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Socially responsible investment in Spain

Author:

Ariadna Salas Lasaga

Supervisor:

Ana Yetano Sánchez de Muniaín

FACULTY OF ECONOMICS AND BUSINESS

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Abstract

Socially Responsible Investments (SRI) are those investments focused on sustainable development, which go beyond financial results, and contribute to the improvement of the environment and society in general.

SRI has become increasingly popular in recent years all around the world, as more and more investors are looking for ways to align their financial interests with their personal values. The European Union has a well-established regulatory framework for SRI, which is backed by a number of programs and rewards intended to promote sustainable and socially conscious investment practices.

This report shows the SRI situation in Spain, as well as the native sustainable funds and the sustainable financial products offered by national banks.

Key Words: Socially Responsible Investments, ESG, Sustainable funds, profitability, SRI Strategies, sustainable development, Banks, sustainable financial products.

Resumen

Las Inversiones Socialmente Responsables (ISR) son aquellas inversiones centradas en el desarrollo sostenible, que van más allá de los resultados financieros y contribuyen a la mejora del medio ambiente y de la sociedad en general.

La ISR se ha hecho más popular en los últimos años en todo el mundo, ya que cada vez más inversores buscan formas de alinear sus intereses financieros con sus valores personales. La Unión Europea cuenta con un marco normativo bien establecido para la ISR, que está respaldado por una serie de programas y recompensas destinados a promover prácticas de inversión sostenibles y socialmente conscientes.

En este informe se va a estudiar la situación de la ISR en España, así como los fondos sostenibles autóctonos y los productos financieros sostenibles que ofrecen los bancos nacionales.

Palabras clave: Inversiones Socialmente Responsables, ESG, Fondos sostenibles, rentabilidad, Estrategias ISR, desarrollo sostenible, Bancos, productos financieros sostenibles.

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1. Introduction

In recent years, the concept of socially responsible investment (SRI) has grown significantly in the financial industry. It seeks to maximize economic and social benefits while diminishing negative impacts in the environment and society. In the early stages of SRI development, these investments were selected based on negative criteria, in other words, exclusion criteria were used based on moral values. The main industries that were excluded to select the investment portfolio were alcohol industry, pornography and gambling (OECD, 2020). This explains how the first responsible investment funds were born. Currently, not only exclusion criteria are used, but also the inclusion of exemplary companies, which can be considered a model to follow for their good practices in terms of financial management and in environmental and social issues. So, SRI has now a wider scope than only moral principles, including risk management and corporate social responsibility.

In the past, when an individual or organization made the decision to invest years ago, profitability was undoubtedly the main consideration for most of them. This has undergone an incredible evolution, as it will be shown in this work. Nowadays, awareness of global environmental and social issues is increasing. Investors are concerned about the impact of their investments on the environment and society. Moreover, this change in investors decisions has been for its growing interest in long-term results. As some of them are concerned about the current situation related to climate change, natural resources management and global warming, they recognize that investing in sustainable companies can be beneficial in the long term. Scandalous due to the lack of transparency and ethics by some big businesses is also motivating this growth. The growth of SRI regulation is also pressing companies to meet environmental and social standards, for that reason, they are adopting responsible practices. In addition, more and more SRI products and investments are being offered.

Both in Spain and internationally, SRI is being implemented through collective investment instruments and pension and investment funds. For a fund to be considered responsible, it should include environmental, social and corporate governance criteria. It is going to be analyzed if it is preferred the profitability to the sustainability at the time

investors chose an investment. Furthermore, Spanish banks are going to be analyzed in both terms of profitability and sustainability.

2. What is SRI? Definition and origins

2.1 Definition

Socially responsible investment (SRI) is a strategy that considers not only the financial returns from an investment but also its impact on environmental, ethical or social change and impact (CFI, 2020). In fact, the goal of SRI is to encourage positive change and contribute to a more sustainable and fair society while achieving financial returns for investors.

This may include avoiding investments in companies that engage in harmful activities, such as tobacco, gambling, or weapons manufacturing, and instead investing in companies that promote sustainability, human rights, or diversity and inclusion.

For the identification and selection of socially responsible investments, it is very common to use the ESG criteria, which take into account environmental, social and corporate governance factors (Deloitte, 2021).

- Environmental factors: this includes all business activities that have a positive impact on the environment. Environmental factors deal with issues such as climate change, carbon footprint, the use of clean and renewable energy, global warming, a rising sea level, etc.
- Social factors: are all those activities related to Human Rights, and the working conditions of workers, related to health and safety of human capital and it also takes into consideration the stakeholders.
- Corporate governance factors: refer to all practices of good governance and business ethics. It entails weighing the interests of a company's stakeholders. It can be evaluated by assessing different areas of a company such as contractual and social obligations, risk management, executive compensation structure, disclosure practices and complaints received from shareholders and how they are addressed among others.

Although the terms SRI and ESG are used interchangeably, they refer to two separate practices. SRI goes one step beyond ESG, actively screening out or selecting investments according to specific ethical and moral background requirements, while ESG is still primarily an exercise with economic benefit objectives. However, SRI uses the ESG factors to select or discard assets from an investment portfolio.

2.2 Origins

Sustainable investment funds started with ethical codes and religious beliefs. Thus, it was the Muslims, Quakers, and Methodists who set the parameters on investment portfolios (Morningstar, 2020). Muslims have utilized this technique to create investments that adhere to Shariah, the Islamic law that forbids the use of weapons, gambling, prostitution, alcohol consumption and extremely risky investments among others. Similarly, the earliest ethical unit trusts were established by Methodists and Quakers in the United States and the United Kingdom. They created investment vehicles employing negative screening and avoiding companies that dealt in alcohol, cigarettes, and gambling.

As pioneers of socially responsible investing, activism grew during the 1970s in opposition to American involvement in the Vietnam War, notably with regard to the deployment of chemical weapons. Shareholders organize letters and resolutions against the use of Agent Orange and Napalm. The anti-war movement supported practices of sustainable investing, sometimes known as socially responsible investing, which was still based on exclusionary ideas. The first sustainable mutual funds were established as a result of public sentiment. The first sustainable fund was founded in 1917 in the United States by two United Methodist ministers, Luther Tyson and Jack Corbett, who sought to avoid investing in companies that contributed to the Vietnam War (Morningstar, 2020). Thus, they aimed to align their values with their investments so that companies would also adhere to the basic typology of social responsibility.

Global discourse began to be influenced as strong voices for responsible corporate practices spoke up. It has evolved and nowadays, more companies are actively choosing to pursue sustainable practices related to ESG issues.

3. The current SRI situation in Europe and its regulation

3.1 SRI evolution

SRI investments have increased considerably over the past ten years in both retail and institutional markets. Society is increasingly aware of the importance of caring for the planet and people. Not only these types of investments provide investors with a more stable return over time but also, they are sustainable with the environment and society in general.

The United Nations has developed a framework known as PRI, or Principles for Responsible Investment to encourage investors to make more responsible investment decisions, by promoting the incorporation of environmental, social, and corporate governance (ESG) factors into investment decision-making.

