



**SIF** **IRELAND**  
SUSTAINABLE & RESPONSIBLE  
INVESTMENT FORUM

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**IRELAND'S ANNUAL  
RESPONSIBLE INVESTMENT  
STATE OF PLAY REPORT 2019**



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# SUSTAINABLE & RESPONSIBLE INVESTMENT FORUM (SIF) IRELAND 2019 INVESTMENT MANAGER RESPONSIBLE INVESTMENT PRACTICE AND CONSIDERATION OF ESG ISSUES SURVEY

## CHAIRPERSON'S NOTE



**SANDRA ROCKETT**  
Steering Group Chair

It is my pleasure to introduce the 2nd Annual State of Play report commissioned by SIF Ireland. This report provides a unique and useful perspective on the extent to which the Investment Management Industry in Ireland has adopted and evolved their business models to incorporate Responsible Investment practices. Once more, we explore the trends and challenges experienced by Investment Managers in Ireland as they evolve their investment approaches. For the first time, we have also included international fund companies and the perspective of the Asset Owners – principally the Irish Pension Funds – to provide a more complete insight.

Over the course of the last year, there has been a greater focus on Responsible Business practices and we have seen this gather further momentum and move from discussion to action across all sectors of the financial industry.

Within our respondents, it is notable that a majority had formal Responsible Investment policies in place. However, what is most encouraging to see is the continued development of Responsible Investment practices amongst respondents. This points to the growing acknowledgement and understanding of the financial relevance of Environmental, Social and Governance (“ESG”) issues on future investment outcomes. We see enhanced adoption of ESG factor integration into investment processes as well as greater adoption of Active Ownership practices in the form of Voting and Engagement.

It is again interesting to note that, similar to 2018, the key drivers of demand are coming from Institutional Investors – asset owners like pension funds. This highlights the key role Asset Owners play in influencing the adoption of Responsible Investment practices by their Investment Managers. It also points to the need for strong alignment between Investment Managers and their clients to ensure that appropriate solutions are developed to meet the varying needs of Asset Owners.

Given the current political and social debates happening globally in relation to Climate Change it is not surprising to see Climate Change being a key area of focus by Investment Managers – running second only to Corporate Governance issues (a well-established driver of performance).

Taking a broader industry perspective, with greater visibility of forthcoming EU legislation, the results from the survey

suggest that the respondents to this survey are well positioned to meet these new requirements.

There is also further evidence of the opportunity for leadership and innovation that is rapidly emerging from this global trend. In order to capture this opportunity, it is important that the industry is well prepared and has access to the training and skills necessary to enable this coupled with ensuring that the relevant legislative and regulatory frameworks are in place at the earliest opportunity. In this way, Ireland can set itself a goal of becoming a Sustainability leader within Europe in much the same way as it has established itself as a leader in financial services.

Finally, I would like to thank the respondents and the Committee for their work in bringing this report to publication.

## WHO ARE SUSTAINABLE AND RESPONSIBLE INVESTMENT FORUM (SIF) IRELAND AND WHAT ARE THEIR OBJECTIVES?

Sustainable & Responsible Investment Forum (SIF) Ireland is the national platform for policy makers, capital providers and intermediaries to advance sustainable and responsible investing best practice across all asset classes in Ireland. Established in 2017 by Sustainable Nation Ireland and leading members of the Irish investment community, SIF Ireland is tasked, under the Government's 'Ireland for Finance Roadmap', with raising awareness of the sustainable and responsible investment agenda, as it continues to grow rapidly in Ireland and around the world. The specific actions which SIF Ireland are charged with delivering include (but are not limited to) the annual publication of this report, and the development of a national blueprint to guide Irish green and sustainable finance activities.

## EXECUTIVE SUMMARY

Similar to the 2018 State of Play Report, this survey has been commissioned by SIF Ireland. The data which is included within the 2019 report is based on information provided by respondents as at 31 December 2018, and the comparative report (2018 report) is inclusive of data as at 31 December 2017.

The overriding ambition of the Ireland for Finance strategy to 2025 is that Ireland should be a top-tier location of choice for financial services. This report is a direct output of the Ireland for Finance strategy. It not only aims to increase awareness of the sustainable and responsible investment agenda within Ireland, but also looks to measure the growth in this area with the objective that areas of growth, opportunity and challenge should be identified so that these can be addressed by the industry and the progress measured on an annual basis.

Within this 2019 report, we look further into some of the statistics of those companies and managers who manage investments from Ireland, how they have **embraced** Responsible Investment practices and consideration of ESG Issues and also the **current and future drivers** and **challenges** which are being faced within the industry and their portfolios.

There has been **very positive growth** in this area over the past 12 months. **92% of respondents identified that they have a Responsible Investing policy** in operation within their business in Ireland – an increase

from 81% in the 2018 report.

A resounding **75% of respondents identified that they applied ESG Integration** to their investment process, with **67%** giving most weight in making their investment decisions to the **E**, the **S** and also the **G** to their equity portfolios.

**79% of respondents identified that they operated an exclusions-based investment policy.** This has increased from 63% in the 2018 report where respondents identified that they operated a fund

specific exclusion strategy. Controversial weapons and fossil fuels were indicated as being the most common exclusions. There was an increase from 25% in the 2018 report, to 54% in the 2019 report, of respondents who identified that they operated norms based screening.

**54%** of those who responded identified that they took a thematic approach to their investment process, and the most common sustainability themed investments was unsurprisingly in the area of **renewable energy** and **energy efficiency**.

There is a clear focus within the industry on the areas of engagement and voting. **75%** of those who responded identified that they have a formal policy on engagement and **67%** of respondents indicated that they have a formal voting policy in place.

When looking at the respondents' own governance in the areas of ongoing monitoring and organisational integration, **67%** indicated that they produced an annual ESG report, **63%** of respondents indicated that they measured the effectiveness of their ESG policies, **54%** of those participating indicated that board oversight of their ESG policy was performed on an annual basis and **29%** indicated that they would consider the ESG policies of applicants as part of their due diligence procedures prior to the appointment of a sub-fund manager or other professional services firms.

Given the drive from Europe in this area, the area of the organisations' focus on EU actions was investigated. **50%** of respondents identified that they were monitoring and preparing to implement the EU's action plan on sustainable finance. Further, **83%** were in agreement

that it was a good idea that the EU were taking a lead in this area in terms of looking to create a level playing field. Drilling down into one of the 2019 technical reports relating to the EU sustainable finance Taxonomy, when asked as to whether or not respondents agreed with the proposals for a unified classification system, **23%** strongly agreed and **68%** agreed in principle but would await further details.

Perhaps unsurprisingly, when asked as to what would be the top drivers for ESG in the next three years, **institutional investors** and **regulation** were identified as the top two drivers. The respondents' **responsibility to their clients / fiduciary duties** and **addressing climate change and other environmental issues** were identified as being the main drivers of the respondents' ESG strategy, however **data inconsistencies** and **mistrust / concern about greenwashing** were seen as being some of the main deterrents.

The views of those within the **Irish pension sector** have also been incorporated into the 2019 report. This is inclusive of their views of the drivers and challenges relating to their Responsible Investment practices and consideration of ESG issues, their ability to influence the companies they are invested in through their investments, and future developments within the sector which will offer both further opportunities and challenges.

A challenge which was identified by the Irish pension sector related to the need for more training and education was also identified as part of the 2019 deep dive commissioned by the Sustainable Finance Skillnet. This deep dive looked into the current and future ESG skills and training requirements of the financial

services sector. Whilst a number of recommendations arose from this deep dive, the over-riding recommendation was that there is a **current need** for more individuals specialising in sustainable finance and responsible investment practices. It was clear from the deep dive that it was strongly felt by the industry that there is a real need for training and upskilling within the industry to ensure that future needs would be met.

To return to the overriding vision of Ireland for Finance strategy to 2025, for Ireland to be seen as a top-tier location of choice for financial services in this area, it is very clear from this report, that there has been very positive growth, from the 2018 report, within the area of responsible investment practices and the consideration of ESG issues, however there are also areas which have been identified where more development and work is required.

SIF Ireland wish to acknowledge the substantial contribution of the representatives of the following organisations, who formed the Steering Group for this important work; Irish Association of Investment Managers (IAIM), the Irish Association of Pension Funds (IAPF), Irish Life Investment Managers (ILIM), KBI Global Investors and the Maples group. SIF Ireland would like to acknowledge and thank PricewaterhouseCoopers Ireland for preparing the analysis included within this report which was based on the figures and responses provided by the respondents. SIF Ireland would also like to extend their thanks to those who participated in the survey and have helped in measuring the change within the Irish industry as it relates to **Responsible Investment practices and consideration of ESG Issues**.

## INTRODUCTION

As defined within the survey which was circulated to the respondents, environmental, social and governance issues (“ESG”) were noted as being:



Environmental issues concern any aspect of a company’s activity that affects the environment in a positive or negative manner. Examples include greenhouse gas emissions, renewable energy, energy efficiency, resource depletion, chemical pollution, waste management, water management, impact on biodiversity, etc.



Social issues vary from community-related aspects such as the improvement of health and education to workplace-related issues including the adherence to human rights, non-discrimination and stakeholder engagement. Examples include labour standards (in supply chains, child labour, forced labour), relations with local communities, talent management, controversial business practices (weapons, conflict zones), health standards, freedom of association, etc.



Governance issues concern the quality of a company’s management, culture, risk profile and other characteristics. They include the board accountability, dedication and strategic management of social and environmental performance, and principles such as transparent reporting and the realization of management tasks in a manner which are essentially free of abuse and corruption. Examples include corporate governance issues such as executive remuneration, shareholder rights, board structure, bribery, corruption, stakeholder dialogue, lobbying activities, etc.

**Globally there is an increasing focus on Responsible Investment practices and consideration of ESG issues in mainstream investment. This is especially true within the financial services sector and investment management industry.**

According to the latest Global Sustainable Investment Review for 2018<sup>1</sup>, Europe is leading the way in sustainable and responsible investing accounting for almost half of the assets committed to such strategies (46%), while the United States continues to expand and accounts for 39%. Total assets under management using sustainable strategies grew from \$23 trillion at the start of 2016 to \$31 trillion at the start of 2018, an increase

of 34% in two years. ESG integration is used across an estimated \$17.5 trillion in assets and grew by 69% in the 2 years to 2018.

Since 2010, there has been an increasing focus on ESG, both in legislation and regulation. Following on from the work of the EU Technical Expert Group on sustainable finance (“TEG”) in 2018, a number of technical reports have been

issued during 2019<sup>2</sup>. One of the first reports issued by the TEG in 2019 was its final report on climate-related disclosures which was issued in January 2019. In June 2019, reports were issued by the TEG on the EU Green Bond Standard and an interim report on Climate benchmarks and ESG disclosure benchmarks. The TEG also issued the EU Taxonomy Report in June, with requests for feedback to be submitted by September 2019.

<sup>1</sup> Source: GSI Alliance (2018) 2018 Global Sustainable Investment Review Available at: [www.gsi-alliance.org](http://www.gsi-alliance.org)

<sup>2</sup> Source: EU TEG on Sustainable Finance (2018) State of Play, July 2018 Available at: [https://ec.europa.eu/info/sites/info/files/180730-teg-statement\\_en.pdf](https://ec.europa.eu/info/sites/info/files/180730-teg-statement_en.pdf)

This Report details harmonised criteria to determine whether an economic activity is environmentally sustainable. Also in September, the legal framework to facilitate sustainable investment through which the Taxonomy criteria will be implemented was agreed by EU Member States. The final text of this legal framework is anticipated to be agreed through trilogue discussions between the Council, Parliament and Commission, by this year end.

