

The Novethic Indicator

on High-Impact SRI



Novethic's SRI fund market analysis focuses on high-impact SRI, which represent a third of the 404 funds distributed in France. It brings together SRI funds whose strategy relies heavily on Environmental, Social and Governance (ESG) analysis of issuer and demonstrates a difference. This involves thematic investing of environmental and social funds, as well as "best-in-universe" selection. 2017 reaffirmed investor interest in this fund category, which was created by Novethic in 2016.

High-impact SRI 2017



Source: Novethic

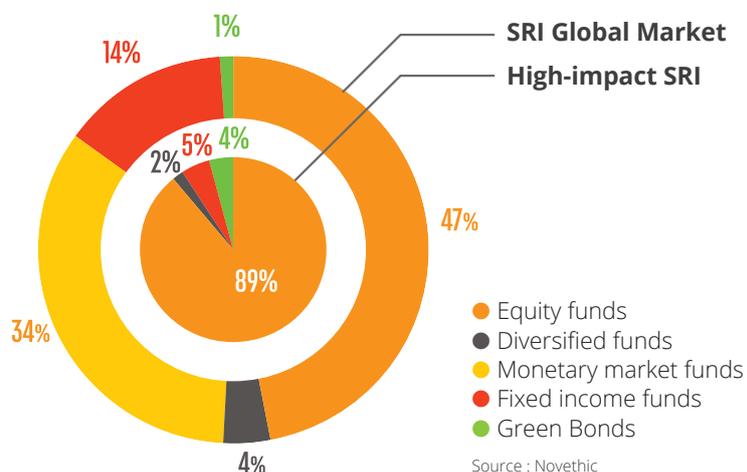
2017 SRI Market Data

404 funds 134,7 bn€ + 14 %

Source: Novethic

While money market funds represent one-third of global SRI fund offerings, they remain absent from high-impact SRI, which is largely dominated by equity funds (89%). In 2017, high-impact SRI inflows went up to 77% for equity funds, and up to 13.4% (860 m€) for green bond funds, notably the Lombard Odier Global Climate Bond fund (+318 m€). It is interesting to note the emerging attractiveness of diversified funds which, even if they remain few (13 funds account for € 657 million in inflows), have experienced a significant increase in subscriptions by about 34% in Q4 of 2017.

Breakdown of SRI funds by asset class



242 Best-in-Class funds: two-thirds of the fund market but with inflow momentum three times lower than the high-impact SRI funds!

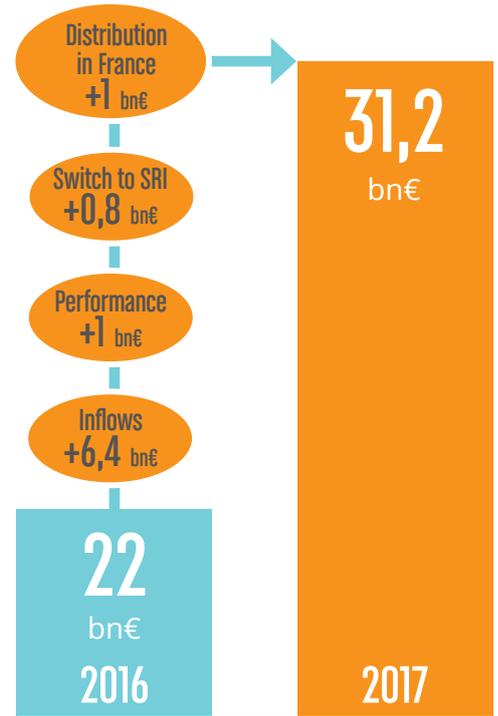
The Best-in-class approach, which consists of selecting the best-rated SRI fund issuers without sectoral bias, continues to dominate in terms of volume at € 89.1 billion, but its growth is much less dynamic than that of high-impact SRI funds. Best-in-Class fund inflows increased by 12.4% in 2017 with an inflow rate of 10.1%.

