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Sustainable finance – the pathway to climate transition and ESG integration

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Executive summary

The introduction of the UN's Sustainable Development Goals (SDGs) and the Paris Climate Accord have stimulated efforts to combat climate change and secure a sustainable future.

Environmental, social and governance (ESG) integration has become a widespread form of sustainable finance, gaining pace over recent years. The need to transition the current economic model to a more sustainable one is the key factor driving demand for the integration of ESG efforts in the financial sector.

The global crisis caused by the COVID-19 pandemic is expected to have long-lasting implications on public health systems, the environment, trade, industry and society in general. Foreign direct investments (FDIs) worldwide were impacted severely by the pandemic, falling by one-third in 2020 to USD1tn, below the levels recorded in the aftermath of the global financial crisis a decade ago.

That said, the crisis that followed the virus outbreak has also boosted the transition towards a low-carbon economy, with investors laying greater emphasis on inclusive and sustainable growth and improved portfolio risk management. Their main focus is on a recovery process that addresses not only resuscitating the economy but also making it more sustainable and resilient to future shocks.

Sustainable financing has been playing a key role in delivering the UN's SDGs under its climate and sustainability commitments in countries across the globe, as it has become a powerful movement led by regulators, institutional investors, asset owners and managers and clients worldwide.

GLOBAL SUSTAINABLE INVESTMENT AT **USD35.3TN**

Global sustainable investment reached USD35.3tn in five major markets, a 15% increase in the past two years (2018-20)

The US and Europe represent more than 80% of global sustainable investing assets. In 2020, sustainably invested assets under management amounted to 35.9% of total assets under management.

In the wake of the recent global pandemic, the growing urgency of the climate crisis and accelerating regulatory requirements for investors, the ESG market is believed to be witnessing some key trends that will unwind new arenas for both investors and issuers:

ESG to become more popular than ever, in the post-pandemic environment

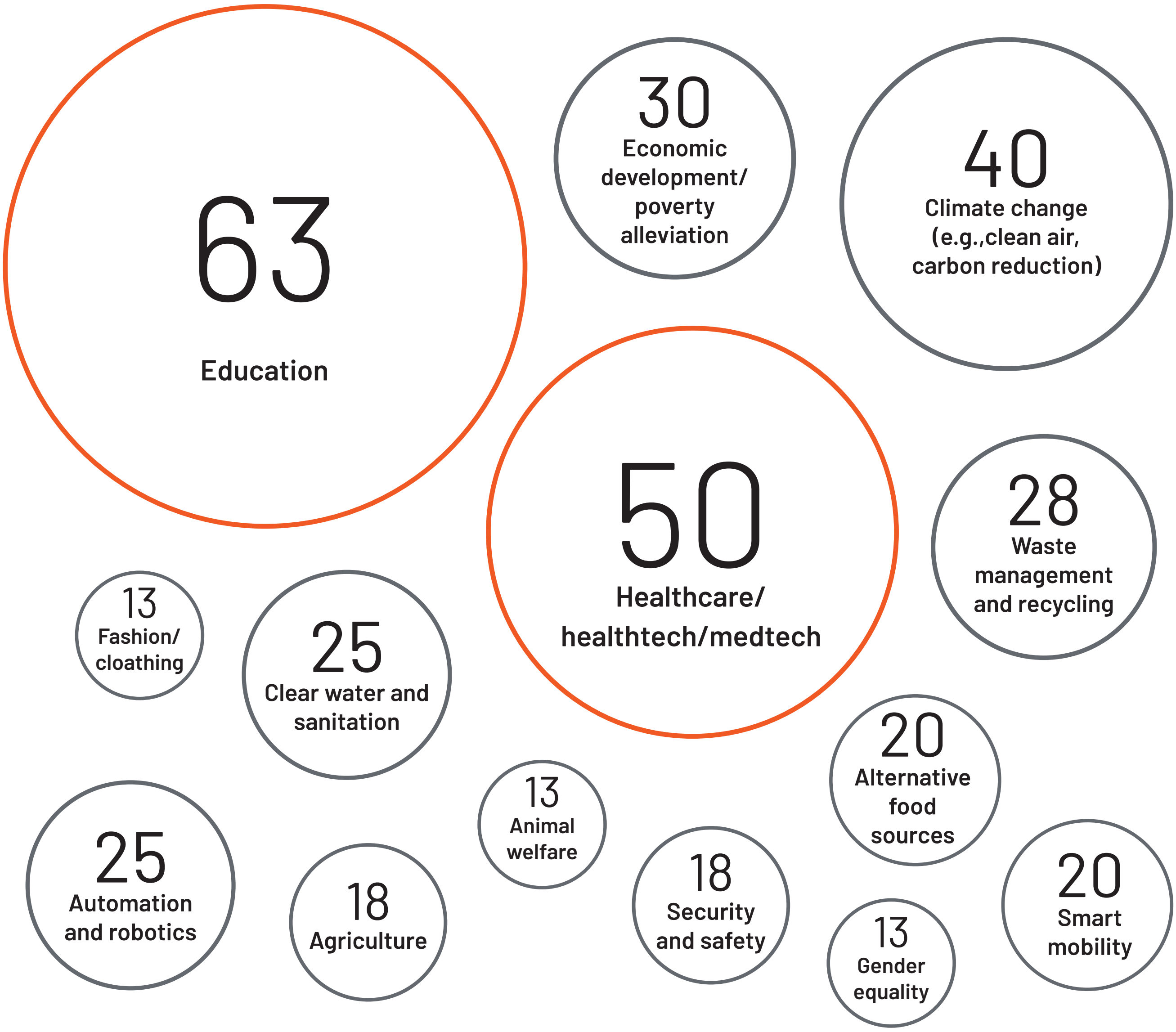
The COVID-19 pandemic has made **climate risk mitigation** more vital than ever. It has changed the overall financial environment, putting the spotlight on **risk** like never before. In such a context, implementing an ESG framework has become crucial, as it provides a structured and actionable toolkit for assessing investment risk. The need to urgently transition to **a low-carbon global** economy is clear, and now the pandemic has also led us to focus on the **"S"** in ESG: the social impact.

Huge sums are needed to support the transition to a low-carbon economy. In June 2020, the International Capital Markets Association (ICMA) published the Sustainability Linked Bond Principles (SLBP) and later, in December 2020, followed this up with the Climate Transition Finance Handbook. These offer a guiding framework to issuers looking to transition to more sustainable business models, laying emphasis on a key performance indicator (KPI)-linked bond model (to track the sustainability of the issuer's business activities over a specified time) rather than a use-of-proceeds model (which requires the issuer to commit to a pipeline of green initiatives). Sustainability-linked bonds (SLBs) are different from green or social bonds in that they do not restrict the use of the proceeds to specific goals, allowing issuers to use the proceeds for general purposes aligned with their sustainability objectives, and thus also making green financing available to a larger base of companies.

