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Characteristics of sustainable Spanish CISs in 2020

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Summary

The market for investment products with sustainable characteristics has been growing fast over the last few years. This is due to a number of factors that have been driving both demand and supply for these products. Given the remit of the CNMV, it is interesting to assess the characteristics of these assets in collective investment schemes (CISs) to shed light on how they differ from other CISs with more conventional characteristics. This paper is an initial attempt to understand the sustainable Spanish CISs registered with the CNMV at the end of 2020 in more depth. At that time, there were very few of these, just 59, divided between investment funds and open-ended collective investment companies (SICAVs), with assets of around €9.5 billion (3.1% of the total assets of these entities). These CISs voluntarily refer to their activity as SRI (socially responsible investment), in accordance with Inverco's 2014 SRI Circular.

In this exercise, we have used information for 2020 to describe these entities immediately prior to the European Disclosure Regulation (SFDR) coming into effect in March 2021. This Regulation sets out the disclosure requirements for information relating to sustainability in the financial services sector. It also sets out the pre-contractual information requirements for financial products that promote environmental and social characteristics, as long as the companies in which they invest observe good governance practices (Article 8) and the financial products pursue sustainable investment objectives (Article 9). At the time of completing this paper (December 2021), 165 Spanish CISs were classified under Article 8, and 7 entities under Article 9 (with combined assets of €60.8 billion). These figures demonstrate how quickly this sector is expanding.[1] This shows that it would be useful to update the most important results of our analysis in future.

This paper is divided into two main parts. The first sets out the main figures for sustainable Spanish CISs, including their number, category, unitholders, size, costs and performance. The second assesses the assets in the portfolio of these entities through ESG (environmental, social and governance) ratings obtained from commercial suppliers of such information, to give an initial assessment of the degree of sustainability of their assets.

In addition to the number of the entities and their assets already mentioned, the results of the first block show that there were slightly more than 400,000 unitholders (3.1% of the total). Most of these vehicles belong to the mixed fixed income (MFI), mixed equities (ME) and international equities (IE) categories, with 14 vehicles in each of these. In terms of assets, mixed fixed income funds represented almost half the total assets of sustainable CISs, accounting for 47.5%.

1 Refer to chapter 3 of the International Monetary Fund report (IMF, 2021) for information on the expansion of investment funds with ESG criteria at the international level.

Analysis of the returns and expenses of the sustainable CISs shows that their average returns at the end of 2020 exceeded those of the investment funds (IFs) and SICAVs registered with the CNMV (1.8% compared to 0.8%). Although this is explained in part by the greater weight, in asset terms, of the best performing categories in the year (categories with high proportions of equities in their portfolios), it could also be in part due to the different composition of the portfolios of sustainable CISs (due, for example, to greater investment in technology companies and those involved in health, which have performed more strongly during the COVID-19 crisis). The ratio of expenses was higher for CISs with ESG objectives than for other CISs (1.22% compared to 1.05%). This difference does seem to be due, exclusively, to a higher proportion of vehicles belonging to categories with relatively high fees.

The results of the second block of analysis reveal that the degree of sustainability of the assets in the portfolios of sustainable Spanish CISs is very high, particularly in investment funds and SICAVs (compared to funds of funds). It is estimated that 78% of the assets of investment funds and SICAVs are invested in issuers with excellent or good ESG evaluations (based on information from Refinitiv) and a degree of publicly reported ESG data transparency that is high or above average (ratings A and B).[2] 39 of the 47 CISs had over 70% of their portfolios in assets with A and B ratings, and only 3.7% in assets from issuers with C and D ratings. There were ESG ratings for 82% of the assets of these entities. The results presented can, therefore, be considered representative of the sector as a whole. In terms of the ESG criteria, the best ratings among these entities were for the social criterion.

The analysis is more complicated for funds of funds, as this requires assessment of the portfolio of investments in other CISs in order to assign them an ESG rating, providing they obtained ratings for at least 70% of the assets in each of their portfolios. In this case, the percentage of investments in issuers with ESG ratings A and B is also high (69%), but somewhat lower than for all investment funds and SICAVs. This could be explained by a number of factors (or a combination of these): i) the larger proportion of assets for which no ESG rating was found (in part due to the demanding criterion imposed when giving ESG ratings to investments in other CIS); ii) the greater difficulty for fund managers to discriminate among issuers committed to sustainability when investing in CISs (except in indexes related to this area); and iii) the possibility that these ESG ratings do not adequately reflect the investment strategies of these fund managers.

2 The ESG ratings published by this data provider for issuers range from A to D, with positive (+), neutral or negative (–) segmentation for each letter, as follows: (A) excellent ESG rating and high transparency in publicly reported ESG data; (B) good ESG rating and above average transparency in publicly reported ESG data; (C) satisfactory ESG rating and moderate transparency in publicly reported ESG data; and (D) poor ESG rating and insufficient transparency in publicly reported ESG data.

1 Introduction

There can be no denying the increasing interest in assets that meet sustainability (ESG) criteria among investors and borrowers. The markets for green and sustainable asset have excellent growth prospects. Many companies and governments are increasingly issuing green and sustainable bonds, while more and more asset managers and rating agencies are incorporating new assets that meet sustainability criteria into their portfolios and analyses. In this transition, the increasing demand for green and environmentally sustainable assets by investors could outstrip supply. This accentuates the risk of distortions in price-formation processes and could also give rise to phenomena such as greenwashing, with assets that appear sustainable without really being so.

In Spain, the first CISs that considered ESG were known as "ethical" investments, although SRI (socially responsible investment) has gradually been taking over, particularly since the publication of the 2014 Inverco SRI Circular.[3] This Circular can be considered a voluntary guide describing the application of environmental, social and corporate governance in the investment policies of CISs that decide to include concepts such as SRI, ESG and similar in their naming. Each CIS that uses such naming will have its own concept of SRI and this does not have to match that of others. The most common SRI strategies apply negative criteria (for example, exclusion of investments involving behaviour that contravenes international regulations and basic rights or of activities, such as controversial weapons), evaluative criteria (best in class, dialogue with companies, shareholder engagement, integration of ESG, etc.) or a combination of these. These CISs should not be confused with charitable CISs, which pass on part of their management fee to charities or non-governmental organisations but do not modify their investment policies or incorporate ESG criteria. Some, although not many, entities take both approaches (sustainable and charitable).

In this study we use the term "sustainable CIS" to refer to these CISs, as this is more appropriate given current practices and regulatory standards, which include the European Disclosure[4] and Taxonomy[5] Regulations. The Disclosure Regulation came into effect on 10 March this year. It describes the disclosure obligations for information relating to sustainability in the financial services sector. Articles 8 and 9 are particularly important, as they distinguish (in relation to precontractual information) financial products that promote environmental and social characteristics, provided the companies in which they invest observe good governance practices (Article 8) and the objective of their financial products is sustainable investment (Article 9).

3 http://www.inverco.es/20/21/24

4 Regulation (EU) 2019/2088 of the European Parliament and of the Council, of 27 November 2019, on sustainability-related disclosures in the financial services sector.

5 Regulation (EU) 2020/852 of the European Parliament and of the Council, of 18 June 2020, on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088.

This study seeks to shed light on the characteristics of the Spanish CISs that claimed to apply ESG criteria at the end of 2020. Therefore, this does not include charitable CISs. 2020 was immediately before the Disclosure Regulation came into effect. Therefore, it does not include analysis of entities that subscribed to Articles 8 and 9 during 2021:[6] it only describes the situation in the sector before the regulation came into effect.

The analysis is presented in two main blocks. The first block describes the most important characteristics of these entities, including their assets, number of unitholders, category and type of management company, together with other useful information, such as their focus on retail investors and the costs and performance of these entities in 2020. Comparisons are made with similar figures for other CISs when this is revealing.

The second block analyses the portfolios of these entities from an ESG perspective. This was done by searching for an ESG rating for the ultimate issuer of each international securities identification number (ISIN) in the portfolios of these CISs (with information for December 2020). For this, we used the ratings of Refinitiv, one of the main providers of ESG information, in terms of coverage of issuers and the number of indicators used to determine these ESG ratings. The objective was to verify the portion of the portfolios of these CISs invested in issuers with high ESG ratings, to determine whether their consideration as sustainable CISs is appropriate. This check was performed for various ESG ratings, from the most general to those specific to the three areas involved: environmental (E), social (S) and governance (G). This analysis was extended to the specific indicator for CO_2 emissions.

There are a number of limitations to this study, as the investment criteria of the CISs may be based on very different ESG considerations (exclusion criteria, evaluative criteria or both). This cannot be identified in the analysis presented here, which is also affected by lack of consistency and availability of information in this area. However, this can be considered an initial attempt at a general assessment of the ESG characteristics of the portfolio of these CISs.

6 At the date of publication of this analysis, 165 CISs had subscribed to Article 8 and 7 entities to Article 9. The assets of these entities amounted to €60.8 billion (17.4% of the sector's total assets).

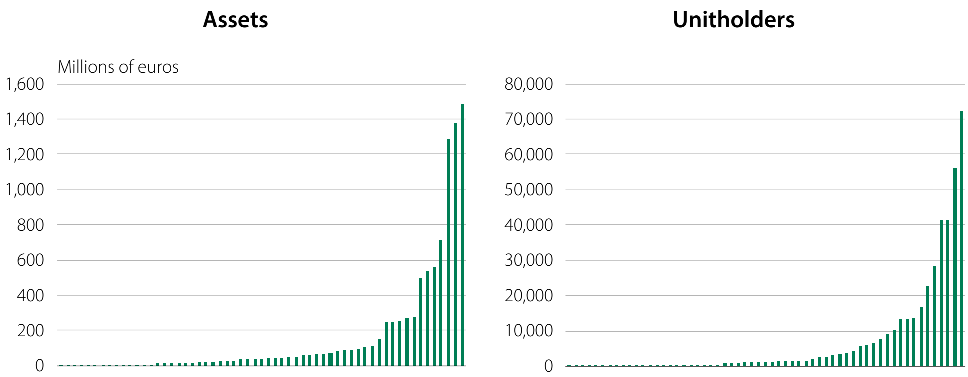
2 Characteristics of sustainable CISs

This section offers an initial analysis of sustainable Spanish CISs, presenting the main results for a number of descriptive variables (such as assets, unitholders and investment category) and a comparison of the returns of these vehicles and the associated expenses compared to the other CISs domiciled in Spain.

2.1 Number, assets and unitholders

At the end of 2020, 59 CISs held investments that complied with sustainability criteria. Of these, 56 were financial IFs and 3 were SICAVs. The total assets amounted to €9.496 billion, 3.1% of total IFs and SICAVs assets. There were 403,213, unitholders, 3.1% of the total. The average assets of the CISs amounted to almost €161 million (€169 million if we only consider investment funds), with an average of 6,834 unitholders (7,193 unitholders for IFs). There was a high degree of concentration, as just four funds accounted for 51.2% of the total assets of these CIS, all of which belonged to Spanish banking groups.

Distribution of assets and unitholders FIGURE 1



Source: CNMV.

