Green finance is on everyone’s lips, from central bankers to the European Commission, but its real influence remains modest. It is hoped that the European Action Plan on Sustainable Finance will give new impetus to the market via an eco-label project for financial products aimed at mobilising savings. Green funds’ assets grew up by 49% in one year, which shows great momentum, but this amount barely exceeds €32 billion! In Europe indeed, UCITS funds worth over €10 trillion. To finance the green transition, this small drop in the ocean will need to create a bigger wave.

A.C. Husson-Traore

Green funds’ growth is accelerating

Green funds exceeded €32 billion in 2017 thanks to a 49% growth rate, which is four times higher than that of European listed funds (12%). In four years, the funds have more than doubled!

The clear majority of these are equity funds, representing 88% of Assets Under Management (AUM) and 82% of inflows. Still the momentum towards green bond products, which began in 2015, remains strong. Their size doubled between 2016 and 2017, and they are now worth €2 billion and are attracting more investors as they represent 17% of inflows.

Growth in the actual number of funds is less spectacular. There are 176 green funds on the market (12 more than in 2016) resulting from both creations’ dynamic and fund ranges streamlining by management companies.

In 2017, 16 funds were launched, totalling €1.3 billion in assets, half of which were green bond funds. In addition, French management companies are very active in this market and initiated the creation of half of all new funds.

Regarding fund ranges restructuring, trend is leaning towards the absorption of French FCPs by Luxembourg SICAVs. This is the case for the following funds: BNP Paribas Easy Low Carbon 100 Europe UCITS ETF; Amundi Index Equity Europe Low Carbon; Amundi Equity Index Global Low Carbon; Mirova Global Green Bond. This phenomenon was responsible for two-thirds of all fund closures in 2017.

Attractive green funds

The dynamic of green funds’ inflows is quite remarkable: more than €7 billion in one year! This represents more than 70% of those funds’ growth, which have also been financially efficient (10.6% performance rate, on average).
The environment: a promising trend

Novethic has defined five categories for green investment according to their management methods and marketing classification.

### Classification

- **Renewable energies**
  - Renewable or “Clean” energies (equipment production, development and operation)
- **Climate**
  - Renewable energy production or activities related to improving energy efficiency in order to combat climate change
- **Water**
  - Water management, distribution and treatment activities
- **Environment**
  - All environmental industries and services (water management, energy, waste...)
- **Sustainability**
  - Theme-based funds combining environmental AND social themes (health, nutrition, well-being, etc.)

### METHODOLOGY

The initial panel consisted of 222 so-called green equity and bond funds which are listed and marketed in Europe and managed in 17 different countries. These funds come from a dozen databases, dedicated to green funds or SRI funds, including those that are environment-related. The analysis, thus, covers UCITS funds that are accessible to retail and European institutional investors.

After eliminating funds whose “green” focus was globally inconsistent with the strategy implemented, the final panel selected is comprised of 176 “green” funds managed in 16 different countries.

The panel includes a sixth category specific to “low carbon” funds whose strategy is to reduce GHG emissions in their portfolio by selecting the most committed companies within each activity sector. This strategy differs from thematic approaches because the funds are invested across all sectors of activity, regardless of their overall environmental footprint.

### Funds categories

<table>
<thead>
<tr>
<th>Funds categories</th>
<th>Number of funds</th>
<th>2017 AUM (€ M)</th>
<th>2017 Inflows (€ M)</th>
<th>Average Performance (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Panel</td>
<td>176</td>
<td>32 250</td>
<td>7 274</td>
<td>10,6%</td>
</tr>
<tr>
<td>Renewable energies</td>
<td>8</td>
<td>340</td>
<td>10</td>
<td>10,4%</td>
</tr>
<tr>
<td>Climate</td>
<td>22</td>
<td>3 993</td>
<td>596</td>
<td>12,1%</td>
</tr>
<tr>
<td>Water</td>
<td>18</td>
<td>11 301</td>
<td>1 789</td>
<td>12,7%</td>
</tr>
<tr>
<td>Environment</td>
<td>74</td>
<td>10 590</td>
<td>3 275</td>
<td>7,1%</td>
</tr>
<tr>
<td>Sustainability</td>
<td>26</td>
<td>3 108</td>
<td>707</td>
<td>6,7%</td>
</tr>
<tr>
<td>Low Carbon</td>
<td>28</td>
<td>2 720</td>
<td>867</td>
<td>17,6%</td>
</tr>
</tbody>
</table>

The green fund market changed in 2017. Broader environmental funds are now taking over in terms of attractiveness as they have reached more than €3 billion inflows in 2017. Water-themed funds, meanwhile, have centralised 1/4 of the subscriptions (€1.8 billion) and remain in the lead in terms of AUM (€11.3 billion).

Across all categories, the fundraising champion is Parvest Aqua fund with €776 million in inflows, i.e. 10% of total subscriptions. It should be noted that funds actually dedicated to renewable energies did not even reach €1 billion. This is due to the limited number of listed «pure players».

On the other hand, climate-themed funds remain strong and represent nearly €4 billion, with average performance higher than 12%. There are geographical tropisms as water-themed funds dominated in France and Switzerland, covering 32% and 65% of all assets respectively. In contrast, environment-themed funds made up the majority of funds in the United Kingdom (40% of funds and 27% of AUM). They are globally invested on renewable energies, energy efficiency, green buildings, transport, water, pollution control and waste management.

