Sustainable Financing and Investing Survey 2019

Markets alert to the environment and society

HSBC

HSBC Sustainable Financing and Investing Survey 2019

A Foreword from Daniel Klier, Global Head of Sustainable Finance, HSBC

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The most recent figures for sustainable investment, published in April 2019, suggest that at the beginning of 2018 there were $30.7 trillion of assets under management, an increase of 34% over two years[1].

Take these numbers, align them to the continuing global megatrends of population growth, increasing urbanisation and climate change, and the outlook for sustainable financing and investing looks to be extremely strong. But what do the issuers and investors in the industry actually think?

In this year's HSBC Sustainable Financing and Investing Survey, we asked 1,000 issuers and investors from 15 core markets across four regions to tell us about their progress, their plans and the key themes impacting them.

The results build on the insight from the previous surveys and demonstrate a continuing rise in global consciousness of environmental and social issues, with over 90% of both issuers and investors saying these issues are either 'very important' or 'important'.

However, it also shows that significant barriers exist to fuller development of sustainable investing, although Chinese investors feel most able to pursue this, with only 30% citing obstacles, compared to 60% globally. Chief among them are shortage of expertise, lack of attractive investment opportunities and lack of comparable ESG data — highlighting the importance of building the capital markets' intellectual armoury for sustainability, through education and research.

As the market continues to grow and evolve, we believe the incorporation of environmental, social and governance factors will have an increasing impact on investors' and issuers' choices.

That is why at HSBC, we have committed to providing $100 billion of sustainable finance by 2025. To date, we have put $36.7 billion to work and recognise there is much more to be done to develop clean energy, lower carbon technologies and projects that contribute to the delivery of the Paris Climate agreement and the UN Sustainable Development Goals.

I hope you find this year's report an interesting and informative read.

[1]Global Sustainable Investment Review 2018

Contents

Executive Summary

Values to the fore as environmental and social consciousness sweeps the capital markets

Users of the capital markets, the world over, are now highly alert to environmental and social issues — a remarkable result, considering that nearly all practitioners were trained in a different paradigm, in which financial return and shareholder value were the pre-eminent considerations.

Our global survey of 500 issuers and 500 investors, across Europe, Asia, the Middle East and the Americas, shows around 60% of both groups say environmental and social issues are 'very important'. Three quarters of the rest say they are 'somewhat important'. Hardly any are indifferent. The US, Europe and Canada are leaders on several indicators, with awareness in the Middle East also high. But even in the least aware regions, the vast majority of our sample are paying attention to these issues.

By studying the views of issuers and investors alongside each other, this survey reveals how the wishes and needs of the two groups interact and feed off each other. While on some matters, issuers and investors diverge, on many of the major questions, they are aligned. The most important reason for the rise to prominence of sustainability concerns is the organisation's own values and belief that this is right.

No less than 62% of investors that saw these issues as important said 'We believe it's right to care about the world and society'. Among issuers, 65% say caring about these matters is 'aligned with our values as an organisation'. Issuers and investors also feel pressure from their stakeholders — customers, employees, regulators and society at large. But in virtually every region, the organisation's own values are the most often cited factor, and in the rare exceptions, values come a close second.

This suggests capital markets participants have responded to a shift in society, not reluctantly, but enthusiastically — they share in and endorse the new consciousness.

The survey points to many notable trends shaping sustainable finance, including:

- Supporters have yet to win the argument that sustainable investing is profitable. Nearly 40% of investors believe it sometimes involves accepting lower returns or higher risk, while only 42% of issuers see a potential financial gain from responsibility — a lower share than among investors
- As jurisdictions from China to the European Union have begun to legislate for sustainable finance, the influence of regulators is strong in driving sustainability consciousness, for issuers and investors
- Disclosure to the market on sustainability performance, by issuers and investors, has a long way to go. Issuers are ahead and many expect to increase disclosure in future — nearly two thirds of them welcome it. Many investors still disclose little or nothing on the sustainability of their portfolios
- Climate change is recognised as a reality that already impacts business, or will soon. Despite — or perhaps because of — the heavy reliance of the Middle East on oil and gas, this region is the strongest for recognising this. The US has the least near term concern, but it is still nearly 50%. A fifth of US issuers think they will never be affected by climate change, but none do not believe in it
- Large shifts in capital allocation are coming, in response to sustainability issues. Two thirds of issuers (and in the Middle East 85%) expect to reallocate capital noticeably in the next five years
- Significant barriers exist to fuller development of sustainable investing. Chinese investors feel freest to pursue this, with only 30% citing obstacles, but globally, 60% do. Chief among them are shortage of expertise, lack of attractive investment opportunities and lack of comparable ESG data — highlighting the importance of building the capital markets' intellectual armoury for sustainability, through education and research

Awareness of sustainability goes mainstream

Environment and society become 'very important' to financial markets

Sustainability is becoming a central pillar of capital markets investors' and issuers' approaches to financing. The strength of this shift — as revealed by dozens of indicators in our survey of 500 issuers and 500 investors from the Americas, Asia, Europe and the Middle East — is overwhelming.

Constant in all regions is the sense that caring about the environment and society is not just a pragmatic issue, but one of values. In every region and country examined in this report, over half of both issuers and investors say they believe it is right to pay attention to these issues.

What varies more between regions are the relative influences of other factors — the demands of stakeholders such as customers, employees and society at large; the insistence of regulators; and the hope or belief that responsible investing is also financially prudent.

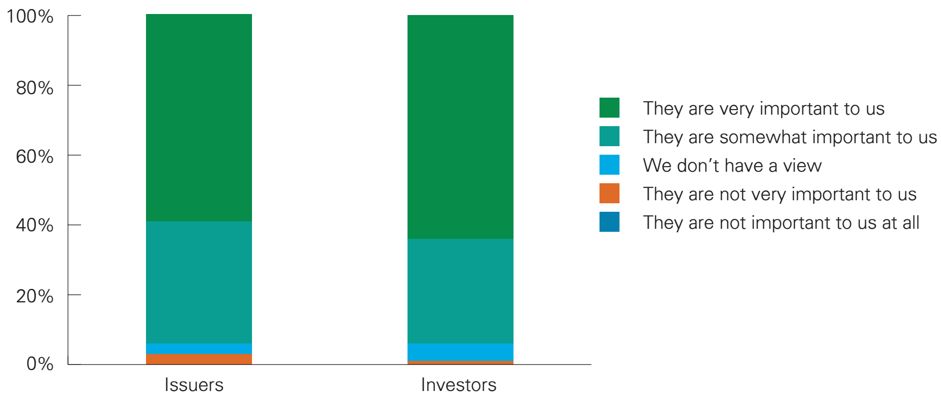
This survey reveals a range of stances that vary all the way from the 92% of US investors who say environmental and social issues are very important to the 77% of Middle East investor respondents who feel obstacles are holding them back from pursuing ESG investing more fully.

All the same, a global consensus is growing. Strikingly, 64% of investors globally now view environmental and social issues as very important, while fewer than 1.5% treat them as unimportant. A further 30% acknowledge these areas as 'somewhat important', giving a global tally of 94% of investors regarding them as important.

The balance is similar among capital markets issuers, if not quite so pronounced: 58% call ESG issues 'very important', fewer than 3.5% 'not very important'. Nonetheless, combined with the 35% who rank it as 'somewhat important', 93% of issuers globally now recognise the environment and society as important.

Consciousness almost complete

Our organisation's attitude to environmental and social issues is:



Global Report
Common Themes

Analysis

Across the global, regional and national market levels this report analyses survey responses through the lens of three sets of themes: those that are common to investors and issuers, those specific to investors and those specific to issuers.

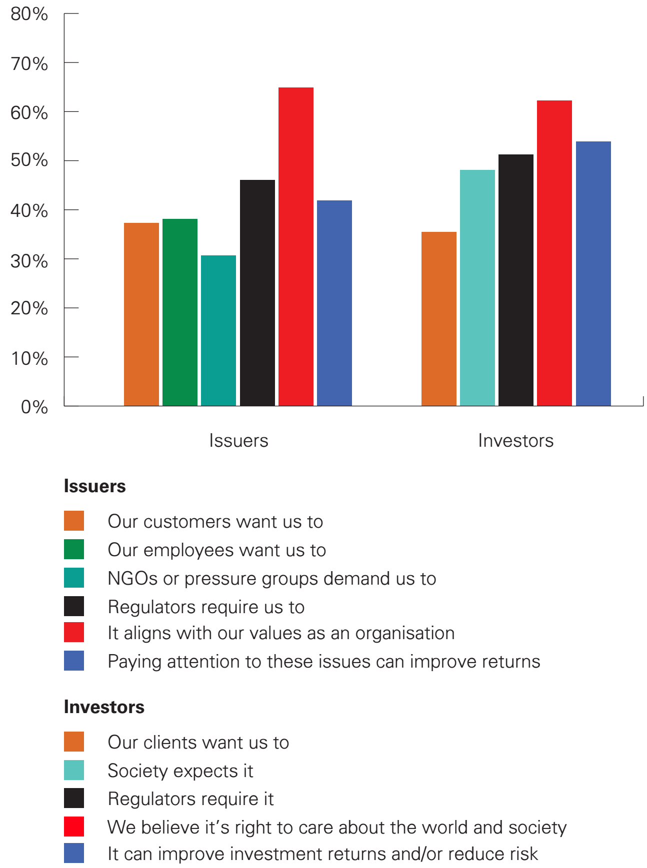
Themes common to issuers and investors

- Drivers for thinking about the environment and society
- Impact — whether it matters and what market participants are doing
- Disclosures to the market on environmental and social performance
- Green, social and sustainable bonds

Key Findings
Issuers lead on impact and disclosure

- 94% of investors and 93% of issuers now regard environmental and social (E&S) issues as important
- The most important reasons for this are the organisation's own values and its return expectations
- External factors such as regulation and the attitudes of staff, customers and society at large are also important
- Caring about the organisation's environmental and social impact is highly developed among issuers — nearly 90% have environmental and/or social impact strategies. Only 30% of investors use impact goals or metrics
- However, nearly all investors now factor environmental, social and governance (ESG) considerations into their investment decisions — only 8% now do this rarely or never
- Environmental and social disclosure is more developed among issuers too — as few as 16% make no ESG disclosures. Among investors, only a quarter disclose the ESG characteristics of their portfolios
- Two thirds of investor respondents will start buying green, social and sustainable bonds in the next two years, or increase their allocation to them

Values first, then returns (and regulators)
We care about environmental and social issues because...



Drivers for thinking about the environment and society
The right thing to do — and good for returns

There are many reasons why issuers and investors care about environmental and social issues, but the survey shows some strong global trends. For both issuers and investors, and in virtually every region, the most important factor is the organisation's own values.

No less than 62% of investors that said environmental and social issues were important said 'We believe it's right to care about the world and society'. The percentage of issuers that said caring about these matters was 'aligned with our values as an organisation' was 65%.

Some way behind, the second most important driver for investors at 54% was that caring about E&S issues 'can improve investment returns and/or reduce investment risk'. For issuers, the hope of improving returns came third on 42%.

External pressure is also important. For investors, the expectations of regulators is the third most important factor (51% naming it). For issuers, this came second at 46%. The wishes of employees, NGOs and civil society, and customers were all cited by between 30% and 48% of both investors and issuers.

Global Report
Common Themes

Impact — whether it matters and what market participants are doing
Issuers strive to improve impact, investors behind

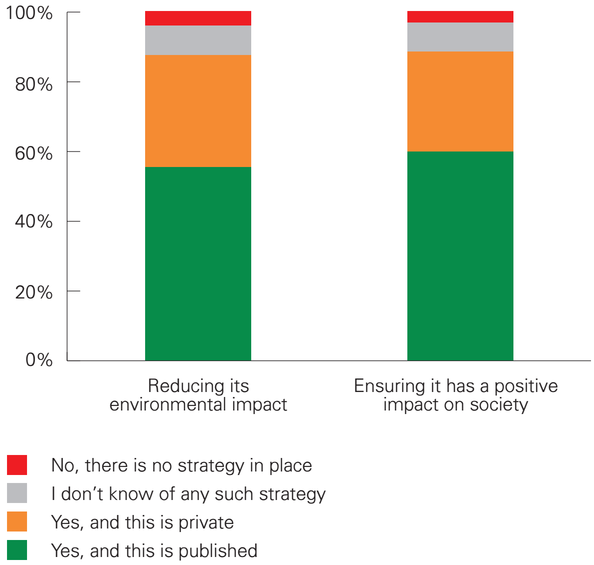
Organisations' values and external pressures are feeding through into how they try to manage their impacts.

The great majority of issuers now have strategies for reducing their environmental impacts — 55% a public strategy and 32% a private one. Even more (60% publicly and 29% privately) try to ensure they have a positive impact on society.

Only 3% of issuers have no social impact strategy and 4% no environmental impact strategy. Eight percent of issuers are unaware of any strategy in each of these areas.

But for investors, impact is still only an emerging way of considering environmental and social issues. Fewer than 30% of investors globally use impact goals or metrics as part of their investment decision-making.

Issuers accept responsibility, but still shy
My organisation has a strategy for...



Disclosures to the market on environmental and social performance
Far to go on disclosure and stewardship

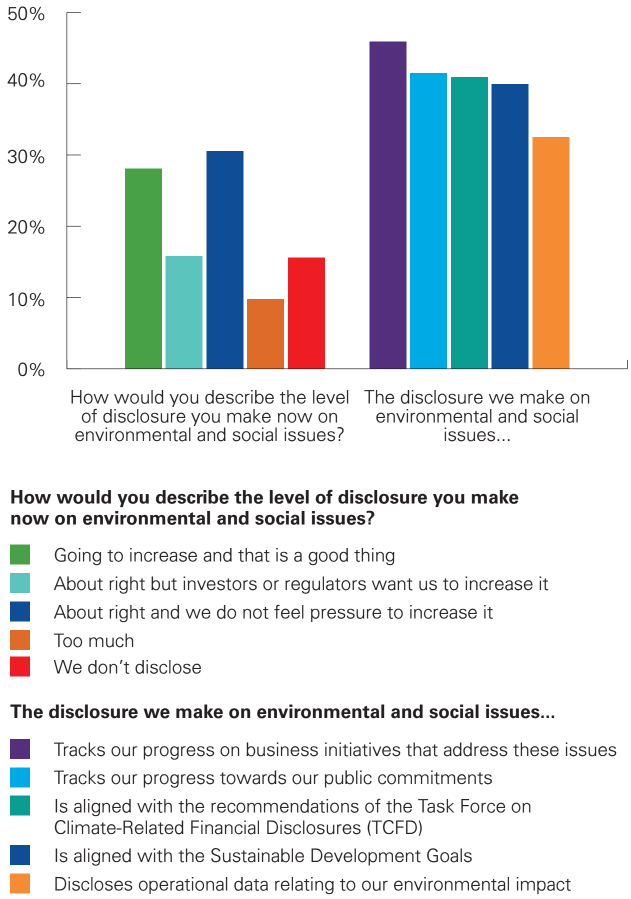
Investors' disclosure on environmental, social and governance (ESG) issues is still at modest levels.

Only 24% disclose the ESG characteristics of their whole portfolios, while 25% disclose on selected portfolios. Twenty-six percent report the environment and social impacts of some portfolios; and 32% say they are aligned with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) or other reporting frameworks.

In the US, 54% of investors disclose the environmental and social impacts of some portfolios — the next highest rate is in Europe at 34%. But Europe, at 33%, has the highest rate for disclosing the ESG characteristics of the investor's whole portfolio.

Similarly, investors' notions of stewardship are not very developed yet. Only 23% have had principles endorsed at board level. Issuers are further ahead on disclosures — and they expect to go much further still. Globally, one in six still say they do not disclose on these issues, and only 10% feel the level of disclosure they make at the moment is 'too much'. Levels of non-disclosure are higher in Asia, especially Hong Kong, where 32% say this. Mainland China has a low level of non-disclosure but the highest share (41%) of issuers who say their present level of disclosure is about right and they do

Most issuers accept the need for environmental and social disclosure
The disclosure we make on environmental and social issues...



not feel pressure to increase it. Globally, nearly a third (31%) regard their current level of ESG disclosure as 'about right and we do not feel pressure to increase it', but 42% expect to increase their current level of ESG disclosure, either at their own initiative or in response to demands from investors or regulators.

Two thirds of these welcome the prospect of disclosing more. The areas where issuers are most likely to have to expect to increase disclosure against their will are the Middle East and continental Europe.

Around 40% of issuers make environmental and social disclosures that:

- Track progress towards their public commitments
- Track progress on business initiatives that address environmental concerns or social impact
- Are aligned with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)
- Are aligned with the Sustainable Development Goals

The most common of these, at 46%, is reporting progress on business initiatives. The lagging area is disclosing operational data on environmental impact, which only 33% of issuers make.

Green, social and sustainable bonds

Investors to buy more green bonds

A strand in sustainable finance that has captured widespread attention is green, social and sustainable bonds. These are normal bonds from a legal and credit perspective, but the issuer pledges to allocate the proceeds to green or social projects, and report to investors on how it has done this.

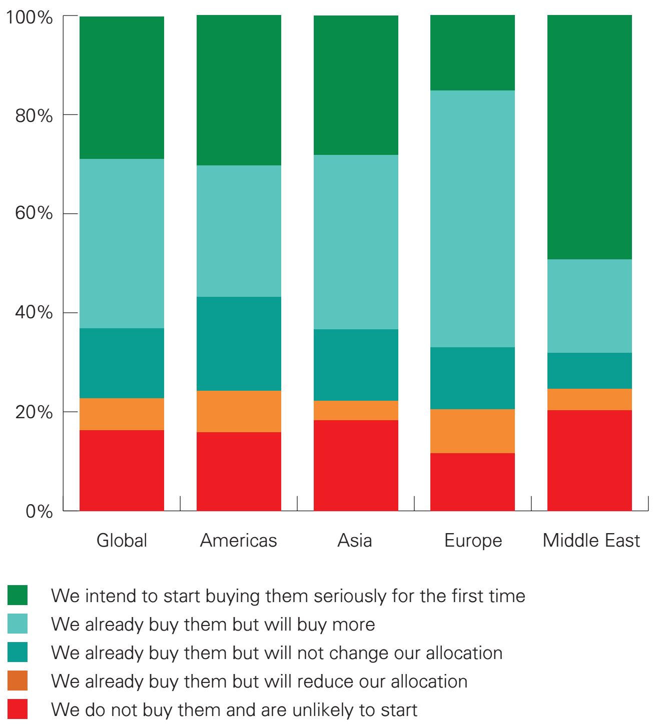
Nearly two thirds of investor respondents globally (63%) expect either to start buying green/social/sustainable bonds seriously for the first time in the next two years, or to increase their buying of them. One sixth do not buy them and do not intend to start, while 6% intend to reduce their purchases.

Investors hold a wide variety of views about the merits and attractions of green/social/sustainable bonds. Forty-four percent judge that they enable the investor to have a positive impact by financing projects that are good for society or the environment. Nearly as many (39%) believe they are less risky than other bonds and 35% see them as producing slightly better returns than ordinary bonds. However, 39% also hold that these themed bonds only have a positive impact if there is additionality (meaning that the issuer would not have carried out the green or social activities without being able to issue a labelled bond).

Issuers' views about the product are also diverse. A strong 65% believe labelled bonds might allow their organisation to obtain a slightly lower funding cost — most of the rest are neutral on this point. Even more (69%) think the bonds could enable them to attract new investors. Seventy-six percent think issuing green or social bonds 'might help to unite my organisation around its

Green bond demand to grow

Investors' allocation to green, social and sustainable bonds will evolve in the next two years...



environmental or social goals' and a full 79% say they 'might be good for my organisation's public image'. Somewhat fewer — 57% — see labelled bonds as enabling the organisation to finance investments it otherwise would not be able to finance.

