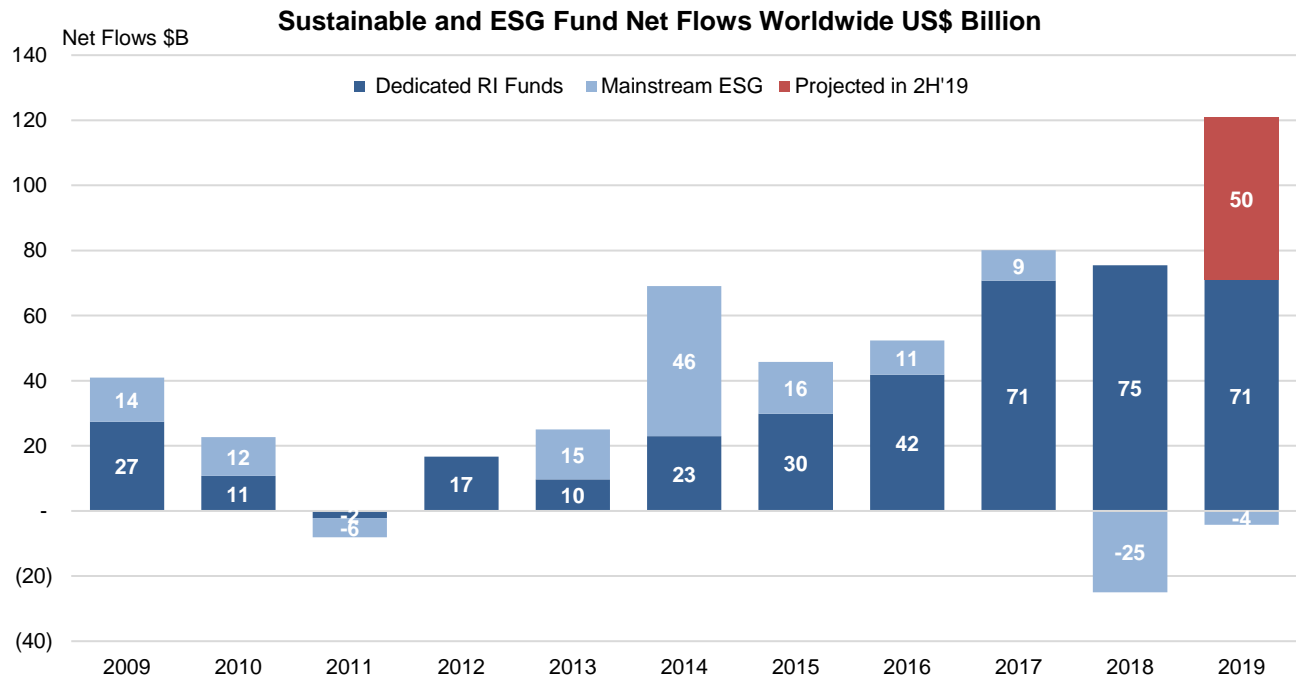


SUSTAINABLE FUND UPDATE

August 2019

- Sustainable funds capture \$71bn during 1H'19, on track to exceed \$100bn+ this year
- Schroders acquires majority stake in impact investor BlueOrchard
- Global energy transition strategy launched by Schroders
- Aberdeen Standard to run \$500m ESG credit portfolio for AIIB
- BlackRock brings Liquid Environmentally Aware Funds (LEAF) to Ireland
- Aviva creates default workplace pension option based on Stewardship funds
- Amundi and EIB to expand green financing in Europe
- UK pension fund moves £500m into low-carbon index tracker
- Big data and machine learning: Arabesque S-Ray partners with four co-investors
- US National Climate Bank could fund \$700bn in clean energy projects



Source: Impactvesting LLC analysis based on data from Broadridge Global Market Intelligence and Morningstar.