In Ireland, there is an increasing governmental focus on the race to meet the targets identified within the Paris Agreement and the development of sustainable finance. The Central Bank of Ireland ("CBI") has also identified that sustainability must have an important place within the economy.

In April 2019, the Irish Government published its strategy for the development of Ireland's international financial services sector to 2025 (Ireland for Finance)<sup>3</sup>. In this strategy, the Government recognises that sustainable finance is already an important and growing sector in Ireland and it has the potential for further growth in both size and importance. The importance of Dublin as a location for sustainable finance is signalled by Dublin's involvement in FC4S (the International Network of Financial Centres for Sustainability), the City's selection as its European base, and appointments at strategic levels in this area to the network.

In a speech in May 2019, Gerry Cross, Director of Financial Regulation - Policy and Risk, at the CBI identified three reasons as to why sustainability has to

play a key role within their strategy<sup>4</sup>. Firstly, in order to ensure that financial firms are sound and well run, **business models must be sustainable**. There has to be a move away from the focus on the short term (and short term profitability) to that of a **longer term approach**. Secondly, from a regulatory perspective, incorporating ESG factors in how financial firms are run is **no longer a nice to have**. It is now to be **expected**. Finally and as noted in the CBI's three year strategy which was published in 2019, **sustainability serves the needs of the wider economy and its customers**.

There is therefore no doubt that Responsible Investment Practices and consideration of ESG issues will be one of the overarching themes of both government policy and CBI regulations going forward.

<sup>3</sup> Source: Department of Finance (2019) Ireland For Finance Available at: <https://www.gov.ie/en/publication/526a06-ireland-for-finance>

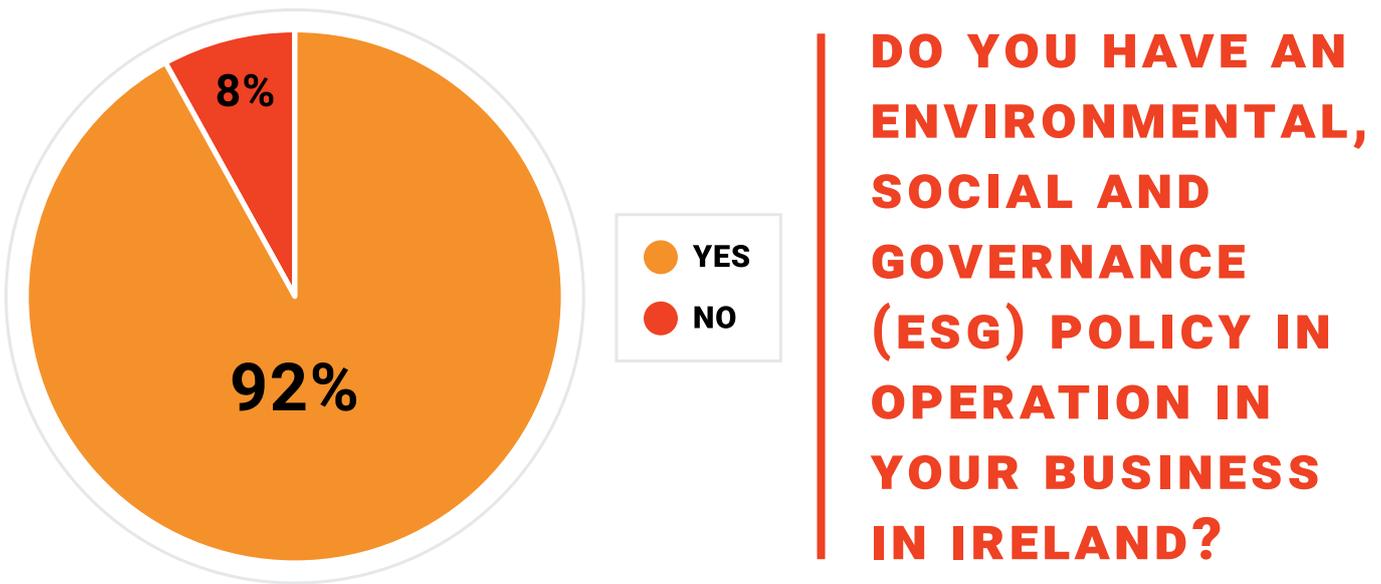
<sup>4</sup> Source: Cross, Gerry. Central Bank (2019) Accountability and sustainability: key themes in financial regulation Available at: [www.centralbank.ie/news/article/key-themes-in-financial-regulation-gerry-cross](http://www.centralbank.ie/news/article/key-themes-in-financial-regulation-gerry-cross)

**KEY FINDINGS**

**The vast majority of those surveyed identified that they had an ESG policy in operation within their business in Ireland.**

The responses showed that **92%** had such a policy in place within their business in Ireland (see figure 1). Within the 2018 report it was identified that 81% who responded to this question had a formal responsible investing policy in place within their organisation.

Figure 1



*Note: where no response to this question was received, it was assumed that no such policy was in operation. % included in the above tables are based upon the number of responses received to the question posed.*

**ESG integration is the ESG strategy that is most in demand from clients**

The key role of ESG factors within the investment appraisal process is evidenced by the willingness of **42%** of participants to accept a lower financial return than the market in exchange for a positive social or environmental impact. Research however points to this being an unnecessary trade-off, with responsible investing generally seen to be a source of additional risk management and / or a source of outperformance..

## THE MYTH OF THE SACRIFICE OF RETURNS FOR RESPONSIBLE INVESTMENT AND ESG ISSUES: IS THE CHOICE BETWEEN DOING GOOD OR EARNING A PROFIT?

Over the years, there have been challenges to the ESG products which are offered - do they provide the same or as high a return as other related non-ESG products?

KBI Global Investors released a paper earlier in 2019<sup>5</sup> which looked to the investment performance of stocks based on their (MSCI) ESG ratings over a period from the end of 2014 through to the end of 2018. As part of this document, KBI Global Investors looked at the relative performance of securities segmented by MSCI ESG ratings. MSCI ESG Research Inc. rate companies on an “AAA” to “CCC”

scale (good to bad) according to the rated company’s exposure to ESG risks, which are specific on an industry by industry basis, and the ability of each company to manage those risks relative to their peers. One of the key findings within this report was that those stocks with above average ESG scores outperformed, whilst the lower rated ESG stocks were the worst performers.

In August 2019, the MSCI published data<sup>6</sup> which showed that the MSCI ACWI ESG Leaders Index (“ESG Leaders Index”) showed cumulative index performance gross returns of USD\$184.12 compared to its counterpart the MSCI ACWI Index of USD\$170.14 (since September 2007 through to August 2019).

**CUMULATIVE INDEX PERFORMANCE - GROSS RETURNS (USD) (SEP 2007 – AUG 2019)**



Source: MSCI<sup>7</sup>

<sup>5</sup> Source: KBI Global Investors (2019) ESG Distribution and Performance

<sup>6</sup> Source: MSCI (2019) MSCI ACWI Leaders ESG Index (USD) Available at: [www.msci.com/documents/10199/9a760a3b-4dc0-4059-b33e-fe67eae92460](http://www.msci.com/documents/10199/9a760a3b-4dc0-4059-b33e-fe67eae92460)

<sup>7</sup> Source: Ibid

In a report from 2015, "From the stockholder to the stakeholder"<sup>8</sup> and based on more than 200 academic studies, industry reports, newspaper articles, and books, it was found that in 90% of the studies, **sound sustainability standards lower the cost of capital**. Further, 88% of the research showed that **solid ESG practices resulted in better operational performance of firms**. Finally, 80% of the studies showed that **stock price performance of companies is positively influenced by good sustainability practices**. In a recent Morningstar report<sup>9</sup>, their data showed that the one-year returns of 63% of sustainable funds finished in the top half of their respective categories, including 34.1% in the top quartile. Only 36.9% finished in the bottom half, including just 14.8% in the bottom quartile. Morningstar

consider that these numbers are consistent with evidence from academic research that suggests no systematic performance penalty is associated with sustainable investing.

In 2019, in a report prepared by Amundi<sup>10</sup> it was identified that between 2010 - 2013, being a responsible investor would have tended to penalise both the active and passive European and North American portfolios. Yet from 2014 through 2017, responsible investing was generally seen to be a source of outperformance in the Eurozone and also within North America. The report did identify that there was a "tipping point" beyond which ESG score improvements can actually reduce the investment universe and therefore can negatively impact diversification and performance.

When it came to looking at the diversification of portfolios, responsible investing was seen to have become a beta strategy within the Eurozone (ESG is a risk factor), yet remains an alpha strategy in North America.

Whilst there is **no definitive answer** to whether there is a need to sacrifice returns for responsible investment, there is clear evidence that supports the comparable if not out-performance of ESG funds when compared to their peers. Additionally, there is no longer any appetite from regulators for companies only to seek financial performance. Investment models must be sustainable with a focus on the long term.

## When asked to identify the three most common ESG issues on their agenda, corporate governance was the leading issue with climate change a close second.

Ideas of what constitutes "**corporate governance**" have evolved over the last number of years. The term now encompasses a much broader range of areas, including sustainability. Many companies have now incorporated sustainability and other stewardship issues into their responsible corporate governance policies.

As shown in figure 2 below, **ESG Integration** was the most common ESG Strategy / approach which was in demand from investors, with **exclusions** taking second place.

The popularity of ESG Integration as shown in figure 2 below was also reflected within the EuroSIF 2018 report<sup>11</sup>. The EuroSIF 2018 report found that ESG

Integration was the fastest growing strategy - having grown with a CAGR (Compound Annual Growth Rate) of 27%. Whilst the EuroSIF report identified that the most popular strategy was exclusions, this category actually showed a negative CAGR of -3% when compared to the 2016 EuroSIF report.