But there are negative views, too. A third believe the bonds 'might create a risk for my organisation', 37% think they might be too costly to be worthwhile and 42% fear they might involve too much disclosure.

Global Report
Investor Themes

Investor Themes

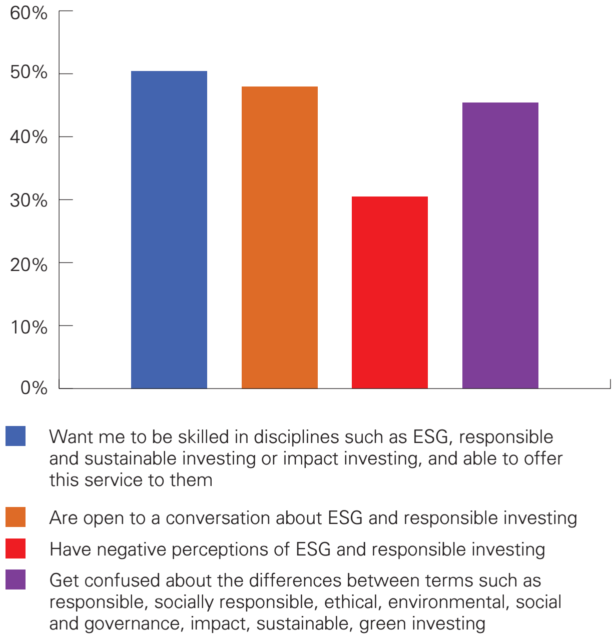
- Clients — what they want from investment firms
- Obstacles to pursuing sustainable investing
- Performance — does sustainable investing cost money?
- Responsible investment policies — how they are spreading
- Investing practices — how to do sustainability

Key Findings
Savers and institutions want ESG

- Both retail savers and institutional asset owners are receptive to ESG and responsible investing — just over half of investors now say more than half their clients want them to be skilled in ESG and be able to offer this as a service
- But nearly a quarter of investors still say a majority of their clients have negative perceptions of these areas
- Over 60% of investors experience obstacles to pursuing ESG investing more fully — particularly lack of expertise, shortage of attractive investment opportunities and ESG data not being comparable between issuers
- Only 17% of investors are confident that responsible investing provides an attractive way of generating outperformance. A further 24% judge that it has a good chance of outperforming but could involve making lower returns or taking higher risk

"Globally, one in six investors say that at least three quarters of their clients want them to be skilled in disciplines such as ESG, responsible and sustainable investing or impact investing, and want them to offer this service."

Investors' clients mostly interested in ESG, though some still unconvinced
What proportion of my clients...



Investors were asked to estimate whether the share of their clients to whom each attitude applied was 0%-25%, 25%-50%, etc. These quartiles were averaged to give a blended score for the share of all respondents' clients holding that attitude.

Clients — what they want from investment firms
Investors put environment and society level with returns

Most investors now feel that skills in environmental, social and governance (ESG) and responsible investing are a must, if they are to serve their clients well.

Globally, one in six investors say that at least three quarters of their clients want them to be skilled in disciplines such as ESG, responsible and sustainable investing or impact investing, and want them to offer this service. A much larger 35% say that 50% to 75% of their clients now expect this. And two thirds of the rest experience this demand from 25% to 50% of clients.

More than half (54%) say fewer than a quarter of clients have negative perceptions of ESG and RI. Less than a quarter (23%) say more than half of clients have negative perceptions.

A remarkably high share of investors believe some of their clients 'place equal or greater weight on social or environmental concerns as on financial returns when making investment decisions'.

A sixth of investors believe more than half their institutional clients care more about the environment and society than financial return, or put equal weight on them. And another 39% reckon between 20% and 50% of their clients have these priorities. The shares for retail or private clients are somewhat lower: 30% of investors see this among 20% to 50% of clients, and only 8% detect it among more than half their clients.

Obstacles to pursuing sustainable investing

Lack of understanding still a problem

As many as 61% of investors report obstacles holding them back from pursuing ESG investing more fully and broadly.

The most substantial obstacles are:

- Shortage of expertise or qualified staff (27%)
- Lack of attractive investment opportunities (26%)
- Lack of ESG data comparability across issuers (26%)

Understanding the issues remains a big problem. Three quarters of investors estimate the share of their clients who get confused about the differences between terms such as 'responsible investing', 'sustainable' and 'ESG' as over 25%. Meanwhile, 40% of investors believe that at least half their clients get confused. Both asset owners and asset managers feel they need more guidance on many aspects of these issues.

Asset owners particularly want asset managers to guide them on how to measure the impact of their investments; on green, social and sustainable bonds; and on how the economy is likely to evolve in response to climate change.

Asset managers have similar wants, but also need banks to advise them on the ESG characteristics of individual issuers.

Performance — does sustainable investing cost money?

Cost or benefit? Opinion is divided

Supporters of responsible investing have long battled against the view that being responsible costs money. The survey shows they have yet to win this argument.

Only one in eight investors said practising ESG, responsible or sustainable investing 'always involves accepting lower returns or higher risk'. But another 26% believe it sometimes does. Together, those sceptics add up to 38%.

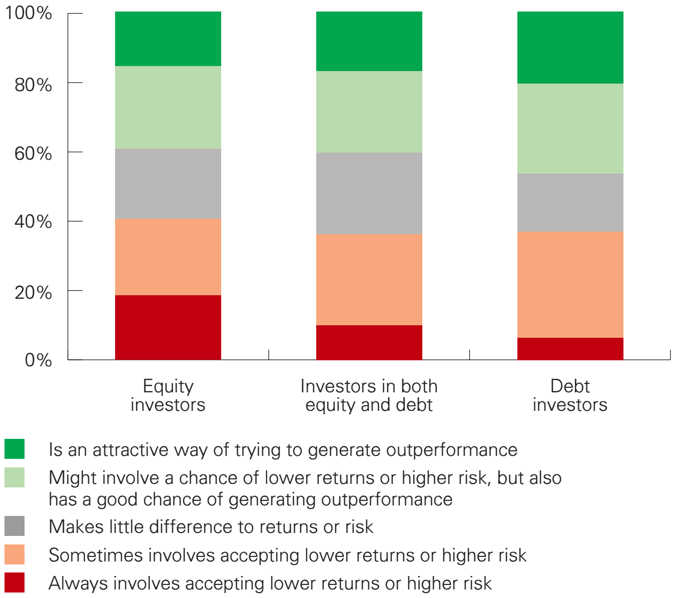
Indifference remains, too: 21% think it makes little difference to returns or risk. A quarter believe ESG and RI might carry this risk, but also have a good chance of generating outperformance. Only 17% are confident that it provides an attractive way of generating outperformance.

There are some differences between equity and debt investors, but they are quite slight. Debt investors are somewhat more optimistic about about the chances of ESG or responsible investing improving their financial risk and return — perhaps surprising, considering that RI is newer and less well developed in debt markets. About 46% of debt investors think there is at least a chance RI will reduce their risk or increase their returns, against 39% of equity investors.

And while 19% of equity investors believe RI 'always involves accepting lower returns or higher risk', only 6.5% of debt investors think so.

Debt investors a little more convinced on ESG

I believe that practising ESG, responsible or sustainable investing...



Despite the wide dispersal of opinion about its financial merits, ESG investing is clearly becoming mainstream. Thirty-five percent of investors always factor ESG considerations into investment decisions and say this is a core part of their process. Another 38% do so when it is likely to be financially material. Only 8% rarely or never do so, while 18% only do so in funds with explicit ESG mandates.

Responsible investment policies — how they are spreading

Approaches are varied, but all types of investor are engaged

Different types of investing institution are embracing sustainable investing in quite similar, though not uniform, ways. Asset managers, who made up 54% of investor respondents, are ahead of the rest of the investment world, here described collectively as asset owners.

Among asset managers, 68% say they have a firm-wide responsible investment policy, while only 55% of asset owners have. But when all the firms that say they intend to introduce a policy have done so, the levels will be very similar.

Not surprisingly, there is a correlation between the size of investment firms and whether they have developed a firm-wide policy. Among the largest investors managing over $100bn of assets, 87% have a policy. This falls to a third of those managing under $5bn. But again, when those that intend to develop a policy are included, rates for large and small investors are similar.

The way these policies are being devised seems fairly consistent across debt and equity investors.

When investors were asked to say what their policy contained, none of the suggested elements was chosen by more than about 35% of investors. The most common item, adopted by around a third of both equity and debt investors, is to have an approach for identifying material environmental, social and governance (ESG) issues for investments.

Aligning reporting with recognised frameworks, including the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), is pursued by at least a quarter of both groups. The adoption of stewardship principles is fairly even across debt and equity, but, considering how long-established this stance is, quite low, at only between 20% and 25%.

Debt investors have a higher tendency than equity ones to target impact in their investing, and to disclose about this — perhaps because of the rise of the green and sustainable bond market, which investors often believe gives them a positive social or environmental impact. Debt investors are also slightly more likely than equity buyers to make disclosures about selected portfolios — again, this may partly refer to green bond funds. Bond and equity investors are equally likely to disclose the ESG characteristics of their whole portfolios.

Diverse approaches, with hardly any techniques used by more than 40%

In our firm, we practise the following approaches to ESG and responsible investing...

1. Limit or exclude investing in organisations involved in harmful or controversial activities (e.g. oil and gas exploration, manufacturing weapons or sale of tobacco products)
2. Take account of material ESG characteristics when we evaluate issuers
3. Price in ESG, for example attaching a lower risk premium to issuers with better ESG characteristics
4. Engage with issuers to ask them to disclose more about their ESG performance
5. Engage with issuers to ask them to improve their ESG performance
6. Engage with issuers to ask them to tie executive compensation to ESG performance
7. Divest from poor ESG performers
8. Look for organisations that have engaged in scenario analysis to model their exposure to climate change
9. Invest in (or construct) specific ESG, responsible or impact products
10. Consider the effects of our investments on the real world (e.g. amount of carbon emissions)

Investing practices — how to do sustainability
Many techniques in action

Just as the sustainable investing policies which firms have adopted are diverse, so are the methods they employ in practice. Even though most investors are probably aware of the full range of responsible investment techniques, they are not using them all.

There is no great difference between debt and equity investors, as the graph on page 12 shows, except that debt investors are markedly more likely to take account of material environmental, social and governance factors when they weigh up issuers — 51% do, against 38% of equity investors. Similar shares, though, about 30%, price these factors into their value expectations of issuers.

About a third of both kinds of investor have regular exclusions from their portfolios for certain harmful activities, such as weapons manufacturing. Bondholders are often said to be laggards on engaging with companies — meaning talking to them to ask for more information on environmental, social and governance (ESG) issues or requesting improvements. But the survey suggests they are about as active as equity investors — around a third of each group do this. But debt investors are shyer when it comes to asking firms to tie executive pay to their ESG targets.

Debt buyers are more willing to divest from poor ESG performers, at over 40%, against 35% for equities. This may be partly because bond investors' mandates are more often defined by currency than by national or regional markets, which may give them more choice of alternatives to buy if they dump an issuer. Equity investors are ahead, at 41% to 36%, on considering the effects of their investments on the real world. This contrasts with the fact that debt investors emphasise impact more in their responsible investing policies.

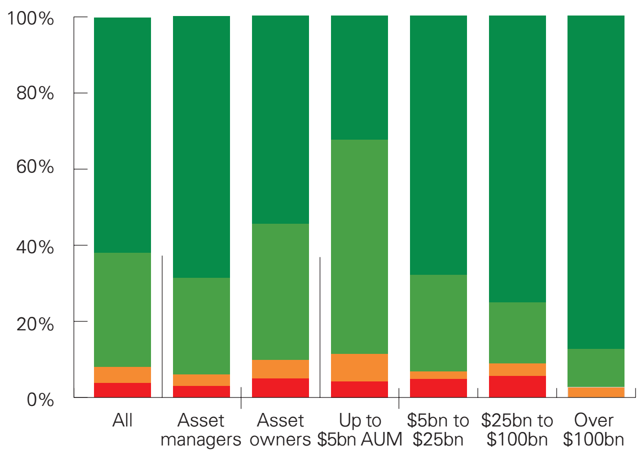
But this may be because debt investors are thinking about impact in the context of green bonds.

When it comes to considering the impact of all their other investments, they are less eager.

Only a third have identifying ESG risks in their investment policy
Our firmwide responsible investing policy includes the following...

1 Approach for identifying material ESG issues for investments
2 Stewardship principles – endorsed at board level
3 Disclosure on the ESG characteristics of selected portfolios
4 Disclosure on the ESG characteristics of our whole portfolio
5 Disclosure on the environmental and social impacts of some portfolios
6 Alignment with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) or other reporting frameworks
7 Impact goals or metrics used as part of investment decision-making

Asset managers and bigger firms are more advanced
Our organisation has a firm-wide policy on responsible investing or environmental, social and governance issues…



Yes
No, but we intend to develop one
Don't know
We have no intention of doing this

Issuer Themes

- The impact of climate change
- Re-allocating capital in response to environmental and social change
- Perceptions of shareholders, bondholders and lenders
- ESG-linked loans

Key Findings
Economic shift is beginning

- Climate change is seen as a reality that affects business. Over a third of issuers say climate change is already impacting their business or activities. Another 30% expect it to do so within the next 10 years — only 6.5% do not expect it to affect their activities ever
- Environmental and social issues are going to have a huge influence on how companies allocate capital. Only 6% of issuers expect to make no change in their allocation of capital towards positive environmental or social outcomes over the next five years, while two thirds foresee making substantial or noticeable changes in this direction
- Of the three major categories of financial investor, it is shareholders that issuers believe care most about their environmental and social impact. But bondholders and bank lenders are not far behind
- Three quarters of issuers view ESG-linked loans as potentially an interesting product for them. Only 20% feel the product is unsuitable

"Of issuers globally, 67% say their shareholders care quite a lot or a great deal about their environmental performance."

The impact of climate change
Change is here already

Climate change is already a business reality for issuers, and they expect it to become still more important in the near future.

Nearly two fifths of issuers globally (38%) report that climate change is already impacting their business or activities. Thirty percent expect it to do so within the next 10 years and another 15% within 30 years.

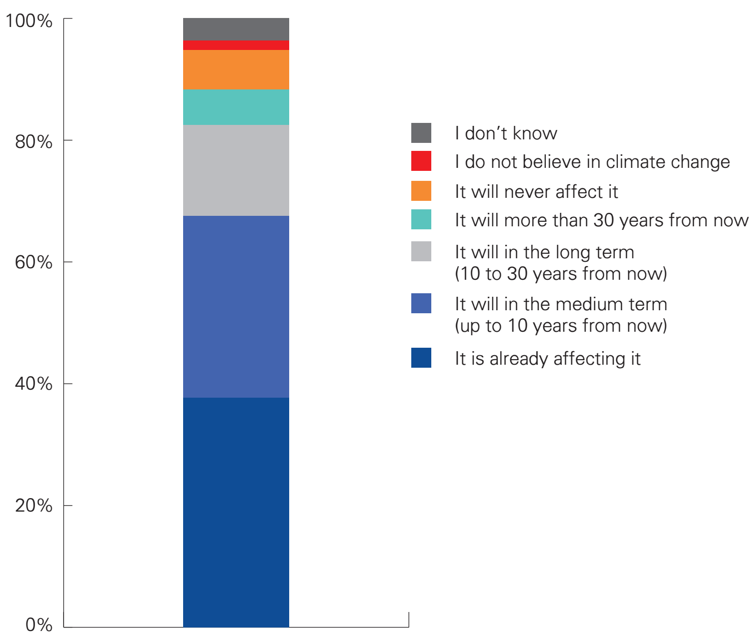
Fewer than 2% do not believe in climate change, while 6.5% do not expect it ever to affect them. Moreover, they are starting to do something about it. Only 13% of issuers globally are not planning for climate change at a senior level. In contrast, 39% view it as part of their formal risk management, and boards of directors at 36% of issuers have adopted formal policies on the risks and opportunities presented by climate change. Some 45% are working to improve their disclosures on the climate risks they face and 38% to align with the Task Force on Climate-Related Financial Disclosure (TCFD) recommendations.

Re-allocating capital in response to environmental and social change
Industry on the move

The new importance of the environment and society are not just about good PR. Companies, banks and public bodies are changing the way they deploy money, in response to these shifts.

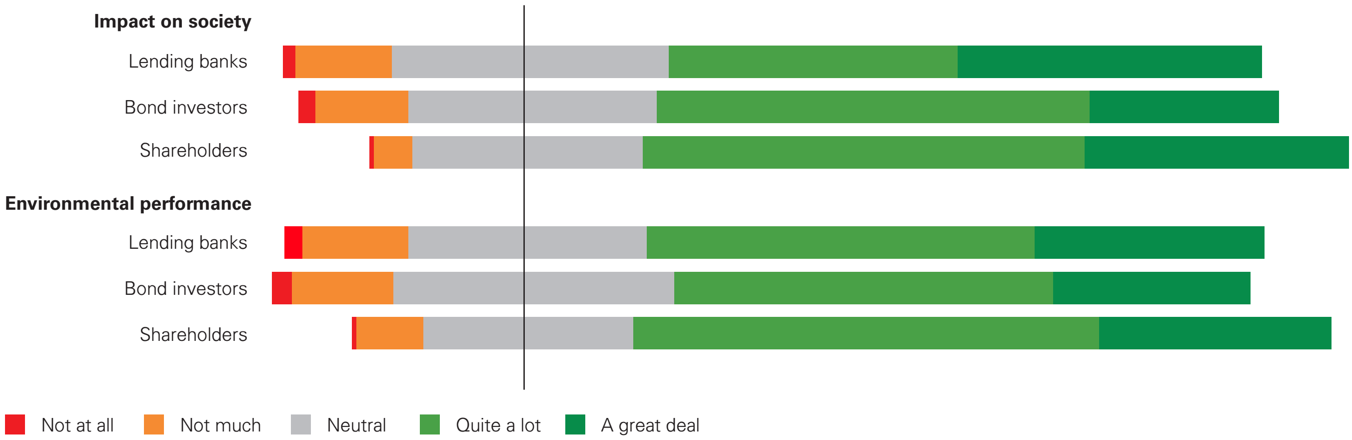
Only 6% of issuers globally expect to make no change in their allocation of capital towards positive environmental or social outcomes over the next five years. Forty percent say they will reallocate capital in this direction 'to a noticeable extent' and a quarter anticipate making substantial changes.

Most issuers see climate change as a near term issue for the business
Will climate change begin to affect our business or activities?



Banks care almost as much as shareholders about borrowers' ESG

Issuers: Our investors care about our environmental performance and impact on society...



ESG-linked loans

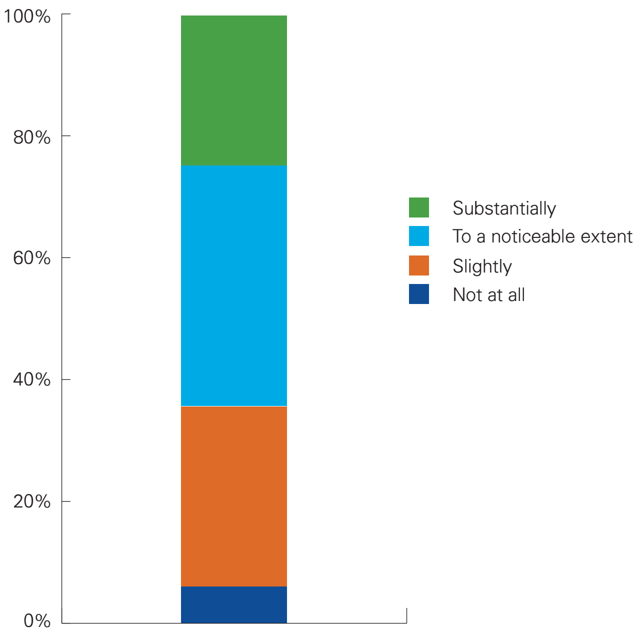
New product set to grow

A new financial product that has caught on fast in corporate financing in the past two years is bank loans, in which the interest margin paid by the issuer can be reduced, if it hits certain environmental or social targets — or increased, if its performance deteriorates.

