INVESTMENT ASSOCIATION RESPONSE TO EUROPEAN COMMISSION CONSULTATION ON INSTITUTIONAL INVESTORS' AND ASSET MANAGERS' DUTIES REGARDING SUSTAINABILITY

2. YOUR OPINION

2.1 QUESTIONS ADDRESSED TO ALL RESPONDENTS:

I. General overview

1) DO YOU THINK RELEVANT INVESTMENT ENTITIES SHOULD CONSIDER SUSTAINABILITY FACTORS IN THEIR INVESTMENT DECISION-MAKING?

Yes

No

No opinion

Please explain the reasons:

Asset Managers' Consideration of Sustainability

As the Commission's inception impact assessment points out, the duties of care, loyalty and prudence govern the obligations of institutional investors and asset managers and are embedded in the EU financial legislative framework through various regulations and directives such as Solvency II, IORP II, UCITS, AIFMD and MiFID II.

Together, these duties amount to acting in the best interests of the client. It is as part of this duty – insofar as how asset managers understand it – that they increasingly seek to integrate an assessment of environmental, social and governance (ESG) factors in their investment process and decisions and to monitor and mitigate their risks, where these factors are deemed to have a material impact on performance.

Along with integrating material ESG factors into the investment decision-making process, asset managers often actively engage with companies to identify and reduce ESG risks in order to ensure they remain a sustainable long-term investment proposition. This will include engagement on not just the company's governance, but also on the company's management of social and environmental risks, such as climate change and human capital development.

The upcoming revised Shareholder Directive will further reinforce asset managers' (as well as institutional investors') duties and responsibilities as a long-term and engaged shareholder in EU-listed companies.

Materiality of Factors

It is our view that sustainability factors should be considered in investment decision-making, where material (i.e. where factors are likely to have an impact on the performance of the investment).

In this context, consideration of sustainability factors should not be at odds with asset managers from carrying out their duties responsibly.

Investment Mandates

We would also point out that asset managers' business models dictate that investment decisions are made based on their clients' (individuals and institutional owners) investment guidelines, their investment profile and their best interests.

Asset managers have to consider ESG factors when their clients, typically institutional asset owners (including but not limited to occupational pension funds and insurance companies) set out such parameters – typically in the form of an investment mandate. Therefore, asset managers will be required to carry out their clients' wishes, including if their client were to specifically stipulate that an explicitly sustainable investment approach were to be followed or impact objectives met.

This would be in addition to them considering ESG factors as a matter of course, where they are deemed to have a material impact, as explained above.

Entities in the Investment Chain

Whilst the duties of care, loyalty and prudence are of central importance to each of the relevant investment entities, it is similarly important to highlight that these duties will necessarily differ across the different relevant investment entities along the investment chain.

For example, a defined benefit pension fund trustee's duties would center on ensuring that the pensioners in the fund are adequately funded and paid (and not simply on the maximization of returns), while a defined contribution pension fund trustee's duties will typically revolve around maximizing the returns of the pool of assets.

We would similarly point out that the exact interpretation of "duty" or "duties" will differ between EU jurisdictions for a combination of reasons including differing legal traditions and cultural understandings and approaches.

2) WHAT ARE THE SUSTAINABILITY FACTORS THAT THE RELEVANT INVESTMENT ENTITIES SHOULD CONSIDER? (PLEASE MAKE A CHOICE AND INDICATE THE IMPORTANCE OF THE DIFFERENT FACTORS (1 IS NOT IMPORTANT AND 5 IS VERY IMPORTANT). (PLEASE REFER TO THE DEFINITION IN THE GLOSSARY).

	Yes	No	No opinion
Climate factors (these include climate mitigation factors as well as climate resilience factors)	X		
Other environmental factors	X		
Social factors	X		
Governance factors	X		
Others			

Please specify others:

Importance for climate factors:

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Importance for other environmental factors:

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Importance for social factors:

1

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Importance for governance factors:

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Importance for others:

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Please specify, which specific factors within the above categories you are considering, if any:

The exact nature of ESG factors considered/integrated will differ dependent on the likelihood of their having a material impact on the long term returns of a company and upon the particular company in question.

