

Integration of ESG into institutional investment:

Market drivers and approaches

JPX & LSEG

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Agenda

- **Terminology, growth, drivers**
- **Regulatory Interventions**
- **Implementation approaches**
- **Case studies of integration into passive**

Terminology and definitions



Information that supports “...more complete analyses and better-informed investment decisions”

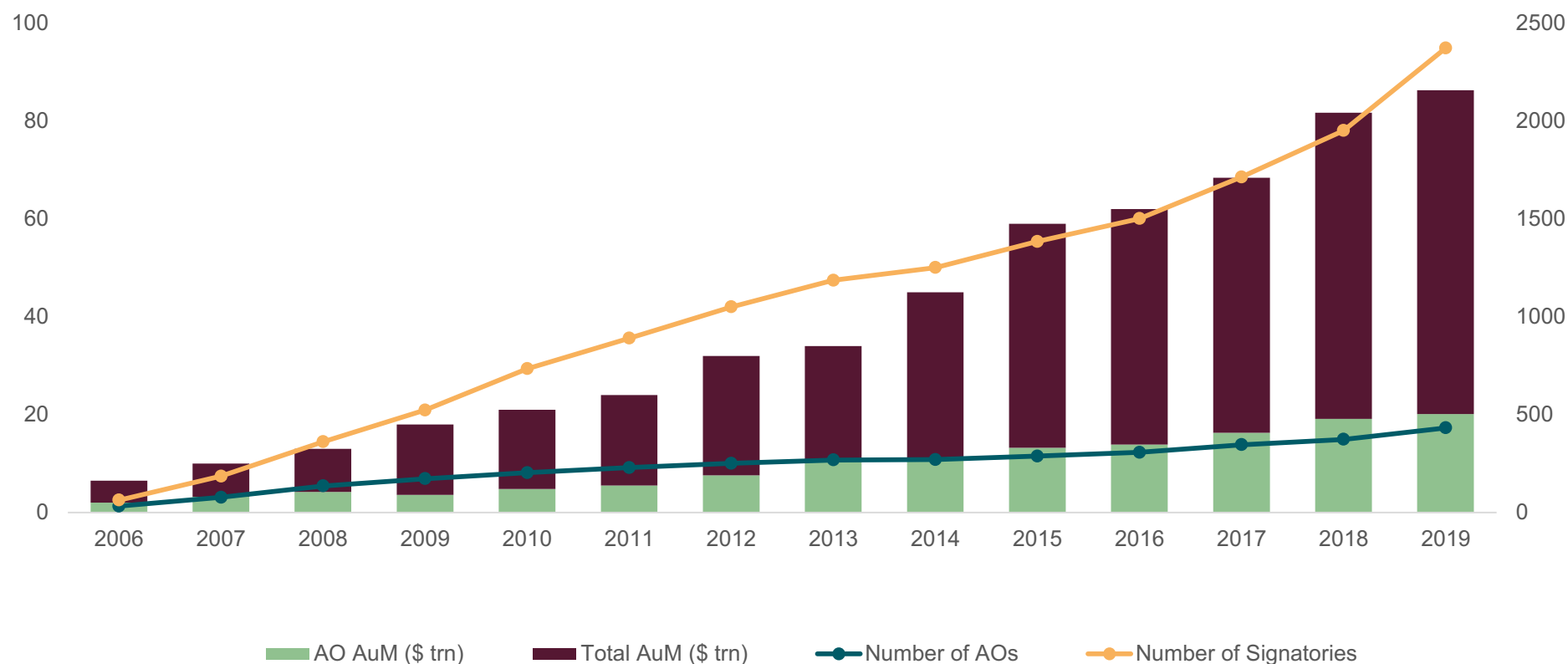
CFA Society

Investors are signing up for sustainable investment initiatives

SIGNATORIES TO UN PRINCIPLES FOR RESPONSIBLE INVESTMENT ¹

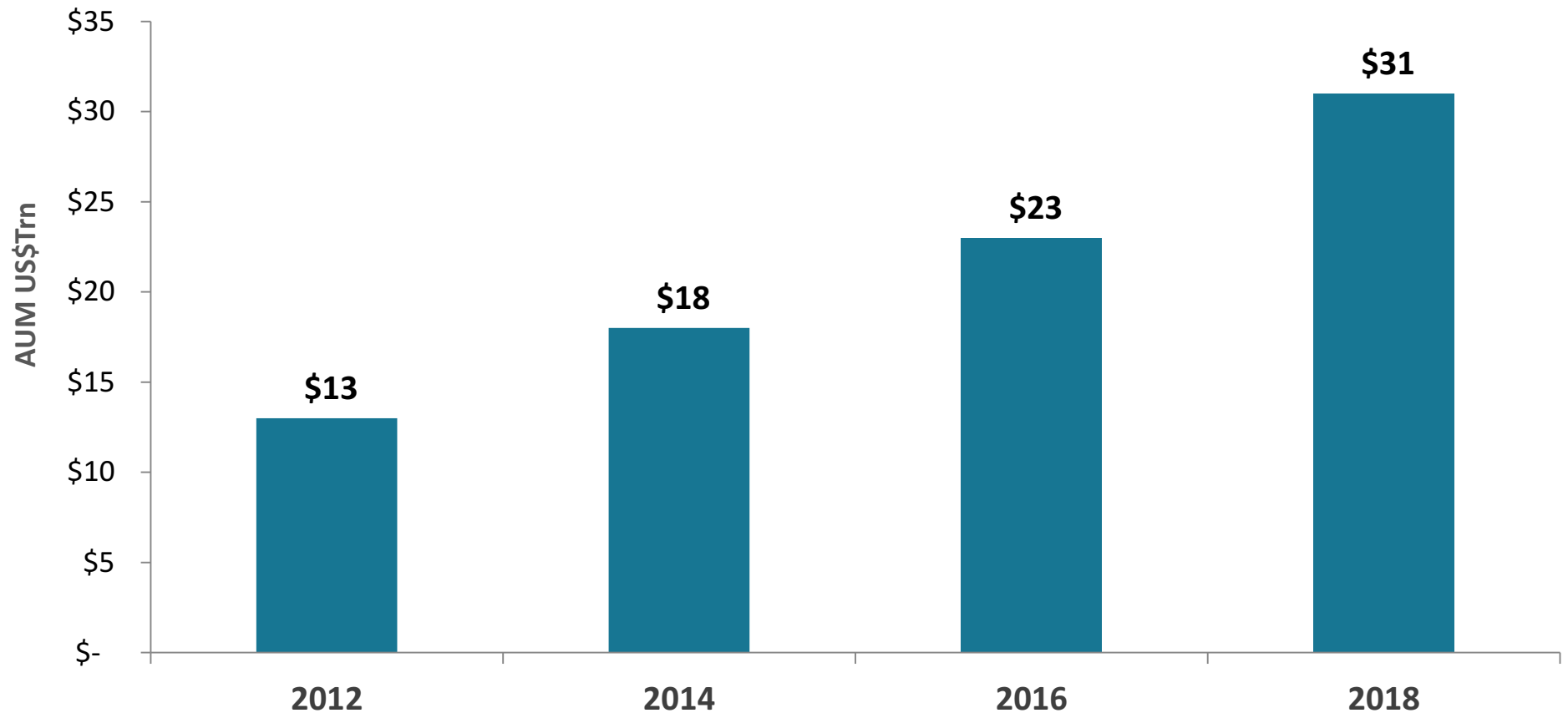
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Nº Signatories

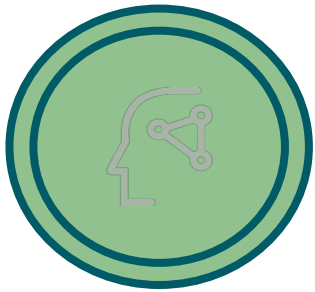


Global market growth

Growth of sustainable investment assets (2012-2018)



What is driving sustainable investment?