### FOCUS ON LOW CARBON FUNDS

The dynamic of low carbon funds took a new dimension in 2017. While their AUMs represent less than €3 billion, that number nearly doubled in 2017 and had the highest inflow rate on record (57% for a total of €867 million inflows for the year). Their performances have also improved more than that of green thematic funds (17.6% on average). Half are index funds driven by thriving financial markets.

The champion in low carbon fund inflows is Amundi Index Global Low Carbon Equity which assets almost tripled in 2017 thanks to subscriptions totalling €329 million.
The top 10 management companies in terms of «green» AUM are primarily based in Switzerland, France and the Netherlands. They total €21.4 billion and are comprised of over fifty green funds, or two-thirds of the market’s assets.

Among the Top 10, eight management companies are signatories to the PRI and are active in considering climate change in their financial management. They combine several complementary approaches to green fund management, from carbon footprint measurement to the decarbonisation of portfolios and shareholder engagement.

At the top of the list are two leaders in green finance, each with more than $5 billion in assets: Switzerland’s Pictet AM and France’s BNP Paribas AM. It is interesting to note the progress made by two players offering a wide range of green funds: the Belgian KBC AM and the Swiss Swisscanto. The rise in KBC AM’s ranking is due to record inflows from KBC ECO Fund’s Water fund totalling €280 million, and growing the fund from €220 million to €520 million in one year. Amundi also moved up a spot in the ranking thanks to its acquisition of Pioneer Investments in the summer of 2017.

Worth noting in the Top 10:
- Water funds account for almost half of the Top 10’s AUMs, notably because of the presence of very large funds like Pictet Water, BNP Paribas Aqua and Parvest Aqua.
- Only the French management companies BNP Paribas AM and Amundi offer low carbon funds (four funds totalling €925 million).
- Due to its particularly dense distribution network, which is active amongst retail investors, BNP Paribas AM is the best in terms of inflows with €2.2 billion, i.e. half the contributions registered by leaders. It is followed by Pictet AM (€804 million) and Nordea AM, which is also ranked 11th (€583 million).
- Swisscanto and BNP Paribas AM funds stand out amongst the Top 10 due to above-average performance (16.5% and 15.6% respectively), followed by RobecoSAM funds (13.8%).

The green funds market is driven by pioneers in responsible investment, such as France, where the dynamic is strong, and Switzerland, where environment-themed offers were developed very early on. The funds managed in these two countries account for two-thirds of all assets (more than €20 billion) and more than half of all funds (90). There is also the United Kingdom, which has made green finance a major focus of its attractiveness post-Brexit. Germany, Sweden and the Netherlands each represent an equal and much smaller market share. We are, therefore, still far from a European dynamic equitably distributed across all European countries.

Funds managed in France benefit from growing interest. This can be seen as a result of article 173 of the Energy Transition law that has stimulated a demand for products able to skew their environmental contribution. Inflows reached €3.8 billion in 2017 far ahead of the funds managed in Switzerland and the United Kingdom (€1.2 billion and €437 million respectively). With that said, funds managed in Luxembourg continue to grow (+27%). They represent almost half of the panel (80 funds in 2017 vs. 63 funds in 2016).
The challenge of environmental performance assessment

Consistency between investment strategy and stated themes

It is important to verify the consistency between the environmental marketing of a fund, a promising trend, and the portfolio’s actual investment strategy.

In 2017, water-themed funds remain the most respected: only two funds, representing less than 1% of assets in the category, broadened their investment scope beyond the proposed theme.

Conversely, climate or renewable energy funds often resort to diversification that distances themselves from their marketing strategy: renewable energy funds integrate energy efficiency in addition to clean energy production and climate funds expand their scope to other environmental themes such as water or waste management.

However, this diversification does not seem to be a vector of performance, insofar as the funds that most closely respect their chosen theme had superior performance (10.5% vs. 7.9%).

The dynamics of certified funds

Amongst the 176 referenced funds, 15 hold an environmental certification (the TEEC label, Lux Flag Climate Finance or LuxFlag Environment). The majority of these are equity funds (9) and green bond funds (5). They represent more than €5 billion in assets, or nearly 17% of total assets and reflect a sustained dynamic. With an inflow rate of 74%, they are indeed much more attractive than the average fund.

In one year, the nine funds holding the TEEC label have seen their size more than double, from €542 million to €1.2 billion. This can be explained by strong inflows of more than €604 million and investors’ desire to earmark the green portion of their investments. Five green bond funds and four equity funds are currently certified according to the TEEC Label.

Environmental performance indicators

In addition to the portfolio’s ESG footprint, the main environmental indicator implemented by management companies is the number of tons of CO₂ emissions avoided per million euros invested, in order to assess their impact on the energy transition. This is widely used in green bond funds’ reporting and is calculated based on the amount of CO₂ emissions avoided from financed projects. Since all issuers do not publish this data, some asset management companies such as Humanis, AXA IM and CM-CIC use external service providers (Trucost, Carbone 4 and Vigeo Eiris) to supplement the evaluations with modelled data. These management companies also initiate engagement procedures with issuers to encourage them to publish these elements.

There are also other indicators open to equity strategies. For example, Sycomore AM calculates its Net Environmental Contribution to measure the degree of economic model alignment with the energy and ecological transition and with global warming objectives. In addition, La Banque Postale AM completed the carbon intensity measurement of its Responsable Actions Environnement fund using a performance indicator based on water consumption relative to the revenues of companies invested.