Europe has long been a hub of sustainable finance, with nearly half of the world’s Green Bonds listed in Luxembourg\(^1\) and €476 billion\(^2\) of environmental, social and governance (ESG) funds domiciled on the continent.
In 2018, a new package of European Commission (EC) legislative proposals marked a dramatic step forward that could generate even more growth in sustainable finance, for investors and asset managers.

At its core, this package aims to embed ESG into the investment process and make it easier for investors to understand the level of sustainability in their investments. To achieve this, the EC seeks better alignment of interests across the investment value chain and new disclosure requirements of industry participants.

Key Pillars of May 2018 European Commission Sustainable Finance Proposals

- **A unified EU classification system or taxonomy.** Harmonized criteria will help investors know which economic activities are considered environmentally sustainable, which will facilitate investments in sustainable assets.

- **Clear guidance for investors.** Asset managers, asset owners, insurance distributors and investment advisors will have clear guidance on how to integrate ESG risks in their investment decision-making and advisory process.

- **More transparency.** Financial institutions will have to disclose how they integrate ESG in their investment decision-making and advisory practice. Asset managers and institutional investors offering products or services marketed as sustainable will have to disclose how they achieve their sustainability targets.

- **Benchmarks.** Low-carbon and positive-carbon impact benchmarks will make it possible to assess investment portfolios against climate targets. Benchmark providers will have to disclose how their methodology takes into account ESG factors.

- **Tailoring products to consumers’ needs.** Retail investors will be asked about their sustainability preferences. Investment firms and insurance distributors will have to take into account these preferences when advising them.

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1 49% as of July 2017, Luxembourg Stock Exchange/Bloomberg data, July 2017
2 KPMG, European Responsible Investing Fund Market 2016, April 2017
3 European Commission, Delivering on sustainable finance for a greener and cleaner economy: First actions, May 2018
This legislation has been in the works for years. After the Paris Climate Accord of 2015, the European Commission convened an industry task force called the High-Level Expert Group (HLEG) to accelerate progress on sustainability objectives.

**Timeline of European Sustainable Finance Initiatives**

- **December 2015**
  Paris Climate Accord
- **December 2016**
  High-Level Expert Group on Sustainable Finance (HLEG)
- **July 2017**
  HLEG Interim Report
- **December 2017**
  One Planet Summit
- **January 2018**
  HLEG Final Report
- **March 2018**
  Action Plan
- **May 2018**
  Legislative Proposals
- **May 2019**
  Agreement by European Parliament and Council
- **2019-2022**
  Adoption of Delegated Acts

As the European Commission has focused on sustainability, some industry participants have cautioned against legislation creating over-proscriptive rules and definitions, which they warn could complicate the process of working with clients to understand and meet their objectives and act in their best interests. They argue the integration of ESG and sustainability practices into mainstream investment processes has already been part of some asset managers’ strategies over recent years. This vital debate will continue as legislative details are refined and industry concerns are addressed.

**Luxembourg’s Vital Role in Advancing ESG**

Luxembourg is the top domicile for European ESG funds, home to nearly 40 percent of assets under management (Figure 1). Most of these (89 percent) have mixed, cross-sectoral mandates with ESG criteria in place, with the rest focusing on specific areas, such as environmental or social impact.4

In addition to approximately €95 billion in Green Bond listings, the Luxembourg Stock Exchange also hosts around €10 billion in social bonds.5

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4 KPMG, European Responsible Investing Fund Market 2016, April 2017
5 Luxembourg Stock Exchange, July 2018
State Street’s Industry Dialogue

Following the recent European Commission legislative package, State Street convened a roundtable discussion in Luxembourg with ESG industry leaders. Participants debated key questions about the future of the market for ESG in Europe and globally, with a particular focus on the impact of the new proposals.

The provision of ESG data is another central issue of our dialogue. State Street’s own industry research has examined this issue, finding that the primary barrier to ESG integration is the lack of standardized, high-quality ESG data to incorporate into the investment process.⁶

The EC is tackling this problem by developing a clear, harmonized taxonomy for industry participants.

