

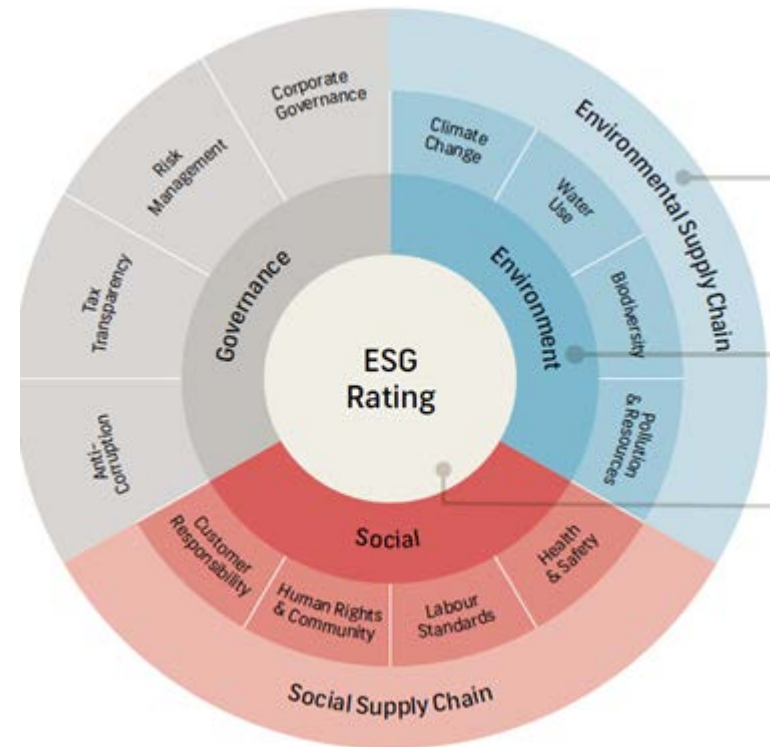
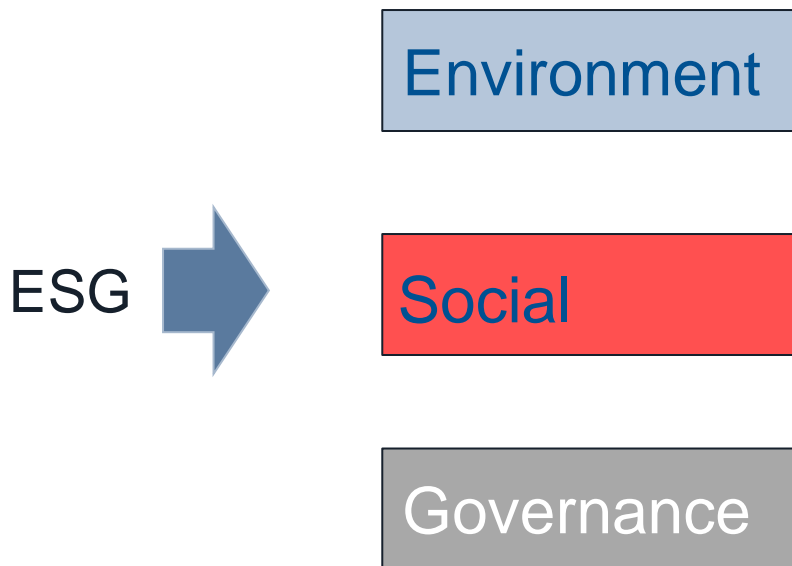


ESG Investing: an overview

Alessandra Franzosi, Head of Pension Funds & Asset Owners
Borsa Italiana
Milano, 3 Luglio 2019

ESG Framework for Investors

ESG Investors focus on identifying the most important intangible factors (e.g. sustainability factors) that relate to companies' ability to create long-term value»x («**Financial Materiality**»)



Macro Trends favouring ESG Investing Growth

- Institutionalization of savings
- Long-term approach
- Re-thinking Fiduciary Duties
- Passivization of assets management
- New wave of regulations and self-regulations
 - Establishment of UNPRI
 - COP21-on and SDGs
 - Stewardship Codes
 - Shareholders' Rights Directive II
 - EU Commission "Action Plan for Sustainable Growth Financing" & TEG

