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ESG investing

Task Force on Asset Allocation in Europe

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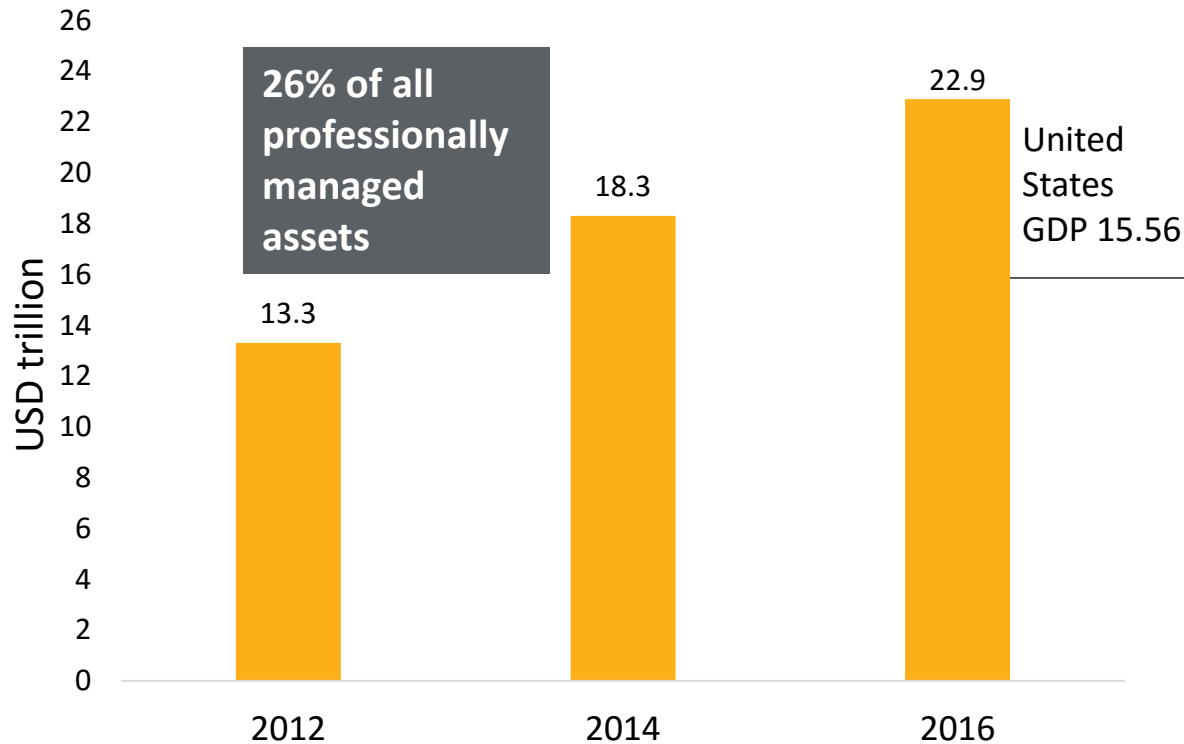
Client Relations



Setting the Stage

Responsible AUM continues to grow globally and regionally

Responsible Assets Globally



Source: GSIA Trends Report 2016

Regional Growth in Responsible Assets (In USD billions)

Region	2014	2016	% Growth
Europe	10,775	12,040	11.7%
United States	6,572	8,723	32.7%
Canada	729	1,086	49.0%
Australia/NZ	148	516	247.5%
Asia ex Japan	45	52	15.7%
Japan	7	474	6689.6%
Total	18,276	22,890	25.2%

Source: GSIA Trends Report 2016

Drivers of Continued ESG Adoption

Regulatory / Systemic risk



- Fiduciary Duty
- Climate/Carbon

Search for Materiality



- Risk management: fiduciary duty
- **Financial performance**
- Long-termism/stewardship

Client Demand



- Variety of clients – pension funds, **HNW, retail**
- Global expansion

Contribution to Sustainable Development



- Markets play a leading role in addressing long-term systemic concerns
- Impact
- SDGs

Use Cases of ESG in various asset classes

Fundamental Investment Manager

Active Investing, ESG momentum, stock selection



Quantitative Investment Manager

Buy/Sell signals based on large data (ESG) sets



Passive Investment Manager

Tilting towards sustainability factors with low tracking error



Fixed Income Investment Manager

Enhanced assessment of credit risk and bond prices



Impact Investor

Thematic investments, impact-first, niche



Private Equity Investor

ESG Risk factors part of due diligence



In ESG Ratings We Trust?

Meaningful ESG integration requires looking beyond aggregated ratings

- » Variety of signals, differences between ESG rating providers
- » Large-cap, sector or regional bias?
- » The line between financial materiality and positive environmental/societal impact is blurring
- » The biggest factors that limit the ability to use non-financial information include:
 - » “Lack of appropriate quantitative ESG info”
 - » “Lack of comparability across time” -- **Source: CFA Research 2017*

EU Action Plan on Financing Sustainable Growth

Sustainalytics' Take

- » **Sustainability (ESG) Research** is cornerstone of an effective implementation EU Action Plan
 - » Increasing transparency and reporting require structured analysis
 - » Fiduciary duties can only be implemented using coherent ESG criteria
- » EU Action plan and Taxonomy **focus on the topic of climate change**, with tendency to **neglect social issues**, geo-political risks and observance of human rights.
- » Development of a low-carbon benchmark is welcomed but **should also include carbon (transition) risk management** and Stranded Assets Exposure
- » Unclear if EU Green Bond Standard and EU classification system will include an issuer's overall sustainability performance in the analysis to prevent green-washing

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