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On behalf of the Public Affairs Executive (PAE) of the EUROPEAN PRIVATE EQUITY AND VENTURE CAPITAL INDUSTRY

Response to the European Commission Inception Impact Assessment on "Institutional investors' and asset managers' duties regarding sustainability"

Invest Europe supports the Commission's (EC) work to ensure that material sustainability factors are assessed, consistently taken into account and disclosed by institutional investors and asset managers. However, it is crucial that an accepted definition of "sustainability" (e.g. Brundtland report) is used and the scope captures *all* aspects of sustainability (climate change, environment, social & governance). We should be careful not to favour certain components over others, thus creating distortions and new forms of unsustainable finance. There also needs to be clarity on what is meant by the concept of "material" sustainability. We would assume that this encompasses material *business risks* (e.g. sustainable supply chain risks) as well as material *opportunities* (e.g. new or disruptive sustainability services or technologies). Even disruptive/beneficial technologies can present material sustainability risks/opportunities that need to be understood and managed.

We recognize the (fiduciary) duty of institutional investors and asset managers to incorporate sustainability factors in their investment decisions and monitoring as such factors may have a long-term impact on value creation and destruction and/or where beneficiaries on whose behalf the investor or manager is acting may have actively indicated that sustainability should be taken into account. It is important that sustainability is not only looked at in the context of non-financial factors: considering sustainability issues can be entirely consistent with the exercise of fiduciary duty.

However, it is up to asset managers and asset owners (the two groups are not the same) to decide *how* they do it given that they might have different (responsible) investment approaches, clients (retail & institutional) and beneficiaries, and operate under different (national) legislation. They should be (made) *transparent* about their approach towards their clients and other stakeholders.

Further thought should be given as to whether to pursue non-legislative or legislative action. Recognising that both options have merits, there are some issues that ought to be considered: 1) We believe that the EC's work could be valuable so long as it is permissive (i.e. it clarifies that *certain types* of asset managers *may* take account of sustainability considerations as part of their fiduciary duties) and provides guidance (perhaps pointing to evidence that sustainability issues are likely to have an impact on long-term value); 2) Actual legislation if, ultimately, required will need to be carefully thought through to ensure it is fit for purpose, practical and workable within a private equity (PE) context. Hence, we welcome the EC's systemic approach and objective to understand both the *individual* and *cumulative* effects of any potential policy options; 3) As these are still relatively early days in the integration of sustainability in fiduciary duty, a legislative approach risks hard-wiring solutions that might not ultimately be the best.

One single solution, disregarding the breadth/variety of practitioners, perspectives and market practices covered by the target audience, would not be appropriate. PE has a specific business model that makes it well suited to integrating and managing ESG matters (see the Professional Standards Handbook & other

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guidance in the Responsible Investment Bibliography). Especially in a broader context of a diversified portfolio, the EC should take account of the specific characteristics of different asset classes when potentially prescribing how to integrate sustainability in *pre-investment* and *post-investment* periods.

Asset managers (and the financial sector more generally) cannot be expected to deliver a sustainable economy on its own. If tax and regulatory policies better reflect the full social costs of certain activities, then it will be much easier for asset managers to allocate resources in a way that is sustainable but they need those signals to come from public policy.

Contact

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About the PAE

The Public Affairs Executive (PAE) consists of representatives from the venture capital, mid-market and large buyout parts of the private equity industry, as well as institutional investors and representatives of national private equity associations (NVCAs). The PAE represents the views of this industry in EU-level public affairs and aims to improve the understanding of its activities and its importance for the European economy.

About Invest Europe

Invest Europe is the association representing Europe's private equity, venture capital and infrastructure sectors, as well as their investors.

Our members take a long-term approach to investing in privately held companies, from start-ups to established firms. They inject not only capital but dynamism, innovation and expertise. This commitment helps deliver strong and sustainable growth, resulting in healthy returns for Europe's leading pension funds and insurers, to the benefit of the millions of European citizens who depend on them.

Invest Europe aims to make a constructive contribution to policy affecting private capital investment in Europe. We provide information to the public on our members' role in the economy. Our research provides the most authoritative source of data on trends and developments in our industry.

Invest Europe is the guardian of the industry's professional standards, demanding accountability, good governance and transparency from our members.

Invest Europe is a non-profit organisation with 25 employees in Brussels, Belgium.

For more information please visit www.investeurope.eu.