Impact investing

Investors' priorities are changing rapidly as they recognise that sustainability can factor significantly in fundamental analysis. As a result, mainstream investments are anticipated to continue to witness ESG integration. ESG factors are becoming a fundamental input to traditional investment processes, leading to a shift in sustainable investing towards more **impactful solutions.** Growth trends in the near future are expected to be driven by investor zeal to identify and respond to sustainability concerns in areas as wide as **climate, healthcare** and **social inequality. 62%** of respondents to a recent survey conducted by UBS Global indicated that **impact investments** would be a key focus area for frontline investors. Overall, sustainable investing assets have grown considerably over recent years, driven primarily by exclusionary or negative screened solutions and ESG integrated solutions.

GLOBAL FAMILY OFFICES RANK MULTIPLE IMPACT THEMES – IMPACT INVESTING PRIORITIES (IN PERCENTAGE) 2021 AND BEYOND



Source: The UBS Global Family Office Report 2020

As economies recover from the pandemic and investors look towards solutions to these large-scale challenges, targeted investments are also expected to increase in key impact areas such as climate, diversity, food and agriculture, resources and healthcare.

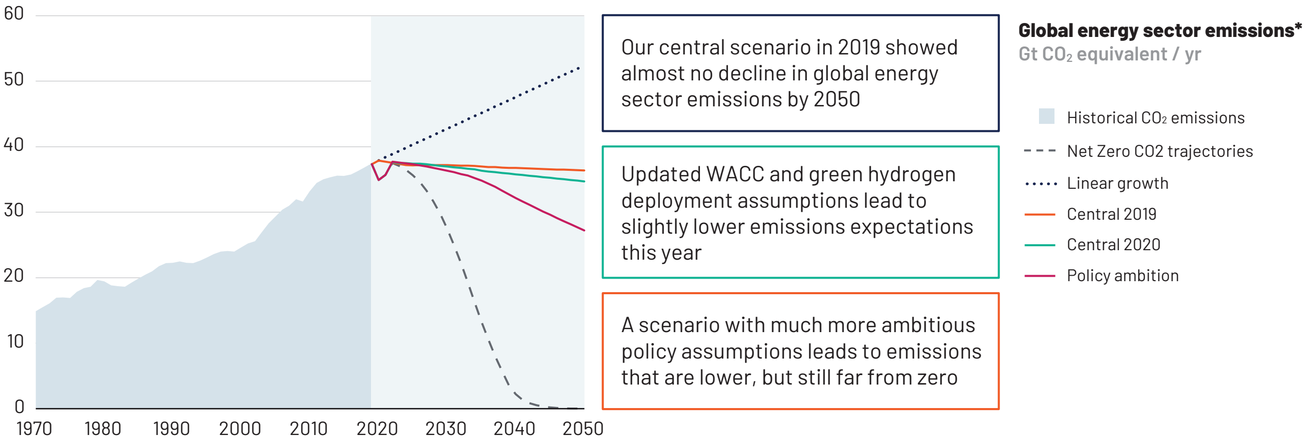
ESG investing evolving to become more transparent and focused

ESG investing is moving towards greater transparency in **innovation and corporate leadership.** ESG investors no longer want **surface-level intelligence.** They require more **in-depth analytics** to be more precise and specific in their calculations and analyses, by integrating scientific data into assessment criteria. Data is crucial to allowing investors to gain better insights on ESG investing. Moreover, driven by initiatives such as **EU Taxonomy** and the **Sustainable Finance Disclosure Regulation (SFDR),** investors have been putting pressure on issuers to release more information in order to report in line with these new regulations. With more than **USD40tn** of funds under sustainable management, ESG investing is no longer a **niche area.** Investment managers have been responding to these developments by delivering funds that focus on minimising carbon emissions. Many passive funds and simply run active funds have come into the market, with their underlying holdings being predominantly in technology, communications, consumer discretionary, financials, media and healthcare. Discerning fund houses are bringing in teams with specific ESG skill sets; to take this a step further, they are focusing on understanding how carbon transition strategies align with best practices and how those best practices position a company to achieve real financial benefits from their ESG activities.

Net zero – from aspiration to firm targets

While a growing number of nations have set net-zero emission goals to be achieved by 2050, the question arises if it could already be too late to realise those targets and what can be done to get back on track for net zero by 2050. The call for action remains urgent, with three priorities standing out: **1. turn off the tap** – gradually but definitely put an end to new investments in the fossil world; **2. maximise the plan** – aim for net zero as quickly as possible instead of sticking to the 2050 target; and **3. adapt to reality** – direct maximum funds towards crucial adaption measures. With definite action on these objectives, it may be possible to deliver global energy transition this century and mitigate the ill effects of continued climate change on society. For instance, rising pressure on fossil fuel funding brings a robust new motive to the **climate theme.** Global asset managers and banks will start acting on this soon. While some could announce substantial reductions in fossil fuel financing, others may exit completely, resulting in higher capital inflow to the clean energy sector.

GLOBAL CO_2 EMISSIONS FORECAST BY SCENARIO



* Includes emissions from both combustion and non-combustion use of fossil fuels; also accounts for emission savings from carbon capture and storage (CCS) in the energy sector, although not from broader carbon capture activities such as afforestation; WACC: weighted average capital cost

Source: UBS Global

Private equity to play a pivotal role in the global race to net zero

Owing to their characteristics and growing dominance, private equity firms are well positioned to become important players in achieving a low-carbon economy. Currently, private equity managers lack a disciplined climate approach compared with their public market counterparts. In 2021, a growing number of private equity investors began to **set ambition on net-zero targets** and adopt new practices to achieve them. With over a **trillion dollars** in dry powder, private equity general partners (GPs) have the ability to deploy capital quickly and contribute to economic recovery by funding next-gen businesses and creating jobs. Limited Partners (LPs) are expected to raise climate ambitions for their portfolios, demanding that their GPs refine investment processes, redefine value creation and enhance disclosures in line with the Taskforce on Climate-related Financial Disclosures (TCFD) framework.

Global green bond supply

The demand for more impactful investments is growing from both retail and institutional investors. However, the supply of **labelled** green, social, sustainability and climate bonds continues to lag. Identifying inherently green transactions and giving more market participants the ability to add "green" designations at the point of origin can help to grow supply. As the green finance market matures and more pricing data becomes available, it will become increasingly feasible to provide issuers green bonds priced better than non-green ones. In addition, **greeniums** (pricing premiums that apply to green bonds) have been motivating issuers to "go green". Initiatives such as EU Taxonomy, the ICMA's Green Bond Principles (GBPs) and the Climate Bonds Standards provide investors greater assurances and clearer guidance on how to identify green activities, strengthening the supply and demand momentum.

