The Novethic Indicator

2018 Thematic Funds

147 funds

€ 36 bn

+ 18%

Source: Novethic

Novethic quantifies the supply of Socially Responsible Investment funds on the French market. Sustainable, Responsible, Green, SDGs, high-impact..., a growing variety of sustainable finance products are available in the market. Thereby, its analysis focuses on thematic funds which offer a more readable strategy for end customers.

Market figures for 2018 SRI funds

488 funds → € 149 bn → + 11%

Source: Novethic

A dynamics driven by notable financial performances and the French SRI label

- The dynamics of sustainable finance grows stronger (+ 11%) as asset management in France declines (-6% for UCIs domiciled in France according to the French Asset Management Association - AFG - in 2018).
- While the major benchmarks posted negative performances at the end of 2018, the market for funds labelled as sustainable has performed well. Among the €149 billion in SRI funds, 45% are invested in equities and have an average performance of -1%. These results confirm that an ESG approach makes it possible to better identify the sources of value creation on the market.
- More than one-third of the sustainable funds' market (147) are thematic funds, 90% of which are in equities. Their performance (1,9%) is better than that of the global equity fund market. Their collection rate (+14,9%) is also much higher than that of the global SRI market (+4,6%).

A not-so explicit marketing offensive

- The names of the funds listed in the Indicator vary widely: SRI, sustainable, responsible, impact, are mixed with more recent ones such as SDGs for the Sustainable Development Goals.
- The recommendations of the French financial markets regulator (AMF) that funds built with ESG integration for financial management be certified with the SRI label are not necessarily respected. Of the 75 funds domiciled in France claiming SRI in their wording, 39 are not certified as such.

The French SRI label in full swing thanks to the PACTE law

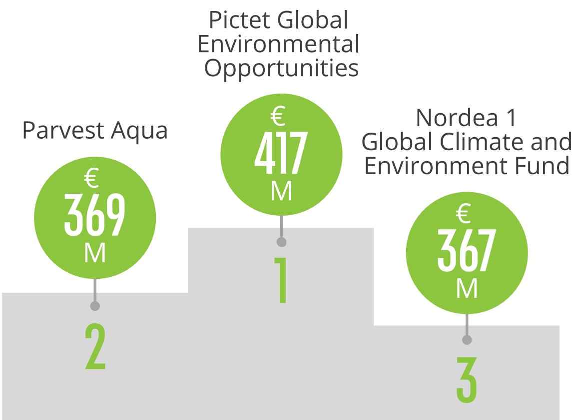
- The volume of SRI-certified funds continues to grow. At the end of 2018, they totalled 146, compared to 96 at the end of 2017, and their assets under management had increased by 67%. SRI-certified funds represent 28% of the global market and 52% of the subscriptions.
- This trend continues with the PACTE law, which plans to include at least one SRI-certified fund in all life insurance contracts by 2020.
- The risks of confusion for end customers on what SRI-certified funds can deliver are high because savers are not used to such terminology. More than 70% of SRI-certified funds do not use the term «SRI» in their title.
- About 50 SRI-certified funds are in fact green, social or multi-thematic funds.
  They represent 26% of assets under management and 61% of subscriptions.

Focus on green funds

The attractiveness of green funds and dynamism of green bonds

Source: Novethic

- Despite low levels of performance, the attractiveness of green thematic funds remains high. The global equity Amundi Funds II Global Ecology stands out however, with a higher performance than the rest. Its performance comes mainly from American players positioned in water distribution and management, rail freight and from its sustainable diversification bucket around health.
- The terminologies used by the majority of these 74 green funds are explicit in their themes and identifiable by their wording: green climate/environment/transition/energy/water.



Source: Novethic

The three largest green fundraisers

- Their negative performance was not an obstacle for these three equity funds, which had the best fundraising in 2018, probably due in part to the distribution network they benefit from. They represent €3 billion or 13% of assets under management.
- The themes covered are varied - environmental services, fight against pollution and climate change, green tech, water, renewable energies - whereas environmental indicators are scarcer. They provide the breakdown by green sectors (% assets) or the green share in business revenue related to the theme.

A proliferation of environmental impact indicators

- **The difficult comparison of environmental performances**

The 20 largest green funds in this Indicator (excluding TEEC-certified funds) amount to €18.5 billion and use in total about fifteen impact indicators, for those who publish them (7 do not). For example, we find the allocation of the portfolio in the various themes selected by the fund in % of assets, the induced emissions per €100 invested (scope 1 to 3), the volume of water saved, the portfolio temperature, or even installed capacity for renewable energy.

This diversity reflects the lack of frameworks on impact indicators and compromises the possibility of comparing funds based on their environmental performance.