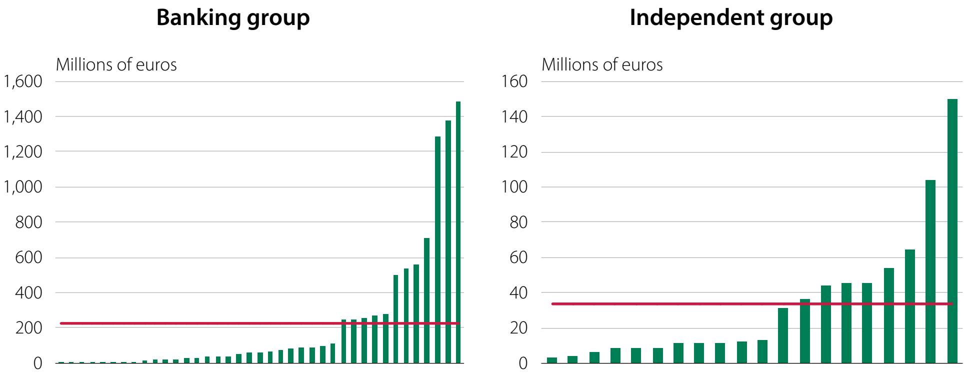
Of the 56 IFs, most (40) had more than one class: i.e., they applied different fees depending on the type of investor. Of these, 38 had at least one class for retail investors and another for institutional investors.[7] Overall, 86.8% of total assets

7 A class in an investment fund is considered to be institutional if it is directly aimed at institutional investors (other CISs, pension funds, etc.), if there is a minimum investment of at least €100,000, or if it is aimed indirectly at investors with discretionary portfolio management. SICAVs do not usually require an initial minimum subscription, although their assets are often concentrated in a small number of shareholders. For this reason, a different criterion was adopted to determine those considered to be institutional: i.e., funds where more than 50% of assets are held by investors whose investments exceed €150,000.

corresponded to CISs (or classes of these) marketed to retail investors, while the remaining 13.2% are aimed at institutional investors. Of the 141 classes, 73 were considered retail and 68 institutional.

In relation to asset management, 39 of the sustainable CISs were managed by fund managers belonging to banking groups (66.1% of the total), while 20 belonged to independent groups (33.9%). In terms of assets, the vehicles managed by banking groups were on average much larger than the independent fund managers, accounting for 92.9% of the total. The average size of banking CISs was €226.2 million, compared to €33.7 million managed by non-banking entities. This difference is, however, rather skewed by three investment funds managed by two Spanish banks with assets of more than €1.0 billion.

Distribution of assets by type of fund manager FIGURE 2



Source: CNMV.

Most of the sustainable CISs were set up as SRI vehicles in 2018 or later, accounting for 35 of the 59, with 16 being set up in 2020. The first to be set up as a vehicle using ESG criteria for its investments was founded in 2010.

With regard to the investment portfolio, 11 of the CISs (all investment funds) declared themselves to be funds of funds at year-end 2020, i.e., they invested most of their assets in other CISs. The prospectuses of nine of these specified that their investment in other CISs exceeded 50% (the minimum required to be considered a fund of funds); the two other cases had minimum limits of 70% in one case and 75% in the other.

As mentioned in the introduction, the Disclosure Regulation came into effect in March 2021. The main objective of this was to channel capital flows towards a sustainable economy and integrate sustainability into risk management and analysis. It also sought to foster transparency in this area (avoiding greenwashing), while standardising and harmonising sustainable finance within the European area. To achieve this, it defined a classification based on three articles depending on the level of involvement in sustainability, so that fund managers have to classify each CIS under one of these three articles, based on the strategy and philosophy of their investments under ESG criteria.

The three categories established in these articles are:

– Article 6: investment products that do not consider ESG risks in their decision-making processes.

– Article 8: investment products that foster sustainable characteristics in the framework of a general strategy.

– Article 9: investment products that specifically set sustainability objectives in their decision-making processes.

Of the CISs that declared they met the sustainability criteria in their investments at year-end 2020 (the 59 analysed), at the date of preparation of this report, 56 complied with Article 8 of the European Regulation, while just 1 declared that it complied with Article 9. The other two, both IFs, were absorbed by other IFs in 2021: in one case by an existing sustainable fund and in the other by a non-ESG (Article 6) fund. In addition, another 109 CISs have been classified under Article 8 (107 IFs, 1 SICAV and 1 hedge fund) and 6 under Article 9 (5 IFs and 1 IF hedge fund).

Although not within the scope of this study, there are also closed CISs, created under Regulation (EU) 346/2013 of the European Parliament and of the Council, of 17 April 2013, on European social entrepreneurship funds, the main objective of which is to foster investment in social companies, i.e., companies whose overriding objective is to achieve positive and measurable social impact.[8] There are very few of these vehicles in Spain, whether in terms of number or assets managed. At year-end 2020, there were four EUSEFs, managing total assets of slightly over €22 million, of which just 3 million related to retail investors (households).

2.2 Category

This section describes sustainable CISs based on the investment policy for their portfolios, i.e., their investment category. As we can see in Figure 3, most CISs belonged to the mixed fixed income (MFI),[9] mixed equities (ME)[10] or international equities (IE) categories (with 14 vehicles in each of these categories), while 9 described themselves as being global CISs (G), including the only 3 SICAV analysed in this article. Of the eight remaining vehicles, six belonged to the fixed income (FI)[11] category, one to the passive management (PM)[12] category and one to absolute return (AR).

8 The Regulation sets down that such companies must meet at least one of the following three requirements:
   – Provide goods or services to people who are vulnerable, marginalised, disadvantaged or excluded.
   – Employ a production method for goods or services that represents their corporate purpose.
   – Provide financial aid exclusively to social companies, as defined in the first two requirements.

9 Includes euro mixed fixed income and international mixed fixed income.

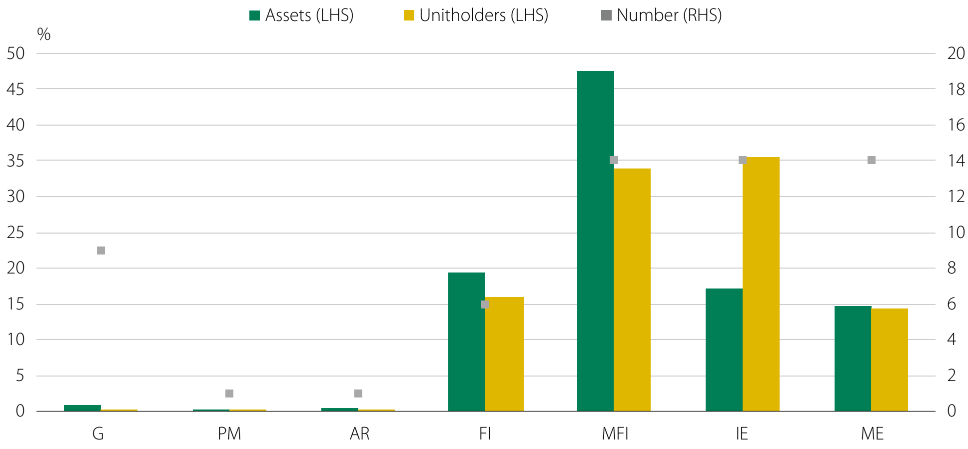
10 Includes euro mixed equity and international mixed equity.

11 Includes short-term public debt constant net asset value money market funds (MMF), short term low volatility net asset value MMF, short term variable net asset value MMF, standard variable net asset value MMF, euro fixed income and short-term euro fixed income.

12 Includes passive management, CISs that replicate an index and CISs with a specific non-guaranteed return objective.

In terms of assets, mixed fixed income funds represented almost half the total assets of sustainable CISs, accounting for 47.5% of the total. These included two huge funds (assets of more than €1.0 billion) belonging to two Spanish banking groups. Fixed income funds were the second largest in importance, accounting for 19.5%. The investment fund with the largest assets belonged to this category.[13] International equity and mixed equity funds accounted for 17.1% and 14.8%, respectively (see Figure 3).

Number, unitholders and assets by category FIGURE 3



Source: Compiled by the authors.

International equity funds had the largest number of unitholders, at 143,259 (35.5% of the total), due, in part, to a single fund that accounted for around half of the unitholders in this category.[14] Mixed fixed income funds accounted for 33.9% of the unitholders, while fixed income and mixed equity funds invested around 15.9% and 14.4% of the total, respectively. There were only 1,619 unitholders in the remaining categories (passive management, absolute return and global return), 0.4% of the total.

2.3 Costs and returns

The objective of this section is to analyse the returns and costs of the vehicles with SRI investment objectives, comparing them to the figures obtained for all investment funds and SICAVs. The calculation of returns was performed by selecting the sustainable vehicles existing at year-end 2019 and using their net asset value at 31 December 2019 and 2020 to calculate their annual returns for 2020. This analysis involved 97 classes belonging to 50 vehicles: 47 IFs and 3 SICAVs. The analysis of

13 This fund, belonging to a Spanish banking group, accounted for 15.7% of the total assets of the sustainable CISs at year-end 2020 and over 80% of the CISs with fixed income categories. Practically all of its assets were for retail investors.

14 This fund, belonging to a Spanish financial institution had average assets per unitholder of just €7,731. This is a relatively small amount, despite considering itself a fund for institutional investors, as it was aimed solely at investors with discretionary portfolio management.

the costs associated with these CIS was performed by selecting the vehicles with available information on the Total Expense Ratio (TER) for 2020.[15]

The average returns on the CISs analysed in this section was 1.8% between January and December 2020. This outperforms the figure for all investment funds registered with the CNMV, which was 0.8%. This better performance could be influenced by bias of the categories in which these vehicles invest, as the returns on the various categories differed widely, oscillating between -8.8% for funds of euro equities to 2.8% for international equities. We, therefore, compared the returns in the four main categories in which sustainable CISs invest (fixed income, mixed fixed income, mixed equities and international equities), which account for 98.8% of total assets.

Figure 4 shows the annual returns of the 89 classes that belong to one of these four categories and were active in December 2019.[16] The average returns for the two categories with the most conservative profiles, i.e., fixed income and mixed fixed income, were slightly below the average for their category in 2020. The returns on fixed income funds were 0.06% compared to 0.57% for the category as a whole (upper left panel), while the returns on mixed fixed income were -0.3% and 0.03% (upper right panel). However, two thirds of the funds in the fixed income category obtained higher than average returns for the category as a whole. The worse result was, therefore, mainly due to the results of one single fund with substantial assets.

The opposite occurred with funds with a riskier profile: the average returns on funds with SRI objectives was higher than those of funds with corresponding categories, and the difference was substantial (refer to the bottom panels in Figure 4). Mixed equity funds had average returns of 3.60%, compared to 0.76% for the category, while the figures for international equity funds were 7.51% and 4.71%, respectively.

