

A NEW RESEARCH TO IDENTIFY KEY ISSUES AND PRACTICAL NEEDS OF INVESTORS INTERESTED IN INVESTING RESPONSIBLY

- EQUITA ANALYSED THE INCLUSION OF ESG FACTORS IN THE INVESTMENT STRATEGIES OF ASSET MANAGERS OPERATING IN ITALY, HIGHLIGHTING THE MAIN ISSUES THAT COME UP DURING THE DEFINITION OF SUCH STRATEGIES AS WELL AS THE AREAS OF POTENTIAL IMPROVEMENT

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Equita, the leading Italian independent investment bank, **published a new research shedding light on the needs of investors who are interested in investing responsibly, particularly in SMEs**. The aim is to provide the financial community with guidelines to improve the valuation process of companies, especially SMEs, and encourage the market to integrate sustainable investment strategies and risk management practices.

The research analysed how and to what extent asset managers operating in Italy are currently including ESG scores in their investment strategies, what are the key difficulties investment houses are encountering when defining these strategies and what they need to encourage wider and better use of ESG analyses.

The analysis was performed through a **survey submitted to about 30 asset managers representing the main investment houses operating in Italy**.

One of the key findings was **that the incorporation of sustainability factors in rating procedures is still far from being universally adopted** (24% of respondents do not take ESG criteria into consideration at all and 56% only to a limited extent). Only 20% of **investors surveyed have a dedicated, internal team that carry out due diligence on ESG criteria**; most investors (36%) use the ratings issued by ESG rating providers or do not use any specific analysis methodologies (44%). Finally, **the quality of ESG assessments carried out by rating providers is deemed inadequate** or barely sufficient by 80% of respondents.

The research also found out that **a large majority of investors would greatly appreciate if companies were to provide a brief, easily accessible, standardised summary report on ESG practices**. The interesting thing is that investors feel that this should be a requirement for both large and small caps. Remarkably, the need to provide a summary of ESG KPIs is felt more keenly for companies that already have an ESG rating (84% of respondents consider this to be fairly or very useful) than among those without it (76%). These responses highlighted the **importance to provide investors with essential and easily accessible information, not just to establish a preliminary ESG rating where this is lacking but also to corroborate and improve existing ones**.

Investors' answers showed that all three ESG pillars are deemed important. Social aspects – which are the most difficult to reflect accurately in ESG scores, as already highlighted by Equita and ALTIS (Università Cattolica's Graduate School of Business and Society in Milan) in their research published in September 2019 – receive a high degree of attention from investors, to a similar extent to environmental and governance factors.

Regarding the "Social" pillar, the key area of improvement is the identification of the most relevant KPIs, since many of the proposed areas of analysis (11 out of 12) are perceived as being important by at least 20% of investors. As for the "Governance" pillar, investors have a more homogeneous view of what the most important parameters to be monitored should be since only some of the proposed areas of analysis (4 out of 7) are deemed significant by at least 20% of respondents. About the "Environmental" pillar, in addition to the proposed KPIs, respondents suggested that carbon footprint or other emissions measurements should be also monitored.

A large majority of the investors interviewed would consider favourably the introduction of special guidelines on ESG reporting for small and medium-sized enterprises. This point reflects the need of market participants to avoid over-regulation while granting standardised output data and documents in order to make it easier for all stakeholders to use and access information.

Andrea Vismara, Chief Executive Officer of Equita, commented: “Our new research analysed how and to what extent asset managers operating in Italy are including ESG scores in their investment strategies. The key learning from this survey is that there is still a lot that must be done: the inclusion of sustainability factors is far from being universally adopted and only few asset managers have dedicated internal teams to assess corporate sustainability.”

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