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EUROPEAN SUSTAINABLE INVESTMENT FUNDS STUDY 2021

Catalysts for a Greener Europe

Developments in the European Asset Management Industry and Luxembourg´s Fund Hub

Commissioned by the Association of the Luxembourg Fund Industry (ALFI)

Interview Edition

partners for change

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European Sustainable Investment
Funds Study 2021

What’s in it for you?

Sustainable funds represent a rapidly growing segment of investment solutions in Europe, according to the first annual European Sustainable Investment Funds Study by Morningstar and zeb, powered by the Association of the Luxembourg Fund Industry (ALFI).

The study aims to provide a snapshot on how sustainability objectives and the respective legislative interventions have shaped the fund industry in Europe in the last years with a particular focus on the role, competitiveness and positioning of the Luxembourg fund hub.

It was supported by a number of interviews and contributions from leading representatives of the fund industry which you will find in this supplement. These prominent “movers and shakers” shared with us their convictions, delivered insights and an interesting convergence of views on substantial and interesting topics of sustainable investments.

Founded in 1989, Carmignac is an independent asset management company established in France, and one of Europe's leaders. Today, the firm has €39 billion assets under management.

Sandra Crowl, Stewardship Director, Member of the Investment Committee. Since 2015, she also heads up the Socially Responsible Investing initiative at Carmignac. Sandra is also an active member in ALFI's Responsible Investing working groups and a regular speaker at ALFI conferences.

carmignac.com

Implementation of Sustainable Finance Disclosure Regulation (SFDR)

Interview with Sandra Crowl, Stewardship Director, Member of the Investment Committee and head of the Socially Responsible Investing initiative at Carmignac

What impact do you expect from the implementation of SFDR on funds currently classified as ESG or sustainable investment funds?

My first thought is that it would be very negative marketing and communication if a fund manager from a sustainable marketing stance should have to downgrade those sustainable funds to an Article 6 level. I cannot imagine any circumstance where this would happen.

However, potentially downgrading an impact fund (Article 9) to Article 8 could happen. While legacy impact funds may have general ESG-related objectives, to prove and define in a prospectus a metric to measure that sustainable objective may be too difficult for some managers to reach without the necessary data.

Funds that call themselves sustainable before 10 March will now at least have to prove that they have environmental and social characteristics. But the question remains, "what would be enough to show a characteristic?" I suggest some will need to be more expansive and explicit to broaden what they are doing to create the proof that the fund does have environmental and social characteristics. For Carmignac, it is not enough just to show ESG integration and sustainability risks assessment, these are the preconditions for Article 6 funds. For Article 8 funds, this would mean more expansive strategies such negative screening of harmful activities, positive screening of companies for their sustainability attributes, ESG performance reporting, fund carbon emissions reporting and targets versus its benchmark.

Today it means a very precise framework and a precise goal that they are investing in activities having positive contributions to "E" and "S" while having good governance structures. This is the definition of sustainability according to the SFDR and has given everyone a framework to work from.

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How has your organization reacted to SFDR, how have you categorized your products, do you see this as being a one-shot exercise or will there be an ongoing review of this categorization?

I don't think it will be a one-shot exercise for any asset manager because it is very difficult to gage exactly where your funds would sit across those three categories given the SFDR still leaves room for some interpretation. In hindsight, we all should have been bolder to reveal best practices despite some really useful working groups set up by ALFI such as the one on prospectus upgrades. That would have probably been better than to wake up on 10 March to discover each other's' websites disclosure.

We naturally categorized our funds in three Articles: 6, 8, 9, with 11 of our 27-strong fund range in Article 8 or 9. We took a conservative view of our fund range categorization partly because we are also a French fund manager and therefore also need to comply with the AMF doctrine which is a slightly different set of parameters than the SFDR.

All of our funds were obviously compliant with Article 6 as a baseline requirement as we implement ESG into the investment decisions for all our asset classes and funds. We have a proprietary ESG platform called START that gathers 5 independent data providers providing us with raw company data. And we have created a "like with like" peer group and a materiality algorithm to aggregate into a company ESG score. And we integrate that just like any other risk factor in investment rationales.

But across all of our mainstream funds we also apply a significant level of exclusions of harmful activities, such as tobacco production, thermal coal producers and power generators that are not transitioning in accordance with the Paris Climate Accord. We also apply active engagement and voting with a 100% voting participation target. For some asset managers, these practices would have already 'qualified' their funds for Article 8.

To paraphrase one of the strong legal firms here at a recent ALFI roundtable, it is very unclear whether ESG integration is enough to be in Article 8. But since it is clear that we have much more extensive sustainability policies in place, we are planning some significant SFDR fund article upgrades.

Sustainable Finance Disclosure Regulation: As part of the EU Sustainable Finance Action Plan, the Sustainable Finance Disclosure Regulation (SDFR) supplements the current rulebooks governing manufacturers of financial products. Managers must disclose how sustainability risks are considered in their investment process; what metrics they use to assess ESG factors; how they consider investment decisions that might result in negative effects on sustainability factors, so-called "Principal Adverse Impacts" in the regulators' jargon.

What challenges do you see in the implementation of SFDR, especially regarding data availability?

The challenges are there to obtain ESG-related data which is costly these days, and some smaller asset managers may not see the benefits of the economies of scale. Reporting Principle Adverse Impacts (Article 4 and 7 of the SFDR) of our investments won't be a big hurdle thanks to our system START that collates the information necessary such as energy consumption intensity, hazardous waste, UN Global compact violations, gender pay gaps, as long as the investee companies have published this information, of course.

There will be continued challenges, particularly should the Taxonomy reporting deadline be upheld for 1 January 2022 for asset managers to show how much of their investments are aligned to the environmental standards within the Taxonomy. This contrasts with the reporting companies' requirement to publish Taxonomy-relevant criteria only from 2023.

Also, the sheer complexity of the Taxonomy calculation compounds the issue. It is one thing to measure the percentage or revenues of a good that is within the NACE sub-industry categories approved within the Taxonomy, but it's another thing to get enough data to understand if the technical standards expected pass the test and also that there is no significant harm done to any of the other Taxonomy objectives that in turn we would need to negate against the positive contributions. This requires very granular data from companies that they aren't measuring or aren't equipped to measure today.

What additional costs do you expect for your company from the implementation of SFDR?