- **More indicators than listed TEEC-certified funds!**

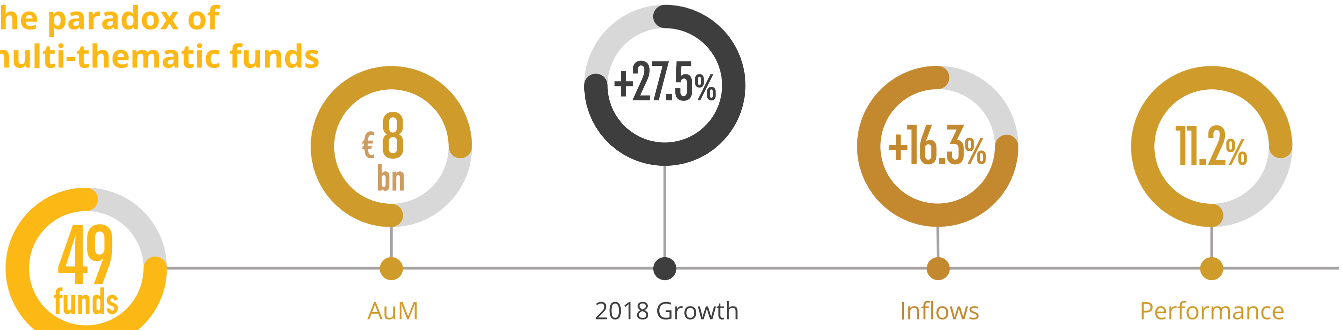
Label TRANSITION ÉNERGÉTIQUE ET ÉCOLOGIQUE POUR LE CLIMAT pour les investisseurs qui s'engagent

The 9 funds that obtained the TEEC label are worth €1.7 bn and they publish 14 indicators: implicit global warming temperature associated with the portfolio and 2°C trajectory; induced CO_2 emissions/M€; carbon intensity (T CO_2 eq/M € revenue); avoided emissions CO_2 M €; portfolio carbon footprint (T CO_2 eq); allocations by funded project; allocations by green theme; green bond ratings (0 to 5); Net Environmental Contribution (methodology developed by Sycomore); water consumption measured in m^3; asset allocation based on the green share of business turnover; financed renewable energy capacity (MW/M €); additional installed capacity (MW), annual production of renewable energies (MWh/M €).

The lack of standardization for these indicators makes it more difficult to understand their environmental characteristics and comparability for the end investor.

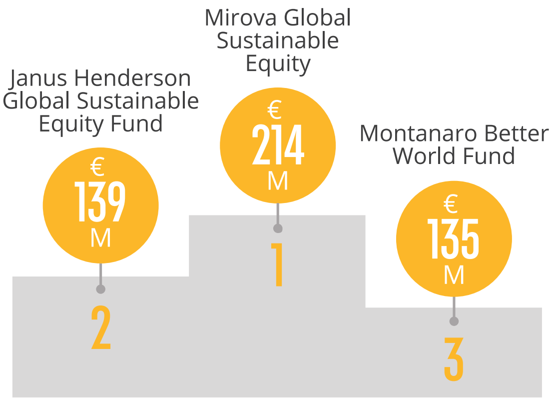
Focus on multi-thematic and social funds

The paradox of multi-thematic funds



Source: Novethic

- Approximately 50 funds display multi-thematic positioning around sustainable development. This trend is growing and the funds that claim this positioning use different terminologies according to their developers: 9 use the terms 'sustainability' or 'sustainable', the same amount use the term 'SRI', and 6 have impact-focused marketing.



Source: Novethic

- The themes are varied. They are environmental - such as renewable energy, energy efficiency, sustainable buildings, transport and sustainable mobility, agriculture, wood, forests, water and waste - but are also socially-centered - such as on health and healthy eating, responsible consumption, gender equality, and education.

The three biggest fund collectors

- The negative performance of multi-thematic equity funds did not put off investors. With €1.3 billion in assets under management, they represent 46% of the 2018 inflows for multi-thematic funds. The 3 funds with the highest fund subscription are SRI-certified funds dedicated to sustainable development themes.