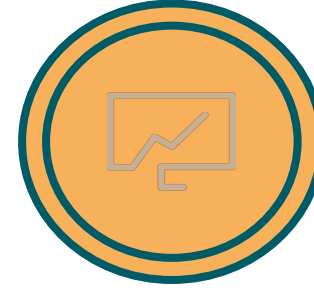
**Regulations &
Standards**



**Fiduciary
duty**



**Climate
Change**



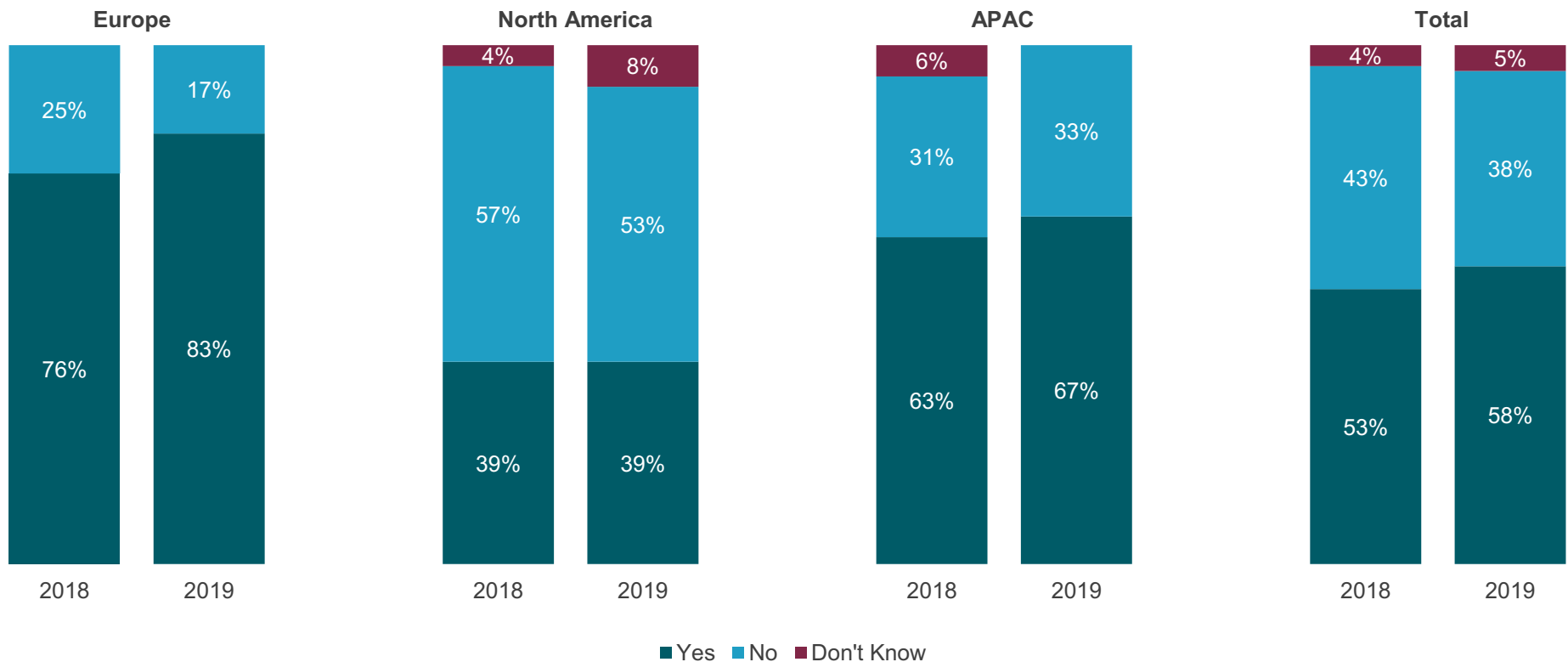
**Data &
Information**



**Funds, Indexes
& Tools**

Globally, nearly six in ten asset owners are currently implementing or evaluating ESG considerations in their investment strategy.

Is your organization currently implementing or evaluating ESG considerations in your investment strategy?