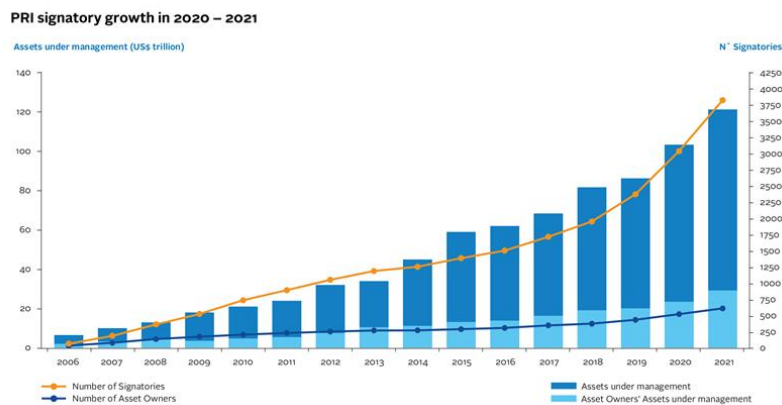


Figure 1. PRI assets under management signatory growth. Source: PRI¹

This growth, shown in Figure 1, is also contributing to the pressure on companies to improve their policies, management systems and reporting on a range of ESG issues.

Although SRI and ESG investing have taken off in the last 20 years, it is especially important for millennial investors. In a study carried out by Deloitte, it was stated that millennials could control up to \$24 trillion in assets by 2020. It is known that they have a strong interest in SRI and ESG investing. In fact, a Bloomberg report shows that more

¹ <https://www.unpri.org/annual-report-2021/how-we-work/building-our-effectiveness/enhance-our-global-footprint#:~:text=The%20collective%20AUM%20represented%20by,as%20of%2031%20March%202020>

than 80% of millennials are interested in these types of investment strategies, with no end in sight (see Figure 2).

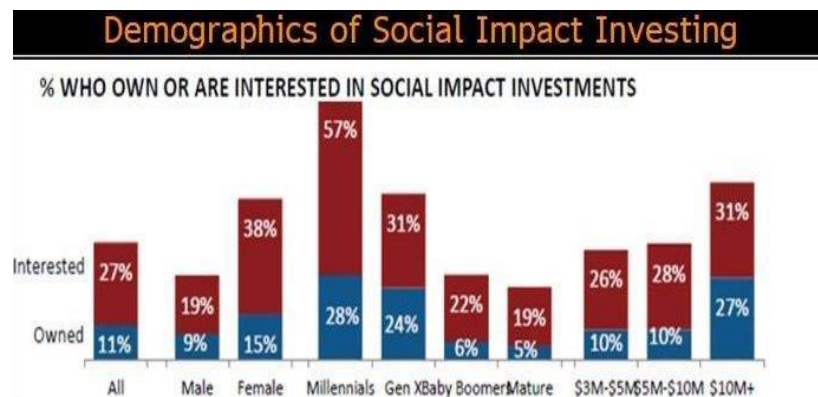


Figure 2. Demographics of Social Impact Investing. Source: Bloomberg²

3.2 SRI strategies

SRI investment is usually classified in seven different strategies (Eurosif, 2021). To start with, **Best in class (1)**, is a method where the most successful or top-performing investments within a universe, category or class are chosen or weighted according to ESG criteria. **Engagement & voting (2)**, engagement activities and active ownership through voting of shares and interaction with corporations on ESG matters. **ESG integration (3)**, asset managers' explicit consideration of ESG possibilities and risks in traditional financial analysis and investment decisions. **Exclusions (4)**, it excludes certain investments, such as businesses, sectors, or countries, from the investible universe. **Impact investing (5)** consider investments made in businesses, organizations, and funds with the goal of producing both a financial return and positive social and environmental impact. **Norms based screening (6)**, with this strategy, assets are screened using a combination of international rules that address ESG issues, those norms are established by international bodies such as the United Nations. **Sustainability themed (7)**, investing in ideas or things related to the growth of sustainability. It targets themes such as climate change, water, human rights or gender lens investing.

There are two essentials for SRI investors. On the one hand, they cannot do without at least some form of ESG integration which was the fastest growing strategy in 2018. On

² <https://www.bloomberg.com/professional/blog/sustainable-investing-growing-pension-demand-millennials/>

the other hand, as can be seen in Figure 3, strong Engagement and Voting results highlight a tendency toward more active management. In addition, it is growing getting near to Exclusions, which has a negative CAGR (Compound Annual Growth Rate, it expresses the growth of a given indicator with respect to the levels of previous years) of 3%. However, the highest decrease is experimented in Norms-Based Screening. Furthermore, Sustainability themed investments and Impact investing remains stable with a modest growth. Best-in-Class is almost following the same trend as previous years.

Despite Impact Investing's modest growth, the upward trend indicates that investors are becoming more conscious of their potential and motivated to make a difference by selecting particular investment classes. The majority of investors that use this strategy do so because they believe it to be an excellent SRI strategy that will deliver results that are consistent with expectations.

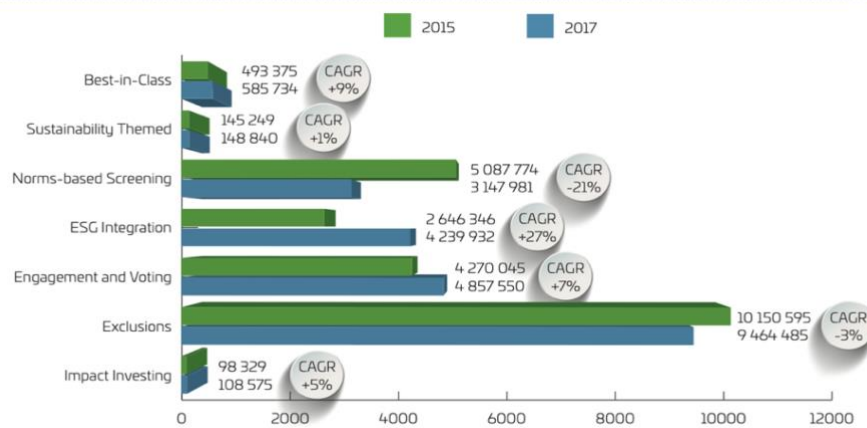


Figure 3. SRI strategies in Europe. Source: Eurosif. Overview of SRI strategies in Europe³

3.3 SRI regulation

The European Union has issued regulation for SRI. The SFDR Disclosure Regulation, Reg. UE 2019/2088 (Sustainable Finance Disclosure Regulation) affects all the countries of the euro zone in the same way and allows financial assets to be regulated in terms of sustainability by analysing the ESG criteria. It came into effect in March 2021 and it requires financial market participants and advisers to disclose how sustainability risks are integrated into their investment decision-making processes.

³ <https://www.eurosif.org/wp-content/uploads/2021/10/European-SRI-2018-Study.pdf>

According to this regulation, investment assets can be classified into 3 categories based on articles 6, 8 and 9 of the SFDR Regulation (Finect, 2021). In this way, the assets that are not considered sustainable since they do not integrate ESG risks are “article 6”, and the article says: “without sustainability objectives”. The investment products "article 8" are those that, although they do not have specific sustainable objectives, do integrate the ESG criteria "promote social and environmental initiatives together with the traditional results objectives". Lastly, the investment products that have clear sustainability objectives are the so-called “article 9” and that, as the regulation says, “with explicit sustainability objectives”.

Reg UE 2020/852 is a framework established to facilitate sustainable investment and amending Regulation (EU) 2019/2088. Its main objective is to inform investors if an economic activity is sustainable by establishing criteria common to the entire European Union. It has been in force since July 12, 2020.