3) BASED ON WHICH CRITERIA SHOULD THE RELEVANT INVESTMENT ENTITIES CONSIDER SUSTAINABILITY FACTORS IN THEIR INVESTMENT DECISION MAKING?

PLEASE EXPLAIN:

As per our response to the previous question, the consideration of ESG factors should be based on the materiality of their impact on performance and the sustainability preferences of clients/investors/beneficiaries.

4) WHICH OF THE FOLLOWING ENTITIES SHOULD CONSIDER SUSTAINABILITY FACTORS IN THEIR INVESTMENT DECISION-MAKING? (POSSIBILITY TO SELECT SEVERAL ANSWERS). IF SO, PLEASE INDICATE THE LEVEL OF IMPACT THAT THIS WOULD HAVE (1 IS THE SMALLEST IMPACT AND 5 IS THE HIGHEST IMPACT).

	Yes	No	No opinion
Occupational pension providers	X		
Personal pension providers	X		
Life insurance providers	X		
Non-life insurance providers	X		
Collective investment funds (UCITS, AIF, EuVECA, EuSEF, ELTIF)	X		
Individual portfolio managers	X		

Please explain:

Whilst the Investment Association represents individual portfolio managers and collective investment funds, our members will manage money on behalf of the remaining investment entities listed above.

We would encourage all relevant investment entities to consider sustainability factors where they deem them to be material – as they would any other material factor.

We also support engagement on sustainability preferences throughout the investment chain so that appropriate understanding and direction is embedded in the full investment process.

In this context, we would also encourage institutional investors (such as occupational pension providers, personal pension providers, non-life insurance providers) to consider how they view sustainability factors, to obtain the preferences of their underlying clients/members/beneficiaries/policyholders and to communicate clearly to portfolio managers how they would like these factors integrated or, indeed, whether they would like portfolio managers to proactively allocate capital to explicit sustainable investment strategies and/or products.

As we mention above, asset managers have a duty to follow the requirements set forth by their clients, such as institutional investors. Careful consideration of the role of sustainability factors by institutional investors and the extent to which they would like portfolio managers to consider them in investment decision making should help improve the integration of such factors and/or the take up of explicitly sustainable investment strategies.

In addition, we reiterate the point from our response to question 1 – each entity along the investment chain will have differing structure and duties dependent upon the needs of their clients and their place in the investment chain. As such, the ways in which they consider sustainability factors will differ accordingly. A proportionate approach in looking at their respective duties is therefore crucial to achieve the intended objectives of further reinforcing ESG considerations in some parts of the investment chain.

Level of impact for occupational pension providers:

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Level of impact for personal pension providers:

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Level of impact for life insurance providers:

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Level of impact non-life insurance providers:

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Level of impact for collective investment funds (UCITS, AIF, EuVECA, EuSEF, ELTIF):

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Level of impact for individual portfolio managers:

1

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II. Problem

5) TO YOUR KNOWLEDGE, WHAT SHARE OF INVESTMENT ENTITIES ACTIVE IN THE EEA (EUROPEAN ECONOMIC AREA) CURRENTLY CONSIDER SUSTAINABILITY FACTORS IN THEIR INVESTMENT DECISIONS?

	All or almost all	More than two thirds	More than half	More than a third	None or almost none	No opinion
Occupational pension providers						X
Personal pension providers						X
Life insurance providers						X
Non-life insurance providers						X
Collective investment funds (UCITS, AIF, EuVECA, EuSEF, ELTIF)						X
Individual portfolio managers						X

6) TO YOUR KNOWLEDGE, WHICH IS THE LEVEL OF INTEGRATION OF SUSTAINABILITY FACTORS BY THE DIFFERENT INVESTMENT ENTITIES (ACTIVE IN THE EEA)?