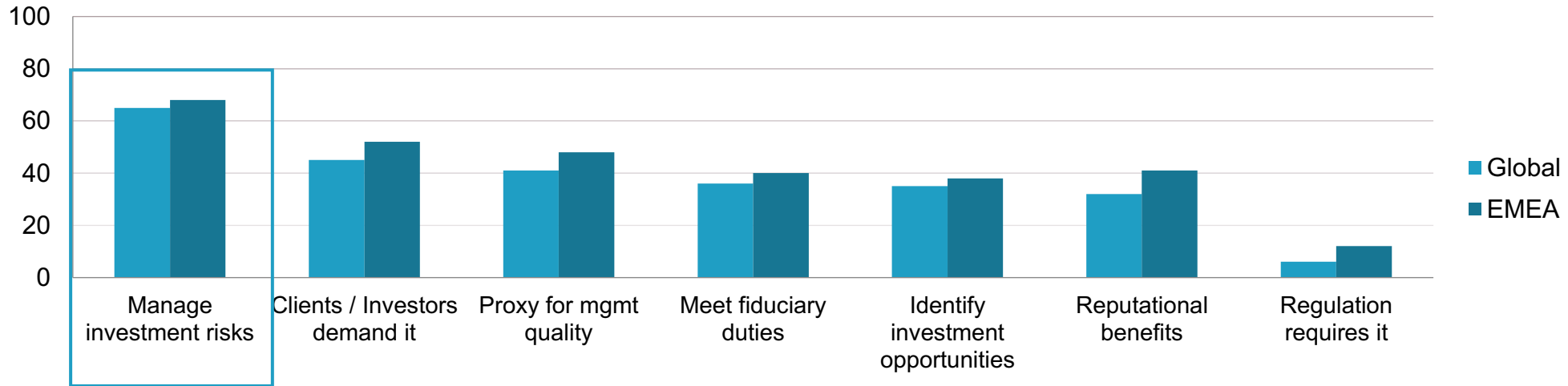


Sample size for APAC in 2018 is 16, below the preferred threshold of 30.

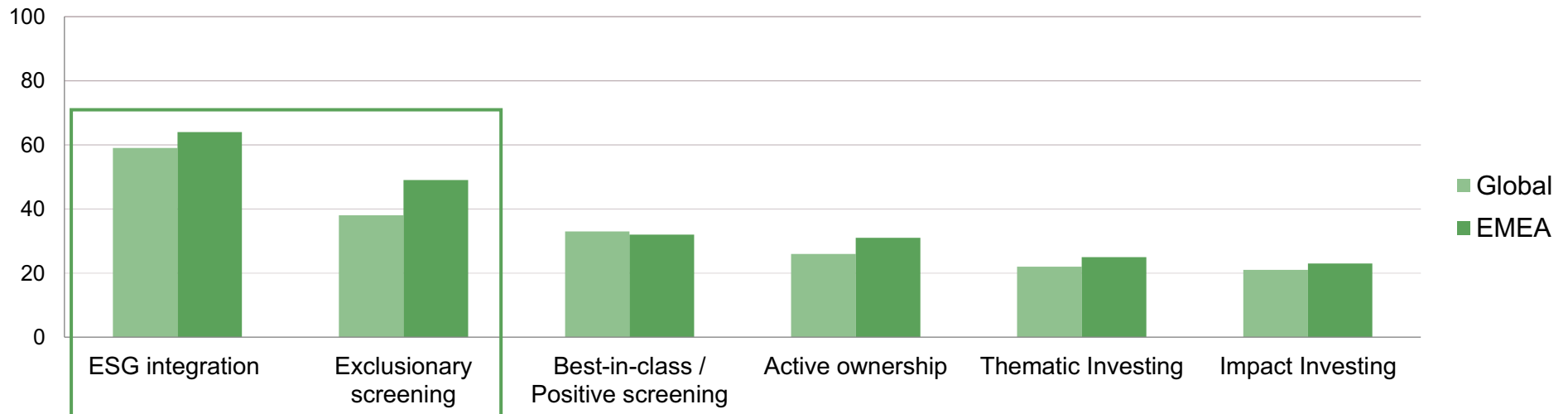
Sample size for Other regions not large enough to break out; respondents from these regions are included in total.