In the following three chapters, our panelists share their views on:

- Investor demand for ESG investments, including differences across markets and implications for active and passive managers
- The progress and predicted future impact of the European Commission legislative package
- Sustainability integration at the organizational level, including keys to successful program implementation

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ROUNDTABLE DISCUSSION
PARTICIPANTS

Moderator
David Suetens
Executive Vice President and Country Head
State Street Luxembourg

Julie Becker
Member of the Executive Committee
Luxembourg Stock Exchange (LuxSE)

Ana Harris, CFA
Global Head of Equity Portfolio Strategists, Indexing
State Street Global Advisors

Adrie Heinsbroek
Principal Responsible Investment
NN Investment Partners

Nina Hodzic
Vice President, ESG Integration Manager
Allianz Global Investors

Nichola Marshall
Head of Responsible Investment
Sparinvest

Sachin S. Vankalas
Director of Operations and Sustainability
LuxFlag
ESG TODAY: TRENDS AND OPPORTUNITIES

**David Suetens:** To what extent have investors driven demand for ESG strategies?

**Ana Harris:** We’ve seen a big shift here. Five years ago, ESG would come up occasionally and asset owners would say, “It might cost me in terms of return, so I won’t pursue it.” But just over the last 12 to 18 months, that ESG conversation is always present at the table, regardless of asset class. We’re even starting to see some institutions say, “I could potentially compromise some of the potential return if I can see an added benefit from an ESG profile.”

The biggest movement has been on the defined contribution pension side, where members are younger and want to have a stronger voice on how their pension is managed. They also want the world to still exist by the time they retire! As a result, they’re asking increasingly for a more sustainable approach from their asset managers.

But from a fund management perspective, you can’t customize for every single investor, so you’re going to have to compromise and find common ground where you can. Also, if you achieve scale, your ultimate impact can be greater. Ten asset owners investing in 10 separate funds will likely have a smaller impact than the same 10 institutions investing in two funds.

**Adrie Heinsbroek:** I’m intrigued by that comment. The word “compromise” rarely appears in my vocabulary on this topic. In my opinion, defining common ground on ESG is not about compromising. Instead, it’s about thinking where do you stand, what’s your purpose, what type of investor are you? From there, your investment universe follows. It’s about making clear choices. You also mentioned the potential for return loss, which is something I would find hard to accept. If we want to grow the market, we as an industry should be more confident about the power of ESG and what it can deliver.

**Ana Harris:** Allow me to clarify. Today, many ESG strategies are based on negative screening — or excluding securities that don’t fit the prescribed criteria. But those desired exclusions can be incredibly different from investor to investor. So, if we want to achieve true scale, then maybe you as an investor won’t be able to see all of your individual
exclusions in a particular fund or approach. You may have to compromise in that sense, which is not such a bad word, I would say. It’s not so much about sacrificing performance, but rather finding more common ground because investors can have a greater impact if they’re working together.

Sachin Vankalas: I classify ESG in two ways. The first is ESG strategies executed by asset owners and managers based on their organizational values, beliefs and motivations. And the second type, which is fairly recent but rapidly growing, is the more commercial, market-driven thinking: ESG sells well, ESG pays well, and adds social and environmental value, so why not?

ESG application varies greatly from country to country, even in Europe. For example, in Germany, Austria, Switzerland and the Scandinavian markets, a substantial proportion of asset managers limit ESG to the negative screening Ana spoke about earlier. In France and the UK, it’s more about ESG integration into the investment process and policy. In Italy, the focus is on ethical screening. In the Netherlands, there is more focus on impact investing. So even in Europe, we have differences.

Historically, institutional investors have driven the ESG market. On the retail side, more work needs to be done by managers as well as investors. As managers, we must create compelling products. Investors, for their part, must increase their levels of awareness and education.

David Suetens: Can ESG be a way to rebuild trust with the retail client base that many financial institutions lost in the global financial crisis? From your perspective, how big is the retail buying power at the moment for ESG?

Nina Hodzic: We see significant interest on the retail side. Sachin mentioned the need for investor awareness. That’s essential, because there are so many products out there in the market. The asset management industry needs to take the time to educate clients and enter into dialogue with distributors. As an industry, we also need to make sure we communicate with retail audiences in the right ways.

Retail clients see ESG in the news every day, but fund distributors and the industry as a whole need to be bolder and more proactive in offering these sustainable products as choices for investors. I think the labels will
“We also need a cultural shift in the industry and a groundswell of demand from retail clients to make change meaningful.”

Nichola Marshall, Sparinvest
help because they inspire confidence. When retail investors see them, they will say, “I feel more comfortable with this product and what it stands for.” But then we get into the other issue Sachin raised concerning all of the differences between investors at a country level. Should we have national labels or should we have one European label? A label at a European level would definitely help to create consistency and a level playing field, but some clients still might prefer a national label.

Nichola Marshall: In terms of the major source of ESG demand, it’s definitely institutional and it’s been growing in volume and speed. Most RFPs now include something on sustainability.