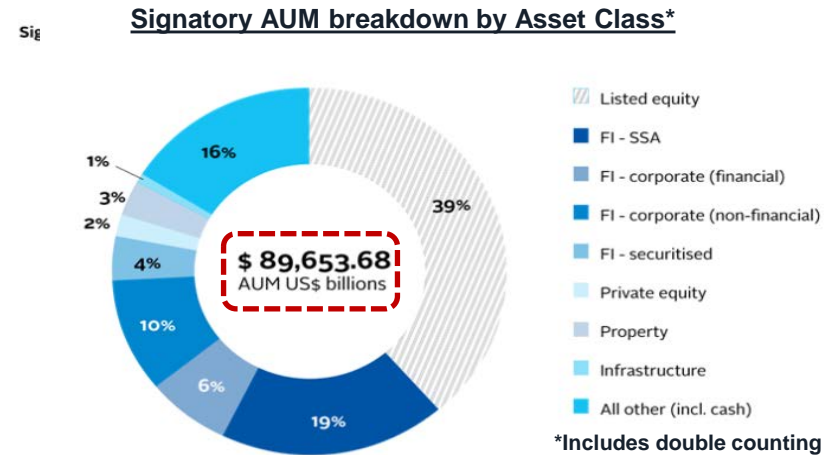
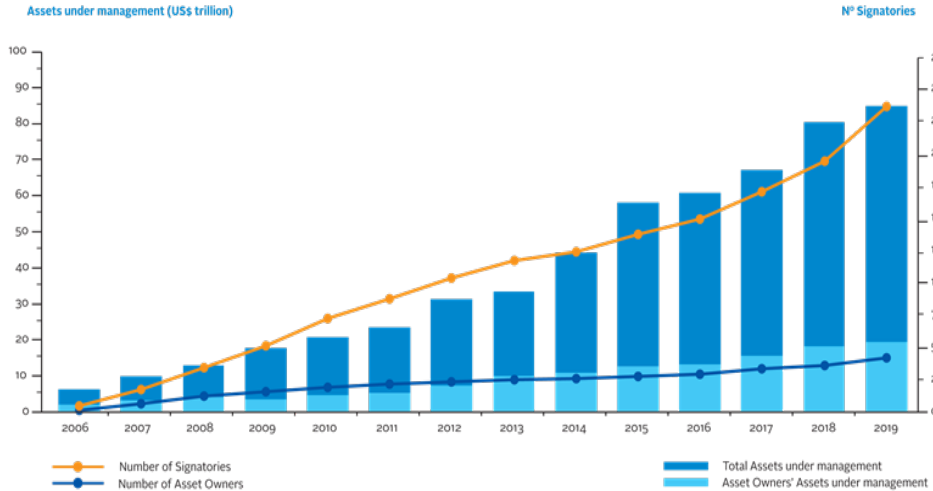


ESG evolving from Niche to Broad Strategies

| 2001 | Now |
|---------------------------------|---|
| Ethically driven | Investment led |
| What a company's activities are | How sustainable are a company's behaviours |
| Exclusionary | Inclusionary |
| Divestment | Stewardship & Engagement |
| Values | Value |
| SRI screening | Integration of ESG factors |

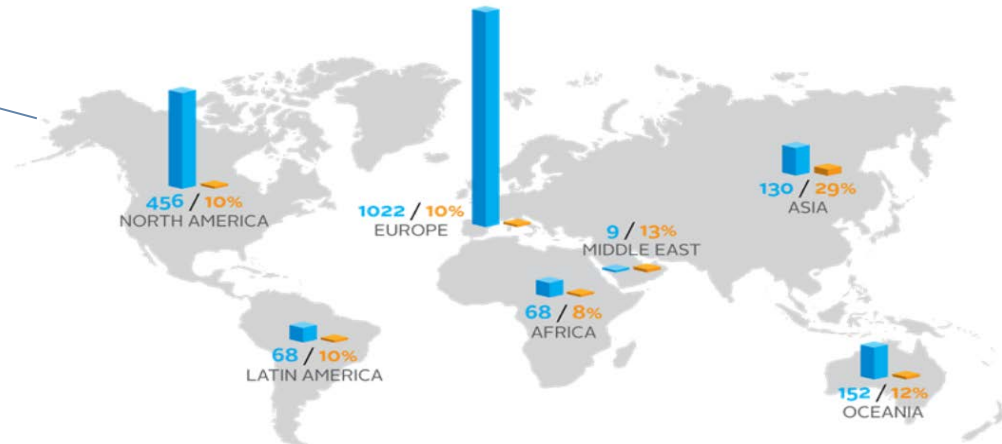


ESG Assets Growth: PRI Signatories



PRI Signatories region breakdown and increase against 2017

of signatories in 2018 ■
 Year-on-year (2017 vs 2018) ■



Source: PRI Annual Report 2018

Investment Firms and Italian Share Ownership

Top 10 Investment Firms

(FTSE MIB, Market Value,
Headquarter Country)

| | MV(€Mn) | Country |
|--|---------|----------------|
| PRI BlackRock Funds | 11,333 | United States |
| PRI The Vanguard Group | 8,579 | United States |
| PRI Norges Bank Investment Management | 7,284 | Norway |
| Harris Associates LP | 4,881 | United States |
| Capital Research & Management | 4,259 | United States |
| PRI Baillie Gifford & Co. | 2,500 | United Kingdom |
| PRI JPMorgan Chase & Co. | 2,336 | United States |
| PRI Lazard Asset Management | 2,163 | Australia |
| PRI T. Rowe Price | 1,750 | United States |
| Dimensional Fund Advisors | 1,680 | United States |

Institutional Investors Ranking

by Headquarter Countries

(FTSE MIB, % Market Value)

| | % MV | MV (€Mn) |
|----------------|-----------|----------|
| United States | 42% | 53.2. |
| United Kingdom | 18% | 23.1 |
| France | 7% | 8.7 |
| Italy (*) | 6% (7.6%) | 8.1 |
| Norway | 6% | 7.6 |
| Germany | 4% | 4.9 |
| Switzerland | 2% | 2.9 |
| Australia | 2% | 2.5 |

(*) Italy data include in brackets includes Ireland and Luxemburg as roundtrip estimate.