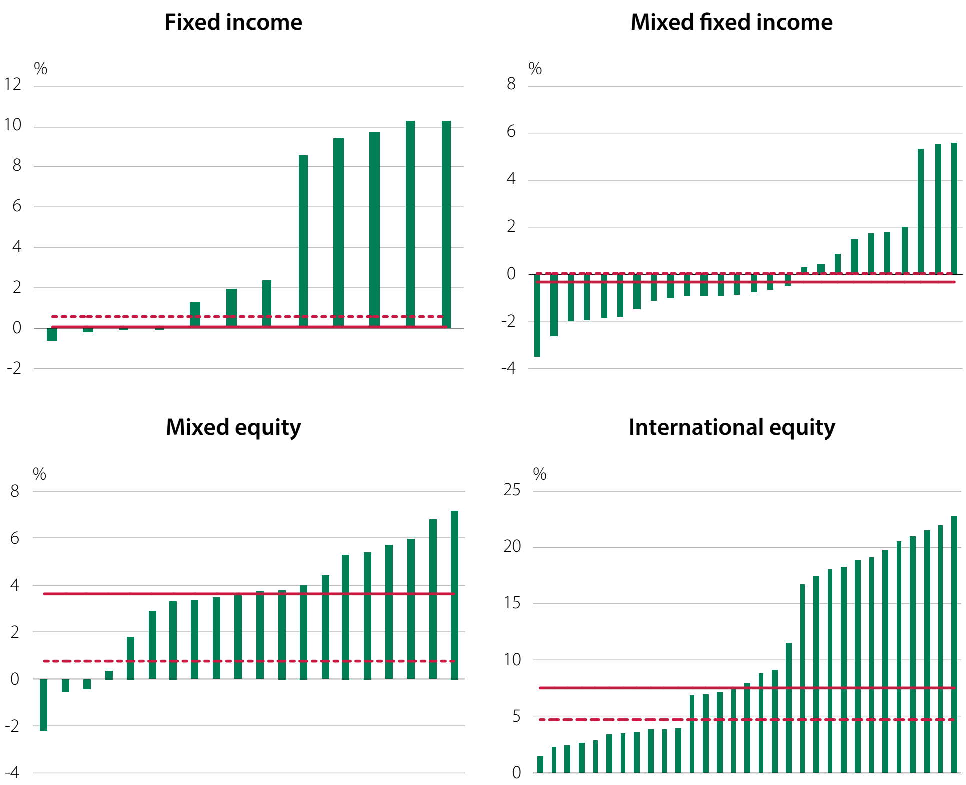
With regard to the expenses of sustainable CISs, information for year-end 2020 is available for 122 classes, belonging to 56 entities, of which 53 were investment funds and 3 were SICAVs. The average expenses for these vehicles were higher than the average for all investment funds and SICAVs, as this stood at 1.22% in the first case and 1.05% in the second. As with returns, these differences in the results could be due to differing distribution among categories. Therefore, we analysed the four categories to which most of the sustainable CISs belong in terms of assets.[17]

15 The ratio of total expenses (TER) expresses the impact (in percentage terms) of the sum of the management and deposit fees and other current management expenses of the CIS in the last year compared to its average daily assets. This ratio must be calculated using a methodology harmonised at the European level, which is included in the guidelines of the Committee of European Securities Regulators (CESR, 2010). The TER does not include the performance fee. However, it does include indirect expenses from investments in other CIS.

16 These classes belong to 43 investment funds. No SICAVs were included in this, as the only three in this study belonged to the global CIS category.

17 In Spain, the largest part of the ratio of total expenses corresponds to management fees, which account, in general, for between 80% and 90% of such expenses. Therefore, the higher level of the expenses ratio is explained by the higher management fees on the categories with greatest weight in equities.

Individual returns by category[1] FIGURE 4



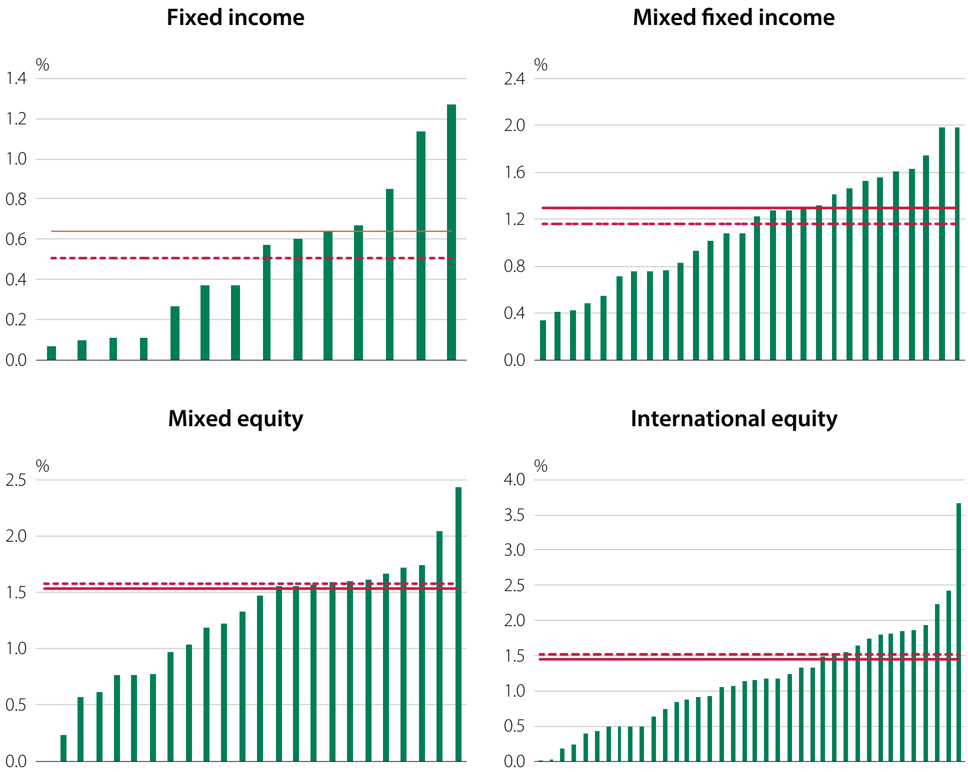
Source: CNMV.

1 The solid red line shows the average returns of the CISs analysed in this study, while the broken red line shows the average returns for the category as a whole.

Figure 5 shows the TER of the classes belonging to the categories of fixed income, mixed fixed income, mixed equities and international equities. As we can see, in the most conservative categories (the top panels in Figure 5), the average expenses of sustainable CISs were, in 2020, higher than those for their corresponding categories. In the case of fixed income funds, the average expense of the vehicles analysed in this report was 0.64% of the assets, compared to 0.51% for the category as a whole, while the percentages for mixed fixed income funds were 1.30% and 1.16%, respectively. However, in both cases, expenses were below the average for the category in half of the vehicles.

In the case of vehicles with riskier investment policies, the ratio of expenses of funds with ESG objectives was, on average, lower than the average for the category, although the difference was very small. For example, in mixed equity funds these percentages were 1.53% and 1.58%, while for international equities they were 1.45% and 1.52%, respectively. These results, therefore, show that the difference in the ratio of expenses for all entities with ESG objectives was caused, mostly at least, by a higher proportion of vehicles that belonged to categories whose fees are relatively higher.

Total Expense Ratio (TER) by category FIGURE 5



Source: CNMV.

We also classified the vehicles' classes depending on whether they were aimed at institutional or retail investors, to analyse whether there were any associated differences. The average TER (weighted by the level of assets of each class) for classes aimed at institutional investors was 0.97% in 2020, compared to 1.29% for those for retail investors. These results are in line with those observed for investment funds as a whole, where there is a substantial difference between the two types of investors.[18] We analysed the results for the four categories we considered previously to confirm that these differences are not due to the categories in which these CISs invest.

Figure 6 shows the results for the two categories with the greatest weight, both in terms of the number of classes and the level of assets.[19] As we can see, the significant difference between the expenses associated with CISs aimed at retail and institutional investors remains. In the case of mixed fixed income funds, the average values were 1.35% and 0.98% for the classes marketed to retail and institutional investors, respectively. These figures were 2.05% and 0.99% for international equity funds, with the difference between the types of investors being significantly larger.[20]

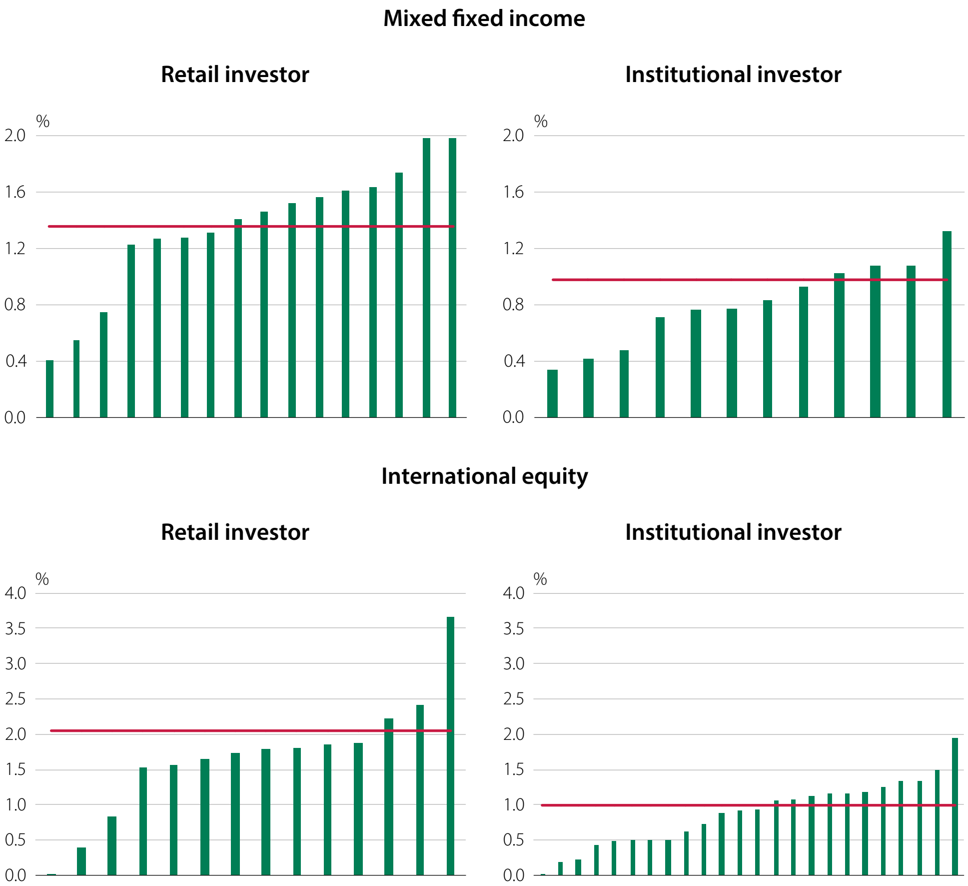
18 For more details, refer to the article by Cambón, Gordillo and Pedrón (2020).

19 Of the 122 classes analysed, 28 were mixed fixed income, representing 47.3% of the assets, while 38 were international equity funds, representing 17.3% of the assets.

20 Although not shown in the figure, the conclusions for the other categories are similar. In the case of fixed income funds, the ratio of expenses for the vehicle was 0.65% for classes marketed to retail investors and 0.28% for those aimed at institutional investors, while the average ratios for mixed equity funds were 1.60% and 1.13%, respectively.

From these results, we can observe a significant difference between the fees applied to retail and institutional investors by sustainable CISs, irrespective of their investment category. The size of this difference is similar to the results found for all funds and SICAVs in the study mentioned in footnote 17.

Total Expense Ratio (TER) by type of investor and category FIGURE 6



Source: CNMV.

A number of preliminary regressions were estimated to provide empirical verification for the observations that seem apparent from the above analysis of the returns and costs of sustainable CISs. The most significant results of these are presented in Table 1. We estimated a model to try to shed some light on the determining factors for the returns and expenses of all CISs in 2020, including a variable that captures the possible differentiating effect of sustainable CISs. This empirical exercise has a number of limitations, including the estimates only using data for a single year,[21] 2020, which was exceptional due to the COVID-19 crisis. The ideal situation in such exercises is to use a period in which there are years of boom and crisis, so results can be extrapolated and generalised.

21 There are other limitations that could be related to variables omitted from the model or the potential endogenous nature of some variables.

Considering these methodological limitations, the results show that sustainable CISs obtained better returns in 2020 than the other Spanish CISs, but with no difference in expenses (refer to the results in the row shaded in grey, which delimits the different behaviour of these CISs compared to the total for these two variables). The higher returns of sustainable CISs in 2020 could be explained, in very general terms, by the importance of companies in the technology and health sectors in portfolios of ESG investments compared to conventional portfolios, as the share prices of these companies have performed comparatively well in the COVID-19 crisis.