It has six main objectives which are climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control and the protection and restoration of biodiversity and ecosystems.

Reg UE 2022/1288 of 6 April 2022 supplements Regulation 2019/2088 in terms of regulatory technical standards, defining the content and presentation requirements for information related to the “no significant harm” principle and defining the content and methods for information related to sustainability and negative sustainability impacts.

All in all, each EU country is allowed to implement their own regulations only if they are consistent with this EU regulation.

3.4 A closer look to the Spanish SRI situation

3.4.1 SRI growth

Spanish SRI situation is going to be analysed, for that its growth, the different SRI strategies, SRI standards, its governance guidance appliance, its funds classification, the personal devoted to SRI in businesses and its taxonomy are going to be considered.

According to a study carried out by Spainsif last year 2022, sustainable investment in Spain grew by 10% and amounted to 379,618 million euros in 2021, reaching a new

record. This study consists on a survey with 47 responses (26 from domestic institutions and 21 from international institutions) based on the Eurosif methodology. The participants in the study amounted to a total of 485,809 million euros. On the one hand, 317,350 were managed by domestic institutions, this represented 67% of the domestic market and on the other hand, 168,460 were managed by international institutions, representing 62% of this market in Spain in 2021.

According to the data analysed, of the total volume of sustainable investment, 234,896 million euros corresponded to national entities and 144,721 million euros to assets of international organisations marketed in Spain. In Figure 4, we can see how investments with ESG criteria in Spain have experienced notable growth in recent years. Until 2017 only national entities were taken into account, from 2018 onwards international companies were incorporated into the study.

Total ESG assets under management in Spain increased by 10% (Figure 4). Differentiating by origin of the entities, domestic ESG assets increased by 3% compared to the previous year, while international assets increased by 24% (Figure 5).

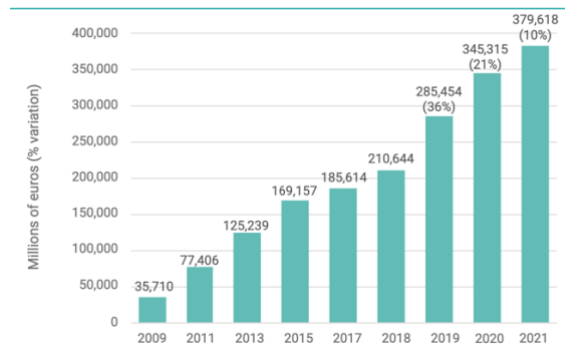


Figure 4. Evolution of assets managed according to ESG criteria in Spain

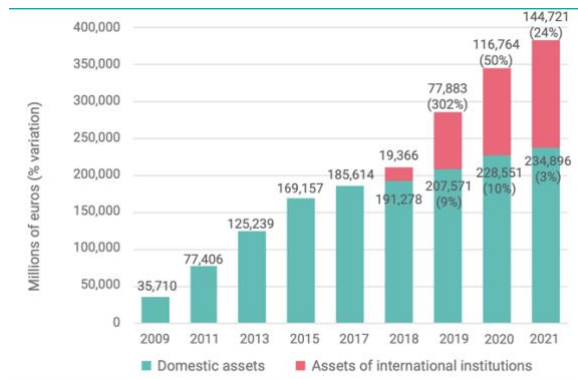


Figure 5. Evolution of assets managed under ESG criteria according to the origin of the institutions

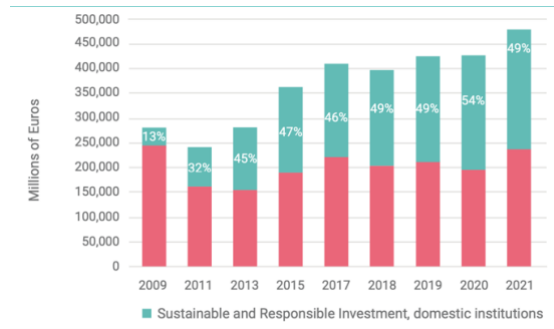


Figure 6. Evolution of comparison between assets with ESG criteria and total assets in Spain

Source: Spainsif, “Sustainable and Responsible Investment in Spain 2022”⁴

Currently, sustainable investment in Spain accounts for approximately 50% of investments in the country, and from what we can see by looking at Figure 6, it is to be expected that the weight of ESG investments will be considerably higher than the rest of the Spanish investments in the following years.

3.4.2 SRI strategies

Considering the strategies, see Figure 7, ESG integration and engagement and voting are the highest ones. It has been done following the methodology established by Eurosif, in other words, in the case of multi-strategies for the same asset, the volume is allocated to the one considered to be the most complex. As simple strategies we have exclusions or norm-based screening, while as complex ones, ESG integration and impact investments.

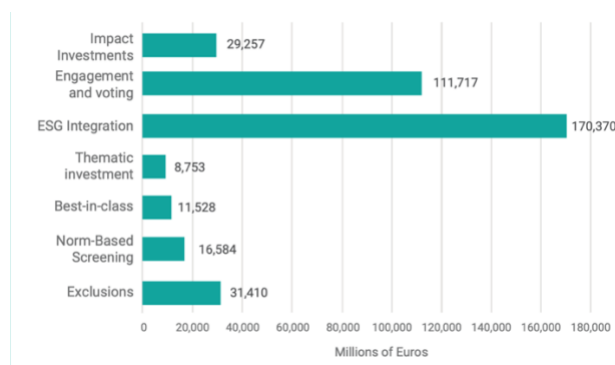


Figure 7. Breakdown of ESG Assets by strategy. Source: Spainsif, “Sustainable and Responsible Investment in Spain 2022”⁵

⁴ <https://www.spainsif.es/wp-content/uploads/2022/10/Estudio-de-mercado-Spainsif-2022.pdf>

⁵ <https://www.spainsif.es/wp-content/uploads/2022/10/Estudio-de-mercado-Spainsif-2022.pdf>

As last year ESG integration emerges as the most used strategy, representing a 45% of the assets. It means the application of environmental, social and good governance criteria to the profitability and risk analysis portfolios. It is considered one of the most complex strategies and has become especially important after the European regulations that promote the integration of ESG aspects in investment decisions came into force.

The second most important one is engagement and voting. It shows the greatest change with respect to previous years. It is considered one of the most complex strategies and this growth is due to the growth of the strategy at domestic institutions, becoming similar to international institutions regarding the level of assets managed with more sophisticated strategies.

According to exclusions, it represents 31,410 million euros in 2021 as a unique strategy. Despite this, it is one of the most widespread strategies within organisations (based on formal policy). Due to the methodology applied, its magnitude is not very significant as a single strategy.

The one that reaches the lowest amount is thematic investment. It means assigning assets to a specific sector such as renewable energy, sustainable mobility, energy efficiency and water management.