Source: Factset, % index Market Cap = Market Value/Index Market Cap, December 2018



Institutional Investors Voice

Blackrock

Larry Fink's 2018 Annual Letter to CEOs

"We must be active, engaged agents on behalf of the clients invested with BlackRock, who are the true owners of your company. This responsibility goes beyond casting proxy votes at annual meetings – it means investing the time and resources necessary to foster long-term value".

Norway Government Pension Fund

2017 Responsible Investment Report

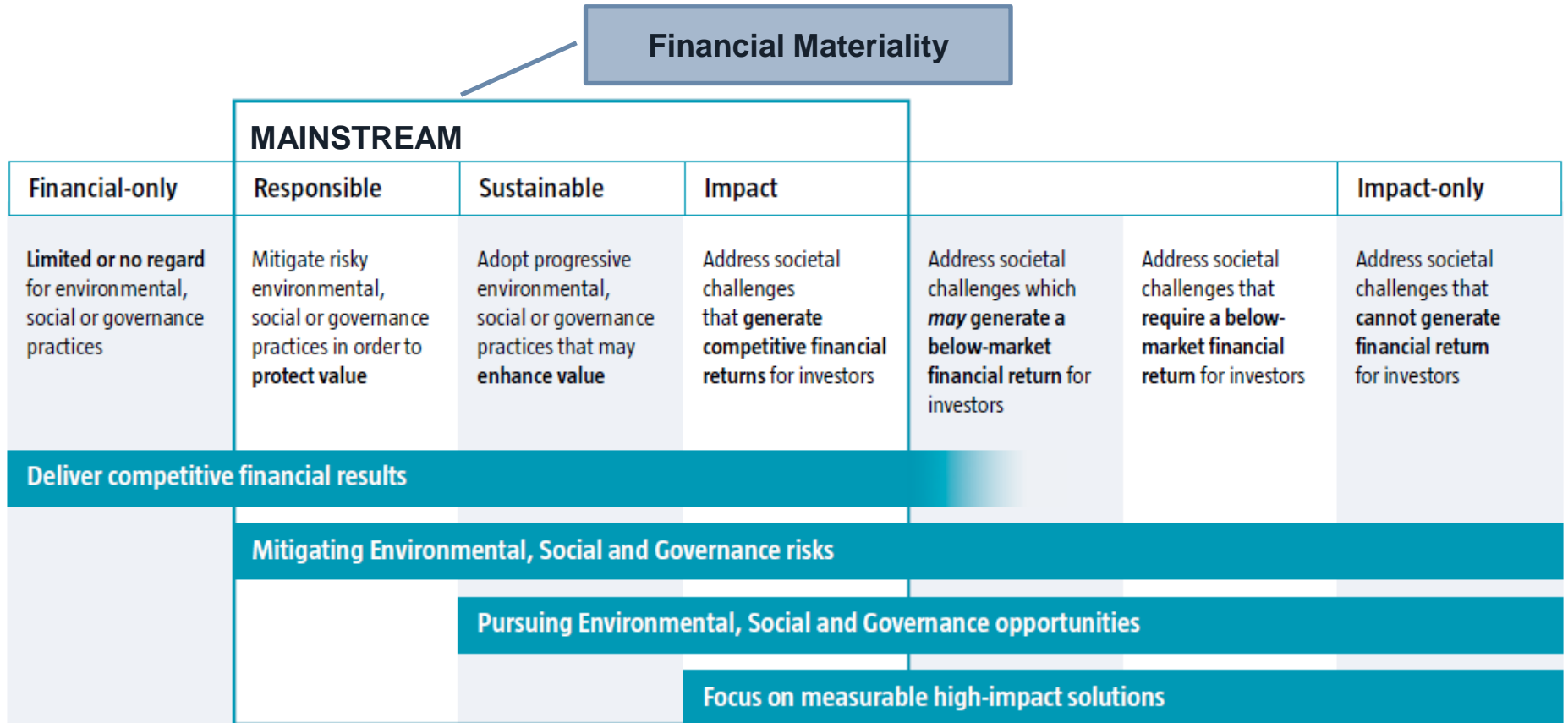
"We invest and exercise our ownership rights responsibly, because the fund's investments are about the future and belong to our future generations. ... We are an active owner. Our tools for active ownership are dialogue with companies, investors, regulators ... voting at shareholder meetings and filing shareholder proposals."

The Vanguard Group

F. William McNabb III's 2017 Letter to Directors of Public Companies Worldwide

"We believe that well-governed companies are more likely to perform well over the long run.... When the board contributes the right mix of skill, expertise, thought, tenure, and personal characteristics, sustainable economic value becomes much easier to achieve."