The cost is behind the data and its use. The more data, the more automation, the more development, but the more time you save and the more accurately we can use this in our investment rationale. We have already included the necessary costs over that past 3 years, through increasing resources, developments of systems and data providers. Costs will continue in relation to SFDR as we haven't finished enhancing and developing further, especially we are developing a proprietary impact framework, and this in response meets the demands of our clients and the need to measure outcomes more accurately.

Do you see SFDR as a competitive factor? Is there much demand from your investor base and if so, what are the drivers of this demand, what do investors ask for?

Another asset manager who may be more focused on institutional investors would clearly say that this client base has been the long-term driver of the demand. More recently we can state the demand is coming from elsewhere. We invest mainly on behalf of fund distributors who are backed by retail investors.

Households are changing their preferences towards investing in funds that are mindful of the environment and society.

People have become more conscious of this during the Covid-19 pandemic. The millennials which are just starting to benefit from the savings from their baby-boomer parents are basing their investment largely on sustainability.

But that's only one side of the coin. We have two other drivers boosting the demand around sustainable investment: the legislation to bring more sustainable products to the market, and the governments through the European "Green deal".

SFDR is certainly providing a competitive position compared to the US or Asia. And it's only that the European investors are interested in today 'What is your fund classification? It shows that they cannot find the information as easily as the EU Disclosure rules would have suggested.

What measures would you like to see for the fund location in Luxembourg to make SFDR implementation as easy as possible for fund companies?

During our prospectus upgrade to comply with the template-approach, there was a very strong and good guidance given to us by the CSSF. We had a common understanding, which was great. We are all in the same boat when applying these new rules, and so it was important to have that dialogue. This isn't always the case in all other European countries.

Do you think the outsourcing of SFDR reporting to specialist providers will become a trend in the future?

There is quite a lot of new reporting that other small firms may not have the resources to implement. So, I think that outsourcing to specialists will continue to be a trend. 9 years ago, we outsourced our portfolio ESG scoring to an external provider because we only just started scoring our portfolios for our annual reports. But we have moved ahead, and now we do our own scoring with internal and external ratings with month reporting. But what about a new asset class, like sovereign bonds? If there is a newer asset class for which you are doing ESG analysis, then perhaps you would switch to an external provider to bring in some expertise to monitor against your own internal proprietary assessment. And so, it matters where you are in the "sustainability curve" and what you want to offer, and how you want to measure it.

However, if you are a pure player with 50-80% assets as classified in Article 8 or 9, it makes no sense to outsource reporting.

Conclusion

We absolutely welcome the SFDR which provides a common playing field for Europe's financial market participants. We also appreciate their tremendous work and request for consultation with the Fund associations by the Commission, for which many hours have been consecrated. I think that these consultations can be commended. It is the first time I have seen such cooperation and coordination around European legislature and industry. It seems the European Commission has realized the necessity and urgency to act.

We need to always innovate, to create and protect long-term savings for our investors, and we need to be able to do that in a clear and transparent manner, within the confines of the SFDR.

LuxFLAG has been in business for 15 years. It is a recognized labeling agency, which today labels 347 products across 10 different jurisdictions, with €150 billion AUM.

Denise Voss focuses her energy on investment fund governance, as well as on sustainable finance, through her role as Chairwoman of LuxFLAG.

Sachin Vankalas has been with LuxFLAG since 2011. In this, he has identified a great opportunity to gather members and share knowledge in relation to sustainable investments.

luxflagevents.lu

Environmental, social, and governance (ESG) Fund Labeling

Interview with Denise Voss, Chairwoman, LuxFLAG and Sachin Vankalas, General Manager, LuxFLAG

Can you briefly list the different investment fund labels that LuxFLAG is offering and explain how labeled funds have adapted to SFDR? What are the implications in terms of product categorization?

Sachin Vankalas: By way of introduction, LuxFLAG is a non-for-profit organization which was established in Luxembourg back in 2006, whose main objective is the promotion of transparency in the financial sector. How do we achieve this? Well, by certifying investment products, particularly investment funds, which are active in the field of broader sustainable finance.

Sustainable finance means several categories in which we offer different labels for each category. At present, we offer five different labels, climate finance, environment, microfinance and green bonds, which are more thematic ones, and ESG, which is a more cross-sectoral one.

We come across many terms, many ideas around sustainable finance and investment funds pursuing different strategies, but we try to group these in two broad categories.

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The first category is what we call “positive impact”; financial instruments, including investment funds, which are aimed at investing in projects, securities, companies which are active in a field, a sector or an activity intended to generate a positive social or environmental impact. For instance, investing in renewable energy projects is aimed at generating a tangible environmental impact. Investments in healthcare, affordable housing, in education are aimed at meeting one of the Sustainable Development Goals, thereby generating certain social impact.

All these themes have a link to a particular societal or environmental challenge. By investing in these themes and companies, the objective is to mitigate challenges that our society and planet is facing and which are broadly identified in the Sustainable Development Goals.

We group all these products in a broad category called “positive impact” in which we offer three labels for funds viz. climate finance, environment and microfinance labels. Now linking to SFDR, Article 9 requires a clear sustainability objective. Typically, funds with one of these 3 LuxFLAG labels will fall under the scope of Article 9. Effective March 2021, LuxFLAG has updated its label eligibility criteria. All potential applicants and existing label holders are expected to demonstrate compliance with either Article 8 or Article 9 of SFDR.

The second category of sustainable finance, which is more known and broadly covered by the market, is what we describe as sustainable transition investments. This refers to investments made by investment funds in companies after having undertaken an analysis of each company's activities and sector, while identifying risks and opportunities in terms of environment, social and governance aspects. Such funds analyze the ESG profile of companies they invest in, apply some form of exclusionary screening, and engage with the investee companies, by being active owners and sometimes even sitting on the board of these companies. By being a more active owner, these investment funds help companies to progress on the environmental transition.

For such types of funds, we have our ESG label. Understandably, these funds are not required to invest in any particular theme, as long as their investments are not controversial. So, in summary, these funds integrate ESG in the investment process and their investment decisions, transparently disclose information towards investors, engage with investee companies, to support the companies' development towards a sustainable transition.

This is the most popular category; we see more and more funds applying for the LuxFLAG ESG label. Referring to our previous discussion on SFDR, these funds are typically Article 8 investment products.

Where does LuxFLAG stand? As of today, LuxFLAG labels 347 investment products, with assets under management of €150 billion, managed by 113 asset managers from 16 countries, and investment funds from 10 jurisdictions….