From transparency to incentive

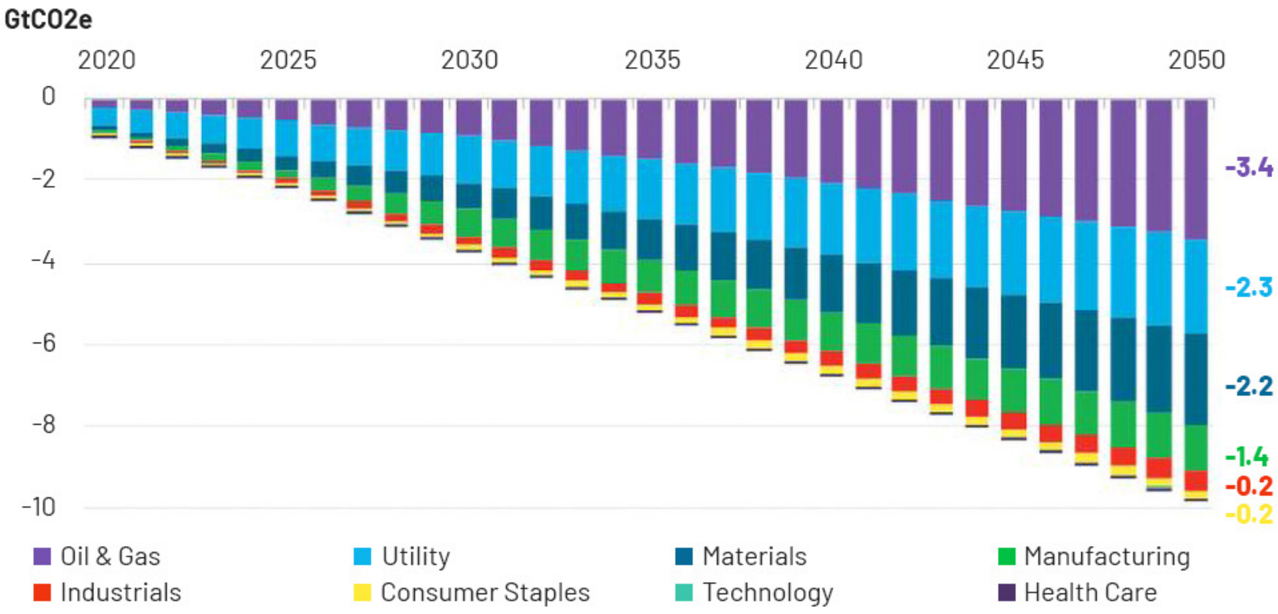
Governance specialists seek to identify real-time measures of the effectiveness of organisational commitments to principles of sustainability in a programmatic way. **Transparency** is a key ingredient in sustaining organisational values and an effective management method.

European companies offering financial incentives in the application of the concept of double materiality in sustainability reporting can set an example for corporations operating in other geographies. The concept refers to issues that impact the environmental and social objectives of a company, eventually leading to financial consequences. Going forward, more investors and regulators are likely to turn their attention to the role of financial incentives in encouraging decarbonisation and diversity. According to the **2020 Global Governance Report** by Refinitiv, companies with sustainability compensation incentives for executives had grown from **6%** to **14%** in three years (2017-19), while those with executive compensation linked to long-term objectives had decreased from 13% to 10% over the same time period.

Change makers

In 2020, the eight prominent **Canadian pension funds** – with total assets under management (AUM) of **USD1.6tn** – adopted the **TCFD** and the Sustainability Accounting Standards Board's **(SASB's)** disclosure standards. **Climate Action 100+** (CA100+), an alliance of 500+ investors representing **USD52tn** of AUM, supports an effective and combined commitment to act on climate change measures, with a push for better disclosure. It recently launched a net-zero benchmark with an aim to compare focus companies and set standards for net-zero ambitions for the oil and gas and mining sectors. CA100+ signatories are expected to support growth plans for companies that are not able to show enough progress by means such as shareholder resolutions, annual general meeting statements and polls against management. **111** of the CA100+ focus companies have set a net-zero or equivalent target. By **2030,** the net-zero targets set by these 111 focus companies are projected to reduce greenhouse gas emissions by **3.7GtCO2e annually.**

EMISSION REDUCTIONS FOR CLIMATE ACTIONS 100+ FOCUS COMPANIES WITH NET-ZERO GOALS

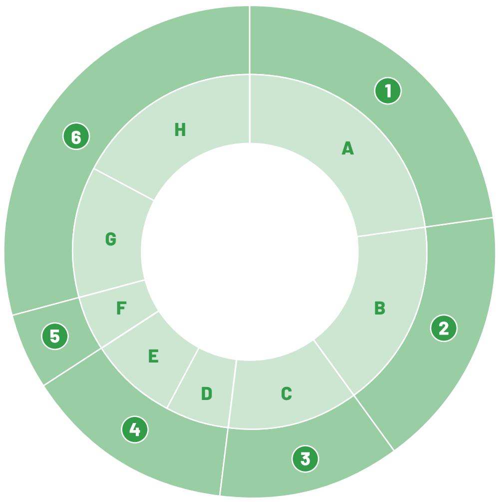


Source: BloombergNEF, Climate Action 100+, Bloomberg Terminal. Note: Emissions are basedon the portion of a comopany's carbon footprint that is included in the net-zero target. Chart assumes companies consistently reduce their emissionsyear-on-year.

Big oil – opportunity for reinvention

The **International Energy Agency** (IEA) projects that under an ideal Paris pledge scenario, the world would need to add **7,700GW** of wind and solar energy generation capacity by 2040, an increase of **seven to eight** times from the current figure. Investment requirements would need to be ramped up by 50% more than current levels, at **USD1.1tn** per year. In addition, **USD800bn** would be required per year to maintain sufficient oil and gas levels (in a Paris compliant scenario).

LONGER-TERM DEMAND TRENDS – OIL CONSUMPTION BY TYPE



1. **Electric Vehicles (EVs) and hybrids**
   A. Cars 23%
2. **EVs, hydrogen, liquefied natural gas (LNG)**
   B. Trucks 17%
3. **Hybrid aviation, LNG, biofuels/renewable fuels**
   C. Aviation and Shipping 23%
4. **Electrification, hydrogen, biomass**
   D. Industry 6%
   E. Buildings 8%
5. **Renewables**
   F. Power 5%
6. **Recycling, alternative materials**
   G. Petrochemicals 12%
   H. Others 17%

Source: UBS Global

To sum up, instead of looking at energy transition as a risk to big oil firms, it should be regarded as a prospect, to rebrand themselves as being part of the solution by becoming a hybrid and integrated presence in the energy industry.