However, I worry there’s a potential danger in codifying sustainability too prescriptively. The market was moving anyway. I’d attribute the latest move to legislate to enthusiasm. This isn’t a bad thing, of course. We had the Paris climate summit, and I think there was shock and wonderment that the agreement was reached, and that got everyone excited. They thought, “We can do sustainability as well!” And suddenly, the EU wants to legislate to make it happen quickly.

In a way this is laudable, but it’s also risky. Pitching the legislation at the right level will be really important. We also need a cultural shift in the industry and a groundswell of demand from retail clients to make change meaningful. We need to keep faith with retail clients.

Adrie Heinsbroek: The important thing in reaching out to retail investors is to offer them a clear understanding of what you stand for. For instance, the main European banks all have environmental and social risk policies in place and have taken a stance on certain ESG topics. However, maybe 80 percent of the mainstream financial products they offer to clients are not fully aligned with those policies. So, if we can bridge that gap, or show that responsible investment is indeed fitting with their values, purpose and stance, the impact is going to be huge.

Retail investors are ultimately a bigger pool than the institutional investors. We as an asset management industry should bring products and services to retail clients that they can access just as easily as they buy from the bakery to meet their demand for bread. And we may, in the beginning, need labels or other tools — but let’s at least bring them the products that are tailored to their financial needs.
**Ana Harris**: There is often a difference in investment horizons as well. Retail investors may be more short-term focused, while institutional investors have time and patience on their side to see some of these ESG strategies through. And a lot of the topics we talk about with sustainable investing are changes that don’t happen quarter-by-quarter.

So going back to the retail investor — and I fully support you there, Adrie — there will have to be a shift in education to try to change the time horizon of some of these investments, because you see it in fund flows when something is working or not working, from one quarter to the next. So the danger is, if there is a lot of promotion of ESG strategies and we go through a period in the market which is more challenging, maybe retail investors’ good choices in this direction get tainted from the short-term underperformance that they experience, which could make them more reluctant later on to support ESG products.

**David Suetens**: Is there a difference in rolling out an ESG program in an active or a passive management house?

**Nichola Marshall**: Absolutely. And I think that the whole industry needs to be a lot more transparent about the differences between the two. Of course, with active fund management you’re paying a higher cost, which should mean a deeper level of ESG integration. With index funds, you can really only have ESG integration if the index being followed also has ESG considerations built in. Passive funds are forced holders of the index securities, and they’ll be holding them for a significant time. If passively managed funds are to be categorized as sustainable, they should be pulling their weight in terms of active ownership, engagement and voting. And in an active fund, it’s part of your fiduciary duty to shareholders to be good stewards of their investments, to nurture corporate value, so of course you should be out voting and engaging with companies.

**Ana Harris**: I agree there is a difference. As an index manager, we are indeed stewards of capital, so there are risks over the long term, for which we must engage with companies today. When our corporate governance team goes out to conduct
A Model for Effective ESG Integration

The State Street Center for Applied Research (CAR) proposes a five-step model for the effective implementation of an ESG integration strategy, based on extensive industry research. Full ESG integration, as defined by the CFA Institute, is “investing with a systemic and explicit inclusion of ESG risks and opportunities in investment analysis.” The model begins with accountability, education, and the pursuit of information. These steps lead to the acquisition of the necessary data, capabilities and models for ESG integration, which must be supported by the appropriate investment time frames.

CAR asserts that ESG integration is the type of value-based strategy that has the potential to become mainstream.

Take Ownership
Walk the talk
• Decisive support from investment organization’s C-suite and board on ESG issues
• Individual investors’ alignment of portfolio decisions to what they believe is important

To get the data and solutions you need
• Engagement with companies
• Industry participation
• Communication

Incorporate Materiality Filter

Investment decisions should be based on the material ESG issues
• Get the board’s perspective
• Sector portfolio managers and analysts should decide

Get Educated

Make ESG part of the investment lexicon
• Training on ESG across the investment organization
• Financial advisors education

Align Time Horizons

Performance metrics and incentives structure need to reflect the long-term nature of ESG investing
• Lengthen time frames for performance evaluation
• Lengthen time frames for compensation decisions

7 State Street Center for Applied Research, The Investing Enlightenment, 2017
that engagement, those meetings are open to our active teams as well to participate. If we speak with a CEO, they can ask their questions as well. They will not drive our vote but they do gain important access to companies because we have the book of index assets.

From an active perspective, each team has spent time thinking about how they can enhance their investment process and how can they integrate ESG. For example, our active quant team has added ESG metrics to their quality factor, something that was not being captured before through the financial metrics they were using.

