



European responsible investing fund market 2016

Statistics

April 2017

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Introduction



Charles Muller,
Head of
Responsible
Investing, KPMG
Luxembourg

As a result of the legally-binding treaty on climate action agreed on in Paris in December 2015, policy makers are turning their attention to how they can encourage or require investors and investment managers to adopt strategies that will support countries in meeting their new commitments and help financing the transition to a low-carbon economy.

In line with this commitment, large institutional investors have started to publicly announce their divestments from coal, whilst asset managers are decarbonizing their portfolios and launching more climate funds. Unsurprisingly, our statistics on the European Responsible Investing fund market, reflect this increasing trend.

At KPMG Luxembourg, we believe that Responsible Investing, boosted by Climate Finance, will shape the future of the mainstream financial sector. We trust that the statistics on the “European Responsible Investing Fund Market” will again fuel discussions around the evolution and state of the industry and raise questions which will have to be addressed to continue down this path of growth and development.



Anouk Agnes,
Deputy Director
General, ALFI
(Association of the
Luxembourg Fund
Industry)

Responsible investing is on the rise.

Today, this approach to investing ‘that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns’* is much more than a marketing slogan to differentiate from competitors. It is also more than just a social media-friendly, preventative measure to reduce reputational risk arising from climate change, pollution or corruption issues.

Responsible investing is increasingly driven by the spreading recognition that ESG factors play a material role in determining risk and return, as well as shaping the industry.

Since the Association of the Luxembourg Fund Industry (ALFI) organized its first Microfinance Conference more than 10 years ago, it refers to responsible investing as the ‘third pillar’ of the Luxembourg investment fund industry, aligning its importance with that of the other two investment fund pillars - UCITS and AIFs.

And quite rightly: Our analysis of the European responsible investing fund market shows that in Luxembourg, the annualized growth rate of the responsible investment fund sector over the past two years (19%) has exceeded the already very positive growth rate of the Luxembourg fund industry as a whole. The figures demonstrate not only raising investors’ awareness of responsible investing, but also Luxembourg’s solid position in this market compared to other EU domiciles.





Annemarie Arens,
General Manager,
LuxFLAG
(Luxembourg
Finance Labelling
Agency)



As the RI market continues to develop in size and maturity; transparency, accuracy and trust remain critical requirements to progress and innovate. This trend goes along with a steady advancement of non-financial reporting and increasing demand for third-party assessments to prove sustainability commitments. Accordingly, LuxFLAG labels, which increase transparency and foster confidence, have encountered a 30%-growth rate in the last two years, gaining further traction among sustainability-oriented investors and asset managers in their pursuit of long-term success. The conclusion of the Paris Agreement and post-COP21 momentum have raised investors' interest and sensitivity to climate change risks. This translates to a considerable growth of the number of funds investing in renewable energy and climate change which goes hand in hand with the development of new products and transparency initiatives such as the LuxFLAG Climate Finance Label.

