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Reloaded
November 24, 2020



INTERNATIONAL CONFERENCE

24 novembre
15.15 cet

*ESG &
Institutional
investors*

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Reloaded
November 24, 2020



ESG & Institutional investors

The connection between finance and real economy characterizes the analysis on Institutional investors (the discussion will start from a research on the capacity of Pension Funds to make ESG engagement with companies). The aim of the conference is to explore the relationship between investors and companies on the ESG level. The engagement is in fact, as a main lever of the responsible finance. The data from the Integrated Governance Index 2020, which illustrates how companies are gearing up towards SRI investors, will provide useful food for thought.

Conference scenario and moderation / Luca De Biasi, Wealth Business Leader – Mercer Italia

Panelists:

ASSOFONDIPENSIONE | Giovanni Maggi, Presidente

ASSOPREVIDENZA | Sergio Corbello, Presidente

Round table with the participation of:

BlackRock | Fabio Laricchia, Head of ICB & FIG BlackRock Italy

La Française Am | Marie Lassegnore, Credit Fund Manager and ESG Director for Fixed Income and Cross Asset

Oddo Bhf Asset Management | Nicolas Jacob, Head of ESG Research

UBS Asset Management | Martijn Oosterwoud, Head of SI Investment Specialists



SOMMARIO

1. ESG applied by pension funds [Research of Assofondipensione]
 - ESG integration
 - ESG portfolio
 - Reporting
 - Engagement
 - Real Economy
2. Converting Global Systemic Trends into Sustainable Investment Returns



1. ESG applied by pension funds [Research of Assofondipensione]

- ESG integration
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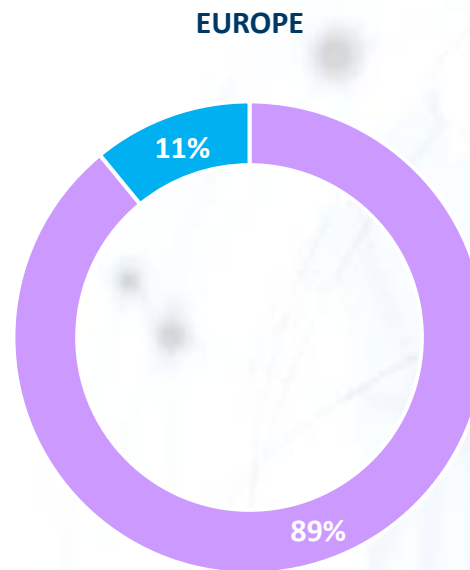
Together with

Mercer - European Asset Allocation Survey

Views from European Institutional Investors



DOES THE SCHEME CONSIDER ESG THEMES IN ITS INVESTMENT DECISIONS?



YES

NO

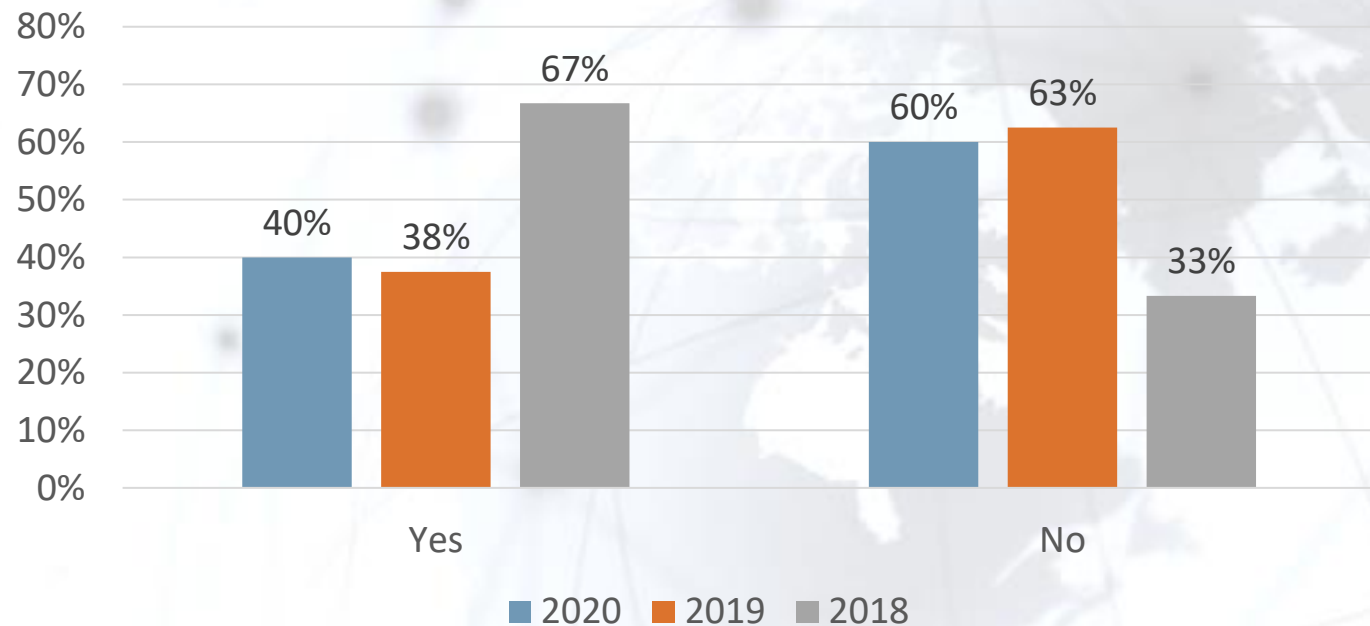
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ESG INTEGRATION