Determining factors in the returns and costs of CISs in 2020 TABLE 1

	Returns[1]		Costs[2]	
Independent variables[3]	**OLS**	**OLS with CIS clusters**	**OLS**	**OLS with CIS clusters**
Age	-0.023	-0.023	0.011***	0.011***
Management company (credit institution)	1.221***	1.221***	-0.100***	-0.100***
Size	0.703***	0.703***	-0.062***	-0.062***
Type of investor: institutional	1.912***	1.912***	-0.387***	-0.387***
Type of CIS: Fund of funds	4.214***	4.214***	0.404***	0.404***
Investment category				
Fixed income	1.047	1.047	-0.484***	-0.484***
Mixed	1.335	1.335*	-0.027	-0.027
Equity	-0.075	-0.075	0.336***	0.336***
Monetary	-0.691	-0.691	-0.758***	-0.758***
Sustainable CIS	4.757***	4.757***	0.039	0.039

Source: CNMV. Number of observations: 4,817. The sample includes all the classes of funds and SICAVs registered with the CNMV for which net asset values were available at the end of 2019 and 2020 (meaning annual returns for 2020 could be calculated). The estimated ratios and standard deviations are shown in brackets. The constant is omitted. * Significance at 10%, ** Significance at 5% and *** Significance at 1%.

1 Net returns in 2020.

2 Ratio of total annual expenses 2020.

3 The independent variables are defined as follows: age (the number of years between the creation of the CIS and 31/12/2020), fund manager (dummy = 1 if the CIS belongs to a credit institution and 0 otherwise), size (logarithm of the assets of the CIS), investor type (dummy = 1 if the CIS classifies itself as aimed at institutional investors and 0 otherwise), type of CIS (dummy = 1 if the CIS is a fund of funds or a SICAV of funds and 0 otherwise), category (dummies for each category, the benchmark category is absolute return), and sustainable CIS (dummy = 1 is the CIS is sustainable and 0 otherwise).

The literature in this area – which generally assesses the returns on ESG investments – shows mixed results. In general, studies based on older data identify relatively worse performance by ESG investments compared to the market or no significant differences (this is true for the equities markets as well as investment funds).[22] However, studies using more recent data find that ESG investments have relatively better returns than other investments.[23] In the specific case of French

22 This is the case in the Sánchez and Sotorrío (2009) and Revelli and Viviani (2015) studies.

23 Refer to Friede, Busch and Bassen (2015) and Drei et al. (2019).

CISs, a number of studies have assessed the returns of sustainable CISs compared to others, concluding that they do not outperform the market[24] (for a period between 2001-2007) or have returns that set them apart[25] (for the period 2012-2018). Empirical evidence was found for sustainable CISs (defined as those that publicly declare they invest using ESG criteria and are labelled as sustainable) having lower costs in this most recent period. Some studies (though not empirical ones) on the performance of investment funds in the European Union in 2020 offer similar results to those in this study: sustainable investment funds produced higher returns than other CISs with much smaller differences in their costs (1 tenth of a percent lower for sustainable CISs).

24 Capelle Blancard and Monjon (2014).

25 Darpeix and Mosson (2021).

3 Analysis of the portfolios of sustainable CISs from an ESG perspective

In this section we present the results of the second block of analysis for sustainable Spanish CISs. This seeks to evaluate the portfolios of these entities with the greatest possible degree of granularity (at the ISIN level) from an ESG perspective. The objective is to obtain an evaluation of the rating of the issuers of the assets in the portfolios of these CISs in relation to ESG criteria, to determine their degree of alignment with those criteria.[26] The data for the portfolio of CISs are for December 2020. The following sections describe the type of assessments used for the various types of assets, presenting conclusions for investment funds and SICAVs separately from those for funds of funds, due to the specific nature of the investments of the latter.[27]

3.1 Methodology

Evaluation of the issuers of the assets from the perspective of their commitment to and implementation of ESG criteria is not simple, as many issuers do not provide such information and, when they do, there is considerable heterogeneity in their reports. There are two additional difficulties in this exercise: a considerable share of the portfolios of these funds is invested in public debt assets, for which there are no official ESG classifications; and there is significant investment in other CISs, for which there are similar difficulties. Therefore, we decided to search for information by asset type from information providers and high-quality entities:

– ESG information from Refinitiv, a supplier of financial and economic information, was used for the assets (shares and debt) of private sector issuers.

– ESG information published by the World Bank was used for assets issued by the public sector.

– For investments in other CISs, ESG ratings were estimated from the disaggregated portfolios of these funds obtained from the Lipper database, and the ratings of the issuers of this portfolio provided by Refinitiv Eikon. Estimated ESG ratings were only used for these CISs when the percentage of their portfolio for which ESG ratings could be found was high (over 70%).

26 Reports with ESG assessments of fund portfolios are becoming ever more common. The most recent, for example, include work published by the European Securities and Markets Authority (ESMA, 2021a) and the European Systemic Risk Board (ESRB, 2020 and ESRB, 2021).

27 Includes an index fund.

The selection of a provider of ESG ratings for private sector issuers was difficult, as the solutions offered by the various commercial providers differ in the availability of information on the companies and the methodologies used, with a degree of inconsistency among them in some cases.[28] The choice of Refinitiv as the source of ESG information was based on the wide-ranging coverage of companies on which it provides information (around 10,000)[29] and the large number of indicators it uses in preparing its ratings.[30] Its methodology is also appropriate as it offers general ESG ratings and also ratings for each of the criteria (E, S and G). It also includes an adjustment to the general rating through inclusion of an additional indicator for any ESG controversies involving the companies in this area (such as lawsuits and litigation).

The ratings for the issuers range from A to D, with positive, neutral and negative segmentation for each of these letters.

– A: excellent ESG rating and high transparency in publicly reported ESG data (rating between 75 and 100).

– B: good ESG rating and above average transparency in publicly reported ESG data (rating between 50 and 75).

– C: satisfactory ESG rating and moderate transparency in publicly reported ESG data (rating between 25 and 50).

– D: poor ESG rating and inadequate transparency in publicly reported ESG data (rating between 0 and 25).

The following two charts illustrate the most important ESG ratings for Spanish financial issuers over the last five years (Figure 7), and the contribution of each of the ten dimensions that comprise the three ESG criteria to the overall rating (Figure 8). This figure also shows the indicators considered in relation to emissions (which are included in the environment criterion).

Example ESG ratings for an issuer FIGURE 7

	FY2020	FY2019	FY2018	FY2017	FY2016
Period End Date	2020-12-31	2019-12-31	2018-12-31	2017-12-31	2016-12-31
Historic Market Cap (Mil USD)	[redacted]				
Total Revenue (Mil USD) Total Revenue (Mil USD)					
ESG Combined Score	B-	B+	B	B+	B+
ESG Score (Weight: 100.0%)	A	A	A	A	A
Environmental Pillar Score (Weight: 14.4%)	A	A	A	A	A
Social Pillar Score (Weight: 49.6%)	A	A	A	A	A
Governance Pillar Score (Weight: 36.0%)	A	A+	A+	A	A
ESG Controversies Score	D+	C+	C	C+	B

Source: Refinitiv.

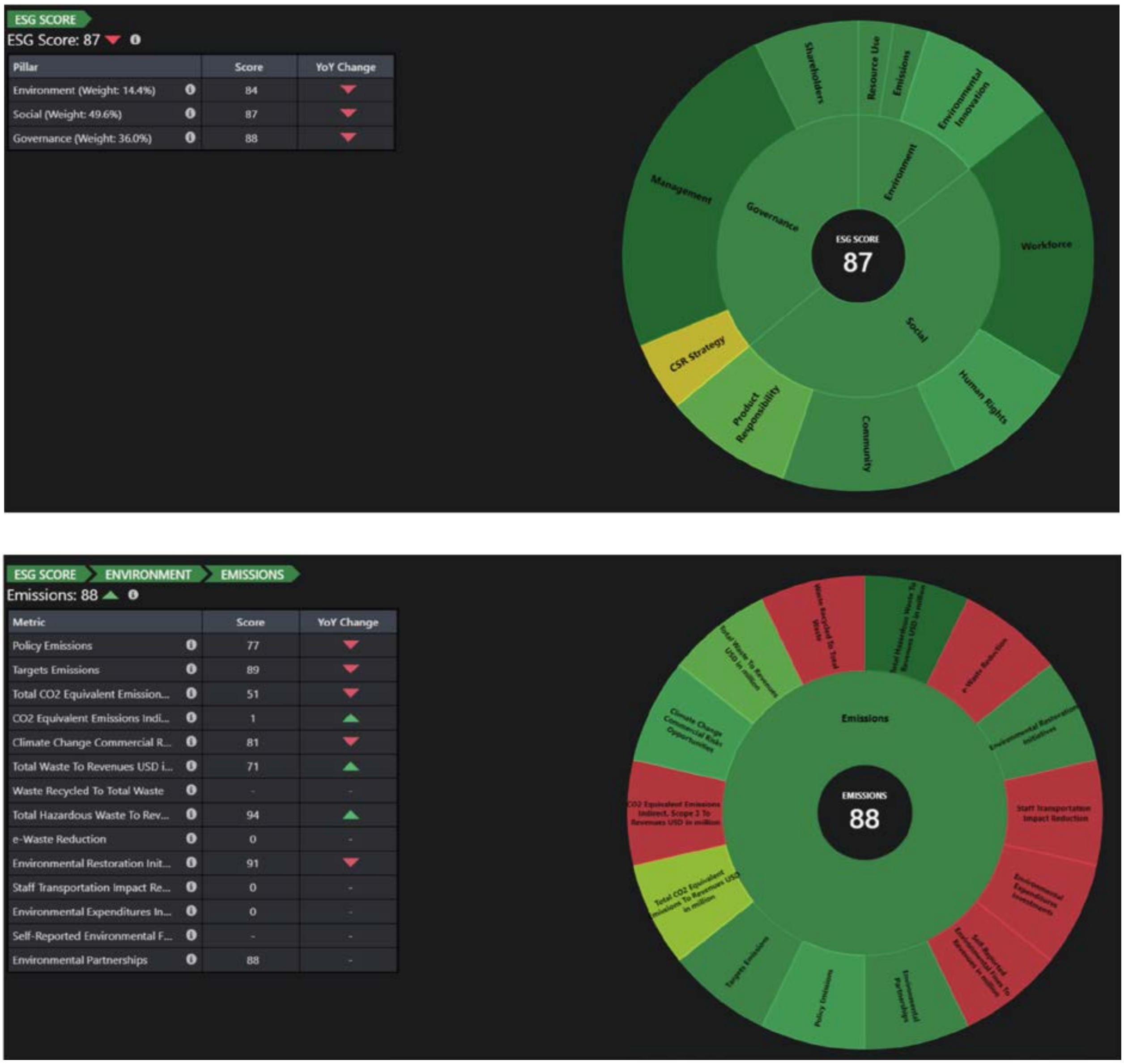
28 See ESMA (2021b).

29 The number of companies for which each provider issues ESG ratings ranges from 4,000 for ISS to 12,000 for Sustainalytics.

30 186 comparable measures are prepared from over 500 ESG metrics.

Example breakdown of the ESG rating for an issuer based on the three criteria and ten dimensions

FIGURE 8



Source: Refinitiv.