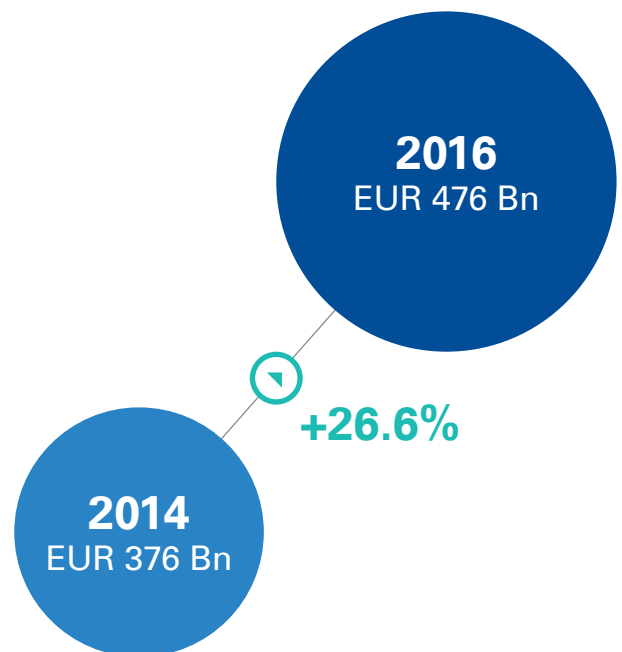
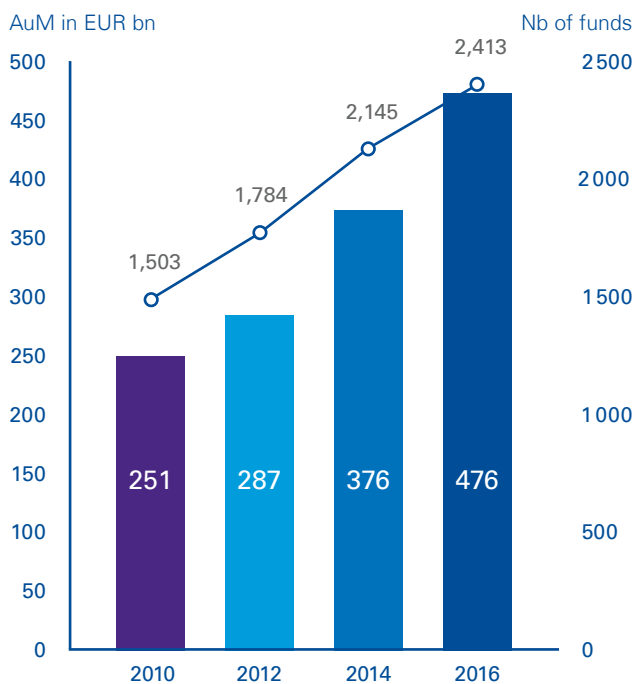
Next to the established specialized investment managers, more and more mainstream asset managers are entering the market seizing the opportunity of this flourishing sector. Increasing thoroughness and granularity of responsible investment strategies, processes and policies enhance market sophistication and drive total growth. Investor clarity and confidence in sustainable financial instruments are guarantors of continued growth.

* UN Principles for Responsible Investment (UNPRI)

Total figures

European RI funds evolution

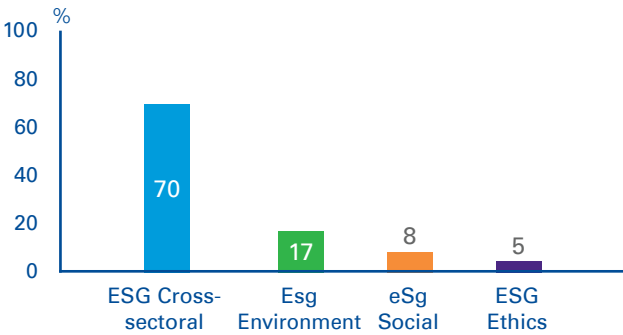
The European responsible investing fund market continued to grow, almost doubling since 2010 to EUR 476 billion of Assets under Management at the end of 2016.



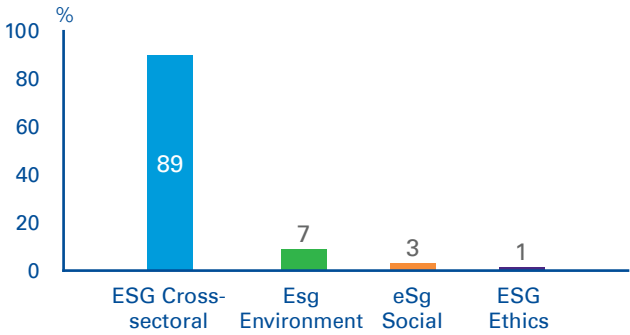
By category

Negative and positive screenings, together forming the ESG Cross-sectoral category, continue to be strategies that clearly drive the responsible investing market and gather 89% of the overall Assets under Management.