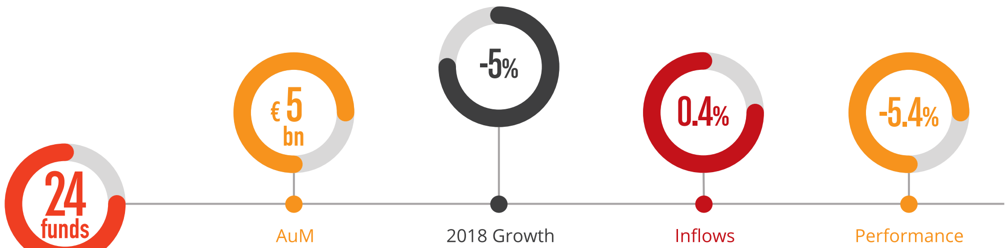
The 17 SDGs: a promising multifaceted theme

SUSTAINABLE DEVELOPMENT GOALS

- The multi-thematic approach is gradually converging towards one that targets the Sustainable Development Goals. 18 funds chose this strategy in 2018, compared to 9 at the end of 2017.
- The majority of these are equity funds (16 of 18) that are based on a solid dynamics combining performance (16.8%) and a higher fund subscription rate (+20.9%) than strictly multi-thematic funds.
- The majority of SDG-focused funds employ the term 'impact' (6 funds) or 'SDG' (2 funds) to define their positioning.
- Their impact indicators are as varied as their investment themes. This ranges from the SDG allocation in % of the assets under management, to the extent to which the investments contribute to the SDGs, compared to the fund's benchmark, as well as the % revenue achieved by the company in response to one or more SDGs.

The record holder for number of impact indicators is the Montanaro Better World Fund, which is in third place and offers approximately 30 such indicators.

Not very promising social themes



Source: Novethic

- The 24 social funds are dedicated to employment, health, women, etc. The themes that work best are health and healthy eating, employment, responsible consumption and "senior driven" economy.
- One of the best fund collectors is the historical SRI-certified fund, Mirova Insertion Emplois Dynamique (+ €94.3M net in subscriptions). Its specificity is to focus on job creation in France through a proprietary methodology. This allows it to aggregate the ratings for «employment impact» attributed to issuers at the portfolio level in connection with the solidarity portion of the fund that is focused on employment and insertion.

More than 60% of French asset management goes towards ESG

Four major asset management companies have announced in recent months that they want to extend ESG integration to all their assets. They are therefore in line with La Banque Postale AM, which was the first to announce its intention to become 100% SRI by 2020 in spring of 2018.

ESG integration is one of the approaches to responsible investment to have developed the quickest. This broad concept encompasses different practices for using environmental, social and governance (ESG) criteria in financial management.

It is used to identify and measure what is called the «materiality» of ESG risks and opportunities for companies or other types of issuers.

Its use is spreading amongst a growing number of actors who gradually integrate it into their entire business process. There are three levels of ESG integration that some actors choose to combine:

At the research level: It brings together all the tools needed to systematically assess a company's ability to create value over the long term. In this case, this involves ESG analysis carried out by an integrated investment team, with ESG scores incorporated into centralized financial and extra-financial research tools, or even investment committees incorporating their own ESG opinion. This category includes materiality analyses, but also voting and engagement practices.

At the securities level: In this case ESG integration influences investment by either a system that links ESG analysis with the financial valuation of securities, or a weighting scheme that varies the weight given to issuers based on their ESG score.

At the portfolio level: Fund managers may either be required to meet a minimum ESG portfolio score, generally greater than or equal to that of the benchmark or have an objective of improving the portfolio's ESG rating.

Management Company	ESG Integration Strategy	AuM as of 31/12/2018	Implementation date
AXA Investment Managers	**At the research level:** proprietary ESG scores, management-integrated ESG team, research notes incorporating the ESG analysis and recommendation, centralized tool providing the ESG analysis to the investment team, governance committees on ESG decision-making, voting and engagement incorporating ESG criteria.	€ 540 bn	2019
BNP PARIBAS ASSET MANAGEMENT	**At the research level:** proprietary ESG scores, ESG due diligence, integrated ESG research and analysis, research notes integrating ESG analysis, ESG validation committees, ESG high risk securities watchlist, voting and engagement incorporating ESG criteria.	€ 399 bn	2020
Edmond de Rothschild Asset Management	**At the research level:** integration of material ESG criteria in financial analysis, ESG due diligence, centralized tool for the provision of the ESG analysis to the investment teams, responsible investment steering committee investment, management meetings integrating ESG issues, voting and engagement incorporating ESG criteria. **At the securities level:** systematic measurement of ESG impact on equity and fixed income issuers valuation..	€ 68 bn	2020
Amundi ASSET MANAGEMENT	**At the research level:** generalization of ESG analysis in addition to traditional financial analysis, proprietary ESG scores, systematic integration of ESG performance into voting policy and shareholder dialogue. **At the securities level:** generalization of weighting ESG ratings in portfolios (for active management). **At the portfolio level:** minimum ESG score for portfolios relative to their index or reference universe (for active management).	€ 1 425 bn	2021

novethic | Caisse des Dépôts GROUPE

THE NOVETHIC INDICATOR

A Novethic Research Centre publication by Jade Dusser Afonso and Julie Nicolas.
Primary sources of financial data: Morningstar and Six Financial Information.