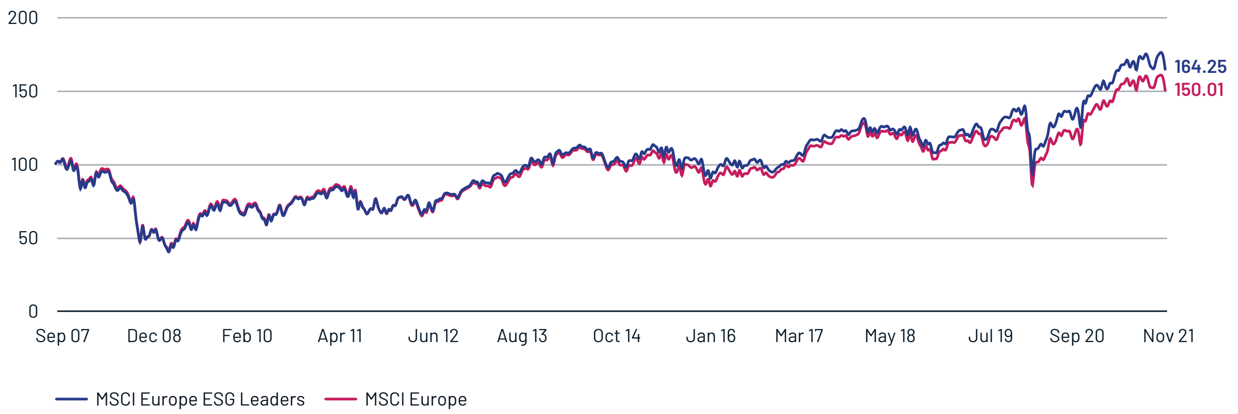
Growing use of environmental futures

ESG funds outperformed **S&P 500** in the first year of the COVID-19 pandemic. An interesting example is Parnassus Endeavor Fund, which was among the poorest performers before the crisis but went to the top of the list by January 2021 after relevant adjustments to its portfolio. **S&P GMI** recently analysed **20+ ESG** exchange traded funds **(ETFs)** and mutual funds with more than **USD250mn** in AUM and noted that, from 1Q20 to 1Q21, 19 of these funds outperformed the S&P 500.

Flows into sustainable investment funds in the **US** in **2020** reached **USD51.1bn.** Impact investing securities, as measured by the S&P 500 ESG Index, have performed on par with the broader market over the past year. The index has provided a total return of 34.6%, compared with the S&P 500's total return of 34.9%.

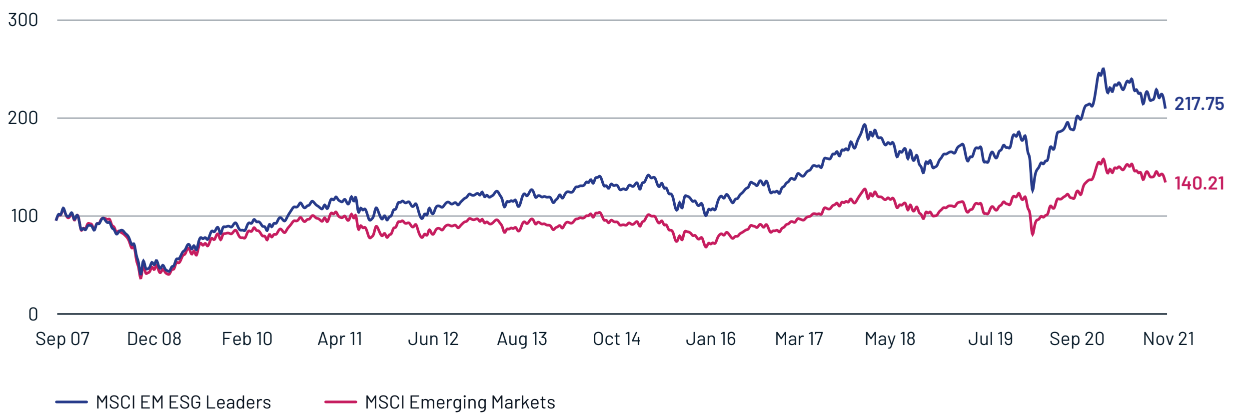
ESG ETFs, or thematic ETFs, such as those aligned with specific goals like the **UN SDG** or **women-owned businesses,** recorded a **223%** growth rate over **2020.**

CUMULATIVE INDEX PERFORMANCE — GROSS RETURNS (USD) (SEP 2007 - NOV 2021)



