Etudes Eco

Responsible investment management in France

SURVEY DATA 2021

AFG

SUMMARY

MAIN RESULTS OF THE SURVEY

- **Responsible Investment (RI) Assets under Management (AuM) in France under the Sustainable Finance Disclosure Regulation reach €2,108 billion** in 2021, up +33% year on year. The breakdown of RI assets between article 8 and article 9 of the SFDR is respectively €1,981 billion and €126 billion.

- AuM of open-ended and dedicated funds included in AMF categories 1 and 2 amount to €891 billion : **€661 billion** for AMF **category 1** and **€230 billion** for AMF **category 2**.

- **AuM in environmental funds** amount to €71 billion.

- AuM of **sustainable bonds (green, social, sustainable and transition)** invested in portfolios approach **€124 billion**, up to +92% compared to 2020. Green bonds total €96 billion.

- For the first time, the AFG surveyed its members on their impact funds. In 2021, impact funds **in France** total **€60 billion**, up +148% since 2020.

- **86%** of Asset Management Companies (AMCs) have a formalized coal policy, of which **41%** have a policy on **non-conventional fossil fuels** and **35%** have a policy **on conventional fossil fuels other than coal**.

- The integration of environmental and social criteria is formalized in the **voting policies** of nearly **72%** of AMCs and in the **shareholder engagement policies** of **75%** of AMCs.

Scope of the survey

The 71 AMCs that responded to the survey in 2022 managed €3,869 billion in France in 2021 (81% of total AuM). The surveyed AuM are up +2.8% compared to 2020. In comparison, the 87 respondents to the previous survey managed approximately €3,700 billion. 54 asset management companies responded to both surveys conducted in 2021 and 2020.

The breakdown of AuM by the AMCs that responded to the survey is as follows: 45% in management mandates (AuM down slightly by -1.4% compared with 2020), 39% in French investment funds (AuM up by +3.7% compared with 2020) and 16% in foreign investment funds (AuM up by +13% compared with 2020).

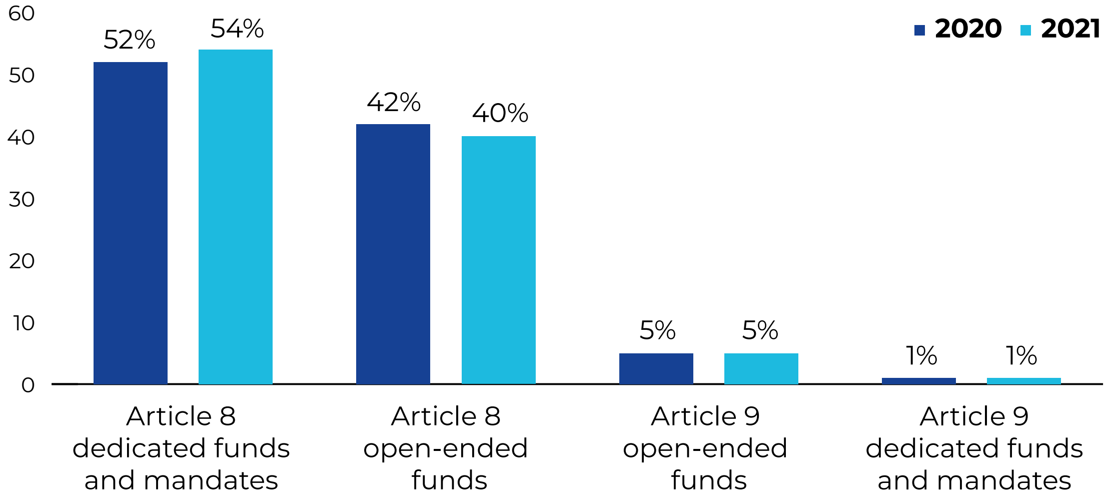
A growing appeal of responsible products

Ensuring transparency on the ESG characteristics of financial products is essential in order to redirect financial flows towards investments that contribute to the transition to a more sustainable economy. The aim of SFDR regulation and AMF classification is to introduce new common reporting requirements and standards for AMCs and financial advisors.

