



Sustainable investing

Institutional investors are looking for more than just sustainable investment strategies - what about the ESG culture within the asset management company itself?

INSTICUBE recognises a need for greater clarity and adapts its investor research to reflect new developments in ESG

Sustainable investing

In Europe, sustainable investing is really taking shape, due largely to expanding investor interest and increased regulatory support. For example, the EU's "Sustainable Finance Disclosure Regulation", or "SFDR", which came into effect in March 2021, now requires asset managers to divide their funds into three groups: (i) Funds that do not integrate sustainability, (ii) those that consider ecological and social aspects while ensuring good corporate governance and (iii) last but not least, those who explicitly pursue sustainability as an investment goal.

This means that asset managers will only be able to label and market their strategies as ESG if they deliver on those claims in accordance with the taxonomy. It seems an end to so-called "greenwashing" is in sight.

How does this affect institutional investors? On fund investments that are subject to EU regulation – like the German "Spezialfonds" - the answer is directly. It remains to be seen whether this will also affect segregated mandates or non-EU countries. However, with a lot of asset managers, including many from outside the EU, investing heavily in SFDR, they will want to amortise these investments quickly by making them broadly available.

Sustainability of the asset manager

In addition to the efforts made by managers to make their investment strategies sustainable, investors are now increasingly asking themselves whether their asset management firms also have a consistent ESG culture. Due to the business model, corporate governance must be assessed particularly critically, as it is crucial for the implementation of investment strategies that are actually sustainable. Topics for consideration include independence within the respective governance structures, balanced incentive schemes and transparency about the total remuneration of decision-makers, workplace diversity, documented values and visions, lived social responsibility, and independent risk management capacities. These issues will only get more important in the future, making good communication increasingly vital. Managers will need to be able to explain and highlight internal activity and processes to convince external stakeholders that they have developed the pre-requisites for making credible ESG investments.





INSTICUBE's response

The INSTICUBE platform's "Best User Experience Exchange" (BUXX) is well placed to address this changing investor demand as it captures, through the lens of client experience, which asset managers have shown willingness to change.

In response to the rapid changes and regulatory developments in the ESG space, INSTICUBE has updated the questions it asks of its investor membership and will include the SFDR classifications for investment funds (where applicable). With these enhancements, participants looking for new asset managers will be able to filter investment strategies for additional ESG credentials and understand the strength of the offering.

To address the need for data about the "internal" sustainability of asset managers, INSTICUBE is seeking institutional investor input, and asking how they rate their own service providers in this regard.

Further to this, new questions covering the range of ESG strategies used and the perceived success of their implementation, the satisfaction with the associated ESG reporting, the reduction in the carbon footprint, or the lack of offerings that can still be observed, have been added.

Capital markets are certainly only at the beginning of a very long journey towards greater responsibility and sustainability. INSTICUBE will keep its finger on the pulse and reflect further innovations in the ESG space, helping its users to cut through the noise and identify asset managers who truly live up to their ESG claims.

About INSTICUBE

INSTICUBE is the pan-European research platform through which institutional Asset Owners in Europe share intelligence on the value and service they receive from Asset Managers they employ, in order to mitigate risk, identify and drive best practice, and optimise outcomes for stakeholders.

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