RI in nb of funds
Total = 2,413 funds



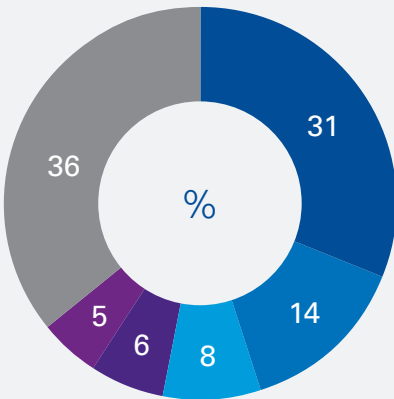
RI in AUM
Total = EUR 476 billion



By domicile

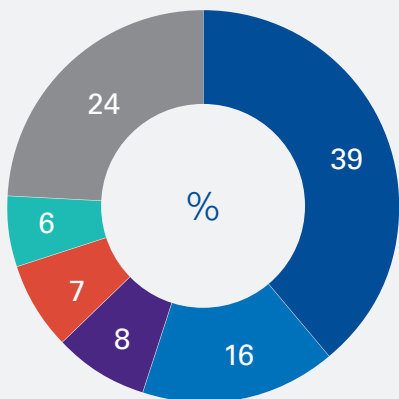
RI in % of nb of funds
Total = 2,413 funds

- Luxembourg
- France
- Belgium
- Sweden
- Denmark
- Rest



RI in % of AuM
Total = EUR 476 billion

- Luxembourg
- France
- Sweden
- Norway
- Finland
- Rest



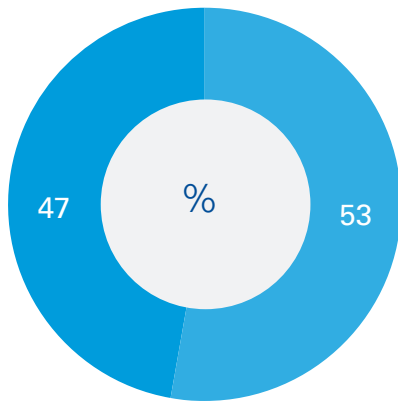
ESG Cross-sectoral

Whilst 53% of the RI funds in the ESG Cross-sectoral category apply positive screenings, they represent 42% of the Assets under Management. Luxembourg appears to be the favored domicile, in terms of both number of funds and Assets under Management.

By category

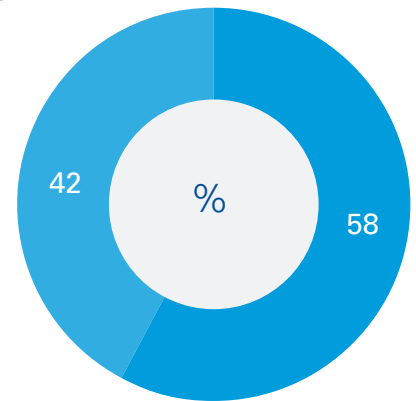
RI in % of nb of funds
Total = 1,687 funds

- Positive screening
- Negative screening



RI in % of AuM
Total = EUR 423.3 billion

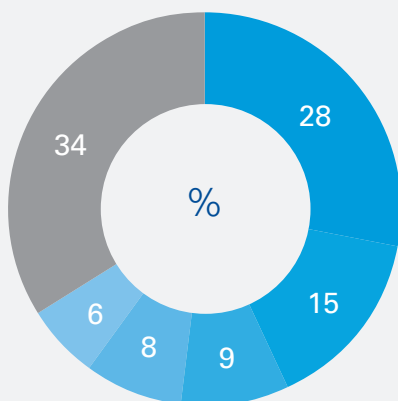
- Negative screening
- Positive screening



