MANAGED FUNDS ASSOCIATION

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Sustainable Finance Unit
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Dear Sir or Madam,

AIMA and MFA Response to EU consultation on a renewed sustainable finance strategy

The Alternative Investment Management Association (AIMA)[1] and Managed Funds Association (MFA)[2] appreciate the opportunity to respond to the EU consultation on a renewed sustainable finance strategy.

AIMA and MFA have been actively engaging on the topic of sustainable finance with the European Commission and European policymakers to contribute to the development of an effective and impactful sustainable finance environment. Our engagement seeks to ensure that investors and market players have the necessary tools and data to fulfil their obligations and service their ultimate beneficiaries, and that any regulatory action takes into account asset managers' duty to manage their investors' assets consistent with their investors stated objectives .

1 AIMA, the Alternative Investment Management Association, is the global representative of the alternative investment industry, with around 2,000 corporate members in over 60 countries. AIMA's fund manager members collectively manage more than $2 trillion in assets. AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programmes and sound practice guides. AIMA works to raise media and public awareness of the value of the industry. AIMA set up the Alternative Credit Council (ACC) to help firms focused in the private credit and direct lending space. The ACC currently represents over 100 members that manage $400 billion of private credit assets globally. AIMA is committed to developing skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) – the first and only specialised educational standard for alternative investment specialists. AIMA is governed by its Council (Board of Directors). For further information, please visit AIMA's website, www.aima.org.

2 The Managed Funds Association (MFA) represents the global alternative investment industry and its investors by advocating for sound industry practices and public policies that foster efficient, transparent, and fair capital markets. MFA, based in Washington, DC, is an advocacy, education, and communications organization established to enable hedge fund and managed futures firms in the alternative investment industry to participate in public policy discourse, share best practices and learn from peers, and communicate the industry's contributions to the global economy. MFA members help pension plans, university endowments, charitable organizations, qualified individuals and other institutional investors to diversify their investments, manage risk, and generate attractive returns over time. MFA has cultivated a global membership and actively engages with regulators and policy makers in Asia, Europe, North and South America, and many other regions where MFA members are market participants.

We fully appreciate the impetus for public institutions to act in relation to environmental and social issues, and we would like to reiterate a few elements that we think ought to be considered by the European Commission when designing its future action plan.

Indeed, our members' clients (or investors) are increasingly focused on the ability of investment managers to invest sustainably. Our members' priorities are as follows:

- **An investor-determined approach**: Fund's investor demand for sustainable finance in the alternative investment management industry has grown significantly in recent years. The institutional investors which allocate to our members' funds frequently engage with fund managers to discuss their sustainability preferences or objectives, and this dialogue leads to thoughtful incorporation of ESG factors in the investment decision making process, including risk management. We are concerned by any regulatory attempt to amend the concept of fiduciary duty of a manager, regardless of the underlying preferences of its investors as this goes against a manager's primary duty to manage assets in a way which is consistent with the fund's investors' stated objectives. Rather, we would encourage public institutions to support investor-determined adoption and integration of ESG factors by improving access to reliable and comparable data, providing further practical guidance to market players, and protecting shareholders when they engage on sustainability-related topics with corporates. This explains our response to Question 91 of the European Commission's questionnaire.

- **Assess the outcome of the first sustainable finance action plan**: Our members are still assessing and working through the changes which will be required from the legislative acts that were adopted with the first sustainable finance action plan. The Sustainable Finance Disclosure Regulation's (SFDR) related secondary legislation is still in a consultation phase, while the Taxonomy Regulation, which itself amends the SFDR, has just been adopted. Concepts related to sustainability, scope and format of disclosure and requirements are not clear for most of market participants as well as for supervisory authorities. Any renewed sustainable finance action plan should take into account previously adopted legislation on the topic, ensure the sought outcomes have been reached, and support asset managers in their efforts to integrate sustainability considerations in their decision-making.

- **International cooperation**: We believe that it is very important for the EU that it seeks to coordinate with other financial centres to avoid an overly fragmented sustainable finance environment which would compromise its growth. For example, the US approach to ESG matters for investment managers[3] is radically different to the EU approach. This can result in operational or even legal risks for asset managers operating on a cross-border basis. We are making the same point to U.S. policymakers on the importance of an investor driven approach in a globally coordinated fashion.

- **Acknowledge and address the lack of reliable ESG data:** The lack of reliable and easily accessible data has already been mentioned in various consultations. Should any further ESG-related policy initiative be adopted for market participants, it should address this and provide flexibility to market

3 https://www.dol.gov/sites/dolgov/files/ebsa/temporary-postings/financial-factors-in-selecting-plan-investments-proposed-rule.pdf

participants when the data is not available. Policymakers should also be mindful of the timing and sequencing of the various regulations they put forward and ensure that data is available from the corporates before considering financial market participants to use/report/ disclose such data points. This explains our answer to question 18.

- **Take into account the heterogeneity of investment strategies:** Most of the regulations adopted in the first Sustainable Finance Action Plan are mainly designed for long-only strategies. Our members are involved in more sophisticated strategies, including those that use derivatives or short selling. We recommend that any further policy initiative be flexible and proportionate enough to accommodate our members' investment strategies.

We would be happy to elaborate further on any of the points raised in this response. For further information, please contact Marie-Adélaïde de Nicolay (madenicolay@aima.org) or Ben Allensworth, Managing Director and Counsel, Tax and Finance (ballensworth@managedfunds.org).

Yours faithfully,

/s/ Jiří Król	/s/ Michael Pedroni
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Alternative Investment Management Association	Managed Funds Association