Denise: … of which 50% to 60% are domiciled in Luxembourg.

Do SFDR and the upcoming Taxonomy Regulation significantly impact the way a labeling agency such as LuxFLAG operates – be it in terms of its own labeling process, or the requirements that you impose on investment funds applying for a specific label?

Denise Voss: Certainly, and obviously the criteria that LuxFLAG applies when labeling funds have been updated to align with SFDR.

Sachin: In anticipation of SFDR, we have been in contact with the funds which have a label as early as in Q4 2020, at the time approximately 300 funds, to inquire on their intentions with the entry into application of SFDR. Now, of course these funds were really not newcomers to sustainability, they already had sustainability policies in place, exclusion policies, etc. and in fact almost complied with SFDR. So, it was no real surprise that these funds confirmed falling under the scope of Article 8 or Article 9, and as of today, in excess of 90% of these funds have received the approval of the CSSF and their updated SFDR prospectuses. LuxFLAG gives its labeled funds time until 30 June to submit the revised prospectuses once approved by the CSSF and generally, it is considered that 2021 will be a transition year, with changes being implemented by these funds and notified to LuxFLAG as the case may be.

Denise: It was kind of strange that a few labeled funds were initially considering Article 6, but discussing with asset managers, generally speaking, it seems that some took a conservative view. But basically, to have a LuxFLAG ESG label, you must comply with Article 8 or Article 9 of SFDR and to obtain one of the impact labels, a fund must comply with the requirements under Article 9.

Sachin: We also expect some funds to make further changes in their prospectuses in the course of 2021.

Denise: Sitting on the board of a number of funds, I can only confirm that the whole process of complying with SFDR is not a one-off exercise, and we expect funds to continuously adapt their offering documents.

The majority of LuxFLAG labeled funds were already very close to complying with SFDR, but improvements are still to be expected mid/end of this year – Denise: You will also see new funds being established. It was also a "mad rush" towards the deadline of 10 March, and the draft RTS are still to be approved and implemented. So, yes, disclosure will certainly improve over time.

Denise: SFDR is also good for LuxFLAG as SFDR is the baseline to obtain a LuxFLAG label in the future.

Sachin: As we know, the Taxonomy Regulation defines six environmental objectives and two of them are already covered in the current version of the Taxonomy. Once the full taxonomy is there, we will have a dictionary of all acceptable economic activities, with a certain threshold, percentage or exposure to green or environmental sectors as such.

What does this mean to our LuxFLAG labels? The Taxonomy will impact on our labels. Today, for our climate finance and environment labels, we use a list developed by the MDBs on Climate Finance. Once the EU Taxonomy is finalized, we will need to change the reference points. But the Label application review process (which has a track record of over 15 years and has been enhanced over time) will remain while our reference criteria will be adapted.

Post SFDR, what is the additional value that a LuxFLAG label offers to asset managers for investment funds which are "already" categorized as Article 8 or Article 9 products? In other words, does a label go beyond what SFDR and the Taxonomy Regulation require from all financial market participants anyway?

Sachin: SFDR sets the baseline requirements for ESG investing and sustainable finance. But labels go a few steps ahead in fact. Now taking the example of the LuxFLAG ESG label, first it requires funds to apply a minimum of 3 ESG strategies out of the 7 well-known strategies (including best-in-class, exclusion, engagement, voting, non-base screening, impact investing) whilst SFDR does not require a minimum number of strategies. Second LuxFLAG requires binding requirements on the ESG profile. In the past, ESG screening of the portfolio was sufficient, but this is no longer the case – we are moving from screening to "best" or "good" ESG portfolios, meaning that there are minimum caps, outcome or scores, which the investee companies must set. LuxFLAG has its own minimum exclusion criteria, again something that goes beyond what SFDR requires.

Regarding reporting, disclosure, external endorsement of ESG initiatives, there are also some additional soft criteria that LuxFLAG applies and which are not necessarily included in SFDR.

In the future, what we want to achieve with a fund label is first giving the message is that the fund is SFDR compliant, and that LuxFLAG has reviewed the fund's offering document. But beyond that, the fund is complying with additional requirements set out by LuxFLAG. In a market, where we will end up with thousands of SFDR compliant funds, we create this opportunity for investors to consider a small pool of funds which go beyond SFDR. I am convinced this is something that investors will value.

Denise: In addition, we should not forget that the LuxFLAG application and verification process is subject to a ISAE 3000 review, which is also an important message to investors including avoiding risk of greenwashing.

Does this mean an opportunity for more business for LuxFLAG?

Sachin: Probably not immediately, but in the mid-term, once a large pool of funds is SFDR-compliant, it will allow some to distinguish themselves from the crowd, not as a marketing tool, but on the quality of the assessment of the labeled fund.

Based on your experience, what will be the most significant challenge for Article 9 products when trying to measure the impact? Do you have specific investment strategies in mind for which you believe it will be easy or on the contrary impossible to measure the impact?

Denise: From my perspective, identifying and reporting on the sustainability indicators is the most challenging task. Taking the example of a fund focusing on the circular economy, which are those indicators, how granular do you want to be, and how do you measure th em? And you are back to the data question, availability of data, etc. But let us be positive, progress is being made on that front, notably through the NFRD, but not all will happen at once!

Sachin: Yes, but it obviously depends on the type of funds. Without and before SFDR, impact funds already faced the challenge of measuring the impact – micro-finance funds, healthcare, social housing etc. – this is not really new.

There are some sectors where a lot has already been done, standards have been developed, such as for climate finance. For climate funds, initiatives such as PACTA, TCFD, CDP, GIIN-IRIS tool –we now have enough tools and progress has been made, there is some common language on what and how to measure, and how to report. These tools are fairly broadly recognized by investors, which consider them as effective enough.

Now speaking about social investing, when we want to measure the quantity of jobs which are created, access to higher education, healthcare, affordable housing, etc., these types of matters are fragmented, tools are available but not necessarily effective and not applicable across a whole theme. On social and governance matters, the industry is at this point of time still struggling, but more initiatives will come up.

All points well taken but what about "official" standardization? Does the industry not need some kind of criteria, KPIs to achieve, fixed by a regulator or independent supervisory boards?

Sachin: Correct, but this is, in fact, exactly the work that is conducted by the Taxonomy. Now the Taxonomy only covers climate finance, but once the other aspects are covered, we should have more clarity of what to measure and how to measure.