BlueOrchard joins forces with Schroders

The biggest news of this summer may be Schroder's acquisition of a majority stake in Switzerland-based impact investing and microfinance specialist BlueOrchard Finance.

BlueOrchard is a leader in impact investing with \$3.5 billion under management across asset classes including microfinance, credit, private equity, sustainable infrastructure, and blended finance mandates.

The transaction strengthens Schroders' capabilities in impact investment, and in private debt and private equity in emerging markets. The deal will also prompt other mainstream asset managers to think more urgently about partnering with or acquiring impact and sustainable investment managers with distinctive capabilities.

BlueOrchard Microfinance Fund (BOMF), the firm's flagship product, has grown rapidly in recent years to €1.7 billion. 75% of these assets were produced through exceptionally strong net inflows since the start of 2016.

The Luxembourg SICAV was formed in 1998 as the first private and commercial microfinance investment fund, focusing on emerging and frontier markets fixed income.

BOMF aims to foster financial inclusion by investing in microfinance institutions that provide loan capital as well as savings, insurance, and related products to low-income groups, enabling them to create and grow income-generating activities and to break out of poverty.

The fund also supports microfinance institutions in expanding their outreach, improving the quality and appropriateness of their financial services, and encouraging the development of new products such as savings, insurance and payment services.

The boutique expanded its suite of impact investment solutions last year with the introduction of **BlueOrchard Emerging Markets SDG Impact Bond fund**, collecting €99 million of flows by year-end. Assets in the fund reached €304 million by June 2019.

The Emerging Markets SDG Impact Bond fund is a Luxembourg UCITS positioned as a "liquid alternative", offering exposure to emerging and frontier markets while focusing on investments that advance the UN Sustainable Development Goals (SDGs).

The fund invests in bonds of development banks, financials and microfinance institutions, with the aim to foster financial inclusion and provide funding to economically vulnerable communities around the world. Focused impact targets include sustainable infrastructure projects and clean energy initiatives.

Schroder's deal with BlueOrchard will prompt other asset managers to think more urgently about partnering with or acquiring impact and sustainable investment specialists with distinctive capabilities.



Schroders introduces Global Energy Transition Fund

While Schroders was busy finalizing its deal with BlueOrchard, the company found time to add to its own range of sustainable investment products. **Schroders ISF Global Energy Transition**, a Luxembourg clean energy vehicle, was unveiled in July.

The fund targets opportunities arising from the shift to a low carbon economy and three global trends: the decarbonization of power generation, the electrification of energy use, and increasing efficiency of consumption.

The Global Energy Transition fund invests across the clean energy universe spanning renewable power production and energy equipment, transmission and distribution, energy storage, smart grid technologies, and electric vehicle charging.

The strategy will have a sustainability focus and a bias towards 'best-in-class' companies, as well as those that can demonstrate progress towards improvement. It will use a focused thematic approach, managed by Schroders' commodities and resources investment team, founded in 2005. The team will pursue a high-conviction strategy and allocate to 30-50 stocks, while avoiding companies with exposure to nuclear energy or fossil fuels.

Aberdeen Standard to run \$500m ESG credit portfolio for AIIB

Aberdeen Standard Investments (ASI) has partnered with the Asian Infrastructure Investment Bank (AIIB) to promote ESG investing and sustainable debt markets in emerging Asia.

Through the partnership, Aberdeen Standard will run the \$500 million **AIIB Asia ESG Enhanced Credit Managed Portfolio**. The strategy will comprise primarily Asian infrastructure related bonds including both green and un-labelled issuances, with ESG factors integrated into the investment process.

In addition, through bespoke research and active engagement, Aberdeen Standard will work with AIIB on the launch of the **Sustainable Capital Markets Initiative**, which aims to catalyze ESG investing strategies and act as an engine of change to improve ESG standards.

The initiative seeks to build capacity around responsible investing with various market participants including corporate bond issuers, rating agencies, and index providers to improve disclosure and expand ESG rating coverage in emerging Asia.

