DEPARTMENT OF ECONOMICS AND FINANCE

Chair of Equity Markets and Alternative Investments

A Theoretical And Empirical Review Of Socially Responsible Investments

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TABLE OF CONTENTS

INTRODUCTION

In the collective consciousness, the universes of Sustainability and Finance are increasingly colliding. The Sustainable Responsible Investment is an investment approach focused on the reconciliation between social responsibility and financial performance. The first applications of this strategy have been in the early 1700s by the religious communities, but the adopted strategies and its rapid growth are much more recent.

In light of this, the aim of this thesis is to tackle the relatively recent phenomenon of the SRI, which turned from being a niche phenomenon to a way of doing finance definitely mainstream. In particular, the work will be organized into three chapters.

The first chapter is about the evolution of sustainability, facing up the most general aspects of it: hence, there will be the definition of sustainability, its history, based in times far more remote, and the environmental, social and governance factors on which the essence of the strategy is based. It will also treat the theme of the regulation and the characteristics of the sustainable market.

The main body of the work is composed by the second chapter, focused on the financial stakeholders. It will carefully analyze the customers' characteristics, the differences between the ethical investor and the responsible one, the different types of activism among investors, the strategies and the SRI criteria. Moreover, it will treat the topic of the non-financial disclosure, which is still not well defined, the ethical rating and the various financial products, with an insight of some newly issued products.

The work ends up treating the double dividends obtainable from Sustainable Responsible Investments: the financial returns and the social ones. There will be an analysis of the three main ways of calculating the non-financial returns and then a comparison between the performance of three European stock indices -MSCI Europe Index, S&P Europe BMI, FTSE Developed Europe Index- and the respective industry indices -MSCI Europe ESG Universal Index, Dow Jones Sustainability Europe Index, FTSE4Good Europe Index-. Sustainable indices are nothing more than traditional indices but built on titles chosen not only for their financial characteristics, but also for social, environmental and governance factors. Sustainable indices represent a very recent phenomenon but in great expansion.

It is important to specify that the presented analysis will be a mere description of the phenomenon, with the aim of creating order in the reader's mind with respect to a very compelling topic in this historical period, still not very permeated in the collective consciousness due to the lack of standardized and easily accessible information. Several empirical studies will be reported, in order to support this work with researches and documented facts.

1
THE EVOLUTION OF SUSTAINABILITY

1.1. The Definition of SRI

The Sustainable and Responsible Investment (SRI) is not a new financial instrument made available to investors, but it is just a new way of doing investments. Indeed, Sustainable and Responsible Investments do not take into consideration only the strictly financial factors, as the risk and the return, but they consider also other non-financial factors, focusing on the so-called ESG factors -*Environmental, Social, Governance*. We can therefore say that it embodies two different dimensions of the investment activity: the economic one, relative to the investor who wants to increase the value of its investment, and the socio-environmental one, relative to the investor who wishes to achieve some social purposes in order to generate positive externalities for the benefit of the society he belongs to. The weight given to each dimension reflects the rationale of the private market investor: for some of them will prevail the economic dimension, for others will prevail the social one[1].

Over the past few years, it has been very common to encounter terms such as *Sustainability, Responsibility* and *Ethics*, but we have to shed some light on which the definition of SRI is. Until today, and even today, in fact, there has been a lot of confusion on it, since there was not a single definition of this strategy. Bring clarity to a common understanding or principle represents a fundamental guidance investors need in order to give clearer goals to their investments. The European Sustainable Investment Forum[2] has implemented a consultation process involving its members and the major players of the financial sector, and in 2016 the Eurosif's board has reached a consensus on the definition of SRI, which represents a common view at European level.

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[1] Dal Maso D., Fiorentini G., (2013). *Creare valore a lungo termine*. Milano: EGEA.

[2] The European Sustainable Investment Forum is a pan-European organization dedicated to the promotion of the sustainability through financial markets. It operates in conjunction with the nationals Sustainable Investment Forums and the support of the Affiliate Members.

"Sustainable and Responsible Investment (SRI) is a long-term oriented investment approach which integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio. It combines fundamental analysis and engagement with an evaluation of ESG factors in order to better capture long term returns for investors, and to benefit society by influencing the behavior of companies.[3]"

Three key elements are defining the SRI approach: long-term time horizon, ethical considerations and the aim which extends the value creation from the individual investor to the society as a whole[4].

First of all, the time factor is a key element in the financial world: the short-termism -the pursuit of short-term returns- is often related to the speculation and to the research of market inefficiencies. Investing in a methodic way instead, in order to reach financial objectives, requires a longer time horizon, to minimize the effects of daily fluctuations of the financial markets and to focus on the final objectives.

Secondly, ESG factors -*Environmental, Social, Governance*- enable investors to respect their moral principles but also to promote the protection of these principles into the economic system.

Environmental factors concern the impact that the activities have on the society, on the community and on the environment as a whole. The main idea is that the company whose activity damages the environment will pay for this effect with fewer returns or a higher risk of the financial products.

Social factors deal with the relation the company has with the social environment, the employees and the stakeholders. When there are conflicting relations there could be some damages also in terms of economic performance. On the other hand, peaceful and collaborative relations can improve productivity and reduce the risk of conflicts.

Governance factors consider the government and the management of the company. A democratic functioning, with adequate control procedures, will be enhanced and will obtain greater financing conditions with lower risks.

Finally, the third element characterizing the socially responsible investments is the purpose of individual and collective welfare. The respect of the environment, of the

[3] Eurosif. (2018). *European SRI Study 2018.*

[4] Maupas. (2009). *L'ISR, qu'est-ce que c'est, à quoi ca sert?.* www.quantalys.fr

human and civil rights and good company management, will have effects not only on the corporate performance but also on the future growth capacity.

1.2. The Evolution of Sustainability

1.2.1. The roots

The concept of Sustainable Finance, together with the concept of Sustainable Responsible Investments, has been and will continue to be successful, because it has deep roots in the past and it is not just a fad.

Usually, the beginning of the history of SRI Investments can be set to 1754, year in which John Woolman, merchant and journalist member of the Quaker Movement[5], wrote a short essay against the slave trade: "*Some Considerations on the Keeping of Negros*". This publication marked a turning point on the Quakers' stance concerning the slave trade, and influenced the community to such an extent that the commercial activity that had something to do with this phenomenon was abandoned and the Quakers stopped being slave proprietaries in a few years[6].

Almost a century later, in 1872, John Wesley, minister of the Methodist Church, promoted the concept of the conscious use of the money. "*We ought to gain all we can gain, but not at the expense of life, nor at the expense of our health*". He identified the hazardous activities not only from the physical point of view but also from the moral one, such as illegal activities or against the law. These considerations should have been applied also to the wealth and the well-being of other people: he expressively opposed himself to the sale of alcohol or the unfair competition.

Another fundamental step for the development of Sustainable and Responsible Investments is the growth of the major financial markets, as the New York one, that has gained ever greater importance. This phenomenon gave origin to the broad shareholder base, so that the investments became a collective phenomenon and were

[5] The Quaker Movement is a religious movement born in England in the XVII century. This movement has its roots in the Reform. Quakers stood out for certain religious practices, as the refusal of ecclesiastical hierarchies and sacraments, the refusal to join wars, the abolish of slavery, the banning of the alcohol consumption and the social equality.

[6] www.trilogy.brynmawr.edu

affected also by extra-finance factors. This period, from 1920 to 1933, was characterized by the prohibition of the production, the sale and the export or import of alcoholics. The Temperance Societies[7] had had the power to change laws on behalf of their values and ideals, and clearly, they also had to put into practice what they were preaching, giving up investments in businesses which were involved in the production of alcohol.

The first responsible investments fund, the Pioneer Fund, was created in 1928. It was the first fund that explicitly avoided investments in businesses whose core business was the alcohol or the tobacco[8].

In 1971 the second, but maybe the most important, Socially Responsible fund was created, the Pax World Fund, in response to those investors who did not want to invest their money in activities that were supposed to finance the Vietnam war (1955-1975). At the same time in South Africa the Afro-American reverend Leon Sullivan joined the board of directors of General Motors, becoming the first Afro-American in the directory of a multinational company. General Motors was the biggest employer for black people in South Africa, a country under the Apartheid regime, pursuing a harsh program of state-sanctioned racial segregation and discrimination targeted primarily at the country's black population. Sullivan could, therefore, use his power into the board to bring a voice to voiceless people, fighting against the racial segregation and putting pressure to American firms who were investing in South Africa. In 1977 he wrote a Code of Conduct for the companies operating in South Africa, The Sullivan Principles, promoting the corporate social responsibility. The main innovation of what Sullivan did was to make his voice heard directly from the inside, fostering General Motors to change, and also many other companies indirectly. He was not about negative screening as it has been the case up until there, but he actively implemented an engagement strategy[9]. This strategy can also be known as shareholder activism: which aims to involve other investors about social responsibility criteria.[10]

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[7] The Temperance Movement was a movement against the consumption of alcoholics beverages. They typically demanded for laws against the sale of alcohol, or even the production, the import and the export of it. This movement became very popular during the XIX century and the XX century particularly in the English-speaker countries and the Scandinavian one, leading to the Prohibition in the United States, which lasted from the 1920 to 1933.

[8] www.pioneerinvestments.it

[9] Sullivan L. H.. (1999). *Moving Mountains: The Principles and Purposes of Leone Sullivan*. Judson Press.

[10] Regalli M., Soana MG., Tagliavini G., *I fondi etici: caratteristiche, spazi di mercato, ritorni finanziari*. Parma: Dipartimento di Economia, Università di Parma

In the seventies, people started becoming interested in the environment, ignored until that time: people realized that human activities could have an impact on the environment, often negative, so that it became necessary to protect it. Issues such as sustainable resource management, pollution, preservations of vegetations and animals gained in importance, impacting also the financial instruments and boosting the development of the SRI.

In 1984 the Stewardship Friend fund -now Stewardship Life- was created. The fund managed assets worth 200 million pounds and applies different standards in order to make the fund sustainable: negative screening, best in class, engagement and dialogue with firms.

From this moment on, even more SRI products have been created, making this strategy very common in the investment universe[11].

1.2.2. From the Production to the Consumption

In order to give a broader look to the historical and theoretical context, we can say that in the last two centuries the consumption theory has been the subject of three different theorizations.

Until the end of the '80s, consumption has been perceived as distribution. The consumption was seen as a form of vice that had to be reduced, minimized, and the parsimony was considered the best virtue.

This perspective has been overturned with Keynes during the twentieth century. The consumption became a virtuous activity, the one that keeps the economy active.

These two perspectives are different from each other but both perceive the consumption as dependent upon the production.

The novelty of the actual historical period is the reversal of the balance between the consumption and the production: the consumption is gaining the supremacy. The consumer has now the power to influence the production so that it takes into account also his preferences. The customer can use his purchasing power to help achieve morally important goals for him. This is the real difference between the speculative

[11] Dal Maso D., Fiorentini G., (2013). *Creare valore a lungo termine*. Milano: EGEA.

finance and the ethic one: for the speculative finance the ethics considerations are the constraints, while for the ethic finance they are a component of the objective function. The responsible investor considers the achievement of this moral purposes to be a preference and not mandatory. The customer is entirely convinced that he can achieve values and rights thanks to his behavior.

1.3. Regulation and Self-Regulation

One of the major themes in the field of Corporate Social Responsibility and Socially Responsible finance relates to the instruments and the manners through which these strategies can be realized. There are two major schools of thought.

On one side, there are those who only admit a regulatory set of rules made ex-ante by the legislator. In accordance with this approach, the market is not able to regulate itself, on the contrary, it worsens inequalities that could lead to severe economic crises.

On the other side there are those who, because of the peculiarity of the theme, believe in a model based on the complete market self-discipline. The requirements and the modalities are set by the companies, and any violation of these criteria will impact only on the reputation of the company, leaving the stakeholder the task to judge the accuracy and the consistency of its work, without any regulatory intervention.

This approach favored the development of ethical codes, sustainability assessments, and social budgets, and in these documents there are often sanction systems and control instruments required to control the effectiveness of the strategy; over the last few years, there has been a huge expansion of the self-regulation as a supplement to legislation. One possible problem of this phenomenon is that there is not a united and coordinated approach to the issue: the collective autonomy can take on various forms, different for their nature, function or effectiveness[12].

A third approach to the SRI that is developing in the last few years is the combination of government rules and self-regulation; this is the model that has the greatest chances to prevail. This last approach is based on the company's freedom to comply with

[12] Modugno F. (1985) *Pluralità degli ordinamenti.* Milano: Giuffrè. Enc. Dir.. XXXIV.

certain requirements established ex-ante through a normative provision or a self-regulation one. After having joined this model independently, the firm may be subject to consequences in case of breach of procedures.
In order to implement this last model, it is necessary a set of clear, transparent and effective rules that should be able to prevent speculative behavior and to ensure a healthy market competition between the economic subjects.

1.3.1. The birth of Organizations and International Activities

The economic and social changes related to the globalization made the corporate social responsibility theme extremely actual. The environment and the human resources management have become crucial in this context, particularly in the underdeveloped and the emerging countries, where there is no legislation on individual rights, workplace safety rules, exploitation of child labor, environmental protection and so on. In this context of lack of regulation, several international organizations and activities have been created[13].
For about twenty years, the European Commission has introduced the concept of Sustainable and Responsible Investments in its directives. Official documents represent a significant trace of the major themes and of the initiatives that the European Union has undertaken in order to incentivize the private sector and the sustainable management of natural resources.
When talking about sustainability, it is very important to bear in mind an extremally important peculiarity: the voluntary nature of it. It would be counterproductive to try to regulate the social responsibility since it is not possible to find unique solutions suitable for all, hence, every document talks about "voluntary integration". Institutions such as the European Union give greater freedom on how to achieve the Corporate Social Responsibility, and European directives on this theme let the Member States decide if they want to integrate the directions in their national legal system and if they want to modify them depending on needs. These guidelines stretch to trace priorities in policies that every Member State should adopt in the field of Social Responsibility,

[13] Rizziato E., Nemmo E., (2012). *Un quadro internazionale, europeo ed italiano sulla responsabilità sociale delle organizzazioni con focus sull'etica dello sviluppo organizzativo*. Moncalieri: Istituto di Ricerca sull'Impresa e lo Sviluppo

but it is clear that the peculiarities of the economic and social environment make it necessary to differentiate and to use different methods to incentivize organizations and companies. They, therefore, have to be seen in the contest of soft low, that is the particular type of agreement which bases their binding force on the mutual reliance of the subsidiaries.

We can summarize the main international activities and organizations as follows:

- **European Sustainable and Responsible Investment Forum (EUROSIF)**

It is a multi-stakeholder European network created in 2001 in order to promote and develop socially responsible investments. It operates in partnership with the national Sustainable Investment Forums (SIF) and with the support of the Affiliate Members, stakeholders involved in the value creation process[14]. The first Eurosif's objective is the *Lobby*: take actions at Parliament and European Commission on behalf of the SRI community. The second one is the *Research*, publishing research studies for the integration of ESG factors. The third objective is the *Communication*: in order to inform and to communicate addressing the issues relative to the sustainability and the investors responsibility[15].

- **The Forum of Sustainable and Responsible Investments USA (US SIF)**

The US SIF is a USA located forum whose mission is to move the traditional investments toward sustainability, focusing on the long run and extra-financial returns[16].

- **Global Sustainable Investment Alliance (GSIA)**

This Alliance is an international organization whose aim is to increase the importance of sustainable investments globally. It includes several SIF in the United State, Europe, Canada, Asia, Japan, Australia and Africa[17].

- **United Nations Environment Programme Finance Initiative (UNEP FI)**

[14] www.politicheeuropee.gov.it
[15] Dal Maso D., Fiorentini G., (2013). *Creare valore a lungo termine*. Milano: EGEA.
[16] https://www.ussif.org/about
[17] investiresponsabilmente.it

The UNEP FI is a global organization through public-private participation, established between the United Nations Environment Program and the financial sector. It has encouraged the global growth compatible with environmental protection.

- **United Nations Global Compact**

It is a UN's initiative to encourage the adoption of a sustainable and socially responsible policy for all business areas: respect for human and labor rights, environmental protection and fight against corruption. It has two main goals: the adoption of the 10 UN Principles at a global level and supporting the adoption of other UN goals, for example, the Millennium Development Goals.

- **Principles of Responsible Investment (PRI):**

These principles have been created in 2006 by the United Nations in order to promote the dissemination of socially responsible investments. The adoption of these six principles will imply compliance with some disclosure requirements and performance standards.

- **Sustainable Development Goals:**

In 2015, the United Nations summit, the head of State and Government decided to act in the best worldwide interest by framing the Sustainable Development Goals underlying the 2015-2030 Agenda. The Agenda is an action plan for the people, the planet and the prosperity: it seeks to strengthen the global peace for greater freedom. These goals want to fulfil everyone's human rights, achieve true gender equality and strengthen the position of women; they cannot be divided and they are a combination of the three fundamental dimensions of the sustainable development: Environmental, Social and Governance.

This Agenda has been accepted by all the States and it applies to all, bearing in mind that each nation has a different reality, capacity, development level and priorities. This development plan is guided by the United Nations Charter, firmly rooted in the Universal Declaration of Human Rights, international human rights agreements and the World Summit of 2005.

Sustainable Development Goals support the idea that: eradicating hunger and poverty in all its forms and dimensions, eliminating inequalities among nations, preserving the planet, enabling a sustainable economic and industrial growth and achieving the social inclusion are all targets related and interconnected.

Figure 1 *Sustainable Development Goals. Source: https://news.un.org; UN in collaboration with Project Everyone (2015)*

The 2030 Agenda for Sustainable Development is composed of 17 goals and 129 targets, to wipe poverty, fight inequality and tackle climate change over the next 15 years[18].

1. *No Poverty*:

   It concerns the eradication of poverty in all its forms and dimensions, and all over the world. By 2030, The United Nations intends to eradicate the extreme poverty -people that live with less than 1,25 dollars a day-, reduce poverty in all its dimensions, improve the social protections, ensure equal access to economic resources and basic services to everyone;
2. *Zero Anger*:

   The second goal promotes the end of global hunger, sustainable agriculture and the achievement of food security;

[18] https://news.un.org

3. *Good Health and Well-Being*:
   This purpose wants to provide everyone with a healthy living and promote the well-being at all ages to everyone;
4. *Quality Education*:
   It concerns education, its promotion and the assurance of a good education for everyone. It is necessary to eliminate gender inequalities in education access and increase the number of scholarships to enable everyone access to education;
5. *Gender Equality*:
   The fifth goal is related to gender equality and the freedom of action and protection for every woman and girl;
6. *Clean Water and Sanitation*:
   It concerns the safeguard water availability and the water and sanitation management. It is necessary to ensure water access to everyone;
7. *Affordable and Clean Energy*:
   It aims to increase renewable energy in the world and to improve energy efficiency;
8. *Decent Work and Economic Growth*:
   The eight goal of the Sustainable Development Goals promotes sustainable and inclusive economic growth. It intends to radically reduce the unemployment by 2020 and ensure a lasting and proper employment to people;
9. *Industrial Innovation and Infrastructure*:
   This goal wants to promote sustainable innovation and to support innovation. It wants to improve scientific research, technological capacity and significantly increase the share of employment in the industry;
10. *Reduced Inequalities*:
    Reduce inequalities among individuals and among nations. In intends to support social and economic inclusion, of whatever ethnic origin or religion;
11. *Sustainable Cities and Communities*:
    Ensuring safe human settlements, open to everyone, reliable and durable;
12. *Responsible Consumption and Production*:
    This goal aims to an efficient and responsible management of natural resources, ensuring sustainable consumptions and production models;
13. *Climate Action*:

This purpose invites everyone to urgently act urgently to fight climate change and its economic impact, improving the knowledge and the consciousness;

14. *Life below Water*:

    Protecting and conserving the oceans is fundamentally important;

15. *Life on Land*:

    It concerns the protection, the restoration and the sustainable promotion of terrestrial ecosystems. It is extremely important to protect forests and to fight against the loss of species;

16. *Peace and Justice Strong Institutions*:

    This goal wants to promote peaceful and inclusive societies, by providing access to justice to everyone and by setting up efficient institutions;

17. *Partnership for the Goals*:

    This last goal aims to strengthen the means and increase the level of resources of the Global Partnership for the Sustainable Development, by taking action on different fields: the financial one, the technological one, the commercial one and so on.

1.3.2. Cultural Question

Regardless of the contraposition between the regulatory imposition and the self-regulation, the Social Responsibility debate has highlighted the need for integrating such set of rules with other complementary measures, in order to spread the sustainability and ethic culture among the society. First of all, it has to influence individuals, and, at a later stage, the organizations, the companies, the politics and the institutions.

Greater sensitivity and greater awareness of the culture of Social Responsibility could significantly improve the relation between rules and voluntary actions. Moving in this direction, however, would require the whole company structures to be completely involved and influenced by the SRI culture. The responsibility of the government and management bodies is to maintain the vision and the values inspired by the long-term sustainability, in optical of the balance of interests of the different stakeholders.

1.3.3. Italian Situation to Agenda 2030 Goals[19]

According to a survey conducted by ASviS[20] among the population in Italy, the knowledge of the 2030 Agenda and of the Sustainable Investments has grown considerably in the last three years, especially among younger people. This represents an important signal that should be kept in mind.

Italy is lagging behind Europe and the United States, as regards sustainability. Many of the initiatives that have been planned by the National Strategy for the Sustainable Development, approved in 2017, have not been implemented: it has not been produced any programmatic document with numerical targets or with a plan of the new initiatives for the development of the strategic objectives. It has not even been created any National Commission for the Sustainable Development.

The only actions recently undertaken have been the involvement of the regions for establishing territorial strategies for sustainable development and the creation of a civil society Forum.

As regards the 17 Sustainable Development Goals, during 2016 and 2017, there have been signs of improvement in 10 areas: poverty, good health, gender equality, decent work and economic growth, innovation, inequalities, sustainable cities, responsible consumption and production, peace, justice and strong institutions, and international partnership. But even in these areas where there are real improvements, unless there are practical measures and immediate solutions, it will be impossible to meet the undertakings made in the 2030 Agenda. The ASviS spokesman Enrico Giovannini has underlined the need for a change of pace. In particular, the situation got worse in four areas: hunger, clean water and sanitation, affordable and clean energy, life on land. The condition seems to be unchanged in education and climate action.

What is missing is a common vision of the policies, in order to build an equitable and sustainable future for Italy[21].

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[19] ASVIS.(2019). *La Legga di Bilancio 2019 e lo Sviluppo Sostenibile*. Roma

[20] Italian Alliance for the Sustainable Development (Alleanza Italiana per lo Sviluppo Sostenibile): born in 2016 on the initiative of the Unipolis foundation and the TorVergata University of Rome. Its main objective is to raise the awareness of 2030 Agenda for Sustainable Development among the society, the economic actors and the institutions, in order to mobilize them and to achieve the Sustainable Development Goals.

[21] Cottone N.. (2018). *Italia indietro sullo sviluppo sostenibile: peggiorano povertà, disuguaglianze e qualità dell'ambiente*. Sole24Ore

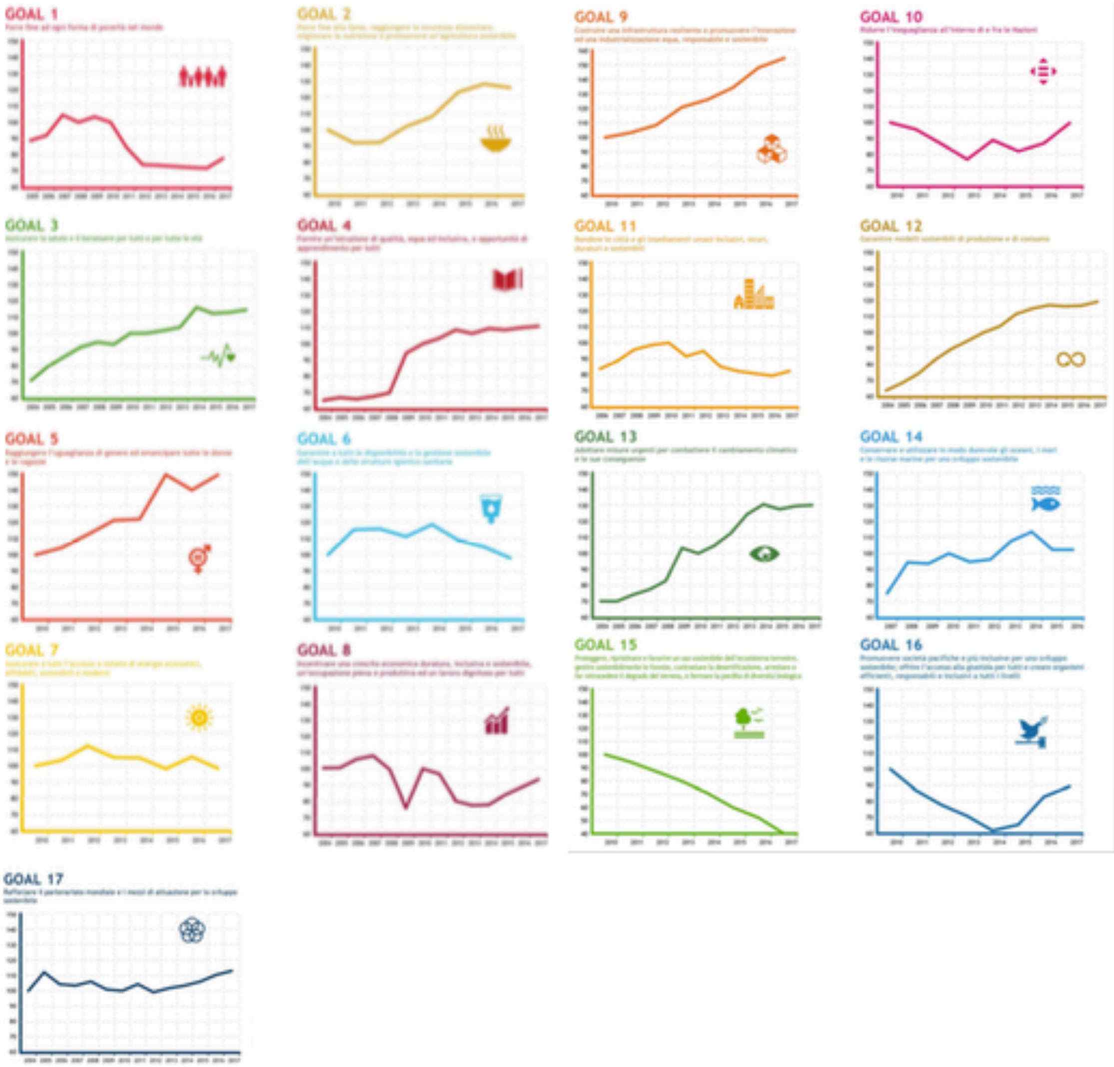


Figure 2 *Synthetic indicators of the Italian situation. Source: ASVIS.(2019). La Legga di Bilancio 2019 e lo Sviluppo Sostenibile. Roma*

1.4. Dimension of Sustainable and Responsible Investments[22]

In the international context, investors are looking for increasingly green companies. In 2018, over 80% of the world's largest corporations have used GRI standards, and PRI standards are becoming a thriving global initiative with over 1.600 members.

[22] Global Sustainable Investment Alliance (2018). *2018 Global Sustainable Investment Review*.

The steady growth of SRI investing has greatly accelerated around 2013 and 2014, when the first studies were published, demonstrating that good corporate sustainability performance is often associated with good financial returns.
The Morningstar report on Sustainability points out that in the first semester of 2019 there have been launched 168 sustainable funds in Europe, against the 305 in all 2018.

Figure 3 *Sustainable Fund Launches: A recent acceleration. Source: Morningstar Direct. 30/06/2019.*

However, sustainable funds are not the only one to consider, as ever more traditional financial instruments are incorporating Environmental, Social and Governance criteria into their investment process. Moreover, an increasing number of management companies tends to exclude controversial activities from their investment choices, as the weapons one or the tobacco.
Thus, the line between sustainable funds and traditional one is very thin. Moreover, together with active strategies, there are also the passive one: 26 product of the 168 launched in Europe in the first semester are indexed. In terms of capital, they represent 17,7% of the total of the socially responsible segment, an increase over the 10% of five years ago.
Among the equity funds, several newcomers adopt impact or thematic strategies, with a focus on the companies which contribute to the achievement of the UN Sustainable

Development Goals; the global worming remains the most popular issue in the portfolios construction.
While the launch of new products continues apace, the trend toward the repurpose of pre-existing funds in a sustainable way has widely decreased in the first semester of 2019. It is the case of some financial instruments that change their mandate by integrating ESG criteria and by modifying the name in order to reflect this transformation. Between 2017 and 2018 this activity has significantly grown, while this year it slowed down. The Morningstar's report notes that changing the name, the manager can provide more visibility to the instrument. However, it is important to pay attention because the new name does not necessarily reflects a change in the investment process; sometimes the manager could have simply added the exclusion of some controversial activities[23].

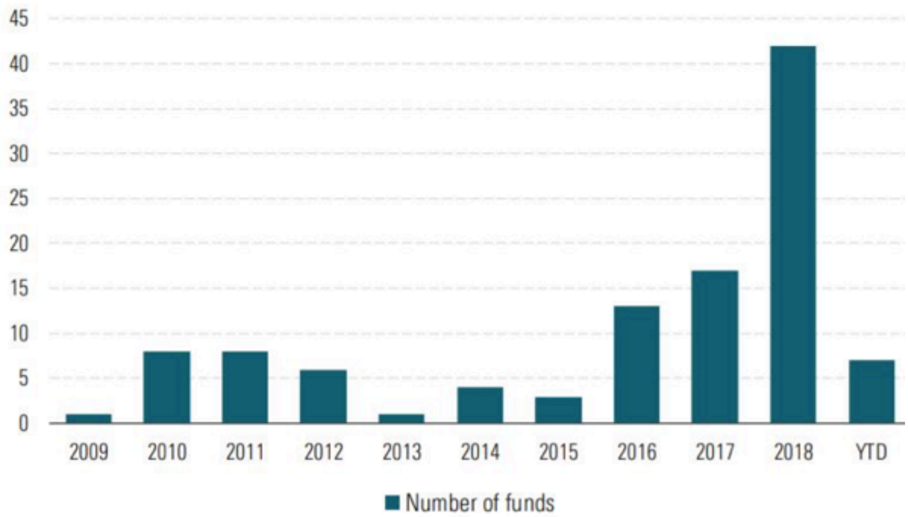


Figure 4 *Number of Funds Repurposed from 2009 to date. Source: Morningstar Research. 30/06/2019.*

Globally, the sustainable investing assets in the five principal markets -Europe, United States, Japan, Australia and New Zealand – has been of 30.7 trillion dollars in 2018, with an increase of about 34% over the past two years. The European investors are the most sensitive to green issues. With 14.1 trillion dollars of assets and a growth of 11% from 2016 to 2018, the European market confirms its first position in terms of

[23] Morningstar Research, (2019). *European Sustainable Funds Landscape*.

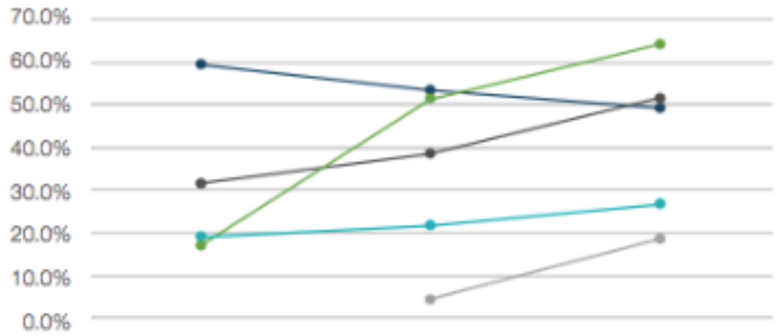
sustainable investments. There has been a slight decrease in the total professionally managed assets that could result from less extensive definitions and standards. Europe is followed by the United States with 12 trillion dollars of sustainable investing assets, Japan with 2,18 trillion, Canada with 1,69 trillion and Australia/New Zealand with 734 billions dollars of sustainable investing assets. From 2016 to 2018 the higher growth of sustainable investments has been in Japan, where they are more than quadruplicated.

Region	2016	2018
Europe	$ 12,040	$ 14,075
United States	$ 8,723	$ 11,995
Japan	$ 474	$ 2,180
Canada	$ 1,086	$ 1,699
Australia/New Zealand	$ 516	$ 734
TOTAL	**$ 22,838**	**$ 30,683**

Figure 5 *Snapshot of Global Sustainable Investing Assets, 2016-2018. Source: Global Sustainable Investment Alliance. (2018). 2018 Global Sustainable Investment Review.*[24]

It is important to note that in Australia/New Zealand there is the highest percentage of responsible investing assets over total assets under professional management (63%); immediately after there is Canada with 50,6% of sustainable investing assets over total assets. The proportion of sustainable investing grew in almost every region, with the exception of Europe, where the proportion of them relative to the total assets declined since 2014. This may be in part due to the stricter definition and standards for Sustainable and Responsible Investing. The chairman of Sustainable Finance Forum, Pietro Negri, reminded how the sustainable finance is not a fad but an unstoppable trend, thus, it is crucial to run a rigorous underlying analysis of the assets because the greenwashing[25] phenomena has always to be conceived[26].

