Amundi ASSET MANAGEMENT | ETF

Focus

The Impact of Index Investing

Responsible investing, sustainable investing, environmental, social and governance (ESG) investing, ethical investing… the list goes on, and so it seems does the appetite of investors to adopt a more responsible approach to investing.

What is more, it seems that the trends has accelerated during the recent turbulence. During the first nine months of this year almost €20bn was invested in ESG ETFs in Europe, this is three times higher than the same time period in 2019[1].

Is it possible to integrate ESG considerations into an index strategy? Or is it necessary for investors to take an actively managed approach? While there are arguments for both sides of the story, our view is that there is a role for both active and index managed strategies in an ESG portfolio.

With around €10 trillion[2] of assets tracking indices globally it would be remiss of the industry to ignore the potential impact of those assets shifting to incorporate ESG criteria. At the end of the day, we believe that index management has a key role to play in the transition to wider adoption of ESG investing. With an ever growing range of transparent ESG indices available to investors it is now easier than ever for investors to identify strategies that suit their individual ESG beliefs and objectives while managing their risk and return tolerances – here we debunk some common misperceptions of ESG index investing. ■

Debunking the myths of ESG and indexing

1) ESG investing is values based and individual values cannot be reflected in a generic index

It is true that one-size does not fit all when it comes to ESG investing, individual risk tolerance, regional regulation, personal beliefs, performance objectives and many other factors play a role in determining the appropriate ESG allocation. However, with over 1000 ESG indices available covering everything from broad market exposures with light ESG exclusions to climate-aligned investments, investors have myriad choices when it comes to building a portfolio that meets their objectives. This is why we have structured our Amundi responsible investment range by levels of ESG integration, from Universal through Leaders to SRI and Climate – on a spectrum from "light green" to "dark green".

The ability to incorporate more advanced sustainability goals is a result of constant improvements in ESG data – index providers now have such a breadth of data that they can develop indices aligned to specific sustainable development goals (SDGs) or targeting specific greenhouse gas reductions. In fact, most active managers use the same data as the basis for developing and managing their active ESG strategies as the largest suppliers of ESG data are the index providers themselves.

2) Index investors have no voice as holdings simply replicate the index

Many investors do not realise that they can have an active voice in the management of the companies in which their index tracking funds invest. The sheer amount of assets invested passively around the world means there are many shareholders – and they have the potential to be a loud voice. To do this an asset manager must develop voting and engagement policies:

Shareholder voting: shareholders have the right to vote at investee company AGMs, allowing them to exert influence of the management of the company. For some investors voting could be considered part of their fiduciary duty, to encourage behaviour in the best interests of their beneficiaries. Voting can be on any number of topics, from executive remuneration to gender diversity.

Engagement: this is the practice of asset managers discussing issues that are considered to be business risks with investee companies. The intention being

Amundi Voting Policy

Amundi has a dedicated team that votes on behalf of its clients for all its passive and actively managed products alike. The firm's size and scale makes it an effective influencer. Amundi has an assertive voting policy, in 2019 and voted against at least one resolution at over 55% of general meetings.

Amundi Engagement

Amundi considers ESG in its day-to-day engagement we have with companies in which we invest, from Portfolio Managers to Analysts. However we also undertake proactive engagement on critical issues such as energy, biodiversity, supply chain management and board composition with a focused group of companies over an extended period with a defined goal of driving change.

1 Source: Amundi and Bloomberg, 30/09/2020
2 Source: Morningstar data compiled by the Investment Company Institute, 31/11/19

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to encourage change to reduce risks – ultimately benefiting both company and investor. By engaging on behalf of our investors, we can help make changes to organisations to promote a positive, long-term approach, one that is better for financial performance, and better for society as a whole.

3) Index investing lacks impact

Impact investing is typically seen as a targeted, niche approach to investing which prioritises positive social or environmental impact over financial returns. However, index investors can still be impactful by allocating assets to more sustainable strategies and using the full breadth of sustainable indices on offer. For example, a best-in-class index might reward (by index inclusion or over-weighting) the companies that out perform their peers based on ESG criteria. In this way the indices encourage continual improvement by companies to remain at the forefront of their sector.

Furthermore, it is now possible to design dynamic indices that deliver impact through progressively, systematically and transparently divesting from companies that do not comply with rules established in the index guidelines – these rules could be based on any number or measurable metrics including ESG polices, meeting diversity targets or carbon emission goals.

So whether you select an off the shelf index tracking solution or work with an asset manager to develop a customised mandate tracking an index designed to meet your needs, index-managed solutions can be a cost-efficient, transparent and effective way to deliver on responsible investment goals. ■

For more information about using ETFs to have an impact with your index portfolio, visit amundietf.com/responsibleinvesting or email us at info-etf@amundi.com