ESG INVESTING OVERVIEW AND THE CFA CERTIFICATE IN ESG INVESTING

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WHY IS ESG INVESTING IMPORTANT?

With growing interest from investors, ESG investing is fast becoming a driving force across the investment management industry.

Assets under management grew 20%, to more than US$100 trillion

In the first half of 2020 alone, the **Principles for Responsible Investment (PRI) signatories increased by 28%,** to more than 3,000 entities, and the **assets under management grew 20%, to more than US$100 trillion**.[1]

90% of investment professionals expect their firm's commitment to ESG research will increase

There is a **growing commitment to ESG research** in the industry: 90% of investment professionals expect their firm's commitment to ESG research will increase, up from 72% just two years ago.[1]

[1] **Source:** CFA Institute *FUTURE OF SUSTAINABILITY IN INVESTMENT MANAGEMENT: FROM IDEAS TO REALITY*, 2020

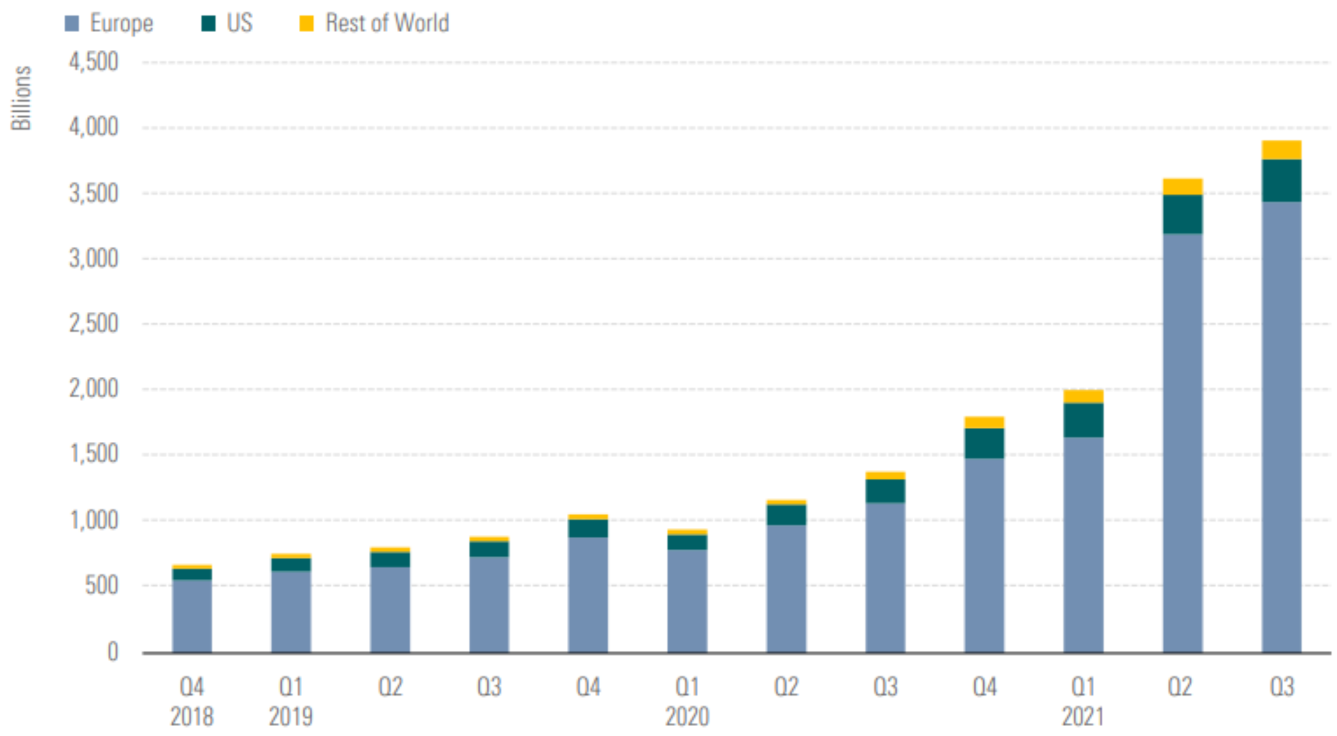
THE INVESTMENT CASE FOR ESG

- Companies integrating ESG practices within their wider strategy are not just focusing on their shareholders, but multiple stakeholders
- Companies are generally better run if they're not just thinking about short-term profits
- Higher diversity within corporate structure helps innovation and creativity
- A trustworthy company attracts loyal customers but also the best quality employees
- The Green Recovery – hundreds of billions are being committed to overcome environmental problems
- Strong returns + doing what is better for the world ("doing well while doing good") – these are not mutually exclusive goals