[24] It is important to underline that all the data are expressed in US dollars. All assets are converted in US dollars with the exchange rate at the reference period.
[25] Greenwashing is a quite popular technique, not always legit, associated to the companies that deceptively use green marketing to promote the perception of their products or their reputation.
[26] D'Angerio V., (2019). *Gli Investimenti Sostenibili sfiorano 31miliardi di dollari.* Sole24Ore (V., 2019)



	2014	2016	2018
Europe	58.8%	52.6%	48.8%
United States	17.9%	21.6%	25.7%
Canada	31.3%	37.8%	50.6%
Australia/New Zealand	16.6%	50.6%	63.2%
Japan		3.4%	18.3%

Figure 6 *Proportion of Sustainable Investing relative to Total Managed Assets 2014-2018. Source: Global Sustainable Investment Alliance. (2018). 2018 Global Sustainable Investment Review.*

Going through the domicile of Sustainable and Responsible Investing, in 2018 the highest proportion of sustainable investing assets was managed in Europe, with about 46% of the global sustainable investing assets. The United States maintained the second position managing the 39%. Instead, the least proportion of sustainable investing assets is managed by Australia and New Zealand, with about 2% of the global sustainable assets.

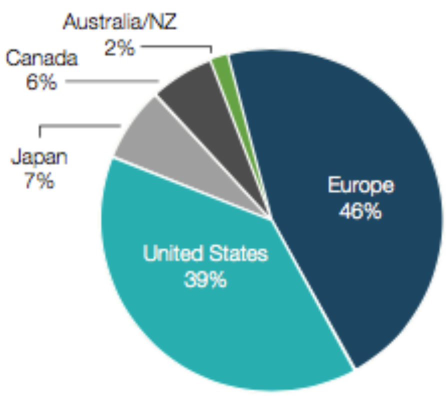


Figure 7 *Proportion of Global Sustainable Investing Assets by Region 2018. Source: Global Sustainable Investment Alliance. (2018). 2018 Global Sustainable Investment Review.*

In years past, the limited supply of socially responsible funds made it difficult to build an entire sustainable portfolio, while today the possibilities are substantially increased. The investors can find ESG sections in almost 240 of the 329 Morningstar categories. The equity funds represent nearly half of the total; then there are the bond ones and, right after, the balanced ones.

The Top 10 Asset Managers for assets in sustainable funds is dominated by Nordic companies, French, and Dutch ones. The main reason is that regulators strongly encourage institutional investors to adopt socially responsible criteria in those countries. Therefore, the investment groups have adapted to fulfil this demand. In the first place there is the Storebrand Norwegian Group, followed by Amundi and NN IP.

Fund Company	Country	AUM (EUR)
Storebrand	Norway	33,314,310,644
Amundi	France	30,935,888,774
NN IP	Netherlands	29,963,921,450
BNP Paribas	France	29,192,112,454
Handelsbanken	Sweden	28,308,245,275
Swedbank	Sweden	24,924,246,017
Nordea	Finland	23,104,998,892
KLP	Norway	19,122,455,752
Northern Trust	USA	18,797,575,077
Candriam	Luxembourg	15,520,776,668

Figure 8 *Top 10 Asset Managers for assets in sustainable funds. Source: Morningstar Direct. 30/06/2019*

Also on the private side ever more enterprises are looking for ESG funds, being under pressure to show to employees, shareholder, and sometimes even to their board, the alignment of their portfolios with corporate values.

According to Morningstar's analysts, sustainable funds will become ever more widely spread, since the management companies will continue to launch new funds and to differentiate them. Moreover, it will be available an ever longer track record and thus there will be more elements for their valuation[27].

[27] Morningstar Research, (2019). *European Sustainable Funds Landscape.*

As the green economy grows, large-cap companies are becoming more involved. They have developed and consolidated the market, making up almost two thirds of the green economy, by market capitalization. However, there is still a large number of small and mid-cap companies involved in this market, with a greater focus on green revenues respect to the large cap ones, as measured by green revenues as a proportion to total revenues. Perhaps they could even driving the innovation in the green economy, even if the 2/3 of the size of the market is made up of large companies.

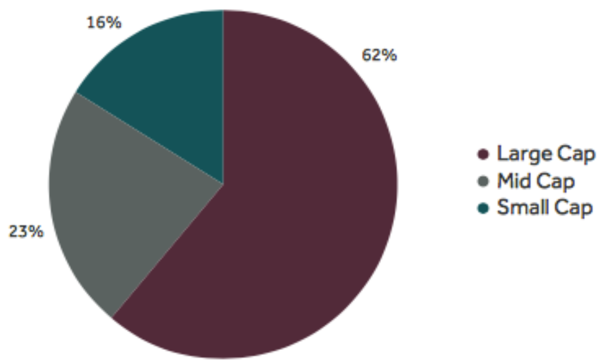


Figure 9 *Green economy by company size. Source: FTSE Russell, (2017).*

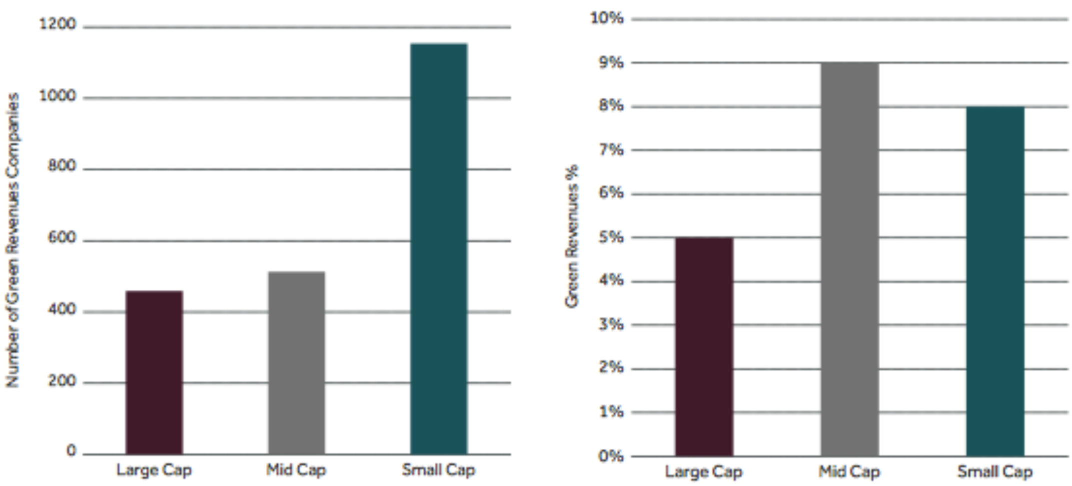


Figure 10 *Number of green companies by size, and Green exposure by company size. Source: FTSE Russell, (2017).*

Green economy is diversified across most of the traditional industry sectors; the two largest ones in this industry are the Industrials and the Utilities, respectively representing USD 1.3 trillion and USD 0.6 trillion of market capitalization, 47% of the total. These two sectors have also a significantly larger percentage of green revenues than the average, with a difference of almost the 13% and the 4% compared to the third largest sector, respectively. The third largest sector is the Technology, with lower green revenues but high growth potentials.

However, some sectors are underweight in the green economy, by nature of their activities, as the Financials, Health Care and Real Estate[28].

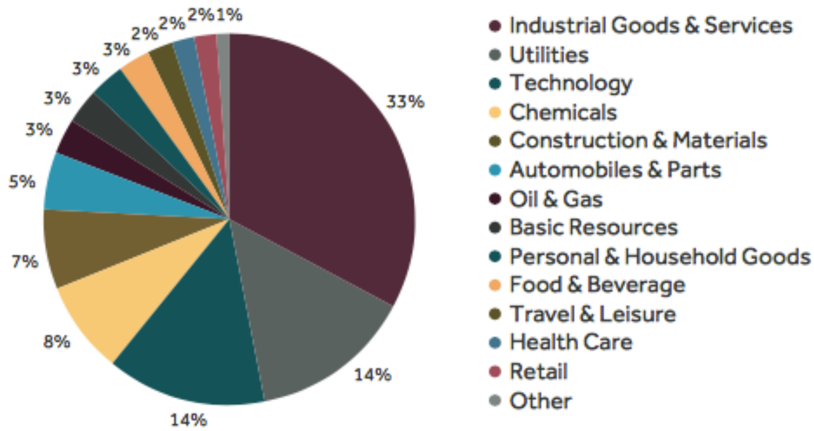


Figure 11 *Green Economy by ICB Supersector. Source: FTSE Russell, 2017.*

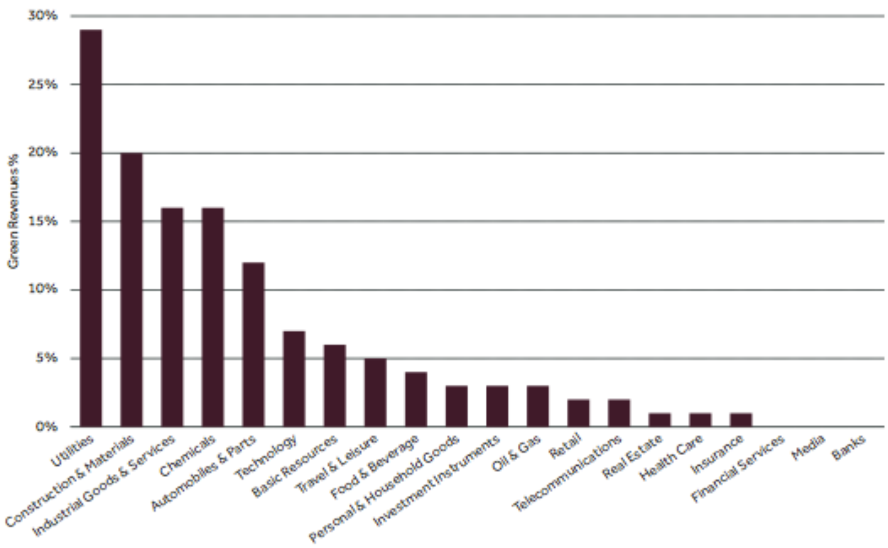


Figure 12 *ICB Supersectors by Green Exposure. Source: FTSE Russell, 2017.*

[28] FTSE Russell, (2017). *Investing in the global green economy: busting common myths*.

2
FINANCIAL STAKEHOLDERS

2.1. Societal Change

It is necessary to talk about Socially Responsible Investments as a phenomenon which is much broader than a purely economic one: it also sets out a wider social change, in which it is possible to find some consistency between sustainable investment choices and financial returns. From a social point of view, SRI is the application in the financial field of the various trends in other major markets: the organic food, the critical fashion, the sustainable tourism and the green building, for instance. These trends have turned out to be a real change in lifestyle patterns over time, and they are being assimilated from ever larger groups of the population. The conviction to be able to "vote with their wallet", that is to affect the economy through buying and consumer decisions, is widespread and deeply rooted in large part of the society. All this leads to two major consequences: the first one is that sustainability becomes a competitive factor for modern industrial companies, and the second one is that dynamics similar to the ones in the consumer market move also to the financial one. An increasing number of savers and small investors is starting to investigate financial products, wondering how the saving entrusted to banks or to managers are effectively invested.

However, the financial activity represents a logical filter difficult to overcome. The link between the quality of some food product and the health, for instance, is obvious: anything you eat enters directly in your body. A financial product instead, does not produce similar reactions: there are several steps between a sum of money deposited in the bank account and the social outcome that could be indirectly generated, and all these steps could weaken the bond between causes and effects. It is necessary a high degree of awareness to know that the money entrusted to intermediaries is transferred to an economic activity which can lead to environmental and social consequences in the context in which it operates. For this reason, Sustainable finance is less widespread than the ethical consumption[29].

2.2. Customers

Firms have always had moral obligations, in addition to the legal ones, towards the society in which they are inserted and where they operate. However, in time, the subjects with whom the firm has to operate have changed significantly: employees, shareholders, environment and, naturally, consumers.

Today it is important to recognize the capability of the companies to face up to responsibilities other than the mere profit. Hence, the profit is a measure of the efficiency of the business and its capacity to stay in the market, but it is not the ultimate goal of the company. Its aim, instead, is to provide excellent services, great products, to satisfy the consumer, attract new customers and to contribute to the development of the society. In today's context, citizens relate to the act of consumption no more driven by market forces, but as an autonomous entity, making their own choices autonomously.

In western societies, consumer behaviors are ever more oriented to ethical valuations, going beyond the intrinsic qualities of the product, and including non-tangible characteristics of it. Critical and responsible consumption[30], boycott measures, fair and equitable trades, *Bilanci di Giustizia*[31], fair-trade purchasing groups: these are only some of the many alternative consumption experiences which are spreading among customers. This is not about a return to the past, neither about a closure with regard to consumption; it is rather about the research for new consumption patterns compatible with the protection of the environment and natural resources, the workers, the local

[29] Dal Maso D., Fiorentini G., (2013). *Creare valore a lungo termine*. Milano: EGEA.

[30] The Critical consumption is the practice of organizing consumption and purchasing habits in order to give the preference to products with quality requirements different from the ones generally accepted by the average consumer.

[31] (Literal translation: Budgets of Justice) It is a collective experience that, through relationships, provides people an opportunity to change their own daily decisions, in order to improve the quality of their lives. *Source: bilancidigiustizia.it*

communities and, more generally, with the reduction of inequalities among individuals and the safeguard of the ecosystem, in order to ensure a healthy future for coming generations.

The customer turns out to be a subject that does not instrumentally use the consumption just to fulfill himself, but an active player that, through the consumption habits, contributes to create "new communities" to belong to and to identify with. The Occupational Psychologist Cristina Blandini, in her study "*Come conquistare la fiducia del consumatore con la RSI*[32]" has highlighted how the customers represent the major driver of the corporate processes' changes.

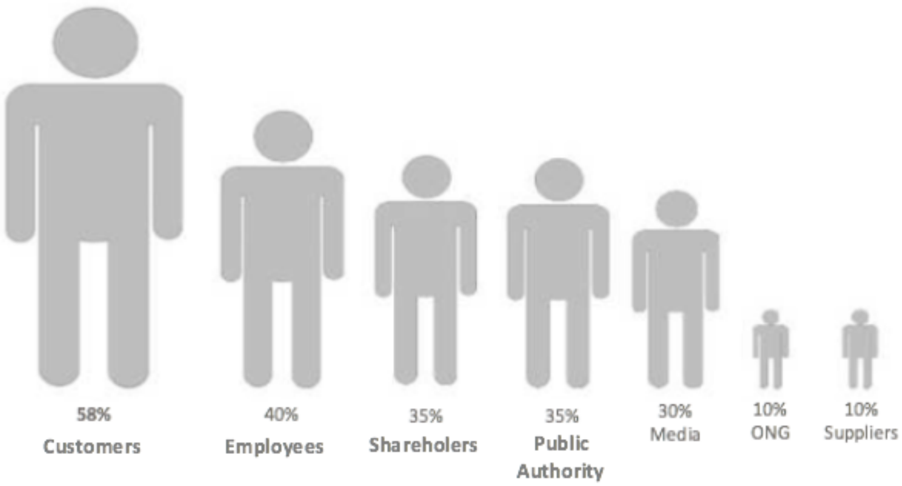


Figure 13 *The drivers of the Change. Source: Blandini C., (2014). Come conquistare la fiducia del consumatore con la RSI.*

These changes in consumer behavior have been also reflected in companies' strategies, subjected to the pressure of the arising needs of today's consumers. Some companies have distinguished themselves ahead of time by developing corporate strategies in tune with the new consumer behavior, thus demonstrating personal sensitivity and entrepreneurial vision.

The inclination toward the Social Responsibility Principles is not limited to the ethical certification of the holding company, but it also extends to the supply chain -direct or indirect suppliers-, to whom it is required the fairness and social commitment of the

[32] How to gain consumer confidence through SRI

production process. This mechanism implies that the choice of the supplier is no longer restricted to the mere economic convenience, but it requires some additional quality standards, thus creating a virtuous circle among responsible firm and the economic entities with whom it is associated.
The sustainable responsible company, thus, gives to the product and the brand other intangible meanings referred to ethical issues. The costumer, inspired by its own values and informed by the new company communication tools[33], is able to thoroughly search for products corresponding to its preferences[34].

2.2.1 Some statistics about the consumer behavior

The psychologist Blandini, in her study about consumer behavior, has highlighted how:

- More than 60% of costumers is willing to pay a higher price for a Socially Responsible company's product;
- About 65% of the consumers believe that the companies should take some responsibilities for the society's problems;
- More than 90% of the consumers considers it necessary to oblige the firms to publicize their way of dealing with the employees, the environment and the customers;
- Customers pay particular attention to misconduct in matters of security and workers' rights (35%), environment (30%) and activities of the underdeveloped countries (29%). [35]

[33] Sustainable and Responsible companies are very attentive to measure and communicate the social performance and the production standards that characterize the corporate brand to the various stakeholders. Several types of sustainability reporting are available for such purpose: some of them are more generalist, like the Social Report, and other more specific, like the quality certification. These communication tools are able to disclose to every stakeholder the measure of social engagement and the firm's commitment, in relation to their area of interest.
[34] Gagliardi C., Mauriello D., Pacetti Bustini F., (2006). *Unioncamere RSI Orientamento Consumatore*. Milano: Franco Angeli
[35] Blandini C., (2014). *Come conquistare la fiducia del consumatore con la RSI*. Unioncamere.

2.3. Investors

On the demand side, the underwriters of Socially Responsible Funds express dual nature needs: the economic and the non-economic ones. Even if they expect a return on the investment, the main goal of the savers is to put money in funds investing in Socially Responsible securities, industries or countries[36]. The investment is thus a tool for other purposes, that is to influence the underlying economic activity, to a greater or lesser extent depending on the resources. This is the case of the investors who buy shares, even only a symbolic quantity of them, just to have the right of voice during the annual shareholders' meetings. In this case, the operation has not an economic purpose -to obtain greater returns-, but only a political one. Naturally, this is just a marginal case, because the great majority of the human and economic activities does not have a unique goal. The SRI is not an exception since it want to achieve both goals, the economic and the political one.

2.3.1. Ethical Investors versus Responsible Investors

There have been several studies with the aim of investigating wheatear investors would sacrifice their returns in exchange for non-pecuniary benefits delivered by SRI investments. Beal and Goyen, in a study conducted in 1998, made a comparison between the characteristics of the shareholders of a specific Australian ethical firm, and those of the overall Australian shareholder population. The main conclusion of the research was that the main reason for investing in an ethical company was the company's commitment to ESG factors and not financial returns. These results are in clear contraposition with those of Rosen et al. (1991), who have investigated two US SRI mutual finds. Those who have responded to the research do not appear willing to forsake their returns: they expect their socially responsible investments to pay as much as any other type of investment: the ESG analysis should be a value addition to the investment.

[36] Vandone D., (2004). *Il mercato italiano dei fondi d'investimento socialmente responsabili*. Bologna: Il Mulino (1)

Recent researches have unified the contradictory evidence, recognizing different types of socially responsible investors: not all SRI investors have the same objectives and there can exist several types of them.

Nilsson (2009) has identified three different segments of investors from SRI mutual funds in accordance with the importance they give to the correlation between financial returns, social responsibility, and the investments: investors whose primary goal is financial returns, those who care only about social responsibility, and then those who consider both return and responsibility in their investment decisions.[37]

It is possible to represent this strategy through a scale, at the ends of which there are the extreme goals. On the left side, there are the investors who only want to satisfy their moral matter; they could also be disinterested in the economic impact of their investment. They may be called *Value-Driven Investors*. The typical way they operate is that of sectorial exclusions; the businesses more frequently banned by this negative selection are the ones of the arms trade, pornography, gambling, and alcoholics.

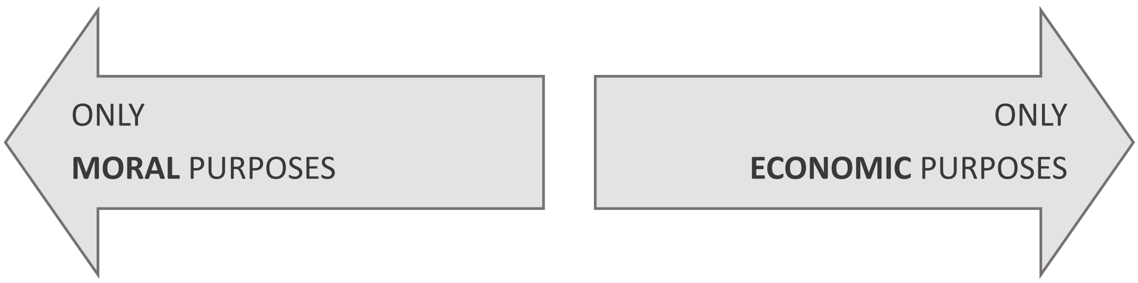


Figure 14 *Polarization of Investment's rationales*

On the right side, there are the investors willing to obtain the greatest economic benefit from the investment, not being interested in the environmental and social effects of the operations that they indirectly finance. Their only limitation is the legal one.

[37] Derwall J., Koedijk K., Ter Horst J., (2011). *A tale of values-driven and profit-seeking social investors*. Journal of Banking & Finance 35, 2137-2147

This last attitude could be open to criticism from the moral point of view but it has a satisfactory economic justification, mainly for those who invest money on behalf of somebody else; if the client does not explicit his willingness to invest his money in specific activities, then the manager should not consider any objective but the expected return on the investment.

It is important to note that a responsible investor, unlike the value-driven one, is not going to expect a lower financial return because of the ban on controversial activities, on the contrary, he will expect higher financial returns on his investment thanks to the extra-financial analytical skills, able to detect significant ESG risk variables that the solo traditional analysis would not have detected[38].

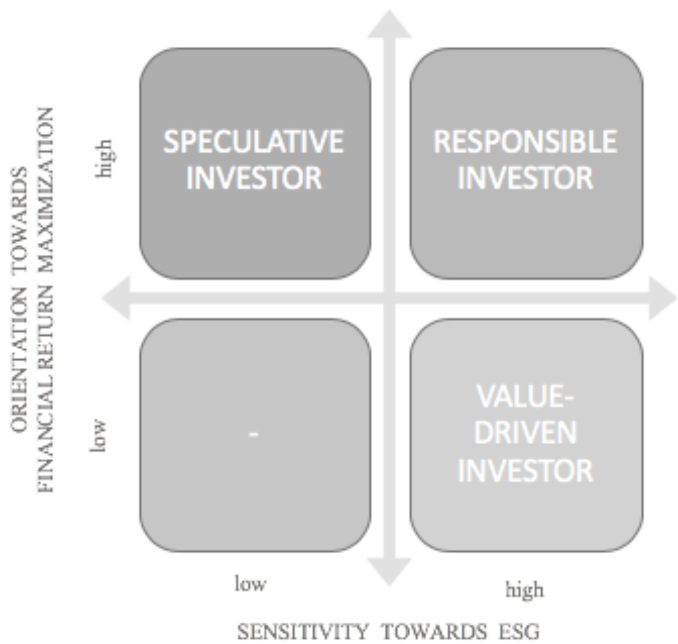


Figure 15 *Different investors. Source: FFS - ANASF (2010)*

In short, studies reveal that socially responsible investors are not all the same. The fact that value-driven and speculative investors coexists means that the effects of SRI on investment choices and asset prices can be understood only by admitting the specific role that each segment of the SRI strategy plays in financial markets.

[38] Dal Maso D., Fiorentini G., (2013). *Creare valore a lungo termine*. Milano: EGEA.

2.3.2. Greater Sensitivity to ESG factors but need for Guarantees[39]

The Sustainable Finance Forum, in a study conducted in 2017 on 1000 investors, has pointed out how the attention to social and environmental issues has grown considerably in investment choices: from 2013 to 2017 the share of investors supporting the importance of these themes has grown by 17 points.

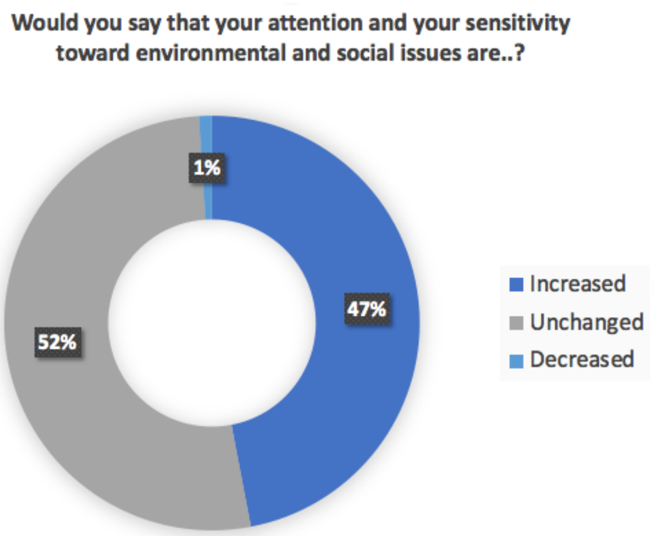


Figure 16 *Respondents' answer to the question. Source: Il risparmiatore responsabile. (2017). Forum per la Finanza Sostenibile*

However, respondents have dissonant voices on the effects that they think ESG factors have on revenues and on the riskiness of investments. 56% believe that these elements will increase profits; 21%, on the contrary, believe that they lead to a reduction of the returns; and 23% of the respondents, then, do not consider they will affect the returns. Furthermore, the number of savers attributing effects on risk mitigation to ESG factors is equal to the percentage of those that, on the contrary, associate them with a reduced safety of investments (37%).

Concerning investment personal choices, the number of savers claiming to be careful to environmental, social and governance factors has grown. The proportion of those who retain them relevant has grown by almost 10%, in a transversal way on all the

[39] Forum per la Finanza Sostenibile, (2017). *Il Risparmiatore Responsabile*. (II)

issues in these areas; moreover, the judgments gain power and polarize upward, ("very important") compared to 2013.

The 92% of the investors consider it important to encourage sustainable and responsible investments. The need for more guarantees is emerging over time: the share of the inventors regarding as decisive the SRI Funds' Labels[40] has grown by 14 points from 2013.

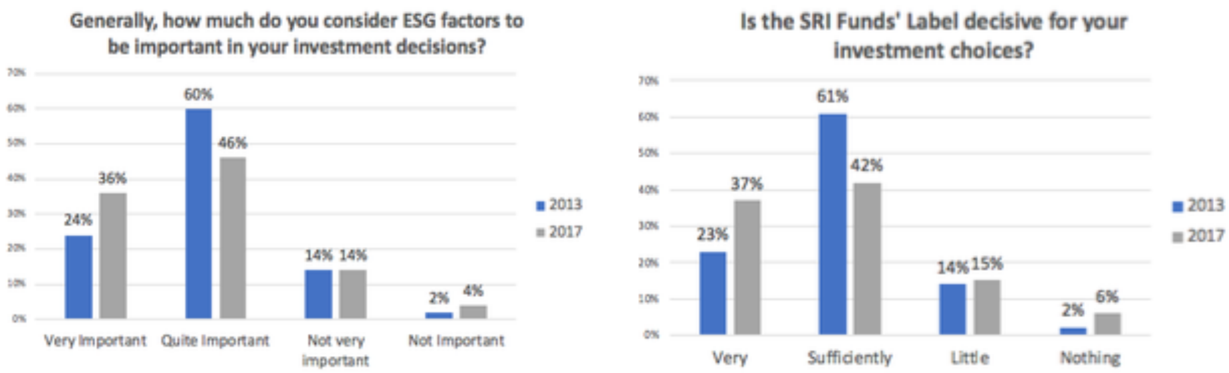


Figure 17 *Respondents' answers to the questions. Source: Il risparmiatore responsabile. (2017). Forum per la Finanza Sostenibile*

Clearest and fullest information about investment products are considered a crucial aspect for investors, with an increase of 14 points from 2013 (44%). Hence, in recent years there has been a general weakening of the awareness regarding sustainable products: the share of the savers claiming no knowledge of SRI investments has reached 42%.

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[40] The SRI Labels are an useful tool to measure and choose Social Responsible Investments. The first label has been created by the French Ministry of Finance with the purpose of enhancing the visibility and the distribution of SRI products in France and in Europe. Today, at EU level there exist a series of labels for SRI products. The SRI Labels, assigned at the end of strict certification procedures led by independent bodies, are
a reference for investors who want a more sustainable economy. Source: *https://www.lelabelisr.fr/quest-ce-que-isr/*

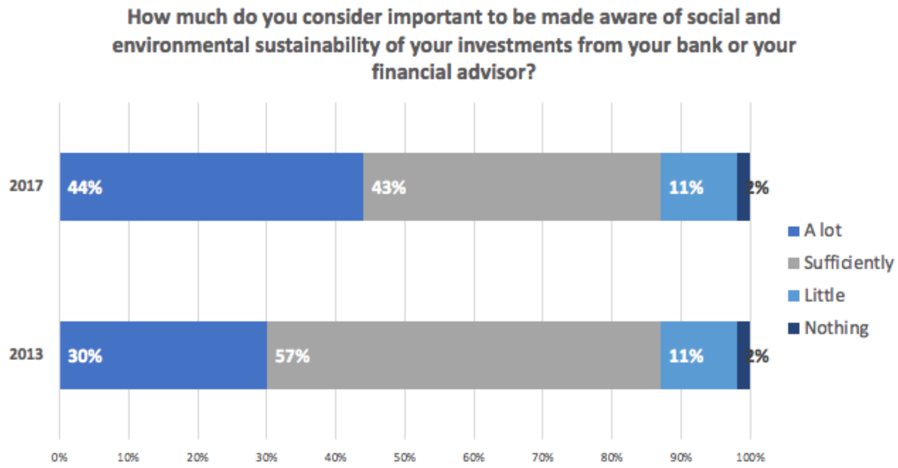

Figure 18 *Respondents' answers to the questions. Source: Il risparmiatore responsabile. (2017). Forum per la Finanza Sostenibile*

Anyway, even if the focus on sustainability is increased in declarations, private interests are prevalent in deeds and conduct, and the willingness to invest in Sustainable and Responsible products remains limited. SRI investments are especially attractive to savers with very diversified portfolios, which represent a minority: less than 15% of the interviewees has more than 4 financial products in his portfolio.

The 45% of the investors would be prone to invest in SRI products, but only 9% of them would effectively change the bank to have access to a rich and varied range of sustainable and responsible products.

It is possible to notice a great discrepancy between the share of investors declaring themselves sensitive to sustainability issues and those with a marked preference for SRI products: this difference is due to the fact that the bank, the insurance and the financial advisor they trust do not focus the commercial proposal on sustainable investments.

Furthermore, the available information is not sufficiently detailed and comprehensive, generating skepticism and mistrust.

Financial and insurance offices have proposed sustainable and responsible product only to the 7% of depositors who do not yet know them.

Figure 19 *Respondents' answers to the questions. Source: Il risparmiatore responsabile. (2017). Forum per la Finanza Sostenibile (Respondents that have never had SRI products in their portfolio (n = 910))*

Only a minority (16%) of the savers considers his knowledge on SRI to be thorough; while 70% believe that the communication on sustainable finance should be improved in Italy.

The lack of information does not only concern SRI products but all the investment products in general, as it is possible to see in *Figure 20*. In this figure, the respondents express their degree of knowledge about the businesses or sectors of the companies in which the bank or the insurance invests, associated with its investment products.

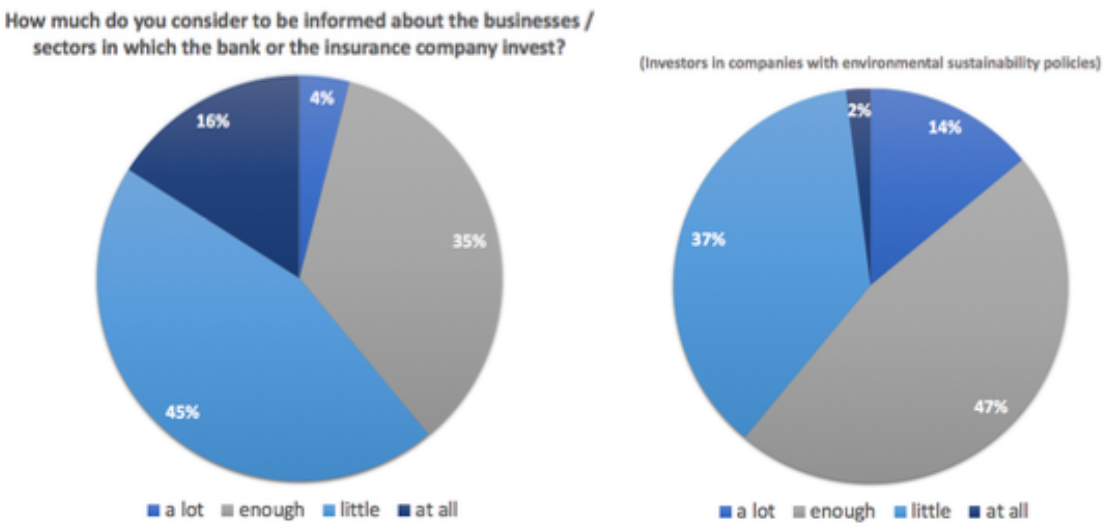

Figure 20 *Respondents' answers to the questions. Source: Il risparmiatore responsabile. (2017). Forum per la Finanza Sostenibile*

This research has been realized from the Forum of Sustainable Finance, together with Doxa, and supported by Natixis Global Asset Management and Generali Group. The survey is the updating of another research conducted in 2013, and its main purpose is to analyze how the savers' and Italian retail investors' attitudes are changed, their willingness to invest in SRI products and the importance attached to SRI themes. The research has been realized through phone interviews, using the CATI (*Computer Assisted Telephone Interview*) technique in September 2017. Data are collected using a structured questionnaire consisting of closed questions.