	High integration	Medium integration	Low integration	No integration	No opinion

Occupational pension providers					X
Personal pension providers					X
Life insurance providers					X
Non-life insurance providers					X
Collective investment funds (UCITS, AIF, EuVECA, EuSEF, ELTIF)					X
Individual portfolio managers					X

7) WHICH CONSTRAINTS PREVENT RELEVANT INVESTMENT ENTITIES FROM INTEGRATING SUSTAINABILITY FACTORS OR FACILITATE THEIR DISREGARD. PLEASE PROVIDE THE IMPORTANCE OF THE DIFFERENT CONSTRAINTS THAT YOU CONSIDER RELEVANT (1 IS NOT IMPORTANT AND 5 IS VERY IMPORTANT).

	1	2	3	4	5	No opinion
Lack of expertise and experience		X				
Lack of data/research					X	
Lack of impact on asset performance	X					
Inadequate methodologies for the calculation of sustainability risks				X		
Inadequate sustainable impact metrics					X	
Excessive costs for the scale of your company		X				
No interest from financial intermediaries						X
No interest from beneficiaries/clients				X		
European regulatory barriers	X					
National regulatory barriers		X				

Lack of fiscal incentives			X			
Lack of eligible entities						X
Others						

Please specify others:

Please provide more details on what the constraints/reasons are and how they limit the integration of sustainability factors:

The factors we have indicated above demonstrate the shortcomings of disclosure practices which are ongoing in this space. Addressing these areas is key to improving the integration of sustainability consideration into investment decision-making, where relevant.

Lack of data/research

Whilst the availability of ESG research has grown over the last five years, there remains a lack of good-quality, reliable and easily comparable data/research on relevant ESG considerations. Frequently, data/research will focus on financial risks and short/medium term performance. At present, investment research will seldom contain adequate information to enable the analysis by asset managers of certain key ESG elements of a company's strategy and business model.

Separately, ESG data, where available, can often have inconsistent results across research providers. Comparison between mainstream products and dedicated sustainable products can similarly see strange results.

In this context, we welcome the Non-Financial Reporting Directive which should help with improving the quality of reporting in the long run.

The Investment Association also issued Long Term Reporting Guidance in May 2017, which seeks to improve data disclosure of how companies are able to provide a return on invested capital.[1]

Inadequate sustainable impact metrics

Annual Reports are a major source of information on companies for asset managers both in asset managers' initial investment decisions and their ongoing stewardship. It is therefore crucial that these reports present information necessary to investment decisions in a way which can be easily located and which has a material impact on performance.

Often, sustainable impact metrics will be scattered across an annual report. There is very little consistency across companies on how these factors are disclosed. Moreover, the annual report might not represent the risks posed by ESG factors in a material way and may not be forward looking.

Corporates could make it easier for asset managers to navigate their annual reports by carrying out "integrated reporting". Integrated reporting refers to companies disclosing information on their consideration of material ESG risks in a consistent format, in one place and displaying clearly, with an explanation of how the information relates to the strategic aims of the business and its performance.

This constraint is explored in a greater detail in the Investment Association Long Term Reporting Guidance,[2] and in our responses to questions 13 and 14.

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[1] https://www.ivis.co.uk/media/12519/Long-Term-Reporting-Guidance.pdf
[2] https://www.ivis.co.uk/media/12519/Long-Term-Reporting-Guidance.pdf

Inadequate methodologies for the calculation of sustainability risks

At present, methodologies for the calculation of sustainability risks can suffer from the lack of meaningful sustainable impact metrics. We do not ask for a uniform approach at EU level to the calculation of sustainability risks but would urge for the development of sector-specific sustainable impact metrics.

No interest from beneficiaries/clients

Interest from beneficiaries/clients is increasing but it is still lacking at present for a number of reasons.

First, there is a lack of understanding of material impact of sustainability factors.