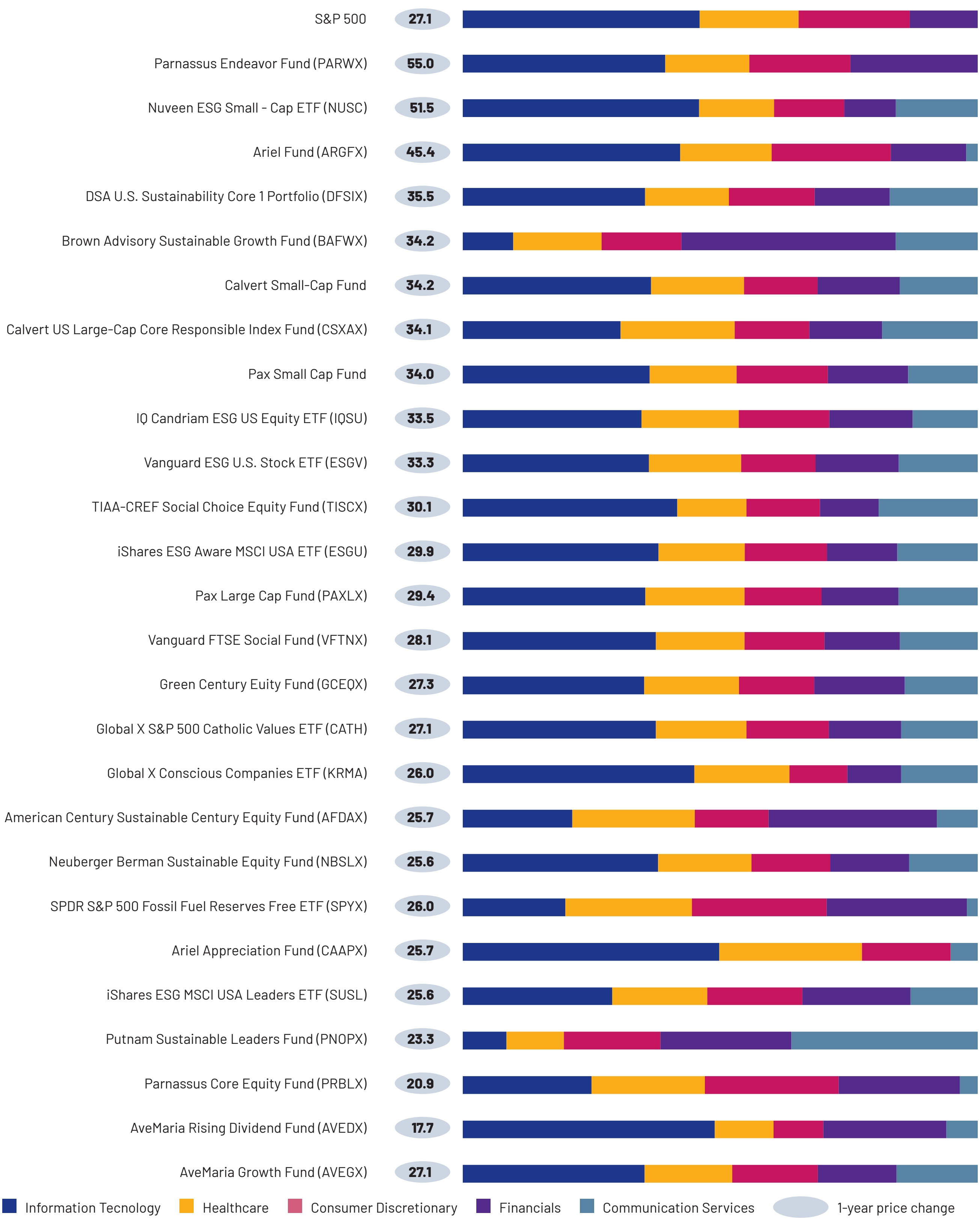
Source: MSCI

CUMULATIVE INDEX PERFORMANCE — NET RETURNS (USD) (SEP 2007 - NOV 2021)



Source: MSCI

MARKET PERFORMANCE, SECTOR COMPOSITION FOR SELECT ESG FUNDS (%)



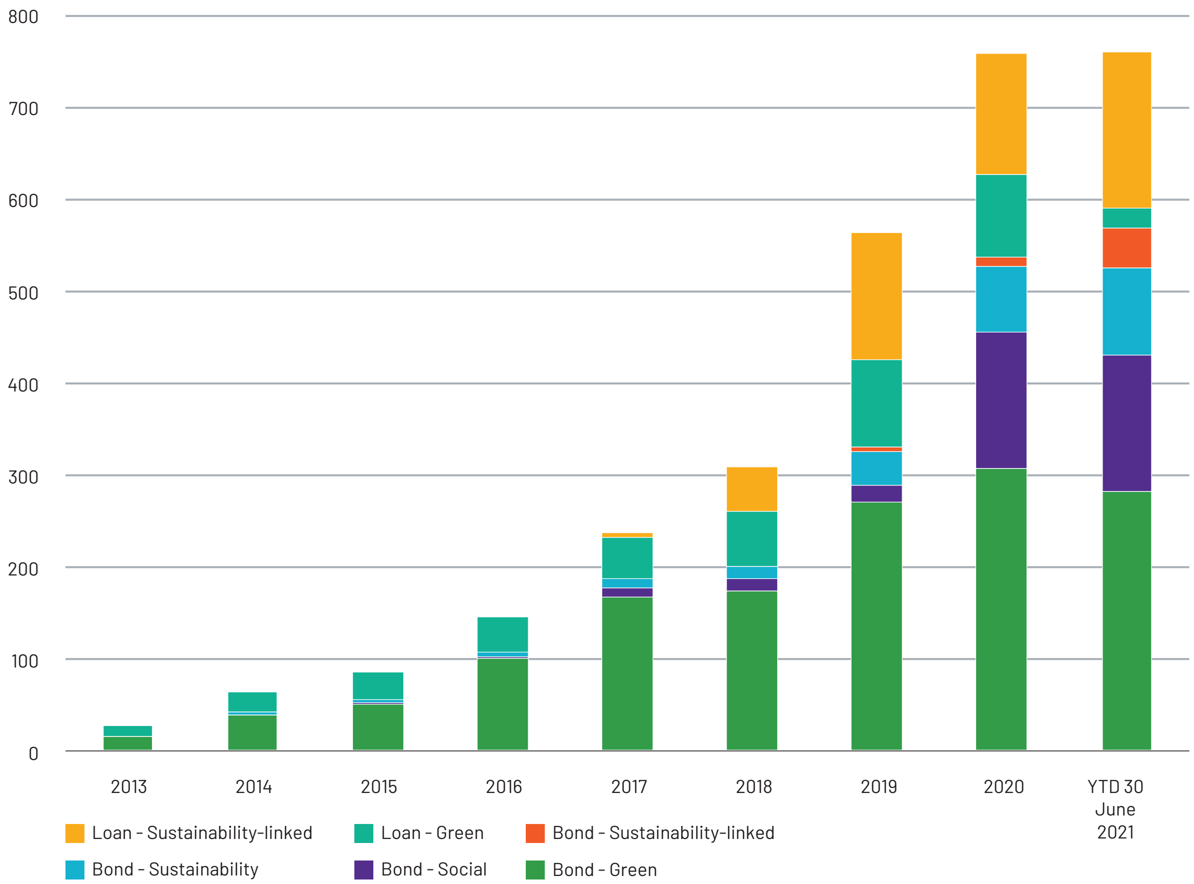
Sources: S&P Global Market Intelligence; fund websites
Data compiled on 8 March 2021
Analysis limited to select US equity ESG exchange-traded funds and mutual funds with more than USD250m in AUM including all share classes. Excludes sector-focused ESG funds. No more than two funds from a fund family selected. Price change measured from 5 March 2020 to 5 March 2021
Sector composition uses the most recent positions available and prices as of 5 March 2021
Sectors are classified according to the Global Industry Classification Standard of S&P Global Market Intelligence

Rising popularity of green issuances reflects confidence in sustainable investment

With sovereign ESG bonds passing a clear inflection point, sustainability-linked issuances seeing notable growth and acceptance, and social bonds catapulted forward by the EU, sustainable debt capital markets are reaching a new peak of activity across the capital structure of every issuer and credit type.

That said, ESG themed investments are currently based primarily in developed economies. To fully realise the benefits of sustainable development, substantial funds are required in developing and transition economies as well. Hence, there is a growing need to arrange the huge corpus of funds needed to meet the UN SDGs by 2030.

SUSTAINABLE DEBT FINANCING GROWTH BY PRODUCT TYPE



Source: Refinitiv

Note:Owing to an ongoing update of the BNEF database, information presented in the market update is sourced from BNEF (until 7 June 2021) and the Bloomberg Terminal (until 30 June).

Sustainable debt

With USD761bn issued in the first six months of 2021, the sustainable debt market has already surpassed the total issuances achieved in 2020 (USD759bn).

ESG debt issuances have now surpassed USD3tn, a landmark that reflects the progress of this niche area of investments. While it took nearly 12 years to record the first trillion dollars since the beginning of sustainable debt issuance, the second trillion was issued in just two years and the third in eight months.