KEY TRENDS AND DRIVERS OF THE ESG MARKET

- Asset flows into Sustainability related investment products

Exhibit 3 Quarterly Global Sustainable Fund Assets (USD Billion)

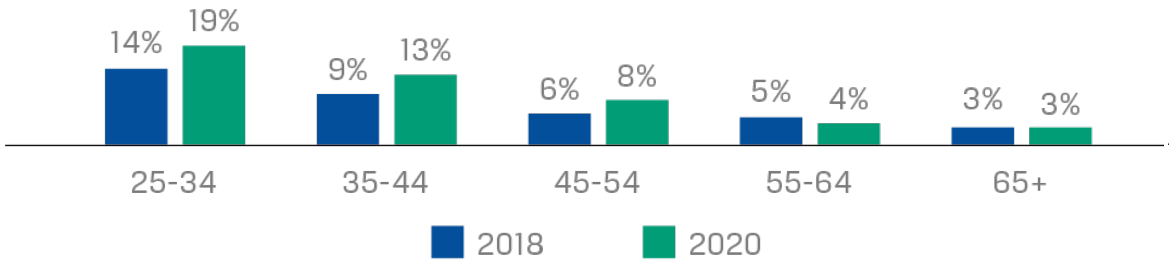


Source: Morningstar Direct, Manager Research. Data as of September 2021. *Q2 data has been restated because of new ESG language found in fund prospectuses following the introduction of SFDR on March 10. Figures include final Q3 data for China in Asia ex-Japan.

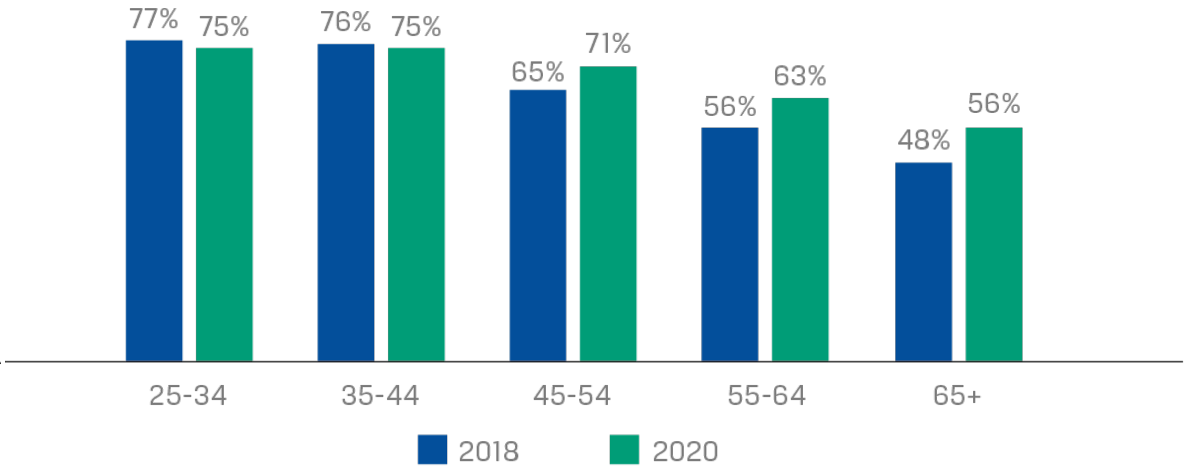
THE BUSINESS OPPORTUNITY

- Future growth opportunities in the product space include ESG index tracking and quant funds, ESG thematic products, ESG multi-asset products, climate transition strategies, and better benchmarks.