Diversified Investment Approaches



Source: Lessons from the Social Impact Investment Taskforce: Asset Allocation Working Group (December 2014)



Diversified investment strategies

| Eurosif | GSIA-equivalent ¹⁷ | PRI-equivalent ¹⁸ | EFAMA-equivalent ¹⁹ |
|-------------------------|---|--|---------------------------------|
| Exclusions | ESG Negative screening | ESG Negative / Exclusionary screening | Negative screening or Exclusion |
| Norms-based screening | Norms-based screening | Norms-based screening | Norms-based approach |
| Best-in-Class selection | ESG Positive screening and Best-in-Class | ESG Positive screening and Best-in-Class | Best-in-Class policy |
| Sustainability-themed | Sustainability-themed | ESG-themed Investments | Thematic investment |
| ESG integration | ESG Integration | Integration of ESG issues | – |
| Engagement and voting | Corporate engagement and shareholder action | Engagement (three types) | Engagement (voting) |
| Impact investing | Impact / Community investing | – | – |

Source: Eurosif (2018)

A broad range of Strategies

Core Strategies

Screening strategies that impact portfolio construction

Negative
Screening /
Exclusion
Criteria

Positive
Screening /
Positive
Criteria

Ethical or
moral
orientation

Norm-
based
approach

Best-in-
class
approach

Thematic
screening

Broad Strategies

Integration of ESG issues in the investment process

Integration of
ESG criteria

Engagement
/ Active
shareholder

Core ESG Strategies

Negative Screening / Exclusion Criteria

Exclusion of companies, sectors or countries that do not meet ESG or ethical criteria

Ethical or moral orientation

Ethical (e.g. human rights) or subjective moral criteria (e.g. tobacco, alcohol ...)

Norm-based approach

Normative criteria deriving from international standards : UN Global Compact, ILO - Labor Organization, OECD

Positive Screening / Positive Criteria

Selection of companies that best meet ES or Ethical criteria on the basis of a minimum standard (score)

Best in Class

Ethical (e.g. human rights) or subjective moral criteria (e.g. tobacco, alcohol ...)

Thematic Approach

Focus on some themes such as environmental (water, renewable energies ...) or social topics (e.g. microfinance) → mission and program related investments



Broad ESG Strategies

Integration ESG Criteria

ESG are taken into account along all the investment process

UN PRI – Principles for Responsible Investment

UN PRI were published in 2006 (Kofi Annan initiative) and provide a guideline for investors who wish to integrate ESG criteria into the investment process.

Voluntary adherence but signature oblige to apply and report regularly. At August 2014, 1260 signatories.

Active Shareholder Policy / Engagement

Influence on corporate policy by voting rights or dialogue with management / board

Carbon Disclosure Project

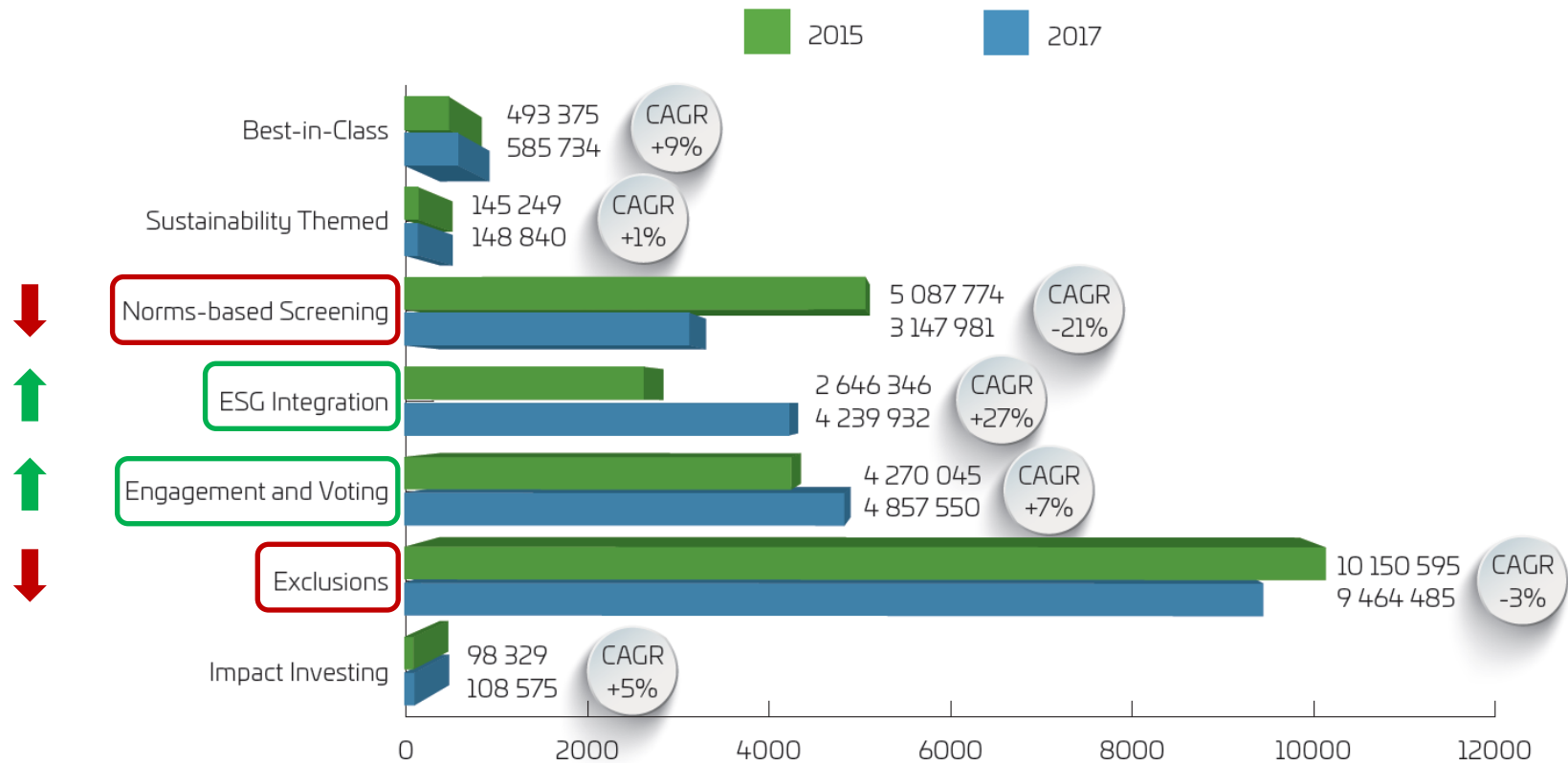
Launched in 2000, not-for-profit organization to monitor on behalf of investors climate change strategies of thousands of organizations globally