Detailed analysis on high-impact SRI growth

In 2017 :

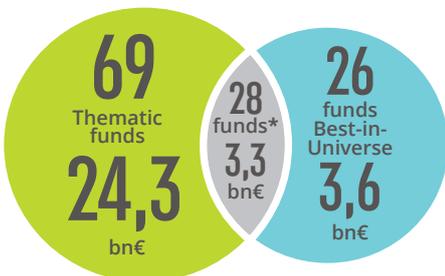
- Funds classified as high-impact SRI showed strong momentum with a growth rate of + 42.5%.
- Subscriptions in high-impact SRI funds accounted for two-thirds of this growth, with more than € 6.4 billion collected over the course of the year, for an inflow rate of 29.2%.
- The average size of the 404 funds on the market remained stable over the one-year period, while high-impact funds increased by almost €70 million.
- Environmental funds are leading the high-impact SRI market with an inflow rate of 4.5 billion euros over the last year (+ €1.8 billion in Q4). The inflow champion is the «Nordea 1 Global Climate and Environment Fund», which has more than doubled in Q4 of 2017 thanks to inflows of more than € 380 million.

Q4 2017, marked by new mobilisation around climate finance, accelerated the momentum of high-impact SRI funds. While the remaining 404 market funds saw modest growth of roughly 4.4%, the 123 high-impact SRI funds saw an increase of 18.6%, for a total of €2.6 billion over the quarter.



Source: Novethic

High-impact SRI is shown in green

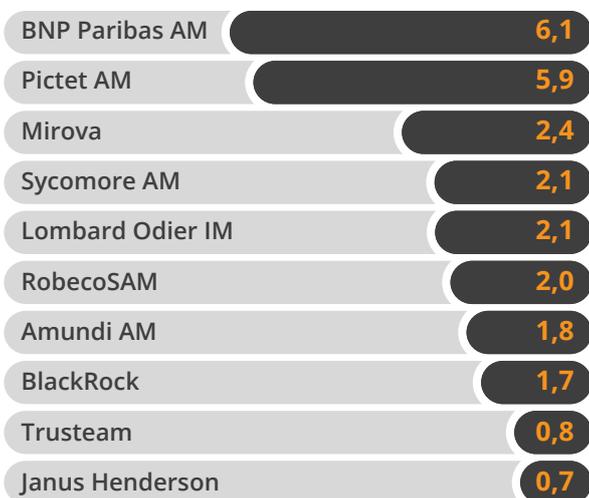


*Funds both thematic and Best-in-Universe

Source: Novethic

- Thematic funds constitute more than half of the high-impact SRI offers and are more often environment-related rather than social, but it is interesting to note the growing prominence of the Best-in-Universe SRI fund offerings.
- The strong growth in high-impact SRI, which now accounts for almost a quarter of all funds, is based on a dual dynamic: strong growth and solid performance.

Top10 Asset Management Companies (in bn€)



Source: Novethic

- BNP Paribas AM raised the largest inflow in 2017 with more than €1.8 billion subscribed in its 8 high-impact SRI funds. Following behind are Pictet AM and Sycomore AM, which raised €822 million and €809 million respectively.
- One of the key phenomena of 2017 was streamlining the range of products, which explains the closing of three-fourths of all SRI funds. This strategy was adopted by Candriam, Mirova, Ecofi Investments and Ossiam, which transferred assets totalling €1.9 billion to new product ranges, which resulted in 13 funds being closed thereafter.
- The development of high-impact SRI is based on an aggressive strategy of promotor distribution. They have made responsible investment a strong focus of their management strategy and marketing policy.
- High-impact SRI brings together funds whose ESG guidelines are more visible in the portfolios, which is an element of attractiveness, and for which some management companies choose to add a certification label. Out of 123 so-called high-impact SRI funds, 40 have the SRI label and 7 are certified with the TEEC label.