Investor Motivations



























Motivations for integrating ESG issues – Global vs Europe



ESG implementation approaches



Global Regulatory and Policy Developments in Sustainable Investment and Finance

	North America	UK	EU	China	Int'l Bodies
Key Influencers	       	 HM Government  BANK OF ENGLAND  FINANCIAL CONDUCT AUTHORITY  CITY OF LONDON  Green Finance Initiative  FRC	 European Commission  Directorate-General FISMA  European Parliament  esma European Securities and Markets Authority	 中国金融学会绿色金融专业委员会  中国人民银行 THE PEOPLE'S BANK OF CHINA  中国证监会 CSRC  中国证券投资基金业协会 Asset Management Association of China	 PRI Principles for Responsible Investment  OICU-IOSCO  TCFD  Sustainable Stock Exchanges Initiative

Common implementation approaches



Stewardship

Influencing company
/ market behaviour
& standards



Integration

Incorporating ESG
data into
investment
decisions



Screening

Excluding or
including
issuers / assets
(+ve / -ve)



Thematic

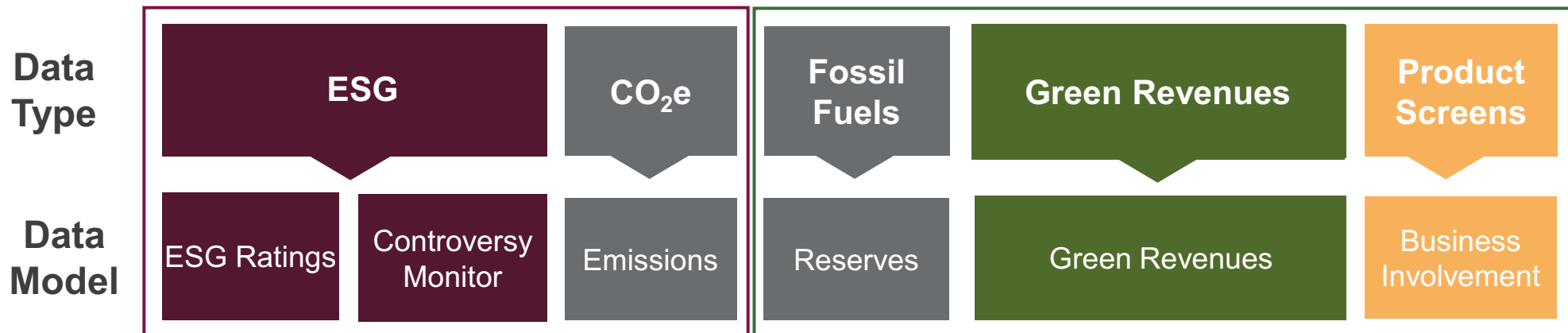
Allocating to ESG
themes &
opportunities

FTSE Russell Sustainability Framework

Measure...

...how a company operates

...what a company manufactures



Uses of ESG and GR data

- **Investment analysis:** Investment universe scoring & screening
- **Research & Portfolio analytics:** Trend analysis; ESG portfolio monitoring
- **Index construction:** Best-in-Class; Thematic; 'Smart Sustainability', Climate tilts

CASE STUDY

Aligning a benchmark with the UN SDGs

CHALLENGE

Pensioenfonds Detailhandel needed to incorporate the UN Sustainable Development Goals (SDGs) into its global developed passive equity portfolio whilst maintaining broad market characteristics