Nina Hodzic: It’s very important that the mainstream analysts or portfolio managers can join those corporate governance meetings. We’re on the active side. We think it’s critical that this engagement with companies happens jointly with ESG analysts, mainstream analysts and portfolio managers. That way, we can provide feedback to companies on the issues we all find very important and want to elevate to the top of their organization. Otherwise, if you separate those things and the ESG analysts only speak to, for example, a head of corporate responsibility, then that message will never reach the CEO and the CFO. They will say, “Well, we never get those questions, so investors don’t care about these issues.” It really does need to be a joint effort.

Sachin Vankalas: One challenge we’ve observed on the data side is that the ESG profiles of the same companies are often scored differently by different data providers. Mainly, it’s due to different metrics used for impact indicators. For example, weightage, engagements or exclusion of certain controversial sectors or activities are factors that could be treated differently by data providers.

Adrie Heinsbroek: I think actually it’s great that you have different perspectives. That’s fantastic. That makes life...

David Suetens: We have a compromise on perspectives?

Adrie Heinsbroek: I still believe in common ground.
IMPACT OF THE EUROPEAN COMMISSION SUSTAINABLE FINANCE PROPOSALS

David Suetens: Let’s discuss the European Commission’s legislative package, which contains plans for an as-yet undefined European taxonomy for ESG. What do you think these common definitions should include?

Julie Becker: It’s a step-by-step approach the European Commission is taking, which is fully aligned with the HLEG final report. The taxonomy should be finalized by the end of 2022, but we all need that time. It’s complex and we have to be sure that we have a common understanding and maybe a convergence of language worldwide, so as not to isolate Europe from the rest of the world.

Another element that’s extremely important for this taxonomy is that action will begin with climate change mitigation first, then climate adaptation and other environmental objectives, and then the social objectives. It’s crucial for this taxonomy to be flexible and evolve with the market. So far, this work has been market driven and we must sustain the open dialogue to be sure that the taxonomy remains adapted to market realities.

The importance of a clear taxonomy, accepted by all, cannot be overstated. It will be the foundation for us to develop labeling standards and to be sure we’re all speaking exactly the same language.

Sachin Vankalas: There has been already some work done by the European Investment Bank on taxonomy, particularly in defining what is considered as green investment, which they use for their investments through EIB Climate Awareness Bonds.⁸

Nina Hodzic: One of the speakers at the Sustainable Finance Forum Luxembourg conference⁹ cautioned that we shouldn’t get “caught in a niche” when speaking about green issues. I thought that was an excellent remark. Similar to the journey we made in mainstreaming ESG more broadly, we need to think about “greening” the mainstream. Only then will we be able to make meaningful change: directing capital towards more sustainable solutions — and attracting a wider pool of investors.

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⁸ European Investment Bank, Working Towards a Harmonized Framework for Green Bond Impact Reporting, April 2015
⁹ Convened on May 30, 2018 in Luxembourg
“Do we want to grow the green market or do we want to green the growing market?”

Adrie Heinsbroek,
NN Investment Partners
**David Suetens**: Julie, I’m fascinated by your comment on dynamic adaptability. That and legislation are not two topics that have gone hand-in-hand, historically. In Europe, we’re still dealing with civil codes that were invented 200 years ago. What do you think could be the path forward?

**Julie Becker**: This environmental taxonomy will be established in two stages. The first step is a proposal with conditions for identifying environmental and sustainable economic activities. As a second step, the European Commission will establish the technical screening aspect, articulating to what extent an economic activity is environmental and sustainable. And that’s what I imagine the European Commission will review regularly and act if needed. The taxonomy is clearly a classification of green activities and green projects. It’s a definition. What is considered green? What is a green-eligible activity?

**David Suetens**: Does the taxonomy influence the investable universe?

**Julie Becker**: Absolutely. And it serves as the basis to define some labels. But you also have to link those labels to what is considered environmentally sustainable in this framework.

**Nichola Marshall**: So this green taxonomy is going to be applicable across the mainstream investment universe?

**Julie Becker**: Yes, indeed.

**Sachin Vankalas**: In our opinion, the label will be on the top of taxonomy. Once there is an established taxonomy, the label will serve as the confirmation that these funds follow that taxonomy.

**Adrie Heinsbroek**: What concerns me is that the taxonomy describes the desired end state, but we’re not there now. So, do we want to grow the green market or do we want to green the growing market? I want to green the growing market. And therefore, I need the possibility to still adhere to the taxonomy but with some slight variations.

**Nina Hodzic**: If we want to set up something like that on a European level, it really needs to be more on a transparency basis — where you explain exactly what you’re doing — and not proscriptive, because we already know what’s happening on national levels. Belgian clients want one thing, French clients want something else, etc.