Second, beneficiaries will often look at risk from the perspective of historic models, which will not typically capture issues relating to sustainability – which instead arise from a forward-looking approach.

Third, there continues to be widespread confusion among beneficiaries concerning the use of terminology, for example, "ethical investing" is often conflated with "ESG integration".

It is important that asset owners discuss with end beneficiaries the end beneficiaries' sustainability preferences as a way of distilling them into an institutional view. The new Shareholders Rights Directive should help to ensure that asset owners then communicate this institutional view to the asset manager to demonstrate that they are incentivising the asset manager to focus on long term performance.

Lack of Impact on asset performance

Whilst we certainly do not consider lack of impact on asset performance to be a constraint, we would highlight that the **perception** by significant numbers of beneficiaries/clients of a lack of impact **is a serious constraint**.

For example, according to the 2016 joint Investment Association and Pensions and Lifetime Savings Association Stewardship Survey, 12% of asset owners surveyed chose lack of belief in value added as the top reason why they were not signing up to the Stewardship Code.[3]

8) HOW CHALLENGING IS IT FOR RELEVANT INVESTMENT ENTITIES TO INTEGRATE THE DIFFERENT SUSTAINABILITY FACTORS? (1 IS NOT CHALLENGING AND 5 IS VERY CHALLENGING)- PLEASE REFER TO THE DEFINITION IN THE GLOSSARY).

	1	2	3	4	5	No opinion
Climate factors (these include climate mitigation factors as well as climate resilience factors)			X			

[3] https://www.theinvestmentassociation.org/assets//files/Stewardship_report_FINAL.pdf

Other Environment factors			X			
Social factors				X		
Governance factors		X				
Others						

Please specify others:

Please explain:

Integration is most difficult where the materiality of impact of a factor is particularly difficult to quantify. This is typically the case with social factors. Social factors refer predominantly to the human risks involved in the performance of a company.

In the IA's Long Term Reporting Guidance, we outline members' expectations as to how companies should report on human capital and culture. A key driver of productivity is how a company manages its workforce and whether that workforce is being deployed efficiently. This has a significant impact on a company's prospects to enhance long term value. To this end, it is important that information is disclosed on these factors in a company's annual report that is meaningful in a material sense. Given that it is not immediately straightforward to quantify the impact of these factors in a meaningful way, we recommend that companies develop a combination of both narrative discussion and matric-based reporting to facilitate investor understanding. It is most important that companies do not simply disclose "boilerplate" statements based on a long list of reporting metrics.[4]

Initiatives like the Task-force on Climate-related Financial Disclosures (TCFD) are also helping to address the challenges around integration of sustainability factors.

III. Policy options

9) IN WHICH AREA SHOULD RELEVANT INVESTMENT ENTITIES CONSIDER SUSTAINABILITY FACTORS WITHIN THEIR INVESTMENT DECISION-MAKING? PLEASE MAKE A CHOICE AND INDICATE THE RELEVANCE OF THE DIFFERENT AREAS (1 IS MINOR RELEVANCE AND 5 IS VERY HIGH RELEVANCE).

	Yes	No	No opinion
Governance	X		
Investment strategy	X		
Asset allocation	X		
Risk management	X		
Others			

Please specify others:

Relevance for governance:

[4] https://www.ivis.co.uk/media/12519/Long-Term-Reporting-Guidance.pdf, p.13.

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Relevance for investment strategy:

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Relevance for asset allocation:

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Relevance for risk management:

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Relevance for others:

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10) WITHIN THE AREA OF GOVERNANCE, WHICH ARRANGEMENTS WOULD BE MOST APPROPRIATE TO ENABLE THE INTEGRATION OF SUSTAINABILITY FACTORS? (1 IS THE NOT APPROPRIATE AND 5 IS THE VERY APPROPRIATE).