1.000 interviews have been collected, addressed to people aged at least 30 distributed throughout the Italian territory. The subjects of the interviews have been the private savers, which are the subjects dealing with the financial institutions and that have made investments of an amount equal or greater than 1.000 euro over the last year.

2.3.3. Characteristics of European Investors

The European Commission is activating a real program to promote Sustainable Finance on investors, in order to fill the investment gap estimated to be around €180 billions of additional investments only in Europe, each year until 2030.

Institutional investors are at the forefront of this theme, but it has been realized that also retail investors are crucial to ensure the integration and the diffusion of Sustainable Investing among the population. Approximately 40% of the total assets in EU51 is represented by European households' savings and several studies in various parts of Europe have proven that most retail investors would invest sustainably if they had the chance.

The European Sustainable Investment Forum studies the distribution of SRI assets per type of investor, and in the last two years it has been noted a positive trend in favor of the retail sector, which is constantly increasing its dimension. Hence, there has been a growth in demand for the retail sector of more than 800% in the past four years and this represents an excellent indicator of market potential that has to be exploited.

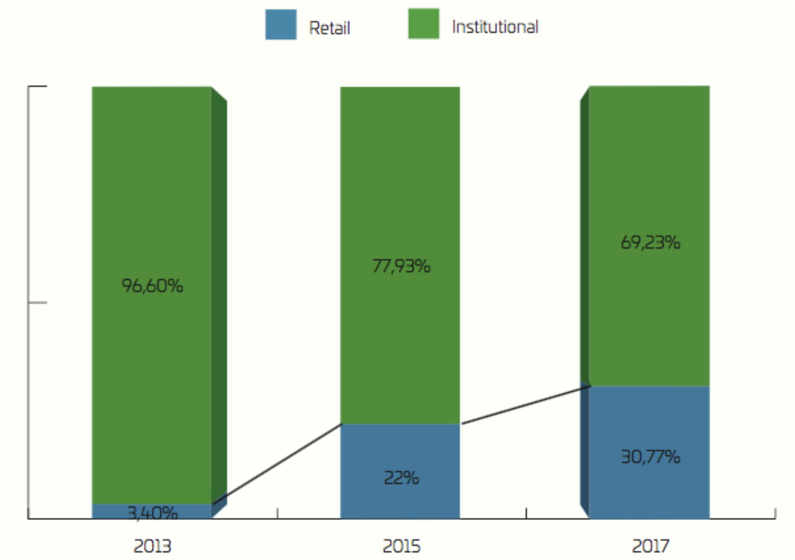

***Figure 21** SRI asset breakdown by type of investor 2013-2017. Source:*

So far, the chance to invest in Sustainable products is still given to few retail investors even if they could play a pivotal role in sustainable finance.

These days, national legislations do not provide any specific provision to incorporate retail investors' sustainability preferences into investment choices, and therefore many retail investors tend not to express their preferences about it. This leads to a dropped demand and decreased supply: advisors are less spurred on considering these preferences and asset managers have fewer incentives to create dedicated financial products. A lot of financial advisors also think of the sustainable products as a tradeoff between returns and sustainability, even if several studies have discarded this hypothesis.

Another aspect still hampering the diffusion of sustainable finance among retail investors consists in the fact that they do not immediately perceive the real impact that investments will do on the environment and on the social fields. Managing to understand and identifying the effects of the investment products is fundamental for retail investors, and further disclosure should be crucial to this end and to promote Sustainable Responsible Investments among the population.

2.4. The Influence of Investor Behavior on Company Management

It is important to keep in mind that the SRI is not a class of assets, but rather a management style which applies to all assets -equity, debt, government securities. In other words, this is not something different from asset management, it is just a different way of doing it. However, being a completely particular style, it requires specific skills and specialization of resources. Over time, therefore, several professional figures and a range of appropriate tools have been created, by which the market has responded to the needs of an increasingly sophisticated demand.

The practice of investing in a socially responsible way has grown steadily in recent years, evolving from "*niche*" choice to increasingly popular behavior among financial operators. It would be extremely reductive to limit the measurement of the growth of this phenomenon exclusively to quantitative measures, tied to the volume of the assets under management; what is important to be taken into consideration is the constant evolution of the experiences and of the role that sustainable and responsible investors are gradually undertaking. Inter alia, the position that many investors are acquiring, especially the institutional one, seems to offer further possibilities[41].

Among these new potentialities, Sustainable and Responsible investors have the ability to influence and change companies' behavior towards increasingly responsible practices.

2.4.1. Shareholder Activism and Engagement

The attempt on the part of investors to influence companies' behavior is often denominated *shareholder activism*, which is the strategy in which shareholders play an active role in the promotion of socially responsible practices, through the use of the right to vote deriving from the possession of shares.

Even if *shareholder activism* is the most widespread tool, there are different forms with which shareholders try to influence firm's behavior; hence, the broader term *engagement* indicates the process by which, once identified specific areas for improvement in the company, investors try to inform, assist, persuade and monitor the

[41] Sparkes and Cowton, 2004.

policies implemented by it. This operation is characterized by an intense activity of collection and exchange of information, dialogues and meetings between the company and shareholders, an eventual support for the drawing up and for the adoption of specific strategies, and the possibility of submitting motions to the general assembly and the exercise of the right to vote. Shareholder activism is thus one -but not the only one- way in which investors relate to the company.

Figure 22 *Relationship between Engagement and Shareholder Activism. Source: Forum per la Finanza Sostenibile, Engagement sui temi di sostenibilità.*

Depending on the intensity of the action, it is possible to distinguish between *soft* and *hard engagement*:

- *Soft Engagement*: The creation of dialogues with the company management, through which the investors require more information and create a direct confrontation on socio-environmental issues and government businesses;
- *Hard Engagement*: Investors having shares in the company can utilize their right to vote in the assembly as a disciplinary instrument and a mean of ethical guidance for the firm's behavior.

In *soft engagement* policies, investors can adopt different approaches to create a dialogue with the firm: from the organization of periodical or occasional meetings around specific themes, to the sending of written communications about the investors' expectations about the ethical behavior. This strategy to stimulate socially responsible behavior can be adapted by equity funds as well as by bond funds.

The second category of engagement, which includes also the *shareholder activism*, embraces the right to vote on the items on the general meeting's agenda related to ESG factors, as well as the tabling of motions of integration of related issues. The engagement practices in this second meaning are generally the responsibility of institutional investors, whose investment strategy includes the underwriting of equity securities and, naturally, does not lend itself to be applied from bond funds[42].

Every step is an independent phase: often there is no need for the vote in the assembly since managers prefer to listen to what shareholders are asking for and they shall encourage a process of dialogue and cooperation[43].

Hence, drawing the *engagement* process, the initial stage may be the dialogue with the enterprise, that is the identification of issues and potential areas of action, the drafting of a proposal or a report and the effective dialogue with the management, through the organization of periodical or occasional meetings and the request for information on identified issues.

Therefore, the initiative may evolve in several ways:

- The acceptance by the firm of the instances contained in the proposals and the implementation of new initiatives to rectify the situation, with consequent withdrawal of the investors' proposal;
- The refusal by the company to continue the dialogue;
- If the investor is also shareholder, there is the request to include the important issues on the agenda of the assembly with the exercise of the right to vote;

The last two conclusion modes of the operation -the refusal and the vote in the case it leads to the rejection of the proposal-, could lead to two further stages, considered to be particularly critical:

- The divestment -*exit*;
- The public dissent -*advocacy*.

These are considered by many to be extreme solutions though, and they are not always effective; generally, *voice* activities are preferred rather than these last resorts[44],

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[42] Dell'Atti A., Intonti M., Iannuzzi A., (2010). *Azionariato attivo e soft engagement nei fondi SRI europei: un'analisi empirica. Banche & Banchieri*, (6).

[43] Carleton, Nelson and Weisbach, 1998

[44] Carleton W.T., Nelson J.M., Weisbach M.S., (1998). *The Influence of Institution on Corporate Governance through Private Negotiations; Evidence from TIAA-CREF*. The Journal of Finance, Vol. LIII, n.4, August.

characterized by the risk of decrease of the share value, in the case of a listed company, as well as the risk of reputational damage.

Moreover, if the aim is to encourage behavioral change in favor of greater sustainability, having a stake in the company can enable active participation in the decision-making process, that is not possible in the case of divestment.

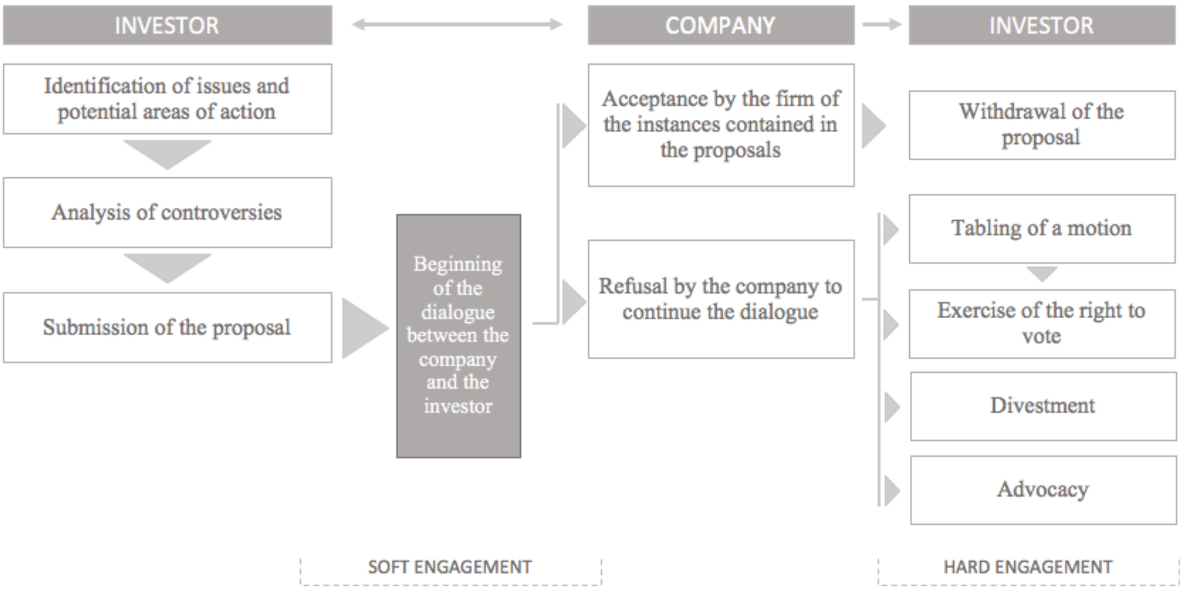

Figure 23 *Engagement Process. Source: Forum per la Finanza Sostenibile, (2013). L'engagement. Una strategia di investimento sostenibile e reponsabile orientata al cambiamento. Linee Guida per le Forme Pensionistiche Complementari.*

By focusing on *advocacy campaigns*, it is important to highlight that they are a possible extreme consequence of *Shareholder activism*, but, even if the employed means may be similar, the goals and objectives of the two actions are quite different. *Advocacy campaigns* use the rights deriving from the ownership of shares to express public dissent towards corporate policies: they are often accompanied by campaigns to boycott the purchase of products and aimed at causing economic damage to the company. Differently, SRI policies generally tend to combine social aspects with economic-financial ones.

With regard to the companies subject to *engagement* policies, a distinction must be drawn between *shareholder activism* and *shareholder criticism,* pointing out how the first one seeks to further improve the behavior of companies which are often already recognized to be socially responsible, while *shareholder criticism* is addressed primarily to firms which are already committing socio-environmental violations, by reporting and opposing to the negative consequences of these practices[45].

2.4.2. The effectiveness of Engagement policies

The effectiveness of *engagement* policies can be measured according to a *stakeholder view*, which considers the effective changes the policy has generated, or according to a *shareholder view*, which takes into account the changes in the value per share of the company, based on the idea that greater ethical performances lead to higher economic and financial performance.

By accepting the *stakeholder view*, the engagement strategy can be seen as a way of expressing an opinion from a non-strictly financial point of view. Hence, it is appropriate to define and to verify the success of the *shareholder activism* according to the changes implemented by the company.

According to the *shareholder model* instead, the responsible investor is convinced that a better socio-environmental performance can improve also the economic and financial one; relying on this idea, the investor is committed to ensure that the company boosts its performance in all possible spheres. Evidence has shown how *shareholder activism* can be utilized to increase the value of a security, since it reduces the risk of future protest actions and future penalties, and because it can improve the image, the consensus and the reputation. In this perspective, the main reference parameter to evaluate the strategy is the share value.

Often, it is the synergic effect of the two views that characterizes this strategy and facilitates the distinction between the different practices and procedures used by investors.

[45] Dell'Atti A., Intonti M., Iannuzzi A., (2010). *Azionariato attivo e soft engagement nei fondi SRI europei: un'analisi empirica. Banche & Banchieri*, (6).

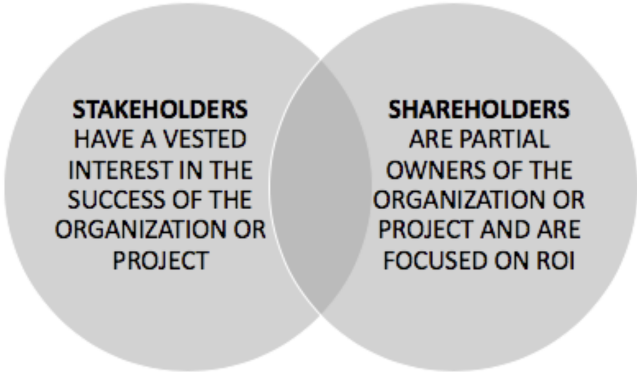

Figure 24 *Stakeholders vs. Shareholders. Source: Landau P. (2019). Stakeholder vs. Shareholder: How they're different & Why it matters. Project Manager*

The above considerations make it easier to understand how the choice of the companies, and the decision of the strategies to be implemented, may be strongly influenced by investors' motivations to undertake an engagement activity. Rehbin, Waddock and Graves (2004) distinguish between two different perspectives: the *interest-based* perspective and the *identity-based* one. According to the first point of view, investors are led to interact with the company whenever they perceive that their interests do not receive adequate attention: they will trigger actions able to better achieve specific strategic targets -working conditions, governance structure, environmental performance, sustainability reporting and so on. Other times, instead, social groups may decide to take steps to consolidate and strengthen their collective identity, rather than to achieve specific goals. In this case, activists do not expect to have a strong impact on businesses but to give expression to their own identity. Therefore, they will select large successful corporations, with good visibility, in order to expand the echo of their initiatives.

Within this context, the factors influencing the effectiveness of the taken measures can be identified in the corporate culture and the openness toward such initiatives, as well as the weight and the level of influence of the activist or of the group of activists. Naturally, in this last case, an important variable consists in the volume of the financial resources and the amount of the investment made. In order to make the *voice* audible, the engagement activity must not be supported by a single investor, also for the commitment and the specific skills required. Thus, this action is generally taken by organized groups of people -ethical funds, pension funds, focus groups, consumer

groups, religious groups, trade unions, non-governmental organizations[46] - able to attract broader public attention and, therefore, strengthen the adopted policies[47].
In order to ensure that the *shareholder activism* results in real and enduring changes, firms must get involved on every level: the issues raised by investors require the attention of the whole company and not only of those responsible of socio-environmental issues. This will be possible only by encouraging a new corporate culture on CSR themes, ensuring that these are perceived as potential opportunities and not as threats to be defended against. Furthermore, the engagement process should include all the parties involved -governments, trade unions, professional associations, other investors- so to create a process of mutual cultural growth, to support, promote and consolidate economic increasingly responsible practices.[48]

2.3.4. Investors hunting for increasingly green companies: an insight on the decarbonization of economies

Investors are hunting for increasingly green companies, and they are pressuring on the corporations to become so. Many institutional and private investors are reducing their investments in companies operating with fossil fuel and are pressuring firms to reduce CO_2 emissions and to respect European limits. The European target is -43% of greenhouse gas emissions and also the 2030 Onu Agenda has stringent targets concerning this. Hence, combating climate change is essential for the new economy and is forcing listed groups to reconsider their businesses, by entering in the business plans aggressing cuts to CO_2 emissions.

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[46] Dal Maso D., Fiorentini G., (2013). *Creare valore a lungo termine*. Milano: EGEA.
[47] Dell'Atti A., Intonti M., Iannuzzi A., (2010). *Azionariato attivo e soft engagement nei fondi SRI europei: un'analisi empirica. Banche & Banchieri*, (6).
[48] Dal Maso D., Fiorentini G., (2013). *Creare valore a lungo termine*. Milano: EGEA.

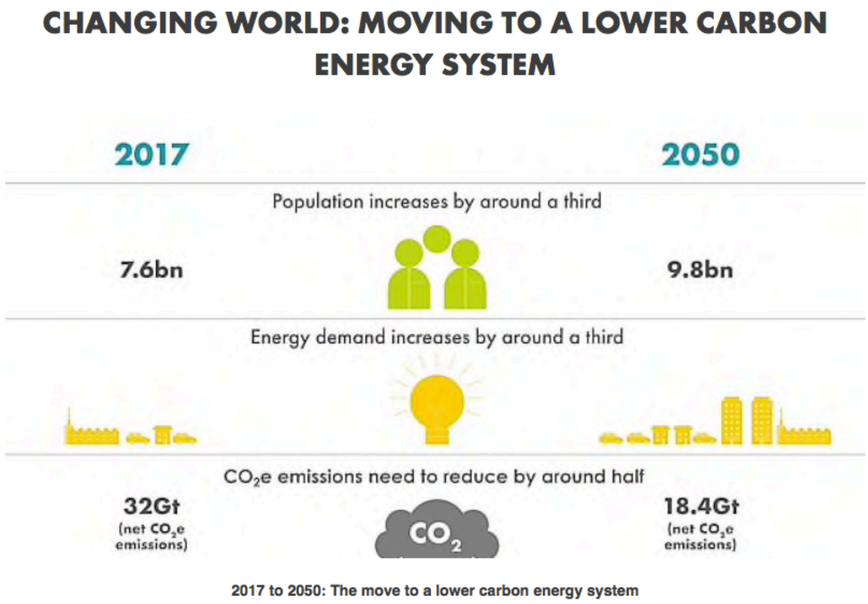


***Figure 25** Changing World: moving to a lower-carbon energy system. Source: shell.com* [49]

In the battle against CO2, institutional investors are frequently supported by religious organizations, being also them shareholders of international listed companies; in this way, they become more able to attract public attention and to strengthen the adopted policies.

An example of how societies change their business to integrate shareholders' beliefs on sustainability, is the Anglo-Dutch oil giant **Royal Dutch Shell,** which has joined the initiative Net Carbon Footprint, having to deal with the Church of England and Robeco Dutch funds: the CEO Ben Van Beurden has announced that there will be an additional cut by 2-3% on CO2 emissions compared to what was already stipulated. Shell has also started addressing to clients driving vehicles with an internal combustion engine, here, from slid 17th April 2019, drivers refueling at the Shell stations in Netherlands, have had the opportunity to fill the tank with low-carbon biofuels and to "neutralize" the remaining CO2 by using Green Credits, that are credits generated by those who fall below the emissions levels through initiatives of many types. This program will be extended to other countries[50]. Another turning point in Shell's policy

[49] *Figure 25* reveals an expectation of an increase in the population, from 7.6 billion to 9.8 billion between 2017 and 2050. At the same time, energy demand is expected to rise by a third. Meanwhile, it is necessary a reduction of the CO2e, or carbon dioxide equivalent, from 32 gigatons to 18.4 gigatons, in order to meet the targets of the Paris Agreement. Source: Shell.com

[50] Ansa, (2019). *Chi si rifornisce alla Shell in Olanda azzera emissioni CO2.*

is its abandonment of one of the major American oil lobbies because of disagreements on policies on climate change. It has been reported by the Financial Times, stressing that Shell will not renew its membership to the *American Fuel & Petrochemical Manufacturers*, which is an association representing almost 300 chemical and oil companies. Shell's non-membership to the association points out the stakeholders' pressure on large oil groups to respect standards for carbon emissions.

As it is possible to see in *Figure 26*, the decision to leave American Fuel & Petrochemical Manufacturers, communicated on the 2nd of April 2019, has been positively received by the market.

Figure 26 *Market prices of Royal Dutch Shell plc (RDS-A), NYSE, USD*

At the same time, also **Eni** has integrated sustainable goals in his business plan, driven by the stakeholders' willingness. Led by Claudio Descalzi, the group aims to cut greenhouse gas emissions by 43% by 2025 -with respect to the ones in 2014[51]. "Decarbonization represents a strategic priority for our Board of Directors. We are strongly engaged in working toward a low-carbon future and today we are setting a new goal, which is to achieve the CO2 neutrality in the upstream segment by 2030; we will achieve this aim increasing the production efficiency, so minimizing CO2 emissions and offsetting residual emissions through vast projects of forest-making",

[51] D'Angerio V., (2018). *Investitori a caccia di aziende sempre sostenibili.* Milano: Gruppo24Ore.

this is the announcement of Claudio Descalzi, the CEO of Eni, made during the presentation of the new Strategic Plan for the 2019-2022, taken place the 15th of March 2019[52]. By July 2019 Eni has produced a quantity of tCO_2 inferior of 2,3% regarding the average of 2018, meeting goal schedule. Eni is proving that the change to green can go hand in hand with the profitability, hence, it has been also announced a dividend increase by 3,6% to €0,86 per share. The will of Eni group is thus to communicate that the sustainability theme is pivotal not only for the ones who want to save the planet, but it is also able to influence the investment choices made by a large part of the institutional investors, like the pension funds.

Figure 27 *Market Prices of Eni S.p.A. , Milan, EUR*

2.5. Strategies

2.5.1 SRI Criteria

The element that most characterizes Sustainable and Responsible Investments is the selection process of the securities to include in the portfolio. Even though there are no objective criteria for defining the ethicality of an investment and no general rules

[52] ENI Strategic Plan 2019-2022 Source: https://www.eni.com/docs/it_IT/eni-com/media/comunicati-stampa/2019/03/CS-eni-2019-2022-piano-strategico.pdf (ENI, 2019)

in the selection process of sustainable investments, each financial body or institution has its own classification process[53]. Therefore, it is possible to identify some criteria characterized by increasing complexity, in order to classify investments in four main categories[54], represented in *Table 1.*

Exclusion criteria, also known as negative screening, eliminate from the portfolio any investment in companies operating in controversial activities: alcohol, tobacco, nuclear energy, pornography, gambling, army industry, companies violating human rights and so on.

Funds using only exclusion criteria for investment selection represent the original form of ethical investments, and also the most basic one, since they imply compliance with easily identifiable and applicable rules.

EXCLUSION CRITERIA	Alcohol, tobacco, nuclear energy, pornography, army industry, human rights, …
INCLUSION CRITERIA	
Environmental policies	Environmental impact of the production and measures to reduce it, pollution monitoring and containment, product and processes quality, …
Internal policies	Human resources management, working conditions, conditions on the labor market, …
External policies	Transparency of management, quality of relations with stakeholders, social investments, …

Table 1 *Ethical criteria for selecting investments. Source: Vandone D. (2004). Il mercato italiano dei fondi d'investimento socialmente responsabili. Bologna: Il Mulino.*

In addition to negative criteria, managers of socially responsible funds can also adopt positive screening, aimed at the inclusion of companies contributing to the social development. These *Inclusion criteria,* in turn, may present some complexity and increasing articulation as they could concern environmental policies, internal policies and external ones.

[53] Rossi F., Turrina L., (2013). *Gli investimenti sostenibili e responsabili*. University of Verona.
[54] Viganò, 2001; Dal Maso e Bartolomeo, 2001; Cory, 2001; Lanza, Calcaterra e Perrini, 2001; Arzeni, 2002; Hancock, 2002; Lewis, 2002.

The environmental policies select companies that contribute to the sustainable development of the environment and that, for example, utilize renewable sources of energy and protect the environment by implementing preventive measures on pollutant emissions.

Companies' *screening criteria* get more sophisticated if they analyze also the internal policies in addition to the environmental one, relating to the management and the relations with the staff.

Lastly, there are the external policies. Funds adopting these criteria require a broader range of inclusion positive criteria taking into consideration all fields of social responsibility: it shall evaluate the company's sensitivity to environmental protection and the community development, but also the quality management, the optimization of human capital, the transparency of management and the community involvement in corporate decisions. For these purposes, the quality of the relations with all the stakeholders is crucial: shareholders, management, staff, clients, suppliers, trade unions and non-governmental organizations.

It is obvious that these selection criteria, qualifying the ethicality of the portfolio composition, imply increasing levels of complexity, thus additional constraints and charges on operators.

The application of investment selection criteria may also concern countries, in the case of valuation of securities issued by government bodies. In this case, the screening process gets slightly uncertain, since it is not always easy to assume which projects will be financed by the incomes from debt securities. In this case, it is necessary to identify ex-ante criteria that distinguish between more or less responsible countries.

As mentioned before, even the investment selection process has different levels of difficulty. Hence, it can be implemented in three ways, not necessarily alternative among them:

- At the autonomous initiative of the management;
- Under the responsibility of an internal ethics committee, that is in charge of proposing new selection criteria and of supervising managers activity;
- Under delegation to an external company.

In the first two cases the fund will use internal resources, even if the setting up of the ethical committee represents a greater guarantee for the criteria implementation; in the third case, instead, the fund does not integrate its own ethical parameters but it will make use of criteria laid down from an external source[55].

2.5.2 EUROSIF classification

On 19th November 2018, the European Sustainable Investment Forum -EUROSIF- has presented his last study on ESG investments in Europe. In its investigation, the Association, which includes more than 400 organizations and some of the principal operators in the sector, points out a significant growth for most of the Socially Responsible investment strategies[56].

The study confirms the definition of Socially Responsible Investment adopted in 2016 and, as already introduced in 2012, identifies seven different categories of SRI investments:

1. *Exclusion of holdings from the investment universe*:

   This strategy is based on the exclusion of a production sector or of a company whose business is incompatible with sustainability criteria or with international regulatory standards. This is the oldest SRI strategy, started in the 18th century with the Quaker movement, which aligned their investment choices with moral codes.

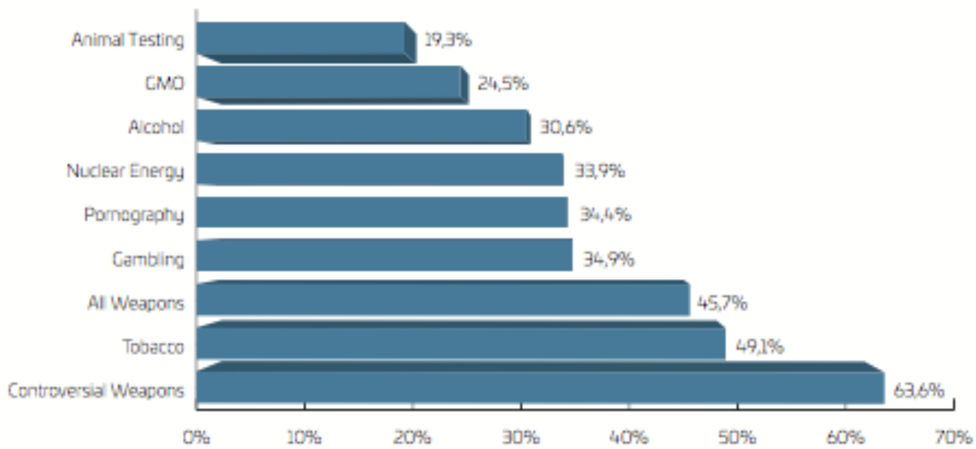


Figure 28 *Top Exclusion Criteria. Source: EUROSIF, European SRI Study 2018.*

[55] Vandone D., (2004). *Il mercato italiano dei fondi d'investimento socialmente responsabili.* Bologna: Il Mulino

[56] EUROSIF (http://www.eurosif.org/), *European SRI Study 2018*, November 2018.

2. *Norm-based screening:*

Investments are subject to a careful assessment to determine the compliance of enterprises with international standards and norms. It refers to areas such as environmental protection, human rights, labor standards and anti-corruption;

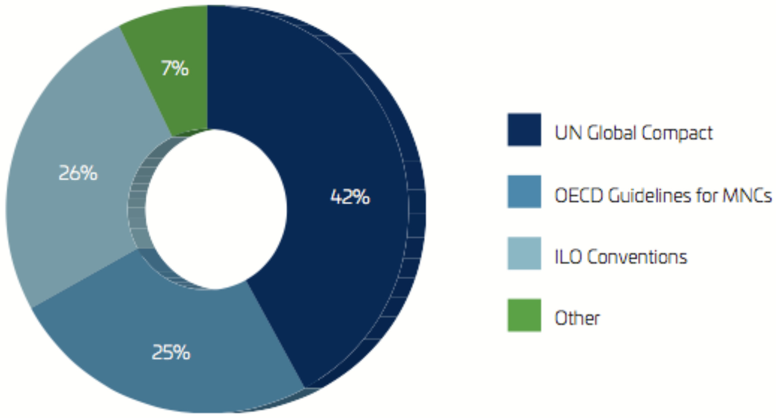


Figure 29 *Application of Norms as part of Norm-Based Screening. Source: EUROSIF, European SRI Study 2018.*[57]

3. *Engagement and voting on sustainability matters:*

This strategy requires shareholders to engage in a structured and constant dialogue with the company management and to constantly monitor the ESG factors characterizing the company's activity;

4. *Integration of ESG factors in financial analysis:*

It consists in the explicit and systematic inclusion of ESG factors in the traditional financial analysis;

[57] *UN Global Compact* is an initiative of the United Nations created to promote sustainable policies and corporate social responsibility and to make public the results of actions undertaken. It gather the principles within four main areas: human rights, labor, environmental sustainability and anti-corruption.

OECD Guidelines For Multination Enterprises are an annex of the OECD Declaration on International Investment and Multinational Enterprises. They are recommendations providing minimum standards for responsible conduct for multinational companies operating in countries adhering to the declaration.

International Labor Standards are legal standards drown up by ILO's constituents and setting up some basic conduct principles. They can be conventions or recommendations and they focus on themes such as labor rights, freedom, equal rights, and discrimination.

5. *Best-in-Class investment selection:*

   It is the strategy developed by investors in order to select enterprises able to obtain best ESG scores within their sector. It takes into consideration both ESG and financial evaluations;

6. *Sustainability themed investments:*

   The strategy consists in choosing investment areas typically associated with the very idea of sustainable development. The operations involve a variety of different themes starting from the environmental ones. Over the past two years, investors have been particularly focusing on climate change and water-themed funds.

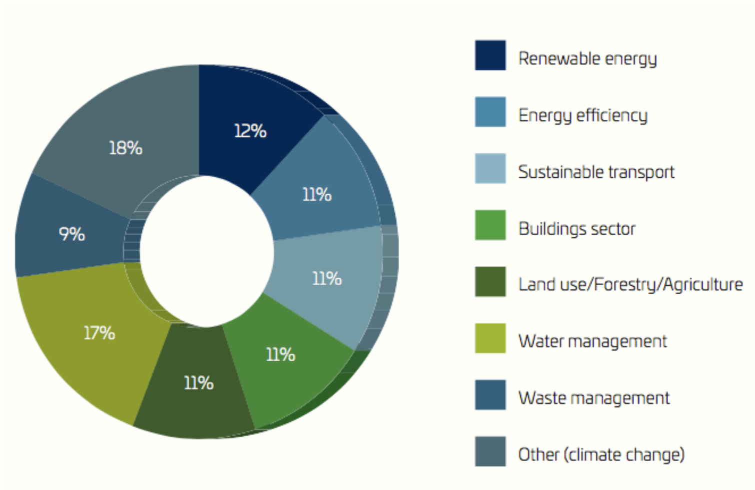


Figure 30 *Sustainability Themed Investments. Source: EUROSIF, European SRI Study 2018.*

7. *Impact Investing:*

   It consists in the selection of investments aimed at creating social value or able to have a positive environmental impact. These objectives outweigh the typical economic and financial purpose.

2.5.3 Sustainable Investment strategies in Europe and in the World

Eurosif investigation analyses the investors' portfolio of twelve countries over the biennium 2015-2017. Their overall portfolio is equal to 20 trillion euros.

The results of this analysis show a positive trend in almost every area of the sustainable investment market. The research highlights a significant growth of the assets selected according to the *ESG integration* criteria: the estimated Compounded Average Growth Rate[58] of the segment is equal to 27%, which is the highest among all the sectors. Also other areas are growing: *Best-in-Class* (CAGR +9%), *Engagement & Voting* (7%), *Impact Investing* (5%) and *Sustainability Themed* (1%). In decrease the sector *Exclusion* (-3%) and *Norm-based Screening* (-21%).

