

**EFFAS  
CESG**

Commission  
on  
Environmental  
Social  
Governance  
Issues



# **EFFAS Survey on ESG Integration**

## **Final results - Summer 2019**

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# EFFAS: Standard setter for investment professionals

- **EFFAS was set up in 1962**
- **18 national member societies, representing more than 15,000 investment professionals in Europe**
- **Head Office: Frankfurt am Main**
- **EFFAS executive bodies: AGM and Executive Management Committee**

**Chairman:** Jesús López Zaballos (Spain)  
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- **EFFAS is a non-profit organization**



# Introduction

- Over the past few years, ESG Analysis has been increasingly interesting investors. However, they often struggle to set up their investment process because the concept is still rather vague for them. They lack knowledge and methodologies on this topic and don't know where to get the right information or which issue they need to focus on.
- Furthermore, the purpose of ESG integration is, most of the time, not yet normalized and in this way investors don't really know why and/or how they should integrate it in their investment process.
- To make sure we give detailed answers to these challenges, we got feedback from over 250 professionals working in different organizations. We were then able to get an interesting picture of the topic.



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Co-Chair EFFAS CESG  
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## Who are the 254 participants of the survey?

What kind of organization are you from?	% of answers
Asset manager	50,0%
Consultant	12,0%
Company	11,0%
Asset owner	7%
Broker	5,5%
Membership organization, Stock exchange and ESG Research provider	3,5%
Other (Bank, Audit, Corporate Finance, Family office, Insurance, University, etc.)	11,0%

What is your job ?	% of answers
Portfolio Manager	23,5%
Analyst	17,0%
Consultant	9,0%
CEO	6,5%
ESG Specialist	6,5%
Financial adviser	5,0%
Credit Analyst	4,5%
CIO	4,0%
Investment Consultant or Strategist	3,5%
Other (IR, Compliance, Risk, Corporate, Fixed Income, etc.)	20,5%

Conclusion: The participants clearly broadly represent the finance industry.

## What are they working on?

What asset class do you work on?	% of answers
Equity	35%
Fixed Income	14%
Both	42%
Other	9%

Are you integrating ESG criteria in you current job?	% of answers
Yes	76,5%
No	23,5%

- Conclusion:
- Expertise in both key asset classes (Equity & FI) is well represented.
  - The population surveyed seems to be well aware of ESG matters. 76,5% of them are integrating it in their job. Are they newcomers or usual suspects?

# Investors' global knowledge of ESG topics

ESG topics	Known
Green bonds, social bonds	98,5%
Energy transition	87,0%
Principles for Responsible Investment (PRI)	85,0%
Carbon Disclosure Project (CDP)	78,0%
Sustainable Development Goals (SDGs)	70,5%
Project of green taxonomy by the European Commission	58,0%
European Sustainable Investment Forum (Eurosif)	57,5%
Task Force on Climate-related Financial Disclosures (TCFD)	46,0%
International Integrated Reporting Council	42,5%
Science Based Targets (SBT)	25,5%
World Intellectual Capital Initiative (WICI)	19,5%

## Conclusion:

- The knowledge of ESG initiatives/terminology is quite high.
- Participants were more usual suspects than newcomers.

## What are the current and future main drivers?

Current main drivers	1 <sup>st</sup> choice	1 <sup>st</sup> or 2 <sup>nd</sup> choice
Client demand	34,0%	73,0%
Improve reputation	32,5%	78,5%
Global pressure rising about sustainable development (the media, NGOs,...)	30,0%	71,5%

Future main drivers	1 <sup>st</sup> choice	1 <sup>st</sup> or 2 <sup>nd</sup> choice
Client demand	57,0%	85,5%
Improve reputation	48,0%	81,0%
Global pressure rising about sustainable development (the media, NGOs,...)	45,0%	81,0%

- Conclusion:
- Main drivers are well balanced between reputation, clients and global pressure.
  - Client demand is perceived as the most important driver in the future (5-year horizon).