Impact investing

Focus on business model, positive impacts of services and goods.

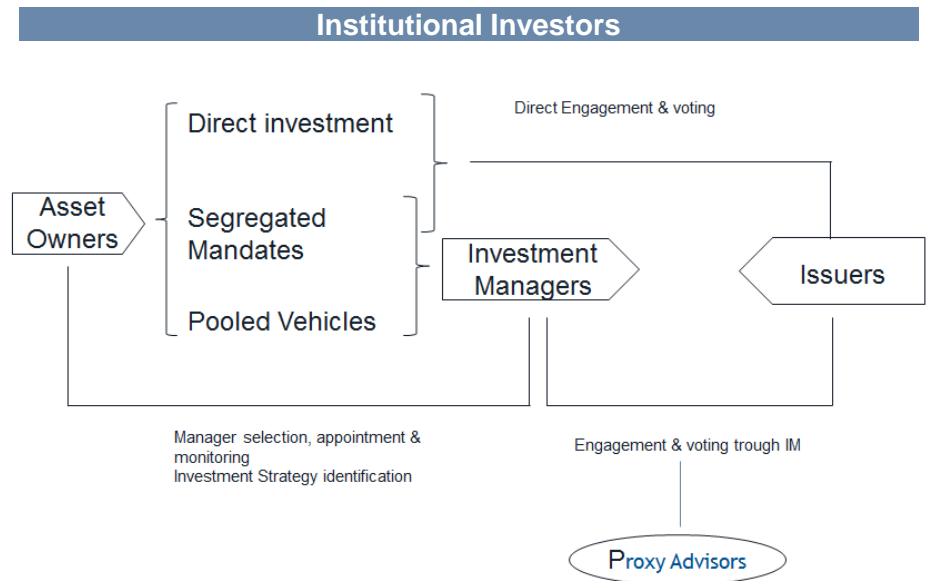
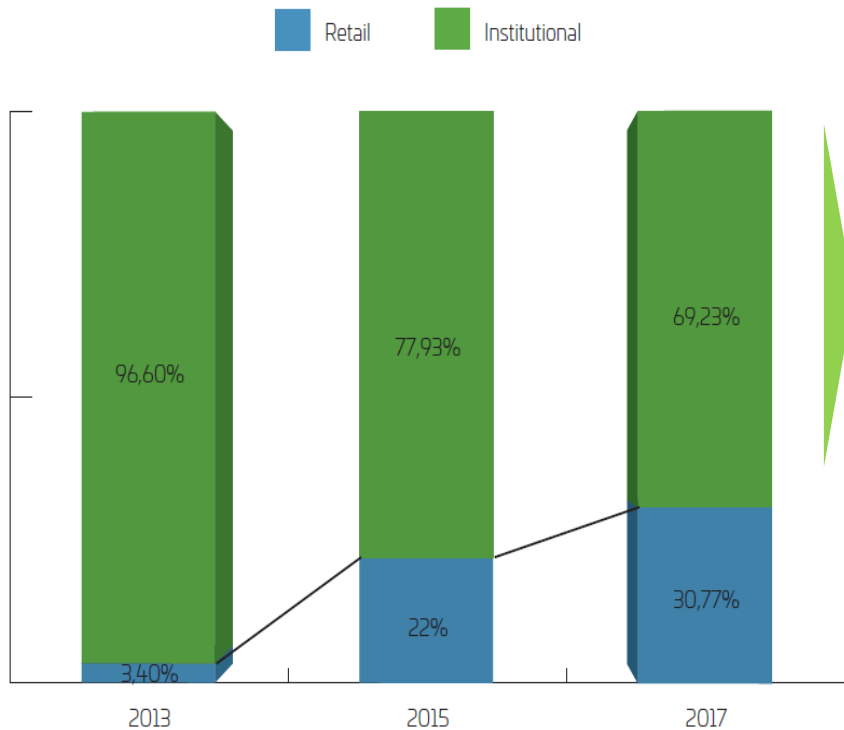
SRI Diversified Investment Strategies