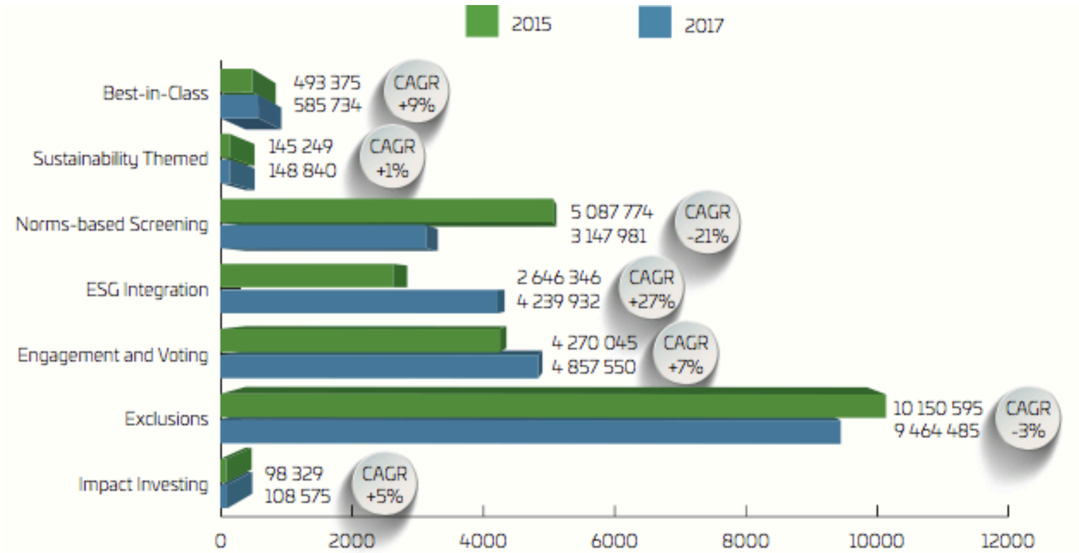


Figure 31 *Overview of SRI strategies in Europe. Source: EUROSIF, European SRI Study 2018.*

EUROSIF study does not provide data on the total SRI investment in Europe. The computation would be too complex considering that asset managers tend to use more criteria at the same time. Thus, it would be impossible to identify an overall value by simply summing the values of individual investment categories.

At European level, there seems to be a sort of unanimity on the exclusion of tobacco from investments. This implies that there is some consistency between the social

[58] The CAGR represents the average growth rate of a quantity over a period of time. It is one of the most commonly used indicators to calculate the average return on an investment in a given period. The CAGR is not a "real" number, but only a convenient indicator which assumes a constant growth every year, although it might not be so. To discover the true average growth, it should be necessary to repeat the calculation every year and divide it for all considered periods. Source: Borsaitaliana.it

repercussions, with the consciousness that tobacco is harmful to public health, and economic ones, with the consciousness that companies in this business do not represent a sustainable investment option because of the stringent legal and marketing costs they have to bear.

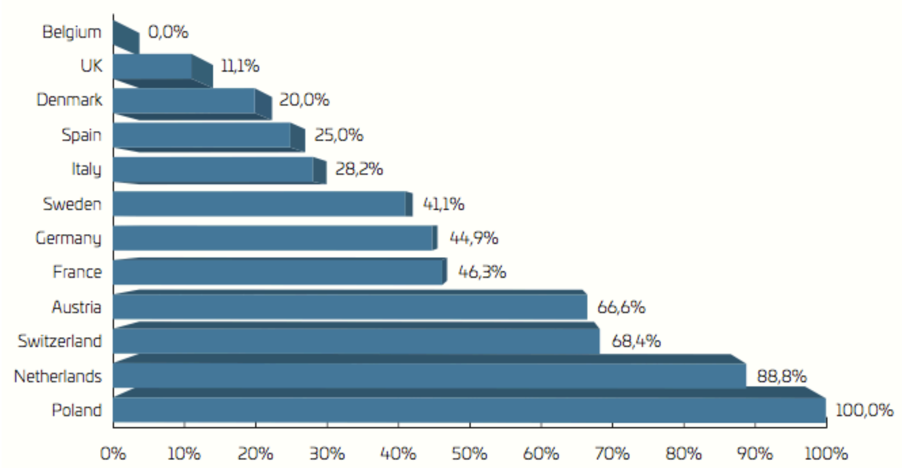


Figure 32 *Tobacco Exclusion by Country. Source: EUROSIF, European SRI Study 2018.*

Also at a global level, the largest sustainable investment strategy has been the *negative* or *exclusionary screening*, with $19.8 trillion in assets under management. Moreover, even if in Europe it is not widespread, *ESG integration* commands most of the assets in the United States, Canada, Australia, and New Zealand.

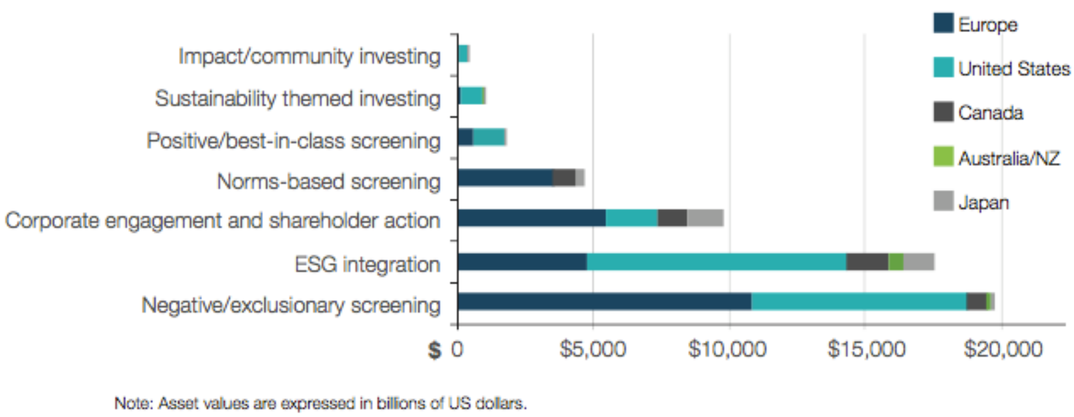
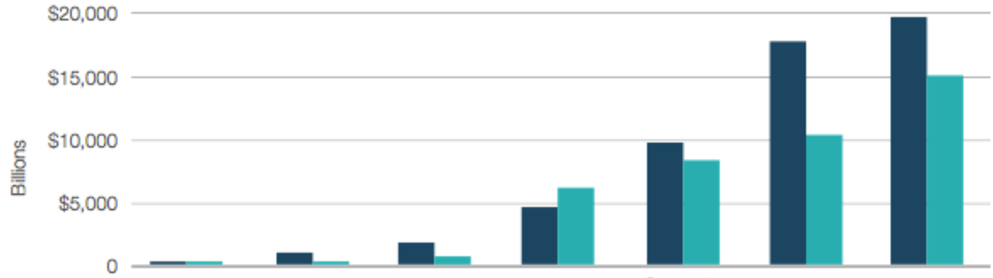


Figure 33 *Sustainable investing assets by strategy and region 2018. Source: Global Sustainable Investment Alliance, 2018 Global Sustainable Investment Review..*

Every strategy has grown in the last two years apart from the *norm-based screening*, which has been the only strategy to have declined in 2016-2018 -decrease of 24%. The strategy that has grown the most -269%- has been *sustainability-themed investing* with $1.0 trillion in assets and *best-in-class screening* -125%- with $1.8 trillion in assets.



	Impact/ community investing	Sustainability themed investing	Positive/ best-in-class-screening	Norms-based screening	Corporate engagement and shareholder action	ESG integration	Negative/ exclusionary screening
2018	$444.26	$1,017.66	$1,841.87	$4,679.44	$9,834.59	$17,543.81	$19,770.96
2016	$248.47	$276.16	$818.01	$6,195.40	$8,385.17	$10,353.20	$15,063.57
Growth 2016–18	79%	269%	125%	-24%	17%	69%	31%
CAGR	33.7%	92.0%	50.1%	-13.1%	8.3%	30.2%	14.6%

Note: Asset values are expressed in billions.
Some corrections to the 2016 strategies have been made. See the Methodology section for more information.

Figure 34 *Global growth of sustainable investing strategies 2016-2018. Source: Global Sustainable Investment Alliance, 2018 Global Sustainable Investment Review.*

An example of ESG integration: Nordea Asset Management

Nordea is the major financial group in the Nordic region. With its solid patrimonial situation and its market capitalization, it is among the ten leading European financial institutions. It has 204.8 billion euros under management and a wide range of products covering all asset classes. From 2007 onwards, all investment funds managed by Nordea Asset Management comply responsibly with the *Responsible Investment policy* based on international norms and conventions, such as the Principles For Responsible Investments -PRI. Furthermore, with the creation of a sustainable investment committee, headed by the CEO of NAM[59], it has been created a responsible investment policy at company level.

[59] Nordea Asset Management

In 2018, the group to which Nordea Asset Management belongs, Nordea Group, has been ranked among the 100 top groups in the world in terms of sustainable development.
Nordea's overture to SRI includes a wide variety of approaches to responsible investments. Some of them are established and implemented at company level -*overlay*-, whereas others are specific approaches depending on the product, and they are applied only to solutions with greater attention to ESG factors.

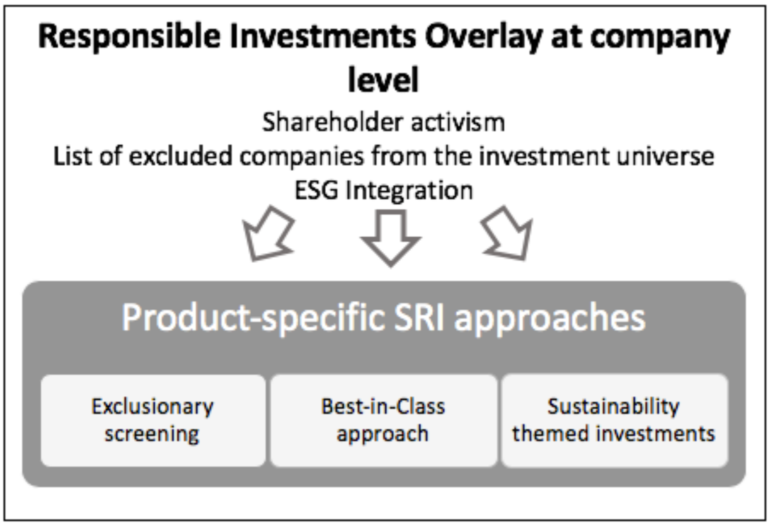


Figure 35 *Responsabile Investment Approach of Nordea Asset Management. Source: Nordea, Nordea Asset Management: impegnati nell'investimento responsabile (2018).*

All active funds are subject to prior screening based on international requirements, geared to identifying societies allegedly involved in violations or controversies in environmental protection, human rights, labor standards and, anti-corruption. The Responsible Investment Committee, then, may decide to put the society on the list of exclusions or to freeze any additional investment in these societies. Hence, specific securities, sectors or business are excluded at company level from the investment universe: NAM has banned any investment in companies involved in the production of biological and chemical weapons, anti-personnel mines, cluster bombs and nuclear weapons. In 2007 this policy was extended also to companies involved in the maintenance of nuclear weapons, as a result, another 16 companies were excluded. Analogously, any investment in companies whose more than 30% of incomes depends on coal mining is prohibited; this means that another 45 companies have been placed on the exclusion list related to coal mining.

On the Nordea Exclusion List there are 179 companies, as of August 2019.

Nordea

Exclusion list

Last updated August 2019

Company	Comment
ABM Investama Tbk PT	Involvement in coal mining
Adaro Energy Tbk PT	Involvement in coal mining
AECOM	Involvement in nuclear weapons
Aerojet Rocketdyne Holdings Inc	Involvement in nuclear weapons
Aeroteh SA	Involvement in cluster munitions
Agritrade Resources Ltd	Involvement in coal mining
Airbus SE	Involvement in nuclear weapons
Alliance Holdings GP LP	Involvement in coal mining
Alliance Resource Partners LP	Involvement in coal mining
Alpha Natural Resources Inc	Involvement in coal mining
Anglo Pacific Group plc	Involvement in coal mining
Anhui Great Wall Military Industry Co Ltd	Involvement in cluster munitions
Arch Coal Inc	Involvement in coal mining
Aryt Industries Ltd	Involvement in cluster munitions
Asia Resource Minerals PLC	Involvement in coal mining
Athabasca Oil Corp	Involvement in oil sand
Atomenergoprom JSC (Atomic Energy Power Corp)	Involvement in nuclear weapons
Babcock International Group PLC	Involvement in nuclear weapons
BAE Systems PLC	Involvement in nuclear weapons
Banpu PCL	Involvement in coal mining
Baralaba Coal Co Ltd	Involvement in coal mining
Bathurst Resources Ltd	Involvement in coal mining
Bayan Resources Tbk PT	Involvement in coal mining
Beijing Haohua Energy Resource Co Ltd	Involvement in coal mining
Berau Coal Energy Tbk PT	Involvement in coal mining
Bharat Dynamics Ltd	Involvement in cluster munitions & nuclear weapons
Boeing Co/The	Involvement in nuclear weapons
Booz Allen Hamilton Holding Corp	Involvement in nuclear weapons
Borneo Lumbung Energi & Metal Tbk PT	Involvement in coal mining
Bukit Asam Persero Tbk PT	Involvement in coal mining

Figure 36 *First page of Nordea Exclusion List. Source: Nordea*

Since ESG factors represent an ever-increasing source of risks and opportunities, the model of investment analysis has been created in order to integrate them with financial analysis, to base investment decisions on a full set of information.

Figure 37 *Integration of ESG research and fundamental analysis. Source: NAM Responsible Investment Report 2018.*

In addition to the Responsible Investment overlay at a company level, there are several other strategies with a stronger orientation to responsible investments, which include additional filters to meet specific needs:[60]

- Certain sectors: tobacco, military equipment, gambling, alcohol, pornography;
- Companies listed in the "NBIM list[61]";
- Additional filters related to fossil fuel or stricter limits on the coal industry.

2.6. Financial Products

Going into 2019 is pretty exciting for sustainable product innovation. With the EU green taxonomy and financial regulators making strong statements on climate change, investors seeking greater disclosure, and the momentum, there is a definite sense of accelerated urgency in sustainable finance.

The growth of blended financial solutions and the increasing co-operation between stakeholders, investors, and policymakers, could provide a real boost of green and sustainable projects in the real economy. This, in turn, will provide more impetus for sustainable financial products.

Moreover, issuers in industries that are at risk of being negatively impacted by environmental, social and government pressures, are becoming increasingly aware of green bonds and sustainable products. These can be considered to be protected against market uncertainty and volatility[62].

In the last few years there has been significant growth in the issuance of sustainable financial instruments, which can differ on:

- Type of funding granted -equity, bond, mixed;
- Type of financed subject -listed/non-listed companies, investment in intermediaries/direct.

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[60] Nordea Asset Management, (2019). *Nordea Asset Management: Impegnati nell'investimento responsabile.*

[61] The NBIM List is an exclusion list created by the Norges Bank. The decision to exclude companies from the investment universe are based on recommendations from the Council of Ethics of the Ministry of Finance. The last update of the list has been on the 18th of March 2019.

[62] Environmental Finance, (2019). *Sustainable Bond Insight 2019.*

The most widespread SRI financial instruments on the European market are:

- Investment Funds
- Green Bond
- Social Bond
- Social Impact Bond

2.6.1. Investment Funds

SRI funds are asset management products that differ from the traditional financial instruments in their ability to achieve performance goals in compliance with certain socially responsibility requirements. Through an investment selection based on ESG factors, SRI funds shall allow investors to direct their savings to those companies or those States that stand out for their social and environmental commitment. The added value of SRI funds consists of the real opportunity to contribute to the creation of an economic system more robust and sustainable, without sacrificing financial returns.

Sustainable and responsible funds can be distinguished for the approach they use to define the investment universe. A part of them use a sustainability benchmark, like the Dow Jones Sustainability Index or the Ftse Ecpi Italia Sri Index, which, by definition, make a selection of listed companies according to specific social and environmental requirements. These managers only care about replicating the composition of the sustainability indexes in their portfolio. On the other hand, other funds define their investment universe in accordance with strict selection and rejection criteria, blacklisting issuers operating in controversial areas and creating an investment universe made up of the most deserving issuers in terms of ESG performance.

SRI funds were the first sustainable financial instruments to be launched on the Italian market, in the late nineties. They are characterized by the rigorous selection of the stocks that will be included in the portfolio in accordance with social responsibility principles, and it is important to distinguish them from the so-called *solidarity funds*.

Solidarity funds, unlike the SRI ones, simply donate part of the returns to non-profit organizations or solidarity projects, without the restriction of utilizing ESG criteria in issuers selection. *Thematic funds* instead can come with the definition of SRI funds, investing in a specific field conform to socio-responsibility principles, tied to renewable energies, water scarcity or climate change, for example. Thematic funds, hence, adopt an investment strategy oriented towards businesses operating in the generation of new opportunities through sustainable activities. They are considered SRI funds if, besides the thematic focus, they provide also an ESG valuation.

Naturally, SRI funds differ depending on the type of securities they invest in, just like traditional funds. Therefore, they are attributable to the same product macro-categories of the traditional ones, defined on the basis of risk factors: equity funds, bond funds, and balanced funds. Within these macro-categories, products are distinguished for geographic area -Europe, Emerging Markets, Asia, etc.- and currency -dollar, euro, etc.-.

Management of SRI funds has several specificities at a technical level, compared to the traditional one: these differences may affect the structure of the costs, besides the operating results. The main advantage of an SRI fund consists in the fact that it is made an ESG analysis of the securities together with the financial one, enabling a comprehensive analysis of the securities: being aware of companies' social-environmental behavior and their potential impact on the financial performance, allows the operator to better evaluate the business risks and therefore the volatility of the portfolio. The choice of an approach that takes into consideration social, environmental and governance factors is based on the conviction that this enables a better risk assessment of the investment -reputational, legal, and financial-. It is necessary to highlight also the positive effect that SRI funds have on financial markets, thanks to their long-term philosophy, reducing the speculation and trading rate.

Among the critical issues of the SRI funds management, there is the less chance of implementing diversification strategies, since the manager must operate on a narrower investment universe, because of exclusion and selection criteria. This restriction, that can be more or less wide depending on the severity of the selection, may heavily impact the performance of the fund, in terms of greater difficulty in managing the risks of the portfolio: just think of the lack of access to profitable sectors but excluded as considered controversial.

The management company should also bear the costs of divestment or the ones of the ESG researches: these costs may be substantial in case of active management strategies[63].

[63] Dal Maso D., Fiorentini G., (2013). *Creare valore a lungo termine*. Milano: Egea.

Ultimately, it is important to mention also the *impact funds*, which are financial instruments aimed to achieve social return directly through portfolio investments, while also generating financial performance and thereby potentially providing and attracting additional capital to address the social issues of interest[64]. Impacts funds are halfway between *philanthropy funds*, that do not have any financial return objective and aim only at the social purpose, and SRI funds, that aim to get an adequate financial return subordinating the achievement of extra-financial goals. Impact funds, compared to SRI ones, overturn the terms of the question: the main objective is the creation of a social impact but, differently from the philanthropic approach, this impact is created through the investment in social enterprises that have to be sustainable also from the economic point of view. In other words, the financial return is not the goal but the instrument[65].

Investment funds can be divided into two macro-categories:

- Investments in organization with high social and environmental impact -*direct investments*;
- Investments in funds or in securities which in turn finance organizations with high social and environmental impact -*indirect investments*.

In order to be considered *impact*, funds need to implement investment strategies aimed at generating positive social and environmental effects, through a consistent and transparent analysis methodology. Therefore, certain sectors will be directly excluded: a fund investing in currencies, for instance, will hardly be considered as *impact fund*. Furthermore, the measurement of performances is fundamental in impact investing, which have to be properly reported to investors through an Impact Report. The Impact Report is an annual document illustrating the social and environmental results achieved thanks to the investments made by the fund throughout the year. Obviously, the portfolio composition cannot prescind from the analysis of traditional financial parameters as the risk, the return, and the liquidity[66].

[64] Johnson K., Lee H., (2013). *Impact Investing: a framework of decision making*. Massachusetts: Cambridge Associates LLC.

[65] Social Impact Investment Task Force, (2016). *La finanza che include: gli investimenti ad impatto sociale per una nuova economia.* Roma.

[66] Forum per la Finanza Sostenibile, (2017). *Impact Investing: la finanza a supporto dell'impatto socio-ambientale*.

An insight on Candriam Equities L Oncology Impact

Candriam Equities L Oncology Impact is a fund investing only in listed companies that develop products and services for cancer treatment.

Despite recent scientific advances, the outlook for patients with tumors is often still disappointing. Cancer is the second leading cause of mortality worldwide and, according to statistics, 40% of the world population have cancer during their lifetime. It is expected that, by 2030, the number of global deaths from this disease will increase by 60%, from 8 million to 13 million.

Every day, the achievement of new scientific progress can be helpful for cancer patients and their families. Therefore, Candriam Equities L Oncology Impact aims to identify innovations able to change the way to treat the underlying disease.

With the further growth of the oncology market, thanks to the development of new treatments and the latest technologies, the fund aims to generate profit for investors and meanwhile to promote cancer research and have a positive impact on the society[67].

According to IQVIA[68], between now and 2021 the oncology market will represent the major catalyst for global growth in the pharmaceutical industry, with an annual average growth rate between 6% and 9% during the period concerned.

Many biotech enterprises and start-up have been able to stand out over the past few years at the point of being repurchased at very high costs. From this point of view, Nasdaq represents an excellent steppingstone for innovation and evolution, with broad market liquidity and competent investors[69]. This fund provides the opportunity for investors to have a positive direct impact on the social front; hence, above investments in related companies, the 10% of Candriam's management fees will be devolved to support cancer research activities, carried out by the leading European institutions.

[67] Finanza Operativa, (2019). *Candriam lancia fondo tematico Equities L Oncology Impact*.

[68] IQVIA is a multinational focused on using data and science to help healthcare clients to find better solutions for their patients.

[69] Candriam, (2019). *Oncologia: una nuova speranza*.

2.6.2. Green Bond

Green bond is a debt instrument that finances activities with a positive impact on the environment: renewable energies, sustainable waste and water management, protection of biodiversity. They represent an opportunity to increase the availability of the required capital and to reduce debt costs for projects with positive environmental effects[70]. Therefore, green bond financing activity incentivizes companies to implement environmental-friendly projects and improve social welfare in the broader context.

They have been launched in the market about ten years ago on the initiative of some Multilateral Development Banks including the World Bank. The first Italian green bond has been issued by Hera in 2014, with a 10-year bond worth €500 million. 2017 has been a particularly dynamic year in the Italian market, since there have been two big issues: Enel, with an obligation of €1,25 billion and Intesa Sanpaolo with a €500 million bond. Among the most recent green issues at international level, there is Apple's one in June 2017 worth USD 1 billion with a 10-year maturity. It has been the first green bond issued in the United States after Trump's declaration in 2015 of the exit from the Paris Agreement[71].

Evidence (Klassen and McLaughlin (1996 MS), Kruger (2015 JFE), Flammer (2018 WP)) shows that stock markets react positively when firms announce the issuance of green bonds, mainly thanks to the increased investors' attention.

The interest expressed for the green bond market is also due to the publication of *Green Bond Principles* (GBP) in 2014. Developed by the International Capital Market Association (ICMA), the GBP are procedural non-binding guidelines with the objective of ensuring transparency, disseminate information, promote integrity across the green bond market and defining the adequate approach for their emission. There are four main indications that issuers have to provide to underwriters:

1. Use of revenues: they have to be used to finance projects with positive environmental effects, properly described in the documentation;
2. Assessment process and selection of the process: there should be transparency about the selection criteria and the environmental sustainability objectives; the

[70] Forum per la Finanza Sostenibile, (2017). *Impact Investing: la finanza a supporto dell'impatto socio-ambientale*.
[71] Forum per la Finanza Sostenibile (2017*). Impact Investing: la finanza a supporto dell'impatto socio-ambientale.*

evaluation and selection processes should be supplemented by an external audit;

3. Revenue management: revenues should be deposited in a dedicated account, transferred to a specific portfolio or in any case, traced by the issuer;
4. Reporting activity: issuers should disclose and regularly update information about the use of revenues.

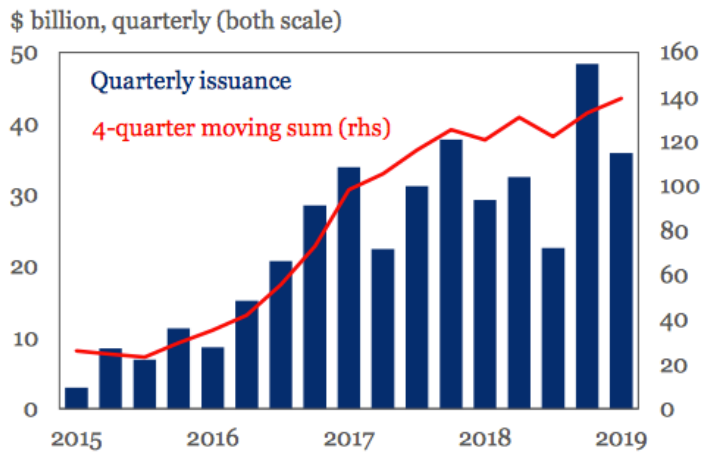

Figure 38 *Global Green Bond issuance picks up. Source: Institute of International Finance, (2019). Sustainable Finance in Focus: Green Bonds take root. Bloomberg IIF*

In this context, it has been crucial the work carried out over recent years by the *Climate Bonds Initiative* (CBI), an international organization based in London. The CBI has contributed significantly to the definition of the green bond market, recognizing green bond standards and classification, establishing an authority in the practice, providing approval for third party verifier and providing green bond index eligibility criteria[72]. CBI's analysts have divided the market into two related sections: the *climate-aligned labeled bonds* and the *unlabeled climate-aligned bonds*. The formers are debt securities labeled as *green* from the issuer, intended to finance environmental projects or related to climate change. The latter instead, are obligations not formally certified as *green* and not directly related to specific *green projects*, but still issued by companies involved in a transition toward renewable energy sources.

[72] Yongjun Tang D., Zhang Y. (HKU), (2018). *Do Shareholders Benefit from Green Bonds?*

According to most recent estimates from the Climate Bond Initiative, the issuance of green bonds in H1 2019 has been USD 117.8 bn, with USD 100 bn threshold reached in H1, the earliest ever. 625 green bonds have been issued, with 363 from United States, 51 from Sweden and 32 from China.

In 2018 the amount of outstanding climate-aligned labeled bonds was of USD489bn[73] with 253 climate-aligned issuers; this market was characterized by:

- USD167.6bn of green bonds, meeting CBI screening criteria[74];
- USD21.0bn sustainability/SDG/ESG bonds and loans financing social or and green projects;
- USD14.2bn social bonds, financing social projects;
- USD23.7bn of green bonds, not meeting CBI screening criteria.

The issuance of green bonds in 2018 has been USD167.6bn.

The large growth of the market from 2018 to 2019 is also due to 98 new market entrants in 2019, bringing the total number of green bond issuers to 747, and the entrance of new countries in the market, reaching 57 green bond markets[75].

Figure 39 represents the market situation as in 2018.

[73] As of mid-2018.

[74] The Climate Bond Initiative includes only bonds generating at least 95% of their proceeds from green assets or projects.

[75] Climate Bond Initiative (July 2019), Green bonds market summary.

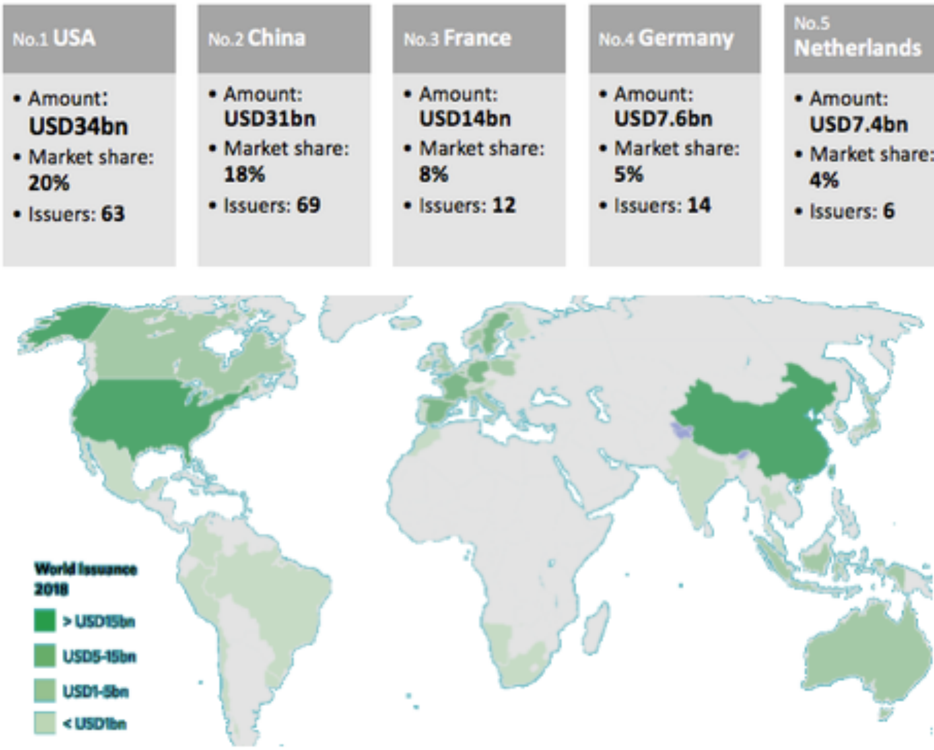

Figure 39 *Top 5 in 2018: Green bond issuance rankings. Source: Climate Bond Initiative, Green Bonds: the state of the market 2018.*

In the ranking for countries, it is possible to singles out the leadership of the United States ahead of China, detached from a few billions. With USD14bn, France was the third largest market in 2018.

The deals are issued mainly in EUR, which has been the preferred currency representing almost 40% of the annual market volume, then USD and CNY. In 2017, US dollar represented 46% of the annual volume; this change from one year to the next is partly due to the drop in US municipal issuance as well as the large-scale issuance from the Eurozone-sovereigns.

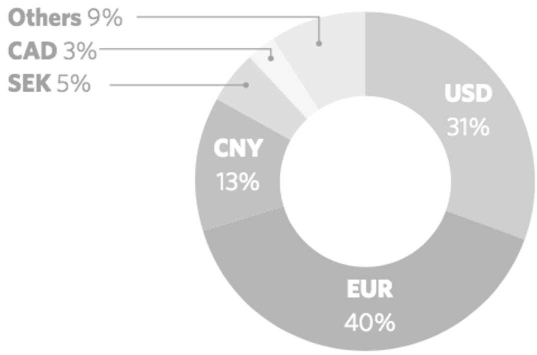

Figure 40 *Euro was the most popular currency by volume in 2018. Source: Climate Bond Initiative, Green Bonds: the state of the market 2018.*

The most active financial institution in the green bond market has been the commercial banks, which in 2018 almost doubled their issuance from 2017 levels. There has been a growth also in the sovereign's issuance, accounting for 10% of the global volume. Green bonds from sovereigns are very significant, since they show an increase in the country’s awareness of the climate plan and can help communities under the Paris Agreement.

Region	Green bond markets	Issuers	Amount issued (USDbn)	Change 2017-18
Africa	4	11	2	↓
Asia-Pacific	18	222	120	↑
Europe	22	193	190	↑
Supranationals	-	11	66	↑
Latin America	7	24	7	↓
North America	3	167	137	↓

Figure 41 *Cumulative regional green bond issuance since 2007. Source: Climate Bond Initiative, Green bonds: The state of the market 2018.*

Over time, green bonds have shown a growth in average deal size. This is a positive data, as big deals provide more liquidity and depth to the market, and thus attract more investors. The average deal size of a green bond in 2018 was USD107m, slightly larger than 2017, when it was USD104m. The largest issuers of this type tend to be financial corporations (China predominantly) and sovereigns.

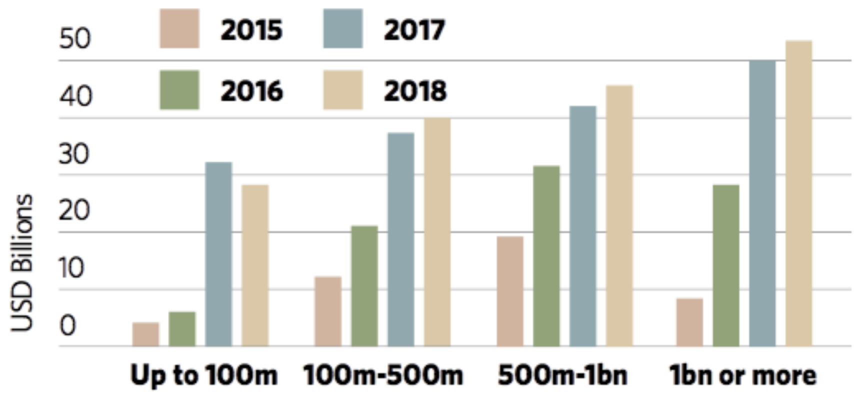

Figure 42 *Green bond deals have grown across size brackets. Source: Climate Bond Initiative, Green Bonds: The state of the market 2018.*

Among the more involved sectors, there is the low-carbon transport (USD257bn aligned outstanding, equal to 53% of the market), and the clean energy segment (USD128bn equal to 26% of the market)[76].