By domicile

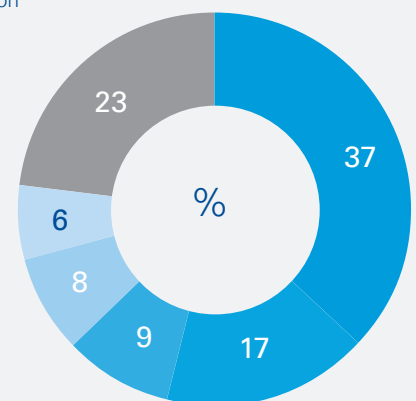
RI in % of nb of funds
Total = 1,687 funds

- Luxembourg
- France
- Belgium
- Sweden
- Denmark
- Rest



RI in % of AuM
Total = EUR 423.3 billion

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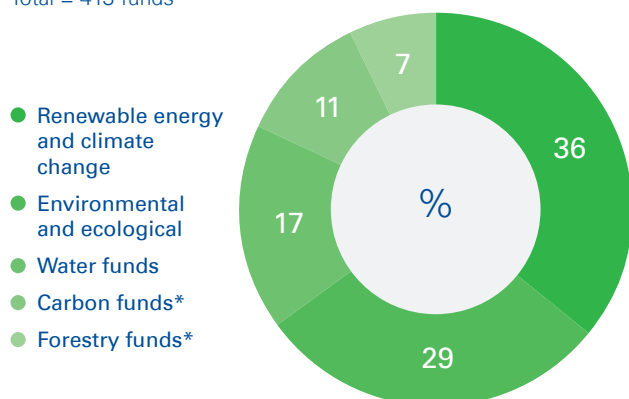
Source: KPMG/FundFile, a fund database owned by the Broadridge Financial Solutions, Inc

Esg Environment

Unsurprisingly, post COP21, the number of renewable energy and climate change funds has increased to 36% of the Esg Environment category and now accounts for 20% of the Assets under Management. Luxembourg occupies the leading position in this category and accounts for 38% of the number of funds and 45% of the Assets under Management.