The issuance of social bonds, which are raised to achieve social benchmarks such as affordable housing, climbed to USD150bn in 2020, registering a spike of 720% from 2019 amid the pandemic. Most of these issuances came from sovereigns, supranational entities and government agencies. The trend has continued into 2021, with USD148bn flowing into the market for social projects in the first half of the year.

BONDS

» During the first half of 2021, green bonds saw issuances worth USD259bn, nearly three times the 1H20 level and an unprecedented first-half record. Green bond issuances from sovereigns and supranational agencies accumulated to a total of USD85bn

» Going forward, growth in green bonds will likely accelerate further as the EU readies to issue more of them to finance recovery and resilience plans under the bloc's Next Generation EU COVID-19 recovery plan. According to an investor call published in June, the EU expects to issue up to EUR250bn in green bonds in the coming years to fulfil its commitment to spend 30% of COVID-19 recovery funds on climate action

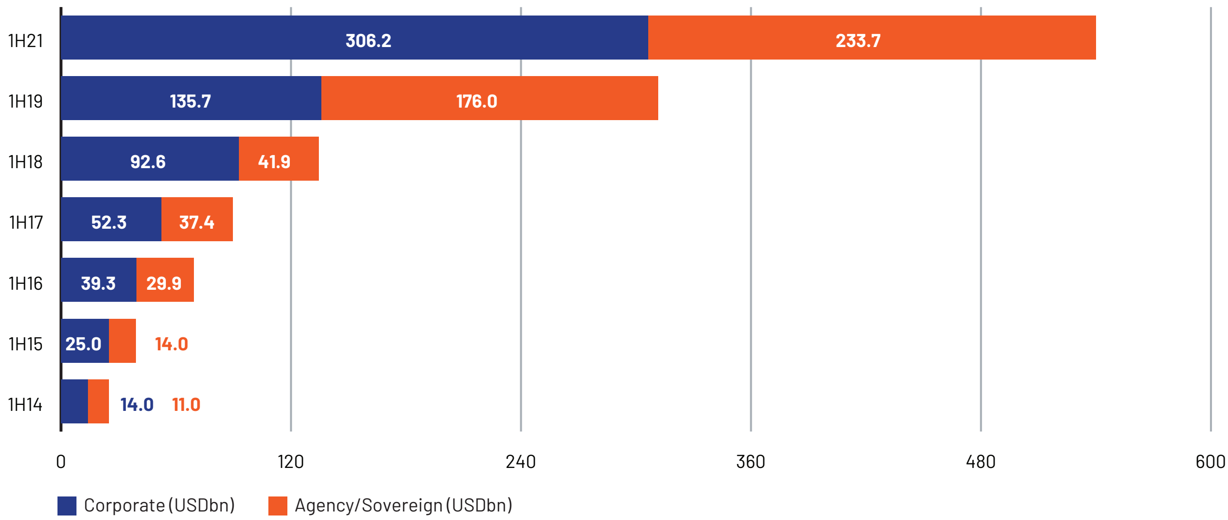
» Amid the virus outbreak, the market for social bonds grew more than eight times between 2019 and 2020. Social bond issuances totalled USD148bn in 1H21, registering growth of more than 100% versus 1H20

» Sustainability bonds totalled USD91.5bn in 1H21, up 61% y/y and an all-time record. Owing to this bumper performance, total issuances of sustainability bonds this year have already exceeded last year's total by more than 35%

» Sovereign and agency issuers accounted for 42% of total issuances in 1H21, recording a 126% y/y jump, and corporate issuers accounted for 56% of the total issuances

» European issuers recorded the largest regional market share for ESG bonds at 60% during the first half of 2021; the Americas and the Asia-Pacific were at 19% and 17%, respectively

SUSTAINABLE BONDS BY ISSUER TYPE, 1H15-21



Source: Refinitiv

1H21 SUSTAINABLE BONDS – TOP CORPORATE DEALS

Proceeds (USDm)	Issuer	Nation	Primary use of proceeds	Sector	Issue date
3,301	Credit Agricole	France	Green bond	Financials	Apr 2021
2,953	China Development Bank Corp	China	Green bond	Financials	Mar 2021
2,500	IsDB Trust Services No.2 SARL	Saudi Arabia	Sustainability	Financials	Mar 2021

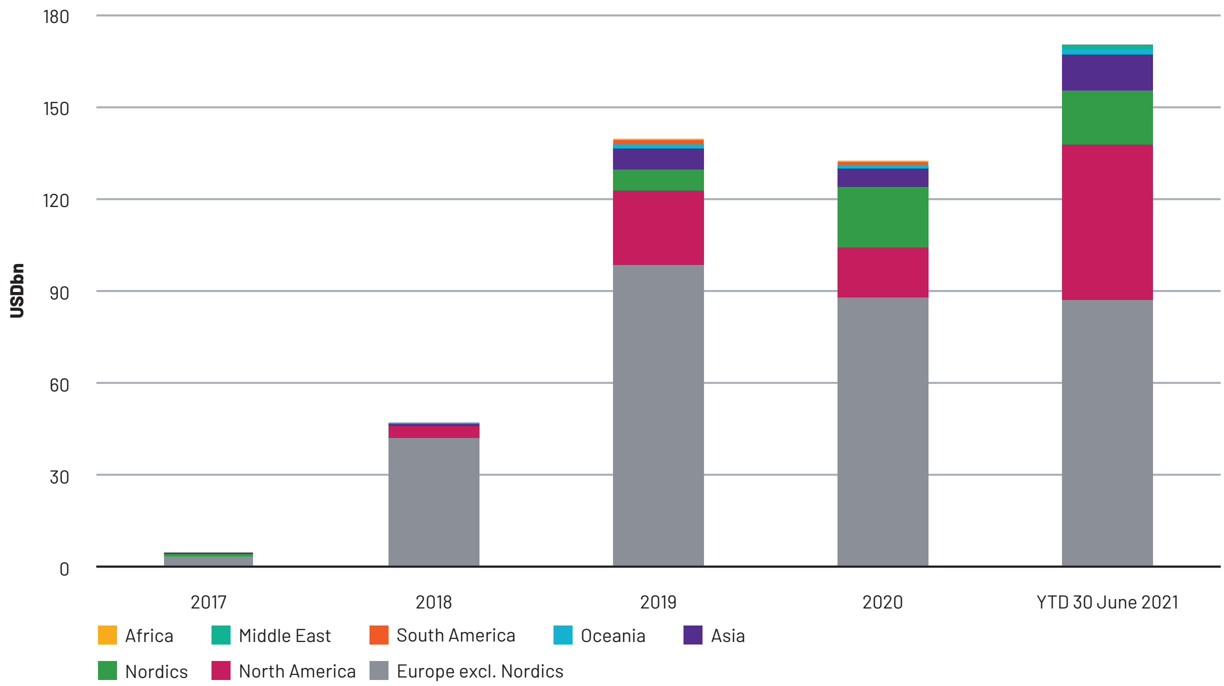
Proceeds (USDm)	Issuer	Nation	Primary use of proceeds	Sector	Issue date
2,000	NextEra Energy Capital	US	Pay on borrowings	Energy and power	Mar 2021
1,833	BPCE SFH	France	Green bond	Financials	May 2021
1,823	DNB Boligkreditt AS	Norway	Green bond	Financials	Jan 2021
1,651	Credit Agricole	France	Green bond	Financials	Apr 2021
1,582	SLG 2021-OVA	US	Green bond	Financials	Jun 2021
1,517	Enel Finance International	Italy	General corporate purposes	Financials	Jun 2021
1,512	EDF SA	France	Social bond	Energy and power	May 2021