The growth of these ESG-linked loans looks set to continue. While 20% of issuers globally believe the product is unlikely to suit them, 75% view it as 'very' or 'potentially interesting'.

Issuers to reallocate capital

Over the next five years, I would expect our organisation to change its allocation of capital away from activities challenged by environmental and social issues, or towards activities that promote positive environmental or social outcomes



Perceptions of shareholders, bondholders and lenders

Bondholders and banks care about ESG too

Across the board, issuers are feeling that their investors care about their environmental and social performance.

The survey analysed the pressure issuers feel from three investor groups: shareholders, bond investors and bank lenders.

Of issuers globally, 67% say their shareholders care 'quite a lot' or 'a great deal' about their environmental performance and 69% say this about shareholders caring about their impact on society.

For bondholders it is a somewhat lower share: 57% caring 'quite a lot' or a 'great deal' about the environment and 60% about society. Among bank lenders, 59% lay heavy emphasis on environmental performance and 57% on society.

For all three groups of investors, the share of issuers who felt 'little' or 'no' interest in their environmental and social perfomance was very low — about 10% or less.

Europe Report
Customers and society push Europe towards sustainability

Vying with North America for leadership

Issuers and investors in Europe — often seen as the cradle of responsible investing — vie with those in North America to be at the forefront of sustainable finance and investing. On some indicators, Europe appears to be ahead, on others, North America.

In Europe, 2.4% of investor respondents will still admit environmental and social issues are 'not very important' to them, and another 1.7% don't have a view — attitudes that none of our respondents in the Americas would seem to hold.

But other questions in the survey reveal differences of degree and nature between the two markets, which tend to indicate that many sustainable finance practices are more deeply embedded in Europe. Seventy-six percent of investors in Europe have a firm-wide policy on responsible investing, against 68% in the Americas.

And while 12% of Americas investors still say they rarely or never take into account an issuer's ESG credentials and performance, because investors should think only about financial indicators, only 4% of Europeans hold this view.

This divergence has already been influenced by regulators. France established a legal form for 'solidarity investment funds' in 2001 and since 2010 has required all employee saving schemes to offer them.

Since 2016, institutional investors have had to report on how they factor in environmental, social and governance (ESG) issues and climate change. Now, the EU itself is introducing a much broader swathe of sustainable finance legislation.

China's came first, but the EU laws are the most thorough attempt yet made to use market mechanisms such as disclosure and labelling to stimulate sustainable investing.

Both European issuers and investors in the survey are ahead of some other regions in feeling impelled by regulators to care about ESG.

When it comes to issuers, separating Europe and North America is harder. Exactly the same shares have public strategies for reducing their environmental impacts (66%) and private strategies (26%).

On strategies for social impact, the two continents are again evenly matched, though European issuers are slightly less likely (67% to 75%) to have made their strategies public. Contrasts emerge more between the mechanisms that impel consciousness of these issues, and the techniques used to tackle them.

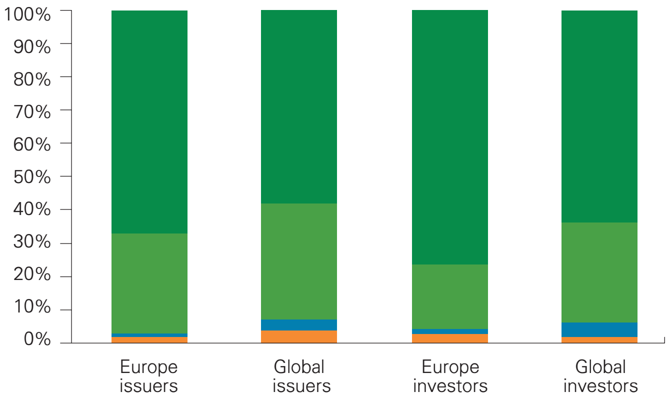
"France established a legal form for solidarity investment funds in 2001 and since 2010 has required all employee saving schemes to offer them."

Key Findings

- Environmental and social issues are factored into financing decisions more in Europe than in other regions
- 96% of Europe's investors and 97% of its issuers (above global averages) regard environmental and social issues as important
- It is the only region where most investors identify material ESG issues and always factor ESG considerations into investment decisions
- This reflects client demand — 57% of investors say most of their clients want them to be skilled in ESG and responsible investing: the highest proportion of any region
- Also strong social pressure — Europe has the highest perception that society expects market actors to focus on the environment and society, as well as above average demand from regulators
- Leadership in disclosure — an unrivalled 33% of investors disclose ESG characteristics of their entire portfolios, against a global average of 24%; issuer disclosure is second to none

Europe's attention to environment and society ahead of global levels

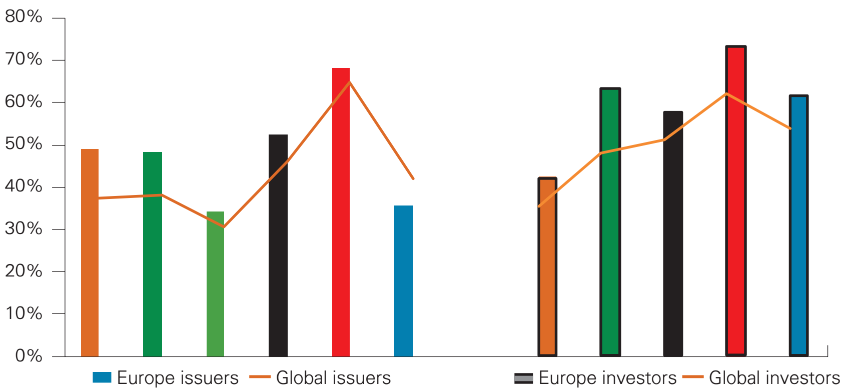
Our organisation's attitude to environmental and social issues is…



- They are very important to us
- They are somewhat important to us
- We don't have a view
- They are not very important to us
- They are not important to us at all

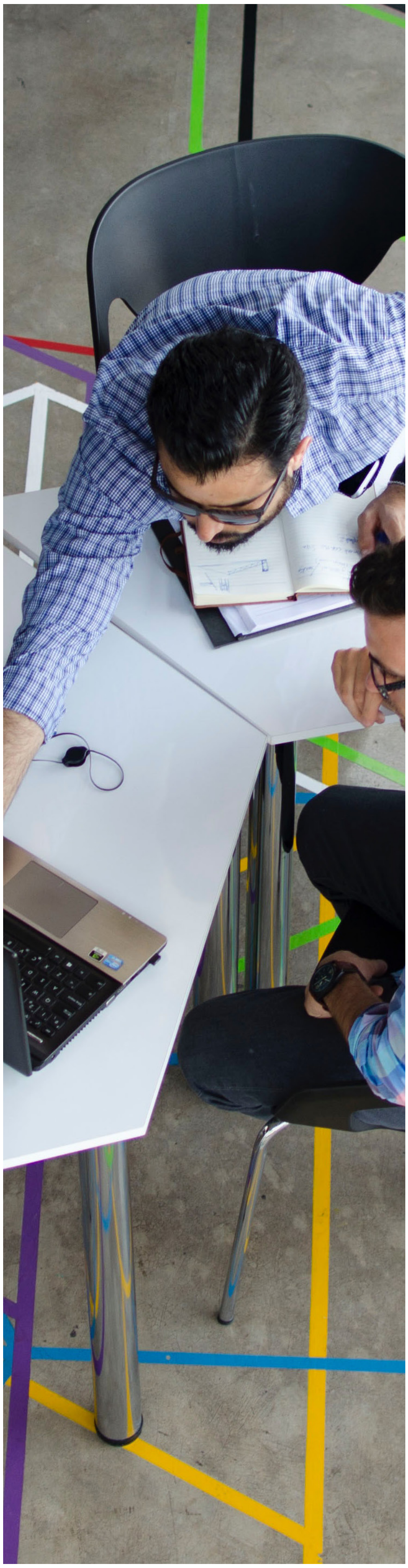
Investors much more confident of return from environmental and social awareness than issuers

We care about environmental and social issues because…



- Our customers want us to
- Our employees want us to
- NGOs or pressure groups demand us to
- Regulators require us to
- It aligns with our values as an organisation
- Paying attention to these issues can improve returns

- Our clients want us to
- Society expects it
- Regulators require it
- We believe it's right to care about the world and society
- It can improve investment returns and/or reduce investment risk



Europe Report

Drivers of sustainable finance

Stakeholder pressure strongly felt

External pressure to take account of the environment and society is very evident in Europe. More investors here than anywhere else care about environmental and social issues because 'society expects it' — 63%, compared to a global average of 48%, close to the Americas' level.

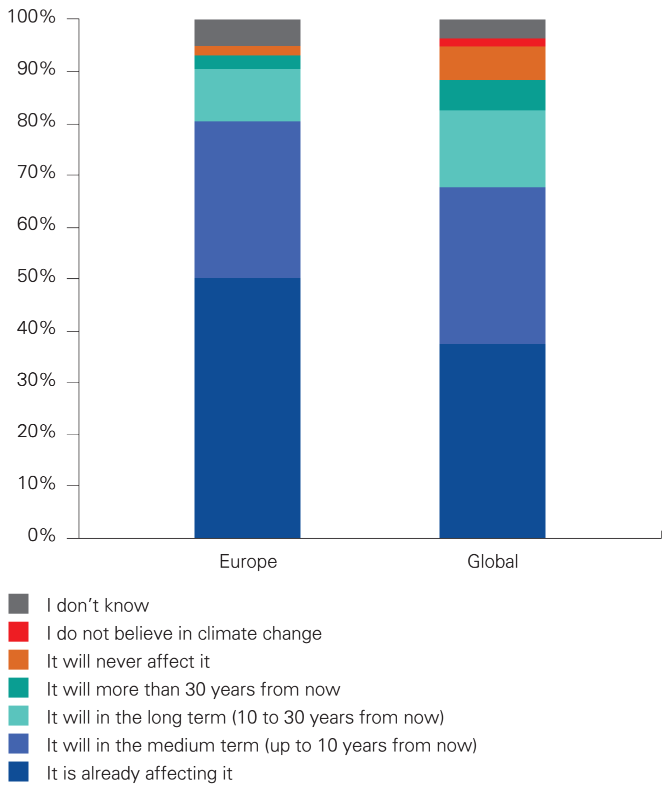
European investors also have the highest consciousness that their clients expect them to be skilled in responsible investing and offer this as a service, with 67% saying over half of clients want this, against 47% in the Americas.

A stark difference from the Americas is in how many of investors' clients are willing to give environmental and social issues equal priority with financial returns — 76% of investors put this share at over 20%, against 39% in the Americas.

Similarly, European issuers are above average in how much they feel demand from customers to perform well on environmental and social issues, at 48%. The push from NGOs (cited by 34%) and regulators (53%) is above the norm in Europe, too — and pressure from employees, at 48%, is the highest in the world. Regulatory pressure on investors is well above average, too — 58% versus 51% globally.

Half of European issuers say climate change is already affecting them

Issuers: will climate change begin to affect our business or activities...



Disclosure
Europe leads the way

A third of European investors disclose the ESG characteristics of their entire portfolios, more than in any other region (the global average is 24%).

Moreover, they report a world-leading 46% alignment with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) or other reporting frameworks, compared with a 32% global average. European issuers, meanwhile, have the lowest proportion refusing to make environmental and social disclosures of any region (still nearly 10%) and are the least likely (6%) to feel that requirements for them to disclose are excessive. They are also above average in the one third who say their disclosures will increase and that this is a good thing.

Investment practices
Deep ESG integration

Europe stands out as the only region where a majority of investors (53%) always factor ESG considerations into investment decisions.

It is also the only area where most investors have a formal approach to identifying material ESG issues for investments: 53% versus a global average of 35%. In the Americas this is 32%. This deep integration reflects the requirements of asset owners. An unmatched 15% of investors serving retail clients and 26% of those serving institutions say more than half their clients care as much or more about social and environmental concerns as financial returns, when making investment decisions.

As a consequence, European asset managers are seeking more guidance from their banks than peers in other regions, with particular focus on: measuring the impact of their investments, the ESG characteristics of individual issuers, how the economy is likely to evolve in response to climate change and green, social and sustainable bonds. They are also above average in the one third who say their disclosures will increase and that this is a good thing.

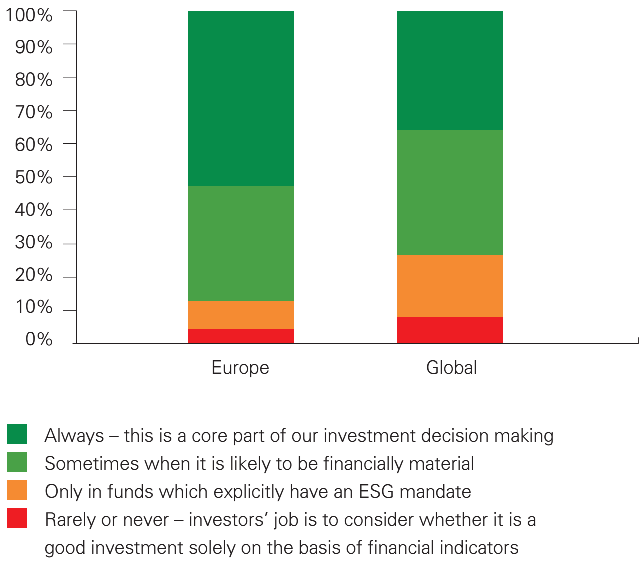
Climate scenario analysis
Issuers not ready yet

European issuers' sensitivity to climate change is high. The region scores above average on both recognising climate change's current impact and anticipating impact in the next 10 years.

Even so, only a minority of issuers have yet used scenario analysis to assess potential future impacts of climate change. About 35% of issuers have done it, a quarter are thinking about it, and some have worked with consultants (27%) or partners in financial services (23%) or their industry (37%) to determine standard assumptions on potential losses.

"A stark difference from the Americas is in how many of investors' clients are willing to give environmental and social issues equal priority with financial returns."

More than half of European investors always factor in ESG
Investors: when our firm is considering an investment in securities, we take into account the issuer's ESG credentials and performance...



Asia Report

Asian investors seek progress on sustainability, need better disclosure

Asia more cautious on sustainability, but catching up

Most indicators in the survey suggest Asian financial markets are not as environmentally and socially aware as those in other regions — but the gaps are often quite narrow.

The 175 issuers and 175 investors analysed — the biggest regional sample in our survey — cover diverse markets, in which state influence and market impulses interact in different ways: mainland China, Hong Kong SAR, Singapore, Indonesia, Malaysia and Thailand.

Financial authorities in each of these markets have taken steps to encourage green and sustainable finance, particularly green bonds, but these vary widely — mainland China has gone furthest in mandating the greening of its financial system.

In Asia 31% of investors say environmental and social issues are ‘somewhat important’ to them and 55% say they are ‘very important’ — not far behind global averages of 30% and 64%. The unconverted or indifferent remainder is 14%, compared with 6% globally. But that is still a small share. Among issuers it is similar — 15% are sceptical of environmental and social matters or do not have a view, compared with 7% globally. But more telling are some other differences, which show the dynamics affecting the development of sustainable finance. When it comes to action, Asia is catching up. Forty-nine percent of investors have a firm-wide policy on ESG issues, against 62% globally — but another 35% intend to develop one, meaning that only one in six are not moving on this issue, or do not know whether their organisation has a policy.

And Asian investors feel less inhibited in pursuing ESG investing — only 39% say there are issues holding them back, while globally, 61% of investors spy obstacles.

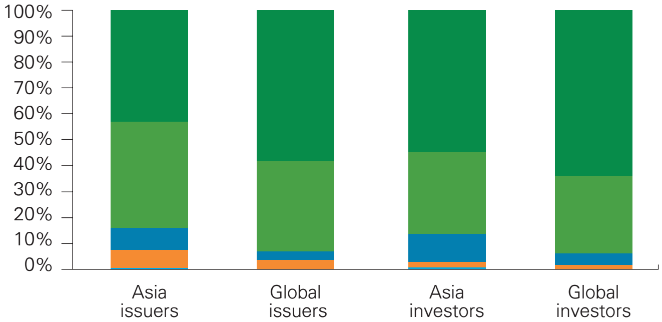
The share of issuers that expect to make no adjustment at all to their capital allocation in five years, in response to environmental and social issues, is lower in Asia, at 6%, than in Europe or the Americas. Among those that will shift capital, however, more issuers expect the change to be slight.

Key Findings

- Asia is close behind Europe and north America in its embrace of sustainable finance and investing, with 86% of the region’s investors and 84% of issuers regarding environmental and social issues as important
- Attitudes on many issues are similar, though the small minority ignoring these matters is larger in Asia
- This may reflect lower external pressure to consider environmental and social factors. Demand from regulators, customers, NGOs and employees is felt more weakly in Asia
- Client expectations are also below average. Thirty-five percent of investors report that a majority of their clients have negative perceptions of ESG and responsible investing. This compares to 21% globally
- But returns are more important to both investors and issuers in Asia, in driving their interest in environmental and social issues — an issue where they may be ahead of the curve
- Disclosure is a key area where improvement is needed — 24% of issuers make no ESG disclosures, twice the share of any region, while below 20% of investors disclose the ESG characteristics of portfolios, against around 25% globally
- Climate change is seen as a significant issue for business in Asia, as much as elsewhere, but on a slower timeline. Only 18% of issuers believe it is affecting them already, against 38% globally. But within a 30 year horizon, the gap is much less marked: 75% in Asia expect effects, versus 82% globally

Asia's investors more attentive to environment and society than issuers

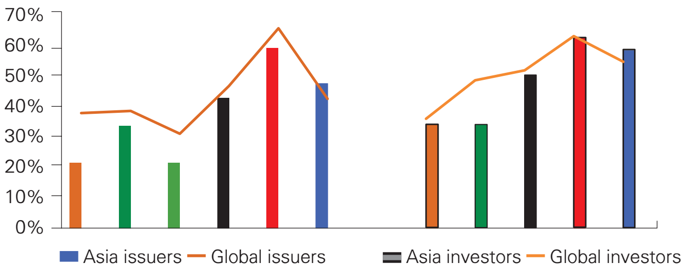
Our organisation's attitude to environmental and social issues is…



- They are very important to us
- They are somewhat important to us
- We don't have a view
- They are not very important to us
- They are not important to us at all

Asian issuers and investors have high confidence environmental and social awareness can boost returns

We care about environmental and social issues because…

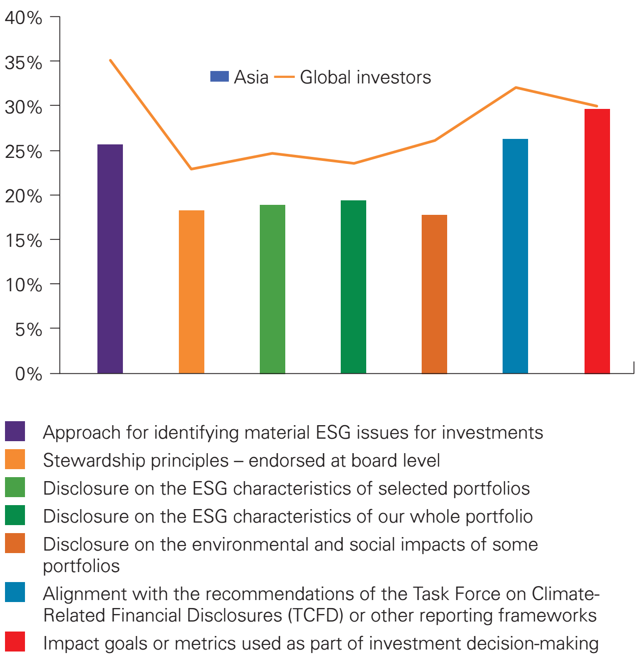


- Our customers want us to
- Our employees want us to
- NGOs or pressure groups demand us to
- Regulators require us to
- It aligns with our values as an organisation
- Paying attention to these issues can improve returns

- Our clients want us to
- Society expects it
- Regulators require it
- We believe it's right to care about the world and society
- It can improve investment returns and/or reduce investment risk

Asia Report

Impact and ESG analysis more prominent in Asia than disclosure
Our firm-wide policy on responsible investing or ESG issues includes the following...