Does the pension fund have an ESG investment policy?

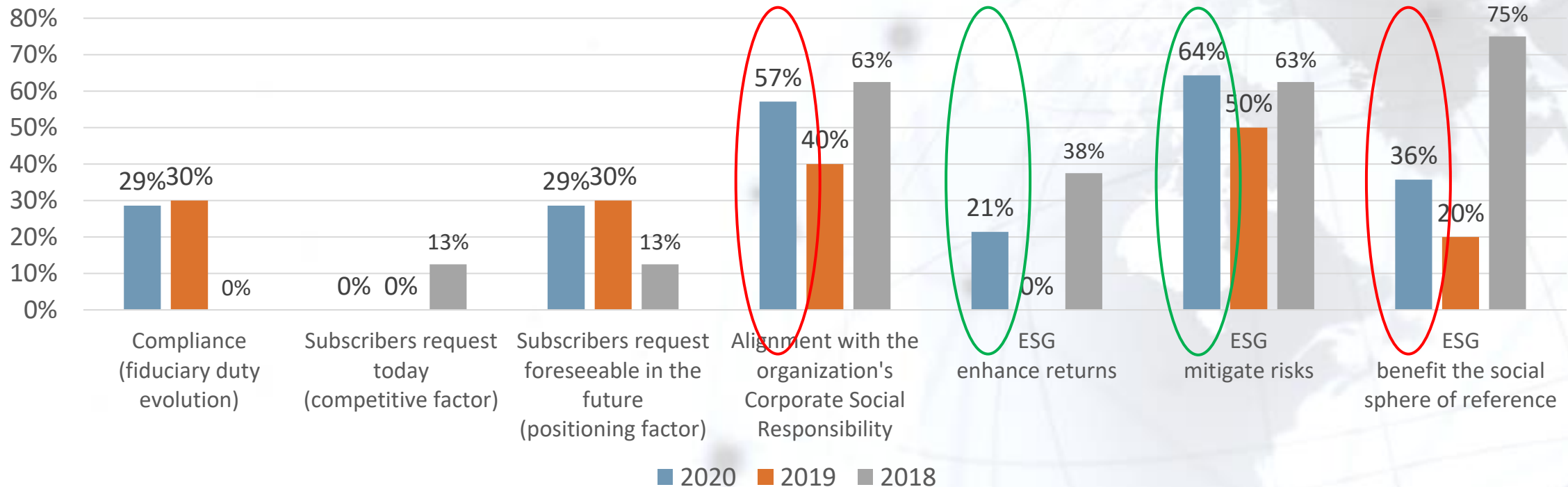
The share has increased slightly compared to last year, but is still far behind the 2018 figure. However, it is important to notice that, compared to the previous years, the question has become more specific: “ESG investment policy” vs the 2018 “ESG policy”. Furthermore, the term “policy” has been better outlined and defined ultimately as "a public commitment (i.e. with official documents/ reports/ communications) made by the institution regarding the adoption of strategies consistent with the ESG (environmental, social and governance) factors".



ESG INTEGRATION

Reasons for the integration of the ESGs (multiple answers)

Among those who have an ESG policy or have stated that the ESG criteria are managed/integrated without a policy, 64% do so to mitigate the risk in their investment portfolio. Another important finding pertains the share of those who aim, through ESG integration, for higher returns – the figure raised from zero in 2019 to 21% in 2020. The data show also an increase in the percentage of those who take ESG factors into consideration because of Fund's CSR or because of the social benefit that comes with the ESG integration.