Overview of SRI strategies in Europe (€ M)



Source: Eurosif (2018)

ESG along the Institutional Investment Process



Source: PRI Annual Report 2018



Activism and Active Ownership Co-Existing

Activism

- Mainly developed in the **United States**
- **Hedge Funds** playing a key role
- Focus on **Large companies**
- Focus on **specific corporate events** such as increasing dividends and share buybacks, divesting unprofitable divisions, revising current business plan, and recommending changes in governance, particularly focusing on CEO replacement
- Niche phenomenon

Active Ownership

- **Europe** leading the phenomenon
- Driven by **Responsible Investors**, including **Passive Investors**
- Focus on **Large companies** but growing interest also for **Smaller** ones
- Focus on **long term sustainability** and sensitivity to **ESG issues**
- Mainstream
- Implemented via Voting and Engagement, also in its Collective form



Borsa Italiana Raising Consensus on ESG Investing

1 Education

LSEG ES Guidance: Promoting ESG culture among listed companies



Strategic relevance
What is the relevance of ESG issues to business strategy and business models?



Investor materiality
What do investors mean by materiality?



Investment grade data
What are the essential characteristics of ESG data?



Global frameworks
What are the most important ESG reporting standards?



Reporting formats
How should ESG data be reported?



Regulation and investor communication
How can companies navigate regulations and communicate effectively?



Green Revenue reporting
How can issuers get recognition for green products and services?



Debt finance
What should debt issuers report and what are the emerging standards here?

Framework di Governo Societario ELITE

2 Dialogue

Italian Sustainability Day: increase understanding with AMs

July 2nd

- +600 attendees
- 31 listed companies + 2 private companies meeting with PM and BuySide Analysts
- +330 one to one meetings among companies and investors

3 Data & Disclosure

FTSE ESG indexes: drive ESG communication, rating & index inclusion

FTSE Russell & Primary Markets joint effort in supporting Italian Corporates

Presentazione della Metodologia del FTSE ESG Rating e del FTSE4Good.

Sustainable Investment and Constituent Engagement Program at FTSE Russell

4 Dedicated Markets

Green & Social Bonds



CASE STUDIES

Allianz Global Investors

Integrated ESG Assets

Active ESG Risk Management

- ▶ Financially material ESG factors integrated into portfolio strategies without constraint. Portfolio managers justify investment decisions on ESG risk/return.

€116Bn

SRI Assets

Best-in-Class approach

- ▶ Assessment of ESG practices and values in the analysis process (Corporate governance, Environment, Social development, Business behavior and Human Rights) and in portfolio construction.

€22Bn

€6Bn

Impact Assets

Investment for Impact

- ▶ Investments targeting environmental and social outcomes alongside financial returns. Since the launch of our first renewable energy fund in 2013, the Infrastructure Equity team of Allianz GI has always followed a central objective: to back green infrastructure assets on a global scale, whether they are wind parks, solar parks or hydropowered projects, alongside related assets

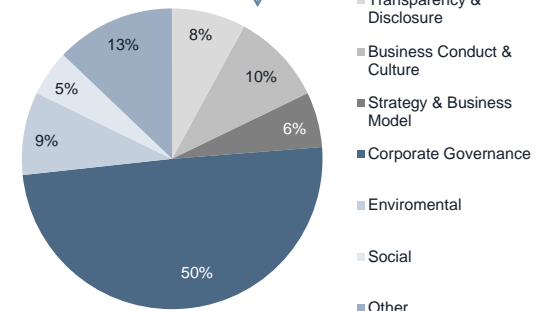
ESG Informed Assets

- ▶ Allianz GI is committed integrating ESG factors into all investment decisions and across all asset classes
- ▶ ESG factors are crucial investment performance drivers, from both a return and risk perspective
- ▶ All investment professionals have access to ESG analysis via our proprietary digital research platform
- ▶ Allianz GI pursue an **active stewardship** approach to improve business practices and company performance

€380Bn

Total
AUM
€524 Bn

Engagement Activities & Proxy Voting





Amundi

Responsible Investment Policy

Dedicated Organization

- Specialized resources & dedicated governance

ESG Analysis

- Best-in-Class approach (rating of more than 5,500 based on analysis of multiple extra-financial data providers)
- Three dimension for ESG analysis
- Methodology based on specific criteria (15 generic and 21 sector-specific)
- Importance of major criteria and weightings
- Determining the rating (weighted average of E,S and G, dimensions)
- Thematic investing (e.g. water, unconventional hydrocarbons, palm oil)

Targeted Exclusion Policy

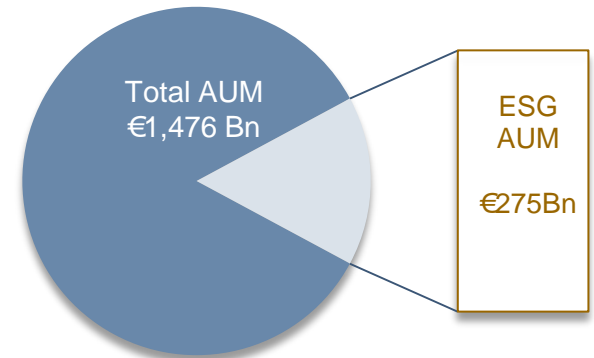
- Companies involved in the production, sale, storage or services for and of anti-personnel mines and cluster bombs, prohibited by the Ottawa and Oslo treaties
- Companies involved in the production, sale or storage of chemical, biological and depleted uranium weapons
- Companies that violate, repeatedly and seriously, one or more of the ten principles of the Global Compact.