<sup>8</sup> Source: Clark, Gordon L, and Viehs, Michael (University of Oxford) & Feiner, Andreas (Arabesque Partners) (2015) From stockholder to stakeholder: How sustainability can drive financial outperformance Available at: [https://arabesque.com/research/From\\_the\\_stockholder\\_to\\_the\\_stakeholder\\_web.pdf](https://arabesque.com/research/From_the_stockholder_to_the_stakeholder_web.pdf)

<sup>9</sup> Source: Bioy, Hortense (Morningstar) (2019) European Sustainable Funds Landscape

<sup>10</sup> Source: Amundi (2019) The Alpha and Beta of ESG Investing Available at: <http://research-center.amundi.com/page/Article/2019/01/The-Alpha-and-Beta-of-ESG-investing>

<sup>11</sup> Source: Eurosif (2018) European SRI Study 2018 Available at: [www.eurosif.org/wp-content/uploads/2018/11/European-SRI-2018-Study.pdf](http://www.eurosif.org/wp-content/uploads/2018/11/European-SRI-2018-Study.pdf)

## WHAT TYPES OF ESG STRATEGY / APPROACH ARE IN THE MOST DEMAND FROM YOUR CLIENTS?

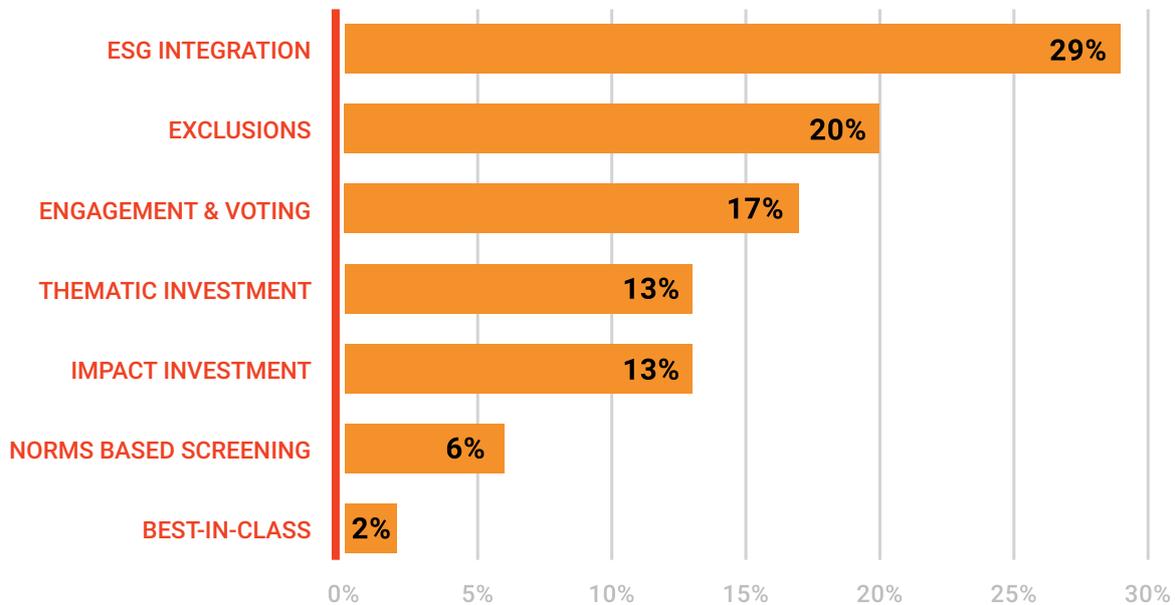


Figure 2

Note: Respondents had the option to select all that applied. % included in the above tables are based upon the number of responses / assumed responses received to the question posed

### ESG INTEGRATION

ESG integration is the analysis of all material factors in investment analysis and investment decisions, including environmental, social, and governance (ESG) factors.

It should be noted that those following an ESG Integration strategy only require that ESG factors are considered alongside other factors, and this is not the sole consideration in the investment process.

As part of the 2019 survey, participants were asked whether or not they **incorporated ESG integration into their financial analysis**. 75% responded in the affirmative. They were then asked about which **factors were given the most**

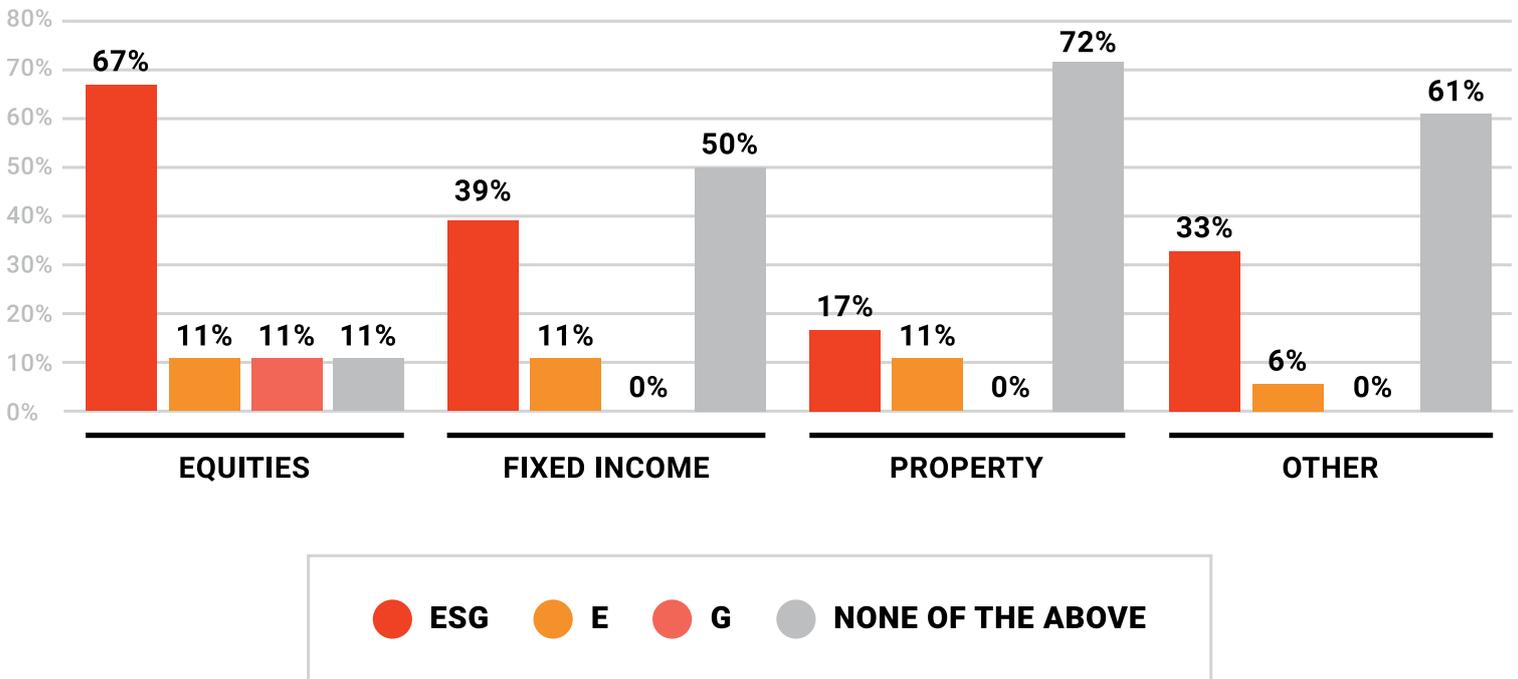
**weight** in their investment decisions as it relates to investment type (equities, fixed income, property or other).

Participants could choose from the individual components of E

(Environmental), S (Social) or G (Governance) and also various combinations of same (e.g. E or E & S or E & G, etc.). See figure 3 below for more details.

Figure 3

## WHICH OF THE FOLLOWING FACTORS ARE GIVEN THE MOST WEIGHT WHEN MAKING INVESTMENT DECISIONS?



Note: % included in the above tables are based upon the number of responses / assumed responses received to the question posed.

Whilst there is no comparative information available for figure 3, when comparing the different categories, from the responses received, it is clear that where ESG is a consideration in a category, all aspects of the “E”, the “S” and the “G” are considered. This holistic view is most dominant within the category of “Equities”.

## EXCLUSIONS BASED APPROACH

For those participating in the survey, this was defined as being an approach or strategy that excludes specific investments or classes of investments from the investable universe such as companies, sectors or countries.

This approach systematically excludes companies, sectors or countries from the permissible investment universe if involved in certain activities based on specific criteria. Common criteria include weapons, pornography, tobacco and animal testing. Exclusions can be applied at individual fund level, but increasingly also at asset manager or asset owner level, across the entire range of assets. This approach is also referred to as ethical or values-based exclusions, as exclusion criteria are typically based on the choices made by asset managers or asset owners.

79% identified that they operated an exclusions based investment policy (2018: 63% identified that they operated a fund specific exclusion strategy). As depicted below (figure 4) controversial weapons, fossil fuels, all weapons (production and trade), pornography and tobacco were some of the **most common exclusions** which were identified by those who responded to this question (2018: tobacco and weapons were identified as the most common exclusions - the option for controversial weapons was not included for fund specific exclusions as part of the 2018 report).

## WHICH EXCLUSIONS DO YOU APPLY?

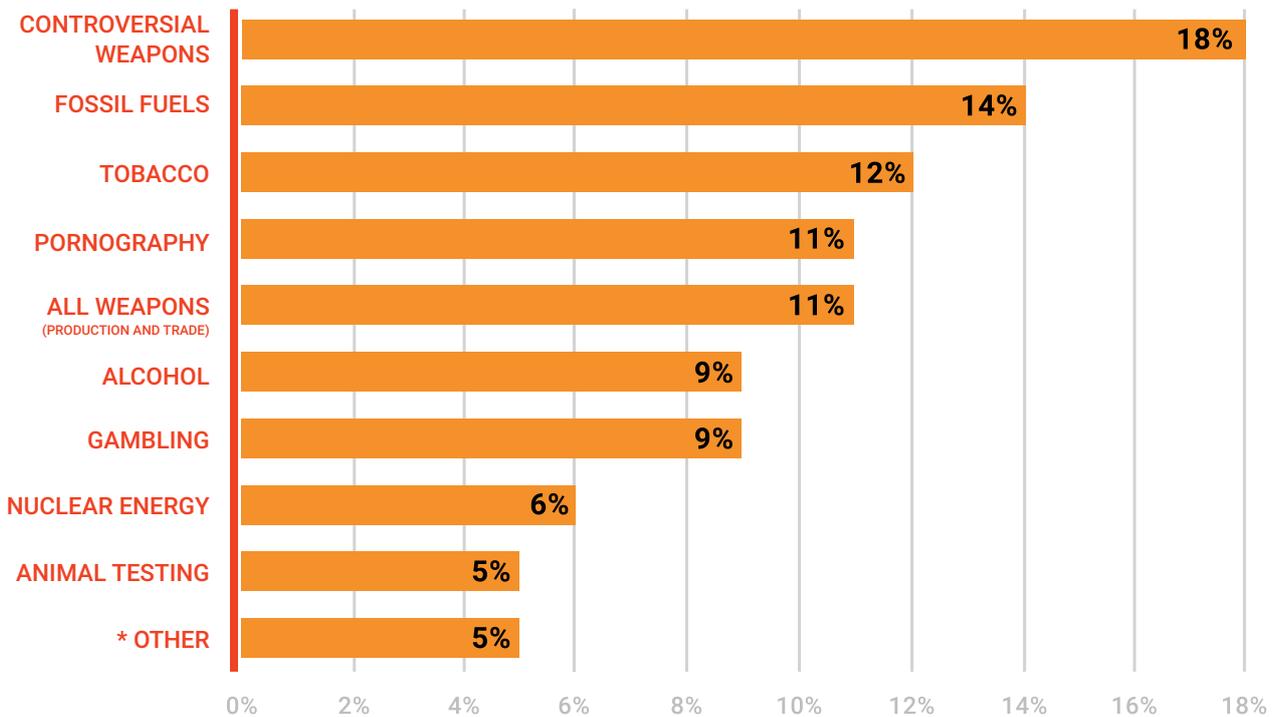


Figure 4

Note: Respondents had the option to select all that applied. % included in the above tables are based upon the number of responses / assumed responses received to the question posed.

## NORMS BASED SCREENING

The definition which was adopted for the purposes of this report was the screening of investments according to their compliance with international standards and norms based on ESG criteria, such as those developed by the OECD (International Norms Guidelines), the United Nations (UN), and various UN agencies/programs, such as the UN Global Compact, ILO (International Labour Organisation), UNICEF, UNHRC (United Nations Human Rights Council).

This approach involves the screening of investments based on international norms or combinations of norms covering ESG factors. International norms on ESG are those defined by international bodies such as the UN. They are generally understood to be universal, even if not universally applied or adopted. This typically involves judging a company against peers or certain minimum standards. Once a screen has identified companies or assets that potentially violate these

norms or standards, a fund manager may take a number of actions. The most common action is divestment, but before considering divestment, the fund manager may prefer to engage with the company. However, the analysis process must ultimately have an impact on the fund portfolio.