ESG INTEGRATION

**Most important Esg factors
(multiple answers)**

100% of respondents say that social factors, i.e. Esg (S) are the most important. 80% believe that environmental (E) are the most important factor, and 60% governance (G)





1. ESG applied by pension funds [Research of Assofondipensione]

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- ESG portfolio
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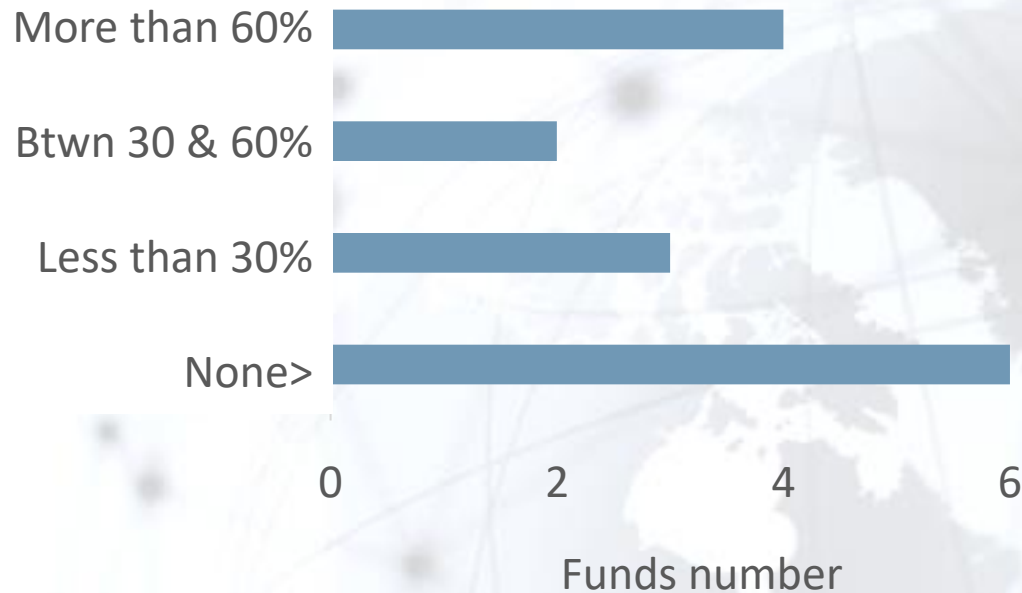
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ESG PORTFOLIO

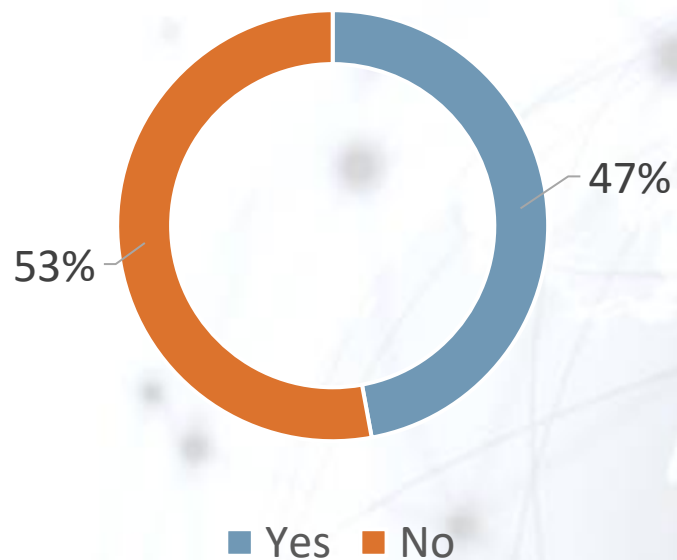
What is the percentage of the portfolio currently invested according to ESG benchmarks?

40% of respondents (6 out of 15 Funds) say that the percentage of the portfolio currently invested according to ESG benchmarks is none. On the contrary, 27% (4 out of 15 Funds) declare a percentage of more than 60%, which in one case reaches 100%.



ESG PORTFOLIO

Do you plan to increase the percentage of the portfolio currently invested according to ESG benchmarks?