Public debt assets have been given ESG ratings calculated from the ESG indicators prepared by the World Bank for each country. The World Bank publishes various ESG indicators and a selection of these as a dashboard that enables country comparisons.[31] Figure 9 shows the dashboard for Spain, with three indicators for each of the ESG criteria:

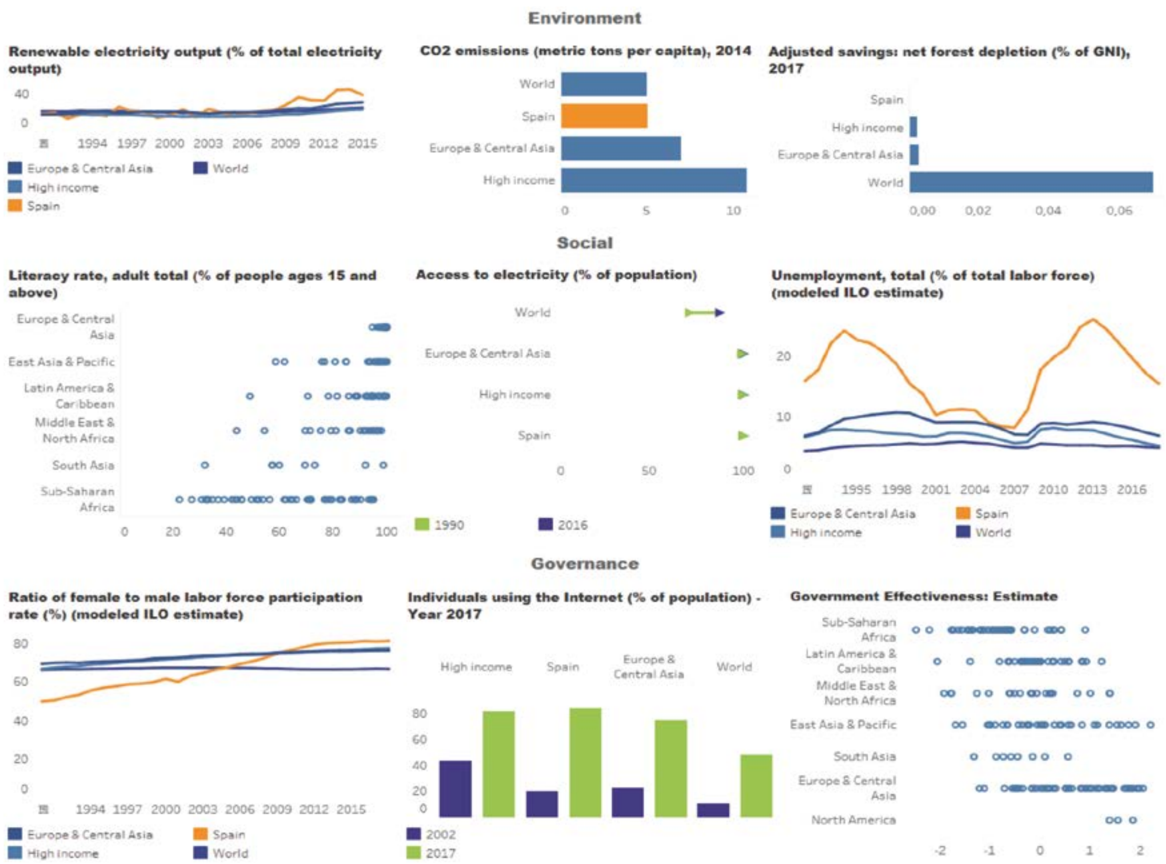
– Environment: renewable electricity output (compared to total electricity output), CO_2 emissions per inhabitant and net forest depletion.

– Social: literacy rate, proportion of the population with access to electricity and unemployment rate.

– Governance: ratio of female to male workforce participation, percentage of the population using the internet and government effectiveness.

For this exercise, ESG ratings were estimated for ten countries, covering over 95% of the amount invested by sustainable CISs in public debt.[32]

ESG indicator dashboard for Spain FIGURE 9



Source: World Bank.

31 https://datatopics.worldbank.org/esg/dashboards.html

32 Spain, France, Italy, Germany, Portugal, the Netherlands, Belgium, Austria, Ireland and the United States.

Finally, an ESG rating was estimated for the investments of sustainable Spanish CISs in other CIS, based on information on their disaggregated portfolios (obtained from the information source Lipper) and the ESG ratings for the assets in these portfolios in Refinitiv. When ratings were found for assets that represented over 70% of the portfolio of the CIS, an average rating was calculated weighted by the weight of the asset in the portfolio.

3.2 Results for IFs and SICAVs

There were 47 IFs and SICAVs at the end of 2020 (44 IFs and 3 SICAVs). The disaggregated portfolios were obtained for each institution at the ISIN level in December 2020. The analysis did not consider investments by the entities in treasury instruments.[33] 2,213 ISINs were identified by type of asset and availability of ESG ratings, as follows:

ISIN number of the portfolio of the sustainable CISs by asset type and ESG coverage[1] TABLE 2

Asset type	Number of ISINs	% of ISINs with ESG rating	A+	A	A-	B+	B	B-	C+	C	C-	D+	D	D-	NA
Public debt	252	80.6	28	119	56	0	0	0	0	0	0	0	0	0	49
Private fixed income	862	77.4	35	164	209	145	47	39	12	4	3	0	8	1	195
Shares	889	94.7	21	100	176	203	123	79	66	38	24	7	4	1	47
CIS[2]	139	66.9	0	1	26	37	20	8	1	0	0	0	0	0	46
Other[3]	71	18.3	0	3	0	3	3	1	2	0	0	0	1	0	58
Total	**2,213**	**82.2**	**84**	**387**	**467**	**388**	**193**	**127**	**81**	**42**	**27**	**7**	**13**	**2**	**395**

Source: CNMV, Refinitv, Lipper and own calculations.

1 Availability of general ESG rating. IFs and SICAVs.

2 Rating estimated using the weighted average of the ratings of the assets in the portfolios of these CIS. The procedure was as described in Section 3.1, weighting the ESG ratings of each asset including the CISs forming part of this portfolio.

3 Includes issues of securitised fixed income, guaranteed securities of credit entities, money market instruments, repos and venture capital entities.

As observed in the previous table, there was ESG information on over 82.2% of the 2,200 ISINs. The ESG coverage in terms of assets is similar (81.6%). The largest group of ISINs relates to shares and private fixed income, with shares representing 27% of total assets and private fixed income 35%.[34] Investment in public debt is also significant in terms of assets, accounting for 19%, although the number of ISINs is considerably smaller, revealing much larger average investments in these assets. Investments in other CISs account for 16% of the assets of this set of entities.

33 This affected the analysis of one investment fund in particular, whose portfolio exclusively comprised treasury instruments at the date of the information download.

34 Excluding treasury instruments.

The coverage of ESG information for the portfolio (over 80% for both the number of ISINs and the assets) is very high for shares (92% of the assets) and public debt (93%). The proportion is somewhat smaller for private fixed income assets (77%) and investments in CISs (70.4%).

The panels in Figure 10 illustrate the composition of the portfolio of each of the sustainable Spanish CISs (IFs and SICAVs) based on the ESG ratings of their assets. The figure contains four panels associated with the four ESG ratings identified: the general rating and the ratings for the three criteria (E, S and G).[35] The percentages were calculated against the total assets of each institution (excluding cash). Assets with ratings A and B are shaded in green while assets with ratings C and D are shaded in brown, for illustrative purposes.

As can be seen in the first panel in the figure, which shows the general ESG rating, the assets of the sustainable CISs invested in assets of issuers rated as A or B (i.e., issuers with excellent or good ESG ratings and high or above average degrees of transparency of publicly reported ESG data) form the majority. 39 of the 47 CISs have over 70% of their portfolio invested in assets with ratings A or B, with 22 having over 80% and 12 over 90%. For all 47 CISs, 78% of the assets are invested in the assets of issuers with A or B ratings (51% of assets in A ratings and 27% in B ratings), and only 3.7% in assets of issuers with C and D ratings. Many of these CISs have a high proportion of their portfolio in assets with A ratings, which is the most favourable. It could, therefore, be argued that the general ESG rating of the assets in the portfolios of these entities is very high.

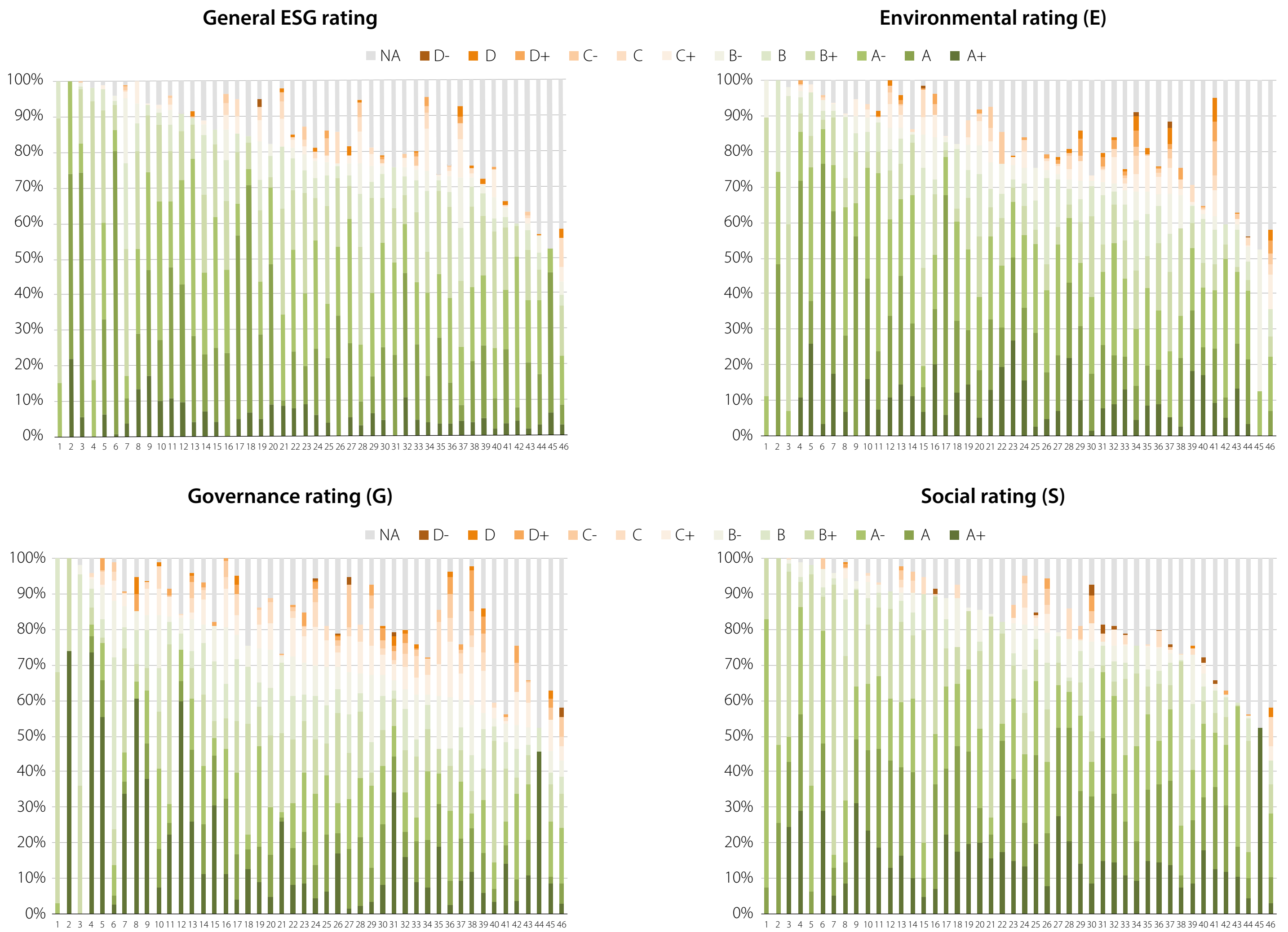
Analysis of the other classifications (E, S and G) (refer to the three panels of Figure 10) enables us to draw similar conclusions to those for the general ESG rating, i.e., the portfolios of sustainable CISs are invested in the assets of issuers with good or excellent environment, social and governance ratings. However, some differences have been identified that should be highlighted. Firstly, the most favourable results (measured by the proportion of assets with A and B ratings) are obtained for the social criterion (S), where 39 CISs have over 70% of their assets invested in issuers with ratings A and B (78% of the total assets). The presence of assets with C and D ratings is very low, with only 4 CISs having somewhat higher exposure to issuers with D ratings, in what are very low levels (between 2.7% and the 7.5% of their assets).