Engagement Policy

- Engagement for Influence, Ongoing Engagement and Engagement through voting

Certified and Labeled SRI Offer

Overall Portfolio AUM – ESG Focus





AVIVA Investors

Responsible Investment Policy

ESG Investment Integration

Responsible Investment Officer Network

- Aviva Investors developed a robust analytical model to evaluate the forward looking prospects of **macro trends** (economic, social and political) and **sovereign debt issuers**. Moreover it fosters integrated research philosophy and platform to assist in the evaluation of **sector specific risks and opportunities**, and adopted an **ESG Heat map** as a key company integration tool
- Multi-Manager monitoring
- ESG and alternative assets (Sustainable Real Estate, Infrastructure and Lending)

Active ownership & responsible stewardship

Voting: in 2017 AI voted at **4,151** shareholder meetings and vote against **12,501** management proposals and supported **646** shareholder resolutions

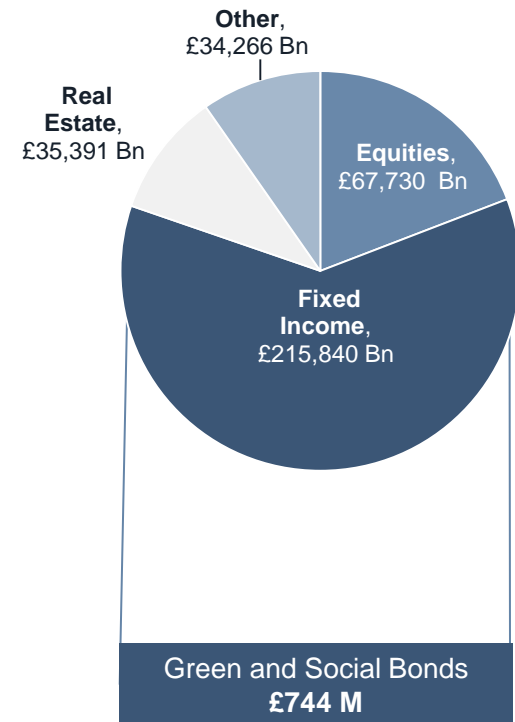
Engagement: in 2017, **1,381** company engagements undertaken with **955** individual companies → E.g. London Stock Exchange (LSE): backing of chairman re-election



Shaping sustainable capital markets

AI advocates policy measures and market corrections to tackle failures – such as a lack of accessible public data on corporate sustainability performance – with the aim of improving long-term outcomes. These are to be coordinated **at regional and global** levels though inspirational and harmonising policy frameworks – such as a UN Resolution – with the objective of entire financial systems transformation (e.g. The EU High-Level Expert Group on Sustainable Finance)