1. ESG applied by pension funds [Research of Assofondipensione]

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- Reporting
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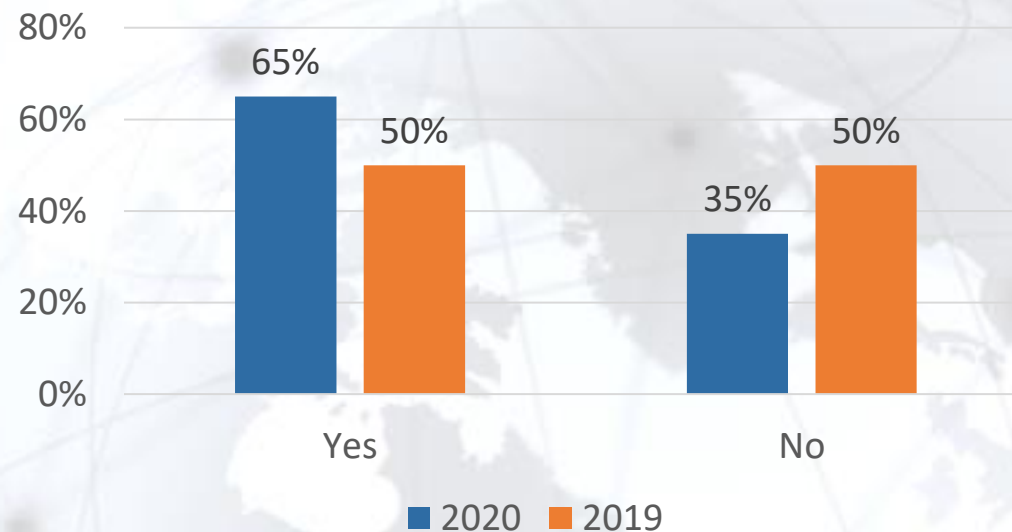
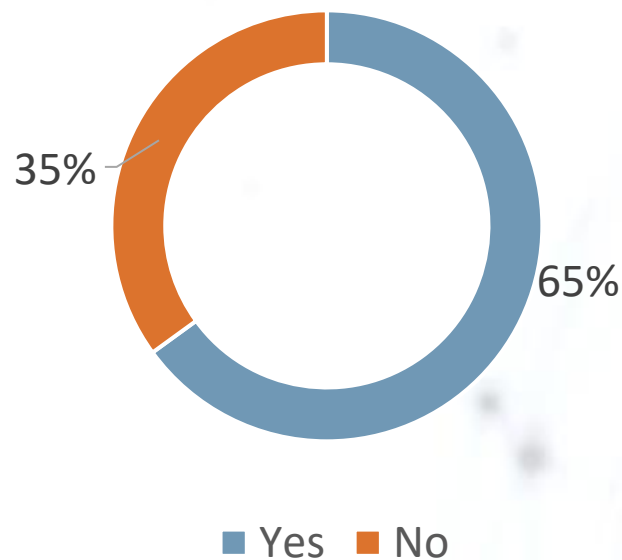
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REPORTING

Is there a monitoring system for the ESG performance of the investments?

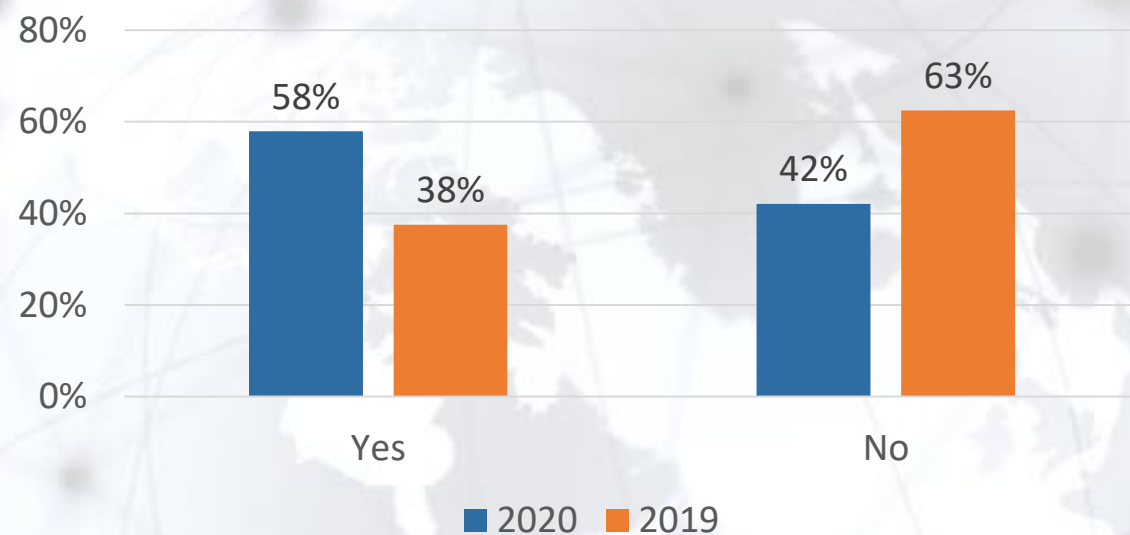
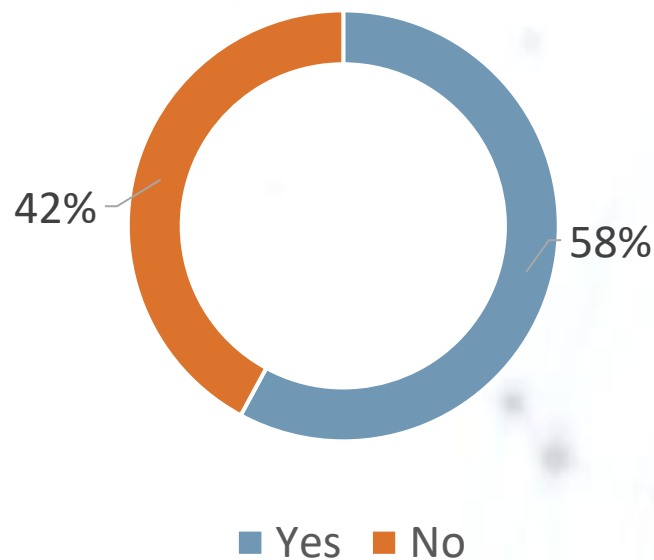
65% of respondents say that ESG investment performance is monitored. The percentage increased compared to last year, from 50% to 65%.



