



SYSTEMATIC3

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WHY QUANTITATIVE STRATEGIES ARE KEY TO EUROPE'S FINANCE

**Europe's Asset Managers Need Systematic ESG
to Unlock Sustainable Alpha**



The Disalignment Between EU and US



Sustainable finance is entering a period of geographic and political divergence. In the United States, allocations to sustainability-linked funds have seen a significant pullback, driven by political polarization, anti-ESG sentiment, and pressure on institutional allocators to refocus on traditional return metrics. In contrast, Europe remains committed to sustainability as a strategic policy objective.

While there has also been a slowdown in new capital flows across Europe, the socio-political climate is markedly different. In the EU, sustainability is for the most part not treated as a political battleground but as a long-term economic and industrial strategy, it is increasingly tied to EU self-determination, reducing energy dependency, accelerating green innovation, and maintaining competitiveness under the Green Deal.

This reality is reinforced by regulation. The Sustainable Finance Disclosure Regulation (SFDR), EU Taxonomy, and Corporate Sustainability Reporting Directive (CSRD) ensure that sustainability metrics remain a mandatory layer in institutional portfolio construction, regardless of market cycles.

However, the dominant method of implementing sustainability goals remains traditional and based on fundamental analysis for portfolio allocation, relying on corporate disclosures and qualitative scoring. While this approach has been the backbone of ESG investing, it cannot keep pace with the scale and complexity required today.

In a universe of 10,000+ listed securities, traditional approaches struggle to balance the three critical requirements: regulatory compliance, diversification, and stakeholder transparency.



Systematic Investing: Scalable by Design



A key insight that kept coming up in our conversations with portfolio managers and analysts is that the relative AUM of ESG capital managed through a truly systematic strategy is still extremely niche compared to the overall pool of ESG allocated capital. As one Senior PM puts it:

“Traditionally, fund managers have been simply adding a carbon footprint limit to their portfolios, without changing the methodologies for stock picking. This approach is no longer suitable to the current environment”.

Firms committed to genuine ESG investing are increasingly adopting bottom-up approaches, integrating operational data such as water usage, energy efficiency, and emissions intensity. Portfolios are increasingly aligned to specific UN Sustainable Development Goals (SDGs), allocating capital to companies driving measurable impact.

Multiple market participants highlighted the skills transformation under-way. When asked what kind of talent the funds are onboarding we have been told that some funds are even hiring scientists, biologists, and other experts with no degree in finance to build the capacity to truly understand the data these companies report on, because they are the ones that understand the added value that will be reflected in the stock price. As one senior PM summarized:

“There is a huge opportunity to generate alpha for those who invest in in-house capability, because they understand that they cannot rely on third-party ESG data providers.”

Building these systematic frameworks inhouse provide the only scalable way to:

1. Ensure Regulatory Alignment.

Quantitative strategies generate auditable, rules-driven allocation processes that directly address SFDR and CSRD reporting requirements. Every allocation decision can be traced and justified, providing the transparency regulators now demand.

2. Achieve True Diversification.

No fundamental team can evaluate thousands of companies simultaneously. Systematic sustainability frameworks can screen, score, and optimize 10,000+ securities in real time, achieving diversification levels now expected by large institutional mandates.

3. Provide Stakeholder Responsiveness.

Investors, beneficiaries, and activist stakeholders are demanding consistent, verifiable integration of sustainability criteria. Data-driven methods allow for custom overlays, such as excluding controversial industries or overweighting renewable energy, while ensuring portfolio decisions remain transparent and repeatable.





For institutional investors still relying exclusively on fundamental approaches, the shift is becoming unavoidable: quantitative sustainability investing is moving from optional to essential. Yet, the talent market is not keeping pace. Most sustainability teams remain dominated by fundamental analysts, while quantitative expertise is often siloed in non-sustainability strategies.

This creates a significant opportunity for first movers: building specialized teams of quantitative sustainability portfolio managers positions an institution as both a regulatory leader and a performance innovator.

Key profiles include:

- Quantitative PMs with experience in multi-factor, sustainability-integrated models.
- Data scientists proficient in alternative sustainability data (supply-chain emissions, satellite imagery, water usage analytics).
- Regulatory-savvy quantitative specialists who can bridge the gap between modelling and disclosure requirements.

Asset owners who invest early in these teams will not only comply with evolving EU regulations but also achieve first-mover advantage in scaling diversified, sustainability-linked portfolios that satisfy both institutional allocators and retail stakeholders. The global conversation on sustainable finance will remain fragmented, but Europe is clearly forging its own path. For EU policymakers, sustainability is not thematic investment, it is a strategic instrument of economic autonomy and competitiveness.

Despite short-term funding slowdowns, regulatory pressure and socio-political consensus will keep sustainability at the centre of institutional investing. The key question for investors is no longer whether to integrate sustainability, but how to do it effectively.

Manual, fundamental methods will retain a role for highly concentrated, conviction-driven portfolios, but for large, diversified mandates, quantitative sustainability strategies are the only scalable, regulator-friendly, and stakeholder-aligned solution. The firms that move first, building dedicated quantitative sustainability teams, will set the standard for the next decade of European sustainable investing.