	1	2	3	4	5	No opinion

Specific sustainability investment Committee						X
Specific sustainability member of the Board	X					
Sustainability performance as part of remuneration criteria						X
Integration of sustainability factors in the investment decision process					X	
Integration of sustainability checks in the control process						X
Periodic reporting to senior management/board					X	
Others						

Please specify others:

11) SHOULD INSURANCE AND PENSION PROVIDERS CONSULT THEIR BENEFICIARIES ON AN ANNUAL/PERIODIC BASIS ON THEIR PREFERENCE AS REGARDS SUSTAINABILITY FACTORS?

Yes

No

No opinion

Please explain:

As per our response to Question 4, we support engagement on sustainability preferences throughout the investment chain so that appropriate understanding and direction is embedded in the full investment process.

In this context, we would also encourage institutional investors (such as insurance and pension providers) to obtain the preferences of their underlying clients/members/beneficiaries/policyholders and to communicate clearly to portfolio managers how they would like these factors integrated or, indeed, whether they would like portfolio managers to proactively allocate capital to explicit sustainable investment strategies and/or products.

They should be able to describe how sustainability factors are considered in their mainstream investment options and should report on how this has been implemented through external reporting.

12) WITHIN THE PORTFOLIO'S ASSET ALLOCATION, SHOULD RELEVANT INVESTMENT ENTITIES CONSIDER SUSTAINABILITY FACTORS EVEN IF THE CONSIDERATION OF THESE FACTORS WOULD LEAD TO LOWER RETURNS TO BENEFICIARIES/CLIENTS IN THE MEDIUM/SHORT TERM?

Yes

No

No opinion

Please explain:

ESG factors should always be considered, where they may have a material impact on the investment. These factors should be considered over the lifetime of the liabilities of the client, also taking into account the long term prospects of the investment e.g. the investee company.

13) WITHIN THE AREA OF RISK MANAGEMENT, DOES THE CURRENT SET OF CORPORATE DISCLOSURES PROVIDE THE RELEVANT INVESTMENT ENTITIES WITH ADEQUATE INFORMATION TO PERFORM SUSTAINABILITY RISK ASSESSMENTS IN RESPECT OF INVESTEE COMPANIES?

Yes

No

No opinion

Please explain where the possible gaps are, if any:

Better quality data is necessary for the meaningful integration of ESG factors.

We welcome the EU regulatory framework set out in the EU Non-Financial Reporting Directive. This was implemented into UK law in December 2016, updating the Companies Act 2006 requirements for the Strategic Report.

Building on this, the IA has developed guidance for members – IA Long Term Reporting guidance – to increase granularity and improve usefulness of the information gathered from companies.

The IA Long Term Reporting Guidance can be found here.[5]

The guidance covers business models and long term reporting; productivity; capital management; disclosure of material environmental and social risks; and human capital and culture.

14) DO THE OVERALL INFORMATION OR RISK METRICS AVAILABLE ENABLE THE RELEVANT INVESTMENT ENTITIES TO ADEQUATELY PERFORM SUSTAINABILITY RISK ASSESSMENTS?

Yes

No

No opinion

Please explain where the possible gaps are, if any:

[5] https://www.ivis.co.uk/media/12519/Long-Term-Reporting-Guidance.pdf

As per our responses to questions 7 and 13, one of the major constraints to the integration of sustainability factors in investment decision making by relevant investment entities is inadequate information and/or metrics available from investee companies.

Increased risk disclosures in the UK has already meant the increased inclusion of material ESG risk.

We would also support the continued development of sector-specific metrics over time. To arrive at this outcome, we would ask companies to think critically to devise metrics which are meaningful to their specific business models, and which adequately convey the materiality of risks posed by sustainability factors. Over time this should help facilitate the development of best practice methods for disclosure within sectors and – ultimately – help with the comparison of metrics within sectors.