REPORTING

Is there a reporting system for the ESG performance of the investments?

58% of the respondents state that ESG's investment performance is reported. The percentage increased compared to last year, from 42% to 58%.





1. ESG applied by pension funds [Research of Assofondipensione]

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Engagement

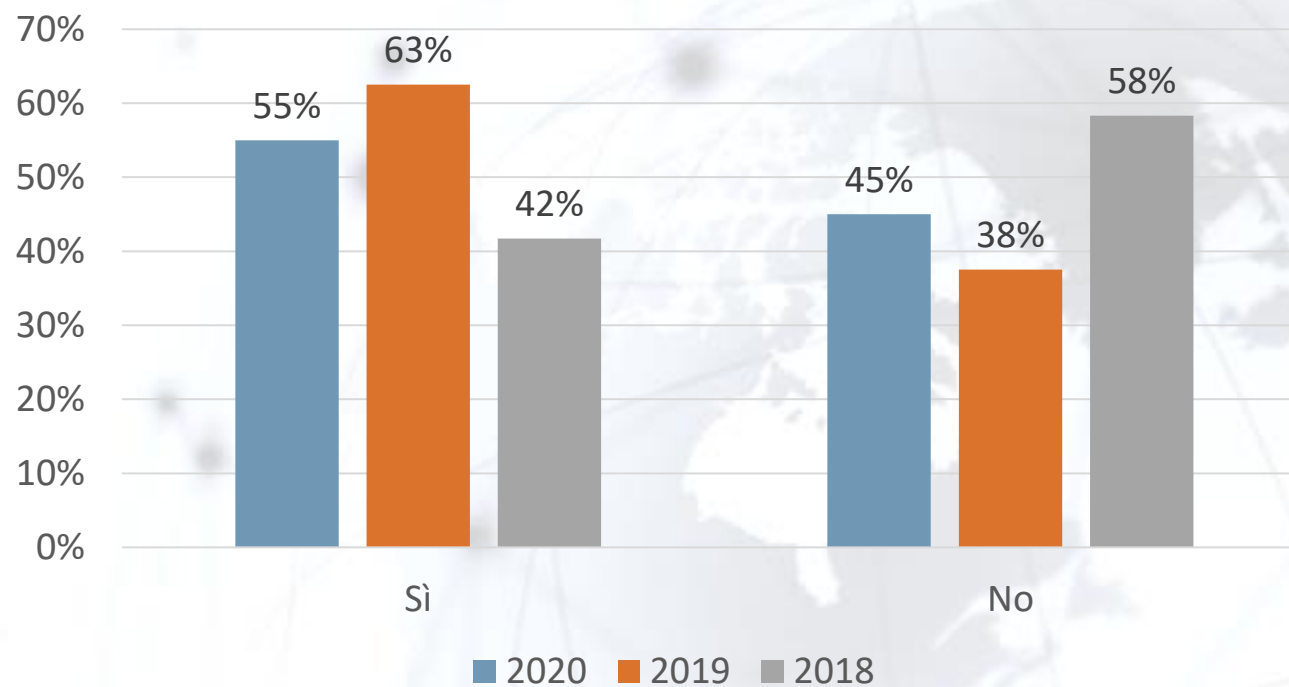
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ENGAGEMENT

Is there a system of ESG engagement?