Source: Refinitiv

LOANS

- Bloomberg recorded a total of USD21.3bn of green loans in 1H21. As evidenced by the strong growth in sustainability-linked loans, lenders are increasingly finding performance-based financing more attractive than use-of-proceeds loans
- Sustainability-linked loans are primarily in the form of revolving credit facilities (RCFs) or term-loan facilities provided to corporations in a wide range of sectors. In the first two quarters of 2021 alone, performance-based loans totalled USD170.6bn, already eclipsing last year's numbers by almost 30%
- In June 2021, an updated version of the Sustainability Linked Loan Principles (SLLP) came into force, now requiring borrowers to seek external verification of their performance against predefined sustainability performance targets (SPTs)
- The updated SLLP also provides details on what an "ambitious" SPT looks like, determining that targets should represent a "material improvement" that goes "beyond a business-as-usual trajectory"

1H21 SUSTAINABLE BONDS – TOP CORPORATE DEALS



Source: Refinitiv

- Of the overall sustainable lending in 1H21, European borrowers accounted for 45%, led by facilities for Italy's Enel SpA and Belgium's Interbrew-Simba. The Americas recorded 43% of 1H21 activity, witnessing the highest percentage since records began, while Asia-Pacific lending amounted to 8%

1H21 SUSTAINABLE LENDING – TOP DEALS

Proceeds (USDm)	Borrower	Nation	Sector	Issue Date
11,917	Enel SpA	Italy	Energy and power	Mar 2021
10,100	Interbrew-Simba, Mocat, Solibra	Belgium	Consumer staples	Feb 2021
6,000	Alphabet Inc.	US	High technology	Apr 2021
6,000	Equinor ASA	Norway	Energy and power	May 2021
5,000	Crown Castle International	US	Telecommunications	Jun 2021
5,000	Intel Corp.	US	High technology	Mar 2021
5,000	HP Inc.	US	High technology	May 2021
4,831	Telecom Italia SpA	Italy	Telecommunications	May 2021
4,400	BlackRock, Inc.	US	Financials	Mar 2021
4,257	NextEra Energy Capital Holdings	US	Energy and power	Feb 2021

Source: Refinitiv

EQUITY CAPITAL MARKETS (ECMS)

» ECM activity for sustainable businesses amounted to USD23bn during 1H21, more than triple the activity levels in 1H20 and an all-time first-half record

» In 2Q21, sustainable equity issuance, by proceeds, declined 14% q/q

» The Americas recorded 41% of total ECM activity in 1H21, followed by the Asia-Pacific at 38%

» Morgan Stanley, Goldman Sachs and Citi were the key bookrunners for sustainable equity offerings in 1H21, together accounting for a market share of 30%

1H21 SUSTAINABLE ECM – TOP DEALS

Proceeds (USDm)	Issuer	Nation	Sector	Issue Date
3,516	China Three Gorges	China	Energy and power	May 2021
2,214	Shoals Technologies Group, Inc.	US	High technology	Jan 2021
1,820	Plug Power Inc.	US	Energy and power	Jan 2021
1,810	EDP Renovaveis SA	Spain	Energy and power	Mar 2021
1,806	XPeng Inc.	China	Industrials	Jun 2021
1,570	Corporacion Acciona Energias	Spain	Energy and power	Jun 2021
1,370	China Evergrande New Energy	China	Industrials	May 2021
1,300	NIO Inc.	China	Industrials	Jan 2021
1,207	Enphase Energy, Inc.	US	High technology	Feb 2021
993	Array Technologies, Inc.	US	High technology	Mar 2021

Source: Refinitiv

Labelling irregularities by issuers, implementation of voluntary and mandatory taxonomies and a lack of specific definitions are a few key issues related to which sustainability themed financial instruments have had to face scrutiny.

"Greenwashing" is another key concern, mainly from heavy-emitting industries. Notwithstanding such concerns, though, borrowers, investors, asset managers and lenders are showing exceptional interest in growing this market.

Digital transformation – the path to ESG implementation

Digital transformation is already significantly impacting ESG performance and has the potential to go a lot further. The most immediate impact is improved data collection, reporting and analysis, and this can feed into every aspect of a business.

Digital transformation can help at various stages of company operations, especially in relation to resources and waste management. Artificial intelligence (AI), robotics, the internet of things (IoT), cloud computing and digital analytics all play a part in the processing and scrutinising of vast amounts of data – intelligence that can better inform processes and make operations safer and more sustainable.

INSTANCES OF DIGITALISATION BLENDING WITH ESG

- The **agriculture** sector uses smart agriculture tools equipped with technologies such as IoT and big data, merging sensors with analytics to gain insights into factors such as **soil quality.** Drones enable farmers to survey huge strips of land easily and use the advanced data thus gained to **optimise fertiliser levels** and ultimately **improve crop yields**
  - In 2020, Danone partnered with Microsoft to launch the AI Factory for AgriFood programme. This venture aims to help start-ups develop AI and cloud computing applications for **sustainable food production,** waste minimisation and supply chain optimisation

- Blockchain technology is gaining momentum with its contribution to the **food industry** in solving the challenge of **tracing** the complex supply chains from farmers' fields to supermarket shelves. It is also used as digital proof of **sustainably sourced products.** ESG concerns could be a substantial driver of blockchain uptake, helping incorporate **transparency** in **sustainability practices**
  - Wine monitoring and analysis company eProvenance launched a blockchain solution with IBM to increase **traceability,** efficiency and profitability across the wine supply chain

- IoT technology can be used to tackle food waste, a big problem in the **fast-moving consumer goods (FMCG)** supply chain. An estimated **1.6bn tonnes** of food is wasted across the globe every year, valued at **USD1.2tn**
  - The UN aims to reduce **50%** of food wastage by **2030** as part of its SDGs. IoT can help tackle this problem using intelligent sensors integrated into database management platforms to monitor food waste
  - Eseye provides IoT tools to tackle food waste and promote environmental sustainability