RETAIL INVESTORS CURRENTLY EMPLOYING ESG STRATEGIES, BY AGE



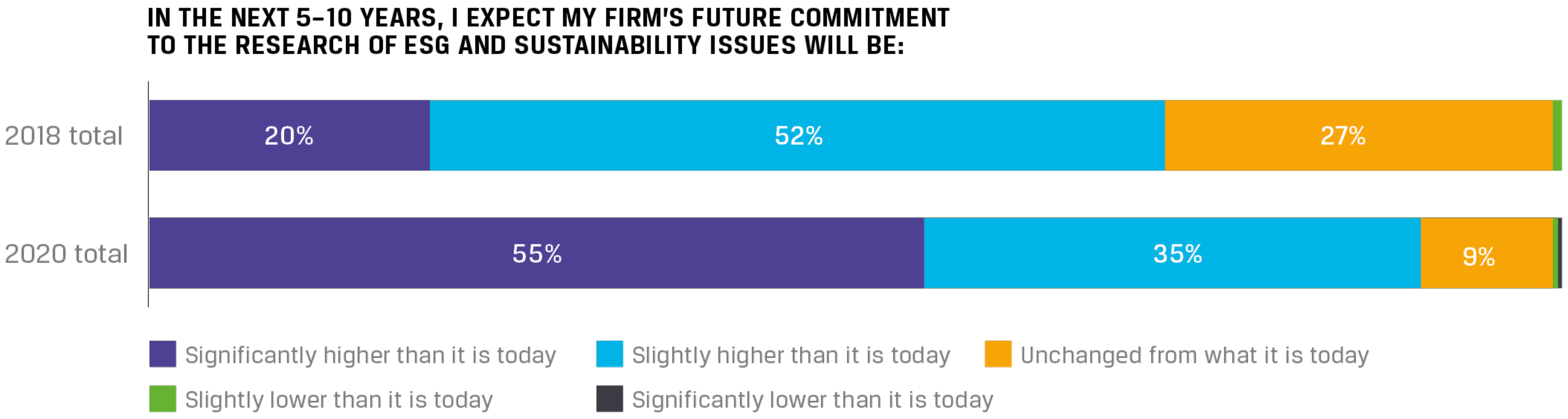
RETAIL INVESTORS INTERESTED IN ESG STRATEGIES, BY AGE



N = 2,430 in 2018 and N = 2,840 in 2020

FIRMS COMMITMENT TO ESG RESEARCH

Expectations are much higher than just two years ago



N = 2,206 in 2018 and 2,125 in 2020; includes 244 CEOs/CFOs/CIOs

HOW READY IS THE INDUSTRY TO SUPPORT THE SUSTAINABILITY MEGA-TREND?

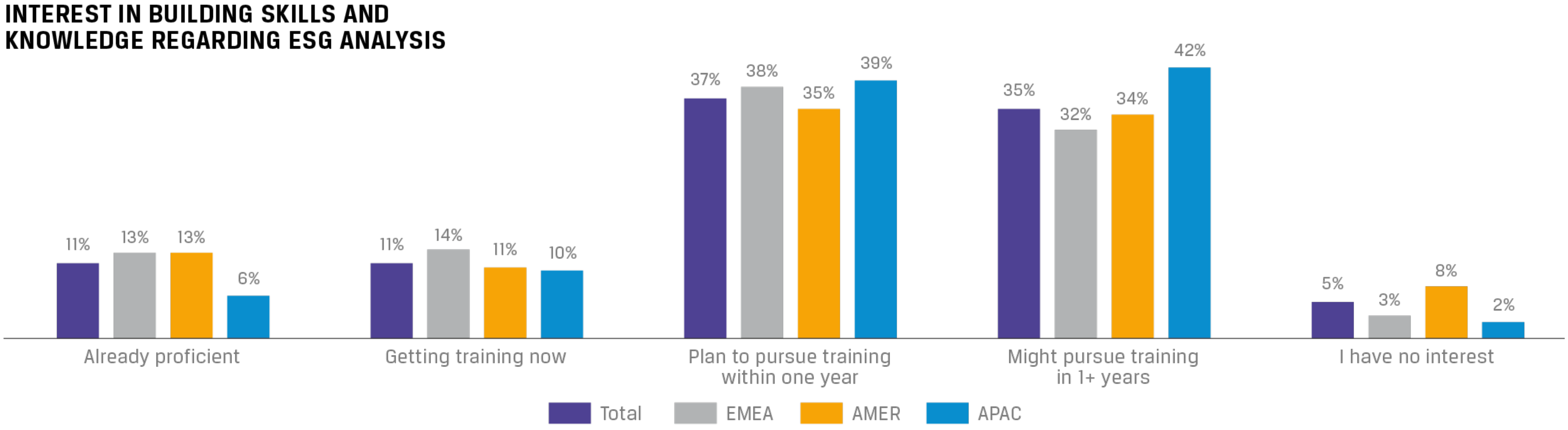
- ESG expertise – the gap between supply and demand