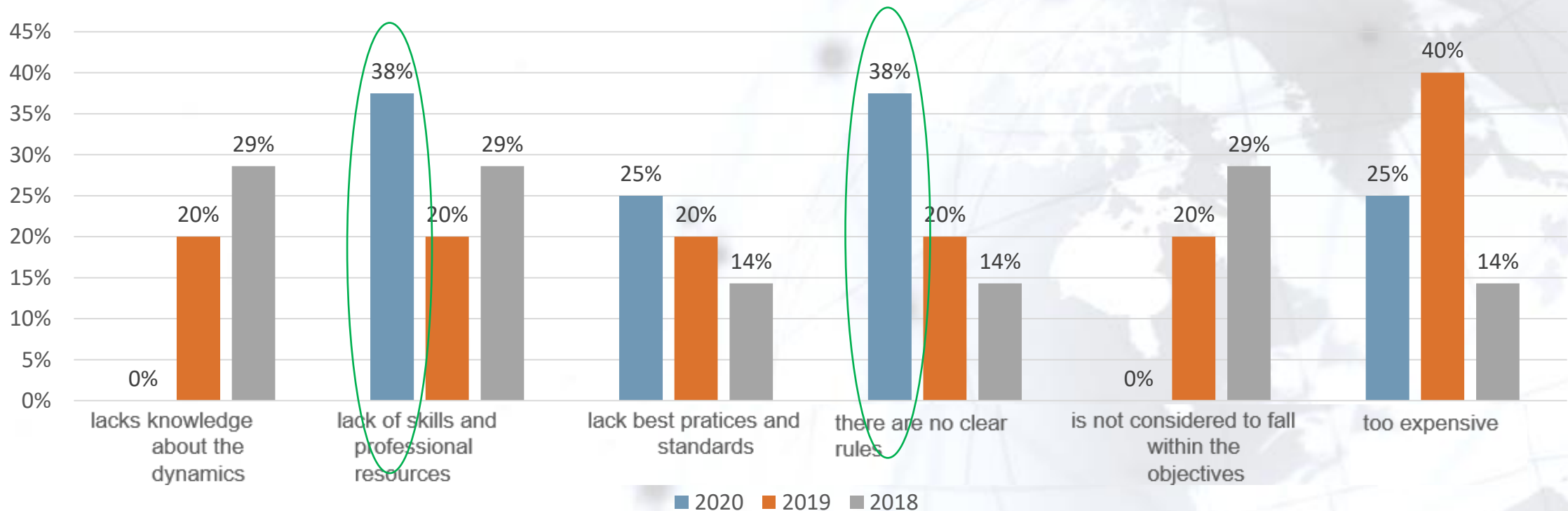
The share slightly decreased compared to 2019, from 62% to 55%.



ENGAGEMENT

If Esg engagement is not developed, what are the reasons/causes? (multiple choice)

There is an increase in the share of those who do not develop engagement aspects due to the lack skills, professional resources and clear rules. While the cost factor has decreased compared to 2019, the percentage of those who do not engage because of a lack of knowledge about the dynamics or because engagement is not among their objectives has fallen to zero.





1. ESG applied by pension funds [Research of Assofondipensione]

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Real Economy

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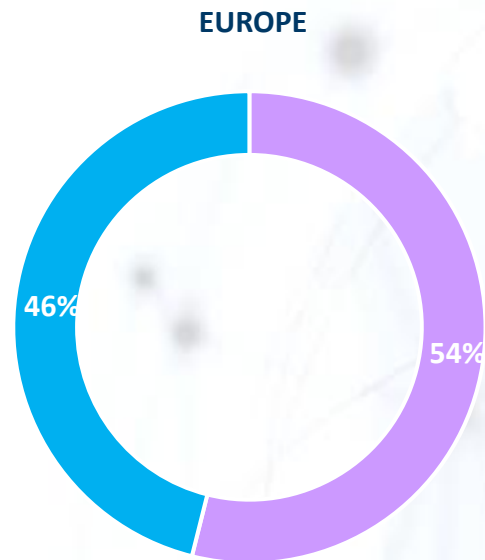
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DOES THE SCHEME CONSIDER RISKS POSED BY CLIMATE CHANGE?



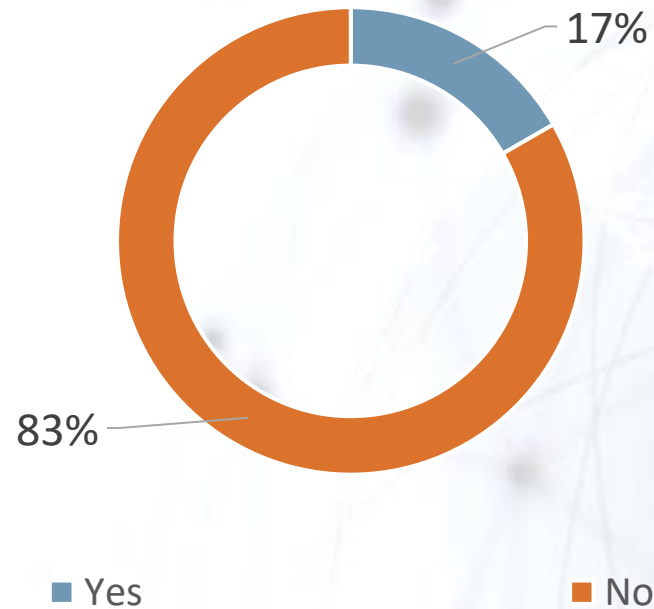
YES

NO

REAL ECONOMY

Has the pension fund considered investment choices on the basis of the risks posed by climate change?