Drivers of environmental and social awareness
Returns matter more in Asia

Asian investors take environmental, social and governance (ESG) considerations into account when investing at very similar rates to those in other regions.

Thirty-one percent do so always, 18% only in funds with an explicit mandate, and 42% sometimes, when it is likely to be financially material.

However, their convictions about sustainable investing have more to do with risk and return than elsewhere in the world.

Values are the most important driver for investors in Asia to care about environmental and social issues — 62% of investors cite this, the same as the global average. But the share believing it can improve investment returns or reduce risk is higher, at 58%, against 54% globally.

And only 8% of Asian investors, compared with 12% globally, are convinced responsible investing always entails accepting lower returns or higher risk. Nineteen percent in Asia, more than the 17% global average, see RI as an attractive way of trying to generate outperformance.

However, ESG in Asia is not just about improving financial results. Forty-three percent of investors — compared with 38% in Europe and 36% in the Americas — say they consider the effects of their investments on the real world.

Among issuers, a similar pattern emerges. Values are the most important driver, as elsewhere — although less dominant in Asia, at 58% of issuers against the 65% average. The belief that paying attention to the environment and society can improve returns is held by 47% of Asian issuers, more than in any other region.

“Regulators and investors should crank up the pressure on issuers, if they want better disclosure.”

Disclosure

More transparency wanted

Asian investors report fewer obstacles impeding them from pursuing ESG investing than their counterparts in other regions. But of the obstacles that are cited, three stand out as bulking larger in Asia than elsewhere.

These are lack of attractive investment opportunities, cited by 22%, inconsistency of ESG definitions (18%) and lack of disclosure by issuers (18%).

The last may not be surprising, considering that Asian issuers, by their own declaration, disclose less than those in other areas.

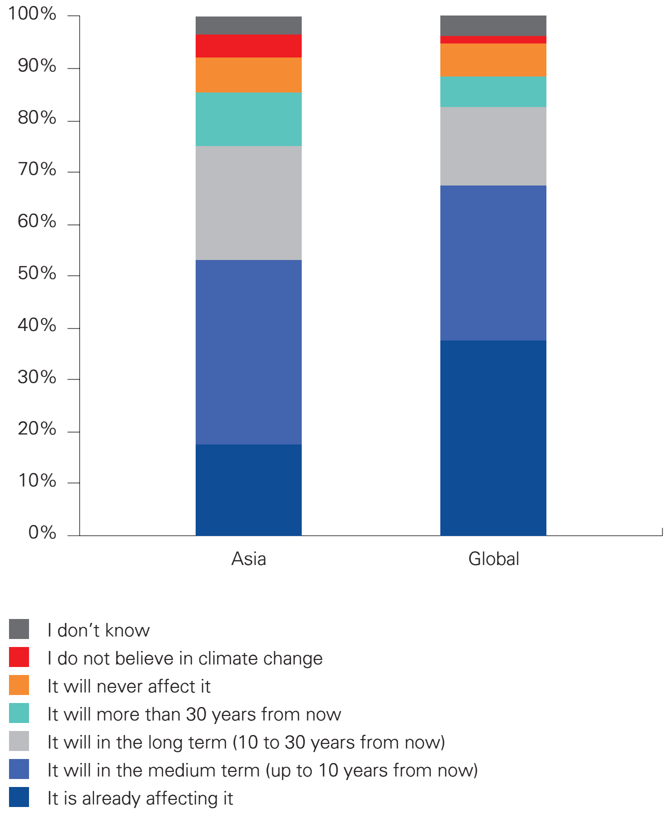
Twenty-four percent of issuers say they do not disclose at the moment on environmental and social issues — double the share anywhere else. And issuers also feel less pressure to increase their disclosure. The same small share, about 10%, say their present disclosure is too much; and a full third, more than elsewhere, believe their current disclosures are about right and they feel no pressure to increase them. Only 18%, compared with 28% globally, think disclosure will increase and welcome this; while 15% expect an unwelcome obligation from regulators or investors to disclose more.

The conclusion would appear to be that regulators and investors should crank up the pressure on issuers, if they want better disclosure.

However, Asian investors could do more on disclosure, too. They are closer to international norms than issuers, but still only 18% to 19% are disclosing the environmental and social characteristics of either some portfolios or their whole portfolios — global rates are 24% to 26%.

Asian issuers foresee climate change’s effects developing more slowly

Issuers: will climate change begin to affect our business or activities...



Middle East Report
Middle East wide awake to climate change

Issuers plan big shifts in capital allocation

As the Middle East works to reduce its dependency on oil and gas and diversify its economies, there is strong recognition from survey respondents in the region of the impact climate change can have on business.

Issuers and investors are incorporating climate change and sustainability goals into their decision-making and strategies.

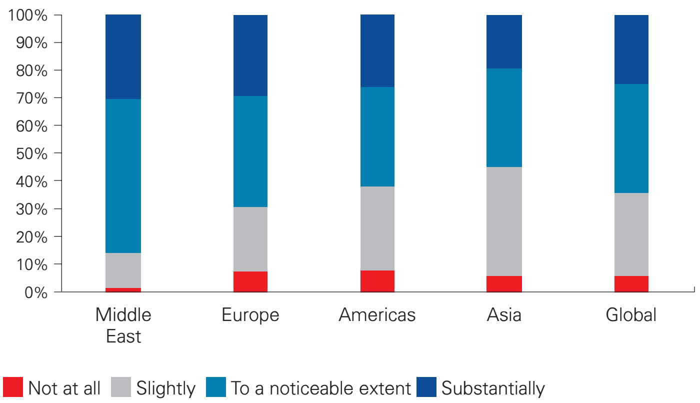
Fifty-six percent of issuers say global warming is already affecting them and over 90% foresee an impact in the next decade. Uniquely to the Middle East, not a single issuer thinks it will be safe from the effects of climate change for the next 30 years.

Middle Eastern issuers do not plan to sit still — they are expecting to change their allocation of capital in response to environmental and social issues. Eighty-six percent expect to move capital substantially or to a noticeable extent — the next closest region is Europe, where 69% expect this.

This awareness of climate change means most issuers in the Middle East have both a strategy for reducing their environmental impact and one for ensuring they have a positive impact on society. For 62% of them, this strategy is public — almost as many as in the Americas or Europe. Investors in the Middle East are not quite so determined — only 54% say environmental and social issues are very important, a lower share than elsewhere.

But virtually all the rest say these issues are somewhat important. At 59%, the share of investors that have a firm-wide policy on responsible investing is 10 percentage points above the proportion in Asia, but behind the Americas (68%) and Europe (74%). However, when the 37% that intend to develop a policy are added to those that have one, the Middle East draws level with the Americas and Europe.

Middle Eastern issuers overwhelmingly expect to reallocate capital because of the environment and society
Over the next five years, I would expect our organisation to change its allocation of capital away from activities challenged by environmental and social issues, or towards activities that promote positive environmental or social outcomes



Key Findings

- Climate change is grasped as a real and present danger by more issuers in the Middle East than anywhere else. Over 90% see impacts this decade and 56% feel them already
- Capital will be moved substantially in the next five years, to adjust to environmental and social priorities. Issuers here have more plans for reallocation of investments than those anywhere else
- 97% of the region's investors and 98% of issuers (above averages) see environmental and social issues as important
- Values of social responsibility are felt strongly in the Middle East, especially by issuers
- There has been very little issuance of labelled green, social and sustainable bonds in the Middle East, although the region has a thriving sukuk market, in which proceeds must be used according to Islamic principles. Forty-nine percent of issuer respondents say they might issue labelled bonds in future, while a unique proportion of investors reckon them less risky and producing better returns than ordinary bonds
- There is high interest in ESG-linked loans, with 40% of issuers saying the product sounds 'very interesting for us' and 54% 'potentially interesting'
- Investors report the highest regional perception of obstacles to pursuing ESG investing more fully and broadly: 77% versus 61% globally
- Middle Eastern asset owners are seeking more guidance on ESG from their asset managers than elsewhere. An average of 29% of respondents want more advice on each of eight issues, against an average of 12% in both Europe and the Americas

Data problems

Facing roadblocks, seeking guidance

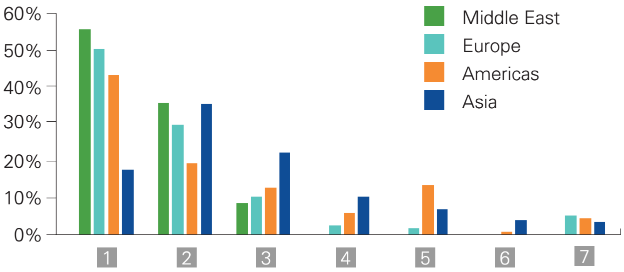
Middle Eastern investors report the highest regional perception of obstacles to pursuing ESG investing more fully and broadly: 77% versus 61% globally. This may be because regional regulation is slow moving. The region's biggest hurdles are:

- Lack of ESG data comparability between issuers (54% compared to 26% globally)
- Shortage of expertise or qualified staff (46% compared to 27%)
- Lack of demand from clients (41% against 20%)

Moreover, Middle Eastern asset owners are seeking more guidance from their institutional investors than peers in other regions, with particular focus on how the economy is likely to evolve in response to climate change, measuring the impact of their investments and green, social and sustainable bonds.

Middle East leads in perception of climate as near term risk

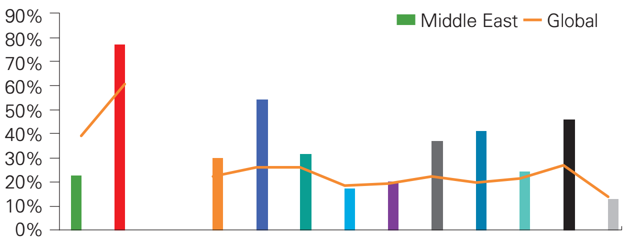
Will climate change begin to affect our business activities?



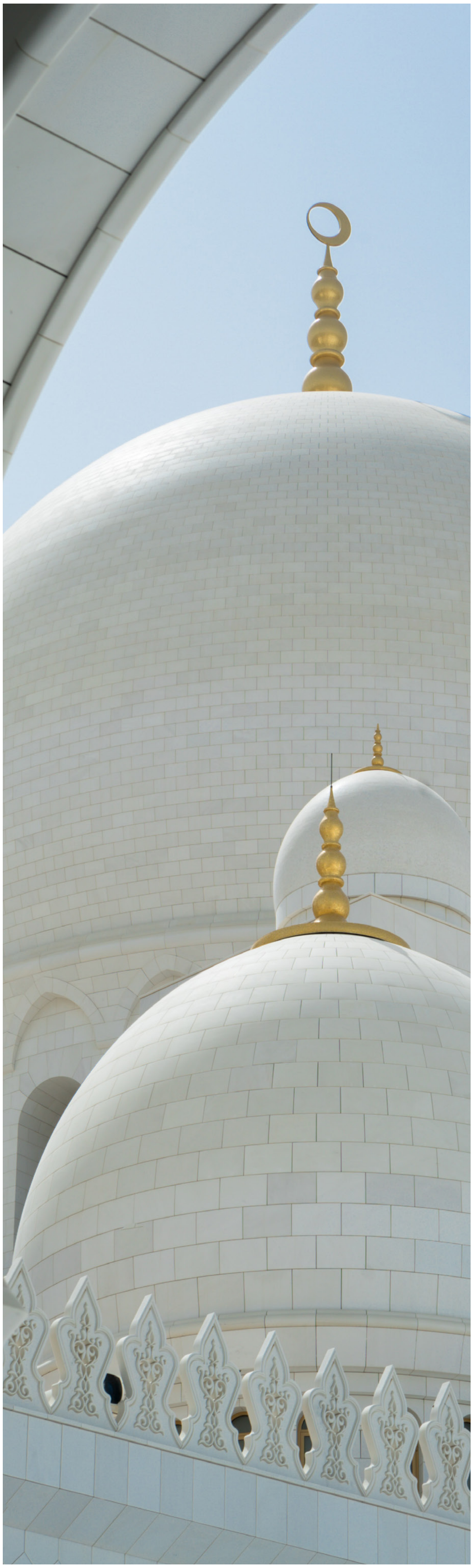
1 It is already affecting it
2 It will in the medium term (up to 10 years from now)
3 It will in the long term (10 to 30 years from now)
4 It will more than 30 years from now
5 It will never affect it
6 I do not believe in climate change
7 I don't know

Lack of data hampers Middle East investors

Is anything holding you back from pursuing ESG investing more fully and broadly? And if so, what?



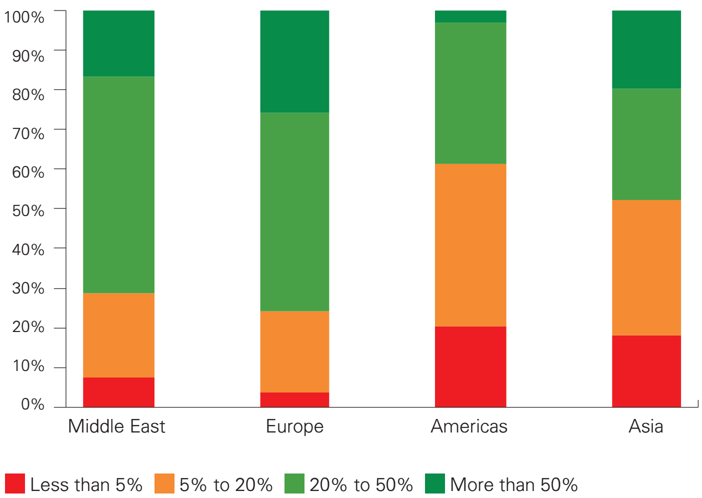
- No, nothing is holding us back
- Yes, there are certain issues holding us back….
- Poor quality or availability of ESG data
- Lack of comparability of ESG data across issuers
- Lack of attractive investment opportunities
- Lack of disclosure by issuers
- Inconsistency of ESG definitions
- Relatively poor financial returns
- Lack of demand from clients
- Regulatory or legal constraints
- Shortage of expertise or qualified staff
- Our firm does not want to go further in this direction



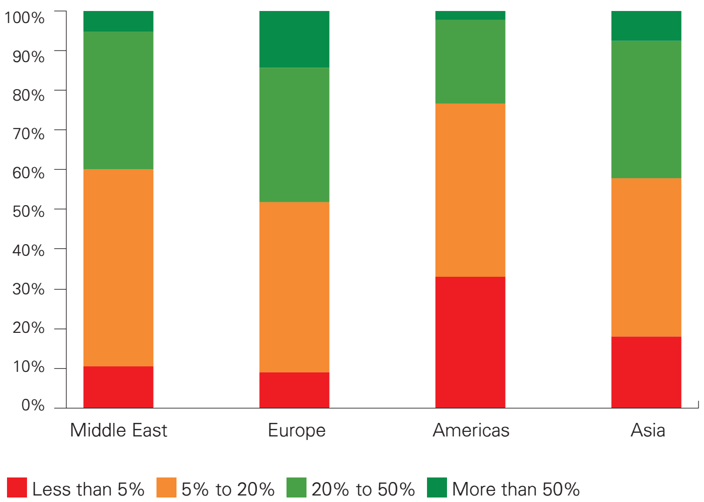
Investors' clients in Middle East more likely to lay as much emphasis on social or environmental concerns as financial ones

What proportion of my clients place equal or greater weight on social or environmental concerns as on financial returns when making investment decisions…

Institutional clients



Retail or private clients



Investors' values

Asset owners prioritise environment and society as well as returns

The Middle East has a strong sense that its values require caring about environmental and social issues.

Among investors, 63% say they care about E&S issues because 'We believe it's right'. That is in line with the global average, but among issuers, 77% say 'this aligns with our value as organisation'. This is much higher than the share in any other place studied in this report — the next highest is the US on 70%.

This attitude may be reflected, too, in the views of investors about whether their clients care as much about social or environmental concerns when making investing decisions, as they do about financial returns.

For both institutional and retail clients, the Middle East is just slightly behind Europe in having a high percentage who said clients would put these issues on a par with returns. Just over 70% of Middle Eastern investors believe that at least 20% of their institutional clients would take this view, compared with about 75% in Europe. In the Americas and Asia, less than half of investors think this.

When it comes to retail or private clients, only 10% of Middle Eastern investors say fewer than 5% of them give parity to E&S issues — similar to Europe. Nearly half the Middle East respondents reckon 5% to 20% of private clients put value on these issues. Forty percent put the share higher than 20%.

Green, social and sustainable debt
Investors to lap up labelled bonds

Middle Eastern investors are particularly positive about labelled green, social and sustainable bonds.

These are debt instruments whose proceeds the issuer promises to invest in green or social projects. The issuer then reports to investors on how it has done this.

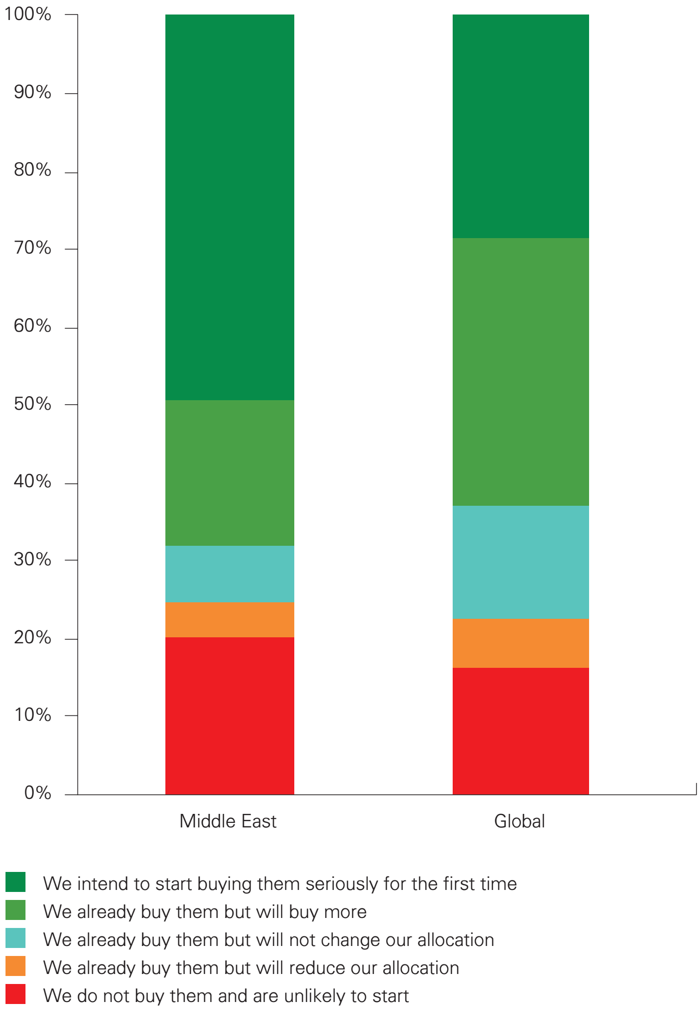
Almost half of investors in the region (49%) report that they will start buying these instruments seriously for the first time in the next two years, while a further 19% will increase their investments.

