OSSERVATORIO ESG

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Standard setter per l'analisi finanziaria

The United Nations Principles for Responsible Investment (UN PRI) defines responsible investment as a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership. The investment industry is evolving, and it is required Asset Manager reconsider their strategy as ESG factors could impact risk profile, governance and business dynamics on which revenue stability and long-term profitability depend.

RESPONSIBLE INVESTMENT POLICY

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Introduction

Asset managers are called to review their approach in a more sustainable way, changing their decision-making and organizational models, together with the analysis and investment process.
Asset Managers may not only consider ESG information in the object of investments (activity level) but may also begin to internalize these aspects (firm level). Profound changes in mission, strategic plan, governance, and objectives indicate that, beyond fashion, the ESG trend is something that cannot be ignored for those ones that wish to tie performance to the sustainability issues, that are the basis of the transition to an inclusive, low-carbon and climate-resilient economy.

The first step in incorporating responsible investments into an organization's structure and processes is to set and renew investment policy. Among the points to consider are included the extension of fiduciary duty, the impact not only in financial area (EU Action Plan: Financing Sustainable Growth) but also in the real economy (A European Green Deal to make the EU's economy sustainable) , the financial materiality of ESG factors and the active engagement with companies.
Responsible policy conveys philosophy and approach regarding sustainable investments, making sustainability a key priority within the core business, the staff, and the stakeholders. Sustainability policy is applied at company level (e. g. a signatory to the UN PRI); and it will be applied accordingly at the activity level between asset classes and themes. Responsible investing brings triple-added value:

- for the real economy or companies through ability to identify and access social and environmental opportunities (e.g., changes to business models, across supply chains and through new and expanded products and services)
- for investors through improvement in the data and analysis on ESG related risks and opportunities that allow for better investment decision
- for policy makers through an increase in private investment in greener and more sustainable assets, and in areas that align with national economic development priorities and Sustainable Development Goals (SDGs).

Responsible investment policy can be integrated standalone or by embedding responsible investment considerations into the mainstream policy considerations. A policy contains the asset manager's position on ESG issues and its fiduciary responsibilities in this field.

In general, it includes:

- business roles and responsibilities
- purpose of the policy
- scope of the policy and to which asset class, sector, geographic regions is applicable
- regulatory requirements and the fiduciary responsibilities

- implementation to achieve commitments, including the risk management activities
- monitoring and reporting of progress
- active ownership and the ability to influence more sustainable business practices
- periodic review of the policy

The guidelines for responsible investments will be very different from one asset manager to another. To be sure of defining an appropriate policy, it is necessary to identify responsible investment practices that adapt to the investment process and philosophy of the organization. Moreover, it must consider how the policy will apply to both internally and externally managed assets and be sure to align with global regulatory frameworks that may affect the guidelines. Finally, a policy must be reviewed regularly to measure success and determine whether it continues to reflect the asset manager's investment beliefs.
In particular, the importance of sustainable finance has grown significantly over the last decade and the importance of responsible investment policies has also grown driving investments towards sustainable, inclusive, and zero-carbon economies. In writing up responsible policy it is important to consider some new trends in progress, as stated in a recent report by the UN PRI and the World Bank:

a) **Corporate ESG disclosure policies**

Regulatory measures define issuers' obligations for periodic publication of data and analysis relevant to the ESG's business strategy, operations, and performance. The goal of such policies is to provide investors with information on corporate performance on ESG issues, that will be used when making investment decisions and leading engagement with companies. Mandatory disclosure regulations are more impactful and create more market efficiencies then voluntary disclosures that do not provide sufficient data to investors in terms of scope, comparability, and quality.
More standardised disclosure of ESG data and analysis are encouraged by national regulators and the adoption of international frameworks, which are becoming increasingly recognised (such as the Task Force on Climate-related Financial Disclosures - TCFD), will support more sustainable investment decisions, improved corporate performance on ESG issues, and the transition towards more sustainable economies.
ESG regulations are generally non-prescriptive in terms of the investment strategies adopted and asset managers can choose how to integrate ESG issues into investment processes. Asset managers should disclose among other details: material ESG issues, ESG-related objectives, and targets (e.g., carbon footprint) and climate risks and opportunities.

b) **Stewardship**

Active ownership needs to influence institutional investors to maximise overall long-term value, including the value of economic, social, and environmental assets and clients' and beneficiaries' interests.
Stewardship code aims to formalise these expectations on investors in regulation or guidance, including adoption and reporting requirements (e.g., number of companies engaged with, topics engaged on and the outcomes achieved). Stewardship codes have a comply-or-explain approach and tend to focus issues such as company strategy, financial performance, remuneration, and environmental and social performance.

c) **Taxonomy**

Classification system helps investors understand whether an economic activity is environmentally ad socially sustainable, and to navigate the transition to a low-carbon, inclusive economy.
The purpose of a sustainable taxonomy is to set a common language between investors, issuers, project promoters and policy makers. Moreover, the taxonomy helps to measure the degree of sustainability of an investment and to set policies consistent with relevant long-term objectives such as the Climate Agreement Paris 2015 and SDGs. Sustainable taxonomies are built with the contribution of economic and industry experts, as the Platform on Sustainable Finance (before Technical Expert Group - TEG) as in the case of the EU Taxonomy.

d) **National sustainable finance strategy**

A policy framework aims to ensure the finance sector support the goals of sustainable and inclusive growth, by aligning economic and financial goals with the Paris Agreement and the SDGs. Well-designed and well-implemented finance policy strategies can promote economic development, foster social inclusion and protect the environment.
The strategy can differ per country. However, there are several key components which should be considered for its design: to be aligned with a country's nationally determined contributions to the Paris Agreement (e. g. European Green Deal) and to cover all different areas of the financial system (e.g., banking and insurance).

Definitely a responsible and sustainable policy in the new century aspire to support policy goals on climate change and the SDGs and to improve the financial system stability and the market efficiency.

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