Only 17% of respondents take into account the risks of climate change. None of these follow the guidance of the Financial Stability Board's Taskforce on Climate-related Financial Disclosure (TCFD).





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2. Converting Global Systemic Trends into Sustainable Investment Returns

Converting Global Systemic Trends into Sustainable Investment Returns

For professional investor use only.

welcome to brighter

Mercer/World Economic Forum Research

Global investor challenges



€2.4 trillion

Climate change

Ability for governments and businesses to address climate change, protect populations and adapt.



€670 billion

Water security

Exposure to declining quality or quantity of fresh water, affecting human health or economic activity.



Cross trend opportunities

Geopolitical stability

Implications of rising global inequality, populism, protectionism, interstate conflict and threats to free trade.



€1.7 trillion

Technological evolution

Risks and opportunities associated with technological advances, inadequate infrastructure and networks, cyberattacks.



€1.5 trillion

Demographic shifts

Implications of ageing populations globally, demographic imbalances between rapidly ageing regions and those entering demographic transition, and impact of migration.



Cross trend opportunities














































Low and negative real long-term interest rates

Implications on monetary policy and return requirements for investors and stakeholders of sustained near zero or negative real long-term interest rates.

Represent areas of potential risk and investment opportunity – defined by global investors

The progress of governance for global systemic trends

GOVERNANCE STEPS

Global systemic trend		GOVERNANCE STEPS					
		<i>Understand</i> 1	<i>Collaborate</i> 2	<i>Design</i> 3	<i>Invest</i> 4	<i>Transform</i> 5	<i>Monitor</i> 6
Climate change							
Water security							
Geopolitical Stability							
Technological Evolution							
Demographic Shifts							
Low / negative Real Rates							
		 = Significant progress by some investors	 = Some progress	 = Limited to no progress			

The problems investors face

Measurement Conventions

Ability to assess exposure and impact of global systemic trends on portfolio and stakeholder outcomes.



Transformational Solutions

Systematically identify and match investment solutions with long-term investor objectives.

