

COUNTRY REPORT  
ITALY

# The greening of the Italian pension industry

SECOND-PILLAR PENSIONS  
MARIA TERESA COMETTO

Italian pension funds are developing their approaches to sustainable investing, with increasing focus on impact and engagement

KEY POINTS

The majority of Italian pension funds now have an SRI policy in place

Impact and engagement are being added to the toolkit

Consultants are gearing up to assist pension funds on sustainable investing

EU-sponsored projects present opportunities to invest in green assets



Owing to the impact of the COVID-19 pandemic and pressure from new or upcoming EU regulation, Italian pension funds are increasingly turning their attention to sustainable investments. That is one of the main

findings of the annual survey on the ESG and SRI strategies of Italian institutional investors, which pension think-tank Itinerari Previdenziali released earlier this year.

The survey collected the answers of 26 industry-wide funds (known as 'fondi negoziali') representing €56bn of assets and 18 'pre-existing funds' (fondi preesistenti, those predating the 1993 reform), representing €36.8bn of AUM.

The results would suggest that industry-wide funds are committed to sustainable investing, given that 58% of them have already adopted an SRI policy. About 60% of those who have an SRI policy have had one for over five years and 66% apply it to 75% to 100% of their assets. Less than a fifth of them say they do not intend to implement an SRI policy in the future. Among pre-existing funds, 56% have adopted a SRI policy, 36% have had one for over years and only 30% apply it to 75% to 100% of their assets, while 60% say they intend to implement it in the future.



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Niccolò De Rossi and Gianmaria Fragassi

For both types of funds, the most popular strategy is excluding certain industries or companies, beginning from the weapons industry, followed by companies that have a poor record of respecting human, civil and political rights. Among pre-existing funds, 38% have best-in-class strategies, mostly consisting of overweighting companies that engage in activities that reduce CO<sub>2</sub> emissions and increase energy efficiency. There is a growing appetite for investment in the so-called 'silver economy', meaning economic activities, products and services – from health to leisure and tourism – designed to meet the needs of people over 50. In fact, that is the focus of 37% of investors with a thematic ESG strategy. This compares with only 7% in 2019.

For the industry-wide funds, engagement as a strategy ranks in the second place, with 27% of respondents adopting some form of engagement, while there is a growing interest for impact investing, which has started to gain traction.

“One of the most common trends concerns the motivations and assessments on the impact of sustainable investments,” according

the two authors of the survey, Niccolò De Rossi and Gianmaria Fragassi. “Among the reasons that push investors towards SRI investing, first is the desire to contribute to sustainable development, second is a better management of financial risks, followed by the pursuit of a better reputation and pressure from the authorities.” The latter has grown in importance, following announcements by the European Union on new regulatory activity.

“The pandemic has also encouraged greater use of ESG investments, according to 87% of respondents,” point out De Rossi and Fragassi. “And 41% believe that SRI and ESG investments help risk mitigation during market turbulence. Bottom line, beyond the fundamental ethical issue, this type of investment is increasingly also considered for purely financial benefits.”

Andrea Nanni, partner at Prometeia Advisor, says: “The integration of sustainability in investment decisions and risk assessment has led to greater use of specialised advisers. In our case, it has favoured the establishment of a specific ESG practice to support customers.”

“We see two themes emerging:



**“The topics we selected are ecology, technology, value and commodities/industrial materials”**

Pierfranco di Muro

the attention to engagement ties. Currently only some on funds directly exercise voting , but the intention to become shareholders is growing. he other theme concerns the onship between private markets sustainability. The even closer etween investment and the real my, and the lower transparency estments, require more lex assessments on listed s that are already rated by the global index providers,” adds i.

#### **D-19 and Ukraine war open w scenarios**

urrent crisis in Ukraine can ore opportunities to invest in alian real economy, with a focus e energy transition, according o i. “We believe this crisis can further boost to the energy tion process in the medium ’ he says. “In fact, almost 50% of alian Recovery and Resilience investments are committed to een revolution, the ecological tion and the development of tructures for sustainable ity. Therefore, in the next ears the investment opportuni-

ties in these sectors will grow, both in listed and private markets.”

Prometeia Advisor also expects that Italian pension funds will define their targets for reducing portfolio emissions in the next few years, while currently almost none of them has this goal.