Rank	Climate-aligned sector	USD aligned outstanding	% of DM climate-aligned market	Climate-aligned issuers	Largest issuer(s)
1	Transport	257bn	53%	64	SNCF, Network Rail, Deutsche Bahn
2	Energy	128bn	26%	108	EDF, Hydro-Québec, NextEra Energy
3	Water	68bn	14%	33	Suez, Veolia, Thames Water
4	Land use	29bn	6%	31	International Paper, WestRock, Mondi
5	Waste	4bn	1%	10	Covanta
6	Buildings	2bn	<1%	7	Norbord

Figure 43 *Transport, energy and water amongst Top 3 DM climate-aligned sectors. Source: Climate Bond Initiative, Green Bonds: The state of the market 2018.*

In summary, according to a study conducted in 2018[77], it is possible to say that the short-term reaction to the green bond issuance is significantly positive. There are little direct benefits -cost of debt- deriving from the issuance, but the most important

[76] Climate Bond Initiative, (2018). *Green Bonds: the state of the market 2018.*
[77] Yongjun Tang D., Zhang Y. (HKU), (2018). *Do Shareholders Benefit from Green Bonds?*

benefits come from the other externalities: the increase in institutional ownership and the improvement of stock market liquidity.

Figure 44 *Green Bonds have outperformed in recent years. Source: Institute of International Finance, (2019). Sustainable Finance in Focus: Green bonds take root. Bloomberg, IIF.*

2.6.3. Social Bond

Social bonds are debt instruments used to finance positive social impact projects. The sectors eligible for funding may cover, for example, access to health services, financial inclusion, food safety, and employment.

Social bond market is still in the early stages of development, even if there has been a significant growth of the business in the first months of 2017: at European level, the Council of Europe Development Bank[78] (CEB) has issued the *social inclusion bond* of the value of €500 million, whose proceeds will be allocated to finance projects in the field of social housing, education and professional formation, and in job creation in small and medium-sized enterprises. The literature suggests several definitions of *social bonds*, but the most common one considers the social bond as a *loan-based* security, allocating raised capital to finance a specific project of social nature. Among

[78] The Council of Europe Development Bank is the oldest financial institution pursuing social aims. It has been created in 1956 from eight European countries, in order to contribute to strengthening social cohesion after World War II. This organization has full financial independence and Italy, with a participation pairs to 16,79%, is among major shareholders.

Italian social bonds, it is possible to mention the one of Gruppo UBI Banca, which has provided more than €17 million to the *Consorzio Nazionale della Cooperazione sociale Gino Mattarelli*[79] in medium- to long-term financing.

In 2017, the International Capital Market Association has established voluntary guidelines on the social bonds issue: the Social Bond Principles.

As in the case of the principles related to the green bond market, also in this case they are recommendations aiming to foster social bond market development through the dissemination of transparency and reporting practices among investors.

It is important to note that social bonds can generate beneficial effects also on the environmental point of view, and, vice versa, green bonds can address to both environmental and social issues.

2.6.4. Social Impact Bond

Social Impact Bonds (SIB) are innovative impact investing instruments, aimed at the implementation of projects of public interest and characterized by the fact that the investors' remuneration is tied to the effective creation of positive social impact, adequately measured. For this reason, social impact bonds are seen as *Pay by Result* or *Pay for Success* obligations.

The characterizing elements of the SIB are:

- The possibility to generate savings for the public authorities through the financed initiative;
- The conditionality of the remuneration paid out only after the achievement of the objectives, and thus, following the generation of a positive social impact.

Social Impact Bonds involve five stakeholders:

1. The Public Administration: payments are only made by the public sector if SIB-financed services improve outcomes for service users;
2. Service providers: non-profit organization or social enterprises;

[79] The Consorzio Nazionale della Cooperazione Sociale Gino Mattarelli is a financial system created to support the development cooperation. It supports consortia in managing the relationships with banks and credit insitutions and it has more than 400 members throughout Italy. Source: http://cgm.coop/chi-siamo/

3. An investor: takes the risks and receives higher financial returns for greater improvements in social outcomes;
4. A specialized broker: social impact bonds have created a new market for intermediaries across a range of functions, in their development and execution;
5. An independent assessor measuring the impact generated and the effectiveness of the results achieved.

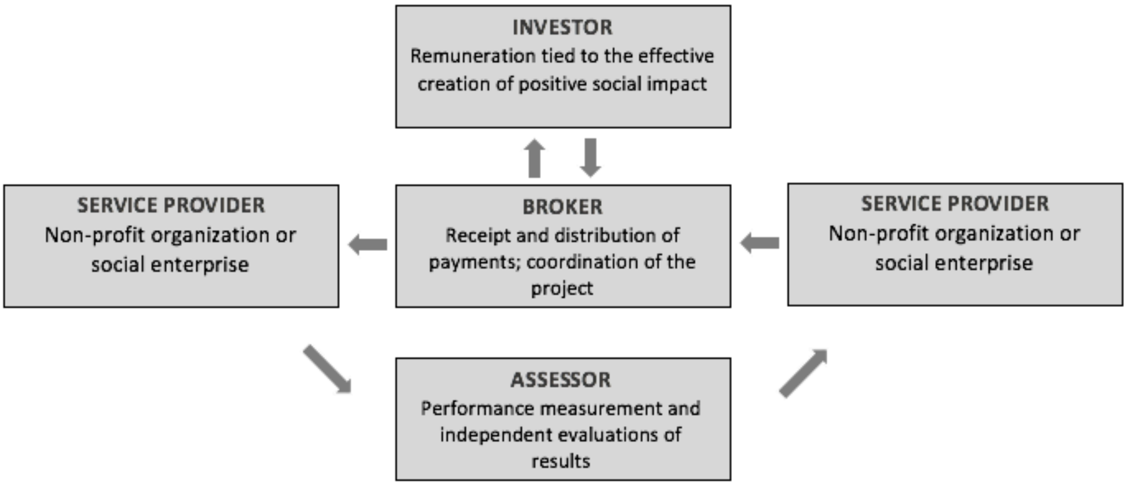

Figure 45 *Social Impact Bond. Source: Forum per la Finanza Sostenibile. (2017). Impact Investing: la finanza a supporto dell'impatto socio-ambientale.*[80]

The first Social Impact Bond was launched in 2010 in the United Kingdom, on the initiative of the investment bank Social Finance, with the purpose of reintegrating Peterborough detainees with a sentence of less than twelve months, with the aim of reducing the reoffending rate. It has inspired similar initiatives in the United States and in the rest of the world. A total of 137 impact bonds have been launched until now, to the size of USD 440 million of capital raised in 2019. The mechanism is the following one: investors underwrite the bond, hence they lend money to a provider of social services, engaged in achieving certain goals on a given date. If the initiative is successful then the government repays with interests its investors, otherwise it does not pay anything.

[80] Re-elaboration by Forum per la Finanza Sostenibile of: Croci E., Colelli F., (2017). Il Finanziamento dei progetti urbani e sostenibili and of: Avanzi – Sostenibilità per Azioni (2013), I Social Impact Bonds – La finanza al servizio dell'innovazione sociale? (11) Fondazione Cariplo.

Another SIB to be mentioned is the one issued in Finland in June 2017 by the European Investment Bank (EIB) and Epiqus Oy. It is the first social impact bond financed by the European Union, and it has been created to facilitate the entry to the labor market and promote the social integration of about 3.000 refugees. If the social result will be achieved, then the financing will be repaid by the Finnish Ministry of Economy, according to the model of *Payment by result*[81].

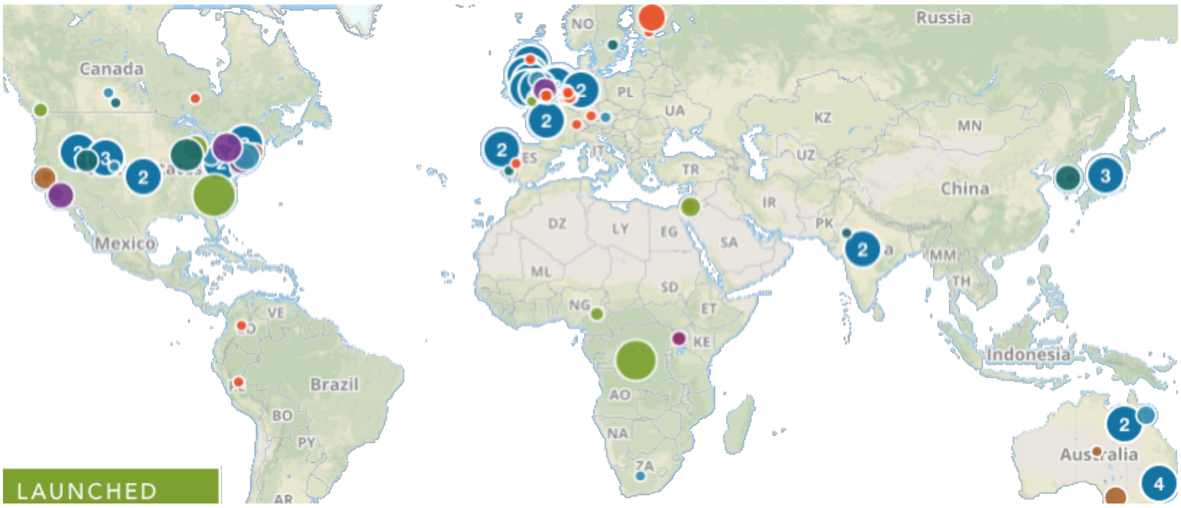

Figure 46 *Impact Bond Global Database. Source: Social Finance database, https://sibdatabase.socialfinance.org.uk (2019)*

As illustrated by *Figure 46*, most of the bonds come from the UK (47), with a capital raised of £44.7 million, and from the US (26) with $219 million.
Also the entrance of poor and emerging markets records a step forward in the impact investing industry -India (3), South Africa (1), Colombia (1), Uganda (1), Cameroon (1), Congo (1), Peru (1).

[81] Forum per la Finanza Sostenibile, (2017). *Impact Investing: la finanza a supporto dell'impatto socio-ambientale.*

Figure 47 *Impact Bond Global Database: Issue Area. Source: Social Finance database, https://sibdatabase.socialfinance.org.uk (2019)*

Workforce development (44, \$76,1m) and Housing (23, \$51,3m) are the sectors most targeted by SIBs, with Health (22, \$90.6m), Family Welfare (20, \$68,9m), Education (13, \$52,5m), Criminal Justice (12, \$73,6m) and Poverty and Environment (3, \$27,4m) coming next.

Enel launches the World's first "General Purpose SDG Linked Bond"

On September 6th 2019, Enel Finance International NV, the Enel Group's Dutch controlled, has launched the world's first bond linked to the achievement of the UN Sustainable Development Goals (SDGs).

The total number of orders, of about \$ 4 billion, have exceeded by three times the value of the emission, equal to \$1,5 billion, approximately equivalent to €1,4 billion.

The *General Purpose SDG Linked Bond* is only available for institutional investors and has had significant participation of Social Responsible Investors, allowing the Enel Group a further diversification of its investment base.

The ethical value has been reflected in the demand mechanism and on the issue pricing, enabling Enel to obtain a financial advantage of about 20 basis points, compared with a traditional issue without the value-added of the sustainability.

The bond has been issued on September 10th 2019, with a single tranche of USD 1,5 billion with a maturity of five years, and it is linked to the Group's ability to achieve a percentage of installed renewable generation capacity equal or greater to 55% of the consolidated installed capacity, by the 31 December 2021.

The interest rate, equal to 2,65%, will remain unchanged to the maturity subject to achievement of the sustainability target -31 December 2021. If the target is not achieved, there will be an increase in the interest rate of 25bp, starting from the first interest period subsequent to the publication of the assurance report of the auditor.
Rating agencies, taking into account the nature of the issue, has assigned a rating equal to BBB+ -Standard&Poor's- , A- -Fitch- and Baa2 -Moody's.
Enel is focused mainly on creating value through the pursuit of the following SDGs:

- SDG 7: *Affordable and Clean Energy*;
- SDG 9: *Industry, Innovation and Infrastructure*;
- SDG 11: *Sustainable Cities and Communities*;
- SDG 13: *Climate Action*.

This bond issue has followed the path of the wake of three previous green bonds, issued from Enel on the European market, for a total amount of about 3,5 billion euro.
The market has widely appreciated this sustainability-focused strategy of the Enel Group, which represents the world's first private player for renewable installed capacity[82].
Alongside the issue, Enel has also structured the world's first *SDG Linked Cross Currency Swap*. With this derivative product, the Group hedge against the interest rate risk and dollar-exchange rate. It is peculiar the commitment of the bank with which it was signed to support the development of Positive Impact Finance and the discount in the cost of transaction obtained due to the sustainability factor, in line with the structure of the bond[83].

Rhino Bond

The first impact bond aimed at growing the population of the African black rhino has been issued on Wall Street. It is seen by its backers as a test for the creation of a conservation debt market that could be used for everything, from the preservation of wildlife areas to the protection of species facing extinction.

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[82] Bucaro F., (2019). *Enel: Primo bond al mondo legato ad obiettivi di sostenibilità ambientale. Starting Finance*
[83] Enel, (2019). *Enel launches the World's first "General Purpose SDG Linked Bond" successfully placing a 1.5 billion US dollar bond on the US market.*

The sale of the $50 million bond, the first financial instrument focused on species conservation, is being run by Conservation Capital and the Zoological Society of London. Rhino-bonds will pay interests proportional to the increase in the population of these animals in the next five years. The target is to boost the world's rhino population by 10%.

The bond will be issued in two tranches from the first trimester of 2020: the underwriters of the first one will risk capital losses in the case the number of rhino will decrease.

The bond will provide the investors with a chance to recycle their capital, and the buyers could be net worth individual interested in conservation as well as ESG impact investment funds[84].

It represents the first-ever investment instrument for species conservation targeting a financial return.

2.7. Ethical Rating

Sustainable responsible finance integrates environmental, social and governance (ESG) considerations into investment decisions. A necessary precondition for SRI investments is the possibility of having access, analyzing and comparing large amounts of information, not only financial but also extra-financial.

ESG ratings are synthetic evaluations of the sustainability and environmental level of a particular economic operator, and they have been created to remedy this information asymmetry. These indicators became widely spread over the last decade, also thanks to the establishment of extra-financial rating agencies, which do not intervene directly on the market but provide sustainability information services to SRI investors, adopting an *unsolicited* rating model.

[84] Sguazzin A., (2019). Bloomberg: *Rhinos Come to the Bond Market, and Other Species May Follow*.

2.7.1. Companies' Sustainability Rating

On the basis of the widespread dissemination of the sustainability analysis, there is the overcoming of the myth of financial markets information efficiency, which is the rejection of the assumption that the value of a security reflects all the publicly available information at any time, relevant in the determination of expected future returns. The utility of these analysis lies in the fact that some fundamental characteristics of the companies are not properly reflected in its financial indicators, at least in the short term: empirical evidence and the past performance of SRI funds shows how the integration of ESG ratings into investment decisions may bring higher returns in the medium-long term. The company's sustainability ratings represent a synthetic guiding tool for investors wishing to select their investments, going beyond what is prescribed by the traditional modern portfolio theory.

The first step toward assessing the company's sustainability level is to understand what it is meant by sustainability and how it can be reflected at corporate level. In short, it is necessary to find some reference standard, whose objectivity and reliability are internationally recognized and to which it is possible to anchor the rating model. Standards and international agreements like the Universal Declaration of Human Rights, the UN Global Compact, OCSE guidelines and the Rio Declaration on environment and development; these are just some of the references on which the ESG rating models are based.

Extra-financial analysis seeks to investigate the integration of these standards into the company.

Table 2 summarizes some of the criteria adopted by rating agencies to determine companies' behavior.

ENVIRONMENTAL	SOCIAL	GOVERNANCE
Environmental policies and strategies	Transparency and fair treatment of clients	Composition of the management board
Pollution prevention and control	Career plans management	Internal control system and risk management
Biodiversity prevention	Prevention of corruption and money laundering	Correct and transparent relationships with shareholders
Energy use management	Prevention of discrimination	Transparency in the determination of directors compensation
Integration of environmental concerns in the supply chain	Integration of social concerns in the supply chain	Integration of social and environmental responsibilities in the executives' compensation

***Table 2** Relevant Criteria for the evaluation of the ESG performance. Source: Dal Maso D., Fiorentini G., (2013). Creare valore a lungo termine. Milano: Egea.*

The activation and the weight given to each criterion depends on its importance in the analyzed industry, based on an analysis of the social and economic context, along with an analysis of stakeholders' expectations. In order to best fulfill its information function, the extra-financial analysis must identify, sector by sector, the factors contributing to the company's success in the medium-long term, and vice-versa the risks it exposes itself to in an inadequate management of its impacts.

Naturally, it does not exist a unique approach and each agency has developed different methodologies of analysis. This variety of opinions has attracted the attention of the European Commission that, in its Green Paper[85] on corporate social responsibility, has promoted the normalization, harmonization and transparency of the selection tools used by extra-financial rating agencies.

In addition to the operation field, there are other aspects that have to be taken into account for a proper company evaluation: for instance the ownership structure -family businesses, public companies-, the finality -no-profit organization, mutual society-, the geographic location -multinational, local enterprise- and the dimension are some important features affecting the sustainability performance[86].

[85] Green Papers are documents published by the European Commission, with the purpose of stimulating reflection on a particular theme. The interested parties -individuals or organizations- are invited to participate to the process of consultation and debate, on the basis of the presented proposals. Sometimes, Green Papers can generate legislative developments that are then presented in White Papers. Source: EUR-Lex, Libro Verde. https://eur-lex.europa.eu/

[86] Dal Maso D., Fiorentini G., (2013). *Creare valore a lungo termine.* Milano: Egea.

2.7.2. Social and Environmental Rating

The social and environmental rating is an activity that allows to collect and analyze information on corporate behavior on ESG dimensions. Through this rating, the fund manager is able to select the companies that best meet the criteria established for responsible management[87].

The ethical rating methodology is based on screening activities, which analyze the market to assess which companies are meeting the pre-determined criteria. These criteria can be both positive or negative, and both qualitative and quantitative. The approach may be divided into two phases. The first one begins with the negative screening activity, through which companies operating in contrast with investors' principles are automatically excluded from any ethical valuation. There is the application of a real filter, since firms making a certain percentage of profits from non-ethical businesses, like weapon production, gambling, pornography and tobacco production, are automatically excluded. Thus, negative screening is adopted at sector level, and has the main advantage to be easily applicable and immediately understandable.

However, also in the choice of exclusion criteria, it is important to highlight the importance to define the social responsible principles that have to be taken as a reference to identify businesses to discard.

The second phase is the one characterizing the ethical rating, which means the addition of positive screening criteria. These are applied right after the skimming activity done by negative criteria, in order to award the corporations proportionally to the intensity of their social responsible behavior. At this stage, the definition of reference principles is based on the correspondence between the real situation in which the company is, and the situation in which every principle defined by the agency or by investors is fully respected. In this kind of approach, the lack of satisfactory levels of a certain parameter does not cause the automatic exclusion of a company, but can be compensated with higher levels of other aspects. Furthermore, the weight given to each parameter differs

[87] Dal Maso D., Bartolomeo M., (2001). *Finanza e sviluppo sostenibile.* Milano: il Sole 24 Ore, pp. 89-91

according to the ethical principles of the single agency, in this way, for some it will be more important an agency best managing the employee relationships, while others will prefer more attention on the environmental issue[88]. Obviously, also the corporate field may influence the definition of the indicators and the weights to choose for an accurate analysis.

Since the general rating model is applicable from agencies as well as by individual funds, in 2001 the Standard Ethics[89] has introduced a model that is still taken as a reference by institutions. This model turned out to be the most widely used because the agency, in addition to being the only independent one on the European scene, has not given its own definition for ethicality, sustainability and social reasonability, identifying some superordinate institutions that, for their authority, are considered to be the only ones who can define them. Furthermore, the agency uses the rating as an articulated evaluation tool, able to proportion the investment in accordance with the quality of the issuers; starting from a minimum level of 0 -suspension-, until reaching a maximum level of ethicality, going through several stages. In this way it has been overcame the pass/fail dichotomy, to get to the definition of maximum investment threshold tied to ethical ratings of issuers and allowed by the Agency and its subsidiaries. The Standard Ethics valuation system identifies 9 rating levels: EEE, EEE-, EE+, EE, EE-, E+, E, E-, F.

Best-practice corporations, corresponding to the EEE level, have to provide the respect of the Universal Declaration of Human Rights approved by UN in 1948, and, in general terms, the adaption of the business to the norms of the United Nations, OCSE and UE in terms of Corporate Social Responsibility. Furthermore, they have to respect these general conditions:

- To maintain a competitive and non-monopolistic position;
- To make sure their shares are publicly listed and can be bought without restrictions, and that they can enjoy substantive rights - i.e. voting trusts;
- To have widespread ownership of the capital and no conflict of interest;
- To have board members independent from the property and subject to code of conducts, guaranteeing transparent work;

[88] RobecoSAM, (2013). *Dow Jones Sustainability World Index Guide*. www.sustainability-indices.com
[89] Standard Ethics is an independent rating agency, headquartered in London. It issues the *Standard Ethic Rating*, which is an assessment of the sustainability and the governance based on the compliance with principles and with voluntary indications of United Nations, Organization for Economic Co-operation and Development (OECD) and the European Union.

- Having a procedure for verifying compliance with internationally recognized social and environmental standards -ONU, OCSE, UE.

The various *unsolicited* ratings, issued without an explicit request from the company, are published periodically through press releases.

Table 3 shows the corporations with the highest rating in 2019, while in *Table 4* there are the updated Country ratings.[90]

In *Table 5* then, there are the 15 best rated European banks.

Date	Description	ISIN	Industry	Rating to	Outlook
26 June 2019	Unibail-Rodamco-Westfield	FR0013326246	Real Estate	EEE-	Stable
30 May 2019	Cofinimmo	BE0003593044	Real Estate	EE+	Stable
17/04/19	Deutsche Post	DE0005552004	Transportation & Logistics	EE+	Stable
11 July 2019	Hong Kong Exchanges and Clearing (HKEX)	HK0388045442	Institutional Financial Svcs	EE+	Stable
14 March 2019	Michelin	FR0000121261	Automotive	EE+	Stable
14 June 2019	Nordea Bank	FI4000297767	Banking	EE+	Negative
25 July 2019	UnipolSai	IT0004827447	Insurance	EE+	Stable

Table 3 *Corporate rating. Source: http://standardethicsrating.eu*

Date	Description	Rating to	Outlook
15 March 2018	Canada	EEE-	Stable
15 March 2017	Scotland	EEE-	Stable
15 March 2017	United Kingdom	EEE-	Stable
28 February 2018	New Zealand	EEE	Stable
11 October 2018	Italy	EE+	Negative
25 October 2017	Spain	EE+	Stable
22 June 2018	United States of America	EE	Negative
10-apr-18	Russia	E-	Stable
07 September 2017	Turkey	E-	Negative
30 November 2018	China	E	Stable

Table 4 *Country rating. Source: http://standardethicsrating.eu*

[90] Rossi F., Turrina L., (2013). *Gli investimenti sostenibili e responsabili.*

Rating	Outlook	Company	ISIN
EE+		BNP Paribas	FR0000131104
EE+		Nordea Bank	SE0000427361
EE+		UniCredit	IT0005239360
EE		BBVA	ES0113211835
EE		HSBC Holdings	GB0005405286
EE		Intesa Sanpaolo	IT0000072618
EE		Svenska Handelsbanken	SE0007100599
EE		Swedbank	SE0000242455
EE-		ABN AMRO	NL0011540547
EE-		Banco BPM	IT0005218380
EE-		Banco de Sabadell	ES0113860A34
EE-		Bankia	ES0113307062
EE-		Deutsche Pfandbriefbank	DE0008019001
EE-		Julius Baer Group	CH0102484968
EE-		Mediobanca	IT0000062957

Table 5 *Banks ratings. Standard Ethics European Banks Index. Source: standardethicsindices.eu*

2.8. Non-Financial Disclosure

If the transparency is a fundamental requirement in the offer and the choice of investment products, it is even more for sustainable and responsible investments, since the investor must be enabled to clearly understand the possible social and environmental consequences of his allocation choices.

The information transparency must support the investor during:

- The period preceding the investment decision - *pre-sale information* -, allowing him to assess the risk-return potentiality of the single financial product/instrument. In the case of SRI, the disclosure should also clarify further specific purpose characterizing the investment policy in terms of valorization of ESG factors, so as to explain the particular nature of these investments.
- The holding period of the investment - *post-sale information* -, to keep investors informed about the evolution of the investment made. In the case of

SRI investments, this disclosure should periodically explain the specific modalities of ESG management, adopted during the reference period[91].

2.8.1. *The limits of the traditional disclosure*

Recent years have experienced increasing difficulties for traditional economic reporting systems to exhaustively represent the companies' complexities, to justify their market value and to support investors judgments on the performances achieved by the company. Some researchers have showed how the changes occurred over the past twenty years have eroded the value of the information provided by the balance sheet[92]. An increasing request for information from investors has been opposed to such gradual loss of the information power, with the aim of better evaluating the different existing investment alternatives. Furthermore, there has been a significant growth of managers' interest to have an information system useful to manage ever more complex organizations, and the punctuality of the information contained in the financial statements. Over time, balance sheets have proved to be inadequate in responding to the increasingly complex request for information. This inability manifested itself in:

- Loss of confidence in the reliability of information presented in the balance sheet;
- Focus concentrated only on economic performances;
- Myopia over resources heterogeneity;
- Insufficient risk consideration.

This balance sheet seems to be inadequate for supporting the management in the attempt to improve performances in the broad sense, in particular, to develop the company according to principles of sustainable growth. Only the monitoring of performances in their broader sense allows to measure and to manage corporate sustainability. Thus, the balance sheet is able to response only partially to the growing interest in a complete view of the performances achieved by the company, and therefore it turned out to be insufficient to guide corporate decisions.

[91] Dal Maso D., Fiorentini G., (2013). *Creare valore a lungo termine*. Milano: Egea

[92] Collins, 2001; Francis et al., 2002; Klein & Marquardt, 2006; Lev & Zarowin, 1997.

The information offered by the balance sheet is not sufficient to evaluate the competitive advantages held by a company, both in terms of heterogeneous company resources and competitive positioning, not allowing in this way to understand the how to defend these advantages even in the future[93]. Thus, it is difficult to express a view on the company's intangible resources that, even if essential for the possibility to support good performance over time, has a limited space on the document.
Another limit characterizing traditional reposting tools is the little significance given to the dimension of corporate risk. The access to economic information does not allow the understanding of the financial, operational, compliance, health and security risks and of the broader set of risks that a company has to handle. The inadequate risk representation emerges clearly from two categories that have no place in the tool in question: the strategic risk and the reputational one. The strategic risk materializes when there is a radical change in industry profitability margins, a change in the technological paradigm, change in customers'' priorities, the failure of a new project or a stagnation period for the market, that can represent a cause for a significant destruction of company wealth. The second huge risk that can significantly affect future economic performances and is not considered in the balance sheet, is the reputational one. This risk measures the possibility to incur losses in the reputational capital of the company. Also in this case, the balance sheet is an inadequate tool for providing sufficient information and managing this risk[94].

2.8.2. Sustainability Reports

The market, and especially the investors, have increasingly higher expectations, requiring the integration of environmental, social and governance factors – ESG – in the risk analysis and in future prospects of the business. Non-financial disclosure is increasingly becoming an integrative element of the financial and strategic information necessary to assess the company and to understand its future outlook.
All these elements have led to the creation of reporting systems complementary to the balance sheet.

[93] Barney, Wright & Ketchen Jr., 2001; Lado, Boyd & Wright, 1992.
[94] Pedrini M., (2007). *I bilanci di sostenibilità delle risorse intangibili: il processo di integrazione nelle aziende italiane*. Milano: Università Cattolica del Sacro Cuore di Milano

In a first moment, the reporting documents have highlighted the separation between social and environmental performance, and there has been the creation of three separate documents: the *environmental report*, the *social report* and the *sustainability report*. At a later time, there has been the convergence of all the documents in a single report, the *Integrated Reporting*, with the aim of creating a single view of environmental and social results achieved by the company. Besides the financial results, also data on the social, environmental and economic context shall be inserted in the *Integrated Reporting,* to highlight the relations with the non-economical and non-financial variables, going beyond the concept of "traditional reporting", and creating a financial statement more complete.

Stefano Zambon, secretary-general NIBR – Business Reporting Italian Network -, claims that the integrated reporting is a real bridge of communication between the activities of the company and the information requests of the community, and it allows to switch from the mere *financial reporting* to the broader concept of *business reporting*, presenting a more complete picture of the strategies, the business model and the intangible resources upon which the company is based.

The main difference between the social report and the integrated reporting lies in the fact that the integrated reporting aims to integrate the financial information with the sustainability ones, by documenting the financial, environmental, social and governance results in a single instrument. In doing so, it guides the company towards a new way of integrated thinking and a new corporate culture, by connecting the company with its internal functions and its stakeholders[95].

2.8.3. Directive 2014/95/EU of the European Parliament and of the Council

The European Directive 2014/95/EU has required Member States to introduce a new obligation in terms of non-financial reporting and information on diversity. Therefore, the provision of disclosure that was voluntary until then, became a legally binding requirement, starting from the balance sheets at 31st December 2017.

With this Directive, the European Commission has highlighted how the strategic approach to corporate social responsibility is becoming increasingly important for the

[95] Novaga M., (2016). *Se il bilancio di sostenibilità diventa report integrato*. Wise Society.

long-term competitiveness of European companies, regarding crucial aspects for the performance and sustainability. The analysis of the European Commission has shown how European enterprises disclosing information on financial and non-financial performance adopt a longer-term perspective in their decision-making processes, incurring in lower financing costs and attracting talented staff. Furthermore, these companies obtain better performances, have better relations with costumers and with stakeholders, and fewer activity interruptions.

In Italy, the European Directive 2014/95/UE has been implemented through the approval of the D.Lgs.n. 254/2016 and it concerns the financial years from the 1st of January 2017, that will have to provide, together with the balance sheet, also a non-financial disclosure. This provision introduces the obligation for large companies and groups to produce the non-financial reporting. It concerns information on the environment, society, related to human resources, to human rights and to the passive and active fight against corruption. Hence, the statement can be seen as a fundamental tool to manage the transition to a sustainable global economy, by combining the long-term profitability, social justice, and environmental protection.

The subjects obliged to produce this non-financial statement are the *public-interest entities* (PIE), meeting these criteria:

- Annual average number of employees exceeds 500 units;
- Total balance sheet EUR 20 million or EUR 40 million in revenues.

The definition of public-interest entities includes banks, insurance companies, and reinsurance companies, as well as Italian securities issuers trading on the Italian regulated market or on the European one. Thus, both the companies issuing shares, and the ones issuing obligations and other debt securities admitted on regulated markets, are bound by the obligation of the publication of non-financial disclosure.

On the other hand, the societies are except form the drafting of the declaration if:

- They already produce a consolidated non-financial report;
- The information of the society is already captured in the consolidated non-financial report made by another mother company.

As mentioned above, the main purpose of the non-financial statement is to ensure the best understanding of the business activity, its development, its performance and the impacts produced by it. In order to do so, it must describe:

- Major risks related to socio-environmental issues and stemming from the activity of the enterprise, the products, or the services provided;

- The organizational and management model of the company, including the model of crime prevention relevant for socio-environmental themes;
- The policies for the management of impacts[96].

2.8.4. Sustainability Report vs. Non-financial Disclosure

Many national companies already provide non-financial information voluntarily, by publishing on the website or by providing a dedicated document -social reports or integrated reports.

The decree does not make it clear if it is possible to coincide the sustainability report with the non-financial statement, and the current state of the research still cannot provide a final answer. Nevertheless, the decree admits that the section which should contain the non-financial reporting can indicate other sections of the annual report or other reports provided by the legislation. Therefore, through the incorporation by reference, a corporation that already provide the sustainability report can refer to other information sources, like the sustainability report, in order to integrate or to complete the non-financial statement, so to avoid the production of excessive and expensive documentation[97].

2.8.5. Non-binding Guidelines

The European Commission has developed non-binding guidelines on the reporting methodology of non-financial information, in order to facilitate the disclosure of relevant and useful data, in a way that fosters sustainable growth and employment, and provides transparency to stakeholders.

In the preparation of these guidelines, the Commission has relied on national, union-based and international frameworks. In particular, the principles and the contents elaborated by the European Commission are based to a large extent to standard like:

[96] Rousmant S., (2019). *Informativa non finanziaria e responsabilità sociale di impresa*. Milano: Mazars Italia.
[97] Rousmant S., (2019). *Informativa non finanziaria e responsabilità sociale di impresa*. Milano: Mazars Italia.

- Carbon Disclosure Project;
- Climate Disclosure Standard Board;
- OECD Due Diligence Guidance for Responsible Supply Chains for Conflict-Affected and High-Risk Areas;
- Community Eco-Management and Audit Scheme (EMAS);
- Global Reporting Initiative (GRI): these guidelines offer a set of qualitative and quantitative standards and indicators, considered fundamental for the production a sustainable report;
- Guidance for Responsible Agricultural Supply Chains, developed by FAO and OECD;
- Guidance on the Strategic Report, developed by the UK Financial Reporting Council;
- Guidelines for Multinational Enterprise;
- Guidelines Principles on Business and Human Rights;
- ISO26000, developed by the International Organization for Standardization;
- The International Integrated Reporting Framework;
- Model Guidance on reporting ESG information to investors of the UN Sustainable Stock Exchange Initiative;
- The Natural Capital Protocol;
- Product and Organization Environmental Footprint Guides;
- The Sustainability Accounting Standards Board;
- The Sustainability Code of the German Council for Sustainable Development;
- The United Nations Global Compact;
- UN Sustainable Development Goals;
- UN Guiding Principles on Business and Human Rights implementing the UN "Protect, Respect and Remedy" Framework.