At the margin, exclusions (1) and international norms (2) may converge, and a certain judgement is required to

assign the correct classification. The threshold can often be seen in the fund manager referring specifically to outside norms such as the UN Global Compact or the OECD guidelines for multinational corporations. Another distinction is that norms-based screening involves an analysis where a company is judged on a standard against peer companies or minimum standards covering ESG criteria.

The 2018 report identified that only 25% of those who participated indicated that they applied a norms based screening approach. However this has increased to **54%** within the current year report. Of those applying this approach, the screening criteria most commonly identified as being adopted was the **UN Global Compact (77%** of those who responded to this question adopted this criteria). Other criteria being applied included the OECD Guidelines for MNCS, ILO conventions, UN PRI / UN SDGs, UN PRI and human rights / labour rights etc..

## BEST IN CLASS

This approach was defined as being one where leading or best-performing investments within a universe, category, or class are selected or weighted based on ESG criteria.

This approach involves the selection or weighting of the best performing or most improved companies or assets as identified by ESG analysis, within a defined investment universe. This approach includes best-in-class, best-in-universe, and best-effort.

**21%** of those who participated identified that they applied this method of screening compared to 25% in 2018.

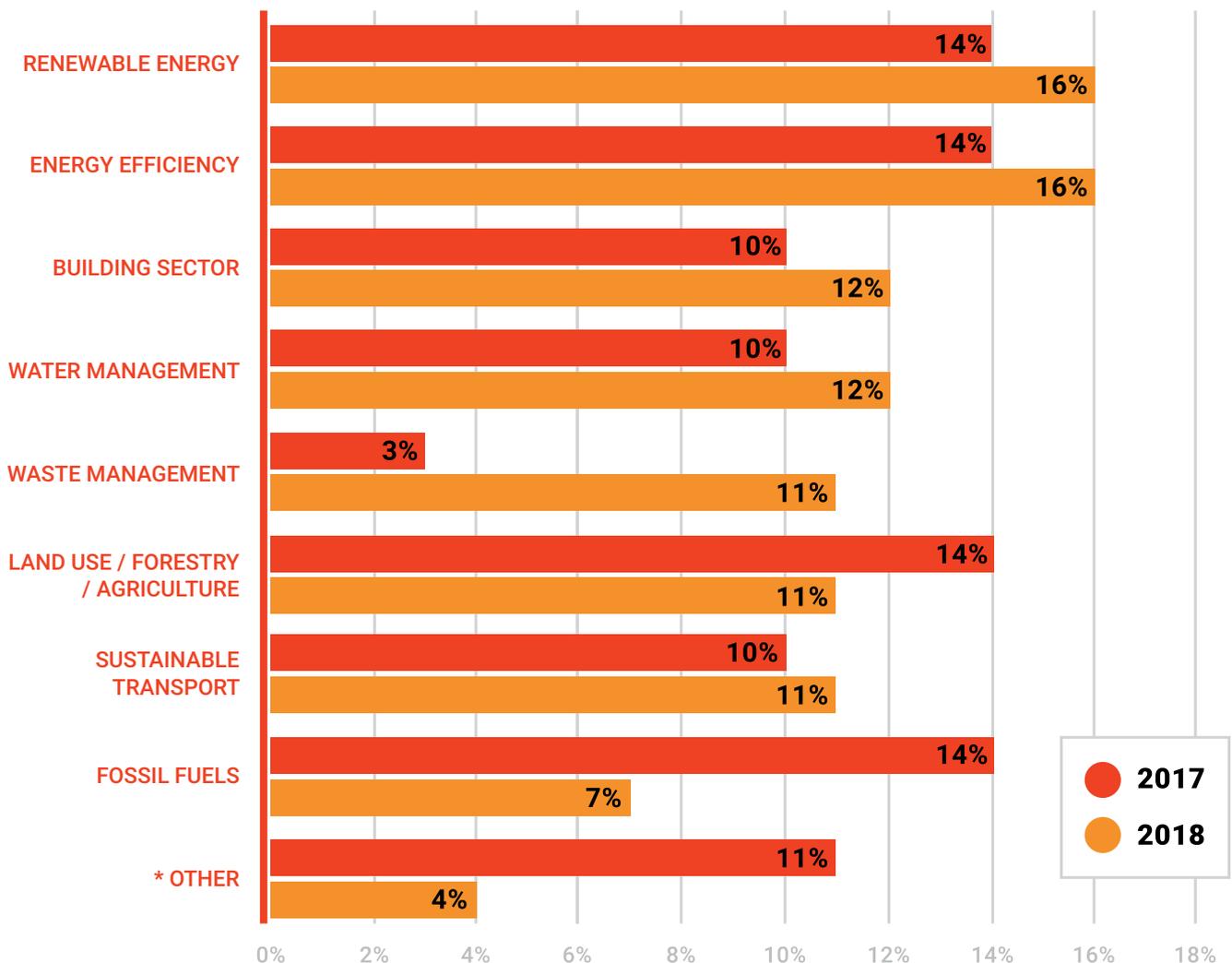
## THEMATIC INVESTMENT

These are funds which invest in assets that best exploit opportunities from major long-term sustainability-related trends and that will drive value across industries. Sustainability-themed investments contribute to addressing social and/or environmental challenges such as climate change or natural resource depletion. Thematic funds focus on specific or multiple issues, such as renewable energy, energy efficiency, eco-mobility, sustainable buildings and waste or water management.

Similar to the 2018 report, **54%** of those who participated in the 2019 report identified that they applied this approach. Figure 5 identifies the **main sustainability themed investments** which were being applied - the most common themes were identified as being that of both energy efficiency and renewable energy.

Figure 5

### THEMATIC INVESTMENT THEMES



Note: Respondents had the option to select all that applied. % included in the above tables are based upon the number of responses / assumed responses received to the question posed.

## IMPACT INVESTMENT

This is defined as being investments which are made with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on the circumstances.

These investments may be project-specific, and distinct from philanthropy, as the investor retains ownership of the asset and expects a positive financial return. Impact investment includes microfinance, community investing, social business/entrepreneurship funds, and French fonds solidaires. The growing impact investment market provides capital to support solutions to the world’s most pressing challenges in sectors such as sustainable agriculture, affordable housing, affordable and accessible healthcare, clean technology, and financial services.

A hallmark of impact investing is the commitment of investors to measuring and reporting the social and environmental performance and progress of underlying investments. Investors’ approaches to impact measurement will vary based on their objectives and capacities, and the choice of what to measure usually reflects investor goals and, consequently, investor intention.

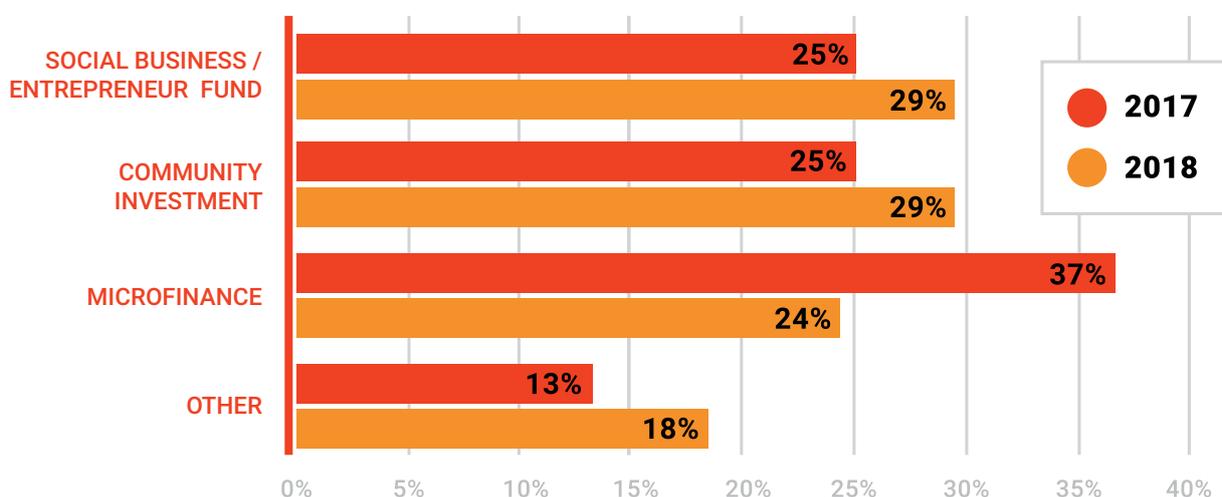
In general, components of impact measurement best practices for impact investing include:

- Establishing and stating social and environmental objectives to relevant stakeholders;
- Setting performance metrics/ targets related to these objectives using standardised metrics wherever possible;
- Monitoring and managing the performance of investees against these targets; and
- Reporting on social and environmental performance to relevant stakeholders.

The number of respondents indicating that they had adopted an impact investing strategy was largely unchanged with **29%** compared to 25% in 2018. The **most popular types** of impact investing identified included social business/entrepreneur fund, microfinance and community investments amongst others. Since the 2018 report, it appears that there has been a shift in demand from those looking to invest in microfinance to an investment in communities and social business/entrepreneur funds.

Figure 6

## IMPACT INVESTMENT THEMES IDENTIFIED



Respondents had the option to select all which apply. % included in the above tables are based upon the number of responses / assumed responses received to the question posed.

## IMPACT INVESTING IN IRELAND - CASE STUDY



Coillte Nature is a new not-for-profit venture that has been set up by the State owned forestry company, Coillte, to respond to the challenges of climate disruption and biodiversity loss in Ireland. Coillte Nature will undertake native woodland creation and nature restoration projects of scale in partnership with public and private sector organisations and with other not-for-profit organisations.

It will focus on the four strategic areas of native woodland creation, urban forests, nature restoration and habitat creation. Native woodlands are relatively slow growing and are not as commercially attractive as faster growing commercial plantation species. They do however store large amounts of carbon and provide important biodiversity and recreational amenity. Coillte Nature aims to boost native woodland cover using a not-for-profit business model. Its first project will involve seeding 1,500 hectares of cutaway bog on the Bord na Móna estate with native Irish broadleaves such as Birch, Hazel and Alder. In time this forest will naturally mature and support a wide range of native flora and fauna.

Coillte Nature's parent the State owned forestry company, Coillte, manages commercial plantations located close to growing urban centres, which over time

have become important recreational amenities for the local population. Coillte Nature will manage the gradual conversion of some of these plantations into forests with the primary purpose of recreational amenity and biodiversity. Its first project will be the conversion of over 900 hectares of plantations across nine sites in the Dublin uplands which together have over 600,000 visitors per year.

The Coillte estate has over 90,000 hectares of land managed primarily for biodiversity and within this are a range of sites are important conservation status at a European level. Some of these sites require protection and ongoing maintenance and Coillte Nature will take on a range of large restoration projects each year. First up will be the spectacular Hazelwood near Sligo which adjoins Lough Gill with its iconic Lake Isle of Innisfree. Finally, woodlands can be important habitats for a wide range of species and Coillte Nature will work to create habitats to promote the protection of threatened species.

Coillte Nature will be part funded from the commercial revenue of the Coillte Group but it will be separated to allow it to work with other organisations with shared values and ambitions.