Denise: We would also expect more products to be developed which build on social or governance themes, say a fund that "invests" companies focusing on human rights.

The European Commission is currently in the final stage of a proposal for an eco-label for investment products, how do you see the future of this label? Will it complement existing national labels or potentially replace some of them?

Sachin: LuxFLAG welcomes the initiative of the European Commission on that front. Progress has been made, but we still await the final details to assess what the eco-label will actually mean for financial products (criteria, measurement and process). One of the main expectations from the market is that this EU eco-label will have to be fully aligned with the Taxonomy. So, further discussions will need to take place: Will there be minimum thresholds, will the eco-label somehow go its own way etc.? At this stage, it is too early to comment in too much detail on this initiative.

Now when it comes to LuxFLAG labels, we see the EU eco-label as quite complementary as it will be covering climate finance labels.

Denise: In terms of the process, the eco-label already exists, so, for Luxembourg, we would expect the designated party in charge of awarding the labels to remain as is today and LuxFLAG would do the review of the application, etc., so, in a sense this would be a use of our existing capabilities.

Can you comment on last year's analysis of 100 green funds by the EC concluding that only a very low number of funds meet the criteria?

Denise: When looking at LuxFLAG, we only have 5 funds being awarded a climate finance label. This does not mean that the label is unpopular, but simply there are not many funds meeting the criteria of this label, which are quite strict.

Conclusion

Denise: Things will evolve very fast, although much of the focus on climate change and sustainable finance is on transition as you cannot achieve the goals of the Paris Climate Agreement, for example, overnight. It will also be important to see how all this will be handled by the media and regulators. The role of trade associations will also help in educating the media and the public. Again, we can't expect everything to be "green" from day one, so, LuxFLAG also tries to talk more about transition when speaking of his labels.

Did you not mention investor education?

Denise: Correct, not only the financial literacy element is important, but also what sustainability actually means, so, investors' expectations are aligned with what the product says it does.

Sachin: We should distinguish transition from impact investing funds, and in fact at LuxFLAG we recognize the contribution of both categories of funds in achieving the SDGs. Some funds are doing it for a long time, and it is important to give recognition to those funds, so that investors see the difference between those funds which are on a path towards transition from those which have been engaged in sustainable finance for a long time, with a measurable, tangible impact.

The Sustainable Development Goals (SDGs) or Global Goals are a collection of 17 interlinked global goals designed to be a "blueprint to achieve a better and more sustainable future for all".

Denise: Interesting to note that a number of product manufacturers have not clearly set out in funds' prospectuses where the product falls under Article 8 or Article 9. We, however, see a demand from distributors as they want clarity in the funds they market. This is also something where we expect manufacturers to adapt their product offering.

Things will evolve and change fast. In fact, this would be my main concluding statement.

Innpact is a Luxembourg-based fund management company, whose mission is to foster sustainable impact finance initiatives by providing innovative advisory, consulting and management services.

In this interview, zeb and ALFI sat together with Adriana Balducci, Associate Director — Head of Advisory Services at Innpact, on how recent regulatory and market trends have shaped the impact investment industry and what major developments can be expected in the short-medium term.

innpact.lu

Regulatory and market trends impacting investment

Interview with Adriana Balducci, Associate Director — Head of Advisory Services, Innpact

Which major trends in impact investing do you see? What are the current most significant investment themes in your opinion (e.g., climate change, etc.) and what is the outlook for the future?

Financial inclusion has historically been an important investment theme, with particular focus on microfinance projects aimed at supporting SMEs lending in Africa and other developing countries. In addition, fostering education and, more generally, social themes have also been recently gaining momentum. For the future, we expect focus to increase on environmental-related themes, in particular on projects and investments supporting biodiversity and natural capital deployment. The availability of liquidity will certainly contribute to drive the success of impact investing themes as certain products have in the past proven to be non-viable investments due to the lack of solutions to liquidate the investments. In addition, the approach towards exit strategies is evolving. If in the past priority was given to find a financially attractive exit from an investment, nowadays, fund managers are also looking at the sustainability of their exit strategy. In other words, they tend to consider more whether their exit would potentially tarnish the positive impact achieved so far by the underlying investment.

How have impact funds adapted to SFDR on 10 March 2021? Is it fair to say that impact funds would be categorized as Article 9 products under SFDR?

Impact funds are indeed categorized as Article 9 funds. SFDR is expected to bring a positive impact on the market as it provides a structured framework, including clear indicators and paradigms how financial institutions should define sustainability investments.

Certain challenges are nevertheless expected to be considered at least initially, even by more "pure" and advanced impact investors. As organizations have so far mostly focused on measuring positive impact, it is often questionable how far should the negative or adverse impact of an investment be considered (e.g., opportunity cost of implementing specific impact initiatives). We expect regulatory interventions will further help to clarify the required approach as well as more common practices will be established ("learning by doing") once SFDR implementation will bring its first effects.

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What do you think about the hypothesis that small asset managers/funds cannot really make a difference due to their limited market power? Or, put it in another way: Do only large asset managers make a difference in terms of impact investing?

It is indeed true that large asset managers can "make a difference" as they typically attract more significant volumes of investments and liquidity. Nevertheless, all financial institutions, regardless of size and background (private or public institutions), can play an important role in impact investing. By actively engaging in impact investing, financial institutions can in fact "signal" to the market that the underlying impact initiatives matter, thus bringing more public attention on the particular investment themes.

On the other hand, smaller management companies engaging in impact fund solutions may develop special know-how in specific instruments or markets, thus also contributing to the overall development of impact investing.

Is impact investing relevant for all client groups or only for a certain group (such as development institutions, religious institutions, governmental bodies, foundations, family offices) thus limiting the future market size in relation to less ambitious ESG strategies?

The answer is twofold. On one hand, we can see that in certain markets, or for certain investments, barriers like the lack of liquidity or the specific know-how required presume that the investor should have an institutional background or that only a specialized development organization (e.g., development banks, etc.), willing to take higher risk for a potentially lower financial return (than other traditional investments) may engage with the investment project.

However, the appetite and demand for impact investing has significantly increased in the past years also for private retail investors. As proven by the success of crowd-funding platforms, retail investors also want to see their investments making a positive impact, albeit obviously with an eye on financial returns.

In addition, with the emergence of blended finance, we also observe a stricter collaboration of public and private funding on the success of specific impact initiatives, resulting in positive results for both investors and communities.

Is impact investing only for impact-driven investors?