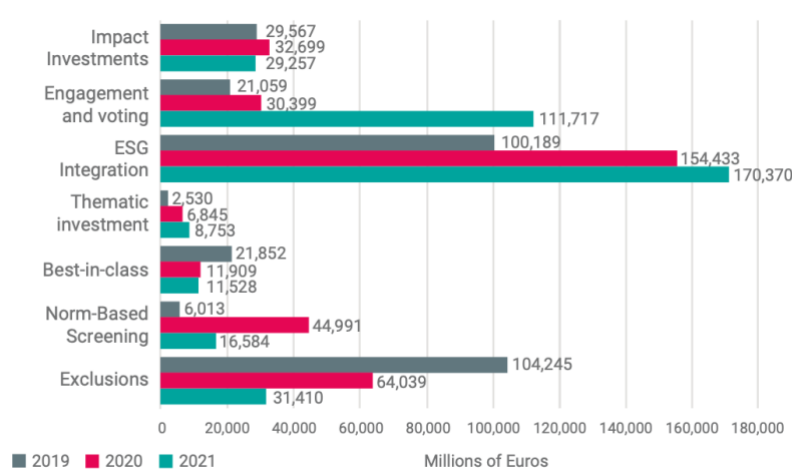


Figure 8. Evolution of the distribution of ESG Assets by strategy.⁶ Source: Spainsif, “Sustainable and Responsible Investment in Spain 2022”

⁶ <https://www.spainsif.es/wp-content/uploads/2022/10/Estudio-de-mercado-Spainsif-2022.pdf>

In Figure 8, it can be observed that the majority of the strategies follow the same trend as last year, however, there is a decrease in assets managed under the simplest strategies, such as exclusions, norm-based screening and best-in-class. This can be explained due to the mitigation towards more sophisticated strategies. At the same time, an increase in engagement and voting and ESG integration can be observed.

The norm-based screening decrease is due to the combination of this strategy with more sophisticated ones, rather than for the cease of the strategy. In fact, the strategy is more widespread, but as it occurs with exclusion and other less developed strategies, they are given less weight when used as the only strategy.

The growth of the engagement and voting strategy can be explained by the contribution of domestic institutions, still there is still a lack of sophistication in their engagement and voting policies, although they are converging with international institutions.

Table 1 shows the number of strategies that the entities surveyed use. As can be seen in domestic entities (first two rows) the number of strategies used is widely distributed, although the highest percentage corresponds to the use of 6 strategies, compared to the international ones (last two rows) which in almost all of the cases use 6 or more.

	Number of strategies used							
	1	2	3	4	5	6	7	8
2020 D	5%	15%	15%	20%	15%	15%	10%	5%
2021 D	4%	8%	19%	4%	19%	27%	15%	4%
2020 I	0%	6%	0%	6%	0%	6%	25%	56%
2021 I	0%	0%	6%	0%	0%	22%	7%	39%

Table 1. Distribution of surveyed domestic and international institutions by the number of strategies used at its organisation. Source: Spainsif, based on data received from the surveys.⁷

⁷ <https://www.spainsif.es/wp-content/uploads/2022/10/Estudio-de-mercado-Spainsif-2022.pdf>

3.4.3 SRI Standards

According to SRI standards, 53% stated that they adhere to some SRI standard. In this respect, there are significant differences between national and international institutions, with 27% of the former and 86% of the latter.

Table 2 shows that, even if institutions are using at least one standard, the usage of those standards has decreased from 2020 to 2021 in almost all instances, as is the situation with the Eurosif Transparency Code. The fact that domestic institutions only outperform international ones in their employment of the Luxflag Label also makes it apparent that the international institutions typically make more use of these standards.

	2020			2021		
	Total	Domestic	International	Total	Domestic	International
Eurosif Transparency Code	50%	0%	71%	36%	0%	43%
FNG Label	35%	0%	50%	32%	0%	38%
ISR Label - a Label of France	65%	33%	79%	64%	29%	67%
French climate label	0%	0%	0%	0%	0%	0%
Luxflag Label	40%	67%	29%	44%	57%	33%
Austrian Label	15%	0%	21%	12%	0%	14%
TEEC Label	20%	0%	29%	12%	0%	14%
AENOR	10%	33%	0%	0%	0%	0%
Others	40%	17%	50%	40%	15%	71%

Table 2. Percentage of institutions that declare having an SRI standard, by type. Source: Spainsif, based on data received from the surveys.⁸

In addition to applying their own governance guidelines, asset owners and managers often follow governance guidelines to guide their ESG activities. In this regard, 68% of organizations comply with the Principles for Responsible Investment (PRI) and 40% with the Task Force on Climate-related Financial Disclosures (TCFD).

⁸ <https://www.spainsif.es/wp-content/uploads/2022/10/Estudio-de-mercado-Spainsif-2022.pdf>

3.4.4 Types of investment

Some SFDR questions were asked and the results were that domestic institutions have a total of 1,403 funds declared within the SFDR framework, with 80% of those funds corresponding to Article 6 (without sustainability objectives), 15% to Article 8 (integrate ESG criteria but they don't have specific sustainability objectives) and 5% to Article 9 (they have clear sustainability objectives). In turn, the international institutions report a total of 4,224 funds, with 50% corresponding to Article 6, 43% to Article 8 and the remaining 7% to Article 9. According to the percentages related to article 6 have decreased from 2020 to 2021, while the ones from articles 8 and 9 have increased.

Figure 9 shows the evolution over the last four years regarding ESG assets by type of investment.

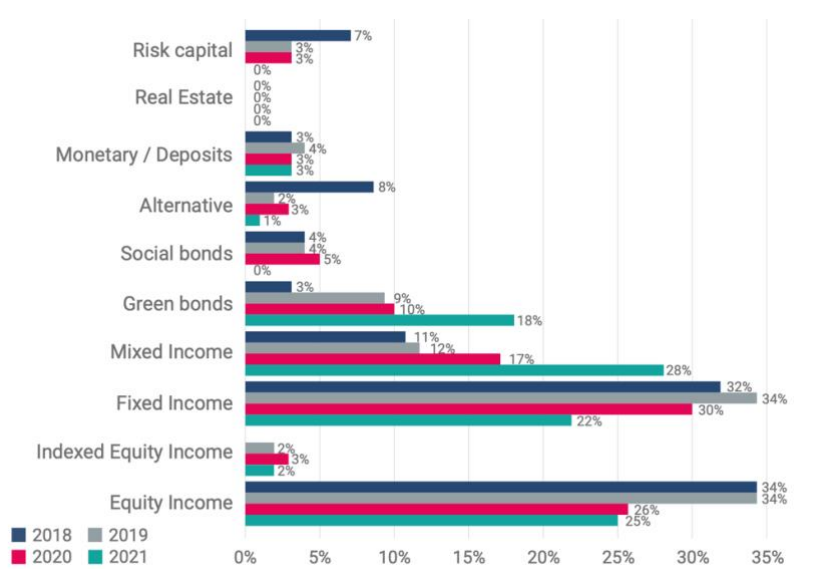


Figure 9. Evolution of assets managed according to ESG criteria, by type of investment (the data for indexed equity income was not compiled in 2018). Source: Spainsif, based on data received from the surveys.⁹

It can be seen that mixed income is the most important one representing a 28%, followed by equity income being a 25% and fixed income, 22%. Compared to previous years, the share of mixed income is increasing and just the opposite happens for fixed and equity

⁹ <https://www.spainsif.es/wp-content/uploads/2022/10/Estudio-de-mercado-Spainsif-2022.pdf>

income. In the last period, there was a big jump in the proportion of assets represented by green bonds, which was also associated with an increase in mixed income.