SFDR Regulation in France

At the end of 2021, AuM under SFDR stand at **€2,108.1 billion**, an increase of +33% compared to 2020. The breakdown is as follows: €987.5 billion in management mandates (47%), €945.4 billion in open-ended funds (45%) and €175.2 billion in dedicated funds (8%). Overall, Article 8 products account for €1,981 billion, while Article 9 account for €126 billion.

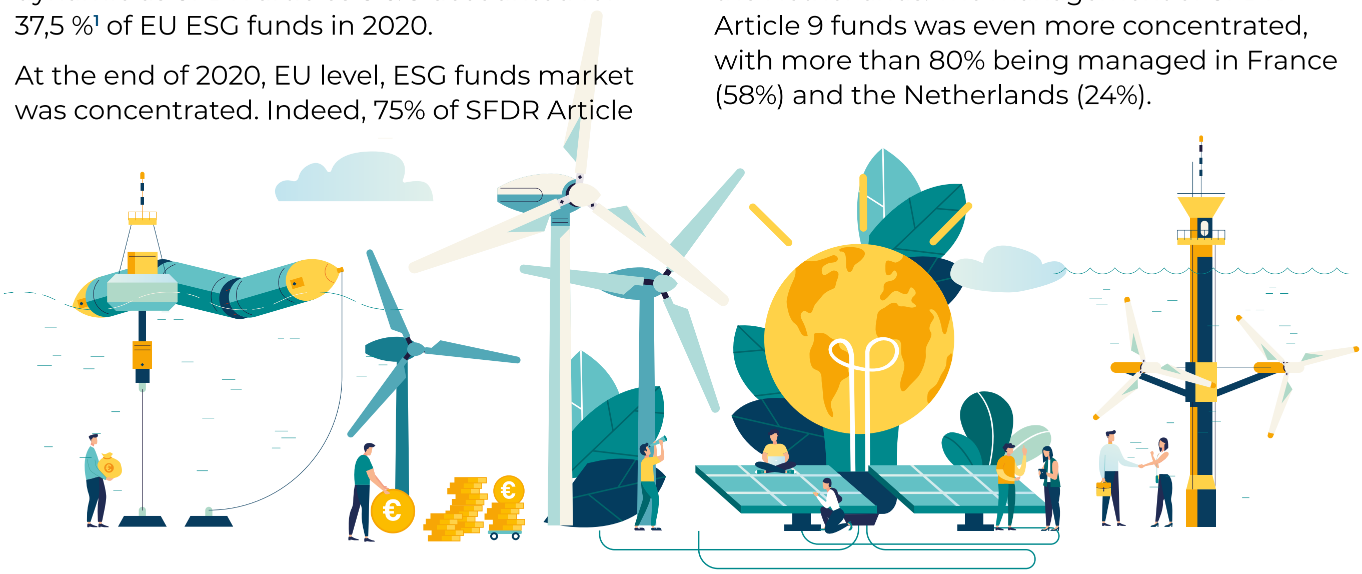
In more detail, **54% of total assets under management in France (mandates, French and foreign funds) meet the criteria of Article 8 or 9**. Among French funds alone, assets under management in responsible products according to SFDR represent 58%.



Breakdown of SFDR Article 8 and 9 AuM in 2020 and 2021 (in € billions)

French ESG funds market is one of the most dynamic as SFDR articles 8 & 9 accounted for 37,5 %[1] of EU ESG funds in 2020.

At the end of 2020, EU level, ESG funds market was concentrated. Indeed, 75% of SFDR Article 8 funds were managed in France, Sweden and the Netherlands. The management of SFDR Article 9 funds was even more concentrated, with more than 80% being managed in France (58%) and the Netherlands (24%).



1) *Asset Management in Europe - An overview of the asset management industry, 13th edition, Facts and figures*, EFAMA, December 2021.