To assist in this process, the IA has put together examples of starting points for such metrics that companies may wish to build on. Below is an example of possible quantitative metrics for the disclosure of human capital:

1. Total headcount – broken down by the division between full-time and part-time employees, gender, and diversity;
2. Annual turnover – including both planned and regrettable turnover;
3. Investment in training, skills and professional development – including the rate of progression and promotion within the business; and
4. Employee engagement score.[6]

15) DO YOU THINK THAT UNIFORM CRITERIA TO PERFORM <u>SUSTAINABILITY RISK ASSESSMENTS</u> SHOULD BE DEVELOPED AT EU LEVEL?

Yes

<u>No</u>

No opinion

Please explain:

There is scope for greater sector-specific consistency developed and coordinated at the global level.

Each company will necessarily differ to some extent on their disclosure of sustainability risk factors dependent on their material importance to their business model and that company's particular activities and risks. Any approach would therefore have to be careful not to facilitate a practice whereby corporates would carry out their assessments in a "tick-box" fashion with no real material benefit to investment entities.

At the time of the review of the Non-Financial Reporting Directive, we would ask the Commission to look into whether companies have carried out material ESG reporting.

16) IN CASE MATERIAL EXPOSURE TO SUSTAINABILITY FACTORS IS IDENTIFIED, WHAT ARE THE MOST APPROPRIATE ACTIONS TO BE PERFORMED BY THE RELEVANT INVESTMENT ENTITY?

Investment entities have a number of options open to them, should they identify material exposure to sustainability factors.

[6] https://www.ivis.co.uk/media/12519/Long-Term-Reporting-Guidance.pdf, p.13.

These are set out in the Association of British Insurers Report on Improving Corporate Governance and Shareholder Engagement as:[7]

- Voice: to engage in private dialogue with the board
- Escalate: investment entities may want to coordinate with a wider group of shareholders both formally and informally through organisations such as the Investor Forum.
- Vote: dependent on the success of the above, investment entities may wish to vote against certain resolutions or proposed their own resolutions
- Exit: If relevant investment entities are still concerned and find their actions have not had the desired impact, they may wish to divest from this investment.

17) SHOULD RELEVANT INVESTMENT ENTITIES DISCLOSE HOW THEY CONSIDER SUSTAINABILITY FACTORS WITHIN THEIR INVESTMENT DECISION-MAKING?

Yes

No

No opinion

Please explain:

As highlighted in our response to question 7, a major constraint to the integration of sustainability factors in investment decision making is the lack of interest shown by clients/beneficiaries.

This is in large part due to a lack of understanding of the possible material impact of sustainability factors on performance. Relevant and meaningful disclosure of how investment entities consider sustainability factors within their investment decision-making could go a long way to alleviating the impact of this constraint.

The IA welcomes the EU Shareholders Rights Directive, due to be implemented next year, and which will require asset managers to disclose how they engage with companies on ESG matters specifically.

We would also highlight that asset managers that are signatories to the Financial Reporting Council (FRC) Stewardship Code are already required to publish a statement of commitment to the Code which describes their policy on how they carry out their stewardship responsibilities more generally (Principle 1).

Moreover, the Pension and Lifetime Savings Association launched a Stewardship Disclosure Framework in October 2013. This provides asset managers with a framework in which to indicate their implementation of the FRC code requirements.

The IA Stewardship Reporting Framework relates to how asset managers can report their stewardship activities to the wider public. The framework is split into two sections covering the two principal components of exercising stewardship: engagement and voting. Under both sections, the framework recommends that firms disclose both summary statistics and case studies.

Under the section on engagement, asset managers are asked to rank the following issues for engagement according to the frequency of engagement on each of the issues – many of which are related to sustainability factors:

- Board and Director related*
- Strategy

[7] https://ivis.co.uk/media/5929/ABI-Report-Improving-Corporate-Governance-and-Shareholder-Engagement.pdf

- Remuneration*
- Capital structure
- Re-organisation incl. M&A
- Accounting and audit
- Environmental and sustainability*
- Social*

** Issues with a direct link to sustainability factors.*

Asset managers are encouraged to set out case studies on engagement issues to demonstrate how the engagement process works in practice. The case studies could include the following elements:

- name of the company (where possible)
- A summary of the issue(s)
- Who instigated the engagement
- Details of collaboration with other investors (where applicable)
- Progress of the dialogue
- Outcome of the engagement

The case studies of voting could follow a similar structure.