The transition towards a greener economy is a great opportunity for both the investors and all the companies involved in the process, according to Danilo Di Crescenzo, general manager of Fondenergia, the industry-wide pension fund for employees of the utility sector. The fund has 45,000 members and €2.9bn of AUM, and all its portfolio is managed with ESG criteria, mostly with mandates for investments that promote environmental or social characteristics, in line with article 8 of EU's ESG Disclosure Regulation.

“However, the transition must take place in a way that does not generate further shocks or malfunctions to the system that is already under pressure due to the war in Ukraine,” adds Di Crescenzo.

“Our ESG policy does not limit investment in companies, of which, among other things, our members could also be employees, but it introduces best-in-class selection criteria that improve the risk profile of the investment.” Fondenergia is setting up a system to monitor the overall effects of these new rules of engagement with its external managers.

The €1.4bn pension fund for employees of BNL/BNP Paribas, which has over 15,000 members, is the first Italian pension fund that has directly invested in funds that have sustainable investment as their goal, according to CIO Pierfranco di Muro. But it is not stopping there.

“In the first part of 2022, we identified four sustainability themes, focusing our attention on UCITS equity funds that are fully compliant with SFDR's articles 8 and 9, and that may also offer returns that are not guaranteed by other traditional sources,” says Di Muro. “The topics we selected are ecology, technology, value and commodities/industrial materials. Last May we invested in the ecology sector with three funds, Sycomore Fund Eco Solution, Vontobel Clean Technology, and

## Borsa Italiana's perspective

The adoption of ESG criteria is becoming mainstream among Italian pension funds, according to Alessandra Franzosi, head of buy-side Italy and ESG Investing at Borsa Italiana.

“A growing number of them are integrating ESG criteria into the investment process, from strategic asset allocation, to portfolio construction, engagement and voting. This is the result of new regulatory requirements, such as the Shareholders Rights Directive II, but even more importantly of the acknowledgement that sustainability must be considered by pension funds to fulfill fiduciary duties”, says Franzosi.

Borsa Italiana, part of the Euronext Group, has supported the growth of ESG awareness in Italy through a wide range of educational activities involving all of the Italian financial community, of which pension funds are

an integral part.

As a result, service providers are more frequently asked to demonstrate their ESG commitment at corporate level. “This is also relevant for stock exchanges, even if we are indirect service providers for pension funds and asset owners,” says Franzosi.

Engagement activities are also growing in Italy, as shown by the results of the Italian Sustainability Week, the yearly roadshow organised by Borsa Italiana, during which investors meet with Italian issuers to share ESG strategies and views.

In 2021, almost 200 institutional investors attended the conference, with more than 700 one-to-one meetings organised with Italian companies.

Italian pension funds attended both with direct meetings and as part of collective engagement

groups. The exchange is now working on the 2022 Edition, which will be held in September.

At the end of 2020, at the height of the COVID-19 pandemic, Borsa Italiana launched a new initiative named Sustainable Finance Partnership, aimed at gathering relevant Italian financial institutions with a mission of developing sustainable capital markets for Italy. The network has already reached 30 primary participants, actively promoting ESG culture and ESG product innovation.

“This multi-stakeholder experience is showing how vital it is and will be to put together a wide and diversified range of competences - also from the non-finance sector - to make sure that actual financial ESG momentum will produce what is really needed, which is real economy impact”,

Ninety One Global Environment. The next step will be investing in the technology sector.”

Since 2017, the BNL/BNP Paribas pension fund employed an ESG advisor, BNP Paribas Asset Management, which has a proprietary scoring system.

“We use the latter, in addition to ESG criteria, as a component of our sustainable investment approach including stewardship, thematic analysis, and the scoring on carbon foot-print reduction,” says Di Muro.

“The proprietary ESG scoring methodology covers more than 12,000 issuers and consists of four fundamental phases: ESG metrics and weight selection, rewarding companies for performance on the

most relevant ESG issues; peer comparison that gives relative scores on a sector basis, with an absolute component about carbon emissions and ESG disputes; a qualitative review based on information from the firm's sustainability centre; and a final ESG scoring that is divided into 10 deciles. We exclude from the investable universe the companies falling within the last three deciles.”

The BNL/BNP pension fund has outlined its strategy to its members with its ESG manifesto. In the second part of 2022 it will employ an external consultant to evaluate the results of its ESG policy over the past five years, compared with market standards.