Commenting on the establishment of Coillte Nature the Chair of Coillte, Bernie Gray said,

*"Coillte's focus is to drive a strong commercial performance and at the same time provide a valuable environmental and social dividend to society at large. Our decision to establish Coillte Nature fits perfectly in this regard. This is a very significant and timely initiative which is naturally aligned with the Government's focus on Climate Action. Coillte is ideally positioned to lead the creation of new woodlands for carbon sequestration and to develop recreational forestry for the enjoyment and wellbeing of the public. Coillte Nature, which has been set up on a not for profit basis, will have a strong focus on carbon sequestration, species diversification, biodiversity and the development of forestry recreation activities. The Dublin mountains conversion project, within Coillte Nature, is an excellent example of the kind of collaboration and innovation which Coillte can deliver for the benefit of the environment and our citizens"*

**ENGAGEMENT & VOTING**

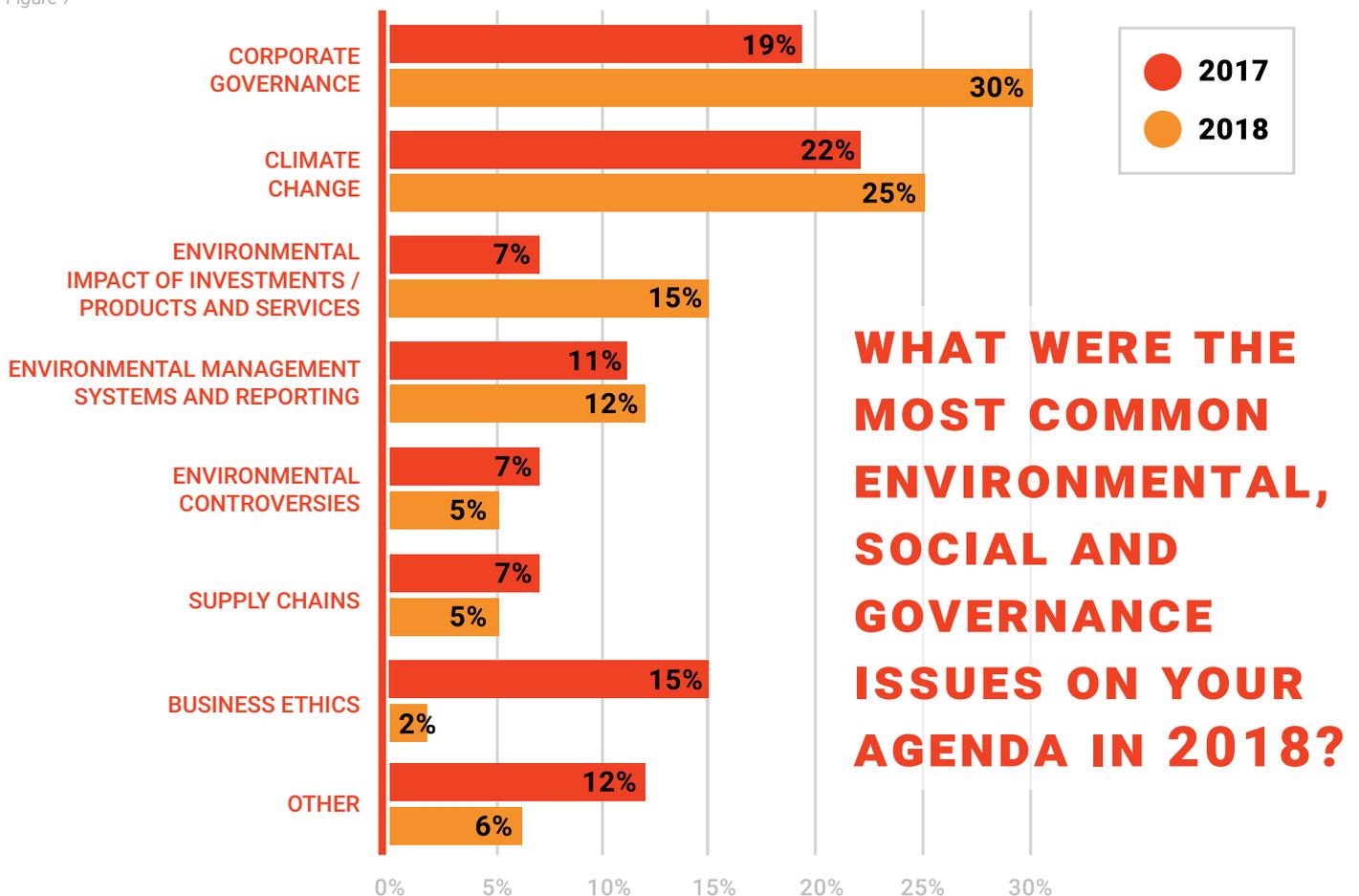
**ENGAGEMENT**

For the purposes of the survey, this was defined to be where active share ownership is used to open channels of communication between shareholders and issuers in order to improve the ESG strategy and ESG performance of issuers. Engagement on ESG can take the form of formal letters, calls, emails, meetings, etc.

When asked as to whether or not the participants had a formal policy on engagement, **75%** responded that yes, a formal policy on engagement was in existence, this was an increase from 50% included within the first state of play report in 2018.

When asked what the **three most common environmental, social and governance issues** which were on the participants agenda during 2018, corporate governance, climate change and the environmental impact of investments / products and services were identified (see figure 7).

Figure 7



Note: Respondents had the option to select the top three issues which were applicable to them. % included in the above tables are based upon the number of responses / assumed responses received to the question posed.

**VOTING**

Active share ownership through voting or proxy voting at the Annual General Meeting (AGM) of companies is the means by which shareholders can influence issuers’ ESG strategies and practices.

67% of those surveyed identified that they have a formal voting policy in place compared to 50% in 2018. To look into this area further, the participants were asked about the **focus of their voting policies** - both within their ESG focused funds, and also within their other funds. The results are depicted below.

**AREAS COVERED BY VOTING POLICY**

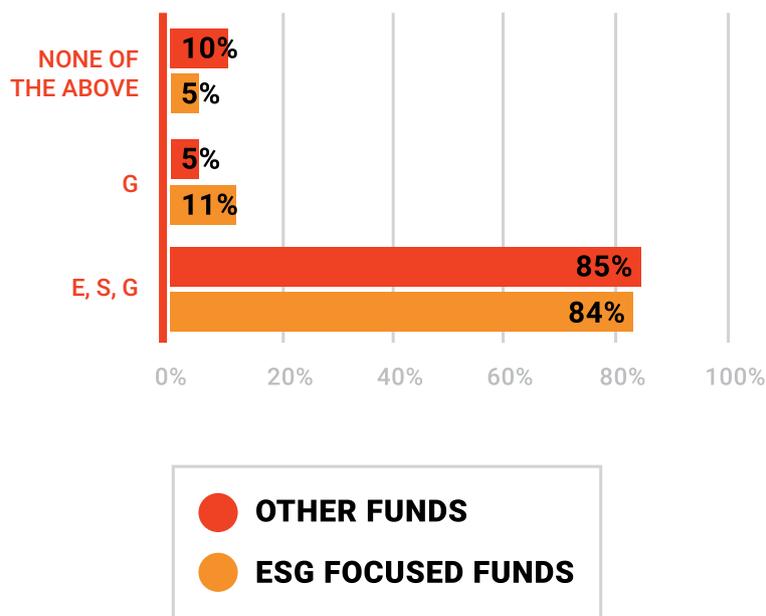


Figure 8

Note: Respondents were asked to only choose one response for each of the above fund ranges. % included in the above tables are based upon the number of responses / assumed responses received to the question posed.

Further, when asked as to the percentage of their portfolio over which they **exercised their voting rights** during 2018, **42%** of the participants identified that they exercised their **voting rights over 100%** of their portfolio during 2018.

Finally, when asked as to whether their firm **discloses their proxy voting records**, **54%** identified that their firm did and of this 54%, **38%** also **disclosed their voting rationale**.

**OWN GOVERNANCE -**

**ONGOING MONITORING AND ORGANISATIONAL INTEGRATION**

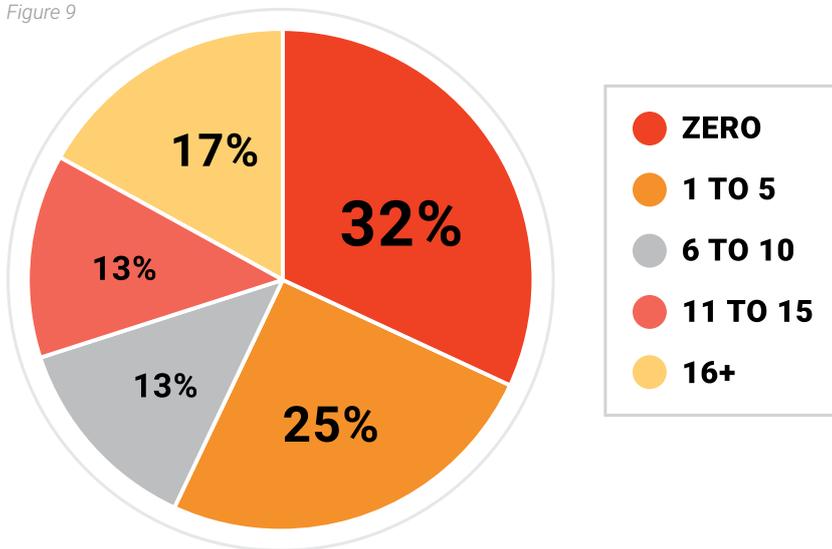
For the 2019 report, it was felt that it was important to look into the participant firms’ **own monitoring and organisational integration** of responsible investment policies and consideration of ESG issues. Therefore as part of the survey this year,

participants were asked how their **own ESG policy was governed and overseen**.

The **most common methods** which were identified included oversight through the annual review process, board level review,

dedicated full time employees (“FTE”), financial / non-financial reporting and quarterly reporting. For those who had full time employees working on ESG within their organisation, it was noted that **17%** had over 16 FTEs (see figure 9 below).

Figure 9



**HOW MANY DEDICATED FTE ARE WORKING ON ESG IN YOUR ORGANISATION?**

*Note: % included in the above tables are based upon the number of responses received to the question posed.*

When asked as to whether or not the **effectiveness of their ESG policy was measured**, **63%** responded that yes, it was measured. Popular methods of **measurement** which were identified by the participants included **benchmarking** to peers, ongoing **due diligence**, **percentage of proxy voting** and through the **ongoing measurement** of financial performance on a risk-adjusted basis.

For **54%** of those firms who participated in the survey, **board oversight** of the firm’s ESG policy was being performed on an **annual basis**.

A further area which was investigated during the 2019 survey was whether firms **considered the ESG policies of applicants as part of their due diligence**

**prior to the appointment** of sub-fund managers or other professional service providers. Those who responded were then asked to identify whether a) screening was applied to remove service providers with incompatible policies, b) whether the ESG policy would impact their ongoing future engagement, c) whether areas would be identified for remediation, or d) any other considerations (any combination of these responses could be given).

**29%** indicated that the ESG policy of the service provider would impact their decision regarding appointment / reappointment. In relation to the identification of the considerations which would impact service delivery, some areas identified included:

- Complementary ESG policies were required / compatibility of policies would be considered;
- Screening is applied to service providers whose policies are incompatible;
- Annual audits are performed to ensure that ESG policies are at the standard which would be expected;
- Areas may be identified for remediation;
- This may trigger ongoing future engagements; and
- There is a focus on driving change within service providers through the setting of minimum standards.