An unmatched 46% and 40% judge that they are less risky and produce slightly better returns than ordinary bonds, compared with 39% and 35% globally. However, over 40% of the region's investors also make the opposite case on the instruments' returns.

Issuers are also enthused about this type of debt. Forty-nine percent of respondents, a global high, say they are considering entering the market.

Meanwhile, an exceptional 94% of issuers are interested in ESG-linked loans — the highest proportion globally (the average is 75%). These instruments give the issuer a lower interest margin if it hits environmental or social targets, or a higher one if it deteriorates.

Middle East green bond demand to grow
Investors' allocation to green, social and sustainable bonds will evolve in the next two years...



Americas Report
Bulls and bears grapple with sustainability challenge

Climate change message gets through

The Americas are in many ways on the front line of the struggle for sustainability in financial markets.

The economies studied in our survey — the US, Canada, Brazil and Mexico — are all highly involved in commodities exploitation, including fossil fuels. Political views on environmental and social issues can be polarised. At the same time, the US has the largest capital market, backed by the deepest financial education sector, and tends to set the trend for other countries to follow.

The survey shows issuers and investors in the Americas are convinced environmental and social issues are important to their business activities — and are acting accordingly.

As in other regions, belief that this is the right thing to do is the most important motivator — 64% of issuers say caring about these matters 'aligns with our values as an organisation'.

Investors are less sure — the proportion who emphasise 'it's right to care about the world and society' is the lowest globally: 53%, versus a 62% average. The ways issuers and investors put this into practice vary, however — a strong share of investors are confident responsible investing will make them money; but a similar share think it's a financial loser.

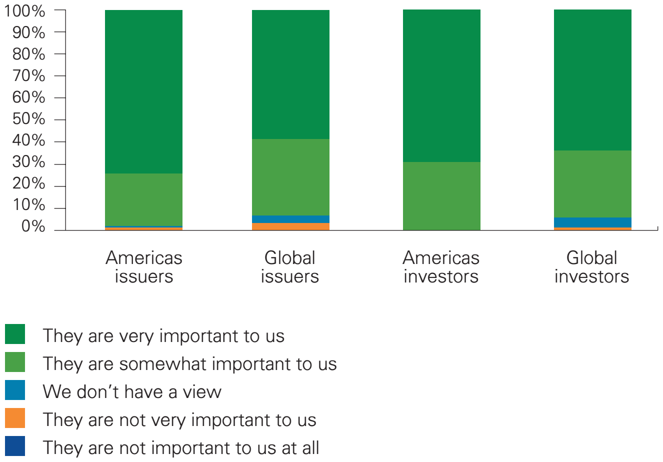
On climate change, the Americas appear to be responding strongly. All but 13% of issuers are planning for it in a formal way at senior level. A third now consider climate risk as part of formal risk management and 37% have a board policy on it — often one that involves aligning reporting with the Task Force on Climate-Related Financial Disclosures (TCFD).

Key Findings

- Environment and society are universally accepted in the Americas as relevant to business and financial affairs
- 100% of the region's investors and 98% of issuers (well above average) regard environmental and social issues as important
- Values are the strongest driver, but less dominant for investors than elsewhere: 53% cite this, against 62% globally
- Regulators are also driving sustainability less than elsewhere — only 33% of issuers and 41% of investors feel regulatory pressure on the environment and society, the lowest rates globally
- Americas issuers are very strong on considering their environmental and social impacts — a contrast with investors, whose use of impact goals as part of investment decision making is the lowest globally at 17%
- There is a strong awareness that the language used around responsible investing can be baffling: a third of investors say at least three quarters of their clients get confused about the differences between terms. Thirty-nine percent say lack of expertise is a barrier to practising ESG more fully

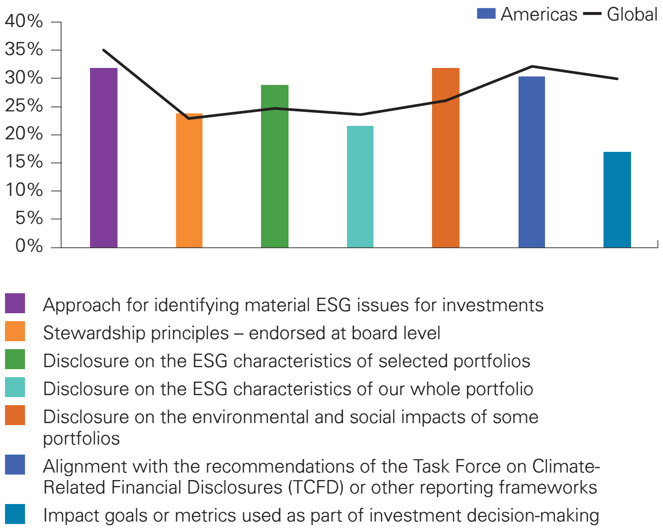
Americas issuers and investors paying attention

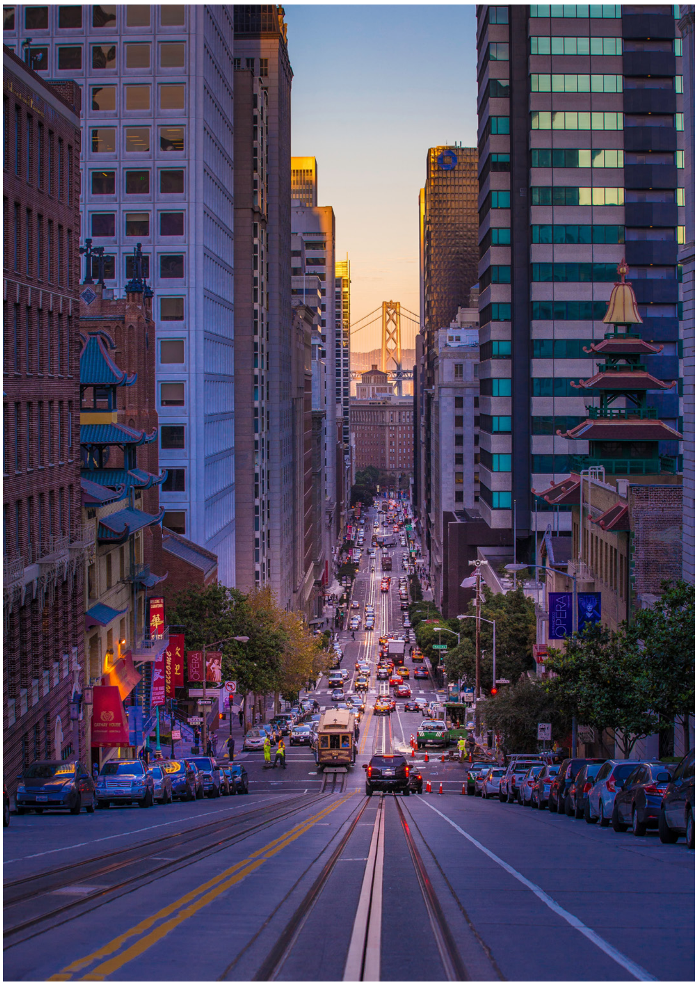
Our organisation's attitude to environmental and social issues is...



Americas not majoring on impact goals

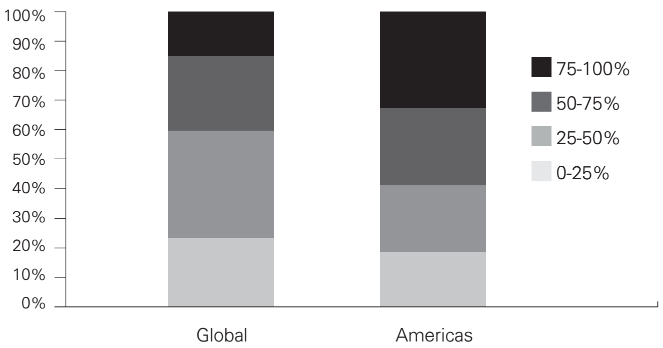
Investors: Our organisation has a firm-wide policy on responsible investing or ESG issues and it includes the following...



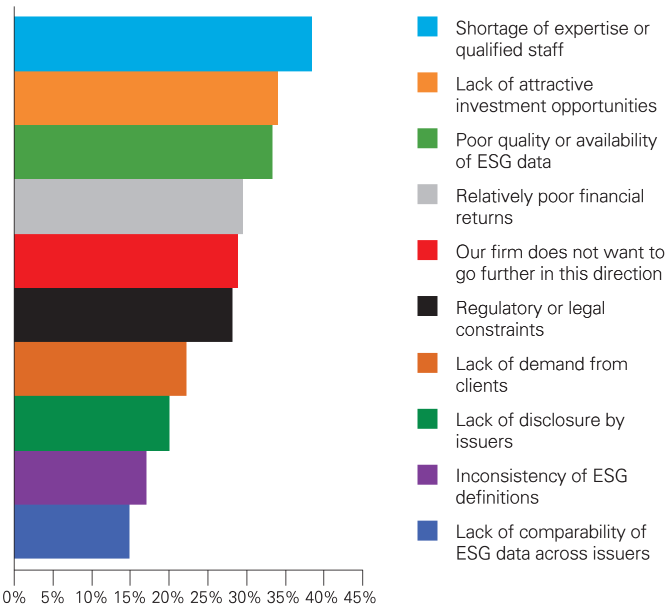


Americas Report

Americas investors' clients most confused about terminology
Investors: What proportion of my clients get confused about the differences between terms such as responsible, socially responsible, ethical, environmental, social and governance, impact, sustainable, green investing…



Lack of expertise and poor returns perceived in Americas
Investors: we are being held back in pursuing ESG investing by...



"On climate change, the Americas appear to be responding strongly. All but 13% of issuers are planning for it in a formal way at senior level."

Business effects
Sceptics and believers both strong

Despite the overall strong affirmation in the Americas that environmental and social issues matter, market participants are polarised in how they act on this realisation.

The Americas has a high share of bulls on responsible investing. Nineteen percent, level with Asia and well ahead of Europe's 10%, are satisfied that RI is 'an attractive way of trying to generate outperformance'.

But the Americas also has the largest share of doubters. The fifth who say ESG investing 'makes little difference to returns or risk' is about the global norm. But in the Americas, a full 20% are convinced RI 'always involves accepting lower returns or higher risk'. In Europe, only 13% are so negative.

Issuers are more gung-ho. Their 42% agreement that 'paying attention to environmental and social issues can improve returns' matches the global average and beats Europe's 36%.

On climate change, too, expectations are widely dispersed. Virtually no issuers say they 'don't believe in climate change' but 13% — a global high — believe it will never affect their businesses. Yet over 60% of issuers expect to feel the effects within the next decade, and more than two thirds of those say they are already affected.

Skills gap
Education and clarity needed

Investors in the Americas report the highest level of confusion over ESG investing among their clients — 59% say more than half their clients are muddled by the variety of terminology used, and a third say more than three quarters of clients are at sea.

A high share of Americas investors (76%) feel that obstacles hold them back from pursuing ESG investing more fully. The barrier they name most often, at 39%, is shortage of expertise or qualified staff, followed by lack of attractive investment opportunities and poor quality of ESG data.

Real world impact

Issuers target impact, investors don't

Well over 90% of issuers in the Americas — level with Europe and above the global average — have strategies in place for reducing their environmental impacts and ensuring they have a positive impact on society.

But willingness to consider this external impact among investors is much lower. Thirty-six percent of investors in the Americas consider the effects of their investments on the real world, such as carbon emissions — a bit below par, but in the same ballpark as investors elsewhere.

But the Americas ranks lowest globally on the extent to which investors use impact goals and metrics as part of investment decision making: 17%, versus a 30% global average.

Regulation

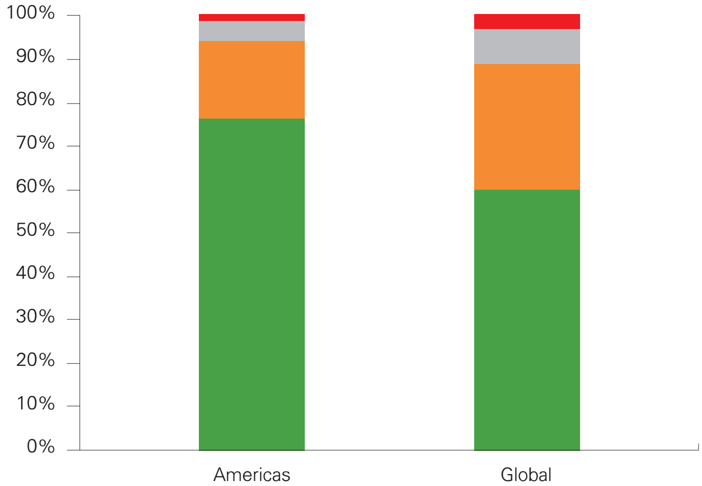
Free market spirit

The proportion of Americas issuers who care about environmental and social issues because 'regulators require us to' is the lowest of any region: 33%, against a global average of 46%.

Americas investors also feel the lowest level of regulatory pressure in this direction. Only 41% cite this as a driver for their emphasis on environmental and social issues, against 51% in the world as a whole.

Americas firms target positive impact

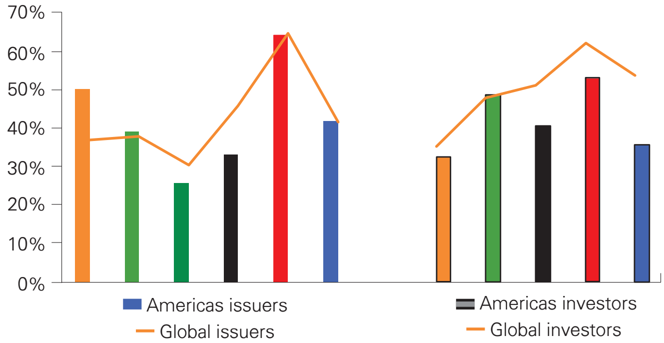
Issuers: My organisation has a strategy for ensuring it has a positive impact on society...



No, there is no strategy in place
I don't know of any such strategy
Yes, and this is private
Yes, and this is published

Values and social expectations dominate in Americas

We care about environmental and social issues because...



Our customers want us to
Our employees want us to
NGOs or pressure groups demand us to
Regulators require us to
It aligns with our values as an organisation
Paying attention to these issues can improve returns

Our clients want us to
Society expects it
Regulators require it
We believe it's right to care about the world and society
It can improve investment returns and/or reduce investment risk

Canada Report
Issuers ahead of the game, investors behind

Disconnect on impact

Canada's issuers are among the most aware in the world of environmental and social issues — as befits a country whose economy is heavily exposed to fossil fuel production and use, but where the environment figures large in public consciousness.

British Columbia became in 2008 the first territory in north America to introduce a carbon tax. Even neighbouring Alberta, famous for its oil sands, followed suit in 2017, though it repealed the tax in 2019.

It is small wonder Canada has the highest proportion, among the markets studied in this survey, of issuers that say E&S issues are 'very important' to them — 84%. As in other markets, the organisation's own values are a strong driver of this, at 60% of issuers, but in Canada, even more markedly than in the UK, customers' wishes ranks even more strongly than values, at 66%. Issuers in Canada also have the highest proportion of published environmental impact strategies: 76% versus a global average of 55%. A further 18% of Canadian issuers also have private ESG strategies. Surprisingly, however, this awareness is not matched among Canadian investors, which score below global averages on many indicators. Only 56% have a firm-wide responsible investing policy, well below US and UK rates.

Similarly, Canada has the lowest proportion of investors (24% versus 35% globally) that always factor ESG considerations into investment decisions. Ten percent rarely or never do so, compared to the 8% global average.

The country has the lowest proportion (14%) among the five featured markets that use impact goals or metrics as part of their investment decision-making. Moreover, Canada has the lowest proportion globally (54%, equal with Hong Kong) of investors for whom ESG issues are very important — though perhaps some modesty is at work, since Canada also has the highest proportion globally of those for whom ESG is somewhat important (46%).

Canada

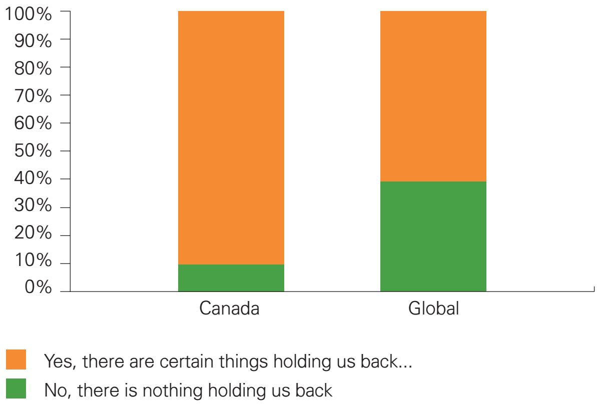
Environmental and social issues are:		
	Investors	**Issuers**
Very important	54%	84%
Somewhat important	46%	14%
Important	**100%**	**98%**
Global tally	**94%**	**93%**

Key Findings

- Environmental and social issues are factored into financing approaches in Canada rather less than in other national markets
- Mixed performance on impact — Canada has the lowest proportion (14%) among the five highlighted markets of investors using impact goals or metrics; but the highest proportion of issuers publishing environmental impact strategies
- There is a split on disclosure too — investors are below average on disclosing environmental, social and governance (ESG) characteristics of their portfolios, but only 4% of issuers make no disclosures, compared with a 16% global average
- Canada has the highest perception of obstacles to pursuing ESG investing more fully and broadly: 90% versus 61% globally; but also the highest proportion of investors who intend developing a responsible investing or ESG policy
- There is a significant take-off in investor appetite for green, social and sustainable bonds

Canadian investors feel inhibited

Is anything holding you back from pursuing ESG investing more fully and broadly?



Investment practices
Significant obstacles, but growing engagement

Canada reports the highest perception of obstacles to pursuing ESG investing more fully and broadly: 90% versus 61% globally.

Investors' largest obstacles are:

- Lack of attractive investment opportunities (50% compared to 26% globally)
- Poor quality or availability of ESG data (42% compared to 22%)

Despite these obstacles, Canada displays a clear commitment to growing ESG focus. The 44% of investors who intend developing a responsible investing or ESG policy is the highest proportion globally.

In addition, Canada has the highest proportion of investors engaging with issuers over executive compensation (38% versus 29% globally). They are also above average in engaging with issuers for more ESG disclosure and for ESG improvements, as well as in backing shareholder motions for ESG improvements and divesting from poor ESG performers.

Moreover, Canada has the highest proportion of investors that buy or construct specific ESG products (38% versus 29% globally).

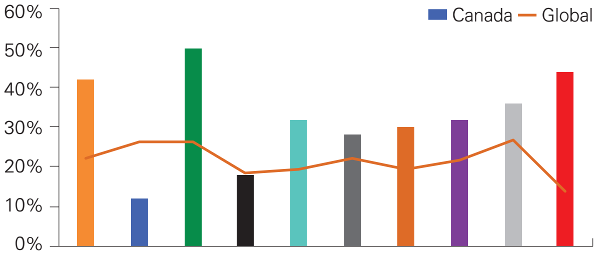
Green debt
Investors warm

Almost half of Canadian investors (42%) say they will start buying green, social or sustainable bonds seriously for the first time in the next two years, while a further 15% will increase their purchases.

Fifteen percent do not buy them and do not intend to start, while 8% intend to cut back.

Canadian investors see barriers aplenty

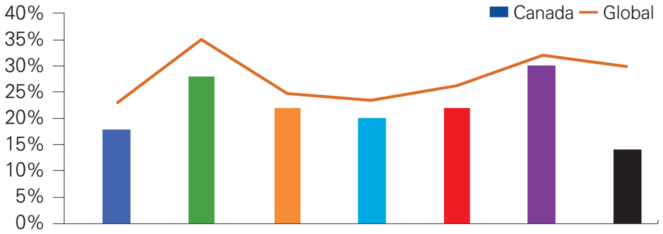
Is anything holding you back from pursuing ESG investing more fully and broadly?