**Julie Becker**: That was a topic of extensive HLEG discussion. One of our
sub-groups was dedicated to fund labels, so I invited them, along with other European labeling agencies, to provide expertise on this. There was a lot of discussion around the governance of those labels. What I understand from the European Commission is that it will be similar to the existing governance of eco labels.

**Sachin Vankalas:** According to the HLEG final report and action plan, our understanding is that the EC proposes not one label for all of Europe but rather one “labeling standard” for Europe which would be then granted nationally. In the future, if a fund is given an eco label, it will have one set of criteria and standards behind it across Europe, irrespective of who labels it.

**Nichola Marshall:** In that case, there would have to be various types of eco label to represent the different ways asset managers approach sustainability. This can range from a best-in-class approach with lots of exclusions and a restricted investment universe to an approach that relies on ESG integration allied with strong stewardship efforts.

**Sachin Vankalas:** Yes, and actually a major objective of the European Commission is to make the specific entity granting the label less of a concern and instead place more emphasis on what the label actually means. It is intended to have common eligibility criteria, which will be adapted by each labeling agency. There might be some labeling agencies working Europe-wide, some national, but all this is yet to be finalized.

**Julie Becker:** It should be done on a harmonized basis. We shouldn’t have to deal with so many different labels as in the organic food industry, for instance, where the end customer can get completely lost.

Labels, though, are extremely important for establishing trust and providing credibility to the market. For instance, to be sure that greenwashing is avoided, we must clearly identify which products will be incentivized and labeled accordingly.

**Adrie Heinsbroek:** Indeed, quality control is key. Otherwise, we’ll have a confidence crisis and a reputation crisis for the industry, regardless of where a problem may originate.

**Ana Harris:** And this doesn’t merely relate to the labels, but also to the names of funds. A label is given by an independent party. Today, when there’s so much momentum in investor interest, the naming of certain strategies at times may not be entirely aligned with what’s actually inside the strategy.
Nina Hodzic: And as long as we lack harmonization or agreement on the underlying definitions, that problem will remain.

Nichola Marshall: Another risk is that you may have fund selectors or investors who identify sustainable funds only by searching for “SRI,” for example. In such cases, might they be identifying managers who simply use “SRI” in their fund name as a marketing tool, as opposed to those who actually walk the walk?

Adrie Heinsbroek: The way I see that is those funds wouldn’t fit into the taxonomy and wouldn’t get the label. They may use a brand name. They may say they’re a green car but anyone looking under the hood will see it’s not.

Julie Becker: And here, the European Commission has a smart way to deal with this. All financial products or firms and all services provided, regardless of whether they’re explicitly promoting sustainability investment objectives, will have to disclose how the integration of ESG factors into the investment decision process is done and the extent to which ESG risks are expected to have an impact on the returns of the product or service provided.

The European Commission is going even further by putting new requirements on institutional investors and asset managers, depending on their investment style and the strategies they pursue or claim to pursue. For example, when investors claim to pursue sustainable strategies, they should also provide information on how they adhere to those sustainability objectives in their investment decisions. This includes the disclosure of the sustainability or climate impact of their products and portfolios. As such, when they pursue low-carbon strategies, they will have to use a low-carbon benchmark.

Nichola Marshall: That example is very interesting, because there are different definitions of carbon footprint. Do you actually look at the economic benefit that a company gives to the world while generating carbon or purely the footprint? What each company actually achieves for its specific carbon budget is important, and should be reflected in these indices.

Nina Hodzic: Exactly, and should we really go for low-carbon products, or instead favor those products that are enabling the transition to a low-carbon economy? If you really care about that transition, then you shouldn’t focus on companies that are low carbon already,
“We need much more innovative and forward-thinking methodologies rather than a narrow focus on current carbon footprint methodologies.”

Nina Hodzic,
Allianz Global Investors
but on ones that are actually more high carbon at the moment but reducing their carbon footprint significantly. Some companies are, for example, offering solutions to their clients that help them reduce their carbon footprint. We need much more innovative and forward-thinking methodologies rather than a narrow focus on current carbon footprint methodologies.

David Suetens: We’ve spoken about taxonomy. We’ve addressed the labels. Next, is there additional transparency that needs to go to the investor besides the labels? We’ve seen the evolution of Key Investor Information Documents (KIIDss), Packaged Retail and Insurance-based Investment Products (PRIIPs) and Markets in Financial Instruments Directive (MiFID) disclosures to end investors. Even with a label, will there still be a disclosure duty, such as a one-pager that goes to the end investors?

Julie Becker: There will be an integration of sustainability preferences of investors and so asset managers will have to ask their clients for their sustainability preferences.

David Suetens: So we have taxonomy, we have a label and then we have disclosure.