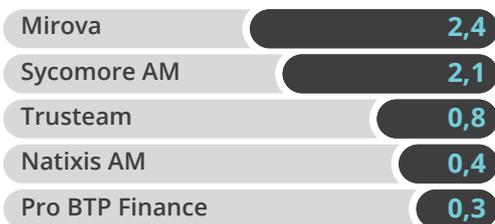


Focus on Best-in-Universe Funds



The Best-in-Universe applies ESG analysis to a given investment universe and can lead to sectoral biases which are assumed by financial managers. It differs from the Best-in-class which aims to position itself closer to sector breakdowns found in benchmark indices. Year-over-year, Best-in-Universe has seen the strongest asset growth at + 51.4%. Its inflow rate is 34.6% for the year. This is a strong sign of consumer interest in approaches with visible ESG biases.

Top5 Asset Management Companies (in bn€)



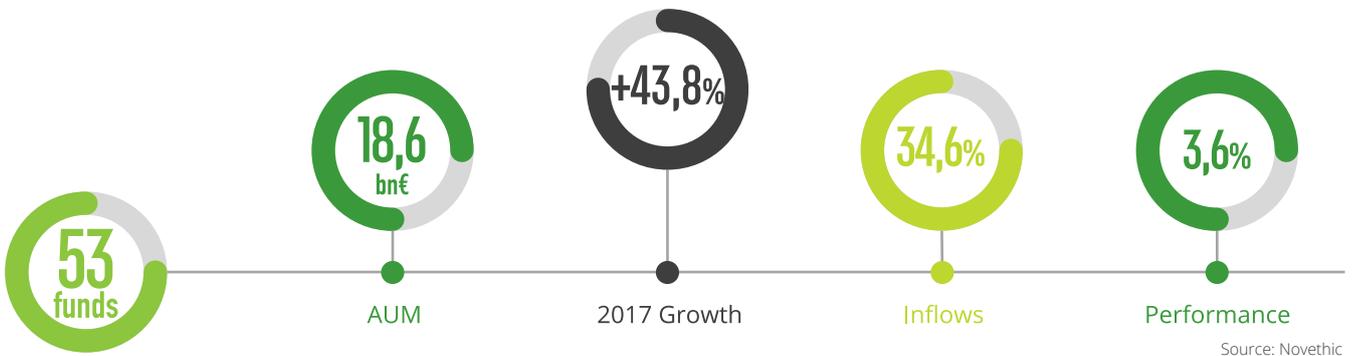
Source: Novethic

The dynamic is driven by management companies whose positioning is focused on sustainable finance. Mirova and Sycomore AM are in the top two positions with over €2 billion in Best-in-Universe funds. Leading in inflows is the Sycomore Responsible Selection fund. Not only is it the largest in this category with more than € 1.3 billion in assets, but it is also the most attractive since it represents 33% of inflows collected over the course of the year (€ 522 million).



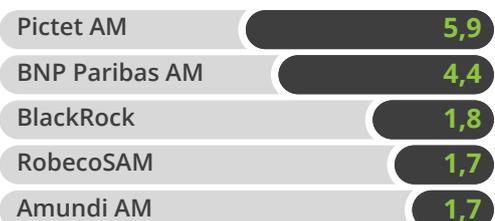
Focus on Thematic Investing

Environmental Funds



The environmental theme represents 81% of the subscriptions in the thematic funds sector in 2017 and 68% of inflows for Q4 2017. It also displays the best progression of assets over one year (+ 44%) with an inflow rate of 35%. In terms of volume, water themed funds still dominate in 2017, but the dynamic is stronger for funds focused on environmental services (+ 40%), energy efficiency (+ 37%), management waste (+ 27%) and renewable energies (+ 22%). The water funds saw a subscription rate of «only» 18% in 2017.