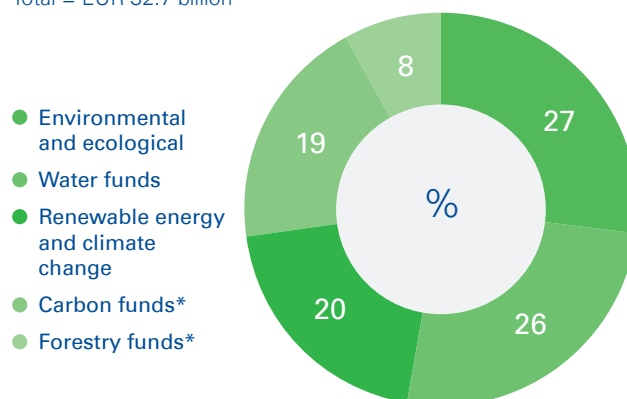
By category

RI in % of nb of funds
Total = 413 funds



* See page 14

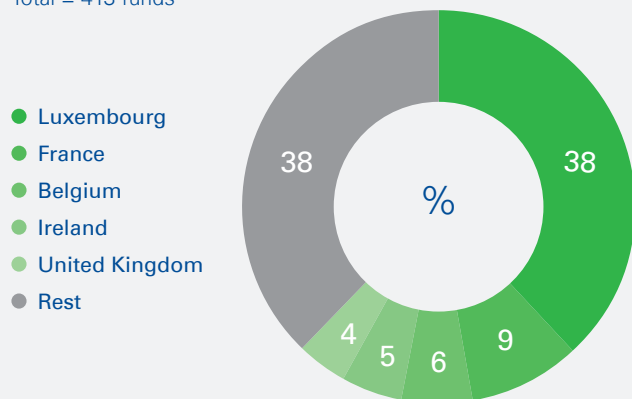
RI in % of AuM
Total = EUR 32.7 billion



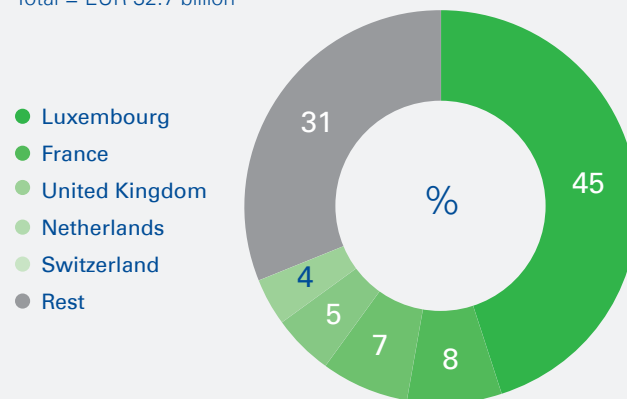
* See page 14

By domicile

RI in % of nb of funds
Total = 413 funds



RI in % of AuM
Total = EUR 32.7 billion



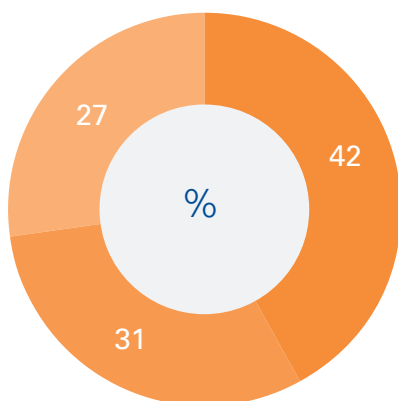
eSg Social

Microfinance funds remain the largest share of the eSg Social category, with Luxembourg being the domicile of reference for such funds. The number of Social and Solidarity funds, mainly domiciled in France, reached 35% of the Assets under Management of the eSg Social category at the end of 2016.

By category

RI in % of nb of funds
Total = 197 funds

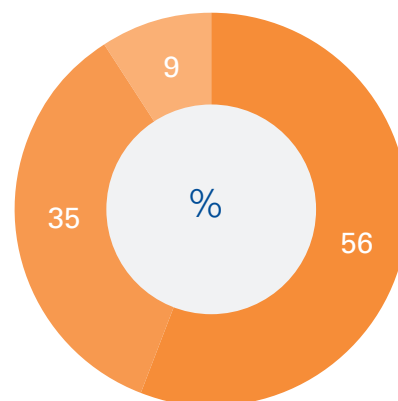
- Microfinance funds
- Social and solidarity funds
- Impact funds*



* See page 14

RI in % of AuM
Total = EUR 13.7 billion

- Microfinance funds
- Social and solidarity funds
- Impact funds*

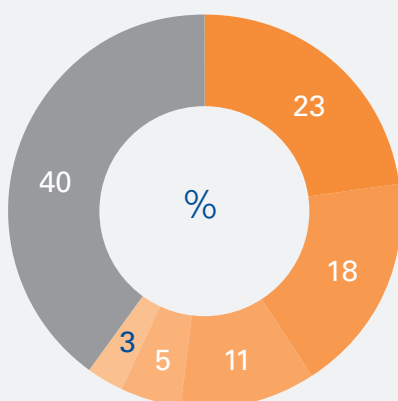


* See page 14

By domicile

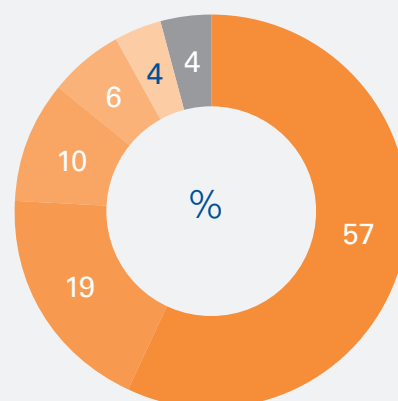
RI in % of nb of funds
Total = 197 funds

