed by their member countries; (source: www.worldbank.org)
- **YourSRI:** YourSRI is one of the leading databases for responsible investing. It offers access to specific company and product information as well as access to specialized external services. The YourSRI database provides information about various topics in the field of sustainability and responsibility. The whole SRI-value chain is covered, from "Asset Management & Investment" to "Research". The database offers access to more than 1,100 companies, over 1,300 investment products and 850 research documents. (source: www.yoursri.com)

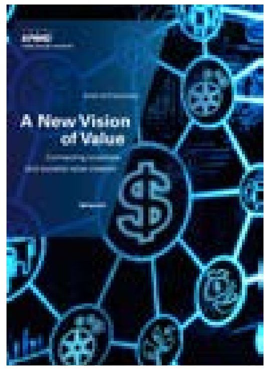
Appendix 4: LIST OF TERMS AND ACRONYMS

ALFI:	Association of the Luxembourg Fund Industry
ALIF:	Alliance for Luxembourg Islamic Finance
ASrIA:	Association for Sustainable & Responsible Investment in Asia
AuM:	Assets under Management
CIV:	Carbon Investment Vehicles
CSR:	Corporate Social Responsibility
EFAMA:	European Fund and Asset Management Association
EIV:	Environment related Investment Vehicles
ESG:	Environmental, Social and Governance investment criteria
Eurosif:	European Sustainable Investment Forum
FNG:	Forum Nachhaltige Geldanlagen
GBP:	Green Bond Principles
GIIN:	Global Impact Investing Network
GSIA:	Global Sustainable Investment Alliance
IFPA:	Islamic Finance Professionals Association
ILO:	International Labour Organisation
LIIP:	Luxembourg Impact Investing Platform
MDB:	Multilateral Development Bank
MFI:	Microfinance Financial Institution
MIV:	Microfinance Investment Vehicles
RI:	Responsible Investing
RIAA:	Responsible Investment Association Australasia
SIB:	Social Impact Bond
SIF:	Sustainable Investment Forum
SIITF:	Social Impact Investment Taskforce
SRI:	Socially Responsible Investment
UCITS:	Undertakings for Collective Investments in Transferable Securities
UKSIF:	UK Sustainable Investment and Finance Association
UNFCCC:	United Nations Framework Convention on Climate Change
UN PRI:	United Nations supported Principles for Responsible Investment
USSIF:	The Forum for Sustainable and Responsible Investment
VBDO:	Vereniging van Beleggers voor Duurzame Ontwikkeling

APPENDIX 5: KPMG THOUGHT LEADERSHIP

Expect the Unexpected
Building business value in a changing world

http://www.kpmg.com/dutchcaribbean/en/Documents/KPMG%20Expect_the_Unexpected_ExctveSmmry_FINAL_WebAccessible.pdf



A New Vision of Value
Connecting corporate and societal value creation

http://www.kpmg.com/ES/es/ActualidadyNovedades/ArticulosyPublicaciones/Documents/a-new-vision-of-value-2014.pdf

Investing in the future
How megatrends are reshaping the future of the investment management industry

https://www.kpmg.com/dutchcaribbean/en/Documents/Publications/Investing-In-The-Future-report-fs.pdf

Sustainable Insight
Articulating the value of sustainability to mainstream investors

http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/sustainable-insight/Pages/sustainable-insight-january-2011.aspx

Unlocking the value of social investment

http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/sustainable-insight/Documents/unlocking-value-social-investment.pdf

Sustainable Insight
Gearing up for green bonds: key considerations for bond issuers

http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/sustainable-insight/Documents/gearing-up-for-green-bonds-v2.pdf

Contact

Jane Wilkinson
T: +352 22 51 51 6325
E: jane.wilkinson@kpmg.lu

KPMG Luxembourg, Société coopérative
39, Avenue John F. Kennedy
L-1855 Luxembourg
Tel: +352 22 51 51 1

www.kpmg.lu

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We have more than 162,000 outstanding professionals working together to deliver value in 155 countries worldwide. KPMG Luxembourg is a leading provider of professional services in Luxembourg and abroad.

The Climate Change & Sustainability ("CC&S") practice of KPMG Luxembourg provides sustainability services to businesses and investors wishing to gain greater understanding and improved management and reporting of Environmental, Social and Governance performance.