Not really. As the definition of impact investing says, these investment solutions should combine positive social and environmental impact with financial returns. Hence, these investment solutions are suitable for "financial returns first" type of investors as well. In addition to that, in certain situations, we also observe how pure financially driven investors enter impact investing after considering the adverse implications (or even higher costs) faced by not engaging in impact investing.

How significantly does the impact investment focus narrow the relevant investment universe, with (negative) consequences on performance and risk?

Given how quickly the impact investing landscape has evolved, there are now several investment opportunities across different markets and products types. Therefore, we can say that the impact investment focus does not narrow the investment universe to a critical extent.

For what concerns performance of impact investing solutions, several studies and research have shown that impact investing may have the same or higher financial performance as other investment solutions. As the topic whether impact investing has positive or negative correlation with financial returns is arguably debatable, what we can say is that, when measuring both financial and "impact" returns, the track record of an investment solution should be carefully monitored.

Do you think impact investment fund providers must follow ESG criteria themselves rather than only on product level for their credibility? Would you make a difference to providers that only offer "basic" ESG-compliant funds?

It is important for institutions engaging in impact investing to also comply with ESG criteria as per their day-do-day operating and business framework. That is true both from a regulatory and a public credibility perspective. On one side, SFDR prescribes that when preparing relevant disclosures, organizations assess sustainability criteria not only at product level but also at overall entity level, i.e., how the organization integrates sustainability criteria in their operations. At the same time, organizations engaging in impact investing products but not following ESG criteria directly, may face the risk of negative publicity, as we have seen recently for example in the case of fund houses offering impact investment solutions, but not complying with sustainable governance criteria such as gender diversity, gender pay gaps, etc.

When it comes to assessing the level of impact or the level of ESG-compliance of a product, we also observe that the market and public sentiment now ponder more carefully the degree of impact made by an investment solution.

Even though the full spectrum of sustainable solutions is still relevant, we see a difference in how the market perceives impact investing versus for instance more basic negative screening investment solutions.

Can you think of new pricing models that not only refer to the AUM or performance but also to meeting set KPIs related to impact objectives?

We see the first examples of fund pricing models linked to the impact returns of the underlying investments. However, we don't yet have a framework already commonly replicated across the market as it is the case for other sustainable products, like green bonds.

The challenge of developing fund pricing models linked to impact objectives lies in finding a consistent approach to measuring impact returns, both for organizations to make a first quantification and for auditors to monitor the correctness of impact values.

How has the pandemic influenced impact investing, and what is the outlook for the next years?

Pandemic has, in general, contributed to a more widespread attention on ESG criteria and on sustainability-related issues. With the Covid-19 pandemic, we see more interest in social themes like for example sustainable public health and safety issues. For impact investing, the time horizon is usually longer as it takes more time for investment fund solutions to be designed, assessed and implemented. We then expect to see the results of ideas being developed today only in the next few years.

The outlook for impact investing is anyhow positive: SFDR will play an important role in shaping impact investing by providing clearer definitions on impact objectives and performance indicators, thus reducing green-washing effects. This will hopefully help to spread the image of impact investing not only as a niche offering for institutional investors but also an attractive solution for private capitals.

The debate on the merits of passive vs. active is not new, but it is fair to say that it has gained a new dimension in the wake of the implementation of SFDR and the Taxonomy.

Nathaële Rebondy is Head of Sustainability Europe at Schroders and Matthieu Guignard is Global Head of Product Development and Capital Markets, Amundi ETF.

amundi.com

schroders.com

Sustainable Asset Management: Active vs. Passive

Interview with Nathaële Rebondy (Head of Sustainability Europe, Schroders) and Matthieu Guignard (Global Head of Product Development and Capital Markets, Amundi ETF)

Does active management need to be interpreted in a new way as it is not only the performance that counts but a thorough selection of investments regarding ESG conformity and an adjustment of risk management?

Nathaële Rebondy: Investment management enters a new phase where ESG adds a third dimension – that of impact – alongside risk and return. Around $5-7 trillion are going to be needed annually to meet the UN SDG. Social and political momentum is gathering pace in the form of the ambitions set by the governments and also an increase of regulations, especially in Europe. Capital markets are going to be reshaped by the growth and decline of the industries that are affected by the massive changes that are going to happen and this will create but also destroy value. This is critical for identifying the winners and the losers. So, integration sustainability is a forward-looking exercise because it is about analyzing companies from a new perspective, understanding the challenges they are facing today, identifying those that they will be facing in the future which may impact their business model, operations etc., and analyzing how the companies manage the associated risks and also engage with them on the issues that they need to resolve. In this respect active management is best placed to address those challenges because it is about the risk that is starting to materialize in companies and will materialize in the future. And this is not just about picking best-in-class companies in specific areas using ratings or metrics from third parties even if they are super useful, but it is looking at companies from a number of different stances, meaning a complete view of its current situation and its trajectory. Also, there is a huge proportion of companies that will have to transition in some way. If we think about climate and the need to decarbonize the economy, we think that management is critical in supporting that transition, monitoring the companies´ progress, and implementing escalation processes based on meaningful engagements. This is the role that we think we can play there.

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Matthieu Guignard: It is interesting to see how the reasons that push investors to buy ESG products have slightly evolved. Two or three years ago when the shift to ESG started to accelerate we saw that the drivers were mainly regulation or philosophical or ethical beliefs from investors as well as a new demand from end clients and distributors that were pushing institutional investors or asset managers towards ESG products. This also pushed new offerings from passive asset managers to get adapted to this new demand. Since the end of last year, those clients who had bought ESG products without asking themselves too many questions on the risk profile of the products they had bought now look more closely because they realized that buying these products would imply some impact on the risk profile of the portfolios they are managing. Especially institutional clients whose benchmarks had not evolved realized that the risk, measured by tracking error, they had been taking could be sometimes critical. Particularly when the energy stocks rallied, this risk materialized. We now see some kind of balance that is being sought after by clients between the risk they accept to take and the intensity of their ESG investments through the choice of products. There is a clear split in the dimension of ESG considerations: on the one side clients going clearly on the very tremendous side of ESG whatever the risk it can imply, and on the other end clients willing to go on a much softer side of ESG to limit the risk they take compared to their more traditional benchmarks. In that way, passive investments can provide a clear pattern to measure the exact level of risk the products would offer to the clients with a systematic methodology including, e.g., a clear control of the tracking error, and also a great level of transparency that can be provided to those investors.