3.4.5 Personnel devoted to SRI

It is important to analyze the personnel devoted in SRI, as SRI can improve employee satisfaction, attract investors, it can have a significant impact on the environment and society and contribute to long-term profitability. It also shows the relevance given by financial institutions to SRI.

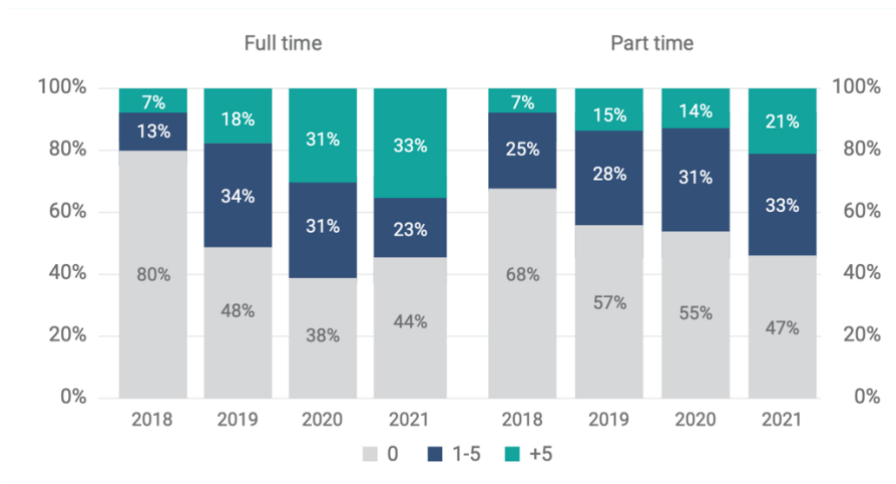


Figure 10. Evolution of personnel engaged in ESG analysis. Source: Spainsif, based on data received from the surveys.¹⁰

The weight of teams involved in ESG analysis (full-time or part-time) has increased, although this last year there was an increase in the number of ESG teams without any people full time, the overall trend for the period analyzed is upward (see Figure 10). However, the increase in staff from previous years seems to have slowed down.

This increase has also been reflected by the increase in the amount of information collected in-house, which has gone from 19% in 2020 to 31% in 2021. According to the information collected in-house by the ESG team has decreased from 23% to 12% with respect last year.

All in all, ESG ratings agencies are the main source of ESG information, representing 41% for all institutions.

¹⁰ <https://www.spainsif.es/wp-content/uploads/2022/10/Estudio-de-mercado-Spainsif-2022.pdf>

3.4.6 Sustainable Finance Action Plan

Regarding the Sustainable Finance Action Plan, looking at Figure 11, Taxonomy is perceived as the main key driver, followed by investor disclosure and duties and the integration of sustainability into risk management. Furthermore, as it can be seen in Figure 12, respondents continue to identify legislation as the main driver for the development of SRI in the coming years.

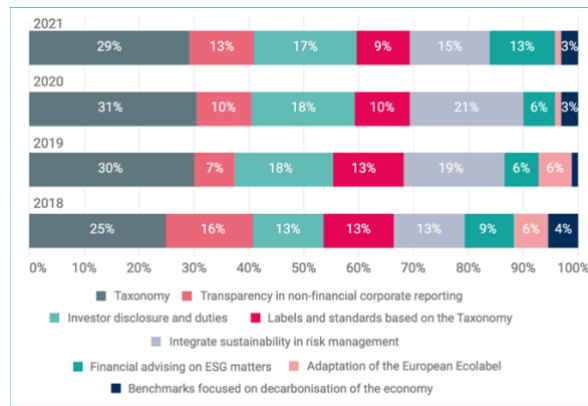


Figure 11. Evolution of key actions of the Sustainable Finance Action Plan. Source: Spainsif, based on data received from the surveys. ¹¹

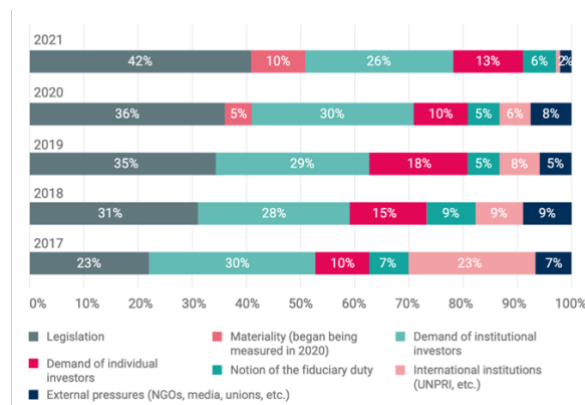


Figure 12. Evolution of key development factors of the SRI market in upcoming years. Source: Spainsif, based on data received from the surveys. ¹²

The majority believe that the legislation that will have the biggest effect on including ESG aspects in its decision-making is SFDR followed by the Environmental Taxonomy and CSRD. The least important one is the Long-term Shareholder Engagement Directive.

¹¹ <https://www.spainsif.es/wp-content/uploads/2022/10/Estudio-de-mercado-Spainsif-2022.pdf>

¹² <https://www.spainsif.es/wp-content/uploads/2022/10/Estudio-de-mercado-Spainsif-2022.pdf>

4. Analysis of Spanish funds and banks

In the following sections, the analysis will cover firstly, Spanish funds, for doing so four out of the six best ESG funds in 2022 have been analyzed. In order to analyze them, Morningstar has been used, both individual characteristics of each fund and a comparator to analyze the four of them has been used. Secondly, an analysis of Spanish banks considering those with the highest profitability in the European Union in 2022. BBVA, Santander and Bankinter have been chosen as they have high profitability together with high sustainability ratings.

4.1 SRI Spanish funds

During 2022 only 6 funds out of the 145 light green and dark green products, managed by national firms, have accumulated positive returns (Table 3).

Name	Manager	SFDR classification	Assets (in million €)	Rent (%) 2022	Rent (%) 6M	Rent (%) 3M	Rent (%) 1M	Rent (%) 3 years
ALCALA MULTIGESTION/GARP-ESFERA II-ALLROAD	Gesalcalá	Article 8	47,84	71,83%	22,13%	9,52%	7,66%	
CAIXABANK MULTISALUD-ESTAND	Andbank WM	Article 8	0,85	38,35%	11,09%	2,55%	3,33%	-21,39%
MFONDO TRANSICION ENERG-L EU	CaixaBank AM	Article 8	901,49	4,06%	5,10%	1,89%	-1,75%	46,19%
MAGALLANES EUROPEAN EQTY-E	Mutuactivos SA SGIIC	Article 8	47,1	3,24%	10,11%	17,70%	-2,44%	
GEST BOUTQUE III-NEO ACTIVA	Magallanes	Article 8	789,49	3,03%	6,19%	0,60%	-2,44%	31,07%
	Andbank WM	Article 8	5,39	1,35%	-0,99%	-0,47%	0,62%	-31,63%

Table 3. Best ESG funds in 2022 Spain. Source: Bloomberg and Social Investors 2022 ¹³

If we consider the largest Spanish fund managers by assets, only Caixabank has managed successfully to place one of its products on this list. Looking at Table 3, it is the best medium-term performer in the group, with a three-year return of over 40%. It is at the same time the one with highest equity, being almost 1000 million euros. Magallanes European Equities is the other fund that has a considerable equity. As the Caixa Bank Fund, its profitability is better in the medium-term and not relevant during this year.