Amundi and EIB to expand green financing in Europe

Amundi has partnered with the European Investment Bank (EIB) to launch the **Green Credit Continuum** investment program to help deploy some of the financing needed to meet the Paris Agreement targets in the EU.

The Green Credit Continuum program aims to develop the green debt market beyond existing green bonds by supporting small-scale green projects, SME, and mid-cap financing.

According to Amundi and the EIB, the European green financing market has mainly developed around green bond issuance from sovereign, quasi-sovereign and large corporate institutions. New market instruments can enable smaller companies and green projects to access market financing and offer higher yields to investors, and help finance European energy and ecological transition goals.

The agreement between Amundi and the EIB encompasses three elements:

- **A diversified fund** that will invest in green high yield corporate bonds, green private debt, and green securitized debt.
- **A scientific committee of green finance experts** to define and promote environmental guidelines for these three markets in line with

international best practice and legislation derived from the European Commission action plan on financing sustainable growth.

- **A green deal network** to source deals and projects.

The partners hope to create several funds based on this model, and to help establish market standards for new green finance segments. The program aims to raise €1bn within three years, including a €60m commitment by the EIB.

BlackRock's Liquid Environmentally Aware Fund (LEAF) range takes root in Ireland

In July, BlackRock created the Ireland-domiciled **Liquid Environmentally Aware Fund (LEAF)** range of money market funds in three currencies (EUR, GBP, and USD) under the Institutional Cash Series (ICS) umbrella.

The BlackRock ICS Euro LEAF product was converted from an existing fund in the ICS range. Assets as of mid-August exceeded €3 billion in the EUR fund, £1.2 billion in the GBP vehicle, and \$1 billion in the USD fund.

Meanwhile, the US-based BlackRock Liquid Environmentally Aware Fund, launched in April, reached \$380 million in assets by the end of June.

The LEAF series considers environmental risk metrics alongside a standard credit risk assessment process. In addition, at least 5% of the net revenue from the fund's management fee will be used to purchase and retire carbon offsets.

The funds also exclude issuers with more than 15% of revenue derived from fossil fuels mining, exploration or refining, thermal coal or nuclear energy, tar sands and oil sands, or tobacco; or more than 5% of revenue related to civilian firearms; and any issuers with exposure to the production of controversial weapons or in violation of the UN Global Compact.

SSGA introduces ESG money market fund

State Street Global Advisors introduced an ESG Liquid Reserves Fund in the US market, providing further evidence of the growing attention to responsible investments within money market vehicles.

The advisor uses a proprietary scoring system that assigns an ESG rating, called the Responsibility or R-Factor™ score, to each issuer in the portfolio.

R-Factor™ leverages the Sustainability Account Standards Board's (SASB) and country-specific corporate governance frameworks to determine financially material factors.

The score is powered by ESG data from four different providers – Sustainalytics, ISS-ESG (formerly Oekom Research), Vigeo-EIRIS, and ISS-Governance.

Aviva creates default workplace pension strategy based on Stewardship ESG fund range

Aviva UK is offering a **Stewardship lifestyle strategy** as a workplace pension default strategy that incorporates ethical and ESG considerations.

It is based on the Aviva Stewardship funds which were first launched in 1984. Businesses which have their workplace pension scheme with Aviva can use the Stewardship lifestyle strategy as their default or offer it as an alternative.

The Aviva launch is the latest effort in the UK pension space to incorporate ESG within default retirement plans. In late 2018, Willis Towers Watson's GBP 3 billion Lifesight multi-employer DC master trust announced that roughly half of the equity investments in its default fund would be allocated to ESG strategies. For the allocation, Lifesight chose two strategies from MSCI and Robeco.

UK local authority pension fund moves £500 million into low-carbon index tracker from BlackRock

The £2.1 billion local authority pension fund for **Swansea Council** will re-allocate £500 million of assets into low-carbon index funds run by BlackRock.