- Poor quality or availability of ESG data
- Lack of comparability of ESG data across issuers
- Lack of attractive investment opportunities
- Lack of disclosure by issuers
- Inconsistency of ESG definitions
- Relatively poor financial returns
- Lack of demand from clients
- Regulatory or legal constraints
- Shortage of expertise or qualified staff
- Our firm does not want to go further in this direction

Canada's investment policies have gaps

Our organisation has a firm-wide policy on responsible investing or environmental, social and governance issues and it includes the following…



- Stewardship principles – endorsed at board level
- Approach for identifying material ESG issues for investments
- Disclosure on the ESG characteristics of selected portfolios
- Disclosure on the ESG characteristics of our whole portfolio
- Disclosure on the environmental and social impacts of some portfolios
- Alignment with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) or other reporting frameworks
- Impact goals or metrics used as part of investment decision-making

China Report
Chinese players feel free to pursue ESG

Optimistic on returns

China's government was the first in the world to develop a comprehensive policy on sustainable finance, with its Guidelines for Establishing the Green Financial System, published by seven ministries in August 2016.

The move followed China's decision in 2015 to become a guiding and supportive force in the world's response to climate change, in the lead-up to the Paris Agreement. There is no doubt China's financial actors have felt the effects of state policy — high levels of green bond issuance, for example, are a direct result.

But against this backdrop, what emerges from our survey is not the strength of state pressure, but rather the opposite — market participants are convinced that paying attention to environmental and social issues is beneficial for their own purposes, and especially because they think it improves returns. It is notably more common in China than elsewhere to be convinced that responsible investing generates outperformance: 35% versus a 17% global average.

A smaller share than elsewhere hold this view in the more lukewarm form favoured in, for example, the UK, that while responsible investing may involve accepting lower returns and/or higher risk, it also offers the prospect of outperformance: 13% versus 24% global average.

Similarly, Chinese issuers' emphasis on ESG reflects greater optimism than elsewhere that this is a route to improving returns. Forty-eight percent take this view, compared with 42% of issuers globally. And Chinese investors also feel less hampered than those elsewhere. Sixty-nine percent, more than in any other focus country or region, say nothing is holding them back from pursuing ESG more fully and broadly.

This underlines the sense that Chinese market participants are enthusiastic about ESG issues and feel able to pursue them at will.

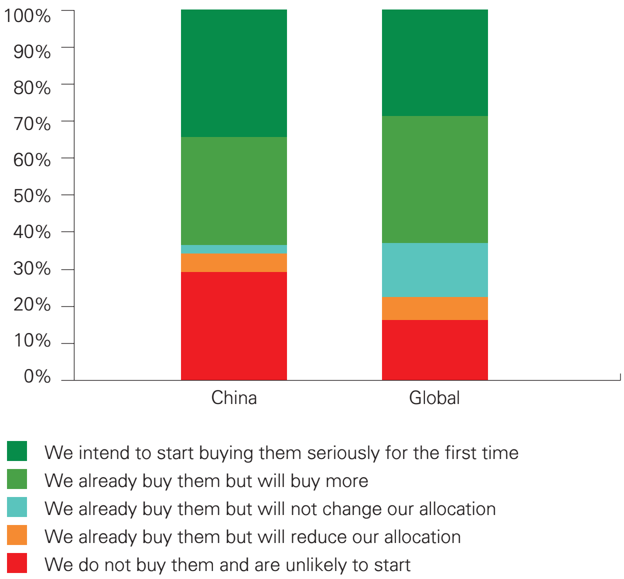
China

Environmental and social issues are:		
	Investors	**Issuers**
Very important	66%	42%
Somewhat important	24%	46%
Important	**90%**	**88%**
Global tally	**94%**	**93%**

Key Findings

- Environmental and social issues are factored into financing approaches in line with other national markets
- Values and hopes of better returns are the leading drivers for focusing on environmental, social and governance (ESG) matters. Regulators are the most important external spur for investors and issuers, but they have less sway than elsewhere
- A world-beating 69% of Chinese investors feel nothing is holding them back from pursuing ESG
- Chinese investors are notably more positive than peers on the prospect of responsible investing generating outperformance: 35% versus 17% global average; issuers, too, are optimistic that an environmental and social focus can improve returns
- The concept of stewardship is more developed than elsewhere — 32% of investors have principles endorsed at board level, against a global average of 23%
- Mixed signals on green, social and sustainable bonds — a third of investors will start buying in the next two years, but a high 29% do not buy and do not intend to start, while 5% intend to reduce purchases

China's green bond market to get big influx of cash
Investors' allocation to green, social and sustainable bonds will evolve in the next two years...



China Report

Investment policies

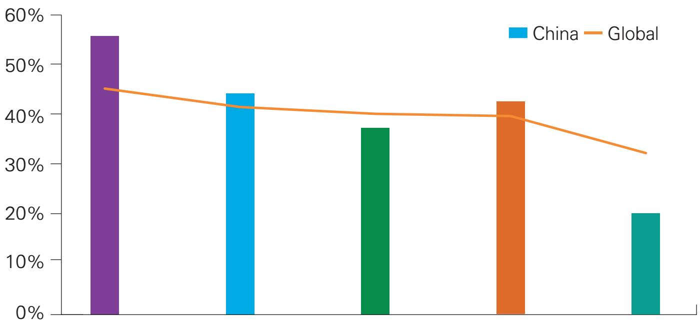
Stewardship well recognised

China's concept of stewardship is more developed than average. Thirty-two percent of investors have stewardship principles endorsed at board level, versus a global average of 23%.

Chinese investors also outperform on having adopted an approach for identifying material ESG factors for investments. At 38%, more do it than the 28% in Canada. This feeds into the above average proportion of investors (38% versus 35% globally) that always factor ESG considerations into investment decisions. However, 11% rarely or never do so, against an 8% global average.

China ahead on disclosing against business initiatives

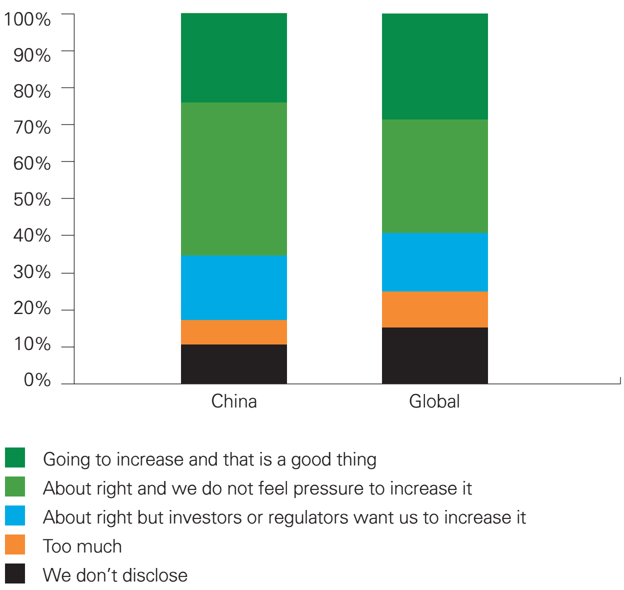
The disclosure we make on environmental and social issues...



- Tracks our progress on business initiatives that address environmental concerns or social impact
- Tracks our progress towards our public commitments
- Is aligned with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)
- Is aligned with the Sustainable Development Goals
- Discloses operational data relating to our environmental impact

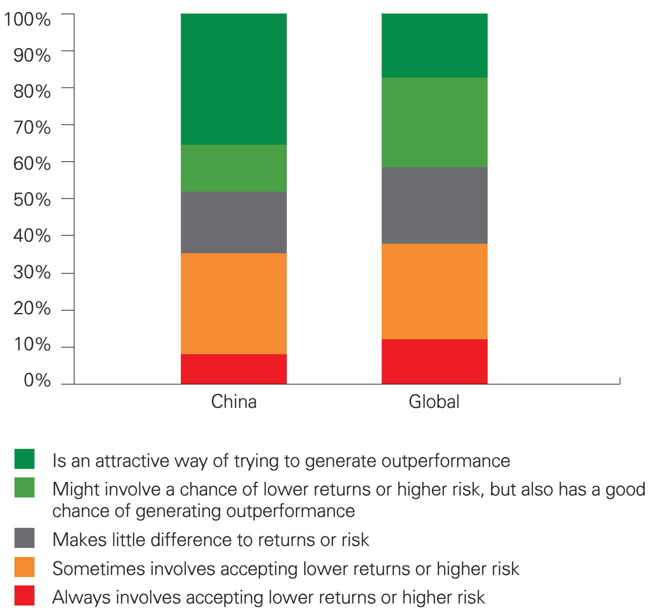
Chinese issuers content with disclosure

The level of disclosure we make on environmental and social issues is:



China has high confidence sustainable investing is profitable

Investors believe practising ESG, responsible or sustainable investing...



External stakeholders

Regulators' influence is mild

External pressure on Chinese investors to care about ESG comes first from regulators, at 48% (though this is below the global level of 51%) and then from clients. At 42% clients punch above their weight in China, versus 36% of investors globally citing them.

Society's expectations of investors are less strident in China, at 36%, below the world norm of 48%. Similarly, external stakeholders are not particularly important in shaping Chinese issuers' behaviour. Regulators have the most clout, with 40% influenced by them, but that is below the 46% global average. NGOs' and pressure groups' demands are mentioned by a surprisingly high 34%.

Green debt

Untouched investor pools

China has been one of the biggest sources of green bond issuance in recent years, but despite that strong market growth, investors' views show that there is still huge untapped potential among domestic buyers — and even that many investors remain to be convinced of the product's merits.

When it issues a labelled green, social or sustainable bond, an issuer promises to use the proceeds for specific beneficial projects, and report on how it has done so. A third of Chinese investors report that they will start buying these instruments seriously for the first time in the next two years. But 29%, the highest ratio of any region, do not buy them and do not intend to start, while 5% intend to reduce their allocations.

Only 20% of Chinese investors agree that green/social/ sustainable bonds are less risky than ordinary bonds and 22% think they produce slightly better returns, compared with global rates of 39% and 35%. These are the most sceptical views in the survey on those points.

Hong Kong Report
Asset owners the bright spot in Hong Kong

Government helps stimulate growing consciousness

Hong Kong's financial market participants are aware of environmental and social issues and many are committed to responding to them, even if this consciousness is not yet as complete as it is in other markets studied in the survey.

Eighty-two percent of investors consider these issues important and 54% very important. The minority who are less interested is larger in Hong Kong — more like a fifth, against 6% or 7% globally.

The drivers for this interest are broadly similar in Hong Kong to elsewhere. More than half of Hong Kong investors believe a focus on environmental, social and governance (ESG) issues is intrinsically right (54%, compared with 62% in mainland China and the world). The share of Hong Kong issuers who believe this aligns with their values is identical — 54%.

Just as prevalent in Hong Kong (also 54% of investors) is the view that caring about these issues can improve investment returns or reduce risk. Hong Kong issuers are less convinced of this. Forty-two percent say they believe it can improve returns — in line with the global average.

Not far behind among investors is the view that 'regulators require it' — at 52%, a higher share than mainland China's 48%. This result is interesting, considering that the mainland's policy on greening its fnancial system, introduced in 2016, is very comprehensive.

Market participants will be aware that the Hong Kong government also launched in 2018 a raft of policies to encourage green financing, including a Green Finance Certification Scheme and grants to support issuers. In May 2019 the government made its backing concrete by issuing its own first green bond.

Less important for investors in Hong Kong is the view that society expects attention to ESG (34% versus the mainland's 36% and the 48% global average).

Forty-four percent of Hong Kong investors have a responsible investing or ESG policy — the lowest proportion globally (and 10%, the most anywhere, have no intention of developing such a policy). The comparable figures for the mainland are 58% and 4%, respectively. However, 36% do intend to develop a policy, which would bring Hong Kong much closer to global levels.

Hong Kong is certainly not asleep to these issues, and there are signs that the ultimate clients — retail and institutional asset owners — are as likely to want their asset managers to prioritise environmental and social issues as those in Europe or the Americas.

Key Findings

- At least 80% of both issuers and investors in Hong Kong regard environmental and social issues as either somewhat or very important
- Over half of both groups say they care about these matters because of their own values. This is the top motivator for issuers — among investors, it is equal top with the perception that paying attention to the environment and society can be financially rewarding. For issuers, regulators' requirements come a close second
- Pressure from stakeholders such as customers, employees and society at large to address E&S is felt by fewer players in Hong Kong than elsewhere
- Disclosure on ESG issues is less widespread in Hong Kong than elsewhere. Thirty-two percent of issuers say they disclose no ESG data, versus 16% globally. Around 10% of investors disclose ESG characteristics of portfolios, compared to a global average of 25%
- Forty-four percent of Hong Kong investors have a responsible investing or ESG policy. But while 10% do not intend to adopt any policy, nearly four times that many (36%) do plan to develop one
- Hong Kong's institutional and retail investors are alive to environmental and social issues. Almost half of investors say at least 20% of their retail clients weigh ESG considerations as heavily as financial returns — similar to levels in Europe

Hong Kong

Environmental and social issues are:

	Investors	**Issuers**
Very important	54%	36%
Somewhat important	28%	44%
Important	**82%**	**80%**
Global tally	**94%**	**93%**

Issuer consciousness
Less pressure from stakeholders

Hong Kong issuers feel the same external pressures to care about environmental and social issues as those elsewhere, but to lesser extents.

When issuers are asked for their reasons to care about these issues, 42% in Hong Kong, in line with the global average, say doing so can improve returns.

But the proportions saying they care because of external influences are lower than global averages.

Of external stakeholders, regulators are the most influential. Forty-two percent of Hong Kong issuers say they feel regulators expect them to care about E&S issues, against 40% in mainland China, 33% in the Americas and 46% globally. Eighteen percent of Hong Kong issuers say their customers expect this, compared with 22% in mainland China and a global average of 37%.

Employees' expectations are a driver for 34% of Hong Kong issuers, somewhat less than the global rate of 38%.

Hong Kong Report

Asset owners

Institutions and retail willing to balance returns and environment

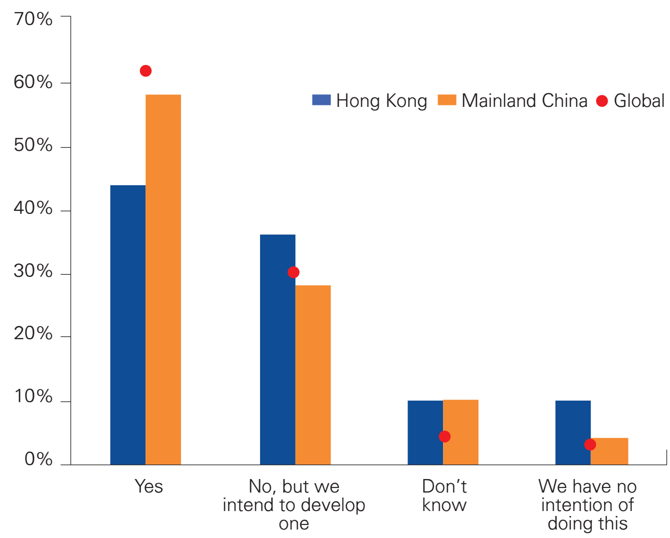
The most vibrant part of Hong Kong's responsible investing scene appears to be its asset owners. A full 86% of investors — more than in most other regions — say at least 25% of their clients expect them to have responsible investing skills and be able to offer this product.

And just over half of investors say at least 20% of their institutional clients care as much about environmental and social considerations as financial returns when investing. This puts Hong Kong institutions ahead of the Americas on this measure of altruism, though behind the Middle East and Europe.

The share of investors serving retail clients who observe this behaviour is fractionally lower, at 49%, but that puts Hong Kong equal top with Europe.

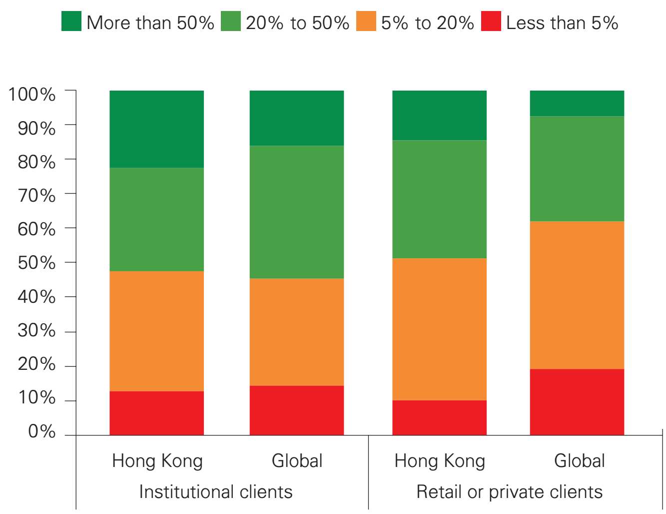
Hong Kong aims to catch up on ESG

Investors: Our organisation has a firm-wide policy on responsible investing or environmental, social and governance issues...



Hong Kong investors' clients lay emphasis on E&S

What proportion of clients place equal or greater weight on social or environmental concerns as on financial returns when making investment decisions?



Disclosure

Issuers expect to make more data public

Seventy-six percent of issuers in Hong Kong SAR, the same share as in mainland China, have a strategy for ensuring they have a positive impact on society, though a slightly higher proportion in Hong Kong than the mainland have not made this strategy public. The global rate is 88%.

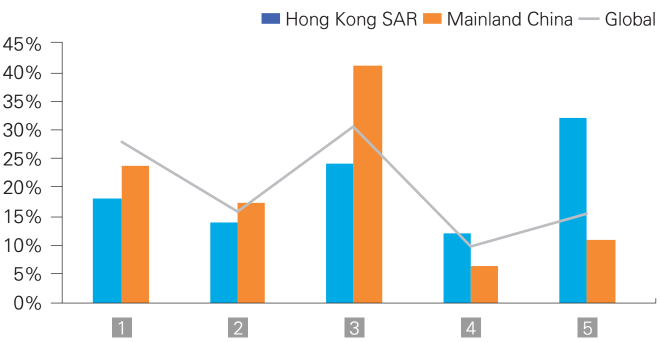
Policies for reducing environmental impact are held by 74% of Hong Kong issuers, against 87% globally. Just over half the Hong Kong issuers with a strategy have made it public. When it comes to disclosure on environmental and social matters, 32% of Hong Kong issuers say they make no disclosures, twice the 16% global average.

Thirty-two percent expect their disclosures to increase, of which 56% say this is a good thing.

Among investors, 12% disclose the ESG characteristics of selected or whole portfolios. This compares with global averages around 25%. Some 24% say they are aligned with the Task Force on Climate-Related Financial Disclosures (TCFD) or other reporting frameworks, compared with 32% globally.

A way to go on disclosure

Issuers: How would you describe the level of disclosure you make now on environmental and social issues?



1 Going to increase and that is a good thing
2 About right but investors or regulators want us to increase it
3 About right and we do not feel pressure to increase it
4 Too much
5 We don't disclose

UK Report

Investors major on impact and stewardship to serve clients

Responding to client demand

The UK's well established traditions of responsible investing — going back to at least the launch of the world's first Stewardship Code for institutional investors in 2010 — and highly commercialised asset management sector are evident in our survey.

In the UK, 48% of investors say they care about environmental and social issues because 'our clients want us to' — substantially higher than the global average of 36%. And investors here are also strong believers in the investment benefits of considering environmental, social and governance (ESG) issues.

The UK has rather few outright bulls who are convinced responsible investing is 'an attractive way of trying to generate outperformance'. This share is only 10%, in line with the European average but far below the US's 24%. However, the UK has the largest share anywhere (39%) of investors who believe responsible investing 'might involve a chance of lower returns or higher risk, but also has a good chance of generating outperformance'.