The two-best performing Spanish products in 2022 are Alcalá Multigestión Garp and Esfera II-Allroad. Both are mixed income funds (Table 3).

¹³ <https://www.finanzas.com/esg/industria/los-fondos-esg-espanoles-que-capean-la-tempestad/>

What can be seen is that the Spanish funds that are doing best this year are the ones small in size and managed by boutique firms.

The two-best rated funds in terms of medium-term profitability and the two best rated funds based on this year returns are going to be analyzed based on Table 3. To do that Morning Star has been used (Figures 13 to 20).



Figure 13. Alcala Multigestion Garp



Figure 14. Caixa Bank Multisalud fund



Figure 15. Magallanes European Equity E



Figure 16. Esfera-II-Allroad



Figure 17. Alcala Multigestion Garp



Figure 18. Caixa Bank Multisalud Fund



Figure 19. Magallanes European Equity E



Figure 20. Esfera-II-Allroad

The index “Rating Morningstar” (see Table 4) measures the risk-adjusted performance of a given fund relative to its category. For this purpose, the rating agency uses performance data for the last 3 years. The top 10% of funds receive five stars, the next 22.5% receive four stars, the next 35% receive three stars, 22.5% receive two stars and the last 10% receive one star.

	Caixabank Multisalud	Alcalá Multigestión Garp	Magallanes European Equity E	Allroad
Morningstar rating	3 stars	5 stars	5 stars	1 star
Start date	7-Aug-98	30-Jul-19	9-Jan-15	17-Marz-17
Analyst rating	-	-	Silver	-
Category	RV Health sector	Flexible mixed EUR-Global	RV Europe Cap. Flexible	Flexible mixed EUR-Global
Running costs	1,89	2,37	0,56	1,76
Morningstar risk	Medium	High	Average	Average
Morningstar profitability	Medium	High	High	Low

Table 4. Funds comparison Source: MorningStar (2023)¹⁴ (own elaboration using Morningstar data)

Alcala fund has been the one with the highest profitability this year, however, looking at statistics, it has the worst sustainability rating (Figures 13 and 17), as the higher the values the higher the risk.

So, this led us to see that the best fund has a low ESG score, in other words, profitability is prioritized over ESG criteria. Magallanes is the one with the best sustainability rating among the ones analyzed (Figure 15), also considering its low carbon footprint (Figure 19).

Spain has 70 billion assets under management following ESG standards. However, 244 billion in assets are managed by the funds that do not include responsible investment. So, ESG reaches 22% of the fund market, having only products from Caixabank AM and BBVA AM with more than 2 billion in responsible assets (Figure 21).

¹⁴<https://www.morningstar.es/es/compare/investment.aspx?idType=msid&securityIds=F0GBR04QAD%7CF000013Z05%7CF00000V7MS%7CF00000YPJ8>

Considering Spanish mega-funds (Figure 21), products with more than 2 billion euros of assets under management, we only find these six funds:

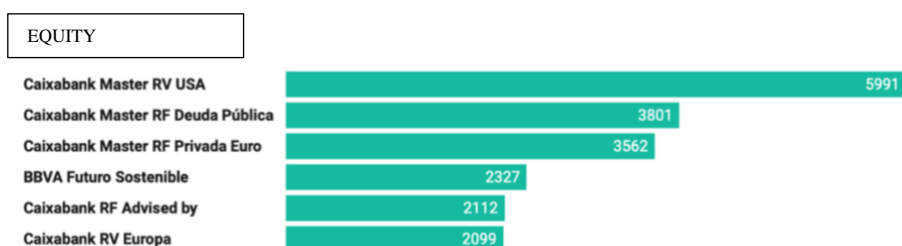


Figure 21. Spanish mega-funds. Source: VDOS¹⁵ (figures are in millions)

Table 5 compares the mega-fund, Caixabank Master RV USA with Caixabank multisalud fund, the one which obtained profits in 2022.

	YTD	2022	2021	2020
Fund	2,17%	-13,64%	33,09%	14,80%
Index	1,52%	-13,83%	33,41%	10,85%

Table 5. Caixabank Master RV USA profitability¹⁶ (own elaboration through legal information from the background of the website)

YTD shows a fund's returns from the first trading day of the year through the most recently ended trading day.

The 2022 results (see Table 5) are due to COVID tightening policies, Ukraine war rising inflation and the Fed's consequent tightening of liquidity which has led to a repricing of equity multiples and fears of a recession.

	YTD	2022	2021	2020	2019	2018
Fund	-2,65	3,13%	27,58%	-2,73%	20,45%	-2,87%
Index	-4,09%	0,79%	28,63%	4,23%	25,89%	7,34%

Table 6. Caixabank multisalud fund profitability.¹⁷ (own elaboration through legal information from the background of the website)

¹⁵ <https://www.finanzas.com/esg/industria/el-club-de-los-megafondos-esg-espanoles/>

¹⁶ https://www.caixabankassetmanagement.com/sites/default/files/informacion-legal/20230322_FCD_90643_CAIXABANK_MASTER_RENTA_VARIABLE_USA_ADVISED_BY_FI_CAS.pdf

¹⁷ https://www.caixabankassetmanagement.com/sites/default/files/informacion-legal/20230331_FCM_00806_CAIXABANK_MULTISALUD_FI_Clase_Estandar_CAS.pdf

Indicator	Portfolio	Coverage	Benchmark	Coverage
ESG Quality score	7,45	100%	7,38	90%
Exposure to sustainable impact solutions	16,37	100%	12,24	100%

Table 7. Caixabank Master RV USA Source: Caixabank¹⁸. (own elaboration through legal information from the background of the website)

Indicator	Portfolio	Coverage	Benchmark	Coverage
ESG Quality score	6,63	100%	5,79	99,91%
Human Capital Development	6,03	100%	5,59	99,46%

Table 8. Caixabank Multisalud fund Source: Caixabank¹⁹. (own elaboration through legal information from the background of the website)

	Caixabank Multisalud Standard	Caixabank Master RV USA
Morningstar rating	3 stars	5 stars
Start date	7-Aug-98	7-Jun-19
Category	RV Health Sector	RV USA Cap. Big Blend
Current expenses	1,89	0,53
Morningstar risk	Medium	Average
Morningstar profitability	Medium	High

Table 9. Two funds comparison²⁰ (own elaboration using Morningstar data)

Looking at Tables 5 to 9, Caixabank Master RV USA sustainability score is better than the Caixa Bank Multisalud Fund. Even though Multisalud obtained profit in 2022 (Table 6) not as Caixa Bank Master RV USA (Table 5) did, the latter one is more sustainable. So, this reinforces the idea that profitability is prioritized over sustainability.

¹⁸https://www.caixabankassetmanagement.com/sites/default/files/informacion-legal/ISS_0090643_CAIXABANK-MASTER-RENTA-VARIABLE-USA-ADVISED-BY-FI_CAS.pdf

¹⁹https://www.caixabankassetmanagement.com/sites/default/files/informacion-legal/ISS_0000806_CAIXABANK-MULTISALUD-FI-CLASE-ESTANDAR_CAS.pdf

²⁰<https://www.morningstar.es/es/compare/investment.aspx?#?idType=msid&securityIds=F0GBR04QAD%7CF000013QIO>

4.2 SRI Spanish banks

BBVA and Santander have recorded the highest profitability among large banks in the European Union in 2022 (Figure 22). BBVA is at the top with a return on tangible equity of 15.3%, followed by Santander with 13.4%. Outperforming other European banks such as Commerzbank, ING or the Deutsche Bank. In absolute terms, Santander was the bank that recorded the largest gains.