## ORGANISATIONAL FOCUS ON EU ACTIONS

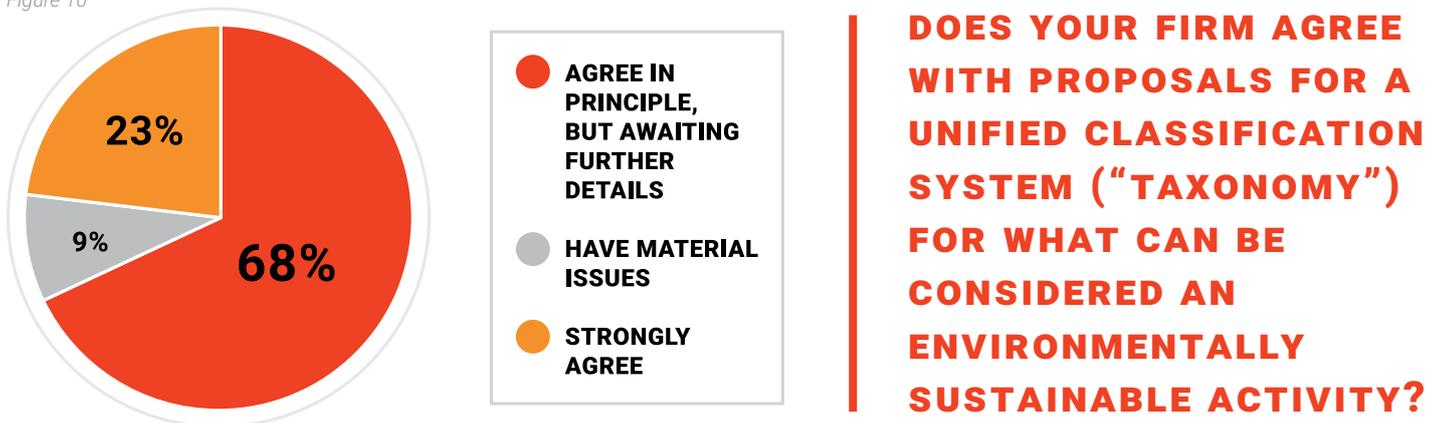
There is no doubt that there is a real **focus** from the EU on sustainable finance and what needs to be done to ensure that the objectives of the Paris Agreement are met. When asked as to whether or not those participating in the 2019 survey were **monitoring and preparing to implement the EU's action plan on sustainable finance**, **50%** responded in the affirmative. Further, **83%** agreed that it was a good

idea that the EU is taking a lead globally in this area in terms of looking to create a level playing field. Both of these statistics are **very positive** as Ireland looks to prepare itself for the changes which these pieces of legislation from the EU will bring.

In terms of some of the recent EU reports, we focused on the July 2019 Financing A Sustainable European Economy -

Taxonomy Technical Report<sup>12</sup>. We asked those participating in the survey whether or not they **agreed with the proposals for a unified classification system** for what could be considered an environmentally sustainable activity. The results for those who responded to this question are shown in figure 10 below - with **23%** being in "strong agreement".

Figure 10



Note: % included in the above tables are based upon the number of responses received to the question posed.

When asked whether their firm agreed with the **proposals for required disclosures** on the integration of ESG factors within the risk and decision making process - **59%** "agreed in principle though were awaiting further details" and **41%** "strongly agreed".

Finally we inquired as to whether or not their firm agreed with the current proposals for the creation of a **new category of benchmarks**. Of those who responded, **14%** had "material issues" with the proposals, **5%** "strongly disagreed", **67%** agreed in principle, though were awaiting further details and **14%** strongly agreed.

To summarise, many **agree in principle** with the various technical reports which are coming through from the EU and the direction of policy travel. It is clear that some participants felt that further information was required prior to them being able to form a conclusive opinion. As recognised by many other bodies within and outside of Ireland, realising the EU's Action Plan for Financing Sustainable Growth ambitions will be complex and involve significant public-private sector engagement at both a national and regional level. However, given the agreement in principle / strong agreement which has been reflected within this report, it is clear that participants

recognise that the Commission's activities in this area are ongoing, that policies are not yet finalised and that there will be further opportunities to engage with the Commission in the future

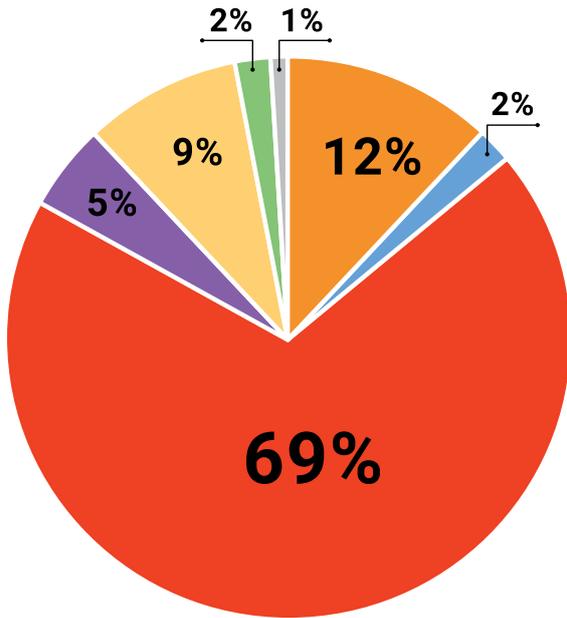
SIF Ireland will have a critical role in keeping the Irish market informed in terms of developments in this area.

<sup>12</sup> Source: EU TEG on Sustainable Finance (2019) Taxonomy Technical Report Available at: [https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/190618-sustainable-finance-teg-report-taxonomy\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-taxonomy_en.pdf)

**CHARACTERISTICS OF INVESTORS AND ASSET CLASSES**

We asked the participants to identify both the breakdown of SRI / ESG assets by asset class, and also by type of investor. Figure 11 below identified the breakdown by asset class and Figure 12 shows the breakdown by type of investor.

Figure 11

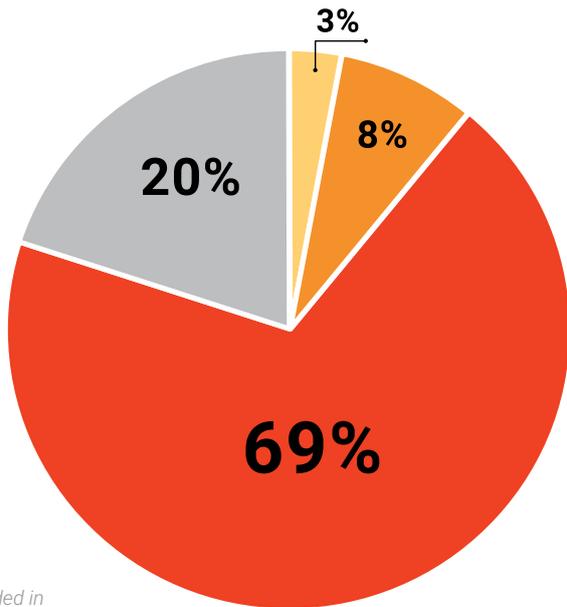


**WEIGHTED AVERAGE  
% OF YOUR ESG ASSETS  
WHICH ARE MANAGED  
FROM IRELAND BY  
ASSET CLASS**

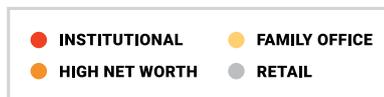


Note: % included in the above tables are based upon the number of responses / assumed responses received to the question posed.

Figure 12



**WEIGHTED AVERAGE  
BREAKDOWN BY %  
OF YOUR ESG ASSETS  
(ALL ASSETS WHICH  
ARE IMPACTED BY A  
ESG STRATEGY) WHICH  
ARE MANAGED FROM  
IRELAND BY TYPE OF  
INVESTOR**

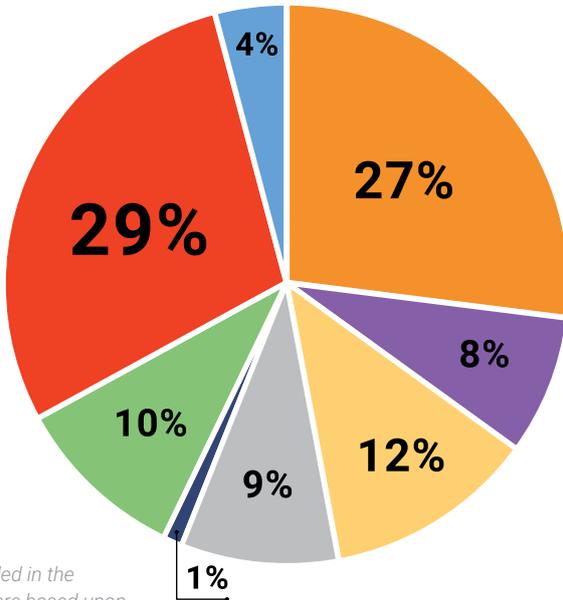


Note: % included in the above tables are based upon the number of responses / assumed responses received to the question posed.

As part of the 2019 survey the breakdown of ESG assets by type of investor was extended to include family office, High Net Worth (“HNW”), institutional and retail when compared to the 2018 report which only identified investors as being either retail (37%) or institutional (63%).

Regardless of the extension of the options available for identification by the 2019 participants, **Institutional investors** are still the largest investors at **69%**. Figure 13 below outlines the composition of these institutional investors with **“religious institutions and charities”** being the largest component at **29%**.

Figure 13



Note: % included in the above tables are based upon the number of responses / assumed responses received to the question posed.

**WEIGHTED AVERAGE BREAKDOWN OF ASSETS IN % FOR INSTITUTIONAL INVESTORS**

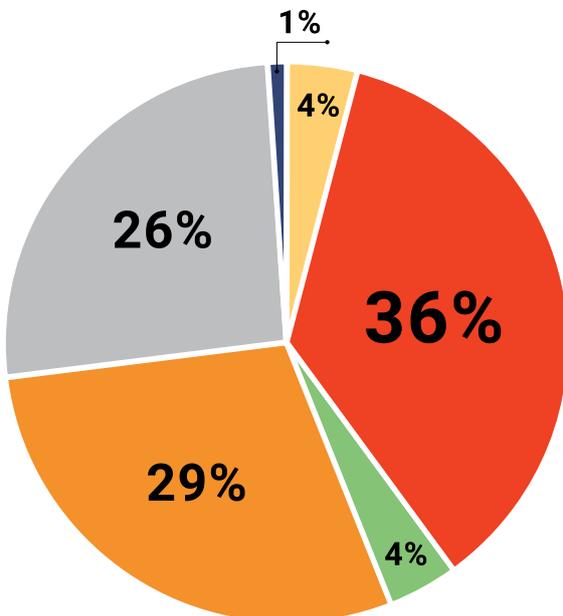


Respondents were asked which **type of investor** was leading the demand for ESG strategies within their business. **Institutional investors** were resoundingly identified as the main driver (**83%**), with retail investors at **9%**, HNW at **4%** and family office at **4%**.

When asked as to the domicile of the **investor base**, of those who responded, **46%** were located within Ireland, **41%** within Europe (excluding Ireland), **11%** within North America and **2%** within Asia Pacific (0% within emerging markets).

Finally, figure 14 shows the **geographic breakdown of ESG assets**. The 2018 report identified that 52% were European (excluding Ireland), 30% North-American (excluding Ireland), 30% North-American, 11% domestic (being Ireland), 6% in the emerging markets and 1% in other locations.

Figure 14



**WEIGHTED AVERAGE GEOGRAPHIC BREAKDOWN BY % OF YOUR ESG ASSETS WHICH ARE MANAGED FROM IRELAND**



Note: % included in the above tables are based upon the number of responses / assumed responses received to the question posed. Where no split into the above categories was available, the participant's response was excluded from the above chart.

