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Italian institutional investors make concrete efforts to integrate ESG factors

By Elena Losavio 1 July 2019

The number of Italian signatories to the UN Principles for Responsible Investment is steadily increasing as pension funds commit to integrating environmental, social and governance factors into their investment processes. The principles are currently driving Italian investors to choose sustainable investment strategies, including passive ESG benchmarks, social impact funds and ESG-focused alternative investments.

The €3.8bn (£3.3bn) Fondo Pensione Unicredit and the €1.2bn Ente Nazionale di Previdenza ed Assistenza per gli Psicologi (ENPAP) are among the Italian pension funds that have recently signed the UNPRI.

Both pension funds signed the principles in February 2019 as part of their long-term plans to improve governance transparency and to focus on sustainable investments.

“We have recently reviewed our policy in order to increase our ESG efficiency, mainly acting on two fronts: the selection of investments and the subscription to the UNPRI,” says Piercandido Vaisitti, head of the pension fund at Unicredit, Italy’s largest bank.

ENPAP, the foundation for Italian psychologists, has been receiving ESG reports from its external asset managers since 2015 when it moved some of its assets to a Sicav, a publicly traded open-ended investment fund offered in Europe.

Felice Damiano Torricelli, president of ENPAP, says it was a logical step for the foundation to officially adhere to the UNPRI and to take the necessary steps to integrate the principles into its investment process.

ESG ratings and benchmarks

When choosing equities, fixed income investments and pooled funds, ENPAP uses the MSCI ESG and Vigeo Eiris ratings. ESG ratings have provided ENPAP with a third-party perspective that complements its own analysis and asset managers’ ESG reports.

Simonetta Bono, business development manager at Vigeo Eiris, says the UNPRI has unlocked the responsible investment space for Italian institutional investors.

“UNPRI have introduced the idea of ESG risk, which is a fundamental step needed to separate – in the investors’ minds – an investment that is purely ethical from social and responsible investments,” Bono says.

Fondo Pensione Unicredit has decided to integrate ESG factors not only into its actively managed mandates, including strategies such as best-in-class and exclusion through a product-based and/or conduct-based blacklist, but also into its passive mandates.

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Although passive strategies tend to have fewer responsible investment options, they are still part of the ESG investment universe.

“Investment products used in active management suit responsible investments well, but we have also noticed a growth in the number of passive ESG funds, although still to a limited extent,” says Luca Mattiazzi, general director of Etica Sgr, an Italian ESG consultancy for pension funds and asset managers.

Fondo Pensione Unicredit has recently decided to benchmark its passive investment-grade corporate bonds and passive equities mandates against the MSCI SRI indices, following an analysis of the main ESG benchmark indices available.

Social impact fund and green alternatives

ENPAP is working towards expanding its socially responsible investments in Italy, including investing in payment-by-results projects or social impact bonds.

“We are particularly focused on the launch of the social innovation fund, which is a project launched by the Presidency of the [Italian] Council of Ministers,” Torricelli says.

The project was included in the Italian Budget Law for 2018. It provides more than €21m of funding to social initiatives, with the help of private investors. The public tender notice was published in April 2019 and the deadline for submission is on May 31 2020.

MandateWire Analysis also recently reported that Italian institutional investors are increasingly moving towards alternative asset classes such as private equity and infrastructure, with ESG considerations in mind.

"Considering the returns on offer, investors should also consider these investments, while being cautious of selecting the right funds," Bono says.

Italian pension funds are catching up with other European institutional investors on ESG integration. The ESG focus has been driven by regulatory developments, the public awareness around climate change and the pressure from scheme members and younger generations.

“The pressure from European regulatory interventions on sustainability and transparency, for example the action plan of the European Commission, will have significant medium and long-term impacts on the development of the SRI industry in Italy,” Mattiazzi says.

Mattiazzi adds that he hopes new ESG funds offered to institutional investors will be “rigorous in terms of ESG and not simply greenwashing”.