Julie Becker: Absolutely, and it will be embedded in the investor profile and industry suitability test.

Ana Harris: There are other initiatives happening here, like the European shareholder directive that is coming next year. That will require both asset owners and asset managers to disclose more. So, the additional disclosure that you’re mentioning won’t stop with the recommendations from the European Commission. The other provisions coming into force next year will require us to be prepared. The main impact on asset owners is that they will need to know more about how they have voted. They have to understand if their actions are aligned with their own investment principles and be able to report on that.
David Suetens: More broadly, will this emerging European regulation be able to lead ESG standards globally? We’ve already touched on the differences in ESG appetite across European countries. But how much do these approaches differ from a US or an Asian approach?

Julie Becker: Some people think Asia is a bit late and just discovering sustainable finance growth. Remember though, that there’s not a market-driven approach, but a more top-down and policy-driven market. Back in December 2015, the Central Bank of China issued a green catalogue. So in my view, they are well advanced, though I don’t judge the content of the green catalogue and the activities considered green. In China, they don’t speak about sustainability, only about green. The social piece is also not as big a factor in China as it is elsewhere in the world. It’s more about poverty alleviation, and not about specific social objectives. However, when it comes to green finance and Green Bonds in particular, they are very advanced.

Regarding the issuance of the bonds, I think it’s a worldwide approach. The International Capital Markets Association Green Bond Principles are clearly recognized by the market on a worldwide basis, but they’re limited to those particular financial instruments. And that’s how we’ve arrived at this EU Green Bond Standard, which is linked to EU taxonomy.

Nina Hodzic: We’ve seen increased demand for ESG solutions from our Asian clients, but their needs are different. They’re not looking for exclusion-based SRI products. Instead, they want more impact and integrated ESG strategies, where the investment universe is not constrained.

Nichola Marshall: Globally, what I find interesting is that in the GSIA study\(^\text{10}\) which comes out every two years, you see the industry beginning to coalesce around definitions. We observe, for example, that ESG integration is very strong in the US, stronger than here in Europe. You can also see the strategies that are growing each year. Clearly, impact investing is growing phenomenally, but from a much lower base. It’s a very interesting study. When the new statistics are released, I’m going to be intrigued to see exactly how much Japan has grown because...

Sachin Vankalas: In terms of the volume (AUM) they were the lowest; but in terms of percentage of growth, they were one of the highest.

Nichola Marshall: And probably will be again.

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\(^{10}\) Global Sustainable Investment Alliance/Bloomberg, Trends Report 2016, March 2017
ESG INTEGRATION AT THE ORGANIZATIONAL LEVEL

David Suetens: Let’s discuss sustainability at the level of fund management companies and their service providers. “Walking the walk” is not only about our funds, it’s also about our companies themselves. Can you comment about your groups’ respective ESG approaches and policies?

Adrie Heinsbroek: Often, I think asset management companies could leverage more of the experience and expertise of the people within their own companies in this area. On the other hand, as head of responsible investment, I don’t want to be involved in the discussion, “Which coffee do I buy and at what cost?” because I want to be known as the sustainable investment officer, not the sustainability police. Regardless, if you are a fund manager who proclaims, “We have an extremely interesting sustainable strategy,” and in the meantime you’re doing something completely inconsistent within your own company, that will be visible and will hurt your credibility and ultimately, your market share.

Nina Hodzic: On top of that, the executive leadership needs to be fully supportive and saying, “This is our ambition and vision for ESG and this is where we want to be.” It’s essential that the whole company, not just the portfolio managers and analysts, really believe in this because it needs to cascade through all parts, including the distribution and RFP process.

David Suetens: Let’s turn now to the service providers. At State Street, we see sustainability more and more in our relationships with clients. These days, ESG shows up in almost every RFP. The questions are there, assessing how serious we are about it. So my question to you: how central is this issue to you, or is it more of a “nice to have” element when you’re assessing various providers?

Nichola Marshall: A very good question. If you’re the head of responsible investment, it’s part of the territory to review your service providers from time to time in this area. In some cases, you’re revisiting business decisions that were made a long time ago and looking at them through a new lens. So, yes,
the goalposts are always moving to make sure that everyone you deal with is more transparent.

David Suetens: Now we connect to the fund-level discussion we had earlier, to the data provision that will be needed to implement this effectively. What, as asset managers, will you seek in terms of data provision, as the industry moves into this transparency mode?