## CHALLENGES AND OPPORTUNITIES

### FACED BY RESPONDENTS IN RELATION TO ESG

Having asked the participants about the investor base and also ESG asset split, the survey then looked to investigate some of the **key drivers and challenges** which the participants thought were facing their business currently and also in the future in relation to their Responsible Investment practice and consideration of ESG Issues.

When asked what the **key drivers of demand for ESG will be in three years**, **28%** of the participants identified that they expect **demand from institutional investors** to be one of their top three drivers in their business. **Regulation** was also identified as a leading driver of ESG within our participants businesses over the next three years (**23%**).

TOP THREE DRIVERS OF DEMAND FOR ESG IN THE NEXT 3 YEARS?	
2018	2017
<ul style="list-style-type: none"> <li>▶ DEMAND FROM INSTITUTIONAL INVESTORS;</li> <li>▶ LEGISLATION; and</li> <li>▶ DEMAND FROM RETAIL INVESTORS.</li> </ul>	<ul style="list-style-type: none"> <li>▶ DEMAND FROM INSTITUTIONAL INVESTORS;</li> <li>▶ NOTION OF FIDUCIARY DUTY; and</li> <li>▶ DEMAND FROM RETAIL INVESTORS.</li> </ul>

Survey participants were also asked to identify the **main benefits and also drawbacks of mandatory ESG disclosures**.

MANDATORY ESG DISCLOSURES	
TOP BENEFITS IDENTIFIED	TOP DRAWBACKS IDENTIFIED
<ul style="list-style-type: none"> <li>▶ WILL DRIVE A POSITIVE CHANGE IN INVESTEE COMPANIES;</li> <li>▶ TRANSPARENCY TO INVESTORS;</li> <li>▶ RAISE THE IMPORTANCE OF SUSTAINABILITY; and</li> <li>▶ CONSISTENT DISCLOSURES.</li> </ul>	<ul style="list-style-type: none"> <li>▶ ADMINISTRATIVE BURDEN;</li> <li>▶ POTENTIAL FOR MISINTERPRETATION OF THE DISCLOSURES BY INVESTORS;</li> <li>▶ DISCLOSURES BECOME BOILERPLATE; and</li> <li>▶ INCREASE COST.</li> </ul>

When asked as to the main drivers which determined the participants ESG strategy within their business, **23%** identified **“responsibility to client / fiduciary duty”** and **21%** identified **“addressing climate change & other environmental issues”** as drivers. Figure 15 identifies further drivers - note participants were asked to identify their top three drivers.



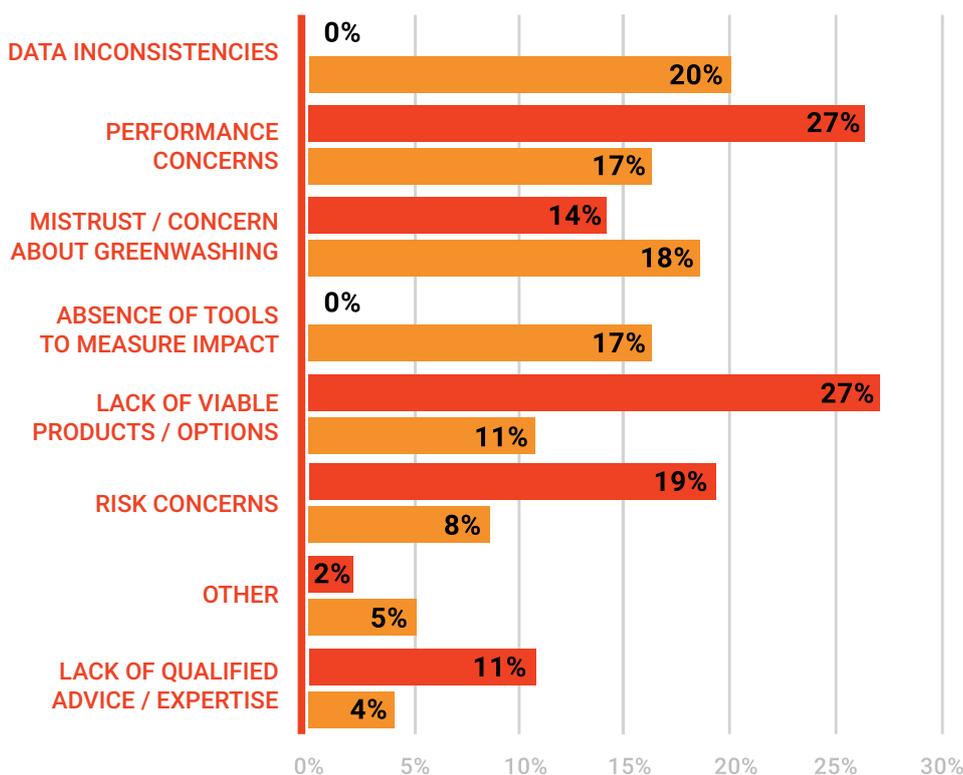
## WHAT ARE THE MAIN DRIVERS THAT DETERMINE YOUR ESG STRATEGY (TOP 3)?



Figure 15

Note: Respondents were asked to choose their top three drivers. % included in the above tables are based upon the number of responses received to the question posed.

Having asked for the identification of the drivers of their ESG strategy within their business, the participants were also asked to identify the **top three deterrents to their ESG strategy**. The results are shown in figure 16 below. Noted that for the 2018 report, “data inconsistencies” and “absence of tools to measure impact” were not options available, though they were not identified by respondents who identified “other”.



## WHAT ARE THE MAIN DETERRENTS TO YOUR STRATEGY?



Figure 16

Note: Respondents were asked to choose their top three drivers. % included in the above tables are based upon the number of responses received to the question posed.

When asked what **challenges** the participants faced when it came to implementing ESG strategies. The following were identified:

**TOP THREE CHALLENGES IDENTIFIED IN IMPLEMENTING ESG STRATEGIES**

- ▶ **COST OF OBTAINING THE UNDERLYING DATA;**
- ▶ **LACK OF TRANSPARENCY INTO THE UNDERLYING COMPANIES; and**
- ▶ **NO REGULATIONS AGAINST WHICH TO BENCHMARK THEMSELVES AND THEIR PEERS.**

## REPORTING

**67% of the participants identified that they produced an annual ESG report.**

When asked what was reported on the participants' websites, the most popular documents included were their ESG investment policy, their PRI ratings, their sustainability reports, their proxy voting policy, their newsletters or articles, their ESG annual report, their engagement policy, their conflict of interest policy and their blogs.

## PERSPECTIVES FROM THE IRISH PENSION SECTOR

### FROM “DO NO HARM” TO INTEGRATING SUSTAINABILITY: FOSTERING LONG-TERMISM IN THE EVOLVING PERCEPTION OF FIDUCIARY DUTY WITHIN THE IRISH PENSION SECTOR.

SIF Ireland had the opportunity to discuss ESG related topics with a number of trustees and other stakeholders in the Irish pensions sector. From these discussions, SIF Ireland has identified some of the **prevailing thoughts and concerns** held by trustees within the Irish pensions sector in relation to ESG factors.

A number of **challenges and trends** have been identified, some of which appear to

be held in common with their European counterparts, and some which are more unique to the Irish pensions sector.

Overall, there appears to be an increasing **recognition of the relevance of ESG factors to the pensions sector**, and **increased engagement** with these factors among both trustees and the members of their schemes.

It is noted that according to the recent Mercer publication ‘European Asset Allocation Survey 2019<sup>13</sup> over half (55%) of European pension schemes consider ESG risks as part of their investment decision-making, a significant increase on the previous year’s figures.

### HOW COULD SKILLS AND TRAINING PROGRAMMES WITHIN THE IRISH PENSIONS SECTOR ADAPT TO ADDRESS FUTURE ESG SKILLS NEEDS?

#### There are concerns within the sector in relation to the extent of these technical regulatory changes - how Trustees can balance their own understanding with their fiduciary duty and role as Trustee?

Currently, the main trustee qualification courses make reference to ESG-specific considerations in relation to EU IORPS regulation, but they have very limited ESG content included in relation to investment matters. Trustees pointed toward the need for ESG skills across the financial services sector to support the long-term needs of the sector.

Within the UK there are calls from industry bodies for compulsory ESG training for

all relevant staff, particularly among consultants who support trustees within pension funds. In “Holding Investment Consultants to Account: A guide for Trustees”, which was published by Association of Member Nominated Trustees (AMNT) and UKSIF<sup>14</sup>, one of the many recommendations related to the consultants’ internal governance arrangements such as regular evaluation of training effectiveness and senior management leadership on ESG. Further,

another recommendation was that every consultant should offer, as a minimum service, regular training programmes at trustee level on ESG.

The above concerns are similar to those which were identified as part of the Sustainable Finance Skillnet deepdive undertaken during 2019.

<sup>13</sup> Source: Mercer (2019) European Asset Allocation Survey 2019 Available at: [www.mercer.ie/newsroom/asset-allocation-survey-2019-ireland.html](http://www.mercer.ie/newsroom/asset-allocation-survey-2019-ireland.html)

<sup>14</sup> Source: AMNT & UK SIF (2018) Holding Investment Consultants to Account: A guide for Trustees Available at: <https://amnt.org/wp-content/uploads/2018/12/FINAL-investment-consultant-December-2018-report.pdf>

## DO THE SPECIFIC CHARACTERISTICS OF THE IRISH PENSION SECTOR IMPACT THEIR ABILITY TO ENGAGE WITH ESG FACTORS?

In considering this question, it is worth examining the differences in the Irish pension sector landscape as compared to their EU counterparts, and how these differences may lead to particular challenges for trustees and other actors within the sector in implementing ESG policies.

There are a number of **distinct differences** between the Irish pension sector and the pensions sectors in other EU jurisdictions:

▶ The **size** of the market in Ireland, compared to other markets in the EU such as the UK and the Netherlands is one of the factors which differentiates the Irish pensions sector (with the Irish market being much smaller than other markets);

▶ The **number of pensions schemes** relative to the size of the market means that there is a more fragmented pensions sector in Ireland;

▶ There is also a difference in the **investment structure of pension schemes** in Ireland compared to its counterparts elsewhere. In the UK, for example, many of the pension funds are direct investors into the relevant companies, whereas in Ireland, many pension funds only obtain indirect exposure to the investee company through a managed fund holding; and

▶ Furthermore, in Ireland, there is a heavy reliance on the concept of **“lay”** trustees, as opposed to **“professional”** trustees.

While all of these characteristics of the Irish pension sector give rise to challenges in engaging with ESG factors the critical issue is the investment structure of pension schemes and the indirect investments which are held by the scheme.

### FURTHER INSIGHTS - INDIRECT HOLDINGS OF INVESTEE COMPANIES:

▶ Trustees considered that this made it more difficult for their schemes to **engage directly** with the management of those investee companies. They do **not** believe that they have a voice with management nor the ability to have **significant influence** in these companies in relation to their ESG strategy, policies and procedures;

▶ Impacts the ability to **obtain information or data, and the flows of communication**, which the Trustees need from the investee company;

▶ Difficulty of obtaining insightful information in relation to what **ESG criteria are applied** to underlying companies who form part of an ESG index, and also more generally in relation to **how “green” are the credentials** of the offerings of the investee company;

▶ Due to the inability to exercise oversight on the investee company, there are concerns held by the Trustees in relation to **“greenwashing”** and also whether there is potential for some within the industry to merely be paying **“lip-service”** to ESG; and

▶ Impacts the **perception of fiduciary duty** of the Trustee.