Putting these two groups together gives the UK 49% who believe there is a chance of obtaining better investment outcomes — more than in any other territory. That chimes with the wholehearted embrace in the UK in recent years of ESG integration as the favoured way to practise responsible investing. ESG integration is the view that investors should consider ESG issues when making decisions, purely because they will obtain better investment results that way, and not for any ethical reason.

UK issuers are much more sceptical of the business benefits of ESG. Only 18% of them (the lowest rate anywhere and well under half the global rate of 42%) give potentially improving returns as a reason to care about environmental and social issues. Customers and employees weigh more heavily for UK issuers. Only Canada's reading is higher than the UK's 60% of issuers who say customers expect good behaviour (global average 37%), and only Europe and Canada are above its 46% on employees (global average 38%).

UK

Environmental and social issues are:

	Investors	Issuers
Very important	68%	80%
Somewhat important	26%	14%
Important	**94%**	**94%**
Global tally	**94%**	**93%**

"In the UK 49% of investors believe ESG investing gives a chance of obtaining better investment outcomes — more than in any other territory"

Key Findings

- Environmental and social matters are factored into financing approaches rather more than in other national markets
- Customers are the most powerful driver of environmental and social consciousness. A world high 48% of investors report caring about these issues because 'our clients want us to'. Issuers' perception of customer requirements are also above average
- UK investors take impact and stewardship seriously — a world-leading 42% of investors use impact goals or metrics, though issuers are slightly below average on having impact strategies. Stewardship is more embedded (including through board endorsement) than elsewhere
- Mixed signals on potential returns: the UK has the highest proportion, 49%, of investors that regard focusing on environmental, social and governance (ESG) factors as capable of improving returns and/or reducing risk. But it has the lowest proportion of issuers (18%) who say they care about the environment and society because it can improve their returns
- UK asset managers want guidance on ESG from their banks more than peers in most other countries. On average they want guidance on 3.7 issues out of seven suggested. The global average is 3.0
- A larger minority of investors than elsewhere is sceptical about green, social and sustainable bonds. Fifteen percent say they already buy them but will reduce their allocation, against a global average of 6%

Skills gap
Seeking guidance

UK asset managers seek more guidance from their banks than peers in other national markets.

They want help particularly on measuring the impact of their investments, the ESG characteristics of individual issuers and how the economy is likely to evolve in response to climate change.

UK Report

Investment practices

Taking impact and stewardship seriously

A world-leading 42% of UK investors use impact goals or metrics as part of their investment decision making.

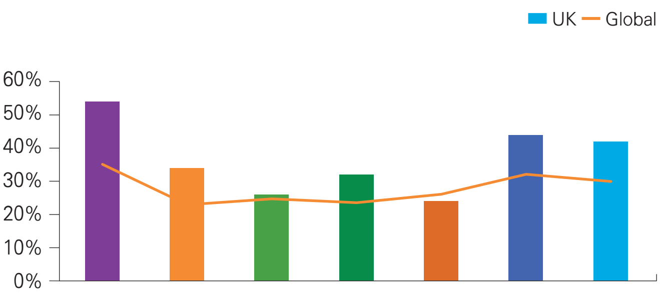
The concept of stewardship is also more developed in the UK than elsewhere, as befits the market where the first Stewardship Code was developed. An unmatched 34% of investors have stewardship principles endorsed at board level, versus a global average of 23%. The UK is the world leader on identifying material ESG issues for investments: 54% versus a global norm of 35%. Equally, among national markets the UK has the highest proportion of investors (49%) that always factor ESG considerations into investment decisions. As few as 4% rarely or never do so.

The UK has the highest proportion of investors that price in ESG (50% versus 33% globally) and the most who engage with issuers for greater ESG disclosure (50% versus 38% globally).

These high standings appear to reflect client demand. Over half of UK investors (58%) report that the majority of their clients want them to be skilled in ESG and sustainable investing — the highest proportion of any national market. Similarly, over two thirds (69%) say most clients are open to discussing ESG and responsible investing — the highest proportion of any territory.

UK big on ESG integration, stewardship and reporting

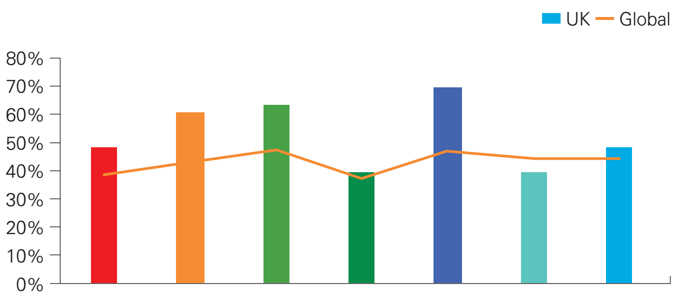
Our firm-wide policy on responsible investing or ESG issues includes the following…



- Approach for identifying material ESG issues for investments
- Stewardship principles – endorsed at board level
- Disclosure on the ESG characteristics of selected portfolios
- Disclosure on the ESG characteristics of our whole portfolio
- Disclosure on the environmental and social impacts of some portfolios
- Alignment with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) or other reporting frameworks
- Impact goals or metrics used as part of investment decision-making

Asset managers want help with impact

Asset managers: As a firm, we need more advice and information on...



- Fundamentals of environmental risks and problems, including climate change, and how these will affect the world
- How the economy is likely to evolve in response to climate change
- The ESG characteristics of individual issuers, to enable us to choose between them
- Investing techniques to help us use ESG data more effectively
- How to measure the impact from our investments
- How to invest so as to promote the Sustainable Development Goals
- Green, social and sustainable bonds

Issuers

On message — mostly

The UK has one of the highest proportions of issuers globally that regard environmental and social issues as very important (80% versus global average of 64%). Only in the Americas are responses as high or higher.

However, the UK also has one of the highest proportions of issuers for whom these issues are not very important: 4%, compared to under 1.5% globally.

Green debt

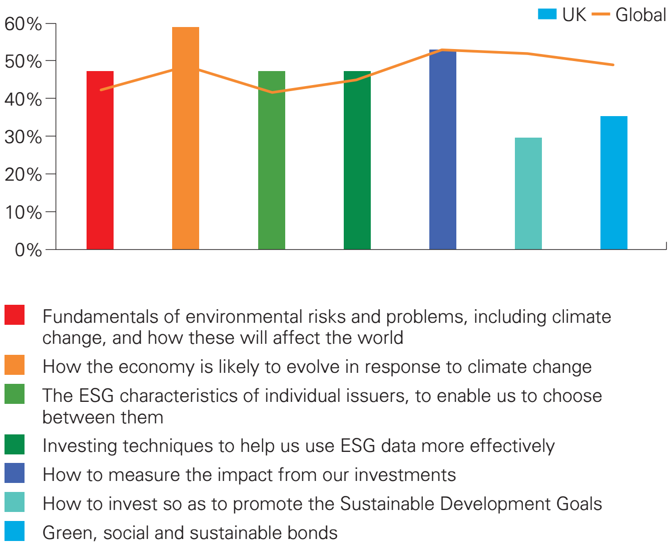
ESG-linked excitement, investors ambivalent

UK issuers are notably excited about ESG-linked loans. Although an unmatched 15% believe the loan product would be unsuitable for them, only Canada has a higher proportion of issuers who regard it as 'very interesting' than the UK's 41%. A further 30% regard it as potentially interesting.

As in most parts of the world, investors are enthusiastic about green, social and sustainable bonds. Nearly half of UK investors (46%) will increase their allocation to green and social bonds in the next two years while a further 17% will start buying seriously for the first time. But there are dissenters: 11% do not buy them and do not intend to start, while a striking 15% (a proportion unmatched anywhere else) already buy but intend to reduce their allocations.

Asset owners worried about climate change

Asset owners: As a firm, we need more advice and information on...



US Report
Shareholders, customers drive leadership in disclosure

External pressure brings action

The US capital market — the world's largest and most complex — has long had a dual personality when it comes to responsible investing and sustainability.

While some of the most sophisticated and experienced responsible investors are US pension funds, foundations and niche asset managers, the engagement of the mass market has been less. Most of the large asset managers now have systematic policies on environmental, social and governance (ESG) investing, but their actions in areas such as engagement (telling invested companies to improve) is not always regarded as the most ambitious.

These contrasts are evident in our survey. An exceptional 92% of US investors hold a responsible investing or ESG policy — the highest proportion globally. This may reflect external pressure, as the proportion of US investors that emphasise ESG because 'it's right to care about the world and society', though still large, is almost the lowest globally: only Hong Kong's 54% is below the US's 56%.

However, regulators are not a major source of external pressure. The proportion of investors who emphasise ESG because 'regulators require it' is the lowest globally: 38%. Rather, investors cite clients and society's expectations to above average extents.

US issuers are similarly unpressured by regulators. They cite only customers as an above average influence towards emphasising ESG. The standout factor is shareholders' wishes.

Half of issuers give the top rating, 'a great deal', to how much their shareholders care about both their environmental and their social performance. All other national and regional markets except Canada have less than half this share.

Key Findings

- ESG is factored into financing approaches more inconsistently than in other national markets
- There is some scepticism — particularly over financial benefits
- The US boasts superior levels of disclosure — an unmatched level of around 50% of investors disclose ESG characteristics of portfolios; issuers, too, lead in this area, despite a weakness on environmental impact strategies
- A strong factor in issuers' attitudes is those of shareholders — half of issuers, far more than elsewhere, say stockholders care 'a great deal' about their social and environmental impacts
- There is a notable split among investors over ESG's impact on investment performance: an above average share regard responsible investing as a potential source of outperformance, but also the highest proportion globally believe it always involves higher risk or lower return
- Notably high levels of engagement with issuers over ESG — the US has the highest proportion of investors engaging for ESG and divesting from poor ESG performers; also above average on executive compensation
- Investors are somewhat sceptical of green, social and sustainable bonds, with more than average doubting that they offer good financial returns and liquidity

US

Environmental and social issues are:

	Investors	Issuers
Very important	92%	80%
Somewhat important	8%	18%
Important	**100%**	**98%**
Global tally	**94%**	**93%**

Disclosure
Setting an example

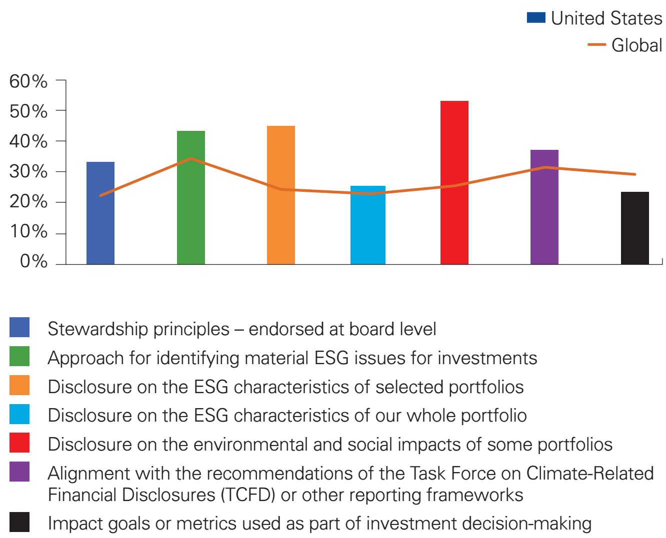
Disclosure is generally better in the US than elsewhere. An unmatched 46% and 54% of investors disclose ESG characteristics of selected portfolios and environmental and social impacts of some portfolios, versus global averages of 25% and 26%. A third reveal the characteristics of their whole portfolios, compared with 24% globally.

Moreover, 38% say they are are aligned with the Task Force on Climate-Related Financial Disclosures (TCFD) or other reporting frameworks (32% globally).

Equally, US issuers refuse least to make ESG disclosures: only 2.5% don’t disclose, versus 15.5% globally. Only in Canada does a higher proportion of issuers expect to increase disclosure and regard this as positive. In contrast, the US also has the highest proportion of issuers that follow no published or private environmental impact strategy: 7% compared to the global average of 4%.

US Report

US investment policies strong in all areas except impact
Our organisation has a firm-wide policy on responsible investing or environmental, social and governance issues and it includes the following...



Investment practices

Split over performance, but high engagement

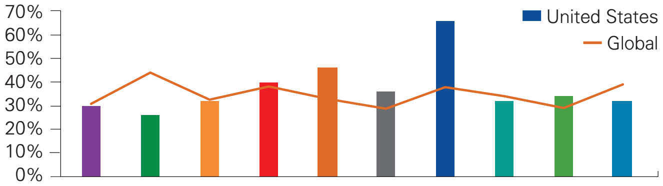
US investors display a notable split over ESG's impact on investment performance. Only China has a higher proportion of investors who regard responsible investing as an attractive source of outperformance: 24% versus 17% global average.

Yet no national market has more investors who are persuaded that responsible investing always involves higher risk or lower return: 20%, compared with a 12% average. At the same time, US investors are enthusiastic at engaging with issuers over ESG.

The US has the highest proportion engaging for ESG improvement (46% versus 33% globally) and divesting from poor ESG performers (66% versus 38% globally). They are also above average on engaging over executive compensation.

"Regulators are not a major source of external pressure. The proportion of investors who emphasise ESG because 'regulators require it' is the lowest globally: 38%. Rather, investors cite clients and society's expectations to above average extents. "

US investors tough on the laggards
In our firm, we practise the following approaches to ESG and responsible investing...



- Limit or exclude investing in organisations involved in harmful or controversial activities (e.g. oil and gas exploration, manufacturing weapons or sale of tobacco products)
- Take account of material ESG characteristics when we evaluate issuers
- Price in ESG, for example attaching a lower risk premium to issuers with better ESG characteristics
- Engage with issuers to ask them to disclose more about their ESG performance
- Engage with issuers to ask them to improve their ESG performance
- Engage with issuers to ask them to tie executive compensation to ESG performance
- Divest from poor ESG performers
- Look for organisations that have engaged in scenario analysis to model their exposure to climate change
- Invest in (or construct) specific ESG, responsible or impact products
- Consider the effects of our investments on the real world (e.g. amount of carbon emissions)

Green debt
Investors sceptical

US investors are somewhat sceptical of green, social and sustainable bonds. They are more likely than their peers, at 42%, to believe the instruments produce slightly worse returns than ordinary bonds. However, nearly as many (36%) see them as having better returns.

A below average proportion sees them as less risky than ordinary bonds, while an above average share views them as less liquid than ordinary bonds.

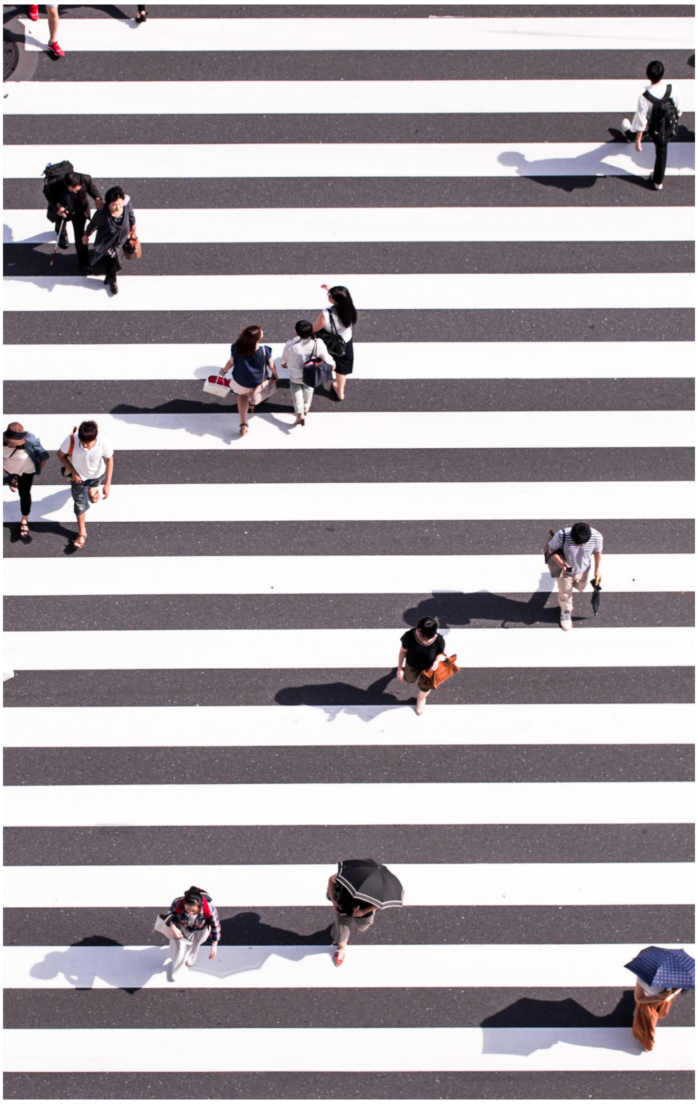
Climate change
Getting ready for change

The US is the region where issuers feel the least concern about being affected by climate change in the coming decade, but even here it is a worry for 49%.

And four fifths of those say they are already experiencing the effects. A fifth of US issuers think they will never be affected by climate change, the highest anywhere, but none say they do not believe in it.

Cities of the Future

Urbanisation brings risk — but also opportunity



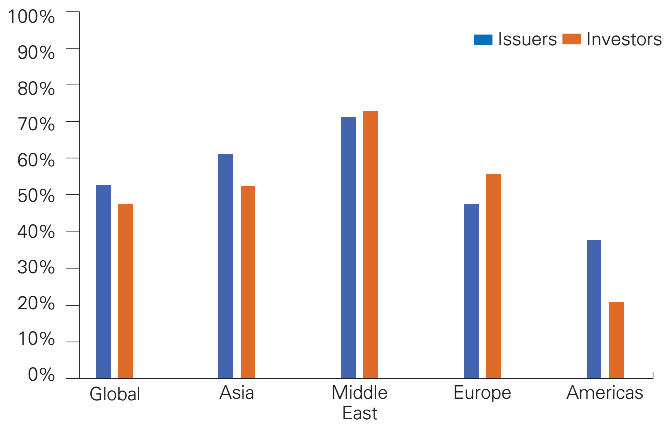
Cities already produce more than 80% of global GDP, according to the World Bank, and this is set to grow as urbanisation continues.

With energy use and carbon emissions also concentrated in cities, whether the world can find solutions to climate change will depend largely on whether the vast investment in urban development in the next 15 years is made in a sustainable way.

A section of the survey interrogated investors' and issuers' views on the future of cities — whether they see them as risks or opportunities, and whether they think about them when making investment decisions.

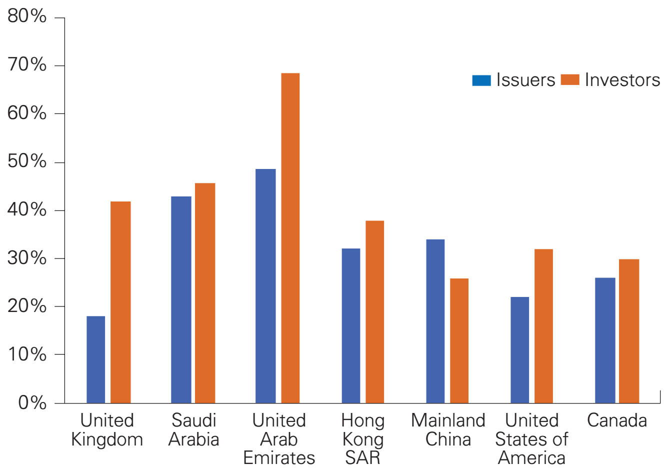
Middle East and Asia enthusiastic about city governance

Do you agree that countries with the best run cities will be the winners?



UAE investors the big worriers about cities

Do you agree that urbanisation could present substantial investment risks?