These guidelines are meant to help companies to draft the non-financial reporting, in accordance with the obligations established by the directive 2014/95/EU. They are addressed to those companies obliged to disclosed non-financial information in their management report. However, these non-binding guidelines may represent the best-practice for all undertakings disclosing non-financial information, so even the ones outside the scope of the directive[98].

2.8.6. Report on the Implementation of the D.lgs. 254/2016

Sustainability is ever more integrated into the business strategy of companies.
This data was revealed by the survey conducted by KPMG Advisory titled "*Informativa extra finanziaria: principali trend in atto*[99]" presented on the 3rd of October 2018.
According to the study, 205 companies have produced non-financial statements in Italy. Of these, 59% was in their first year of sustainability reporting.
26 companies have structured sustainability plans, while 61 companies (31%) mention the Sustainable Development Goals. Among these, the ones more frequently mentioned are the Goal 7 -clean and affordable energy-, Goal 8 -economic growth and decent work-, Goal 9 -enterprises, innovation and infrastructures-, and Goal 13 -fight against climate change-[100].

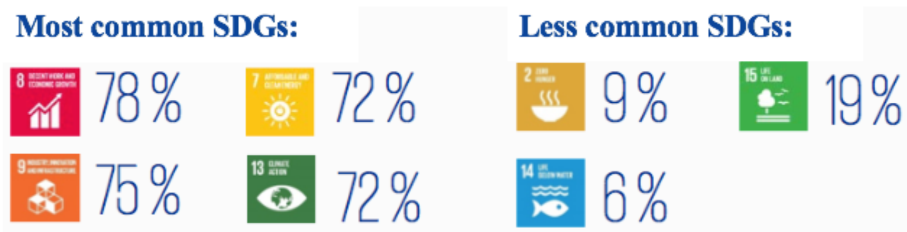

***Figure 48** Sustainable Debelopment Goals. Source: KPMG, (2018). Informativa extra finanziaria (ESG): survey sull'applicazione del D.lgs. 254/2016. Milano*

The sustainability governance is still not very advanced: only 16% of the sample has set up a sustainability committee, while 14% has delegated the ESG responsibilities to a pre-existing committee.

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[98] European Commission, (2017). *Guidelines on non-financial reporting* (methodology for reporting non-financial information)- 2017/C 215/01.
[99] Extra-financial disclosure: main current trends.
[100] KPMG, (2018). *Informativa extra finanziaria (ESG): survey sull'applicazione del D.lgs. 254/2016.* Milano

Overall, the more represented sector is the financial one: hence, the 28% of the analyzed companies are banks and insurance companies. Then there are the industrial services (18%) and consumer goods industries (15%). The survey highlights that all the enterprises have chosen the GRI-Global Reporting Initiative- as reporting reference standard.

Banks, insurance companies and financial services	**28%**
Industrial products and services	**18%**
Consumer goods	**15%**
Public services	12%
Media and travel	9%
Chemical and construction	5%
Technology and telecommunication	5%
Automobiles and parts	4%
Oil and natural gas	2%
Health	2%

Table 6 *DNF Sectors. Source: KPMG, (2018). Informativa extra finanziaria (ESG): survey sull'applicazione del D.lgs. 254/2016. Milano*[101]

According to the frequency of the inclusion in the reporting, the issued identified by the companies as the most relevant concern: health and safety (75%), human capital development (72%), promotion of the diversity (65%), anti-corruption (62%), community relations (60%), climate change (58%), energy efficiency (57%), protection of human rights (52%), and waste management (43%)[102].

[101] Sectors correspond to the subdivision of the Italian Stock Exchange.
[102] Persichetti L., (2018). *Prima analisi delle dichiarazioni non finanziarie, presentate da 205 società*. ASVIS (KPMG, 2018)

Ambiente

- Contrasto al cambiamento climatico e climate change (58%)
- Efficienza operativa ed energetica (57%)
- Rifiuti (43%)
- Consumo e gestione delle risorse idriche (37%)
- Mitigazione degli impatti ambientali (25%)
- Uso responsabile delle risorse naturali (14%)
- Biodiversità (14%)

Personale

- Salute e sicurezza (dei luoghi di lavoro, dei dipendenti, dei fornitori e delle ditte terze) (75%)
- Attrazione talenti e sviluppo del capitale umano (formazione e retention) (72%)
- Gestione della diversità e pari opportunità (65%)
- Gestione del capitale umano (44%)
- Relazioni industriali (29%)
- Occupazione (26%)

Supply chain

- Gestione della catena di fornitura (55%)
- Approvvigionamento responsabile (20%)

Sociale

- Comunità, territorio e corporate citizenship (60%)
- Qualità e sicurezza dei prodotti e servizi (56%)
- Innovazione e sviluppo (prodotto, business, tecnologia) (54%)
- Customer experience e satisfaction (53%)
- Cybersecurity e protezione dei dati (31%)
- Accessibilità dei beni e servizi offerti (15%)

Corruzione

- Anti-corruzione (62%)

Diritti umani

- Tutela dei diritti umani (52%)

Compliance

- Integrità nella condotta aziendale e rispetto della concorrenza (50%)
- Compliance (normativa, ambientale, sociale) (41%)

Temi materiali in linea con le richieste del Decreto 254

Le categorie sono ordinate in funzione della frequenza di inclusione nella disclosure dei temi materiali inerenti alle DNF delle 205 aziende

3
DOUBLE DIVIDENDS

3.1. Double Dividends

The dilemma related to the impact that a portfolio, built following ESG criteria besides the economic-financial ones, has on the financial performance, has been widely debated over the last few decades. Hence, as the SRI principles became more and more important, the interest in demonstrating the competitiveness of related financial products, compared to the traditional ones, has increased further.

Numerous studies conducted in the last fifteen years have partially corrected the distorted views on the alleged financial underperformance of sustainable and responsible investments. Therefore, many international organizations, like the UNEP FI[103], have published detailed analyses about how ESG factors are *material to company value*[104].

In particular, the report *Demystifying Responsible Investment Performance*[105] is a real milestone in the scientific and cultural process of rejection of the preconceptions on this issue, reviewing the main studies conducted on the correlation between financial performance and SRI. This report shows how the extra financial analysis constitutes a useful instrument for identifying the companies able to seize the performance opportunities over the long term, by considering the integration of sustainability into the corporate strategies as an important value-driven.

Barnett and Salomon, in a study conducted in 2006 on sixty-one investment funds between 1972 and 2000, have observed that the relation between financial performance and SRI strategy is not heavily linear: it takes the shape of a parabola -*u-shaped*- more than a line. Hence, they notice that in a first interval, characterized by the application

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[103] United Nations Environment Program Finance Initiative is a global partnership between the United Nation Environment Program (UNEP) and the financial sector. It was created in 1992, following the Earth summit in Rio de Janeiro. It represents USD 62 trillion assets and 60 different countries.

[104] UNEP FI, 2004, 2006.

[105] UNEP Financial Initiative, Mercer, (2007). *Demystifying Responsible Investment Performance: A review of key academic and broker research on ESG factors*.

of a negative screening not too stringent, the relation does not have relevant causal relationship. Subsequently, with the introduction of exclusion criteria progressively more stringent, the relation significantly increases and then becomes negative. In the last interval, there is the use of more proactive approaches in the selection of titles, with a higher level of analysis' sophistication and complexity, and, for this reason, it results to be more appropriate for the control of risks and for identifying competitive advantages; the relation reverses and becomes positive[106].

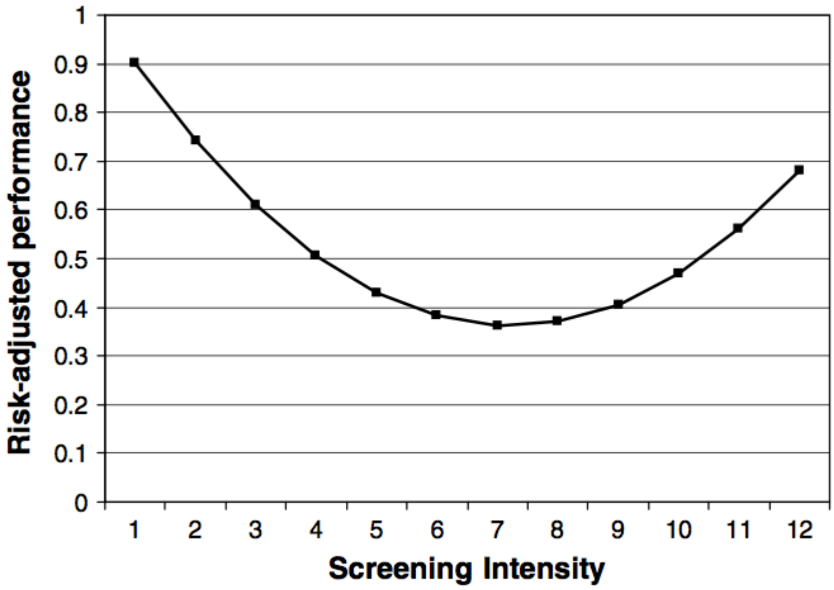

Figure 49 *Non-monotonic effects of screening. Source: Barnett M.L., Salomon R.M., (2006). Beyond Dichotomy: the curvilinear relationship between social responsibility and financial performance. Strategic Management Journal, 27: 1101-1122*

Therefore, Barnett and Salomon identify two main results:

1. Within the SRI strategy, there are several methodologies and approaches radically different in their analysis' nature and complexity. By reason of these marked structural differences, the observation of historical results shows how different approaches may cause extremely different marginal effects on the financial performance of the portfolio, creating a complex and non-linear relationship;

[106] Barnett M.L., Salomon R.M., (2006). *Beyond Dichotomy: the curvilinear relationship between social responsibility and financial performance*. Strategic Management Journal, 27: 1101-1122.

2. An incorrect categorization of these methodologies is the fundamental reason why numerous studies have identified unclear and non-significant relationships.

Barnett and Salomon have also identified a sort of chronological sequencing in the dissemination of increasingly sophisticated approaches, detecting a perfect overlapping with the evolution of responsible investments, from the ethical investment to the modern SRI. Hence, at first, the ethical investment, precluding the possibility to invest in certain sectors, has determined a reduction in risk-weighted returns, by reducing the possibility to diversify the idiosyncratic risk and by preventing the potential profitability of areas considered controversial. Subsequently, the evolution toward the sustainable and responsible investment, driven both by moral and financial considerations, has led to the definition of more sophisticated analysis' methodologies, able to select the best-managed companies, whose titles are less volatile and with the best chance of profitability on the long term.

Following, RobecoSAM has shown a significant overperformance associated with this strategy, compared to the market, in a research made in 2011 and then updated in 2014. The analysis was mainly conducted on the world of the industry instead of the academic one, and had a particular focus on the *best-in-class* approach. The created model has divided the investment universe into five macro groups, differentiated according to sustainability performance. Afterwards, they have been plotted on a graph and then it has made a comparison of the performances between 2001 and 2010 of three portfolios:

- The one constituted only by *sustainability leaders* -the first group for sustainability performance;
- The one constituted only by *sustainability laggards* -the fifth group for sustainability performance;
- The one built through a strategy consisting in taking long positions on securities issued by *sustainability leaders* and short positions on securities issued by *sustainability laggards*.

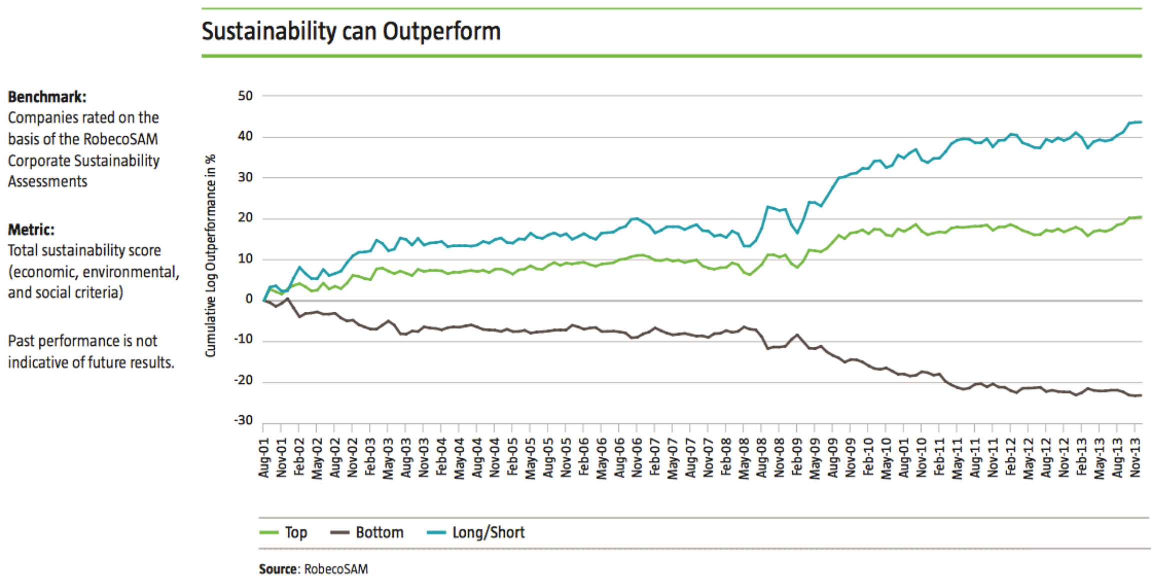

Figure 50 *Sustainability can outperform. Source: RobecoSAM, (2014). Alpha from Sustainability.*

The results of the analysis show how there is a positive and statistically significant relationship between sustainability and financial performance, measured through equity returns, and thus recognizing a greater potential to the group of sustainability leaders to generate extra-returns. Furthermore, the findings show how the returns generated by the third portfolio -long position on *leaders* and short position on *laggards*- result to be higher either than the benchmark's and the other strategies', in the period before the crisis of 2007 as well as after. This evidence suggests that sustainability is a decisive factor in identifying best investment opportunities, but it is also an element able to control the risk exposure, allowing the investor to beat the market when the economy is in booming and when it is in decline. It follows that SRI investment strategies can guarantee better performances not only in absolute terms but also in relative terms, meaning risk-weighted returns.

The "*Double Dividend*", in terms of outperformance and less risk exposition, associated to the integration of sustainability into investment strategies, has been proven by further empirical evidence, provided by the Oekom Research[107] in 2012 and

[107] Oekom research is one of the world's leading rating agencies in the field of sustainable investment. Its analyses currently influence the management of assets valued over EUR 1.5 trillion.

then updated in 2018[108]. Authors select *large-cap* issuers which have reached the best sustainability performances. Into the investment universe, they build two different portfolios: the first one is built giving equal proportional weights to all the issuers in the portfolio -*equal-weighting strategy*-, the second one instead, is built weighting issuers proportionally to their market capitalization -*market-capitalization weighting*. During the period from 1 January 2005 to 31 December 2017, the financial performance of the two portfolios has been compared to those of the benchmark index MSCI World Total Return.

Figure 51 *Comparison of Return Investment during the period 01.01.2005 to 31.12.2017. Source: Oekom research, (2018). Outperform through the use of oekom's Prime standard.*

The portfolio built with *market capitalization weighting* strategy has achieved a cumulative return on investment of 195,61 per cent, compared to 306,49 per cent realized by the *equally weighted* portfolio. Over the same period, the cumulative return on investment for MSCI World Total Return Index came to 184,84 per cent. Therefore, it is possible to deduce that both sustainable portfolios have beaten the benchmark, by 6% and 65%, respectively. Added to this, there is that the superior performance of the

[108] The research evaluates more than 5.800 corporate issuers worldwide. The companies are analyzed under the best-in-class approach, using approximately 100 individual criteria, a large of which relate to aspects specific to the sector. The term Prime relates to those companies meeting the sector-specific requirements. In this analysis only large listed companies have been selected, to ensure comparability with the chosen benchmark index.

Oekom Prime Portfolio, both with weighted and market capitalization, continues to carry a level of risk that is comparable to that of the benchmark. At 12,60%, the annual volatility of the market-cap portfolio over the period 2005-2017 was only slightly higher than that of the index, which has been of 12,29%. The risk of the equally weighted portfolio stood at 15,05%.

Period 01.01.2005 – 31.12.2017	oekom Prime Portfolio (weighted by market capitalisation)	oekom Prime Portfolio (equally weighted)	MSCI World Total Return Index®
cumulative return on investment	195,61	306,49	184,84
annual risk (volatility)	12,60	15,05	12,29

Figure 52 *Comparison of return on investment during the period 01.01.2005 to 31.12.2017. Source: Oekom research, (2018). Outperformance through the use of oekom's Prime standard.*

These data have indicated that integrating ESG considerations into the investment process does not necessarily entail lower returns or higher risk. Hence, investors can obtain a double dividend, generating returns which are at least in line with the market, or even higher, and achieving social, environmental and ethical goals at the same time[109].

Further empirical evidence, in support of the double dividend associated with the integration of SRI approaches, has found its theoretical framework in a study published in 2012 from the Deutsche Bank, where it is shown how, at present, sustainability is priced inefficiently from the market. Contrary to the traditional portfolio theory, the research highlights how the companies better positioned to treat with ESG variables are able to provide greater performance and lower risks. On the other hand, it is evident how the market is still not capable of properly pricing ESG factors; in particular, it tends to underestimate the value of most sustainable companies. In the current state of the market, investors able to better analyze the potential value inherent in ESG information should exploit the informational advantage and seize the arbitrage opportunities in the market, achieving a double dividend. However, this inefficiency

[109] Oekom research, (2018). *Outperformance through the use of oekom's Prime standard*.

could last in the short term, but it will tend to be corrected from the market over the long term; however, the period of time necessary for this adjustment may be significant[110].[111]

3.2. Financial Performance: Market Indices

The development of sustainable investments led to the creation and the proliferation of exchange-traded stock indices, gathering companies with special ESG features. Indices have been created to address a threefold need[112]: firstly, they can be a useful instrument for institutional investors, as a benchmark for the basket of shares they manage. Secondly, given the multiplicity of the criteria for the definition of sustainable investments both in qualitative and quantitative terms, indices provide managers with a filter for the commonly accepted ESG requirements. Ultimately, they have an informative value ensuring recognizability to sustainable investments, to this day still little known.

3.2.1. MSCI

The Morgan Stanley Capital International (MSCI), founded in 1969, is a global provider of equity, fixed income, hedge fund stock market indices, and multi-asset portfolio analysis tools. By the 1980s, the MSCI indices were the primary benchmark indices outside of the US, before being joined by FTSE, Citibank, and Standard & Poor's.

Among these indices, there are also the sustainable ones. MSCI ESG indices are global indices designed to identify companies with high environmental, social, and governance standards (ESG). The selection universe for the MSCI ESG Indexes is

[110] DB Climate Change Advisors, (2012). *Sustainable Investing. Establishing long term value and performance.*

[111] Dal Maso D., Fiorentini G., (2013). *Creare valore a lungo termine*. Milano: EGEA

[112] Dal Maso D., Bartolomeo M., (2001). *Finanza e sviluppo sostenibile*. Milano: il Sole24Ore, p.87.

defined by the constituents of the MSCI Global Investment Market Indexes (GIMI), which mainly includes highly-capitalized companies, after having determined their eligibility through the use of company ratings and researches. The MSCI ESG Rating is then utilized to identify companies which demonstrate great ability to manage ESG risks and opportunities. Only the companies obtaining a rating of BB or above are eligible for the inclusion in the MSCI ESG Indexes. In order to assign the score, companies are evaluated in accordance with 37 environmental, social and governance criteria[113]:

- Environmental: Greenhouse gas emissions, toxic emissions, use of renewable energies, use of clean energies;
- Social: Occupational health and safety, access to funding, human capital development, respect for human rights;
- Governance: Corruption, instability of the financial system, anti-competitive practices, corporate governance, ethical businesses and frauds.

MSCI ESG Ratings provides an overall company ESG rating: a seven-point scale from "AAA" to "CCC".

The *MSCI Europe ESG Universal Index* is based on the *MSCI Europe Index*, its parent index, and it includes large and mid-cap securities across 15 Developed Markets in Europe. With 442 constituents, it covers about 85% of the free float-adjusted market capitalization across the European Developed Market equity universe[114].

Table 7 and *Table 8* show the 10 companies having the greatest weight in the respective index. It is possible to observe that all 10 companies of the *MSCI Europe ESG Universal Index* are also included in the *MSCI Europe Index*, and 8 companies out of 10 have a greater weight in the sustainable index compared to the traditional one.

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[113] MSCI, (2018). *MSCI ESG Rating Methodology*. www.msci.com

[114] MSCI, (2019). *MSCI Europe Index (USD).*

	Country	Float Adj Mkt Cap (USD Billions)	Index Wt. (%)	Sector
NESTLE	CH	343.62	4.09	Cons Staples
NOVARTIS	CH	193.26	2.30	Health Care
ROCHE HOLDING GENUSS	CH	192.14	2.29	Health Care
HSBC HOLDINGS (GB)	GB	145.75	1.73	Financials
BP	GB	123.94	1.47	Energy
ROYAL DUTCH SHELL A	GB	120.63	1.44	Energy
TOTAL	FR	119.52	1.42	Energy
SAP	DE	117.54	1.40	Info Tech
ASTRAZENECA	GB	116.91	1.39	Health Care
LVMH MOET HENNESSY	FR	110.87	1.32	Cons Discr
Total		1,584.18	18.85	

Table 7 *Top 10 Constituents, MSCI Europe Index (USD). Source: MSCI, (2019). MSCI Europe Index (USD).*

	Country	Index Wt. (%)	Parent Index Wt. (%)	Sector
NESTLE	CH	5.73	4.09	Cons Staples
SAP	DE	1.98	1.40	Info Tech
ASTRAZENECA	GB	1.91	1.39	Health Care
DIAGEO	GB	1.74	1.21	Cons Staples
ROCHE HOLDING GENUSS	CH	1.62	2.29	Health Care
ASML HLDG	NL	1.60	1.13	Info Tech
ALLIANZ	DE	1.58	1.12	Financials
NOVO NORDISK B	DK	1.51	1.10	Health Care
BP	GB	1.30	1.47	Energy
SIEMENS	DE	1.29	0.91	Industrials
Total		20.27	16.09	

Table 8 *Top 10 Constituents, MSCI Europe ESG Universal Index (USD). Source: MSCI, (2019). MSCI Europe ESG Universal Index (USD).*

3.2.2. Dow Jones

Dow Jones Sustainability Indices (DJSI), launched in 1999, are a family of *best-in-class* benchmarks for sustainable investors. They have been created jointly by S&P, Dow Jones and RobecoSAM. The *Dow Jones Sustainability Index* monitors the performance of the largest companies in the developed world incorporating environmental and social criteria in their management. The assessment of these companies is done by RobecoSAM, an international investment company with a specific focus on sustainability investments.

Dow Jones Sustainability Indices utilize the *best-in-class* approach to choose the most sustainable companies in each sector, according to the criteria developed by the Corporate Sustainability Assessment:

- No sector is excluded from the indices since the most sustainable companies in each sector are selected to be included in them;
- The companies receive a total sustainability score, from 0 to 100;
- Only 20% of the companies in every sector are included in Dow Jones Sustainability Indices, according to their sustainability score.

In light of this, the companies included in the indices must continue to intensify their sustainability initiative to remain there.

Therefore, RobecoSAM's Corporate Sustainability Assessment represents the backbone in the valuation of the companies. The first step in this valuation process is the definition of the concept of sustainability, which is defined as the ability of a firm to thrive in free and global market, where, internally, the firm is able to anticipate the opportunities that the present and future economic conditions offer, thanks to the environmental and social challenges they face[115].

The sustainability definition is the starting point for identifying the industry-specific criteria covering environmental, social and economic dimensions. Each dimension is the result of a multicriteria evaluation, defined on the basis of some questionnaires addressed to the candidate companies. The multiplicity of existing indicators is conducted back to the three sustainable dimensions: economic, social and governance. Each of these dimensions has a different weight, whose sum is 100, maximum achievable scoring.

The economic dimension accounts for 27%, the social dimension 35% and the environmental dimension accounts for 38% of the maximum scoring. The obtained score is used to classify the companies in the group they belong to, identified in 61 industries by RobecoSAM.

As of November 30th 2018, 2,686 companies were assessed in the CSA, 993 companies from 44 different countries participated, reaffirming the global trend of increasing awareness of corporate sustainability issues.

The *Dow Jones Sustainability Europe Index* comprises the European sustainability leaders as identified by SAM. It represents the top 20% of the largest 600 European

[115] RobecoSAM, (2013). *Dow Jones Sustainability World Index Guide*.

companies in the *S&P Global BMI*, based on long-term environmental, social and governance criteria[116]. *Table 9* and *Table 10* show the 10 companies having the greatest weight in the respective index.

CONSTITUENT	SYMBOL	SECTOR*
Nestle SA Reg	NESN	Consumer Staples
Novartis AG Reg	NOVN	Health Care
Roche Hldgs AG Ptg Genus	ROG	Health Care
HSBC Holdings Plc	HSBA	Financials
SAP SE	SAP	Information Technology
TOTAL SA	FP	Energy
BP	BP.	Energy
Royal Dutch Shell PLC	RDSA	Energy
AstraZeneca Plc	AZN	Health Care
LVMH-Moet Vuitton	MC	Consumer Discretionary

*Based on GICS® sectors

Table 9 *Top 10 Constituents by Index Weight, S&P Europe BMI. Source: S&P Dow Jones Indices, S&P Europe BMI. (30/08/2019)*

CONSTITUENT	SYMBOL	SECTOR*
Nestle SA Reg	NESN	Consumer Staples
Novartis AG Reg	NOVN	Health Care
Roche Hldgs AG Ptg Genus	ROG	Health Care
SAP SE	SAP	Information Technology
TOTAL SA	FP	Energy
AstraZeneca Plc	AZN	Health Care
GlaxoSmithKline	GSK	Health Care
Diageo Plc	DGE	Consumer Staples
Unilever NV	UNA	Consumer Staples
Allianz SE	ALV	Financials

*Based on GICS® sectors

Table 10 *Top 10 Constituents by Index Weight, Dow Jones Sustainability Europe Index. Source: S&P Dow Jones Indices, Dow Jones Sustainability Europe Index. (30/08/2019)*

3.2.3. FTSE

FTSE4Good Indices is a series of benchmark and tradable financial indices, designed to identify companies that meet internationally recognized corporate sustainability standards. They have been launched in 2001 from FTSE Group, a British provider of stock market indices and associated data services. The research for the

[116] www.djindexes.com/literature/

FTSE4Good indices is supported by the Ethical Investment Research Services (EIRIS), which is a British charitable organization aiming to produce the required information to apply ethical criteria to investments and to identify alternative strategies for ethical investments.
An independent committee is responsible for the ESG rating data model, which contains over 300 Indicators across 14 Themes and 3 Pillars: Governance, Environment and Social. Within these indicators, it is supported the alignment with the UN Sustainable Development Goals (SDGs); all 17 SDGs are reflected in the 14 Themes under the ESG Framework[117]. ESG scores are based only on publicly available information; this improves the credibility of data and the transparency across the market. To each company in the research universe it is given a rating from 0 to 5, with 5 the highest rate. The FTSE Russell classifies the market in Developed, Advanced Emerging, Secondary Emerging and Frontier markets, and, in order to be included in the index, it is required a certain level of ESG rating to each of these markets.
Furthermore, in addition to these requirements, there are other considerations that apply in assessing eligibility in the FTSE4Good Index Series.

- Exclusions: Tobacco, Weapons, Coal, Investment Trusts;
- Higher Requirements: Companies involved in more controversial business areas need to meet higher requirements for the inclusion -Nuclear Power Generation and Manufacturers of Infant Formula[118].

Companies passing all these eligibility criteria are automatically members of the appropriate FTSE4Good Index. As in the other indexes previously treated, also in this one, the companies that have been selected can be removed or replaced, if their conditions get worse.
The *FTSE4Good Europe Index* is based on the *FTSE Developed Europe Index*, its parent index, which in turns derives from the FTSE Global Equity Index Series (GEIS), covering 98% of the world's investible market capitalization.
Table 11 and *Table 12* show the 10 and 5 companies having the greatest weight in the respective index. It is possible to observe that all 5 companies of the *FTSE4Good Europe Index* have a greater weight in the sustainable index compared to the traditional one.

[117] FTSE Russell, (2018). *ESG Ratings and Data Model, Integrating ESG into investments.*
[118] FTSE Russell, (2019). *FTSE4Good Index Series, ground rules*.

Constituent	Country	ICB Sector	Net MCap (EURm)	Wgt %
Nestle	Switzerland	Food Producers	303,008	3.86
Novartis (REGD)	Switzerland	Pharmaceuticals & Biotechnology	178,059	2.27
Roche Hldgs (GENUS)	Switzerland	Pharmaceuticals & Biotechnology	172,455	2.20
HSBC Hldgs	UK	Banks	132,322	1.69
BP	UK	Oil & Gas Producers	110,101	1.40
Royal Dutch Shell A	UK	Oil & Gas Producers	110,042	1.40
Total	France	Oil & Gas Producers	109,420	1.39
AstraZeneca	UK	Pharmaceuticals & Biotechnology	106,136	1.35
SAP	Germany	Software & Computer Services	105,100	1.34
Royal Dutch Shell B	UK	Oil & Gas Producers	93,809	1.19
Totals			**1,420,454**	**18.09**

***Table 11** Top 10 Constituents FTSE Developed Europe Index. Source: Factsheet FTSE Developed Europe Index, 30 August 2019*

Constituent	Country	ICB Sector	Net MCap (USDm)	Wgt %
Nestle	Switzerland	Food Producers	333,738	4.60
Novartis (REGD)	Switzerland	Pharmaceuticals & Biotechnology	196,117	2.70
Roche Hldgs (GENUS)	Switzerland	Pharmaceuticals & Biotechnology	189,945	2.62
HSBC Hldgs	UK	Banks	145,761	2.01
Royal Dutch Shell A	UK	Oil & Gas Producers	121,219	1.67
Totals			**986,780**	**13.61**

***Table 12** Top 5 Constituents FTSE4Good Europe Index. Source: Factsheet FTSE4Good Europe Index (30 August 2019)*

3.2.4. Indices Analysis

Figure 53 shows the comparison between the performance of *MSCI Europe ESG Universal* and *MSCI Europe Index*. It is interesting to note how the trend is very similar both in economic downturns and upturns. The two performances start with a trend almost identical, then in 2012-2013, the *MSCI Europe ESG Universal Benchmark* has started to gain traction, achieving ever higher returns, compared to the traditional index' ones.

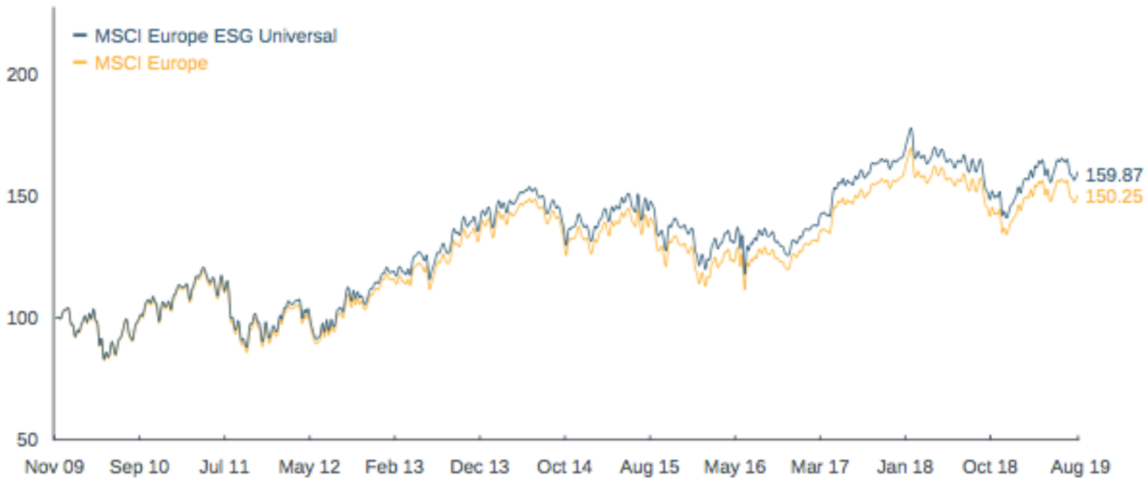

Figure 53 *Cumulative index performance in USD of MSCI Europe ESG Universal and MSCI Europe Index. Source: www.msci.com*

Year	MSCI Europe ESG Universal	MSCI Europe
2018	-14.84	-14.86
2017	25.84	25.51
2016	-1.70	-0.40
2015	-0.88	-2.84
2014	-5.37	-6.18
2013	26.11	25.23
2012	19.42	19.12
2011	-9.90	-11.06
2010	4.50	3.88

Table 13 *Annual Performance 2010-2018 MSCI Europe Index and MSCI Europe ESG Universal Index. Source: factsheet MSCI Europe ESG Universal (30 August 2019).*

Table 13 represents the annual performance of the two indices. It is possible to observe that the *MSCI Europe ESG Universal Benchmark* has always greater gains in periods of booms and lower losses in periods of recession, except for one year, compared to the *MSCI Europe Index*.