Figure 22. EU Banks with highest profitability 2022 Source: El País²¹

The return on tangible equity (ROTE) ratio is calculated by dividing the net profit obtained by the company in relation to its own funds but excluding intangible elements such as goodwill, as well as debt issues convertible into shares and preference shares. It helps analysts to measure the profitability of a company.

At the end of the first 2022 semester, BBVA ROTE amounted to 15.9%, a figure not seen since June 2013. Its goal is to obtain a ROTE of 14% at the end of 2024 and although it can change a lot, it is currently well above it. Santander closed that semester with 14.21%, this bank didn't register this figure since September 2011. One of the objectives for this bank was to achieve 13% in 2022, and by looking at the percentages of the end of 2022 it has managed it.

²¹ <https://cincodias.elpais.com/companias/2023-02-27/bbva-y-santander-logran-la-rentabilidad-mas-alta-de-la-ue-en-medio-de-las-criticas-al-impuesto.html>

The Dow Jones Sustainability Index has become a global standard and serve as a benchmark for sustainable investments taking into account corporate environmental, social and governance performance.

4.2.1 BBVA

In December 2022 BBVA obtained the highest score in the European banks' category for the third consecutive year, and the second highest score globally in the latest Dow Jones Sustainability Index - the benchmark global reference for sustainability.

This bank achieved a score of 86 points out of 100. It has scored 89 points in the economic and corporate governance dimension, 74 in the environmental and 88 in the social one. In other areas such as financial inclusion, environmental and social materiality, tax strategy, crime prevention and human rights has achieved the highest score (100 points).

BBVA's ESG score from November 2021, was updated in January 2022. They had 88 points in the overall index ranking and finally achieved 89 points. This led them to become the world's most sustainable bank. This was the first time that BBVA reached the highest position in the international benchmark ranking, after being the second in the world and the first in Europe in the last two years.

In addition, this bank was included in the Gold Class according to the bank industry in The Sustainability Yearbook 2022 by S&P Global. It is also listed on the Bloomberg Gender Equality Index and received a "B" rating in the latest CDP Climate Change analysis. In terms of climate action, BBVA doubled its sustainable financing target to 200€ billion from 100€ billion announced in 2018. Coal will no longer be financed by this bank in developed countries as of 2030, and by 2040 in the rest of the world. Another goal is to decarbonize its portfolio in four emission-intensive industries by 2030, this forms part of its goal of being neutral in carbon emissions by 2050. Moreover, based on its Community Commitment, they will allocate 550€ million to social initiatives in the period 2021-2025. Among all the Spanish financial institutions it is the only one that is a member of the International Energy Agency's Finance Industry Advisory Board (BBVA, 2022).

4.2.2 Santander

Santander is also among the most sustainable banks in the world, reaching 83 points out of 100 in December 2022, following DSI World index. It obtained a score of 86 points in the economic dimension, 76 in the environmental and 83 in the social one. It has improved in some aspects such as climate strategy, privacy protection and customer relationship management. It has also achieved good results in other similar benchmarks such as MSCI, Sustainalytics, CDP, FTSE4Good Index and Bloomberg Gender-Equality Index among others.

They claim that as of the end of the first half of the semester, they held the top spot in the world for financing renewable energy projects, having invested more than 2400 million euros in 33 different projects, with a 6.4% share of the global market, according to Infralogic's ranking.

With 2030 as the time horizon, three intermediate decarbonization targets were announced for its portfolios in 2022: a 33% reduction in emissions intensity funded by the aviation sector, a 32% reduction in emissions absolute funded by the steel sector, and a 29% reduction in emissions intensity funded by the energy sector. Consequently, the country is moving closer to achieving its goals of having net zero carbon emissions by the year 2050, which are in line with those of the Paris Agreement.

They continue its commitment to allocate 220 billion euros to green financing between 2019 and 2030 in order to achieve these goals, with a 120-billion-euro intermediate goal for 2025. As of September 2022, 78.7 billion euros have been mobilized.

Moreover, this entity has provided access to the banking system, to financial education and financing for individuals and SMEs with difficulties accessing credit to more than nine million citizens. More than 387,000 scholarships have also been offered. Santander has recently been recognized as global Bank of the Year for Financial Inclusion by the Banker magazine. (Santander, 2022)

Santander Responsabilidad Solitario is one of the largest socially responsible funds in Spain. It is a mixed fixed income fund. The majority of the portfolio complies with the Ethical Ideas set out by Fundacion Pablo VI.

4.2.3 Bankinter

Bankinter is also among the world's most sustainable banks, being since 2017 in the DJSI World, with the highest score on the areas of ESG for asset management, climate change strategy, management of climate change opportunities and risks, environmental reporting and CO2 emissions management. They are also part of the European ESG Euronext Eiris Eurozone 120 index since 2021, in which they are listed the 120 most sustainable companies in the euro zone.

Bankinter is part of UNEP FI since 2020, the United Nations Environment Program focused on the financial sector, through which it commits to promote sustainable development and likewise the bank has decided to implement the six Principles of Responsible Banking with the aim of being a socially responsible entity and influencing the entire organization as a whole. The entity is also part of the Net Zero Banking Alliance and is a member of the Spanish Global Compact Network.

All the socially responsible funds offered by Bankinter comply with Due Diligence and are managed by the main international managers. These managers have previously signed the PRI (Principles for Responsible Investment) promoted by the United Nations. Various fund management strategies have been used, such as exclusions from certain sectors, as well as Best in class strategies, best efforts, impact investments or the incorporation of green bonds.

Among the exclusions that have been carried out in these funds are the arms sector, the coal sector or gambling. Likewise, we can classify the funds based on Spanish legislation as Article 8 funds, which are those with social and environmental characteristics, and there are also Article 9 funds, which are those linked to sustainability objectives.

For the selection of funds, Bankinter applies a classification based on their risk profile. For this, different criteria are taken into account, such as profitability applying the Jensen Alpha ratio, or the Sharpe ratio, which adjusts the performance of the fund to the risk that the manager must assume, the type of issuer, the sector of activity or its geographic location. Based on this, the funds are grouped into three risk profiles: 1. Defensive / Conservative 2. Moderate 3. Aggressive. (Bankinter, 2022).

Some of the funds that are in the TOP 10 Socially Responsible Investment are:

- **Morgan Stanley Global Sustain::** According to current legislation, it is classified as article 8, with a return in 2020 of 5.3%. This fund favours those companies with reduced carbon emissions, with abundant cash flows and income.
- **AMUNDI INDEX S&P 500 ESG:** Classified as an article 8 fund according to Spanish legislation and achieved a return of 6.5% in 2020. Is characterized by the exclusion of sectors such that have a very precarious sustainability index.
- **Candrian SRI Equity Emerging Markets:** It is an article 8 fund according to Spanish legislation, which achieved a return of 24.4% in 2020. This fund is characterized by investing in emerging markets.
- **RobecoSAM Smart Energy Fund:** According to Spanish legislation, it is an article 9, unlike the three previous funds, with a return in 2020 of 45.6%. A wide range of thematic investments are included, such as renewable energies, energy efficiency, etc.