Ana Harris: From our side, we’re building a new framework that combines various data providers to ensure a more robust coverage of ESG data. At the moment, given the lack of consistency in disclosures, there’s no consistent standard on what companies should say about, for example, their labor relations or their carbon footprint. And different providers may make different assumptions, and have different ways of collecting and combining data. So we’re trying to rectify this with a more holistic data framework that will be available to all our investment teams and help their decision-making process. It will also help create specific ESG strategies on behalf of our clients.

Nina Hodzic: All of those external providers are good, and we need them because it’s not efficient to hire dozens of different analysts to dig into all the details. So it’s a starting point, but I think we as asset managers must do our own homework on top of that to get the context behind the figures. We need to truly engage with companies, assess which ESG risks are material and which are not material, and draw our own conclusions. Internally, we have an online platform where all the analysts, portfolio managers, ESG analysts and economists debate to gain those additional insights. This kind of crowdsourcing helps us to have well-informed opinions.

Sachin Vankalas: A large proportion of market players are dependent on external data providers for ESG information. We understand the market hasn’t yet reached the point where every asset manager has in-house resources for ESG data collection and analysis. As mentioned earlier, relying on data from external providers has its own drawbacks. First, the accuracy of data is a challenge, but also the frequency of data. In most cases, external providers conduct ESG due diligence once a year, which is not ideal.
Data consistency has become a regular debate for us. Why are some companies scored highly by one service and very lowly by another? Adrie suggested earlier that this can be good because it offers a different perspective. If it’s perspective that’s fine, but if it’s a mistake, that’s not fine.

Nichola Marshall: Cost is also an issue. Today, we’re paying premiums for ESG indices, specialist voting policies and the like. Smaller asset managers have a tighter budget for what they can spend on data provision and I think it’s important that the data providers recognize this and that they have a role to play in moving the industry towards greater ESG awareness and adoption.

David Suetens: Thank you all for this rich dialogue and your views on where the industry is headed.
SPEAKER BIOGRAPHIES

Julie Becker
Member of the Executive Committee
Luxembourg Stock Exchange (LuxSE)

Julie Becker leads the International Primary Markets activity. Her team is responsible for listing, data services, as well as the promotion and development of LuxSE markets for international debt, equities, derivatives and investment funds.

In 2016, she was appointed to the EU High-Level Expert Group on Sustainable Finance. The nomination came just several months after the launch of the Luxembourg Green Exchange, a project that Julie initiated and supervised.

Before joining LuxSE in 2013, Julie had assumed different positions in the Legal and Compliance departments in the banking sector, including at Dexia and the Central Bank of Luxembourg.

She holds a Master in European & Corporate Law and a Master (DEA) in Private Law from the University of Nancy, France; she holds the Advanced Training Diploma in Banking and Financial Law of the European Union from the AEDBF & Leuven CCLE Luxembourg Association; and is an alumna of the Wharton Business School, University of Pennsylvania.

Ana Harris, CFA
Global Head of Equity Portfolio Strategists, Indexing
State Street Global Advisors

Ana Harris is the Global Head of Equity Portfolio Strategists, Indexing, a team dedicated to developing compelling and differentiated positioning for State Street’s active, index and smart beta equity investment strategies. The team members are subject matter experts in the field of equities, working with clients to share the firm’s latest research and investment insights to help inform their portfolio decisions.

Ana joined SSGA in June 2013 as a Portfolio Strategist within the firm’s equity beta solutions team, moving from Russell Investments where she was responsible for the research of active and passive equity managers. At Russell, Ana started as a portfolio analyst supporting the firm’s multi-manager funds. She was previously a consultant at Towers Perrin in both Paris and London.

Ana is a CFA charter holder and a graduate of the School of Economics and Management (Technical University of Lisbon).
Adrie Heinsbroek  
Principal Responsible Investment  
NN Investment Partners  

Adrie Heinsbroek is Principal Responsible Investment at NN IP, charged with representing NN IP externally, advising the firm’s clients on responsible investment policies and needs, and upholding the strong momentum within NN IP regarding ESG integration throughout research, portfolio construction and risk management of all strategies.

He has over 20 years of experience in the field of sustainability and ESG integration. Previously, Adrie worked for ING Bank Belgium where he was Head of Sustainability. Other past roles included Senior Sustainability Advisor for ING Bank in the Netherlands as well as Senior Analyst/Strategist for Responsible Investments at the ING Investment Office.

Nina Hodzic  
Vice President, ESG Integration Manager  
Allianz Global Investors  

Nina Hodzic is Vice President, ESG Integration Manager at Allianz Global Investors. Nina is leading various projects in the area of ESG integration, ESG strategy and ESG market positioning of Allianz Global Investors.