The results for the environmental and governance criteria show higher proportions of investment in issuers with poor ratings (C and D), though the levels remain low: 6.2% of assets for the environmental criterion and 11.5% for governance, compared to 3.6% for the social criterion. However, there is a significant difference between the results for the environmental and governance criteria. In terms of the proportion invested in issuers with A and B ratings, investment in issuers with A ratings is much higher for the environmental criterion (52% of assets in A and 23% in B), compared to the governance criterion, where investment in both ratings is similar (36% in A and 34% in B). These results could be due to one or both of the following behaviours: i) sustainable Spanish CISs have investment policies that focus more on

35 The appendices include similar charts for ratings related to CO_2 emissions, which are included in the environmental criterion. These have slightly worse ratings than those for this criterion.

Estimation of the ESG rating of the portfolio of sustainable Spanish CISs (December 2020, IFs and SICAVs)

FIGURE 10

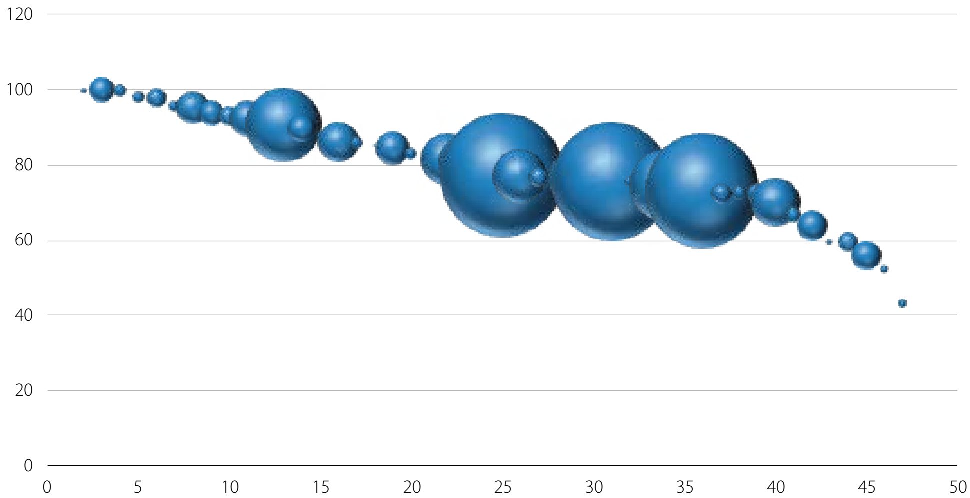


Source: CNMV, Refinitiv Eikon, Lipper, World Bank and in-house calculations. The *x* axis represents each of the sustainable CISs (IFs or SICAVs), ordered by the proportion of their portfolios with A and B ratings. The *y* axis represents the distribution of the portfolios of the CIS based on the ESG rating of its assets (excluding cash). NA: rating not available.

environmental and social criteria; or ii) on average, the issuers have poorer ratings for the governance criterion and, therefore, more room for improvement.

To further illustrate this analysis, Figure 11 show the proportion of assets with ESG ratings A and B compared to their total portfolio for all the IFs and SICAVs analysed. This includes an additional dimension: the size of the CIS. The first thing we notice about their size, as explained in earlier sections, is the extreme variability of the sample, with a small number (no more than five) that are much larger than all the others. The second thing we can see is that these large entities have high proportions of assets with A and B ratings in their portfolio; in general, this is over 70% in all cases. Finally, the funds at the extremes – i.e., those with the largest and smallest proportions of assets with A and B ESG ratings – are very small in size.

Proportion of assets with A and B ratings and size of the sustainable IFs and SICAVs FIGURE 11



Source: CNMV, Refinitv, Lipper and own calculations. This figure represents each IF and SICAV using a bubble, the size of which is proportional to the assets of the institution, with its height representing the proportion of assets with A and B ratings in their portfolios.

3.3 Results for funds of funds

12 entities were included in this exercise (one of which is an index fund, which was included in this group because of its characteristics).[36] There were 314 ISINs in the portfolios of these CISs, of which 184 were investments in other CISs. These investments in other CISs accounted for 79% of total assets, compared to 9.7% for investment in shares and 7.1% for investment in public debt.

As we saw in Table 3, ESG ratings have been obtained for 74% of the ISINs (73.2% in terms of assets. See Table A2.2 in the appendix). This proportion is lower than that for investment funds and SICAVs (82%), as funds of funds, by their nature, have much larger investments in other CISs. These investments are the most

36 Index funds seek to replicate the performance of a specific index.

difficult to assign ESG ratings to. The allocation of ESG ratings to investments in other CISs in this paper involved individual study of the portfolio of each CIS. This rating was only calculated if an ESG rating was obtained for over 70% of the total assets in the portfolio of each CIS. As in the case of investment funds and SICAVs, the types of assets for which the highest proportions of ESG ratings were found were shares (93%), followed by public debt (92%). For private fixed income assets this proportion is close to 67%, while for CISs it is 71.7%.

ISIN number of the portfolio of the sustainable CISs by asset type and ESG coverage[1] TABLE 3

Asset type	Number of ISINs	% of ISINs with ESG rating	A+	A	A-	B+	B	B-	C+	C	D	NA
Public debt	24	91.7	1	16	5	0	0	0	0	0	0	2
Private fixed income	51	68.6	3	5	14	6	5	1	0	0	1	16
Shares	31	93.5	2	7	9	7	3	1	0	0	0	2
CIS[2]	184	71.7	0	5	33	55	26	9	3	1	0	52
Other[3]	24	58.3	0	13	0	0	0	0	0	0	1	10
TOTAL	**314**	**73.9**	**6**	**46**	**61**	**68**	**34**	**11**	**3**	**1**	**2**	**82**

Source: CNMV, Refinitv, Lipper and own calculations.

1 Availability of general ESG rating. Funds of funds and index funds.

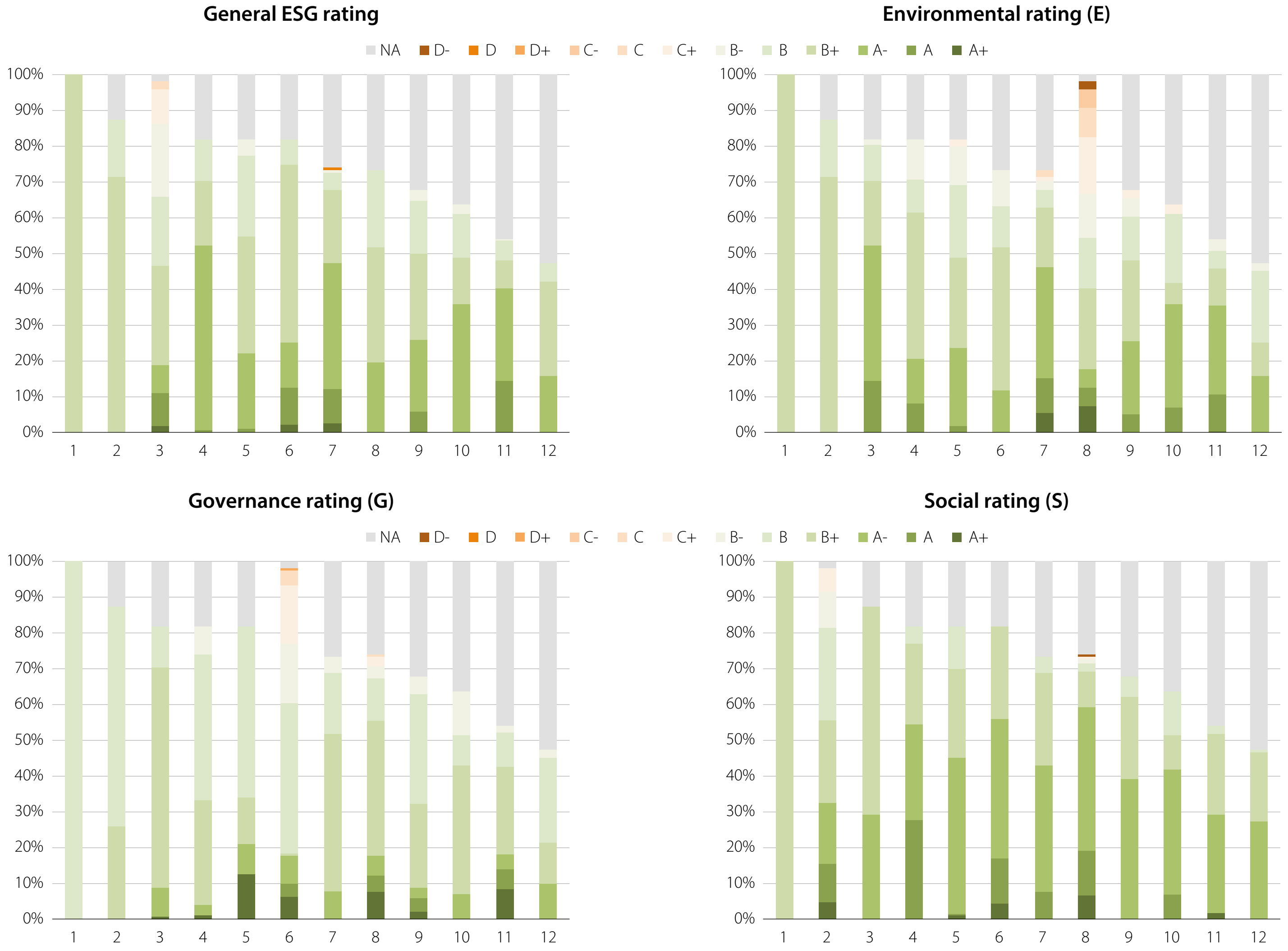
2 Rating estimated through the weighted average of the ratings of the assets in the portfolios of these CISs, provided there are ratings for assets representing at least 70% of the assets of the CIS.

3 Includes issues of securitised fixed income, guaranteed securities of credit entities, money market instruments, repos and venture capital entities.

The panels in Figure 12 show the composition of the portfolios of each of the sustainable funds of funds based on the ESG rating of their assets, in the same way as for funds and SICAVs. Focusing on the depth of the green shading, the first impression from these panels is that the portfolios of the funds of funds have significantly lower ESG ratings, in general terms, than those of the sustainable investment funds and SICAVs. For example, in the general ESG rating, 69% of the assets of these funds is invested in assets with ratings A and B (the highest ratings), while this percentage increases to 78% for funds and SICAVs. Eight of the sustainable funds of funds have over 70% of their assets invested in A and B issuers (out of a total of 12). Specific analysis of the highest ESG ratings (A and B) shows that the percentage of assets invested in A issuers is 29.5% (well below the 51% estimated for funds and SICAVs) and in B issuers is 40% (higher than the 17% for funds and SICAVs).