The investment will be made through the **Wales Pension Partnership**, which pools the assets of eight Welsh Local Government Pension Scheme (LGPS) funds. Swansea Council aims for a 50% reduction in its exposure to fossil fuels by 2022, and is also seeking investment opportunities in energy-efficient infrastructure and clean technology.

Big data and machine learning: Arabesque S-Ray partners with co-investors in Germany

Arabesque S-Ray, a provider of ESG metrics and analytical solutions, announced strategic partnerships with four new co-investors: **Allianz X, Commerz Real AG, DWS Group, and Land Hessen**.

Allianz X led Arabesque's Series A funding round, with the four shareholders jointly investing \$20 million.

Using ESG big data and machine learning models, Arabesque S-Ray provides technology to assess the sustainability performance of over 7,000 companies globally.

The strategic partnership will help Arabesque S-Ray to develop new ESG data products and services. This will include S-Ray Real Estate, an artificial intelligence-based technology that will use traditional data sources on an asset-level, together with new emerging digital sources from Internet of Things (IoT) sensors and devices within buildings.

Arabesque S-Ray was initially developed as an ESG data solution by Arabesque, a quantitative

asset manager that integrates ESG factors in its strategies.

US Senate considers National Climate Bank to fund up to \$700 billion in clean energy projects

The US Senate introduced the **National Climate Bank Act**, legislation that would create a federal bank to leverage public and private funds to invest in clean energy technologies and infrastructure.

The National Climate Bank would provide financing to regional, state and local green banks, make investments directly into projects that reduce carbon emissions, and provide technical assistance for starting up new green banks around the United States.

The National Climate Bank would be capitalized with \$10 billion initially, with an additional \$5 billion every year for five years. Investing \$35 billion of public funds into a national climate bank could generate between \$213 and \$700 billion in total investment into clean energy related projects.

The National Climate Bank would seek investments and procurements in areas such as renewables, storage, transportation, transmission, resiliency, efficiency, reforestation, agriculture, and industrial de-carbonization.

The Bank also would explore investment approaches that reduce emissions, including a "Cash for Carbon" program in the utility sector, where globally 42% of coal power plants are unprofitable but still operating.

State-level green banks have already proved their ability to mobilize private capital. The green bank concept was originally proposed in 2009 and today there are more than 14 green banks in the US. According to a report from the American Green Bank Consortium, US green banks have mobilized \$3.7 billion in clean energy investment through 2018, including \$3.4 of private investment for every \$1 of public money.

The National Climate Bank legislation is another step in the US towards a more coherent clean energy policy, which could potentially expand in the future through some variation of the Green New Deal or similar initiatives. Asset managers including private equity/debt and infrastructure investors can play an important role in working with policy makers and NGOs to enhance such proposals, and to support the mobilization of private capital for sustainable investment in partnership with green banks.

Pace of investor contributions to new sustainable launches ramps up by 60%

Investors committed \$24 billion of net flows to 240 new sustainable investment funds during the first half of 2019. This represents a 60% acceleration in the pace of flows compared to 2018, when \$30 billion went into new sustainable launches during the full year.

Sustainable investment funds refer to registered investment products (mutual funds, UCITS, etc.) with an explicit ESG, responsible, sustainable, or impact investment objective, and do not include mainstream funds that consider ESG factors.