- Luxembourg
- France
- United Kingdom
- Netherlands
- Spain
- Rest



RI in % of AuM
Total = EUR 13.7 billion

- Luxembourg
- France
- United Kingdom
- Netherlands
- Germany
- Rest



Source: KPMG/FundFile, a fund database owned by the Broadridge Financial Solutions, Inc

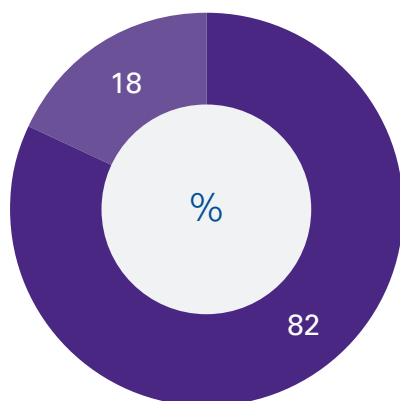
ESG Ethics

Sharia-compliant funds represent 82% of the number of funds in 2016. Whilst fewer faith-based funds were identified, they account for 42% of the category's Assets under Management. Here again, Luxembourg, being a recognized domicile for sharia-compliant funds, gathers more than half of the number of funds and 42% of the Assets under Management.

By category

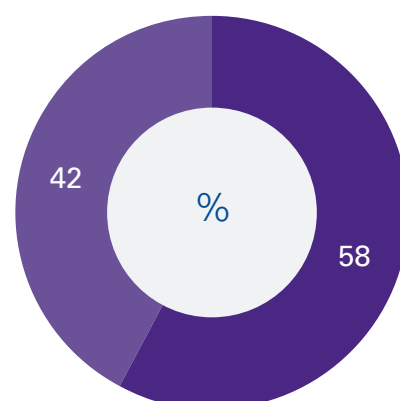
RI in % of nb of funds
Total = 116 funds

- Sharia-compliant
- Faith-based



RI in % of AuM
Total = EUR 6 billion

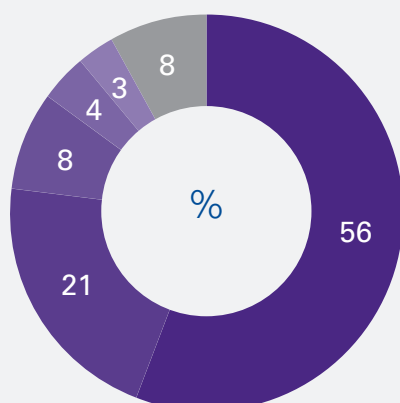
- Sharia-compliant
- Faith-based



By domicile

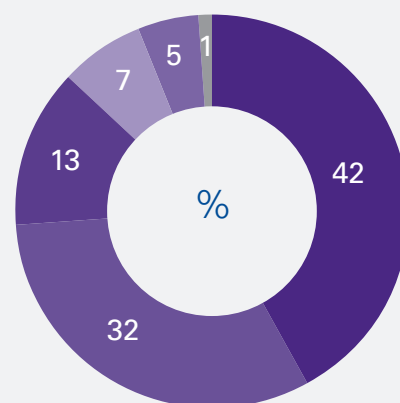
RI in % of nb of funds
Total = 116 funds

- Luxembourg
- Ireland
- United Kingdom
- Jersey
- France
- Rest



RI in % of AuM
Total = EUR 6 billion

- Luxembourg
- United Kingdom
- Ireland
- Sweden
- Jersey
- Rest



About the survey

These statistics cover **the European responsible investing fund market as at 31 December 2016**, including the size of the market, investing categories and the domicile of such funds. This report focuses **essentially on mutual funds domiciled in Europe**. It does not address pension fund assets, segregated managed accounts or insurance company assets due to the relative difficulty of accurately measuring the size, nature and domicile of such assets. The source data comes from FundFile, a fund database owned by the Broadridge Financial Solutions, Inc. and has been computed by KPMG.

** Specific asset classes such as Forestry, Carbon, and Impact funds, which may be private equity funds, may not be fully represented in these statistics.*



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