## TO WHAT EXTENT IS SUSTAINABLE INVESTING BEING DRIVEN BY STAKEHOLDERS WITHIN THE IRISH PENSION SECTOR?

An influence on ESG integration within the Irish pension sector is the growing relevance of ESG factors to the **millennial generation**. However, it is not clear as to the level of engagement of millennials with the pensions sector when compared to other members of schemes within the sector.

In moving forward, some within the sector have identified other jurisdictions which utilise surveys etc to poll or garner information from their scheme members.

This is in an attempt to increase communication between the Trustees and scheme members and to actively seek their opinions on ESG issues and to better understand the needs of their members.

Government, regulators and industry participants are aligned on the importance of sustainable investing on long term investment perspectives. Sustainable investing is an approach for the long-term and therefore this is a natural fit with the pension sector's investment time

horizons. Some Trustees would however point out that for some schemes, due to the maturity profile of the participants, there can tend to be more of a short term view.

However, for this area to grow, some of the challenges which have been identified previously, do need to be addressed such as the availability of information and the ability for direct communication with the management of the investee companies.

## WHAT ARE THE MAIN DRIVERS, AND KEY CHALLENGES FACING IRISH PENSION SCHEMES, AND THE PENSIONS SECTOR IN RELATION TO ESG AND SUSTAINABLE FINANCE?

A key driver behind the consideration of ESG factors within the Irish pensions sector is **increased regulation**. With the transposition of EU IORP II Directive into Irish law, this has brought more focus on ESG issues, and the related **regulatory requirements** within the pension sector. Further, **the necessity for long-termism** within the pension sector, when compared with other sectors within financial services is also driving a greater ESG emphasis.

These drivers appear to have been impacted by a number of **emerging trends** within the market, including, the **generational transfer of wealth** and the **perception of the changing requirements** of millennial investors, the move from **defined-benefit to defined-contribution** schemes, and the **growing integration of ESG considerations** within the financial services sector generally.

Trustees however identified several **challenges** they faced in responding to these drivers.

These include the:

- ▶ **availability of reliable data;**
- ▶ **ability to engage with the management of investee companies;**
- ▶ views of the **long-term returns generation verses the fiduciary duty** to those drawing down in the short term;
- ▶ **lack of consistency in definitions** of ESG; and
- ▶ **deficit in ESG training** within the sector.

## WHAT IMPACT HAS THE INVESTMENT STRUCTURE OF PENSION FUND HAD ON THE FULFILLMENT OF TRUSTEE'S FIDUCIARY DUTIES?

The move from **defined benefit to defined contribution schemes** has brought the interpretation of **fiduciary duty** into focus.

The trustees felt that in the **absence of an employer safeguard**, they have greater fiduciary obligations, and legal imperatives, to ensure that their schemes

are offering default pension strategies that are consistent with the needs and best interests of their members.

Fostering long-term perspectives, which are generally compatible with ESG considerations could be seen as being **legally prudent** for the risk averse trustee

and pension manager, yet for those members who are more interested in the short term returns due to the maturity of their pension fund, this long-term perspective could be seen as being contrary to their best interests.

## HOW DO PROPOSALS FOR MANDATORY DISCLOSURE REQUIREMENTS RELATING TO HOW ESG FACTORS IMPACT ON IRISH PENSION SCHEMES' REPORTING?

▶ Due to the **indirect holdings** of investments by pension funds, they often find it more difficult to **compile appropriate information** about the investments held;

▶ The **indirect holdings** negatively impacts the ability to make their **own ESG related disclosures**; and

▶ **Inconsistent application of ESG definitions and terminologies** are also a challenge to the sector especially when trying to marry the data received from a number of investee companies into their own disclosures.

However, some believe that the real driver for change and consistency will come from changes in regulations and reporting requirements. Within the sector, there is a real hope that the provision of ESG data will be seen as a necessity rather than as an "add on".

## ROADMAP FOR THE FUTURE: KEY TAKEAWAYS FROM AN IRISH TRUSTEE PERSPECTIVE

### Trustees pointed toward a natural convergence between ESG aligned investments, and financially prudent investment.

Despite the **numerous challenges** identified, trustees have identified possible **mitigating actions** which could be taken within the financial services industry as a whole and also specifically within the Irish pension sector.

Trustees mentioned **initiatives in other jurisdictions**, such as the **investor surveys** undertaken by large institutional Dutch pension schemes, as examples of ways in which their counterparts there have attempted to identify and integrate member's interests into their offerings.

**Training initiatives** in the financial services sector were suggested to bridge the perceived gaps in ESG skillsets.

Trustees mentioned the possibility of **collective action** to engage with investee companies on responsible investment practices and ESG issues - this would also assist in terms of gathering the information and data which they need to help them fulfil their fiduciary duty and also regulatory reporting duty.

Other jurisdictions, where regulation in relation to **mandatory reporting of non-financial information** has already been introduced, were identified as examples to provide the Irish pensions sector with insight into possible **pitfalls and opportunities** on the path to ESG integration into the reporting process.

Overall, the trustees were cautiously optimistic that these **challenges were not insurmountable**.

## NEXT STEPS

This report clearly identifies that significant progress has been made within the sector in terms of responsible investment practices and increasing consideration of ESG issues.

The focus on this area of asset management is one which, given the drive from Europe and investor sentiment, will increase going forward.

However with opportunity also comes risk. If the industry, and Ireland in general, are not prepared for the changes from

Europe, there is the potential for them to be left behind. It has already been identified within this report that a key area for development is in the training and skills of the industry to ensure that both current and future needs are met. Additionally, if Ireland does not prepare itself for the upcoming regulations from Europe, it will fall behind its peers.

It is essential that priority is given to the investment of time now to ensure that the Irish regulations and legislation are updated in line with impending European

legislation. The industry needs to ensure that they are aware of the impact of these regulations on both their business and their investors. The CBI and other industry bodies can also assist in this area through the provision of guidance about these upcoming changes, and also ensuring that they themselves are fully informed. In the "Fiduciary Duty in the 21st Century - Ireland Roadmap"<sup>15</sup> a recommended pathway was outlined and whilst specifically focused on the pension sector, many of the recommendations are also applicable to this industry.

<sup>15</sup> Source: [www.unpri.org/fiduciary-duty/fiduciary-duty-in-the-21st-century-ireland-roadmap/3343.article](http://www.unpri.org/fiduciary-duty/fiduciary-duty-in-the-21st-century-ireland-roadmap/3343.article)

For example, recommendations included active engagement by the Government, the CBI and the industry in areas including (though not limited to the following):

- ▶ Building an awareness within the industry of the importance of this area, and that the expectation of the government and also of the CBI, is that this topic is one which is on every board's agenda;
- ▶ Ensuring that the industry (including the government, the CBI and all professional bodies) receives the appropriate training;
- ▶ The government should ensure that all public monies are invested in line with responsible investment policies (and are committed to ESG integration, reporting and investee engagement);
- ▶ Public commitment by those within the industry to ESG integration and investor engagement;
- ▶ Full integration of financially material ESG factors into investment research and decision making;
- ▶ ESG considerations should be incorporated into decision making procedures when it comes to the selection, appointment and monitoring of investment managers / sub-investment managers;
- ▶ Commitment by all within the industry to encourage high standards of corporate governance and corporate responsibility;
- ▶ Asset owners and managers must have a clear understanding of the interests and preferences of their investors; and
- ▶ Wider disclosures being made within annual reports and other publicly available reports as to how they are accounting for responsible investment and ESG considerations within their investment practices.

2019 and 2020 are likely to see a further increase and focus on responsible investment practices and consideration of ESG issues, coupled with an increase in associated regulation. SIF Ireland looks forward to working with our partners, both locally and internationally, to support the Financial Services community in Ireland through this period of change. It will be interesting to see how the growth which is measured within this report is reflected in the 2020 report.

## METHODOLOGY

Consistent with the 2018 report, the purpose of the report is to look to measure the growth in Responsible Investment practices, and consideration of ESG issues within Ireland. The information gathered for this report was generated through asking qualitative and quantitative questions of those who are managing investments from Ireland.

Within this 2019 report, those who were included within the population being surveyed were those companies and managers based in Ireland and where the investment management decisions are being made in Ireland (regardless of domicile of the related product). This differed from the scope of the 2018 report which was identified as

being those investment firms based in Ireland regardless of where investment management decisions were being made.

Those who participated in the survey were asked to provide information as at 31 December 2018.

## LIMITATIONS OF THE REPORT

Whilst definitions were provided as they related to the various terminologies used within the survey, it is acknowledged that due to the nature of the market, different interpretations may have brought inconsistencies into the reporting received.

Whilst the data on which this report is based is as at 31 December 2018, some of the respondents may have provided a different reporting date.

Given the response rate of 51%, it is acknowledged that the results of the survey and the information contained within this report may not be fully representative of the current market. Those who received the survey and declined to participate on the basis that no investment management decisions were undertaken from Ireland have been removed from the population. Finally it was noted that some responded identifying that they could not complete the survey on the basis that it was not applicable to them - these respondents have been included within the population of respondents on the basis that it was assumed that they did not follow a responsible investment practise or consider ESG issues within their business and investment portfolio.

As the scope of the population identified for responding to the survey was identified to be those companies based in Ireland and where the investment management decisions were also made in Ireland (regardless of domicile of the related product), this is not directly comparable

to the population who were identified for the 2018 report (the population identified within the 2018 report were those investment firms based in Ireland regardless of where the investment management decisions were being made).

Of the population circulated for the purpose of the 2019 report, new respondents represented 19% (having not participated in the 2018 report), and 6% of the current year population who participated in the 2018 report, did not participate in the 2019 report. Comparative information has been included on the basis that despite this difference in scoping, the use of comparatives is extremely beneficial when measuring changes within the Irish industry. Certain comparative information has been updated in line with the 2019 report presentation format.

It should be noted that those surveyed are some of the larger investment managers who operate within Ireland and also on a global scale.

Similar to the 2018 report, those who have responded to this survey may be positively biased towards Responsible Investment practices and consideration of ESG issues.

In cases where no response was received to a question and no explanation given, or N/A was provided, it has been assumed that the response which would have been offered was "no" / "no policy exists" / "none of the above", etc (though it

is acknowledged that some of these questions may not have been directly relevant to the individual respondent).

Further, it was noted that some respondents declined to include a response to some questions on the grounds that the information was not readily available. In this instance, the results which are shown within this report are only on the basis of information provided and no follow up for those non respondents was performed.

Where participation in the survey was declined on the grounds that it was not applicable, this was deemed to indicate non participation on the grounds of those respondents having no ESG/sustainability policy in place. Therefore "No"/"No policy exists"/"None of the above" etc was included as their response for the purpose of this report. Non participants who declined to reply, were only fully excluded from results on the grounds of having no investments managed from Ireland.

It is acknowledged that not all inconsistencies or gaps may have been identified and also that some of the inconsistencies or gaps may have been due to the question not being directly relevant to the individual respondent. If inconsistencies were noted, assumptions were made for the purposes of this report and in some instances, responses were changed from "No" to "Yes" and vice versa, on the basis of further responses by those participants.

Sustainable & Responsible Investment Forum Ireland would like to acknowledge and thank PricewaterhouseCoopers Ireland for preparing the analysis included within this report which was based on the figures and responses provided by the respondents. These figures and responses have not been verified or audited by PwC Ireland.

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