Nathaële: I was fancying what Matthieu was saying regarding what investors are looking for in terms of sustainability. I read a survey from PGIM Associates/Greenwich about institutional investors around the world where it becomes clear that the reason why institutional investors across the globe are choosing sustainable solutions is more and more because they believe that considering sustainability risk is going to have an impact on the risk return profile of their portfolio. As you were saying, today it is really about making sure that some risks in the portfolios are mitigated by integrating sustainability features. This is more pronounced in Europe and also in Asia compared to North America for different reasons, one of them is the differences in the regulation.

Can, against this background, ESG become a booster for active management to (re)gain market share in relation to passive? Or do you think ESG will not have at all an impact on the debate on active vs. passive and the respective market developments?

Nathaële: Both active and passive investments will continue to grow. Flows into sustainable funds last year were strong in both categories but have been higher in active and that is also the case year-to-date. It is important to mention that at this point the offering in the active space is broader even though passive providers will continue to develop new innovative products and address new asset classes, but at the moment passive is heavily biased to equity. If you look at fund launches in 2020, you have seen strong development in multi asset solutions and fixed income alongside equity in the active space whereas in the passive space it was mainly equity and some corporate credits. Sustainability means investing in change. Passive is good when investing in what made companies good in the past but not necessarily in the future. Active management is better positioned to address future issues because you analyze the companies from a fundamental point of view, and you can drive change at the company level. The challenges the companies are facing are different from those in the past, and it is much easier for active to identify and manage them. When you look at a credit rating of a company it is perfect for identifying the real risk of default. But from a sustainability perspective, it does not tell you where the company is going to go, and you don't know if you have a huge carbon footprint e.g., it doesn't tell you how exposed you are to physical or transition risk with the carbon prices rise and what the transition task is to reduce the emissions. That's why I think active management is better positioned in that respect. There is room for growth for both, but you are not going to have the same type of outcome, so it depends on what clients are looking for.

Matthieu: I am not convinced if ESG fundamentally changes the active vs. passive debate. Both approaches keep their advantages and drawbacks when it comes to ESG. What we see in passive management, ETFs more specifically, there is a big switch from traditional, plain vanilla approaches to ESG. The figures from the beginning of this year show that roughly 50% of equity flows go into ESG products, and about 100% of the fixed income ETFs go into ESG. This shows clearly that most of the ETF users are now switching to ESG. We see the same differences between active and passive investment regarding the performance that can be expected from one or the other – so, it is again a question of the quality of the active strategy and the alpha it can add to pure beta, and it is of course a question of costs. Costs have become a very strong driver for the shift to passive investments for many products mainly in the retail space. It is interesting that the retail segment has now become a strong growth factor for the ETF business with many distributors switching from an active to an active and passive approach usually using passive bricks in an active allocation model. Those diversified portfolios are becoming strong users of ESG products with passive bricks to offer a cost-effective solution as well as a strong risk control over the portfolio. I would say it is not very different from the trends we observed before the ESG take-up that appeared 2-3 years ago.

Are ESG conform indexes strict enough (especially for impact investing) to satisfy the demand of those investors who are longing for more ambitious objectives regarding ESG than merely following regulatory minimum requirements? Are impact investments at all suitable for passive strategies?

Matthieu: It is all about the quality of data. We are seeing strong improvements regarding the coverage of companies regarding ESG data. Regulation is pushing in that direction and this will be reinforced in the coming months at least in the EU which is good. So, there will be an obligation for companies to publish a certain number of ESG indicators that will be linked to the taxonomy that is currently being defined and issued. Once more companies will be obliged to provide transparency on those ESG factors it will reinforce the quality of the analysis that can be provided, be it by index issuers or by active managers. We see more granular and demanding approaches in the depth of the analysis that will be required especially regarding the new SFDR regulation that will oblige the ESG fund managers to report on more indicators in the future. There will be more and more measures of what is the added value from an ESG standpoint that is brought by each vehicle and each strategy, be it active or passive. In my view the currently available indices are suitable and ok – again I don´t see any difference in this regard between active and passive. Access to the ESG data is core to providing good quality products and the relevant ESG analysis – but the challenge is the same for active and passive managers.

Nathaële: The issue of data is crucial. First of all, the bigger the company, the easier it is for it to disclose a lot of information and ESG data. It is not because it discloses that it is better – but if you (as an investor) have to rely on third-party metrics and rankings for your methodology to adapt to a specific ESG index you have the risk that you are overexposed to the companies that disclose the most vs. the other ones. However, companies that are not the best in disclosing ESG information are not necessarily the ones that are not good in their operational activities. So, that means there is a slight risk that there is an overexposure to the companies that disclose the most information and to larger companies as well. If you are in a developed country and invest mainly in large caps this may not be an issue but if you are investing in another asset class where the availability of these data is not that good you really face that risk. The second thing is that from an investors' perspective it is important to understand the methodology that is behind the specification of an ESG index. For example, if you take a company, and you look at its MSCI rating and Sustainalytics rating, they may be very different. The correlation between ratings is pretty low. So, if you decide for passive investment, you really have to understand the methodology. I am not sure if all investors, both retail and institutional, do that so many of them may be flying blind into this kind of investing and completely rely on the methodology that they may not fully grasp. Regarding impact investing I really think that is about active management because there is so much to look at. From that perspective I am not convinced that you can rely on ratings or metrics etc. If you talk about impact you talk about the intentionality that you have when you pick your investments and the support you provide to the company throughout the investment life cycle. So, I wouldn´t see impact investing via passive.

Matthieu: On your point regarding the different views that different data providers can have on a specific company I think this is also the result of the current situation where there are activities or companies for which there is no consensus on what should be considered as ESG-compliant or good for the planet. That is all at stake in the taxonomy discussion in the EU to try to define and regulate what should be considered as good in an ESG sense and what should not. And this is not obvious, of course. There are differences in sensitivities among investors and countries. For instance, the sensitivities of Scandinavian, Italian or US pension funds may be very different. The approaches and demands can be very different from those of investors. This is also what translates into those differences of views and ratings that we observe among the different data providers that look at companies from an ESG standpoint. This consensus will come over time. We start seeing convergence. E.g., coal now is pretty much in consensus to be excluded from almost all ESG portfolios – this was not the case even one year ago. It is also a very positive development that the EU has started to define European Standards on those matters. Up to now, there were very local approaches to those ESG standards, and it was very difficult for Pan-European actors like Amundi to achieve a common ground to all these different local approaches with national labels diverging one from another, but I think with the first Climate Transition and Paris-aligned benchmarks and now the SFDR classification we start to have a European common ground and that is a positive approach to push for that convergence.