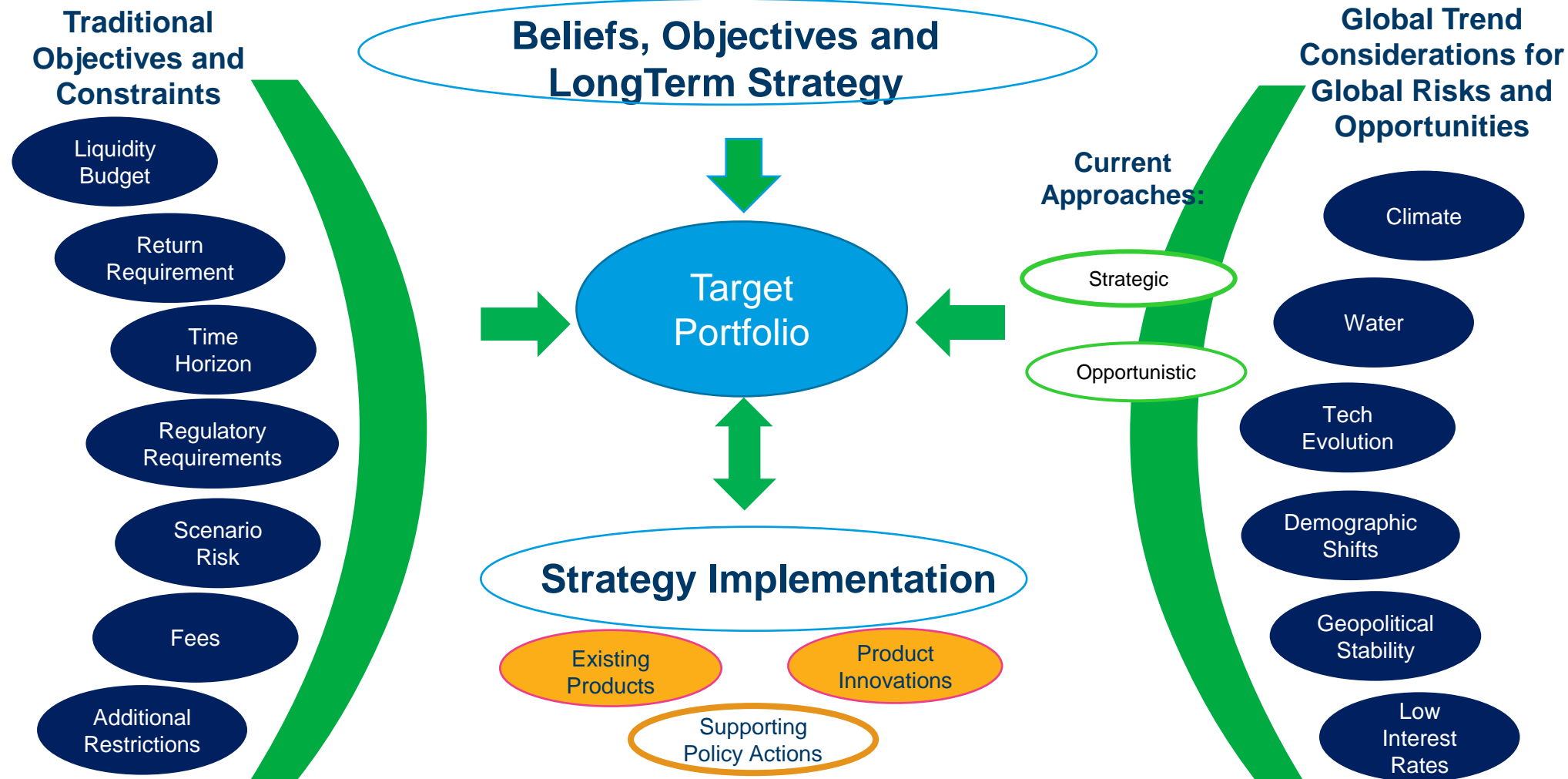


Government Intermediation

Establish regulations and policies that protect long-term investors.



Adapting traditional investment approaches for global systemic trends



Qualitative and quantitative constraints, along with risk factors bridge target portfolio and strategy development to global trend considerations

Trend-aligned solutions to enhance returns



Equity

- Sustainable Funds
- Sustainable Agriculture
- Enterprise Software and Artificial Intelligence
- Blockchain
- Ocean Management
- Biodiversity Conservation
- Sustainable Protein
- Sharing Economy
- Energy Transition Funds
- Circular Economy
- Low Carbon Indices
- Water Funds
- Cyber Security
- Robotics
- Elderly Care
- Education
- China A-shares, Regional Asia
- Asia Growth Private Equity
- Frontier Markets in Africa
- Women and/or Minority Owned/Managed

Real Assets

- Energy Efficiency
- Land Conservation
- Developed Market Infrastructure
- Emerging Market Infrastructure
- Renewable Energy
- Green Property
- Water Utilities, including wastewater recycling and retrofitting
- Sustainable Desalination
- Social Infrastructure, (i.e. hospitals and schools)
- Affordable Housing
- Women and/or Minority Owned/Managed
- Digital Infrastructure

Liquid Alts

- FinTech
- Global Macro Funds
- Traditional Currency
- Digital Currency

Nominal Bonds

- Carbon Intensity & ESG-Analyzed Country Selection

Credit

- ESG Linked Loans
- Green bonds
- Transition Bonds
- Catastrophe Bonds
- Blue Bonds
- Microfinance
- Women and/or Minority Owned/Managed
- Multi-Asset Credit
- Distressed Debt

Inflation-sensitive

- Gold
- Inflation-Linked Bonds
- Inflation Swaps

Risks addressed:

Multiple

Climate change

Water security

Geopolitical stability

Technological evolution

Demographic shifts

Low and negative interest rates

Important information

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Please see the following link for information on indexes: <https://www.mercer.com/content/dam/mercer/attachments/private/nurture-cycle/gl-2020-investment-management-index-definitions-mercer.pdf>

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IPCC estimates annual investment in energy systems to 2035, limiting global warming to 1.5°C, needs annual average investment in the energy system of around \$2.4 trillion (at 2010 rates) between 2016 and 2035 (Intergovernmental Panel on Climate Change, Global Warming of 1.5°C, Summary for Policymakers, 2018).

According to the OECD, the broader needs for water infrastructure range from \$6.7 trillion by 2030 to \$22.6 trillion by 2050 (Organisation for Economic Co-operation and Development, OECD Environment Policy Paper No. 11, Financing Water: Investing in Sustainable Growth, 2018).

McKinsey estimates that by 2030 technology spend could increase by \$1.7 trillion to \$2 trillion, of which about 70% would be on information technology services. This includes hardware/software support, outsourcing, IT consulting, implementation and internal IT services. (McKinsey Global Institute, Jobs Lost, Jobs Gained: Workforce Transitions in a Time of Automation, 2017).

Global figures show an \$18 trillion aggregate gap in infrastructure when the SDGs are considered, or more than \$700 billion per annum through 2040 (Mercer, Investment in African Infrastructure Challenges and Opportunities, 2018).

Bain estimates that approximately \$8 trillion of incremental capital investment may be required during the 2020s to achieve the level of automation that we project by the end of that decade (Bain, Labor 2030: The Collision of Demographics, Automation and Inequality, 2018).