Among the most successful launches in the second quarter of 2019:

- **ACTIAM (L) Sustainable Euro Fixed Income Fund surpassed \$3 billion of assets** (details were provided in the June/July edition of this report)
- Other new funds introduced in Q2 surpassing \$1 billion included **Robeco** Sustainable Pension Return, **iShares** ESG MSCI USA Leaders ETF (US), **iShares** ESG Screened Corporate Bond Index (Ireland), and **Royal London** Ethical Bond Fund.
- Additional sums were raised through related products by some of the above managers, for example Robeco Sustainable Pension Income (\$237 million) and BlackRock Strategic Funds ESG Euro Corporate Bond (\$148 million).
- **AQR Sustainable Emerging Relaxed Constraint Equity UCITS Fund**, launched in May, raised \$0.5 billion in assets. Relaxed constraint refers to the fund's ability to take long and short positions, with a target 130/30 exposure. The fund will implement a systematic, quantitative process and strategies based on value, momentum, and other investment themes, while integrating ESG signals into its investment view, particularly those that capture various dimensions of target companies' governance.
- **BNP Paribas** placed \$254 million in assets through the BNPPF Serenity Bonds EUR, part of its Belgium-domiciled Serenity umbrella. The fund's **external sub-advisors – Allianz Global Investors and Robeco** – use a best-in-class ESG integration approach. Another internally-advised offering in the range, BNPPF Serenity Equity USA, reached \$237 million in assets. Strategies focusing on Europe Equity and Japan equity fund were also introduced.
- **Amundi** has continued to attract meaningful assets from investors in Italy through its Amundi Soluzioni Italia umbrella. Top new funds in the range included Progetto Azione Cambiamento Climatico, which collected \$289 million in assets, and Formula ESG Agosto 2025, which captured \$243 million. The climate change fund seeks to identify investment opportunities by focusing on companies, sectors, or geographic regions that benefit from innovations and activities intended to mitigate or adapt to the impact of climate change.
- **Franklin Green Target Income 2024 Fund**, a Luxembourg-domiciled vehicle from Franklin Templeton, raised \$118 million in assets. The strategy is designed to be held over five years to maturity and seeks "yield pickup" by investing in Euro-denominated corporate bonds issued worldwide (including in emerging markets). The fund integrates ESG risks and the manager engages with companies on how they are addressing such risks, especially energy transition and water scarcity.

Will sustainable fund inflows exceed \$100 billion in 2019?

Investors added \$71 billion of net inflows to funds with an ESG, responsible, sustainable, or impact investment objective during the first half of 2019.

This puts the segment on track to surpass last year's record, potentially even reaching \$100-\$140 billion by the end of 2019.

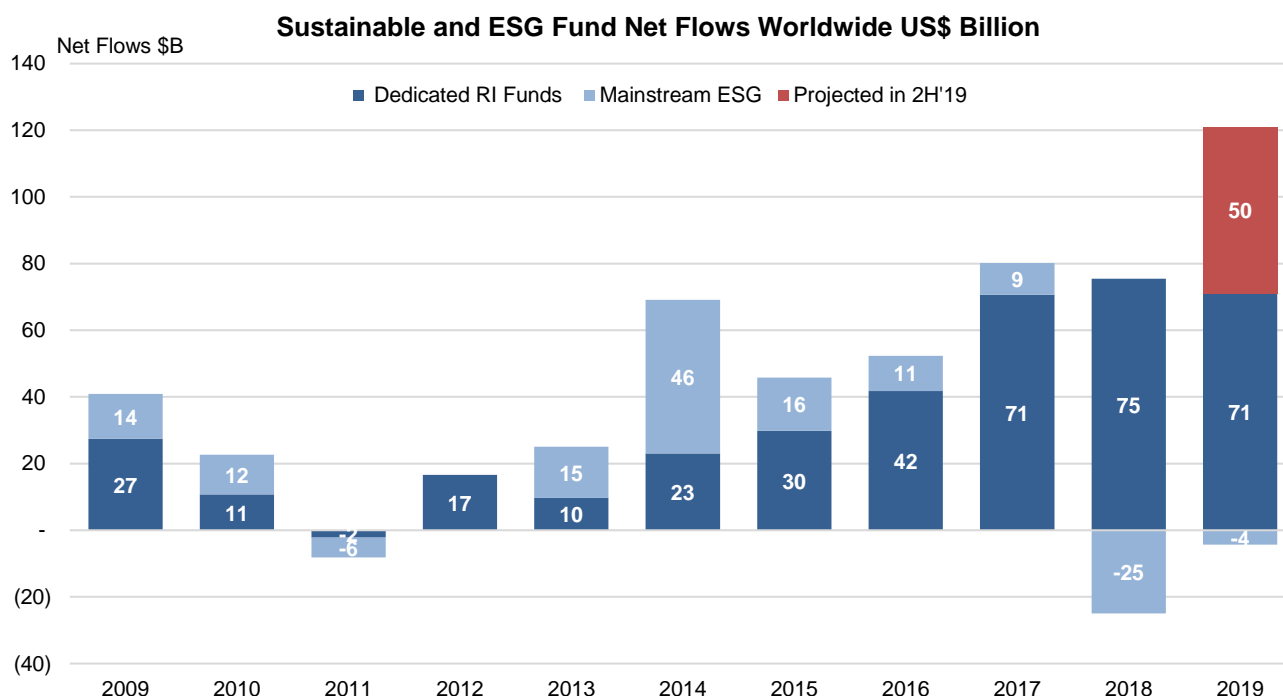
Most of the contributions went to long-term actively managed strategies, which collected \$38 billion excluding index strategies, ETFs, and money market funds. This extraordinary result contrasts with just \$29 billion of net inflows to all actively-managed long-term funds around the world in the first half of 2019, according to data from Broadridge Global Market Intelligence.