# What are the trends in the main drivers?

Trends in drivers based on current/future choices	“1 <sup>st</sup> choice” % evolution	“1 <sup>st</sup> or 2 <sup>nd</sup> choice” % evolution
Client demand	+ 23%	+ 12%
Regulation	+18%	+19%
Improve reputation	+16%	+3%
Global pressure rising about sustainable development (the media, NGOs,...)	+15%	+10%

- Conclusion:
- Regulation is also becoming a key driver when you look at the trend.
  - Recent news flows: debate with policymakers at PRI in person (Paris, September 2019), Action plan in Europe...



# What is preventing investors from integrating ESG?

Main barriers to ESG integration	1 <sup>st</sup> choice	1 <sup>st</sup> or 2 <sup>nd</sup> choice
Limited knowledge of ESG issues	23,5%	60,0%
Insufficient or lack of ESG methodologies	23,0%	57,0%
Lack of comparable and historical ESG data	21,0%	57,5%

Conclusion:     ■ Three main barriers well balanced between knowledge, lack of methodologies and lack of data.

# What opportunities and risks for Equity and Fixed Income?

Risks impacting ESG integration	Always	Often or Always
Governance risks	32,5%	79,5%
Intangible risks	27,0%	72,0%
Environmental risks	8,5%	64,0%
Social risks	10%	55,0%

Opportunities impacting ESG integration	Always	Often or Always
Intangibles opportunities	22,5%	70,5%
Governance opportunities	20,5%	65,5%
Environmental opportunities	13,0%	63,0%
Social opportunities	8,5%	45,0%

## Conclusion:

- Governance still at front of materiality.
- Good surprise to see recognition given to intangibles.
- Environmental risks are concentrated in couple of sectors.

# Investor priorities for environmental issues

Environmental issues	1 <sup>st</sup> choice	2 <sup>nd</sup> choice
Climate change	52%	31%
Use of resources (energy efficiency, raw materials, waste, water...)	42%	44%
Biodiversity	4%	21%

- Conclusion:
- Climate change and use of resources are well identified.
  - Are biodiversity issues more present in less covered asset classes such as alternatives & sovereign debt?

## Investor priorities on social issues

Social issues	1 <sup>st</sup> choice	2 <sup>nd</sup> choice
Human rights	42,5%	24,5%
Health and Safety	33,0%	39,0%
Controversies	9,5%	10,5%
Supply chain	7,5%	15,5%
Communities and Territories	6,0%	7,5%

### Conclusion:

- Human rights, health and safety are two social priorities according to survey.

## Investor priorities for governance issues

Governance issues	1 <sup>st</sup> choice	2 <sup>nd</sup> choice
Business ethics (compliance, corruption,...)	43,5%	28,5%
Corporate governance	31,0%	34,5%
Quality of management	23,0%	33,5%

Conclusion: ■ Investors integrate a large definition of governance, which naturally includes corporate governance, but also business ethics and quality of management.

# Investor priorities for intangibles issues

Intangibles issues	1 <sup>st</sup> choice	2 <sup>nd</sup> choice
Human capital	66,5%	15%
Organizational capital (Data, Innovation, Capacity, IT,...)	13,0%	35%
Relational capital (Clients, partnerships,...)	10,5%	40%

- Conclusion:
- Human capital is priority #1.
  - Good news - that's where we can find more data at this stage compared to organizational and relational capitals (source: Bloomberg).

# Best ways to integrate ESG from investors' point of view?

ESG integration solutions	1 <sup>st</sup> choice	2 <sup>nd</sup> choice
Internal ESG expertise	41,0%	35,0%
Engagement and dialogue	36,5%	35,0%
Access to red flag issues, watch lists, controversies	30,0%	46,0%
ESG impact on valuation models	29,5%	42,5%
Sector materiality issues	14,5%	48,5%

- Conclusion:
- There is no one solution that fits all...
  - ... but important to have an internal expertise / “engine”.

# Thank you for your attention!



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# Q&A session