Job title family	Profiles on LinkedIn (rounded)	% with sustainability skills	1-year sustainability expertise growth	% of postings seeking expertise
Portfolio Manager	146,000	1.5%	32%	18%
Chief Investment Officer	15,000	2.0%	18%	10%
Financial Advisor	630,000	0.5%	32%	5%
Analyst	180,000	0.7%	34%	2%
Chief Executive Officer	37,000	1.9%	12%	0%
Total	**1,008,000**	**0.7%**	**26%**	**6%**

(source: LinkedIn Talent Insights)

INTEREST IN ESG TRAINING

Few are already proficient, though more than 70% may increase skills



N = 2,501

Positive environmental and societal impact

87%

said it is important to make a positive societal and environmental contribution in their career

UK responses:

93% total

93% Studied/ing Accounting & Finance

93% Greater London

95%:89% M:F

What careers can offer a positive social and environmental contribution?

Investment Professional: ***only*** **6.7%**

CFA Institute: 2022 Global Student Outlook Report

ESG INVESTING OVERVIEW

ESG INVESTING FACTORS

ENVIRONMENT

- Biodiversity loss
- Greenhouse gas emissions
- Energy efficiency
- Renewable energy
- Resource depletion
- Ocean acidification
- Ozone depletion

SOCIAL

- Mass migration
- Wealth distribution
- Access to healthcare
- Workplace health and safety
- Diversity
- Employment rights, child labour and slavery
- Controversial weapons such as cluster bombs

GOVERNANCE

- Executive compensation
- Bribery and corruption
- Independent directors
- Ethics in business
- Transparent disclosure of ESG criteria
- Whistle-blowing policies
- Implications of business strategy on social and sustainability issues

ESG INVESTING FRAMEWORK

Environment

- GHG Emissions
- Air Quality
- Energy Management
- Water & Wastewater Management
- Waste & Hazardous Materials Management
- Ecological Impacts

Leadership & Governance

- Business Ethics
- Competitive Behavior
- Management of the Legal & Regulatory Environment
- Critical Incident Risk Management
- Systemic Risk Management

Business Model & Innovation

- Product Design & Lifecycle Management
- Business Model Resilience
- Supply Chain Management
- Materials Sourcing & Efficiency
- Physical Impacts of Climate Change

Social Capital

- Human Rights & Community Relations
- Customer Privacy
- Data Security
- Access & Affordability
- Product Quality & Safety
- Customer Welfare
- Selling Practices & Product Labeling

Human Capital

- Labor Practices
- Employee Health & Safety
- Employee Engagement, Diversity & Inclusion

Source: Sustainability Framework, *Sustainability Accounting Standards Board*

HOW DO WE INVEST ETHICALLY

Negative Screening

- Excluding companies engaged in certain activities
- Tobacco
- Alcohol
- Pornography
- Gambling
- Armaments
- Nuclear Power
- Animal Testing
- Fossil Fuels
- Child Labour

Positive Screening

- Actively looking to invest in 'good' companies
- Renewable energy

Best-in-class

- Identify companies that are the best in terms of ESG within their respective sectors

Sustainable Funds

- Wide range of funds to choose

Sustainable bonds

- Green Bonds
- Social Bonds
- Blue Bonds

TYPES OF ESG STRATEGIES

IMPACT

- Often private markets
- Direct involvement
- Return of capital +
- Concentration risks
- Liquidity and exit risk
- Impact closely measured