Similar conclusions can be drawn from the other panels in the figure. As with investment funds and SICAVs, the ESG criterion with the highest rating is the social criterion, as 71% of the assets of sustainable funds of funds have A and B ratings for this criterion, compared to 66% of the assets in the case of the governance criterion and 62% for the environmental criterion. Within the social criterion, a noteworthy 33% of the assets have the highest rating (A), exceeding the figure for the other two criteria (29.5% for the environmental factor and 16% for governance), but much lower than the figure estimated for investment funds and SICAVs as a whole (49%). A very high proportion of assets had B ratings (50.4%) for the governance criterion.

Estimation of the ESG rating of the portfolio of sustainable Spanish CISs (December 2020, funds of funds) FIGURE 12

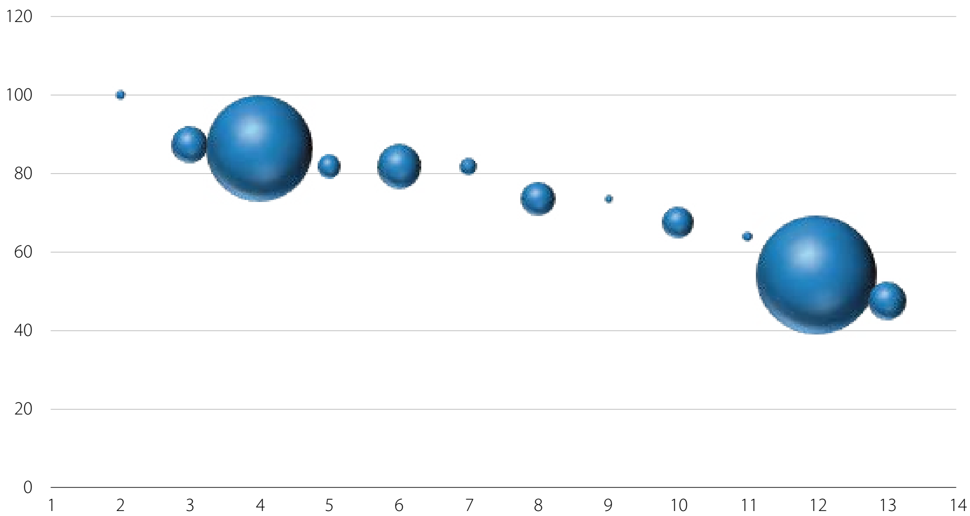


Source: CNMV, Refinitiv Eikon, Lipper, World Bank and in-house calculations. The *x* axis represents each of the sustainable CISs (funds of funds or index funds), ordered by the size of their portfolio with A and B ratings. The *y* axis represents the distribution of the portfolio of the CIS based on the ESG rating of its assets (excluding cash). NA: rating not available.

Figure 13 adds the variable of the size of the fund of funds to the analysis. As with investment funds and SICAVs, there is a wide range of sizes in this group of funds. Just 2 out of the 12 entities account for 77% of the total assets of this group, so some of the results we have described are basically due to what happens in these two entities. One of these two funds of funds has a very high proportion of assets with A and B ratings in its portfolio (over 86%), while the other has a much lower proportion (54%). This is mainly due to the volume of assets for which no ESG rating could be assigned (46% of the portfolio). Of these, the assets invested in 11 CISs (36% of the total assets of these CISs) are significant as they are not considered in the analysis because they do not meet the requirement of 70% of the assets having a rating. However, the ratings are very high for those assets for which ratings could be obtained (A- on average). The remaining funds of funds in the figure are much smaller, with substantial investments in issuers with ratings A and B, exceeding 70% in almost every case.

In conclusion, analysis of the portfolios of sustainable funds of funds shows that the issuers of the assets in the portfolios of these funds tend, in general, to have very high ESG ratings, i.e., excellent or good ESG ratings and a high or above average degree of transparency of publicly reported ESG data. Within this analysis, the social criterion stands out from the others, even if the level of the ratings found is, on average, somewhat worse than that for investment funds and SICAVs. This could be explained by a number of factors, including: i) a higher proportion of assets to which it is impossible to assign an ESG rating; ii) selecting indexes rather than directly selecting the assets of specific issuers makes it difficult to obtain a higher ESG rating, unless the investment is in a specialist index of sustainable companies; or iii) the sustainable investment policies or strategies of these funds may not be fully correlated with the aggregate information obtained from the ESG ratings of the commercial supplier used.

Proportion of A and B assets and size of the sustainable funds of funds FIGURE 13



Source: CNMV, Refinitv, Lipper and own calculations. This figure represents each fund of funds using a bubble the size of which is proportional to the assets of the institution and whose height represents the proportion of assets with A and B ratings in the total portfolio.

4 Conclusions

This study is an initial attempt to understand the situation of sustainable CISs in this country, against a backdrop of significant worldwide growth in supply of, and demand for, financial assets with ESG criteria. In the Spanish market, this growth can be seen not only in the collective investment industry but also, for example, in the debt assets issued by private and public sectors. In Europe, the expansion of the markets for ESG products is developing in parallel to the development of regulations for these products, which, among other things, seek to minimise the risk of greenwashing, as exemplified in the Taxonomy and Disclosure Regulations. In the private sector, the wide range of ESG information produced by issuers has encouraged the development and specialisation of entities involved in the production of ESG ratings for such issuers, which are, sometimes, not entirely standardised.

This initial exercise has been produced against this backdrop to describe the main characteristics of the sustainable Spanish CISs registered with the CNMV at year-end 2020, immediately prior to the Disclosure Regulation coming into effect (in March 2021), which permitted entities to subscribe to its Articles 8 or 9 if they promote or invest in sustainable activities, respectively. The starting point can, therefore, be considered a situation undergoing rapid change over a very short period of time.

This analysis is limited to 59 CIS (IFs and SICAVs) that have voluntarily declared that they are involved in socially responsible investment, in accordance with Inverco's 2014 SRI Circular. These sustainable CISs must be distinguished from charitable CISs, as the investment policies of the latter are the same as those of conventional CISs, except that they allocate some of their management-fee income to not-for-profit entities.

The 59 sustainable Spanish CISs were just a small part of the CIS industry in Spain, accounting for just 3% of the sector's assets and unitholders in 2020. Most of these vehicles were mixed fixed income, mixed equities or international equities. The average returns of these CISs were 1.8% in 2020, higher than the average for all of the IFs and SICAVs registered with the CNMV (0.8%). This difference may be explained, in part, by: the greater weight, in terms of assets, of the categories with the highest returns in the year (categories with a high proportion of equities in their portfolios); and differences in the composition of their portfolio (for example, the portfolios of ESG investments included greater investment in companies in the technology and health sectors, which performed better during the crisis). In the case of the ratio of expenses, which was higher for CISs with ESG objectives than for others (1.22% compared to 1.05%), the difference can be attributed exclusively to the higher proportion of vehicles belonging to categories with relatively high fees.

Analysis at the more disaggregated level of the portfolio of these institutions shows that most of the assets (78% in the case of FIs and SICAVs, and 69% in the case of funds of funds) are invested in the assets of issuers with high or very high ESG ratings (according to information provided by a supplier of specific data). Therefore, from this point of view, no substantial differences were found between the theoretical investment strategies of the managers of these institutions and the reality of their portfolios in terms of sustainability. In other words, this initial analysis of the portfolios has not identified any cases that could be considered greenwashing. However, it should be remembered that all of the entities are being assessed using the same guide (the ratings of ESG issuers), without considering that the investment strategies of these CISs could be very different.

At the date of writing, there are now 172 sustainable CISs with assets of €60.8 billion, 17.4% of the total. This rapid expansion of this industry suggests it will be useful to update and extend this analysis in future, when there is a more extensive time series of data, to verify whether the characteristics identified here continue to apply or whether they are changing over time.

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Appendix 1 Examples of investment policies of sustainable CISs

POLÍTICA DE INVERSIÓN

Categoría: Fondo de Inversión. RENTA FIJA MIXTA EURO.

Plazo indicativo de la inversión: Este fondo puede no ser adecuado para inversores que prevean retirar su dinero en un plazo inferior a 3 años.

Fondo de Inversión Socialmente Responsable.
Objetivo de gestión: La gestión toma como referencia la rentabilidad del índice 30% MSCI Europe Net Return y 70% BofA Merrill Lynch 1-3 year Euro Government Index. El índice de referencia se utiliza a efectos meramente comparativos.

Política de inversión:
El patrimonio se invertirá atendiendo a criterios de actuación empresarial tanto financieros como éticos y socialmente responsables, conforme con el ideario ético del fondo. La mayoria de los activos incluidos en la cartera del fondo, incluyendo las IIC en que se invierte, cumplen con el ideario ético. Los criterios de inversión del ideario ético serán tanto excluyentes (derechos humanos, producción de armas, etc) como valorativos (compañias mejor valoradas en variables medioambientales, sociales y de gobernanza corporativa).
El FI estará expuesto, directa o indirectamente (hasta un 10% en IIC), al menos un 70% en renta fija pública y/o privada (incluyendo bonos subordinados, titulizaciones, depósitos e instrumentos del mercado monetario cotizados o no, líquidos), y hasta un 30% de la exposición total en renta variable. La suma de inversiones de renta variable emitidas por entidades fuera del area euro más el riesgo divisa no superará el 30% de la exposición total. Emisores/mercados: fundamentalmente Europa, y minoritariamente resto de paises OCDE y emergentes. Las emisiones tendrán al menos calidad crediticia media (mínimo BBB-/Baa3) o el rating que tuviese R. España si fuera menor y hasta un 25% de la exposición total podrá ser de baja calidad crediticia (menor a BBB-/Baa3) o incluso sin rating. Duración media de la cartera: inferior a 7 años. Los activos de renta variable serán de mediana y alta capitalización bursátil y elevada liquidez y cotizarán en mercados de la OCDE.
Se podrá invertir más del 35% del patrimonio en valores emitidos o avalados por un Estado de la UE, una Comunidad Autónoma, una Entidad Local, los Organismos Internacionales de los que España sea miembro y Estados con solvencia no inferior a la de España.
La IIC diversifica las inversiones en los activos mencionados anteriormente en, al menos, seis emisiones diferentes. La inversión en valores de una misma emisión no supera el 30% del activo de la IIC.
Se podrá operar con derivados negociados en mercados organizados de derivados con la finalidad de cobertura y de inversión y no negociados en mercados organizados de derivados con la finalidad de cobertura y de inversión. Esta operativa comporta riesgos por la posibilidad de que la cobertura no sea perfecta, por el apalancamiento que conllevan y por la inexistencia de una cámara de compensación. El grado máximo de exposición al riesgo de mercado a través de instrumentos financieros derivados es el importe del patrimonio neto.
Se podrá invertir hasta un máximo conjunto del 10% del patrimonio en activos que podrían introducir un mayor riesgo que el resto de las inversiones como consecuencia de sus características, entre otras, de liquidez, tipo de emisor o grado de protección al inversor. En concreto se podrá invertir en:
- Acciones y activos de renta fija admitidos a negociación en cualquier mercado o sistema de negociación que no tenga características similares a los mercados oficiales españoles o no esté sometido a regulación o que disponga de otros mecanismos que garanticen su liquidez al menos con la misma frecuencia con la que la IIC inversora atienda los reembolsos. Se seleccionarán activos y mercados buscando oportunidades de inversión o de diversificación, con los criterios descritos en este folleto.