The sustainable index has a slightly lower beta, while the standard deviation is almost the same; moreover, it maintains always a higher Sharpe ratio if compared to the traditional one.

		ANNUALIZED STD DEV (%)			SHARPE RATIO			
	Beta	3 Yr	5 Yr	10 Yr	3 Yr	5 Yr	10 Yr	Since Nove 30. 2009
MSCI Europe ESG Universal	0,98	12,45	13,17	na	0,40	0,11	na.	0,34
MSCI Europe	1,00	12,43	13,19	na	0,39	0,06	na.	0,30

Table 14 *Index Risk and Return Characteristics, MSCI Europe ESG Universal. Source: Factsheet MSCI Europe ESG Universal (30 August 2019).*

Figure 54 compares the performance of *FTSE4Good Europe*, in green, with the one of *FTSE Developed Europe*, in white. Until 2015, the two performances were almost identical, from that moment on, the traditional index performed slightly better, even if they maintain the same trend.

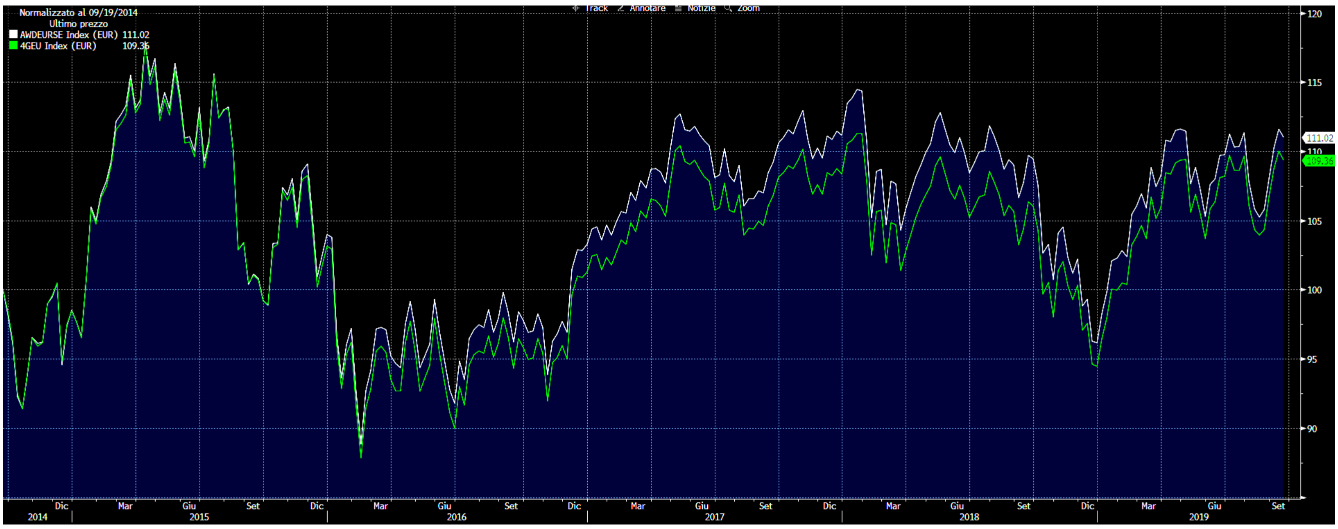

Figure 54 *Index performance in EUR of FTSE4Good Europe and FTSE Developed Europe. Source: Elaboration Bloomberg*

For 3 periods out of 4, the sustainable index got lower losses than the traditional one, and for 2 periods out of 6, it got higher positive performances.

	FTSE Developed Europe	FTSE4Good Europe
2009	37,3	36,9
2010	4,4	1,5
2011	-11,2	-9,2
2012	20,2	21,2
2013	26,2	26,6
2014	-5,6	-4,7
2015	-1,9	-2,7
2016	0,1	-0,7
2017	26,5	25,8
2018	-14,5	-13,6

***Table 15** Year-on-Year Performance (%). FTSE Developed Europe vs. FTSE4Good Europe. Source: Factsheet FTSE4Good Europe (30 August 2019).*

	ANNUALIZED VOLATILIY (%)			RETURN/RISK RATIO			
	1 Yr	3 Yr	5 Yr	1 Yr	3 Yr	5 Yr	10 Yr
FTSE Developed Europe	13,10	12,10	13,20	-0,30	0,50	0,10	0,30
FTSE4Good Europe	12,90	11,80	13,10	-0,10	0,50	0,10	0,30

***Table 16** Volatility and Return/Risk Ratio. FTSE Developed Europe vs. FTSE4Good Europe. Source: Factsheet: FTSE4Good Europe (30 August 2019).*

The volatility of *FTSE4Good Europe* is slightly lower than the one of *FTSE Developed Europe*. The return/risk ratio, instead, is equal in both the indices on the long run, while is slightly lower in the *FTSE4Good* in the short run.

Lastly, *Figure 55* shows the performance of the *Dow Jones Sustainability Index*, in green, and the *S&P Europe BMI*, in white. It is evident that the performance of the traditional index has been slightly higher than the sustainable one, from 2012 to 2018. In 2019 the *Dow Jones Sustainability Index* is showing some signs of recovery, having a performance almost equal to the traditional one.

Figure 55 *Index Performance in USD, S&P Europe BMI and Dow Jones Sustainability Europe Index. Source: Bloomberg.*

The performance of the *Dow Jones sustainability index* is available from 2011 since it has been launched in August 2010. It is possible to note that the sustainable index has mitigated the periods of recessions, obtaining substantial lower losses and a lower annualized standard deviation for the whole period.

	S&P Europe BMI	Dow Jones Sustainability Index
2009	38,73	na
2010	6,34	na
2011	-11,55	-8,7
2012	20,95	19,86
2013	27,85	19,3
2014	-5,2	8,29
2015	-0,48	8,78
2016	0,05	4,05
2017	27,52	10,26
2018	-14,89	-6,6

Table 17 *Calendar Year Performance (%) S&P Europe BMI vs. Dow Jones Sustainability Index. Source: Factsheets (30 August 2019).*

	ANNUALIZED STD DEV (%)		
	3 Yr	5 Yr	10 Yr
S&P Europe BMI	12,58	13,24	16,42
Dow Jones Sustainability Index	9,85	12,28	na

Table 18 *Annualized Risk (5). S&P Europe BMI vs. Dow Jones Sustainability Index. Source: Factsheets (30 August 2019).*

Therefore, these findings show how investments in companies aiming at high levels of environmental, social and governance attention, can lead to good financial performance and a good risk-return profile. Hence, sustainable indices, through which it is possible to invest in companies with high ESG ratings, have the same risk and returns characteristics of traditional benchmarks.
Furthermore, insights resulted from sustainability figures may be essential for guiding investment decisions aimed at identifying alpha. Global societies that have succeeded in reducing social and environmental impacts have realized better performances than the laggards in doing so; the first movers' advantage is relevant in this context and the pace of change is fundamental[119]. Moreover, by incorporating ESG issues into corporate sustainability framework, corporations will ultimately be able to realize cost savings and resource efficiency via sustainable products, which should lead to margin improvements[120].

3.3. Non-financial performance

It is very difficult to provide a unique assessment of the social impact dimensions, from the theoretical and the metric point of view: this is definitely one of the main challenges for responsible enterprises, in order to attract investments and quantify the dimension of the impact generated.
It is clear the importance and the difficulty to create a metric assessment of the social impact, necessary condition for understanding what are the social returns per euro invested. Various standard of social and environmental assessment have been developed over the years, creating high fragmentation of valuation methods and a subsequent insufficiency of the language and metric standardization.

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[119] Hildebrand P., Deese B., (2019). *Il Futuro degli investimenti è sostenibile*. Milano: Il Sole24Ore
[120] Clark G.L., Feiner A., Viehs M., (2015). *From the stockholder to the stakeholder.*

The three most frequently used methods are the IRIS+ method -Impact Reporting and Investment Standards-, developed by Global Impact Investing Network, the GIIR - Global Impact Investing Rating-, supported by B Lab, and the SROI -Social Return on Investment.

3.3.1. IRIS+

The IRIS method was created in 2008 from the research conducted by the Rockefeller Foundation, Acumen Fund and B Lam, stem from the need to find a common language relating the social and environmental performance of organizations, and therefore to create a common platform to enable investors to analyze and compare different options.
The GIIN Network was born in 2009 with the aim of making the impact investing scalable and effective, generating common valuation standards.
Since 2009, GIIN Network has involved different partners in the United States in order to improve the reporting objectives dedicated to all stakeholders. Then, in 2019, the GIIN released the new version, IRIS+ system. Developed by inputs of hundreds of leading impact investors from all the world, the IRIS+ system provides investors and companies with a common understanding of how to effectively manage and measure their impact, and how to improve it over time. This system combines the most widely used impact investing's metrics with the evidence, the research and the implementation.
The main goals of this common methodology are:

- The possibility to provide standardized reports to investments funds and direct investors, ensuring the visibility of social and environmental performance, beyond the financial one, and enabling the comparison between various companies and various types of investments in different sectors and different countries;
- The possibility also for social enterprises, in addition to the traditional ones, to create evaluation reports of extra-financial performances;

The process that leads to the creation of the performance evaluation report is based on four data requests:

- *Organization analyses*: the goals related to the mission, the underlying business model, the location and what is the social and environmental impact that could be generated;
- *Production description*: products, services, and the target audience of the company;
- *Financial performance*: standards of the traditional financial performance, enabling the assessment of the financial returns of the investment;
- *Impact assessment*: the description and the measurement of the impact that the products and the goals of the company have on all the stakeholders.

In order to better translate companies' impact intentions into real impact results, IRIS+ system aligns its methodology with the UN Sustainable Development Goals (SDGs) and with other major international frameworks and conventions. The IRIS+ translates the SDGs into aligned metrics that investors can use throughout the process of investment management.

The thematic taxonomy of the IRIS+ system is built on Impact Categories, Impact Themes and Strategic Goals. Each core metric corresponds to a strategic goal, such as Improving Energy Alternatives or Improving Financial Health. All these IRIS+ strategic goals are aligned with the UN Sustainable Development Goals at the Goal level. *Figure 56* represents an example of Impact Categories, Impact Themes, Strategic Goals, and Core Metric Sets.

Figure 56 *An example of Impact Categories, Impact Themes, Strategic Goals, and Core Metrics Sets. Source: Global Impact Investing Network, (2019). IRIS+ and the SDGs.*

Therefore, investors using the SDGs to describe their impact goals can also use IRIS+ system to identify Core Metric Sets, on order to manage and track the impact performance toward these goals. Also impact investors that do not utilize the SDGs to build their portfolio can identify relevant SDGs describing their Core Metric Sets.
This methodology allows investors to use IRIS+ to discover SDGs-relevant Core Metrics Sets, enabling standard and credible measurement of the impact performance of their portfolios. This allows to compare data and shared progress toward the collective achievement of the SDGs[121]. Other benefits deriving from the adoption of IRIS+ method are: the consistency between socio-environmental objectives and the investment portfolio, and, especially, better communication with stakeholders and simplification of the reporting to investors, mostly due to the clarity that the framework does in what to measure and how to do it.
However, despite the excellent perspectives, the IRIS+ method has been widely criticized; in particular, the biggest fault of this strategy is that the framework metrics do not measure the output, that is the changes in beneficiaries lives: they do not support the comparison between different projects, and support more the social reporting activities than the effective impact assessment. For this reason, the IRIS+ refers to the GIIRS, the Global Compact Investing Rating System.

3.3.2. GIIRS

The Global Compact Investing Rating System is a framework consisting in a set of evaluation criteria of the social and environmental outcomes, conducted by an impartial third party -B Lab-, to which companies and funds decide to submit.
By using a series of KPI, and driven by the IRIS taxonomy, the GIIR measures sustainability across five impact areas: Governance, Workers, Community, Customers and Environment.
The valuation through the GIIR is a service provided by B Lab, a no-profit independent organization, which enables the measurement and the benchmark analysis of the investment opportunities, and the subsequent evaluation of the impacts.

[121] Global Impact Investing Network, (2019). *IRIS+ and the SDGs.*

The investments ratings are a weighted average of the portfolio companies' impact business model and the operation rating, based on the amount allocated to each company.

Moreover, companies or funds receive a medal rating -the highest is platinum- for their portfolio's *Impact Business Model score*, and a star rating -the highest is five stars- for their *Operations Rating score*. It evaluates the environmental, social and governance practices of the company.

Even if the valuation through the GIIR system leads to a number of benefits, among which enhancing the transparency toward stakeholders and improving the management of the overall company, the framework has been widely criticized mainly due to its approach focused on the investor rather than on the impact beneficiaries, and for the poor adaptability to no profit funds and companies.

Entity	Impact Business Models/Operations	Impact Area	Impact Topic	Summary	Year	Points Earned	Year Over Year Change
		Environment	Inputs	Low Impact Renewable Energy Use	2015	2.0	
					2018	2.8	+
				Monitoring Energy Use Relative to Revenue	2015	2.0	
					2018	2.8	+
				Monitoring Water Use Relative to Revenue	2015	2.0	
					2018	2.8	+
			Land, Office, Plant	Environmental Management Systems	2015	2.3	
					2018	1.2	−

Figure 57 *Example of Score Change over time. Source: b-analytics.net*

3.3.3. SROI

Among all, the method that has seen a greater exponential growth and spread has been the SROI -Social Return on Investment. The SROI has been developed in 1996 from the Roberts Enterprise Development Fund, which is a no-profit US fund which aims to help people to acquire the necessary skills to get a job[122]. From 2004 onward, the New Economy Foundation have further developed the model, with a greater focus on stakeholders and introducing the concept of the *impact value chain*[123] and the use of the *deadweight analysis*[124], which subtracts an estimate of what would happen to the outcome value regardless of the intervention. Therefore, this framework entails the planning and the implementation of the SROI analysis, the reporting of the achieved results and the incorporation of the SROI analysis into the organization's operations.

According to the "SROI Network", SROI qualifies not only as a metric, but as a real approach based on seven main principles:

1. *Involve stakeholders*, even while the process is in progress;
2. *Understand what changes*, considering both the positive and negative changes, expected and unexpected;
3. *Value the thing that matter*, using appropriate instruments like, for example, financial proxies;
4. *Only include what is material*, that is what is really important for the desired change;
5. *Do not over-claim*, taking in consideration only the factors clearly attributable to the action;
6. *Be transparent*, documenting and explaining the motivations that led to certain choices;
7. *Verify the result*, better if in collaboration with independent third-parties.

Developed on the basis of the cost-benefit analysis and the sustainability reporting, SROI is an evaluation system that, through the analysis of the inputs, outputs, and outcomes, leads to the calculation of a monetary value of the impact. By attributing monetary values to social and environmental returns, it is possible to demonstrate the creation of a larger value-added compared to what the traditional analysis does.

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[122] Millar & Hall, 2013.

[123] Organizations should consider their inputs -resources-, their outputs -programs-, and their outcomes to fully comprehend their ultimate impact.

[124] A deadweight loss is a cost to society created by market inefficiencies, that occur when there is no equilibrium between demand and supply. While certain members of the society will benefit from this imbalance, others will be negatively impacted by a shift from equilibrium.

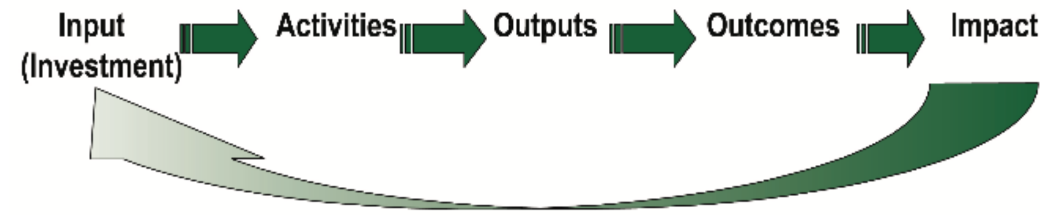

Figure 58 SROI Framework Logistic Model. Source: Drew Tulchin, Social Enterprise Associates paper, Microfinance and the Double Bottom Line

As represented in *Figure 58*, the SROI framework is like a flow along a continuum. The input -the investment-, generates mission-driven activities, which in turn create outputs -physical good or a service-. Outcomes are by-products of the outputs. Finally, outcomes generate the impacts, which are measured in relation to the initial output[125]. From a practical point of view, SROI method consists in a synthesis number obtained from the ratio between the ex-ante estimate of the social value that it is thought to produce, and the amount of the financial investment required to generate the profit, then discounting the present value of the investment.

$$SROI = \frac{Net\ Present\ Value\ of\ Benefits}{Net\ Present\ Value\ of\ Investment}$$

The use of monetary proxies offers several advantages:

- It makes it easier to align and integrate the systems of performance management with those of financial management;
- It increases communication with internal stakeholders;
- It fosters transparency, highlighting the values that have been included and the ones excluded;

[125] Tulchin D., Ohri C., (2005). *Social Return on Investment and Its Relevance to Microfinance*. The Seep Network, progress note. (12)

- It allows a sensibility analysis, highlighting which are the most important variables; the result is more influenced by the change of certain variables than others;
- It helps to identify critical sources of value and thus to optimize the management.

SROI is very similar to what it is expressed by the Return on Investment -ROI- in the traditional economic activity.

The SROI can be used both to quantify the social value generated by the entire organization or focusing only on one specific aspect. This indicator can be used ex-ante, during the screening stage -*provisional SROI*-, or ex-post, assessing the performance -*evaluative SROI*.

To sum up, SROI not only can provide the opportunity for companies to demonstrate their effectiveness in the social and environmental field, but can also create a competitive advantage allowing to take more informed decisions.

On the investor side, this indicator can help select investments better aligned with their targets values. Hence, it can aid in shifting the focus on the value creation, and giving less importance to the risk considerations and the opportunity cost of the money[126].

3.4. Millennials and ESG: the perfect match

Over the past years, the adoption of ESG investing has accelerated in part due to the momentum from key industry organizations, such as the UN Principles for Responsible Investment, and in part due to the availability for a higher degree of ESG information and to a higher demand from the next generation of investors: the millennials. A 2014 survey, conducted from Deloitte, indicates that millennials, also called Generation Y, believes that the way they invest their money could be a method to express their social, environmental and political values.

[126] The SROI Network, (2012). *A Guide to Social Return on Investment.*

The millennials are the individuals born after 1980 and reaching their adulthood in the 2000s. In the present, their ages range between 20 and 36 years and there are entering in their prime earning years[127]. They are projected to make up 75% of the workforce by 2025, and they will shape the economic and political landscape for decades to come. Talking about millennials it is possible to incur in several stereotypes: they are self-absorbed, short-term planners, still dependent on their parents. In order to verify whether these stereotypes hold up, the Bank of America Merrill Lynch has issued the fifth edition of the *Better Money Habits Millennial Report*. In this report, it turns out that this generation is actually as good as any other generation at managing its money. Millennials are more likely to set savings goals and to respect them. They feel financially secure and confident, and they are more likely to ask for rises than older generations[128].

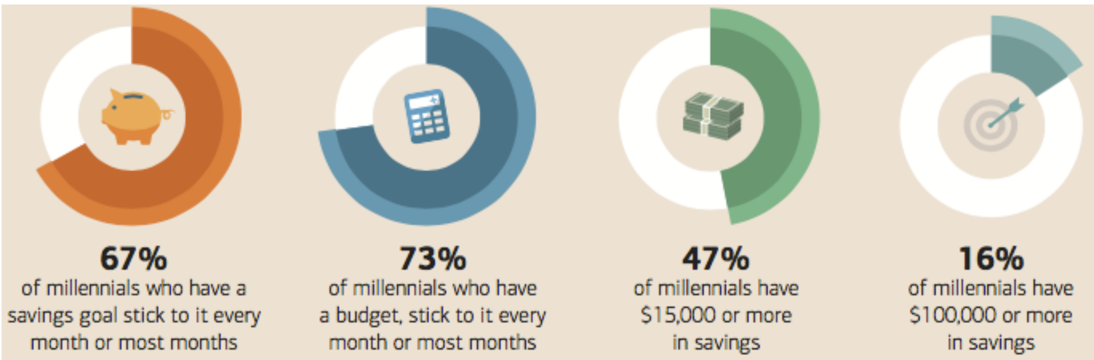

Figure 59 *Millennials Money Habits. Source: Bank of America Merrill Lynch, (2018). 2018 Better Money Habits Millennial Report.*

They prefer to spend on education and experiences, rather than homeownership and retirement. Furthermore, it has been found out that 82% of them went to college and that about 90% of millennials want to direct their allocation to SRI investments in the next five years. They want their money not just to earn high returns, but also to reflect their values and have a positive social impact.

Bank of America Merrill Lynch has predicted that over the next twenty or thirty years millennials could invest between $15 trillion and $20 trillion in US-domiciliated ESG investments, doubling the size of the whole US equity market. Naturally, wealth and

[127] MSCI, (2017). Swipe Right to Invest: Millennials and ESG, the perfect match?
[128] Bank of America Merrill Lynch, (2018). 2018 Better Money Habits Millennial Report

asset managers supplying ESG investment options will be strongly prepared for attracting new assets and new millennial clients. While some wealth managers tend to convert some of their client's portfolio allocation to a sustainable strategy, they are increasingly seeking to build portfolios based on an entirely ESG strategy[129].

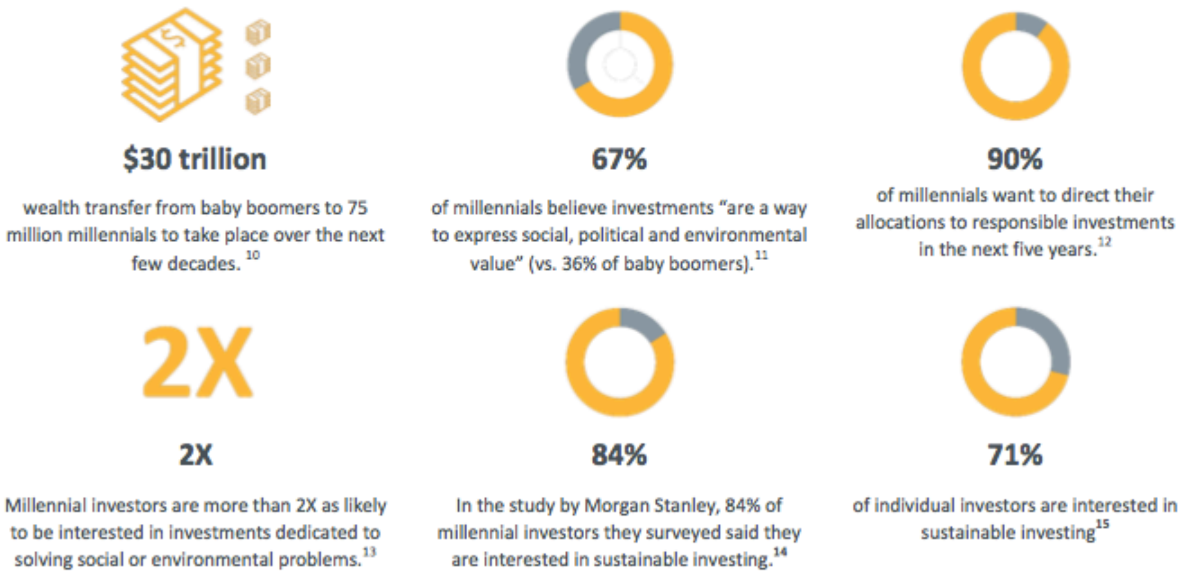

Figure 60 *Highlight from the studies. Source: MSCI, (2017). Swipe Right to Invest: Millennials and ESG, the perfect match?*

Morgan Stanley Institute for Sustainable Investing, in a survey conducted in 2017, has shown how the awareness and the interest in SRI products have grown steadily, but millennial investors continue to lead the charge. In 2017, three over four investors, and 86% of millennials were interested in SRI product, showing a rise from 2015. Millennials appear to be more intensely interested than in 2015, with 38% of them being very interested, up from 28%.

[129] MSCI, (2017). *Swipe right to invest: Millennials and ESG, the perfect match?*

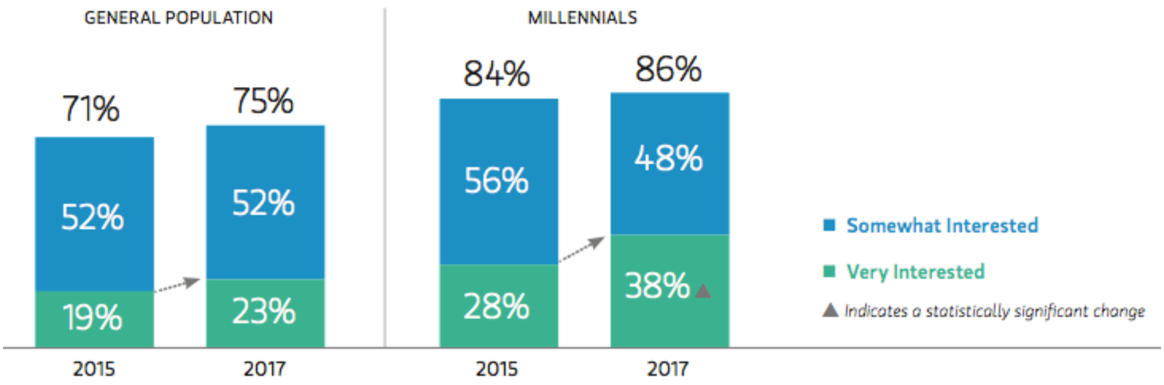

Figure 61 *Interest in Sustainable Investing is Growing, especially among Millennials. Source: Morgan Stanley, (2017). Millennials Drive Growth in Sustainable Investing.*

Millennials have shown that their behaviors are guided by the possible environmental and social impact of their actions: they are almost twice as likely as the general investors to have purchased because of the social and environmental impact of the brand, and almost three times more likely to apply or to work for a company because of its stance on these issues (19% compared to 6%); they have also shown to be two times more likely than the total individual investor population to invest in companies targeting social and environmental goals.

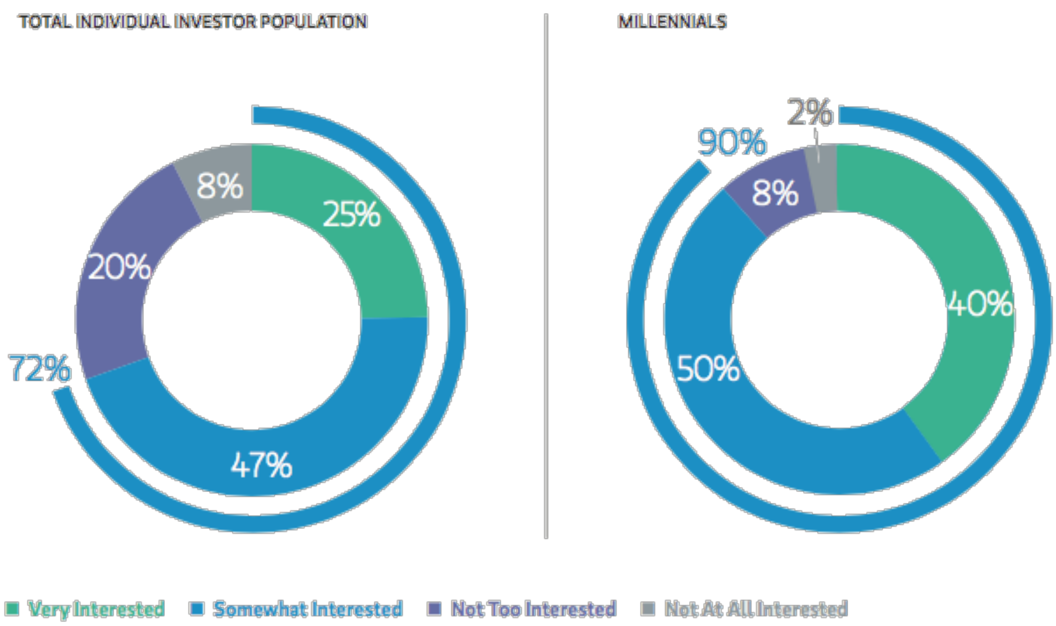

Figure 62 *Millennials' interest in Pursuing Sustainable Investments. Source: Morgan Stanley, (2017). Sustainable Signals.*

Nearly nine out of ten millennials (86%) are interested in SRI products: significantly higher than the total individual investor population (75%).
What is surprising, is that millennials strongly believe that they can make a positive difference and have a positive impact with their investments: 75% agree on the possibility to influence the climate change caused by human activity (58% total investor population), while 84% agree to create an economic growth and to help lift people out of poverty (compared with 79% of total investor population).
Even if 59% of this generation believes that sustainability necessarily involves also financial distress, the interest on this issue is stronger than ever. They want their investments to have a positive impact and to make a positive difference.

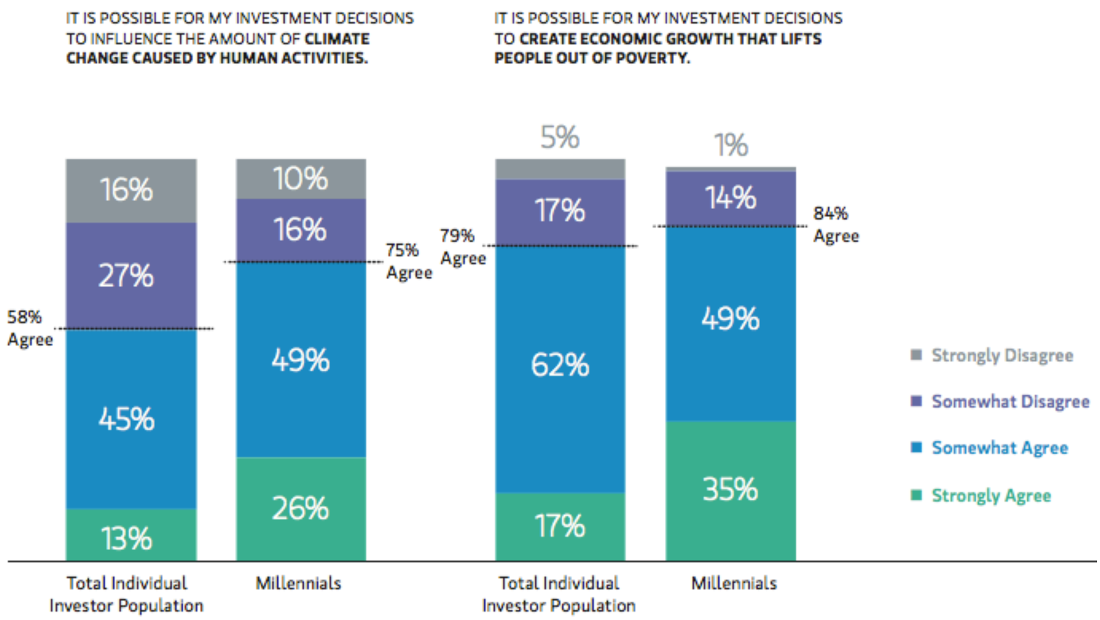

Figure 63 *Millennials are more likely to think they can make a difference with their investment decisions. Source: Morgan Stanley, (2017). New Data from the Individual Investor.*

Therefore, with this survey, Morgan Stanley highlights the constant growth of sustainability, especially among younger investors. The key factor seems to be investors' belief that their investments can actually have an environmental and social impact. Hence, as long as the need for a positive impact remains, it is likely that the interest will keep growing[130].

[130] Morgan Stanley Institute for Sustainable Investing, (2017). *Sustainable Signals, new data from the individual investor.*

CONCLUSION

It is not easy to provide a single definition for Sustainable and Responsible Investments. These have assumed a multiplicity of denominations over time, as socially responsible investments, ethical investments, sustainable and responsible investments.

In Europe, where the SRI had the greatest growth, several national and supranational organizations have contributed to identifying the basic features and the selection methodologies of these investments, and have obtained the consensus from the largest European institutional investors. Today, these institutional bodies represent a reference point for the SRI growth, thanks to the research work and the awareness-raising campaigns on this topic.

In other countries this phenomenon is still at the first stage, and in many of these cases the institutions are starting to propose guidelines that investors will have to adopt.

Nowadays, governments and institutions have understood the importance of these financial instruments, especially after the financial crisis in 2007, when the foundations of the economic system, as it was conceived before, have been gradually questioned. Therefore, the major environmental and social challenges have been included in all the development programs for the next future.

In this context, Sustainable and Responsible Investments play an important role in the production of wealth while respecting and enhancing the environmental, social and governance equilibrium. A peculiarity of the SRI is that they can take several forms, like mutual funds and bonds. There is also the possibility to use the resources to finance specific projects, and they provide the possibility to set up a dialogue with the management of the companies included in the portfolio, in order to raise their awareness of sustainability and responsibility issues.

It is necessary to highlight that sustainable and responsible investments are not against the market. They do not represent a restriction on competition or on the capacity to generate a business turnover, revenues or profits. Hence, in an evolutionary logic it is important to consider factors that go beyond the strictly utilitarian logic and that are embedded in the "human being", pointing out the deep interconnection between financial objectives and social sustainability ones, through a logic of complementarity and not necessarily embedding a trade-off.