Top5 Asset Management Companies (in bn€)



Source: Novethic

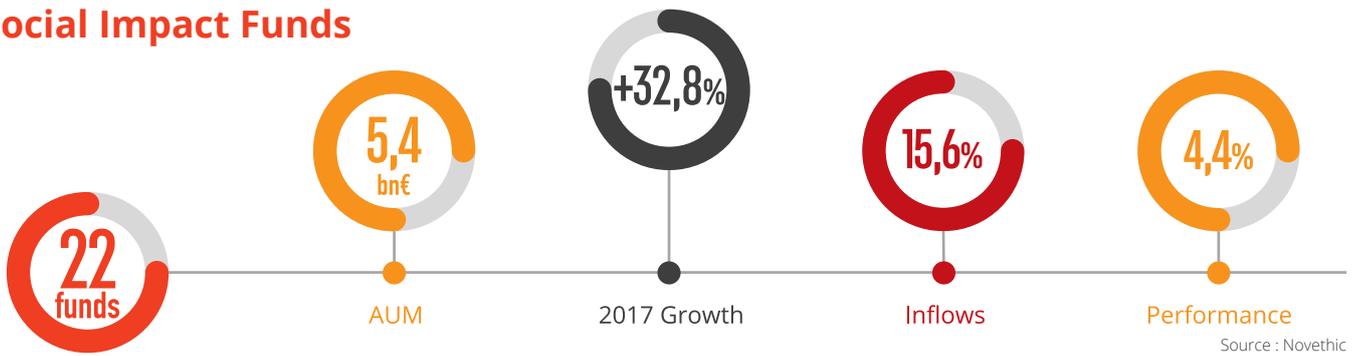
BNP Paribas AM and Pictet AM are the strongest environmental collectors of the year with € 1.6bn and € 822m raised respectively in 2017. Following behind are Nordea Investment Funds, Amundi AM, Lombard Odier IM and RobecoSAM, which have seen green fund subscriptions ranging from €300 million to €546 million over the year.

The Pictet-Water fund remains the largest fund in this category, with assets totalling more than € 4.8 billion at the end of 2017.

In terms of volume, the most dynamic environmental funds in 2017 are Parvest Aqua (+ € 772 million), Nordea 1 Global Climate and Environment Fund (+ € 566 million), Pictet-Water (+ € 434 million) and Lombard Odier Global Climate Bond (+ € 311 million).



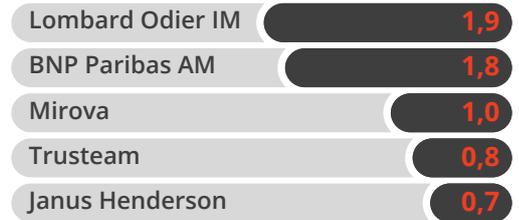
Social Impact Funds



Source : Novethic

Thematic funds focusing on social dimensions have grown by almost 33% in 2017. They cover varying topics, such as the quality of working conditions, job creation, personal services, public health, demographics, gender equality and the condition of children. These 22 funds totalled more than €5 billion in Q4 of 2017. The social theme is dominated by three management companies that have exceeded the billion-euro mark concerning this theme alone, the Swiss company Lombard Odier, followed by BNP Paribas AM and Mirova.

Top5 Asset Management Companies (in bn€)



Source: Novethic

Multi-thematic funds



Source: Novethic

Top5 Asset Management Companies (in bn€)



Source: Novethic

The 22 funds combining social and environmental themes have shown strong progression over the year and have seen the biggest growth out of all the thematic funds, with + 45.7%.

The top 5 asset management companies account for 91% of inflows. BNP Paribas AM again dominates this collection thanks to its Parvest Smart Food fund, which had more than €300 million in subscriptions in 2017.

This fund selects companies with well-evaluated CSR practices throughout the agrifood supply chain.



The SDGs: an emerging trend

The Sustainable Development Goals (SDGs) are attracting more and more international investors wishing to contribute to their achievement. (see study published by Novethic in July 2017 *)

Consequently, the first SDG-oriented impact funds emerged in 2017, like Echiquier Positive Impact, NN (L) Global Equity Opportunities (NN IP), OFI Fund RS European Equity Positive Economy (OFI AM) or UBS (Lux) Equity SICAV - Global Impact (UBS AM). The trend seems to be continuing in 2018 with the launch in January of two new funds focused on SDGs: the UniInstitutional SDG Equities Fund by the German firm Union Investment and the Global Sustainable Impact Fund Equities operated by the Swiss investment company, RobecoSAM.

* «Investors in search of impact»



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