Información complementaria sobre las inversiones:
A continuación se describen los índices de referencia del fondo, que se pueden consultar en Bloomberg:
MSCI Europe Net Return (Código Bloomberg M7EU): Índice compuesto por más de 400 compañías representativas de las bolsas de países europeos (entre ellos Reino Unido, países nórdicos y Suiza). El índice incluye la rentabilidad neta por dividendos.
BofA Merrill Lynch 1-3 year Euro Government Index (Código Bloomberg: EG01). Es un índice que refleja el comportamiento de la deuda pública denominada en euros emitida por países de la zona Euro en los mercados de eurobonos o sus mercados domésticos. La calificación de la deuda de largo plazo de estos países miembros será investment grade (rating mínimo BBB-/Baa3). El plazo restante hasta el vencimiento final deberá ser inferior a 3 años. El índice incluye la rentabilidad por rendimientos.

En la selección de valores donde invertir, se tendrá presente el ideario ético del Fondo, además de los criterios tradicionalmente financieros. El ideario ético toma como base los Principios de Inversión Responsable de las Naciones Unidas a los que se adhiere Fineco en junio de 2016. A razón de estos, se acuerdan dos criterios de inversión:
Criterios excluyentes, por los que no cabrá la inversión en valores de emisores que atenten contra:
- Defensa de los derechos humanos: no se invertirá en compañías contra las que sistemáticamente y en sus actividades principales atenten contra la igualdad de sexo, raza, etnia o religión. Así mismo, serán excluidas las inversiones en compañías cuyos ingresos principales provengan de la producción, publicación y distribución de pornografía en cualquier formato.
- Reducción de la producción de material armamentístico: no se invertirá en compañías cuyos ingresos principales provengan de la producción de armas.
- Protección del medio ambiente: no se realizarán inversiones en compañías cuya actividad, en su mayoría, no respete el medio ambiente, teniendo en cuenta el impacto medio ambiental de sus productos y/o servicios, y su relación con emisiones y desechos tóxicos, el cambio climático, el uso del agua y de energía, etc.
- Defensa de la salud: no se invertirá en compañías cuyos ingresos principales provengan de la producción y distribución de tabaco o estén relacionadas con el juego.

Criterios Valorativos, por los que el fondo seleccionará las empresas mejor valoradas atendiendo a las siguientes variables:
- Medio Ambiente: apoyo a mejorar el medio ambiente y el cambio climático mediante la reducción de emisiones contaminantes, un uso responsable de los recursos naturales y tratamiento de residuos, entre otros.
- Responsabilidad Social: fomento del respeto a los derechos humanos, a un trabajo digno, al desarrollo del trabajador dentro de la empresa bien en su faceta profesional como el desarrollo personal, y/o control de los productos de la empresa para que no generen daños físicos ni morales a los consumidores, entre otros. Se valorarán de forma positiva iniciativas para impulsar el desarrollo de regiones más desfavorecidos.
-Gobernanza corporativa: control de los órganos de dirección, transparencia en la gestión, esquemas de remuneración alineados con los grupos de interés y/o ausencia de prácticas ilegales, entre otros.

Para la construcción de la cartera, el fondo usará la información procedente de MSCI ESG Research, una de las principales entidades que se encargan de analizar y proporcionar calificaciones en relación a las tres variables arriba mencionadas. Las calificaciones se encuentran entre AAA (la mejor calificación) y CCC (la peor calificación). Los gestores del Fondo excluirán de su universo de inversión todas aquellas compañias con una calificación por parte de MSCI ESG Research inferior a "A" aunque podrá haber un porcentaje minoritario que podrá invertirse en empresas con calificación inferior pero que se encuentren en un proceso de mejora de prácticas ambientales, sociales o de gobernanza y que se vea reflejado en una mejora de al menos un peldaño en la escala de MSCI ESG Research.
Respecto de los emisores de deuda pública en que se invierta, se seleccionarán países que tengan prohibida la pena de muerte, que hayan firmado el Acuerdo contra el cambio climático de París 2015 y que tengan leyes que impidan la discriminación y explotación infantil.
La inversión directa será en renta fija o variable de compañias incluidas en el MSCI AC Europe ESG Index u otro índice ético reconocido.
Se podra invertir hasta un 10% del patrimonio en IIC financieras ISR (de listas de agencias reconocidas), activo apto, armonizadas o no, del grupo o no de la gestora.

Appendix 2 Assets of the portfolios of sustainable CISs by asset class and ESG coverage

Assets of the portfolios of sustainable CISs by asset class and ESG coverage:[1] IFs and SICAVs TABLE A2.1

Euros

Asset type	% of assets with ESG rating	A+	A	A-	B+	B	B-	C+	C	C-	D+	D	D-	NA
Public debt	93.2	160,128,292	709,338,159	423,658,031	0	0	0	0	0	0	0	0	0	93,959,910
Private fixed income	76.6	108,834,478	447,324,821	709,148,201	383,286,201	123,936,257	90,756,897	24,863,014	20,705,153	896,358	0	29,940,211	90,435	592,981,371
Shares	92.1	121,360,176	290,368,819	368,862,999	526,037,971	187,058,559	75,870,124	76,000,226	30,398,235	58,324,445	18,835,504	4,812,443	239,137	151,254,265
CIS[2]	070.4	0	16,331,066	247,416,671	360,091,147	147,241,920	38,648,584	207,063	0	0	0	0	0	341,101,801
Other[3]	29.5	0	37,519,372	0	18,536,931	997,910	299,259	1,491,776	0	0	0	0	0	140,853,790
Total	**81.6**	**390,322,946**	**1,500,882,237**	**1,749,085,902**	**1,287,952,250**	**459,234,646**	**205,574,863**	**102,562,079**	**51,103,388**	**59,220,803**	**18,835,504**	**34,752,653**	**329,573**	**1,320,151,137**

Source: CNMV, Refinitv, Lipper and own calculations.

1 Availability of general ESG rating.

2 Rating estimated using the weighted average of the ratings of the assets in the portfolios of these CIS. The procedure was as described in Section 3.1, weighting the ESG ratings of each asset, including the CISs forming part of this portfolio.

3 Includes issues of securitised fixed income, guaranteed securities of credit entities, money market instruments, repos and venture capital entities.

Assets of the portfolios of sustainable CISs by asset class and ESG coverage:[1] funds of funds and index funds

TABLE A2.2

Euros

Asset type	% of assets with ESG rating	A+	A	A-	B+	B	B-	C+	C	D	NA
Public debt	99.7	208,219	61,544,400	49,769,243	0	0	0	0	0	0	361,531
Private fixed income	67.6	1,236,156	3,565,546	4,735,930	1,832,301	1,728,027	519,035	0	0	326,947	6,677,864
Shares	91.2	9,003,379	30,227,395	42,339,023	38,796,841	14,119,460	5,139,573	0	0	0	13,536,504
CIS[2]	69.8	0	44,465,680	199,592,144	282,758,784	171,044,092	112,359,175	50,199,548	12,435,642	0	378,262,433
Other[3]	44.1	0	19,000,000	0	0	0	0	0	0	0	24,122,003
Total	**73.2**	**10,447,755**	**158,803,021**	**296,436,340**	**323,387,926**	**186,891,579**	**118,017,783**	**50,199,548**	**12,435,642**	**326,947**	**422,960,336**

Source: CNMV, Refinitv, Lipper and own calculations.

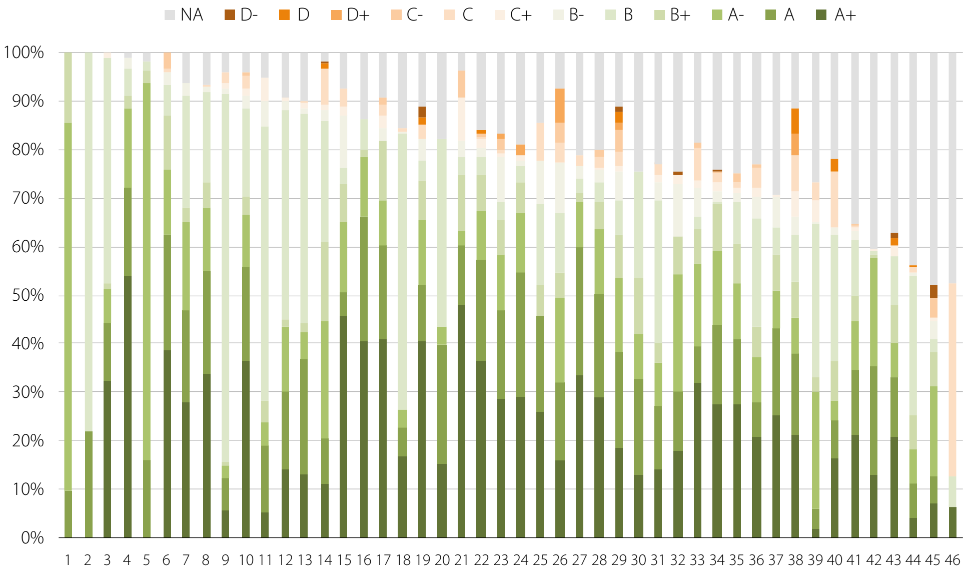
1 Availability of general ESG rating.

2 Rating estimated through the weighted average of the ratings of the assets in the portfolios of these CISs, provided there are ratings for assets representing, at least, 70% of the assets of the CIS.

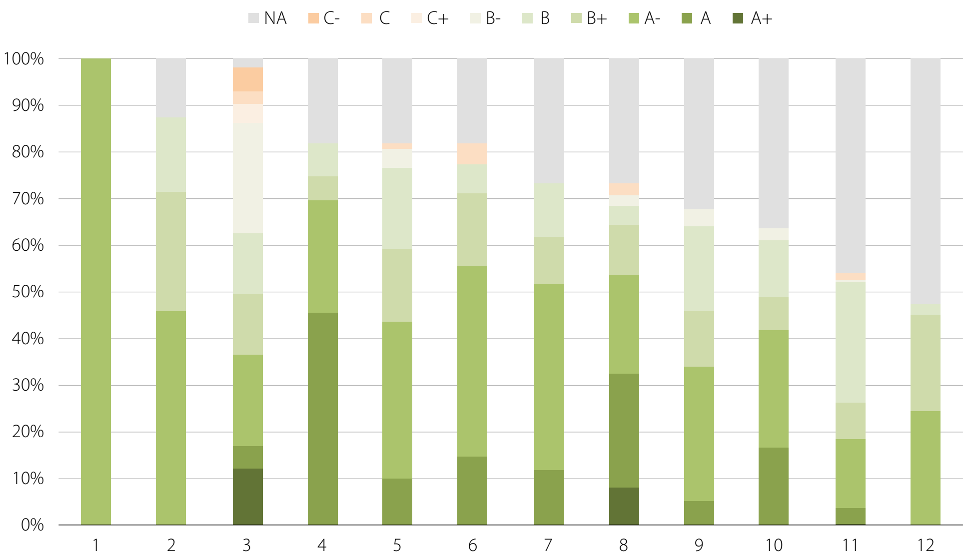
3 Includes issues of securitised fixed income, guaranteed securities of credit entities, money market instruments, repos and venture capital entities.

Appendix 3 Analysis of the portfolio of sustainable CISs using the issuer's CO_2 emissions rating

Distribution of the portfolio of IFs and SICAVs FIGURE A3.1



Distribution of the portfolio of funds of funds



Source: Refinitiv Eikon, Lipper, World Bank, CNMV and in-house.