The framework also encourages asset managers to include a brief statement describing *how* the stewardship activities that they report in the framework relate to their investment process. This would help demonstrate the link between the consideration of sustainability factors and investment performance.

In sum, relevant investment entities should be encouraged to disclose how they consider sustainability factors within their investment decision making. Existing frameworks – included ours and that of the PLSA – are intended to assist asset managers to report on their existing stewardship activity in a clearer, more open and more consistent way. This should in turn assist beneficiaries and potential beneficiaries to understand better the link between consideration of these factors and investment performance.

IF YES, WHAT AREAS SHOULD THE DISCLOSURE COVER? PLEASE MAKE A CHOICE AND INDICATE THE RELEVANCE OF DISCLOSURE WITHIN THE DIFFERENT AREAS (1 IN MINOR RELEVANCE AND 5 IS HIGH RELEVANCE):

	Yes	No	No opinion
Governance	X		
Investment strategy	X		
Asset allocation	X		
Risk management	X		
Other			

Please specify others:

Relevance for governance:

1

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Relevance for investment strategy:

1

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Relevance for asset allocation:

1

2

3

4

5

Relevance for risk management:

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Relevance for other:

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IF YES, WHERE?

	Yes	No	No opinion
Pre-contractual disclosure (e.g. prospectus)	X		
Semi-annual/annual reports	X		
Periodic reports	X		
Website	X		
Newsletters			X
Factsheets			X
Marketing materials			X

Others	X		

Please specify others:

Much is dependent on regulatory requirements for client disclosure.

This would differ across different investment situations. It would not necessarily be appropriate to disclose across all of the above in all situations.

IV. IMPACTS FOR STAKEHOLDERS

18) WHICH STAKEHOLDER GROUPS WOULD INCUR COSTS AND WHICH WOULD BENEFIT FROM INTEGRATING SUSTAINABILITY FACTORS WITHIN INVESTMENT DECISION-MAKING BY RELEVANT INVESTMENT ENTITIES?

	Benefits	Costs
Occupational pension providers		
Personal pension providers		
Life insurance providers		
Non-life insurance providers		
Collective investment funds (UCITS, AIF, EuVECA, EuSEF, ELTIF)		
Individual portfolio managers		
General public		
Retail investors		
Financial advisors		
Service providers (index provider, research providers…)		
Other stakeholders (please specify)	X	X

Please explain:

As a general rule, we would discourage thinking of the integration of sustainability factors in terms of benefits versus costs.

Sustainability factors are among the many factors that can be considered in the course of the investment decision making process. We wouldn’t expect this to incur significant additional cost as it is part of the job of a portfolio manager to understand the companies they invest in.

These factors like any other factors the portfolio manager might consider in their investment decision making process are intended to generate returns.

In the case of specific sustainable investment strategies or products, this may or may not have an impact on a returns. Indeed, it might increase returns.

Having said this, given the current state of disclosure on ESG factors, it can be difficult to obtain all the information needed to make investment decisions that take into account relevant material ESG factors. Accordingly, this might see a higher spend on ESG-focussed research – at this stage – which might be a particular challenge for smaller firms. We would not anticipate this to be the case indefinitely however as this is more symptomatic of the current situation as opposed to a fundamental issue with ESG integration.

Indirectly and over the very long term, the general public should benefit from improvements to national economies from the improved profitability of public companies. This can be seen as an impact of investment entities carrying out effective stewardship and engagement practices in their investee companies.

Index providers and other services providers, in particular, data providers would likely benefit from greater demand for data on sustainability factors.

The consideration of sustainability factors should certainly not be seen as a zero sum game between costs and benefits.