4.2.4 Three banks comparison

BBVA is one of the “best in class”, while Santander is one “improver”. Bankinter, has lower ESG scores, so based on Bloomberg data, it would be somewhere in between the two. Santander, BBVA and Bankinter are the most efficient banks in the Spanish financial sector (Figure 23). In 2019 they improved their efficiency ratio to close to 50%, this measures the level of administrative expenses compared with total revenues.

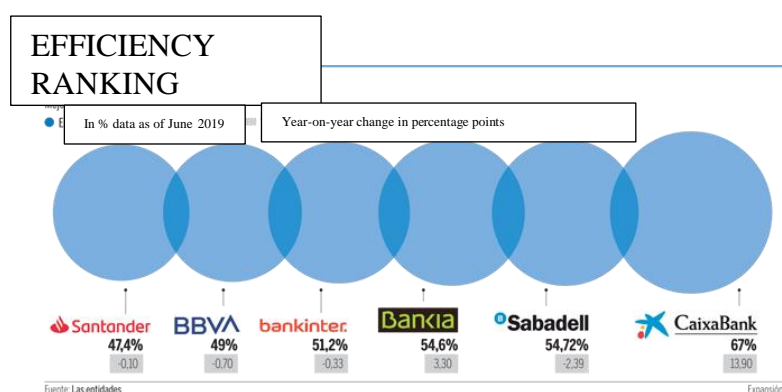


Figure 23. Banks efficiency ratios. Source: Expansion²²

Considering 2021 data, BBVA is the IBEX bank with best overall ESG rating on the IBEX, taking into account Moody’s and Sustainalytics ratings. Furthermore, it forms part

²² <https://www.expansion.com/empresas/banca/2019/08/21/5d5c5149e5fdea08718b46ce.html>

of the stable line-up of the Social Investor index as it is the IBEX bank with the best global ratings.

In the S&P survey carried out for the elaboration of its family of sustainability indices, BBVA obtained 99 points, Santander 95 and Bankinter 92 points. At Moody’s BBVA achieved a higher rating than Santander, being AAA and BBB respectively. Bankinter’s ESG quality wasn’t measured. Moreover, in the Bloomberg indicator of transparency in the dissemination of sustainable data, BBVA again obtained the highest score being 62.3, Santander scored 56.6 and Bankinter 55.3.

The actions with best scores in the field of sustainability are considered “best in class”. According to the “improvers”, based on Bloomberg, Santander is clearly the bank that is trying hardest to improve considering the three aspects. Bankinter is improving in governance and environmental areas but remains unchanged in social aspects.

MERCO (Corporate Reputation Business Monitor) is an instrument for measuring business reputation. Quality of work, corporate social responsibility, ethics and corporate governance, quality of goods and services, innovation, environmental commitment, financial reputation, internationalization, and media presence are among the criteria taken into account while determining the MERCO rating. It is the first audited monitor in the world.

They elaborate a yearly ESG ranking in which they include the position of the 50 companies more committed to each of the three areas (Table 10). In this table, the results from 2022 ranking can be seen. All in all, Santander is the one with the best positions in environment and social, but the worst in corporate governance.

	RANKING ESG		
	E	S	G
SANTANDER	19	27	36
BBVA	27	29	31
BANKINTER	39	41	30

Table 10. MERCO ESG 2022 Ranking. Source: own elaboration with MERCO data²³

²³ <https://www.merco.info/es/ranking-merco-responsabilidad-gobierno-corporativo>

Moreover, MERCO prepared an extraordinary ranking based on the different companies' performance during the pandemic in which Santander occupied the fourth position, BBVA the thirteenth and finally Bankinter the fifteenth, among the top 20 of Spanish companies with the greatest commitment and social responsibility (Table 11).

1º	INDITEX	10.000	11º	AMAZON	4.930
2º	MERCADONA	9.574	12º	CARREFOUR	4.478
3º	SEAT	6.924	13º	BBVA	4.407
4º	SANTANDER	6.664	14º	MAPFRE	3.900
5º	IBERDROLA	6.331	15º	BANKINTER	3.505
6º	EL CORTE INGLÉS	6.277	16º	MUTUA MADRILEÑA	3.330
7º	CAIXABANK	5.392	17º	REPSOL	3.131
8º	GRUPO SOCIAL ONCE	5.245	18º	GOOGLE	3.130
9º	NATURGY	5.034	19º	GRUPO QUIRÓNSALUD	3.073
10º	TELEFÓNICA	4.997	20º	MICROSOFT	3.000

Table 11. MERCO Spanish ranking Source: Bankinter²⁴

²⁴ <https://www.bankinter.com/blog/lo-ultimo/bankinter-empresas-responsables-merco>

5. Conclusions

After analyzing SRI in Europe with a special focus in Spain we can conclude that SRI has acquired a clear importance in these last years. It has become one of the most appealing investment alternatives. Society's awareness of this type of investment together with non-profit associations such as Spainsif and Eurosif are a key point for SRI development and implementation.

According to the strategies used for SRI, it has been shown that exclusions continues to be the most common strategy, but ESG integration and Engagement and voting are making their way. This could be because they are two of the most complex strategies. On the one hand, the first one has obtained special relevance after the entry into force of European regulations that incentivise the incorporation of ESG aspects in investment decision-making. On the other hand, the second one growth is due to the growth of the strategy at domestic institutions, becoming similar to international institutions regarding the level of assets managed with more sophisticated strategies.

This work has also looked to the Spanish funds. Taking into account all Spanish big entities, only Caixabank has managed successfully to obtain positive returns in an ESG fund. In other words, the funds managed by boutique firms and small in size are the most profitable ones. Moreover, after the analysis the best ESG fund in terms of profitability has a low ESG score, this means that profitability is prioritized over sustainability.

It is worth noting that the number of funds identified to be article 6 have decreased, while the ones identified as 8 and 9 have increased. In addition, the share of mixed income is increasing and just the opposite is happening for fixed and equity income.

Considering the Spanish banks, BBVA is at the top with the highest return on tangible equity. Furthermore, it has obtained the highest score in Sustainalytics, Moody's and Dow Jones Sustainability Index, so it can be considered the most sustainable bank. However, Santander's acceleration in last months has allowed it to close the gap with its competitor.

One of the main ideas of this study was to compare the profitability and evolution of responsible and conventional funds, however it was quite hard to find an equitable sample

in order to compare both, so at the end it wasn't possible. After reading several studies and articles, it can be confirmed that although the performance of a sustainable fund cannot be guaranteed compared to a conventional fund as the profitability of a fund depends on many aspects, there are arguments suggesting that sustainable funds can be equally or even more profitable in the long run. They are considered to be a future opportunity. Moreover, this higher profitability will attract a higher number of investors and capital.

Finally, talking about future perceptions, the expected growth of SRI in the next three years is optimistic, having 38% of the respondents expecting SRI to increase by more than 30% and 19% by more than 50% (Spainsif, 2022). This optimism is greater among international institutions. Even though the situation is optimistic, these results are lower than the previous year ones. It has to be taken into account that the current SRI situation is unbalanced in the different markets. While in the more developed markets it is experiencing rapid growth, in the emerging ones it is still at a second level of relevance.

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