EVENT REPORT

EUROPEAN CAPITAL MARKETS INSTITUTE

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Bringing together SRIs stakeholders and regulators, this ECMI lunch-time event discussed the current status of socially responsible investing (SRI) with special focus on Europe. How to unlock the full potential of this growing segment of investment practices? Is it possible to achieve significant financial returns for investors while addressing important societal challenges? SRI practices like vaccine bonds, green bonds, and social housing bonds are in constant expansion and evolution; key challenges for the evolution SRI will be the ability of offering competitive investment offers together with the development of a regulatory framework able to support and promote these types of investments.

Speakers:

- **René Karsenti**, Chairman, International Finance Facility for Immunisation (IFFIm) and President, International Capital Market Association (ICMA)
- **George Richardson**, Head Capital Markets, World Bank
- **Claire Roumet**, Secretary General, Cecodhas Housing Europe
- **Emmanuelle Ostiari**, SRI Analyst, MIROVA - Responsible Investing, Investment Division of Natixis Asset Management
- **Tilman Lueder**, Head of Unit Asset Management, DG Internal Market and Services, European Commission
- **Karel Lannoo**, General Manager of ECMI and CEO of CEPS [moderator]

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The event was opened by the presentation of **René Karsenti** (ICMA), who briefed the audience on the Vaccine Bonds initiative. These bonds are issued by the International Finance Facility for Immunisation (IFFIm) under the Global Debt Issuance Programme. IFFIm's financial base consists of long-term, legally-binding payment obligations from nine donor Governments. IFFIm plays an intermediary role, using these irrevocable pledges to issue AA+ rated bonds on the capital markets and raising resources immediately available for the GAVI Alliance immunisation programmes. Since 2006 vaccine bonds have raised $4.5bn both from retail and institutional investors. IFFIm works in close cooperation with the World Bank that provides its expertise on the implementation of sound and prudential financial policies, such as prudent gearing ratios, annual maximum disbursement capacity, minimum liquidity policies and conservative A/L management. Mr Karsenti pointed out how we are currently witnessing a growing SRI market institutionalisation trend. In his view, the shift towards a multidimensional rating and the integration of financial and social returns will be inevitable in the coming years.

George Richardson (World Bank) acknowledged that the SRI markets gained considerable attention in the past seven years, with both increasing awareness and issuances. However, the frontline will remain the ability to generate financial returns equating those of traditional financial products. Richardson underlined how the World Bank enjoys a unique position in SRI and is funding through capital markets a large portfolio of projects in areas such as health, education, gender equality and environmental protection. One of the most interesting initiatives is the Green Bond Programme, launched in 2008. Green Bonds are tailored for investors that want to support clean technology, low carbon economies and climate change related activities. These bonds enjoy an AAA/Aaa rating and benefit from the World Bank's due diligence procedures. Richardson also reported the findings of a recent survey aimed at analysing the rationale behind the incorporation of ESG factors (Environmental, Social and corporate Governance) into investment decisions among U.S. institutional investors. The survey found that the larger the investment fund the higher is the likelihood of applying investment strategies based on ESG factors. BlackRock, the world largest asset manager, is managing a large portfolio of green bonds and the New Energy Investment Trust an investment fund focused on alternative energy sources.

A specific look into the financing models of the European social housing sector was brought by **Claire Roumet** (Cecodhas Housing Europe). Social housing provision varies significantly across the EU. Even from this prospective the recent economic crisis affected some countries more than others depending on the different allocation of public funding, public guarantees, bank loans availability, access to capital markets and own resources of social housing providers. In order to tackle this pressing issue, Housing Europe encourages the development of additional dedicated financing channels, such as the creation of revolving national Funds or the issuance of European Social Housing Bonds. In terms of social and economic impact Roumet noted that investments in social housing-related projects not only directly create jobs in the construction and renovation sectors but also through supply chain and multiplier effects. To a specific question regarding potential overlapping competencies between SRI and CSR, Mrs Roumet explained how CSR has to do with the way in which an activity is carried out while SRI focuses specifically on the objective that an investment is supposed to achieve.

Insights from the asset management industry were provided by **Emmanuelle Ostiari** (MIROVA). Mrs Ostiari argued that one of the main obstacles to the development of SRI is the lack of extra-financial ratios or other indicators recognized by the industry that clearly show environmental and social performances of these funds. Financial tools such as thematic investment, impact investing in equities or sustainable bonds can improve the transparency of the outcomes of these investments but more tools are needed to unlock the full potential of the market for these financial products.

Mirova's specialists conduct market analysis on eight sustainable investment themes: energy, mobility, buildings and cities, resources, consumption, health, ICT, and finance. Around 9% of Mirova's fixed income investments are in sustainable bonds, such as green, social, or vaccine bonds. These financial products allow direct investment in a project with a clear/targeted outcome and with detailed performance reporting.

The last panellist was **Tilman Lueder** (European Commission), who emphasized how the debate on SRI must be integrated in the broader discussion on how to make financial markets better serve society. The widespread concerns over the chronic short-termism of investment strategies reinvigorated the complex debate on how to stimulate investments in long term assets and projects. Lueder drew the attention on the importance of the buy side, be it asset management companies or investment funds. At EU level, the regulatory framework for two new funding vehicles, EuSEF (European Social Entrepreneurship Funds) and ELTIF (European Long-Term Investment Funds), was recently proposed. Managers of these funds, benefiting from a cross-border passport, will be able to use these new labels to market their funds across the whole Europe. Mr Lueder assured that the Commission is aware that effective tools to quantify the impacts of SRI need to be provided to investors and to this purpose an Expert Group has been commissioned a report on how to measure social impact.

Find more information about this conference and download the presentations from the speakers at www.eurocapitalmarkets.org