Would that be a pre-condition for having indices that are accepted by the overall industry so that passive can build on that? If there is no common sense regarding the interpretation of ESG or impact investing it might be difficult to construct indices, and we might end up with a huge number of indices all reflecting different opinions regarding ESG. Is that a relevant aspect at all?

Matthieu: What we have observed is that there is a kind of iteration and adjustment between product manufacturers, with the input of the standards and regulation. For example, on our side we have adjusted our ESG methodology already a couple of times since we issued our ETFs, e.g., by changing some sector exclusions or by modifying the thresholds at which we exclude some companies regarding their activities or operations in a specific sector. This is the result of that convergence movement I was mentioning before. We see those standards being defined step by step and also this movement going back and forth between product manufacturers and demanders.

Today, as evidenced by different studies including those of the European Commission, only a small proportion of economic activities are deemed to be sustainable. The ambition is to induce asset managers to "green" the economy by actively engaging in investee companies. Do you think this is equally achievable with active as well as passive strategies?

Nathaële: It is true that the proportion of companies that are already green is pretty low and when we look at the taxonomy and also the plan for the EU eco-label the number of companies that are going to be part of this is going to be small. It is absolutely critical that the transition of all the other companies which form a huge part of the available investment universe is supported because otherwise all asset managers will tend to invest in the same companies. This would result in a high risk of a bubble in terms of valuation because everybody will be pushed to invest in exactly the same companies leaving the others behind. Therefore, the engagement by investors and asset managers is crucial – and I believe that active management is in a better position in this regard. When you are an active manager, you can engage with the company on a specific topic, set some deadlines and requirements and monitor the company´s progress over time. If the company does not respond to our request we can re-engage, we can vote against the management meaningfully based on the knowledge we have from the fundamental analysis, and at the end of the journey, if the company doesn't do anything, we can disinvest. As a passive investor, you cannot implement this kind of escalation process. The other thing is that the engagement by an active manager is more meaningful than passive as they have the qualitative analysis of the company that comes from analysts/research and portfolio managers, so an active manager has a more holistic view of the company situation and the trajectory for the future. Therefore, I think the engagement and voting can be more powerful.

Matthieu: Engagement can be viewed in two ways. It is true that you can say that passive managers cannot disinvest from a company as long as it is in the index. You can lose some kind of means of pressure on that company. But you can also look at this from the other way around. Because you are still invested in that company you can still continue to put pressure on that company because you will carry on discussing and engaging with its management, and you will still vote whenever you are still invested in that company. And I believe that in the end, if a company carries on misbehaving from an ESG point of view this will also translate in the way it is rated from an ESG standpoint, and it may lead to being excluded from ESG indices it is included into. This is a question of engagement which is the heart of the whole ESG approach. The idea behind it is to create that virtuous circle that all this ESG approach is about, and to incentivize companies to change their behavior, to change their activities to carry on attracting investors or to be excluded from portfolios if they do not go into the right direction. It is interesting to see that this momentum is happening right now because of the importance of flows we see in ESG products be it active or passive – there is a very strong incentive for companies to change their behavior from an ESG standpoint and to be at least more transparent on the ESG indicators that investors need to make a clear analysis.

Passive becomes more and more relevant in the ESG landscape. Do you think the ratio between active and passive will reach the levels seen in conventional investments?

Nathaële: Well, hard to answer. It is possible that it reaches the same level as in traditional management. It depends first of all on the continuous offering that investors can get both from active and passive – as of today the offering is much broader in the active, but that may change. I believe both will continue to grow, but the scale and percentages depend on the client demand and are really hard to estimate.

Matthieu: It is impossible to say where it will go. Again, it will all be looked at with the same pattern and analysis as it would be in plain vanilla investments, meaning what is the added value that an active manager can bring to the ESG trajectory and implementation. I think this is a new factor that has to be added into the know-how of an active manager and not all active managers will be able to really add value from an ESG standpoint. There is an extra challenge for active managers to prove the question of costs and pricing behind it – so what is the value for money for clients for each approach. Again, this is not very different from the traditional active vs. passive debate.

Nathaële: I fully agree with what you have said, Matthieu, from an active manager point of view. To ensure to add value by active management you really have to invest in tools, research and human resources to be able to analyze companies properly, to have different kind of stances and to understand the positive and negative ways ESG factors may impact companies, etc. So, it will take lots of efforts, resources and money to do this and to be successful, and you also have to make sure that your tools are evolving over time to ensure a continuous added value.

Matthieu: I think this is true for both approaches. You need to invest, you need data, you need tools to bring value to the investors.

To what extent do you believe are investors willing to pay for a high ambition of ESG compliance (both in terms of performance and fees)?

Matthieu: What we observe is that competition is fiercer in the ESG area because we are all focusing on that segment at the same time and therefore the pricing becomes crucial to differentiate one from another. We are not always able to pass on the extra costs to the price of our products because we are in this fierce competition, so this is good for the investors. This also means you must be a strong and large enough asset management firm to absorb these extra costs when you are not necessarily able to pass them on to your clients.

Nathaële: The fee pressure is structural, so this is not going to vanish due to ESG. I don't think clients will be happy to pay more for integration of ESG. So, there is no difference in the management fee in our products whether they are sustainable or not. However, the clients will continue to be happy to pay for active management in the sustainability space, especially when performance is also there. What we can see in our own fund management is that our sustainable products have had quite a good performance, and we clearly see flows into those active products at this point. I think this is not something that is going to disappear. I don´t think clients will pay more, but they will continue to be happy to pay for active management.

Matthieu: Especially if we consider that ESG will become the core of our clients' investments, there will be convergence between the pricing of plain vanilla products and ESG products.

What does ESG mean for the ongoing pressure on management fees? Do you think there is reason to believe that ESG may have a (positive) impact for active and passive asset managers or do you think the pressure on fees will continue?

Matthieu:

At the moment clients would not accept to pay much more for ESG. That may change in the future, but the fee pressure is not new and is not going to stop.