Overall Portfolio AUM – Breakdown



BlackRock

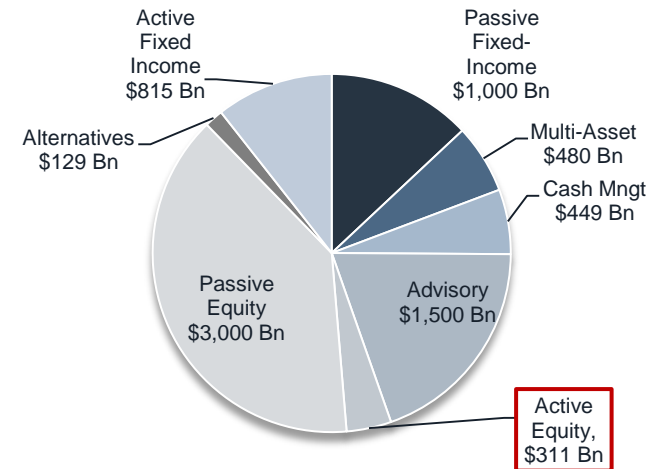
Asset Classes – Management

▶ Indirect

▼ Direct



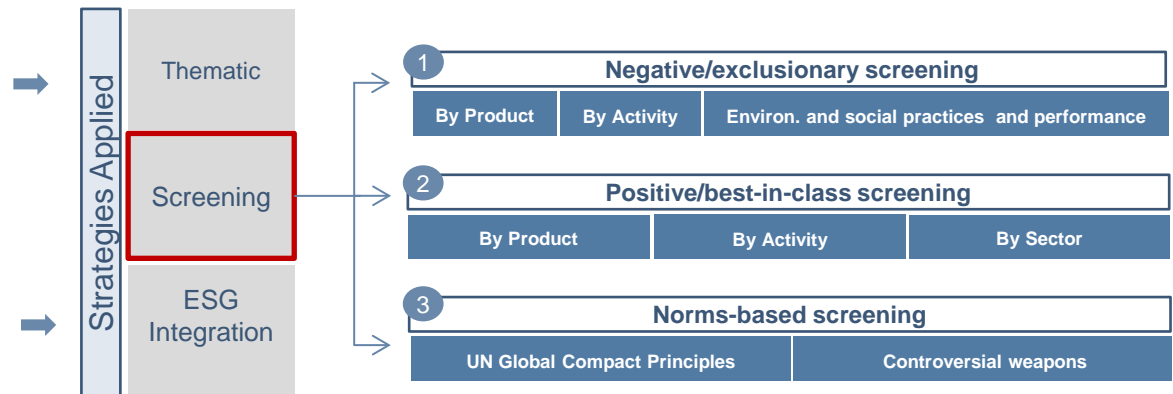
Overall Portfolio AUM – Breakdown



Organization’s Approach (focus on Listed Active Equity)

BlackRock's Active Equities division includes **two** groups

- BlackRock’s Systematic Active Equity (SAE)**
SAE designs ESG/sustainability societal impact portfolios by researching ideas through a rigorous, disciplined method.
- BlackRock’s Fundamental Active Equity (FAE)**
FAE believes the analysis of ESG can provide additional insights into the risk profile of an investment and ultimately lead to more informed investment decisions. The aim is to identify and evaluate material ESG risks alongside other fundamental risks, company financials and valuation metrics.



Norwegian Government Pension Fund Global

Responsible investment Objectives

1. Reduce risk associated with the environmental and social behaviour of the companies in the portfolio
2. Improve the long-term economic performance of investments

All assets are managed directly

by Establishing Principles

1. In 2018, Norges participated in **13 public consultations** relating to responsible investment and were in regular contact with international organizations, regulators and other standard setters (meetings with the OECD, the UN Global Compact and the European Commission).
2. Since 2008, Norges has published **clear expectations** of the companies which it invested in (e.g. children's rights, climate change, water management, human rights, and tax and transparency)
3. Norges supports and initiate **research projects** with a view to understanding and improving market practices

by Exercising Ownership

1. The fund has a small stake in **9,158** companies as at December 2018
2. Norges voted on **113,546** items at **11,287** shareholder meetings in **2018 +**
3. Held **3,256** meetings with **1,420** companies (In 2018, the focus was on **sustainability, board accountability and effectiveness, executive remuneration and shareholder rights**) +
4. Assessed **1,700** companies' reporting on climate change, **598** companies' reporting on water management and **600** companies' reporting on children's rights during the year.
5. Generally Norges reaches out to companies with poor or limited disclosure: In 2018, sent letters to **35** companies on children's rights, **35** on climate change and **30** on water management

by Investing Sustainably

1. As at the end of 2018, Norges has
 - ▶ **43.3 billion kroner** invested in dedicated environment-related equity mandates
 - ▶ **13.4 billion kroner** invested in green bonds, up 6.3 billion kroner from 7.1 billion kroner in 2017
2. In 2018, Norges Bank
 - ▶ Excluded **13** companies, placed **4** companies under observation, and decided on active ownership for **1** company
 - ▶ Divested from **30** companies following assessments of governance and sustainability risks (**15** in response to climate change risk, **9** due to corruption risks, **4** for human rights matters and **2** in light of other risks)

Vanguard

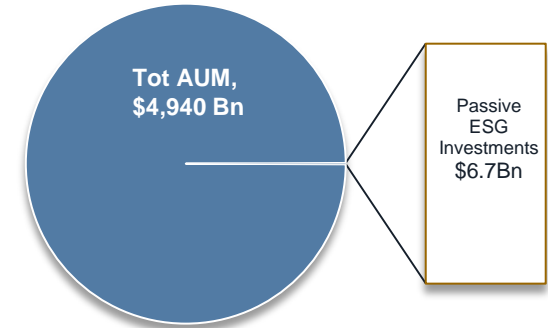
Asset Classes – Management

▶ Indirect

▼ Direct



Overall Portfolio AUM – ESG Focus



Organization’s Approach (focus on Listed Passive Equity)

ESG incorporation in passively managed listed equities

▶ Strategy applied: Screening



- ESG incorporation strategies influence index construction methodology and the portfolio's composition
- ESG assets constitute less than **10%** of total passively managed listed equities

Example



| Vanguard ESG U.S. Stock ETF | | | |
|--|---------|----------------------------------|-----------------|
| The fund seeks to track an index that measures the investment return of large- and mid-capitalization stocks. The benchmark is market-cap-weighted and specifically excludes stocks of companies in the following industries: adult entertainment, alcohol and tobacco, weapons, fossil fuels, gambling, and nuclear power. Additionally, it excludes stocks of companies that do not meet standards of U.N. global compact principles and companies that do not meet diversity criteria. Follows a passively managed, full-replication approach | | | |
| Fund’s AUM = \$ 520 M | | Fund type: ETF (Blend-Large cap) | |
| ESGV (Inception 09/18/2018) | Quarter | YTD | Since Inception |
| Net asset value return | 4.66% | 19.67% | 3.20% |
| Benchmark (FTSE US All Cap Choice Index) | 4.67% | 19.73% | 3.30% |