- Among the various emerging technologies in digital transformation, **digital twin** is one that has drawn the attention of many industries. Digital twins are sophisticated alternate reality representations of physical assets based on real-world data. For sustainability, digital twins can predict and optimise **energy consumption,** identify opportunities to **minimise waste** and **drive energy-efficient operations**

- According to data from Statista, spending on digital transformation should reach **USD1.8tn** in 2022. Between **2020** and **2023,** direct investments in digital transformation amounted to c.**USD7tn**

» Recently, the UK government announced that it would launch a **GBP400m** investment package, along with US billionaire Bill Gates, to speed up the progress of **new green technologies.** This tie-up is anticipated to help power a **"green industrial revolution"** and develop technologies that were regarded as too expensive to be commercially viable but were essential to realising the government's **climate goals.** It is also expected to bolster the development of technologies related to **carbon capture and storage** (CCS), **long-term battery life, jet zero (zero-carbon aviation)** and **green hydrogen**

With the right blend of technology and tools, companies can ensure compliance with increasingly stringent regulations, allowing them to meet the ESG gold standard and deliver genuine and demonstrable sustainability and efficiency.

Carbon offsets – the popular climate change mitigation tactic

Carbon offsetting refers to entities (such as companies) cancelling out the impact of their emissions by funding emission reduction initiatives elsewhere. The carbon offset market, currently in its infancy, is expected to reach USD200bn by the middle of this century.

To get to net zero, organisations may have to use carbon offsets, especially to compensate for Scope 3 emissions. The largest market for carbon offsetting to date, Scope 3 emissions, will be under discussion in November at the twenty-sixth UN Climate Change Conference of the Parties (COP26), in Glasgow.

Carbon offset accounting and verification need to be standardised and strengthened massively. Not only does the carbon offset market need clearer and more enforceable standards, it also needs to get a whole lot bigger very quickly.

The thriving market for offsets is broadly classified into two: ***voluntary*** *and* ***compliance.*** *Voluntary offsets are bought by people and companies at their own discretion. Compliance offsets are used to meet legally binding caps on carbon in schemes such as the EU Emissions Trading System (EU ETS).*

Achieving net-zero emissions by 2050 will require c.7.6Gt of carbon dioxide offsets or removal.

While supporters believe that a global carbon market will considerably shrink the world's carbon footprint, critics say that giving polluters the option to pay for their emissions is not the answer to climate change.

The Acuity Knowledge Partners advantage

Acuity Knowledge Partners (Acuity) is the preferred partner for sustainable finance solutions, backed by our comprehensive thought leadership and specialised research solutions.

We enable investment banks and advisory firms to establish and grow sustainable finance practices by providing a wide range of customised analysis and support. Our support areas cover the entire spectrum of financing products along the sustainable financial investment lifecycle.

Investment banks/Advisory firms				
Coverage and solutions	ESG advisory		Green/social bonds	
	Sustainable bonds		Blended finance	
	Green loans		Impact finance	
	Renewables	**Infrastructure**	**Commercial real estate**	**Industrials**
Our support	Identifying sector-wise ESG taxonomy		Climate change framework analysis	
	Mapping sustainability targets		Analysis on sustainable initiatives	
	Green/social bonds – opportunity analysis		Market updates – sustainable bond Issuances	
	Benchmarking ESG standards and regulations		ESG newsletter/thematic study	

Sources:

1. Refinitiv
2. Bloomberg New Energy Finance (BNEF)
3. Climate Bonds Initiative
4. Environmental Finance
5. Financial Times, Reuters
6. World Bank, International Finance Corporation (IFC)
7. UBS Global
8. Press releases

Conclusion

ESG investments have grown significantly in recent years and saw considerable acceleration amid the COVID-19 pandemic. This growth is expected to lead to greater adoption of ESG data disclosures and analytics and ESG ratings and scoring data from agencies and other service provider organisations.

While the role played by ESG in the performance of organisations remains subject to debate, the progress of ESG data and analytics and the effectiveness of the data offerings will continue to improve with time. As reporting standards and regulations advance, investors and asset managers will increasingly incorporate ESG considerations in their decision-making processes; this should, in turn, make it easier to assess the role of ESG in performance. Eventually, greater demand for ESG will make way for an industry built on the strength of innovative data and service providers and projected to reach USD5bn in annual turnover by 2025.

The biggest risk likely to arise is delays from regulators, which could decelerate overall disclosure requirements in the market. On the other hand, regulators could also sometimes set overly stringent taxonomies and standards in legislation, which may not be called for.

Meanwhile, some prominent investors are expected to play a critical role in determining the robustness of data in their investment decisions. This could define the pace of progression, not just in ESG reporting, but in accomplishing real sustainability outcomes.

Author

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Deepesh has been associated with Acuity for more than nine years, supporting an EMEA and Asia focused bank. He works with the Sustainable Finance team and has experience across multiple domains of investment banking. Key recent assignments he worked on include setting up ESG taxonomies for various sectors, peer benchmarking of ESG metrics/KPIs, industry research on sustainability initiatives, drafting of sustainable finance frameworks and research in climate change mitigation/adaptation criteria

He has worked on a broad range of investment banking analysis functions, including target screening, deal identification, industry and regulatory research/studies, market updates, company profiling (short and detailed), benchmarking analysis including various operational parameters, investor profiling, case studies and ad hoc research.

About Acuity Knowledge Partners

Acuity Knowledge Partners (Acuity), formerly part of Moody's Corporation, is a leading provider of bespoke research, analytics, staffing and technology solutions to the financial services sector.

Headquartered in London, Acuity Knowledge Partners has nearly two decades of experience in servicing over 400 clients by deploying its 4,000 specialist workforce of analysts and delivery experts across its global delivery network. We provide our clients with unique assistance to innovate, implement transformation programmes, increase operational efficiency, and manage costs and improve their top lines.

Our expertise includes the following:

- Investment Banking: origination and trading support
- Investment Research support: covering all asset classes in terms of ideation, data science, and research support across the buy side and sell side
- Commercial Lending support: across origination, credit assessment, underwriting, and covenant and portfolio risk for all lending types
- Private Equity: origination, valuation and portfolio monitoring support
- Asset Management services support: across marketing, investment research, portfolio management/ optimisation, risk and compliance
- Corporate and Consulting services: market and strategic research; survey work; treasury and counterparty risk support; and CEO office support, including M&A, FP&A and investor relations support
- Compliance support: AML analytics, KYC, counterparty credit risk modelling and servicing across banks, asset managers and corporates
- Data Science: web scraping, data structuring, analytics and visualisation These services are supported by our proprietary suite of Business Excellence and Automation Tools (BEAT) that offer domain-specific contextual technology.

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