She also advises clients on ESG and is actively involved in setting up ESG client solutions across different asset classes. Nina joined the firm in February 2017 and is based in Germany. She is a member of the Advisory Board of LeaderXXchange and a member of WBCSD’s Steering Committee on Aligning Retirement Assets with Sustainability. Previously, Nina worked at NN Investment Partners in the Netherlands and Belgium, where she had global responsibility for ESG analysis and reporting, screening methods, and communication with various internal and external parties on sustainability topics. She started her career at ING Group Market Risk Management in 2003 developing and implementing stress testing practices and scenario analysis for ING Bank trading portfolio. Nina holds a Master of Science in Financial Econometrics (Quantitative Finance) from Erasmus University in Rotterdam, the Netherlands and has also studied at the University of Technology Sydney, Australia.
Nichola Marshall
Head of Responsible Investment
Sparinvest

Nichola Marshall’s role as Head of Responsible Investment at Sparinvest is one of implementing responsible investment policy, communicating Sparinvest’s approach externally, reporting to investors on results and achievements, and matching future responsible investment strategy with market requirements and developments. Responsible investment at Sparinvest extends to all asset classes and is firmly embedded with the portfolio managers who integrate ESG analysis into their investment processes and take active ownership of securities held.

Nichola has over 25 years’ experience of working in the financial services industry in Europe and Asia in roles spanning product development, marketing and PR and, most recently, responsible investment. She joined Sparinvest initially as Senior Marketing and Communications Manager in January 2007. In 2014, she was internally recruited as Head of Responsible Investment.

Nichola began her career with the UK investment house Save & Prosper before moving to Jardine Fleming, Hong Kong and then Fleming Fund Management, Luxembourg. Prior to joining Sparinvest, she held a position as Associate Director at the UK financial services marketing agency TOMD Ltd. Nichola holds an MA in English Language and Literature from the University of Oxford.
Sachin S. Vankalas
Director of Operations and Sustainability
LuxFlag

Sachin S. Vankalas is a multilingual finance professional, with over a decade of professional experience in Asset Management and in particular in Impact and Responsible Investing.

At LuxFLAG, in his role as a Director of Operations and Sustainability, Sachin primarily works with Investment Funds active in Responsible/Sustainable Investing themes, which include Microfinance, Climate, ESG, Impact Finance, etc.

Prior to joining LuxFLAG, Sachin worked first as an Investment Officer for a Swiss Asset Management firm and as a Rating Analyst for an international rating agency. While working in a rating agency specialized in microfinance and in a social investment firm operating in developing countries and economies in transition, Sachin worked on ratings, due diligences, institutional assessments and investment projects (of over USD $50 million) for more than 75 financial institutions across continents.

Sachin completed executive education programs in Finance and Sustainability from Harvard University and NYU Stern School of Business and holds an MS in Banking and Finance from the Luxembourg School of Finance. He is a member of the ALFI Technical Committee and Working Groups on Responsible Investing and is a frequent speaker at international conferences.
Moderator

**David Suetens**
Executive Vice President and Country Head
State Street Luxembourg

David Suetens is an executive vice president and is the country head for State Street and its affiliates in Luxembourg and is the managing director of State Street Bank in Luxembourg. In this role, he is responsible for the business strategy and governance, and is the chair of the management board. Prior to his current role, he was international chief risk officer for State Street and was responsible for leading the company’s risk management function internationally. David is a member of the Supervisory Board of State Street Bank International Bank GmbH, supervised by the ECB, and chairs a key subcommittee. He’s also a member of the Association of the Luxembourg Fund Industry (AFLI) board of directors and a board member of the Luxembourg House of FinTech since July 2017.

David joined State Street in May 2012 from ING Investment Management Europe where he served as chief risk officer and a board member. Previously he served as the board member for ABN AMRO Asset Management and was responsible for Compliance, Legal and Risk Management. David also served as chair of several SICAV boards in Luxembourg. In 1998, he joined ABN AMRO, where he held various senior global positions within ABN AMRO Bank in both London and Amsterdam. Prior to ABN AMRO, he was a product manager with EUROCLEAR for tri-party collateral management services.

David holds a Faculty of Law – Juris Doctor from the Catholic University Leuven and a degree in investment advice from St. Aloysius University in Brussels. He also holds a master’s degree in international banking law and finance from Boston University School of Law.

David has spoken widely on risk and business topics at financial industry conferences.
LEARN MORE

The State Street Center for Applied Research paper *The Investing Enlightenment* addresses the question: How can we leverage capital markets to improve not just risk-adjusted returns, but our society as a whole? It offers a pragmatic approach to ESG integration that delivers on the principle of sustainable value creation.

For these and other industry perspectives, please visit the Ideas page of statestreet.com.

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