More important to issuers
Issuers are more focused on urbanisation than investors. Across the world they factor issues concerning cities more into their investment decisions. Globally, 63% of issuers do and 43% of investors.

Among issuers, 85% of financial institutions think about these questions, 58% of government bodies, 53% of heavy industrial companies and 62% of light industrial and property companies. This may reflect the more concentrated investment decisions they have to make, compared with investors in portfolios of securities. The skew of issuers being more concerned about urbanisation exists in all regions, but the difference is much more marked in the Americas. Consideration of the issue is highest among issuers in Canada (85%) and China (80%). Only 20% of investors in the US consider it, and even fewer in Canada.

Cool on investment opportunities
By contrast, there is a remarkable uniformity in how many consider that urbanisation presents substantial investment opportunities. For all groups this is between 34% and 60%, with most close to 40%. There is little difference between issuers and investors. The low level is quite surprising, considering how important a trend urbanisation is, and that in fact higher percentages consider the issue before making investment decisions. The standout group is Middle Eastern issuers, where 53% see substantial opportunities.

Risk perceptions vary
Conversely, in almost every country and region investors are more prone to see investment risks from urbanisation than issuers. China is the only exception. Geographically, perceptions of risk from urbanisation are more dispersed. The Middle East again stands out, with the highest percentages of both issuers (46%) and investors (57%) seeing substantial risks.

That means markedly more Middle Eastern investors see big risks than major opportunities (43%). This may reflect Dubai's past debt crisis. Globally, the balance of risk and opportunity is positive. Of issuers, 44% spy opportunity and 32% risk. Investors are much more narrowly positive: 42% against 39%.

Social problems could go either way
Investors and issuers were asked whether urbanisation was likely to increase or reduce social problems such as inequality. The two groups were similarly split. Forty percent of each group foresee urbanisation worsening social problems, while about 36%-37% see it reducing them.

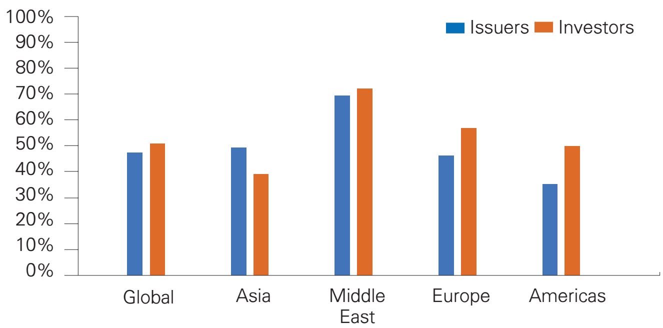
Views are most pronounced in the Middle East, where the numbers are close to 50% for both positive and negative views. Those in China and the UK are most pessimistic about the chances of urbanisation reducing social stress; those in the Middle East and China worry most that the growth of cities could make social pain worse.

Environmental threat
When it comes to environmental problems, the balance is much more heavily negative. Globally, 22% of issuers and 27% of investors think urbanisation could lower environmental problems such as greenhouse gas emissions. But 52% of issuers and 49% of investors think urbanisation will make these problems worse.

Canadian investors are the most optimistic, but only 42% of them have hopes for city growth benefiting the environment. Those in the Middle East and China most fear the environmental effects of cities.

Respondents hail governance, less sure about autonomy
More than half of both issuers (64%) and investors (56%) believe good governance at city level will be important to economic health in coming decades.

Is radical reform of cities' infrastructure and economic models needed if sustainable development is to be achieved?



Slightly lower shares back the idea that 'countries with the best run cities will be the winners'. But there is much more regional variety here — Middle Easterners love the idea, with 70% support, and Asians are above average, but in the Americas it gets just 38% from issuers and 20% from investors.

Despite the recent opening of the country's municipal bond market to retail investors, Chinese issuers take a notably strong view that cities need better access to capital markets. Their 64% agreement on this point is almost 10 percentage points ahead of any other category of respondent. In Europe and the Americas support for this is generally below 40%. Chinese issuers also lead in the intensity of their belief that cities need autonomy in decision-making to further their growth. Their 54% agreement compares with a global average of 41% among both issuers and investors.

Middle East wants reform
The keen focus on cities in the Middle East is evident in the responses to a question about whether 'radical reform of cities' infrastructure and economic models is needed if sustainable development is to be achieved'.

Globally, this got about 50% support, but in the Middle East 70% backed it.

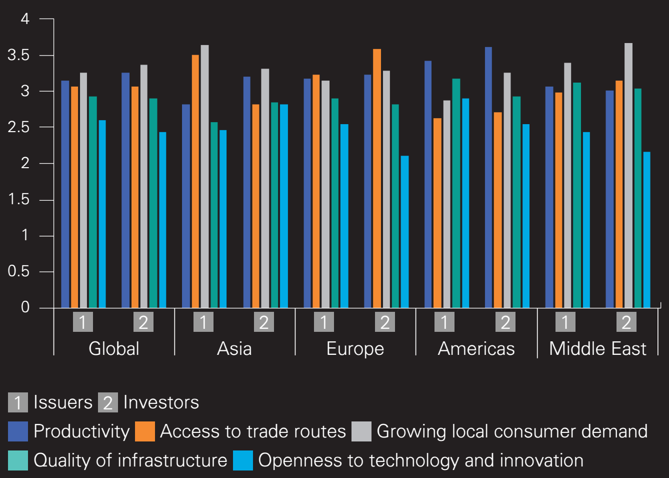
What drives urban growth?

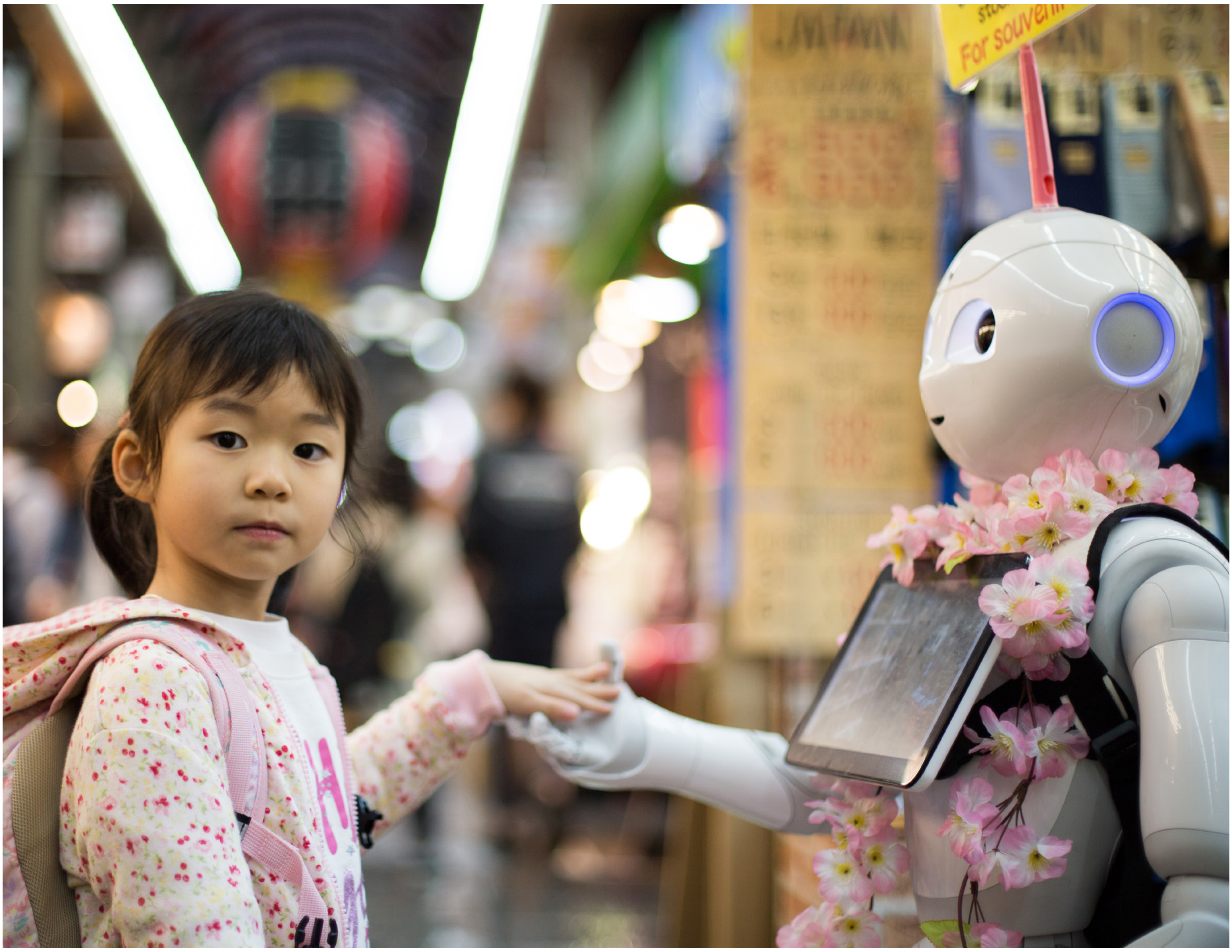
Investors' and issuers' recipes for successful, growing cities are strikingly similar. At a global level, both groups emphasise the strength of local consumer demand over all other factors.

They each regard productivity, access to trade routes and the quality of local infrastructure, in that order, as the next most important criteria. And they each treat openness to technology and innovation as less crucial than the four other factors. Despite this homogeneity, there are clear geographical differences.

For example, issuers and investors in the Americas prioritise productivity over all other criteria. European issuers and investors view access to trade routes as the vital dimension for cities' success. In Asia and the Middle East both groups emphasise local consumer demand.

Please rank the following factors in order of importance to you when distinguishing between different cities





Methodology

***GlobalCapital*, the capital markets newspaper, and Euromoney Data conducted a global survey of investors and capital markets issuers in June and July 2019. The survey is unusual in questioning issuers and investors at the same time.**

The questionnaires for issuers and investors were different, but in many cases the questions were complementary, to give insight into the perceptions each group have of the other.

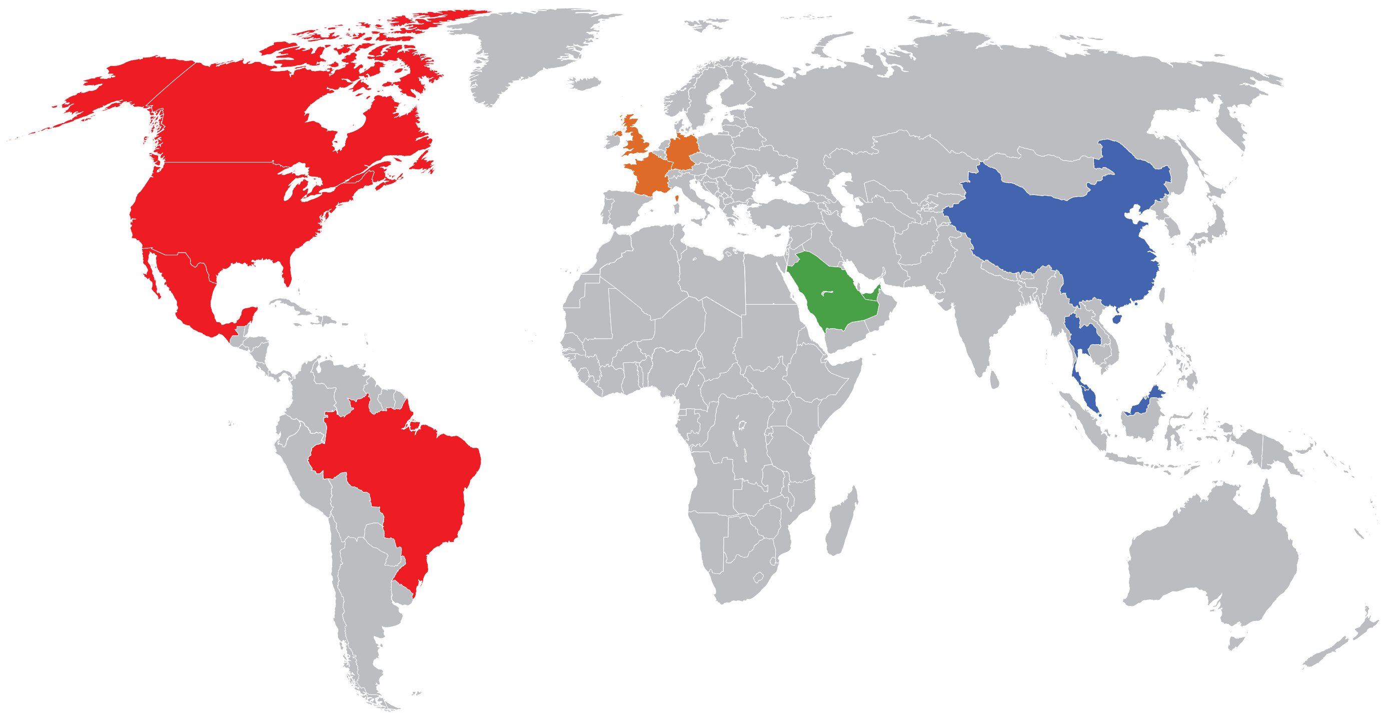
The study was designed to cover a wide diversity of organisations, by size, geography and type of activity.

Investors and issuers were invited to participate in online surveys, comprising multiple choice questions. The surveys were offered in Chinese, English, French, German, Portuguese and Spanish. Over 1,300 completed responses were received from issuers and investors. To participate, they had to enter their contact details, the name, nature and size of their organisation, and where they were based. Responses are treated anonymously.

From these, a structured sample was extracted for use in the survey. This comprised 500 issuers and 500 investors, distributed across 15 target markets in four regions.

Where there were too many responses from a particular country, those from larger organisations were used.

The sample analysed is as follows:



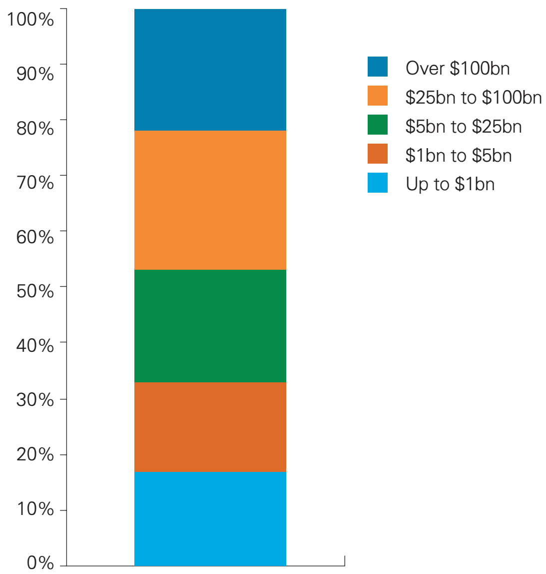
	Issuers	Investors
Americas	**135**	**135**
US	50	50
Canada	50	50
Brazil and Mexico	35	35

	Issuers	Investors
Europe	**120**	**120**
UK	50	50
France	35	35
Germany	35	35

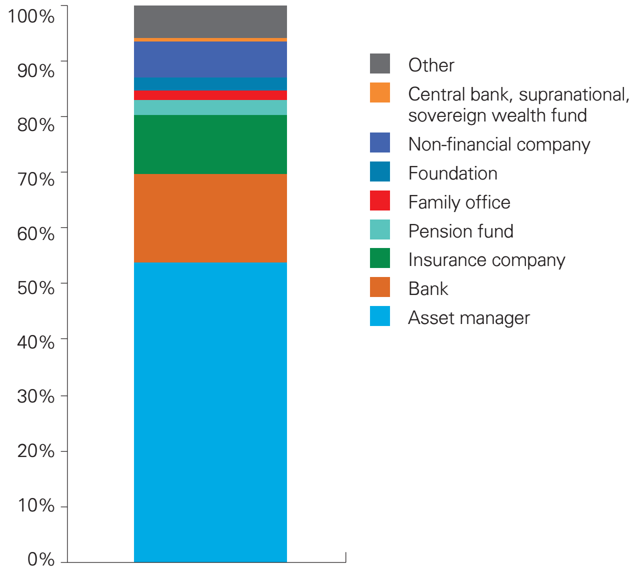
	Issuers	Investors
Asia	**175**	**175**
Mainland China	50	50
Hong Kong SAR	50	50
Singapore	35	35
Indonesia, Malaysia and Thailand	40	40

	Issuers	Investors
Middle East	**70**	**70**
Saudi Arabia	35	35
UAE	35	35
TOTAL	**500**	**500**

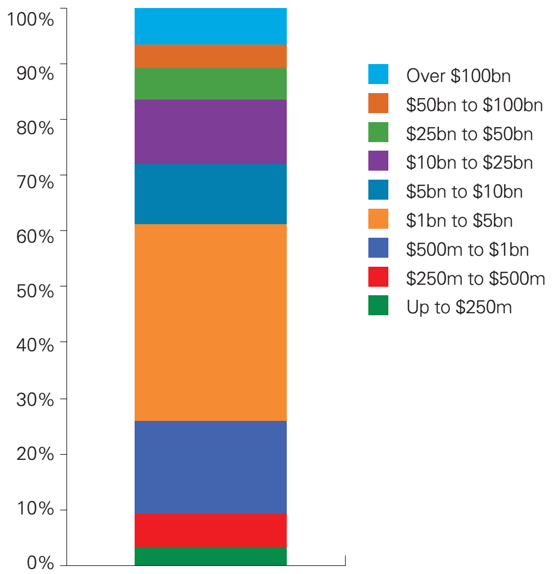
Investors by assets under management



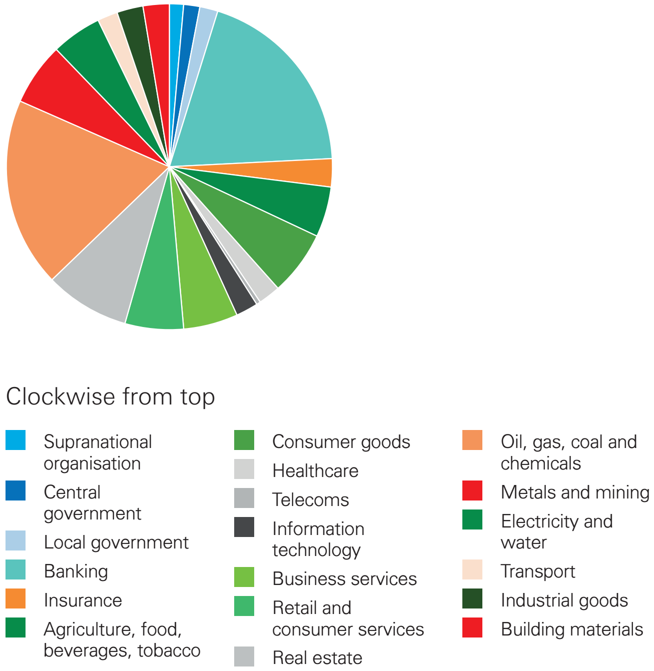
Investors by type



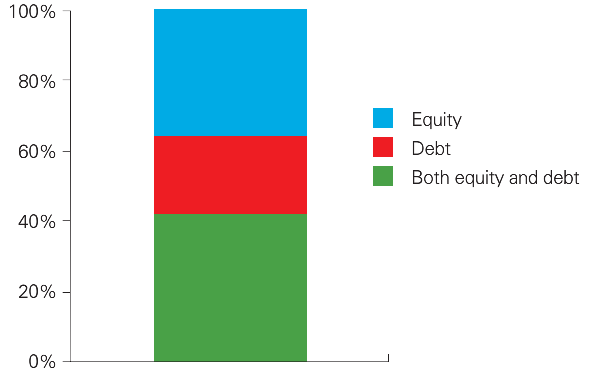
Issuers by annual revenue



Issuers by industry



Investors by asset type



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