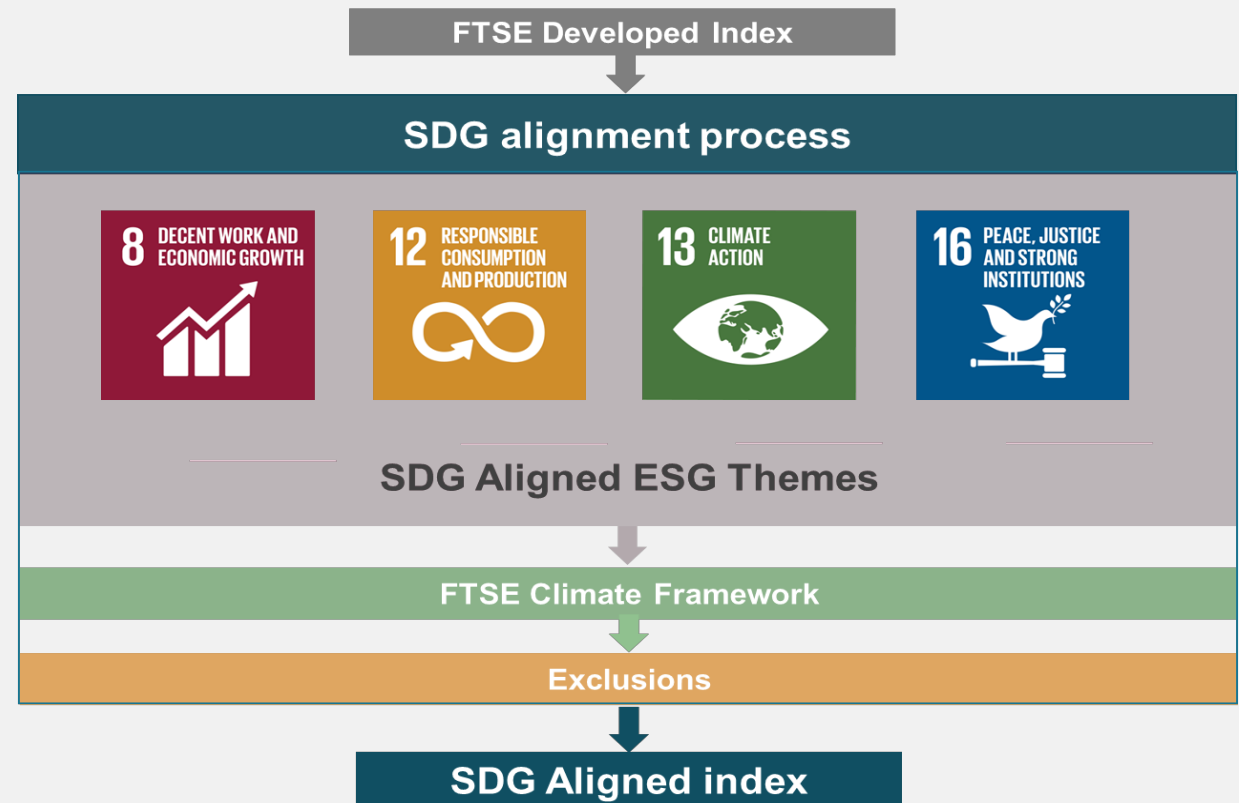
SOLUTION

The index uses a combination of tilts to constituent weights (based on an assessment of company operations and products/services) and exclusions, to create alignment with four of the 17 SDGs

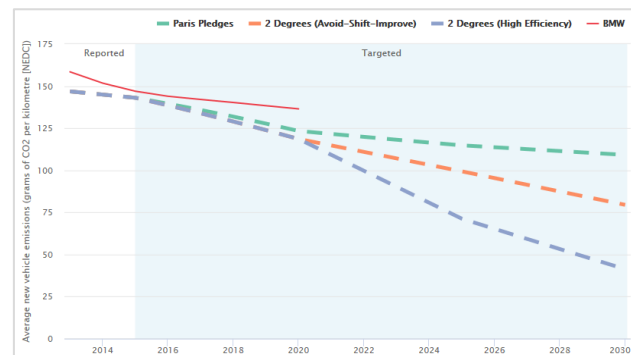
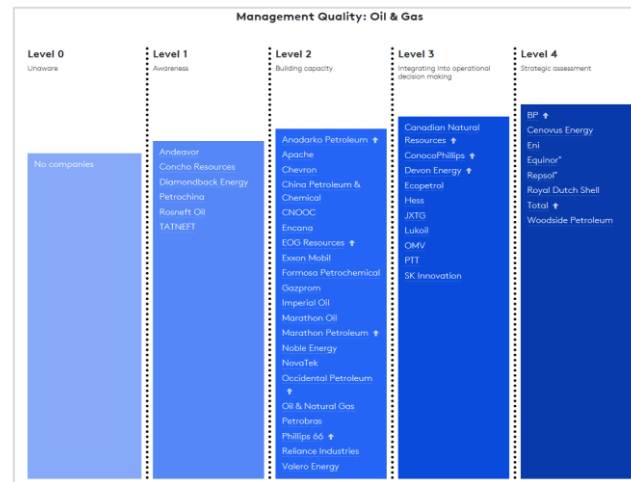
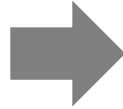
RESULT

Detailhandel allocated almost €6 billion to a fund tracking a unique SDG aligned index whilst achieving its wider investment objectives

**Pensioenfonds
Detailhandel**



Investor-led engagement initiatives



CA100+ assesses systemically important carbon emitters on three key dimensions:

1. Strong governance framework
2. Action to reduce GHG emissions
3. Enhanced disclosure

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