The tremendous expansion in net inflows to dedicated responsible investment (RI) funds – strategies with an explicit ESG integration or other sustainable, responsible, or impact investment mandate – is evident in the chart below.

Dedicated RI funds are distinguished from 'mainstream ESG' products which consider ESG factors in the investment process, but whose objective is not explicitly tied to responsible, sustainable, or impact investment. The flows and assets of such mainstream funds are typically driven by other factors not related to their ESG practices.

The consideration of ESG risk factors has become standard practice within the industry, and many asset managers continue to add ESG language into the prospectuses of older mainstream funds. This has made it difficult to track the true growth of the segment and underlying demand.

Our research however confirms that most of the capital is going to dedicated sustainable investment funds across a wide range of strategies, with increasing emphasis on areas such as impact investment, green bonds, and the UN's Sustainable Development Goals (SDGs).



Source: Impactvesting LLC analysis based on data from Broadridge Global Market Intelligence and Morningstar.

For additional perspectives:



Explores the future of ESG investing, trends in investor demand, fund distribution opportunities, and product development.

Learn more about ESG Innovations

www.impactvesting.com/esg-innovations

Contact: +1 (347) 746-9895
info@impactvesting.com

Impactvesting LLC

Impactvesting enables asset managers to access the fastest growing segments of the global investment industry. Combining data-driven analysis with insights to support business expansion, the firm specializes in international fund distribution, product innovation, sustainable investments, and ESG integration.

Copyright © 2019 Impactvesting LLC. All rights reserved. This report and the information, data, analyses and opinions contained herein are provided solely for information purposes, may not be copied or redistributed for any purpose, and are not warranted or represented to be correct, complete, accurate, or timely. This report is not an offer to sell or a solicitation to buy any investment, nor is it an offer to provide any form of investment advice. Past performance is no guarantee of future results. Reproduction in whole or in part is prohibited except by permission.

Any data or commentary in this report is for the internal use of client management companies only and is not to be disseminated to the general public and sales intermediaries in the form of regulatory or other reports, promotional material, or advertising without prior written consent from Impactvesting.

The report has been prepared using information and sources we believe to be reliable; however, we make no representation as to its accuracy, adequacy or completeness, nor do we assume responsibility for any errors or omissions or for any results obtained from the use of this report, including any action taken with respect to securities referred to in this report. Our employees may from time to time acquire, hold or sell a position in securities mentioned herein. We may from time to time perform services for any company mentioned in this report.