AMF categories

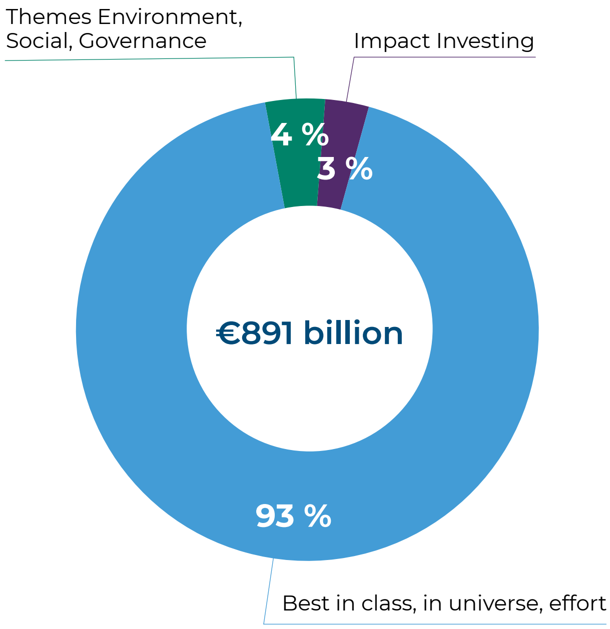
▪ AMF CATEGORIES AND DOMINANT STRATEGIES

AuM of open-ended and dedicated funds included in AMF categories 1 and 2 amount to €891 billion: €661 billion for AMF category 1 (approaches based on a significantly binding management approach) and €230 billion for AMF category 2 (non-significantly binding approaches). Positive selection strategies dominate the market and account for 93% of assets under management, while thematic strategies account for only 4% and 3% for impact ones.

▪ CATEGORY 1 FUNDS AUM BY CLIENT TYPE AND ASSET CLASS

AuM of AMF category 1 funds are divided between institutional investors (52%), multi-managers (15%) and retail investors (33%). The share of retail investors is stable compared to 2020. The development of savings products (life insurance, PEA, securities accounts, etc.) and employee savings plans through distribution networks are factors that will increase the share held by retail clients in the upcoming years.

Money market funds account for 44% of AuM under AMF category 1, 27% for listed equities and 11% for corporate bonds."



Breakdown of AMF category 1 & 2 assets by type of dominant strategy

Other responsible products

Apart from aligning with SFDR regulations and AMF classification, AMCs are developing responsible product ranges that are subject to growing demand: environmental funds and funds invested in sustainable bonds (and similar).

- AuM in environmental funds in France have increased by +38% in one year and reach **€71 billion** in 2021. 78% of AuM are invested in equity funds and 19% in bond funds.

- In France, sustainable bonds (and similar) in portfolios stand at **€124 billion**, an increase of +92% compared to 2020. While green bonds occupy 77% of this asset class in AMCs portfolios, social bonds (11%) and sustainable bonds (9%) are also in demand. Sustainability-linked bonds (2%) and transition bonds (0.4%) are rarely used.

Impact funds are in a take-off phase

For the first time, the AFG surveyed its members on their impact funds. Impact finance has the potential to become a driving force in the transition to a more sustainable economy.

Definition

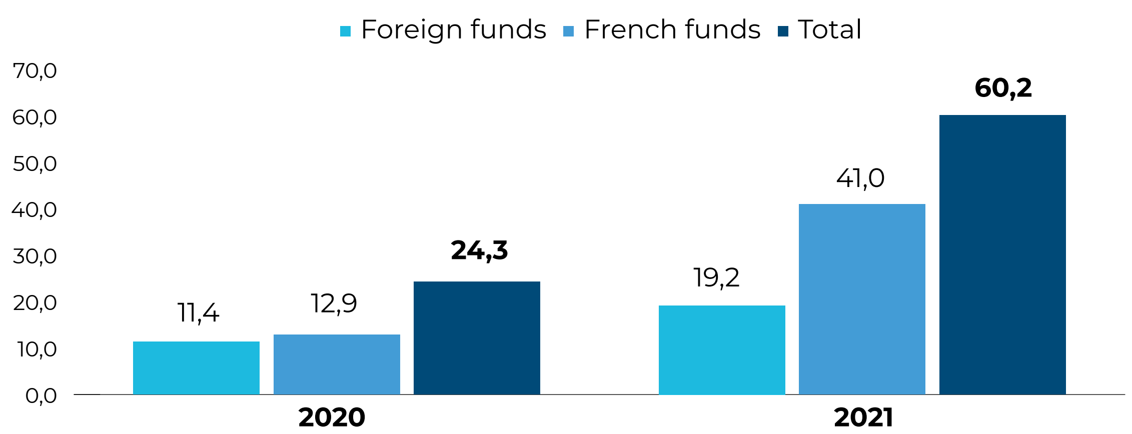
Impact finance[2] is an investment or financing strategy that aims to accelerate the fair and sustainable transformation of the real economy, by providing proof of its beneficial effects. It is based on the pillars of intentionality, additionality and impact measurement, to demonstrate:

- The joint search, over time, for ecological and social performance and financial profitability, while controlling the occurrence of negative externalities;
- The adoption of a clear and transparent methodology describing the causal mechanisms through which the strategy contributes to the targeted environmental and social objectives, the relevant investment or financing period, as well as the measurement methods, according to the theory of change framework;
- The achievement of these environmental and social objectives is based on reference frameworks, notably the Sustainable Development Goals, which are applied at the international, national and local levels.

Assets under management in impact funds

In 2021, 46% of AMCs reported managing impact funds. Impact funds has €60 billion in AuM in 2021: €41 billion in French funds (68%) and €19 billion in foreign funds (32%).

Between 2020 and 2021, impact funds have been a success, with AuM increasing by +148% in one year. This reflects the growing interest of asset managers' clients – both institutional and retail – in fully dedicated impact investment funds.



AuM of impact funds (in € billions)

In 2021, the client base of impact funds was evenly split between institutional (53%) and retail (47%) investors. In addition, investment was primarily directed toward listed companies (87%).

2) In October 2021, the AFG published a guide on impact finance for asset management companies.

Responsible management policies and fossil fuel strategies

Asset management companies have other tools for taking action as part of their ESG approach, beyond compliance with SFDR regulation, AMF classification and investment in products with a sustainability objective. Indeed, they define a responsible management policy and develop strategies on fossil fuels.

Responsible management policies

The AMCs' responsible management policy has two components:

- *Firstly,* through active participation in the general assemblies of the companies they invest in. **75% of AMCs integrate environmental and social criteria in their shareholder engagement policies** while **72% do it in their voting policies** ;
- *Secondly,* by introducing climate change mitigation objectives and tools for measuring the environmental impact of managed portfolios. While **92% of AMCs participate in at least one international initiative** (87% have signed the UN – PRI), the implementation of environmental transition objectives is becoming more common. Thus, 34% of AMCs have an objective of aligning with a trajectory below +2°C and 13% have opted for carbon neutrality.

Fossil fuel strategies

With regard to fossil fuel strategies, AMCs can exclude companies from their portfolios or support them in a process of divestment from their carbon emitting activities.
86% of the AMCs have a formalized coal policy, compared with 41% for fossil fuels and 35% for conventional ones (excluding coal).

	Among all the AMCs respondents
AMCs with an unconventional fossil fuel strategy	**41%**
AMCs with a strategy on conventional fossil fuels (excluding coal)	**35%**
AMCs with a strategy on coal	**86%**

Share of AMCs with fossil fuel strategies

	Among AMCs with a non-conventional fossil fuel strategy	Among AMCs with a conventional fossil fuel strategy (excluding coal)
Engagement strategy	**83%**	**100%**
Exclusion strategy	**86%**	**76%**
▸ Use of relative thresholds only	48%	44%
▸ Use of absolute thresholds only	14%	12%
▸ Use of relative and absolute thresholds	17%	4%
Exclusion of companies that develop new projects	**62%**	**32%**
Commitment on energy extraction	**76%**	**88%**
Commitment on electricity generation	**62%**	**80%**

Summary of fossil exclusion and commitment practices on conventional (excluding coal) and non-conventional fossil fuels

Etudes Eco

The AFG federates the asset management industry for 60 years,

serving investors and the economy.

The AFG commits to the growth of the asset management industry, brings out solutions that benefit all players in its ecosystem and makes the industry shine and develop in France, Europe and beyond, in the interests of all. The AFG is fully invested to the future.

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