By considering the monthly returns of the three European stock indices and their respective sustainable indices, MSCI Europe Index, S&P Europe BMI, FTSE Developed Europe Index and MSCI Europe ESG Universal Index, Dow Jones Sustainability Europe Index, FTSE4Good Europe Index, respectively, it has been possible to observe how investments in companies with high levels of ESG attention can lead to good financial performance and a good risk-return profile. Hence, sustainable indices, through which it is possible to invest in companies with high ESG ratings, have the same risk and returns characteristics of traditional benchmarks, on average.

Furthermore, empirical studies have highlighted how sustainability can be essential for guiding investment decisions aimed at identifying alpha. Hence, global societies that have succeeded in reducing social and environmental impacts have realized better performances than the laggards in doing so; the first movers' advantage is relevant in this context and the pace of change is fundamental. Moreover, by incorporating ESG issues into corporate sustainability framework, corporations will ultimately be able to realize cost savings and resource efficiency, which should lead to margin improvements.

To date, sustainable and responsible investments are constantly growing and there are no doubts that the SRI will continue to grow, up to become a competitive alternative to the traditional investments. The assets that adopted these strategies are growing at an annual growth rate above 20%, and in the next fifteen years millennials will inherit USD 24.000 billions, on the whole, the greater wealth transfer of the history. Compared to previous generations, millennials are twice as likely to invest in companies or funds oriented to social and environmental results.

Sustainable investments have reached an inflexion point; asset owners are demanding for more, and the best managers are doing more. The future of investments will depend on the adoption of a more sustainable approach.

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DEPARTMENT OF ECONOMICS AND FINANCE

Chair of Equity Markets and Alternative Investments

A Theoretical And Empirical Review Of Socially Responsible Investments

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ACADEMIC YEAR 2018/2019

TABLE OF CONTENTS

1
THE EVOLUTION OF SUSTAINABILITY

1.1. The Definition of Sri

In the collective consciousness, the universes of Sustainability and Finance are increasingly colliding. The Sustainable Responsible Investment is an investment approach focused on the reconciliation between social responsibility and financial performance. Indeed, Sustainable and Responsible Investments do not take into consideration only the strictly financial factors, as the risk and the return, but they consider also other non-financial factors, focusing on the so-called ESG factors -*Environmental, Social, Governance*. We can therefore say that it embodies two different dimensions of the investment activity: the economic one, relative to the investor who wants to increase the value of its investment, and the socio-environmental one, relative to the investor who wishes to achieve some social purposes in order to generate positive externalities for the benefit of the society he belongs to[1].

The European Sustainable Investment Forum[2] has reached a consensus on the definition of SRI, which represents a common view at European level:

"Sustainable and Responsible Investment (SRI) is a long-term oriented investment approach which integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio. It combines fundamental analysis and engagement with an evaluation of ESG factors in order to better capture long term returns for investors, and to benefit society by influencing the behavior of companies.[3]"

Three key elements define the SRI approach: long-term time horizon, ethical considerations and the aim which extends the value creation from the individual investor to the society as a whole[4].

Hence, ESG factors -*Environmental, Social, Governance*- enable investors to respect their moral principles but also to promote the protection of these principles into the economic system. *Environmental* factors concern the impact that the activities have on the society, on the community and on the environment as a whole; the main idea is that the company whose activity damages the environment will pay for this effect with fewer returns or a higher risk of the financial products.

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[1] Dal Maso D., Fiorentini G., (2013). *Creare valore a lungo termine*. Milano: EGEA.

[2] The European Sustainable Investment Forum is a pan-European organization dedicated to the promotion of the sustainability through financial markets. It operates in conjunction with the nationals Sustainable Investment Forums and the support of the Affiliate Members.

[3] Eurosif. (2018). *European SRI Study 2018.*

[4] Maupas. (2009). *L'ISR, qu'est-ce que c'est, à quoi ca sert?.* www.quantalys.fr

Social factors deal with the relation the company has with the social environment, the employees and the stakeholders. When there are conflicting relations there could be some damages also in terms of economic performance. On the other hand, peaceful and collaborative relations can improve productivity and reduce the risk of conflicts.
Governance factors consider the government and the management of the company. A democratic functioning, with adequate control procedures, will be enhanced and will obtain greater financing conditions with lower risks.

1.2. The Evolution of Sustainability

The first applications of this strategy have been in the early 1700s by the religious communities, which utilized their investments to fight the slave trade, the production and the sale of alcoholics, the Vietnam war and the Apartheid regime in South Africa. However, the public interest has started to grow in the seventies, when people realized that human activities could have an impact on the environment, often negative, so that it became necessary to protect it. Issues such as sustainable resource management, pollution, preservations of vegetations and animals gained in importance, impacting also the financial instruments and boosting the development of the SRI. From that moment on, even more SRI products have been created, making this strategy very common in the investment universe[5].

1.3. Regulation and Self-Regulation

When talking about sustainability, it is very important to bear in mind an extremally important peculiarity: the voluntary nature of it. It would be counterproductive to try to regulate the social responsibility since it is not possible to find unique solutions suitable for all, hence, every document talks about "*voluntary integration*". Institutions such as the European Union give greater freedom on how to achieve the Corporate Social Responsibility, and let the Member States decide if they want to integrate the directions in their national legal system and if they want to modify them depending on needs.
In 2015, the United Nations summit, the head of State and Government developed the Sustainable Development Goals underlying the 2015-2030 Agenda. These goals want to fulfil everyone's human rights, achieve true gender equality and strengthen the position of women; they cannot be divided and they are a combination of the three fundamental dimensions of the sustainable development: Environmental, Social and Governance. This Agenda has been

[5] Dal Maso D., Fiorentini G., (2013). *Creare valore a lungo termine*. Milano: EGEA.

accepted by all the States and it applies to all, bearing in mind that each nation has a different reality, capacity, development level and priorities.

The 2030 Agenda for Sustainable Development is composed of 17 goals and 129 targets, to wipe poverty, fight inequality and tackle climate change over the next 15 years[6].

1.4. Dimension of Sustainable and Responsible Investments

The steady growth of SRI investing has greatly accelerated around 2013 and 2014, when the first studies were published demonstrating that good corporate sustainability performance is often associated with good financial returns. However, sustainable funds are not the only one to consider, as ever more traditional financial instruments are incorporating Environmental, Social and Governance criteria into their investment process. Moreover, an increasing number of management companies tends to exclude controversial activities from their investment choices, as the weapons one or the tobacco. Thus, the line between sustainable funds and traditional one is very thin.

Globally, the sustainable investing assets in the five principal markets -Europe, United States, Japan, Australia and New Zealand – has been of 30.7 trillion dollars in 2018, with an increase of about 34% over the past two years. The European investors are the most sensitive to green issues. With 14.1 trillion dollars of assets and a growth of 11% from 2016 to 2018, the European market confirms its first position in terms of sustainable investments. Europe is followed by the United States with 12 trillion dollars of sustainable investing assets, Japan with 2,18 trillion, Canada with 1,69 trillion and Australia/New Zealand with 734 billions dollars of sustainable investing assets. From 2016 to 2018 the higher growth of sustainable investments has been in Japan, where they are more than quadruplicated.

According to Morningstar's analysts, sustainable funds will become ever more widely spread, since the management companies will continue to launch new funds and to differentiate them. Moreover, it will be available an ever longer track record and thus there will be more elements for their valuation[7].

[6] https://news.un.org

[7] Morningstar Research, (2019). *European Sustainable Funds Landscape.*

2
FINANCIAL STAKEHOLDERS

It is necessary to talk about Socially Responsible Investments as a phenomenon which is much broader than a purely economic one: it also sets out a wider social change, in which it is possible to find some consistency between sustainable investment choices and financial returns. These trends have turned out to be a real change in lifestyle patterns over time, and they are being assimilated from ever larger groups of the population. However, the financial activity represents a logical filter difficult to overcome. The financial product does not produce direct reactions: there are several steps between a sum of money deposited in the bank account and the social outcome that could be indirectly generated, and all these steps could weaken the bond between causes and effects. It is necessary a high degree of awareness to know that the money entrusted to intermediaries is transferred to an economic activity which can lead to environmental and social consequences in the context in which it operates[8].

2.2. Customers

In western societies, consumer behaviors are ever more oriented to ethical valuations, going beyond the intrinsic qualities of the product, and including non-tangible characteristics of it. The customer turns out to be a subject that does not instrumentally use the consumption just to fulfill himself, but an active player that, through the consumption habits, contributes to create "new communities" to belong to and to identify with. These changes in consumer behavior have also been reflected in companies' strategies, subjected to the pressure of the arising needs of today's consumers. The inclination toward the Social Responsibility Principles also extends to the supply chain -direct or indirect suppliers-, to whom it is required the fairness and social commitment of the production process. The sustainable responsible company, thus, gives to the product and the brand other intangible meanings referred to ethical issues. The costumer, inspired by its own values and informed by the new company communication tools[9], is able to thoroughly search for products corresponding to its preferences[10].

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[8] Dal Maso D., Fiorentini G., (2013). *Creare valore a lungo termine*. Milano: EGEA.

[9] Sustainable and Responsible companies are very attentive to measure and communicate the social performance and the production standards that characterize the corporate brand to the various stakeholders. Several types of sustainability reporting are available for such purpose: some of them are more generalist, like the Social Report, and other more specific, like the quality certification. These communication tools are able to disclose to every stakeholder the measure of social engagement and the firm's commitment, in relation to their area of interest.

[10] Gagliardi C., Mauriello D., Pacetti Bustini F., (2006). *Unioncamere RSI Orientamento Consumatore*. Milano: Franco Angeli

2.3. Investors

On the demand side, the underwriters of Socially Responsible Funds express dual nature needs: the economic and the non-economic ones. Even if they expect a return on the investment, the main goal of the savers is to put money in funds investing in Socially Responsible securities, industries or countries[11]. The investment is thus a tool for other purposes, that is to influence the underlying economic activity, to a greater or lesser extent depending on the resources.

Nilsson (2009) has identified three different segments of investors in SRI mutual funds, in accordance with the importance they give to the correlation between financial returns, social responsibility, and the investments: investors whose primary goal is financial returns -*speculative investor*- , those who care only about social responsibility -*value-driven investor*-, and then those who consider both return and responsibility in their investment decisions -*responsible investor*-.[12] It is important to note that a responsible investor, unlike the value-driven one, is not going to expect a lower financial return because of the ban on controversial activities, on the contrary, he will expect higher financial returns on his investment thanks to the extra-financial analytical skills, able to detect significant ESG risk variables that the solo traditional analysis would not have detected[13].

2.4. The Influence of Investor Behavior on Company Management

The attempt on the part of investors to influence companies' behavior is often denominated *shareholder activism*, which is the strategy in which shareholders play an active role in the promotion of socially responsible practices, through the use of the right to vote deriving from the possession of shares.

Even if *shareholder activism* is the most widespread tool, there are different forms with which shareholders can influence firm's behavior; hence, the broader term *engagement* indicates the process by which, once identified specific areas for improvement in the company, investors try to inform, assist, persuade and monitor the policies implemented by it.

In the case the engagement process ends with the rejection of the proposal by the company, there could be two further stages, considered to be particularly extreme: the *exit* and the *advocacy*; however, *voice* activities are preferred rather than these last resorts[14], characterized by the risk of decrease of the share value and the risk of reputational damage.

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[11] Vandone D., (2004). *Il mercato italiano dei fondi d'investimento socialmente responsabili*. Bologna: Il Mulino (1)

[12] Derwall J., Koedijk K., Ter Horst J., (2011). *A tale of values-driven and profit-seeking social investors*. Journal of Banking & Finance 35, 2137-2147

[13] Dal Maso D., Fiorentini G., (2013). *Creare valore a lungo termine*. Milano: EGEA.

[14] Carleton W.T., Nelson J.M., Weisbach M.S., (1998). *The Influence of Institution on Corporate Governance through Private Negotiations; Evidence from TIAA-CREF*. The Journal of Finance, Vol. LIII, n.4, August.

In order to make the *voice* audible, the engagement activity must not be supported by a single investor, also for the commitment and the specific skills required. Thus, this action is generally taken by organized groups of people -ethical funds, pension funds, focus groups, consumer groups, religious groups, trade unions, non-governmental organizations[15]- able to attract broader public attention and, therefore, strengthen the adopted policies[16]. The effectiveness of *engagement* policies can be measured according to a *stakeholder view*, which considers the effective changes the policy has generated, or according to a *shareholder view*, which takes into account the changes in the value per share of the company, based on the idea that greater ethical performances lead to higher economic and financial performance.

2.5. Strategies

The element that most characterizes Sustainable and Responsible Investments is the selection process of the securities to include in the portfolio. Even though there are no objective criteria for defining the ethicality of an investment and no general rules in the selection process of sustainable investments, each financial body or institution has its own classification process[17]. The European Sustainable Investment Forum -EUROSIF- identifies seven different categories of SRI investments:

1. *Exclusion of holdings from the investment universe*: Exclusion of a production sector or of a company whose business is incompatible with sustainability criteria or with international regulatory standards;
2. *Norm-based screening:* Investments are subject to a careful assessment to determine the compliance of enterprises with international standards and norms;
3. *Engagement and voting on sustainability matters:* This strategy requires shareholders to engage in a structured and constant dialogue with the company management and to constantly monitor the ESG factors characterizing the company's activity;
4. *Integration of ESG factors in financial analysis:* Explicit and systematic inclusion of ESG factors in the traditional financial analysis;
5. *Best-in-Class investment selection:* Select enterprises able to obtain best ESG scores within their sector. It takes into consideration both ESG and financial evaluations;
6. *Sustainability themed investments:* The strategy consists in choosing investment areas typically associated with the very idea of sustainable development.
7. *Impact Investing:* It consists in the selection of investments aimed at creating social value or able to have a positive environmental impact.

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[15] Dal Maso D., Fiorentini G., (2013). *Creare valore a lungo termine*. Milano: EGEA.
[16] Dell'Atti A., Intonti M., Iannuzzi A., (2010). *Azionariato attivo e soft engagement nei fondi SRI europei: un'analisi empirica. Banche & Banchieri*, (6).
[17] Rossi F., Turrina L., (2013). *Gli investimenti sostenibili e responsabili*. University of Verona.

Normally, these approaches are cointegrated, in order to have an approach more complete and effective to sustainability.
At a global level, the largest sustainable investment strategy has been the *negative* or *exclusionary screening*, with $19.8 trillion in assets under management. Moreover, even if in Europe it is not widespread, *ESG integration* commands most of the assets in the United States, Canada, Australia, and New Zealand.

2.6. Financial Products

Going into 2019 is pretty exciting for sustainable product innovation. With the EU green taxonomy and financial regulators making strong statements on climate change, investors seeking greater disclosure, and the momentum, there is a definite sense of accelerated urgency in sustainable finance.
In the last few years there has been significant growth in the issuance of sustainable financial instruments, but the most widespread SRI financial instruments on the European market are:

- Investment Funds
- Green Bond
- Social Bond
- Social Impact Bond

Investment Funds

Through an investment selection based on ESG factors, SRI funds shall allow investors to direct their savings to those companies or those States that stand out for their social and environmental commitment. The added value of SRI funds consists of the real opportunity to contribute to the creation of an economic system more robust and sustainable, without sacrificing financial returns.
The main advantage of SRI funds consists in the fact that it is made an ESG analysis of the securities together with the financial one, enabling a comprehensive analysis of the securities: being aware of companies' social-environmental behavior and their potential impact on the financial performance, allows the operator to better evaluate the business risks and therefore the volatility of the portfolio.
Among the SRI funds there are the *Thematic* ones, investing in a specific field conform to socio-responsibility principles, tied to renewable energies, water scarcity or climate change, for example.
It is also important to mention the *Impact funds*, which are financial instruments aimed to achieve social return directly through portfolio investments, while also generating financial performance and thereby potentially providing and attracting additional capital to address the

social issues of interest[18]. Impact funds, compared to SRI ones, overturn the terms of the question: the main objective is the creation of a social impact but, differently from the philanthropic approach, this impact is created through the investment in social enterprises that have to be sustainable also from the economic point of view. In other words, the financial return is not the goal but the instrument[19].

Green Bond

Green bond is a debt instrument that finances activities with a positive impact on the environment: renewable energies, sustainable waste and water management, protection of biodiversity. It represents an opportunity to increase the availability of the required capital and to reduce debt costs for projects with positive environmental effects[20]. They have been launched in the market about ten years ago on the initiative of some Multilateral Development Banks including the World Bank. The first Italian green bond has been issued by Hera in 2014, with a 10-year bond worth €500 million.

The interest expressed for the green bond market is also due to the publication of *Green Bond Principles* (GBP) in 2014, which are procedural non-binding guidelines with the objective of ensuring transparency, disseminate information, promote integrity across the green bond market and defining the adequate approach for their emission.

According to most recent estimates from the Climate Bond Initiative, the issuance of green bonds in H1 2019 has been USD 117.8 bn, with USD 100 bn threshold reached in H1, the earliest ever. 625 green bonds have been issued, with 363 from United States, 51 from Sweden and 32 from China. The large growth of the market from 2018 to 2019 is also due to 98 new market entrants in 2019, bringing the total number of green bond issuers to 747, and the entrance of new countries in the market, reaching 57 green bond markets[21].

Social Bonds

Social bonds are debt instruments used to finance positive social impact projects. The sectors eligible for funding may cover, for example, access to health services, financial inclusion, food safety, and employment. Social bond market is still in the early stages of development, even if there has been a significant growth of the business in the first months of 2017: at European level, the Council of Europe Development Bank[22] (CEB) has issued the *social inclusion bond*

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[18] Johnson K., Lee H., (2013). *Impact Investing: a framework of decision making*. Massachusetts: Cambridge Associates LLC.

[19] Social Impact Investment Task Force, (2016*). La finanza che include: gli investimenti ad impatto sociale per una nuova economia.* Roma.

[20] Forum per la Finanza Sostenibile, (2017). *Impact Investing: la finanza a supporto dell'impatto socio-ambientale*.

[21] Climate Bond Initiative (July 2019), Green bonds market summary.

[22] The Council of Europe Development Bank is the oldest financial institution pursuing social aims. It has been created in 1956 from eight European countries, in order to contribute to strengthening social cohesion after

of the value of €500 million, whose proceeds will be allocated to finance projects in the field of social housing, education and professional formation, and in job creation in small and medium-sized enterprises. In 2017, the International Capital Market Association has established voluntary guidelines on the social bonds issue: the Social Bond Principles.

Social Impact Bonds

Social Impact Bonds (SIB) are innovative impact investing instruments, aimed at the implementation of projects of public interest and characterized by the fact that the investors' remuneration is tied to the effective creation of positive social impact, adequately measured. For this reason, social impact bonds are seen as *Pay by Result* or *Pay for Success* obligations. The mechanism is the following one: investors underwrite the bond, hence they lend money to a provider of social services, engaged in achieving certain goals on a given date. If the initiative is successful then the government repays with interests its investors, otherwise it does not pay anything.

2.7. Ethical Rating

ESG ratings are synthetic evaluations of the sustainability and environmental level of a particular economic operator. The utility of these analysis lies in the fact that some fundamental characteristics of the companies are not properly reflected in its financial indicators, at least in the short term: the integration of ESG ratings into investment decisions may bring higher returns in the medium-long term. The company's sustainability ratings represent a synthetic guiding tool for investors wishing to select their investments, going beyond what is prescribed by the traditional modern portfolio theory.

In order to best fulfill its information function, the extra-financial analysis must identify, sector by sector, the factors contributing to the company's success in the medium-long term, and vice-versa the risks it exposes itself to in an inadequate management of its impacts.

In addition to the operation field, there are other aspects that have to be taken into account for a proper company evaluation: for instance the ownership structure, the finality, the geographic location and the dimension are some important features affecting the sustainability performance[23].

The ethical rating methodology is based on screening activities, which analyze the market to assess which companies are meeting the pre-determined criteria. These criteria can be both positive or negative, and both qualitative and quantitative.

World War II. This organization has full financial independence and Italy, with a participation pairs to 16,79%, is among major shareholders.

[23] Dal Maso D., Fiorentini G., (2013). *Creare valore a lungo termine.* Milano: Egea.

Since the general rating model is applicable from agencies as well as by individual funds, in 2001 the Standard Ethics[24] has introduced a model that is still taken as a reference by institutions, whose valuation system identifies 9 rating levels: EEE, EEE-, EE+, EE, EE-, E+, E, E-, F.

2.8. Non-Financial Disclosure

If the transparency is a fundamental requirement in the offer and the choice of investment products, it is even more for sustainable and responsible investments, since the investor must be enabled to clearly understand the possible social and environmental consequences of his allocation choices. The information transparency must support the investor during the period preceding the investment decision - *pre-sale information* – and the holding period of the investment - *post-sale information* -.

Recent years have experienced increasing difficulties for traditional economic reporting systems to exhaustively represent the companies' complexities, to justify their market value and to support investors judgments on the performances achieved by the company. Hence, over time, balance sheets have proved to be inadequate in responding to the increasingly complex request for information. Only the monitoring of performances in their broader sense allows to measure and to manage corporate sustainability. The balance sheet is able to response only partially to the growing interest in a complete view of the performances achieved by the company, and the access to economic information does not allow the understanding of the financial, operational, compliance, health and security risks and of the broader set of risks that a company has to handle.

Thus, non-financial disclosure is increasingly becoming an integrative element of the financial and strategic information necessary to assess the company and to understand its future outlook. In a first moment, the reporting documents have experienced the separation between social and environmental performance, and there has been the creation of three separate documents: the *environmental report*, the *social report* and the *sustainability report*. At a later time, there has been the convergence of all the documents in a single report, the *Integrated Reporting*, with the aim of creating a single view of environmental and social results achieved by the company. Besides the financial results, also data on the social, environmental and economic context shall be inserted in the *Integrated Reporting,* to highlight the relations with the non-economical and non-financial variables, going beyond the concept of "traditional reporting", and creating a financial statement more complete.

[24] Standard Ethics is an independent rating agency, headquartered in London. It issues the *Standard Ethic Rating*, which is an assessment of the sustainability and the governance based on the compliance with principles and with voluntary indications of United Nations, Organization for Economic Co-operation and Development (OECD) and the European Union.

Directive 2014/95/EU of the European Parliament and of the Council

The European Directive 2014/95/EU has required Member States to introduce a new obligation in terms of non-financial reporting and information on diversity. Therefore, the provision of disclosure that was voluntary until then, became a legally binding requirement, starting from the balance sheets at 31st December 2017.

In Italy, the European Directive 2014/95/UE has been implemented through the approval of the D.Lgs.n. 254/2016 and it concerns the financial years from the 1st of January 2017, that will have to provide, together with the balance sheet, also a non-financial disclosure. This provision introduces the obligation for large companies and groups to produce the non-financial reporting. It concerns information on the environment, society, related to human resources, to human rights and to the passive and active fight against corruption. The subjects obliged to produce this non-financial statement are the *public-interest entities* (PIE), meeting these criteria:

- Annual average number of employees exceeds 500 units;
- Total balance sheet EUR 20 million or EUR 40 million in revenues.

Many national companies already provide non-financial information voluntarily, by publishing on the website or by providing a dedicated document -*social reports* or *integrated reports*. The decree admits that a corporation that already provide the sustainability report can refer to other information sources, like the sustainability report, in order to integrate or to complete the non-financial statement, so to avoid the production of excessive and expensive documentation[25].

3
DOUBLE DIVIDENDS

The dilemma related to the impact that a portfolio, built following ESG criteria besides the economic-financial ones, has on the financial performance, has been widely debated over the last few decades. Hence, as the SRI principles became more and more important, the interest in demonstrating the competitiveness of related financial products, compared to the traditional ones, has increased further.

The report *Demystifying Responsible Investment Performance*[26] shows how the extra financial analysis constitutes a useful instrument for identifying the companies able to seize the

[25] Rousmant S., (2019). *Informativa non finanziaria e responsabilità sociale di impresa*. Milano: Mazars Italia.

[26] UNEP Financial Initiative, Mercer, (2007). *Demystifying Responsible Investment Performance: A review of key academic and broker research on ESG factors*.

performance opportunities over the long term, by considering the integration of sustainability into the corporate strategies as an important value-driven.
Barnett and Salomon have observed that the relation between financial performance and SRI strategy is not heavily linear: it takes the shape of a parabola -*u-shaped*- more than a line. In a first interval, characterized by the application of a negative screening not too stringent, the relation does not have relevant causal relationship. Subsequently, with the introduction of exclusion criteria progressively more stringent, the relation significantly increases and then becomes negative. In the last interval, there is the use of more proactive approaches in the selection of titles, with a higher level of analysis' sophistication and complexity, and, for this reason, it results to be more appropriate for the control of risks and for identifying competitive advantages; the relation reverses and becomes positive[27].
Following, RobecoSAM has shown a significant overperformance associated with this strategy, compared to the market, in a research made in 2011 and then updated in 2014. The results of the analysis show a positive and statistically significant relationship between sustainability and financial performance, measured through equity returns, and thus recognizing a greater potential to the group of sustainability leaders -selected through a best-in-class approach- to generate extra-returns. Furthermore, the returns generated by the portfolio constructed taking a long position on *leaders* and short position on *laggards* result to be higher either than the benchmark's and the other strategies'. This evidence suggests that sustainability is a decisive factor in identifying best investment opportunities, but it is also an element able to control the risk exposure, allowing the investor to beat the market when the economy is in booming and when it is in decline. It follows that SRI investment strategies can guarantee better performances not only in absolute terms but also in relative terms, meaning risk-weighted returns.
The "*Double Dividend*", in terms of outperformance and less risk exposition, associated to the integration of sustainability into investment strategies, has been proven by further empirical evidence, provided by the Oekom Research[28] in 2012 and then updated in 2018[29]. Both the portfolios constructed with an *equal-weighting strategy* and *market-capitalization weighting* have beaten the benchmark, by 6% and 65%, respectively. Added to this, there is that the superior performance of the Oekom Prime Portfolio, both with weighted and market capitalization, continues to carry a level of risk that is comparable to that of the benchmark.

[27] Barnett M.L., Salomon R.M., (2006). *Beyond Dichotomy: the curvilinear relationship between social responsibility and financial performance*. Strategic Management Journal, 27: 1101-1122.
[28] Oekom research is one of the world's leading rating agencies in the field of sustainable investment. Its analyses currently influence the management of assets valued over EUR 1.5 trillion.
[29] The research evaluates more than 5.800 corporate issuers worldwide. The companies are analyzed under the best-in-class approach, using approximately 100 individual criteria, a large of which relate to aspects specific to the sector. The term Prime relates to those companies meeting the sector-specific requirements. In this analysis only large listed companies have been selected, to ensure comparability with the chosen benchmark index.

These data have indicated that integrating ESG considerations into the investment process does not necessarily entail lower returns or higher risk. Hence, investors can obtain a double dividend, generating returns which are at least in line with the market, or even higher, and achieving social, environmental and ethical goals at the same time[30].
On the other hand, it is evident how the market is still not capable of properly pricing ESG factors; in particular, it tends to underestimate the value of most sustainable companies. In the current state of the market, investors able to better analyze the potential value inherent in ESG information should exploit the informational advantage and seize the arbitrage opportunities in the market, achieving a double dividend. However, this inefficiency could last in the short term, but it will tend to be corrected from the market over the long term; however, the period of time necessary for this adjustment may be significant[31].[32]

3.2. Financial Performance

Through the comparison between the performance of *MSCI Europe ESG Universal* and *MSCI Europe Index*, it is possible to note how the trend is very similar both in economic downturns and upturns. The sustainable index has always greater gains in periods of booms and lower losses in periods of recession, except for one year, compared to the traditional one. The sustainable index has a slightly lower beta, while the standard deviation is almost the same.
Moreover, comparing the performance of *FTSE4Good Europe* with the one of *FTSE Developed Europe*, it is possible to observe that until 2015, the two performances were almost identical, from that moment on, the traditional index performed slightly better, even if they maintain the same trend. Observing the annual performance from 2009 to 2018, for 3 periods out of 4, the sustainable index got lower losses than the traditional one, and for 2 periods out of 6, it got higher positive performances. The volatility of *FTSE4Good Europe* is slightly lower than the one of *FTSE Developed Europe*. The return/risk ratio, instead, is equal in both the indices on the long run, while is slightly lower in the *FTSE4Good* in the short run.
Lastly, the performance of the *Dow Jones Sustainability Index* and the *S&P Europe BMI*. It is evident that the performance of the traditional index has been slightly higher than the sustainable one, from 2012 to 2018. In 2019 the *Dow Jones Sustainability Index* is showing some signs of recovery, having a performance almost equal to the traditional one. It is possible to note that the sustainable index has mitigated the periods of recessions, obtaining substantial lower losses and a lower annualized standard deviation for the whole period.

[30] Oekom research, (2018). *Outperformance through the use of oekom's Prime standard*.
[31] DB Climate Change Advisors, (2012). *Sustainable Investing. Establishing long term value and performance.*
[32] Dal Maso D., Fiorentini G., (2013). *Creare valore a lungo termine*. Milano: EGEA

These findings show how investments in companies aiming at high levels of environmental, social and governance attention, can lead to good financial performance and a good risk-return profile. Hence, sustainable indices, through which it is possible to invest in companies with high ESG ratings, have the same risk and returns characteristics of traditional benchmarks.
Furthermore, insights resulted from sustainability figures may be essential for guiding investment decisions aimed at identifying alpha. the first movers' advantage is relevant in this context and the pace of change is fundamental[33]. Moreover, by incorporating ESG issues into corporate sustainability framework, corporations will ultimately be able to realize cost savings and resource efficiency via sustainable products, which should lead to margin improvements[34].

3.3. Non-Financial Performance

It is clear the importance and the difficulty to create a metric assessment of the social impact, necessary condition for understanding what are the social returns per euro invested. Various standard of social and environmental assessments have been developed over the years, creating high fragmentation of valuation methods and a subsequent insufficiency of the language and metric standardization.
The three most frequently used methods are the IRIS+ method -*Impact Reporting and Investment Standards*-, developed by Global Impact Investing Network, the GIIR -*Global Impact Investing Rating*-, supported by B Lab, and the SROI -*Social Return on Investment*.
The IRIS+ system provides investors and companies with a common understanding of how to effectively manage and measure their impact, and how to improve it over time. In order to better translate companies' impact intentions into real impact results, IRIS+ system aligns its methodology with the UN Sustainable Development Goals (SDGs) and with other major international frameworks and conventions. The IRIS+ translates the SDGs into aligned metrics that investors can use throughout the process of investment management.
The Global Compact Investing Rating System is a framework consisting in a set of evaluation criteria of the social and environmental outcomes, conducted by an impartial third party -B Lab-, to which companies and funds decide to submit. By using a series of KPI, and driven by the IRIS taxonomy, the GIIR measures sustainability across five impact areas: Governance, Workers, Community, Customers and Environment. The investments ratings are a weighted average of the portfolio companies' impact business model and the operation rating, based on the amount allocated to each company.
Among all, the method that has seen a greater exponential growth and spread has been the SROI -Social Return on Investment. The SROI has been developed in 1996 from the Roberts

33 Hildebrand P., Deese B., (2019). *Il Futuro degli investimenti è sostenibile*. Milano: Il Sole24Ore
34 Clark G.L., Feiner A., Viehs M., (2015). *From the stockholder to the stakeholder.*

Enterprise Development Fund[35]. Developed on the basis of the cost-benefit analysis and the sustainability reporting, SROI is an evaluation system that, through the analysis of the inputs, outputs, and outcomes, leads to the calculation of a monetary value of the impact. By attributing monetary values to social and environmental returns, it is possible to demonstrate the creation of a larger value-added compared to what the traditional analysis does. From a practical point of view, SROI method consists in a synthesis number obtained from the ratio between the ex-ante estimate of the social value that it is thought to produce, and the amount of the financial investment required to generate the profit, then discounting the present value of the investment. This indicator can be used ex-ante, during the screening stage -*provisional SROI*-, or ex-post, assessing the performance -*evaluative SROI*[36].

CONCLUSION

To date, sustainable and responsible investments are constantly growing and there are no doubts that the SRI will continue to grow, up to become a competitive alternative to the traditional investments. The assets that adopted these strategies are growing at an annual growth rate above 20%, and in the next fifteen years millennials will inherit USD 24.000 billions, on the whole, the greater wealth transfer of the history. Compared to previous generations, millennials are twice as likely to invest in companies or funds oriented to social and environmental results.

Sustainable investments have reached an inflexion point; asset owners are demanding for more, and the best managers are doing more. The future of investments will depend on the adoption of a more sustainable approach.

Moreover, sustainability can be essential for guiding investment decisions aimed at identifying alpha. Hence, global societies that have succeeded in reducing social and environmental impacts have realized better performances than the laggards in doing so; the first movers' advantage is relevant in this context and the pace of change is fundamental. Furthermore, by incorporating ESG issues into corporate sustainability framework, corporations will ultimately be able to realize cost savings and resource efficiency, which should lead to margin improvements.

In the current state of the market, investors able to better analyze the potential value inherent in ESG information should exploit the informational advantage and seize the arbitrage opportunities in the market, achieving a double dividend.

[35] Millar & Hall, 2013.

[36] The SROI Network, (2012). *A Guide to Social Return on Investment.*

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