It is all about value for money again. If you demonstrate that you bring extra value you can add extra costs otherwise the price should be the same and, in that case, the larger companies are better equipped to absorb these extra costs. But all in all, we have a very structural trend in the asset management industry where we see pressure on fees on the one hand and an increase in costs for many reasons, especially regulatory requirements, more data needs etc. – so if you don't grow your business, you are just being squeezed in a sense.

Nathaële: I fully concur with Matthieu's observations on the general trend on fees and costs, not only, and not specifically linked to ESG as said.

Sustainalytics, a Morningstar Company, provides high-quality, analytical environmental, social and governance (ESG) research, ratings and data to institutional investors and companies.

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Current Trends in ESG Ratings

Interview with Youri Groenhart and William Ridout, Sustainalytics/Morningstar

There are a variety of ESG ratings for both companies and funds, which are often not very strongly correlated with each other. What are the key elements that you consider when preparing a rating? Is the investment process part of the rating?

William: It's true there is a lot of noise in the market and compared to other more traditional investment ratings there is a much lower correlation between providers at this point. Part of this can be chalked up to the fact that Sustainability/ESG is a relative new discipline for financial market participants, and as such not only are people coming to terms with how it will affect their business, but also the regulatory landscape around this topic is changing rapidly. Homing in on ESG providers, for example, similar topics tend to be assessed through different indicators. We view the lack of correlation between ratings systems as temporary, and as the regulation in various markets coalesces over time, we will see the key players and best methodologies rise to the top to create a more correlated standard where differences can be explained more easily based on the use-cases each rating provided is aiming to solve.

Sustainalytics’ ESG Risk Ratings measure the degree to which a company’s economic value is at risk driven by ESG factors by calculating a company’s unmanaged risk expressed in an ESG Risk Rating.

Youri Groenhart

Youri: The ESG Risk Ratings build on two dimensions, Exposure and Management, to arrive at an assessment of the unmanaged ESG risk. Areas of focus are: (1) Corporate Governance; (2) Material ESG Issues, such as Carbon, Human Rights, and Land Use and Biodiversity; and (3) Idiosyncratic issues. The exposure dimension is measuring how exposed a company is to a certain risk whilst the management dimension is measuring how well this risk is being managed by the company.

William: Our fund level ESG risk rating diverges from this in one key aspect; As Morningstar has the pre-eminent database and fund classification system (Morningstar’s Categorization System), we have deemed it more appropriate to compare ESG risks for funds relative to their peers within those categories, to give investors a better way of picking from fund with similar objectives when creating an appropriate asset allocation for their situation. As such, at a fund level, while the underlying ESG Risk Score will be an absolute measure of the funds ESG risk, when converting to a Globe Ratings (Morningstar’s Fund Sustainability Rating), the 1 to 5 Globes are distributed normally within our Global Categories.

The investment process is a part of Morningstar’s Analysts Ratings, it does not form a part of the ESG Risk Rating.

The topic of sustainability has gained momentum, especially against the backdrop of the SFDR and EU taxonomy. How do you expect the new regulatory requirements to affect sustainability ratings? Do you expect any impact on the credibility of ratings after regulation? What additional elements will be included in your rating?

Youri: Timescale is important here. The EU Action plan is very young, and the regulation at the moment only covers two of the six objectives outlined by the EC (climate change mitigation and climate change adaptation). As such, we don't see much in terms of adjustment in the ratings of those who have thought through and defensible methodologies already in place. Over time, as Taxonomy alignment becomes more extensive in its reach, and more talked about as a part of the investment process, changes to ratings systems may be expected. The credibility of the disparate ratings methodologies will certainly be brought into question, but we anticipate that those with robust ratings methodologies will, as long as the differences are explained, actually add to the quality of the investment decisions made by investors, rather than detract and complicate things. We are working hard on providing solutions to our clients and investors around both Taxonomy and SFDR, but at this point we are viewing them as complimentary to our Ratings, and do not have plans to incorporate them into our methodology.

There is a high correlation between the new Article 9 fund classification and a good score by the Morningstar and Sustainalytics rating with a few exceptions that have a poor rating. What additional aspects are reflected by the rating that override the classification as an Article 9 fund?

William: It is important to remember that Article 9 is not a badge which is earned or ascribed by actions, it is a statement made by the investment firm as to their objective to only (with exceptions) invest in Sustainable holdings. This is very different from a peer group comparison of the ESG risk in your underlying investments.

However, saying this it is no surprise that funds who are stating their intention to invest purely in sustainable companies will have a lower ESG risk (therefore a higher Sustainability Rating).

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zeb is a leading European strategy and management consultancy specializing in the financial services sector with more than 1,000 employees and 18 offices throughout Europe. zeb has been offering transformation expertise along the entire value chain in the financial services sector in Europe since 1992. zeb's practice groups, which focus on asset management and capital markets, support clients in aligning and optimizing their business and operating models, from strategy definition to conceptual design and implementation.

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Morningstar provides data and research insights on a wide range of investment offerings, including managed investment products, publicly listed companies, private capital markets, debt securities, and real-time global market data. The Company has operations in 29 countries.

Sustainalytics and Morningstar deliver a combined suite of ESG solutions to meet regulatory demands with a coherent and consistent approach at the fund and company level. Sustainalytics is a global leader in ESG with over 25 years' experience in developing innovative ESG research solutions. Several of its established, high-quality ESG products are already well aligned to the EU Taxonomy's criteria. The combined power of Sustainalytics and Morningstar accelerates their ability to provide meaningful ESG insights. Together, with Morningstar's scale and Sustainalytics' specialty expertise, they are able to develop ESG content, build ESG products and deliver ESG data specifically with the goal of empowering investor success at all levels.

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About ALFI

The Association of the Luxembourg Fund Industry (ALFI) represents the face and voice of the Luxembourg asset management and investment fund community, championing mainstream, private assets and sustainable investing. ALFI seeks to promote Luxembourg's fund sector internationally, and to cultivate for the benefit of its members a collaborative, dynamic and innovative ecosystem underpinned by the most robust regulatory framework. ALFI's ambition is to empower investors to meet their life goals.

Created in 1988, the Association today represents over 1,500 Luxembourg domiciled investment funds, asset management companies and a wide range of businesses that serve the sector. These include depositary banks, fund administrators, transfer agents, distributors, legal firms, consultants, tax advisory firms, auditors and accountants, specialized IT and communication companies. Luxembourg is the largest fund domicile in Europe and a worldwide leader in cross-border distribution of funds. Luxembourg domiciled investment funds are distributed in more than 70 countries around the world.

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