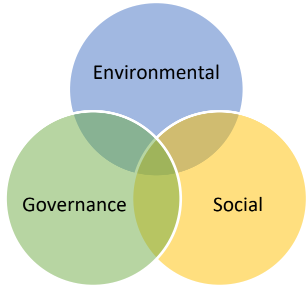
THEMATIC

- Seeking capital market returns
- Public and private markets
- Themes e.g. renewable energy farms
- Company size tends to be smaller
- More highly concentrated
- Impact implied in theme choice

SYSTEMATIC

- Seeking broad capital market returns
- From public markets
- Risk and return similar to traditional portfolio
- Remain broadly diversified
- Tilt toward better ESG credentials
- Impact harder to quantify

ESG INTEGRATION



- ESG investing can be broadly defined as 'integrating Environmental, Social and Governance factors of companies into the fundamental investment process'

Mitigate ESG risks and use ESG factors as opportunities

- Taking account of ESG risks to investments when making decisions or giving advice.
- Making the planet a better place is a second order effect.
- Regulatory view is that:
    - ESG integration should result in improved financial performance. It is not a trade-off.
    - Firms should be considering ESG risks already (MiFID).

How is this Integrated?

- Core portfolio analysis to include ESG credentials
- ESG ratings form part of decision
- Ratings Agencies (e.g. MSCI & Sustainaltics)
- Evaluation of ESG can be difficult – lack of data

INVESTOR OBJECTIVES – MARKETING YOUR PORTFOLIO

Investors objectives

- Purely financial objective (capital growth, income, tax efficiency)
- Financial but accounting for SRI principles
- SRI focussed but seeking a return (e.g. prepared to sacrifice performance)
- Essentially philanthropic

Product Suitability

- The best product for a particular investor may not be the one that describes itself best in the terms that investor is looking for.
- e.g. a product called "nuclear free bond" might appeal to certain investment preferences but there may be products with better performance and other characteristics that make less of a selling point of that specific feature.
- So cannot rely solely on manager categorisation..
- Manufacturer should describe the product's objectives
- Disclosure should be simple and consistent across approache

THE ROLE OF REGULATION – CAN BE A POSITIVE INFLUENCE

Finance can support the transition to a sustainable long-term future

Regulatory settings internationally and domestically are adjusting to accommodate this role

- In Europe this is being done via the Sustainable Finance Action Plan

Labelling – anti-greenwashing

- EU Taxonomy
- Considering regulating ESG data and ratings providers
- CFA Institute ESG Standards for Investment Products

ESG RISKS

- Financial
- Physical
- Transition
- Liability

FINANCIAL RISKS FROM CLIMATE CHANGE

Understanding of key environmental factors related to business and investment

- Understanding of key environmental factors related to business and investment is centered on specific issues:
- Climate change
- Unsustainable natural resource consumption and production

Negative impacts of businesses, consumption habits and investment demand on the health of natural capital stocks

PHYSICAL RISKS

Physical risks arise from the changes in weather and climate that impact economies

- Direct impacts on assets and operations (e.g., flooding or drought) and physical changes caused to the environment (e.g., via water and land usage); and
- Indirectly through subsequent events, such as the disruption of global supply chain
- Global and regional changes in climate can also lead to lower productivity of agriculture, human labor and physical assets

PHYSICAL RISKS

ACUTE

- Hurricanes
- Landslides
- Wildfires
- Heatwaves

CHRONIC

- Sea Level Rise
- Glacier Melt
- Increased Frequency of Acute Events
- Rise in Global Average Temperatures

TRANSITION RISKS

Transition Risk is derived from actions or as a result of efforts to reduce emissions of GHGs or to adapt to existing impacts of climate change.

- Market risks:
- Reputational risks:
- Technology risks:
- Policy risks:
- Stranded Assets:

LIABILITY RISKS

Liability risk stems from people or businesses seeking compensation for losses arising from physical and/or transition risks

Can stem from/effect:

- Failure to manage or disclose risk
- Greenhouse Gas emissions
- Governments or regulators for inadequate consideration
- Over elevated adaptation requirements
- Misrepresentation of physical risk exposures or adequacy of adaptation activities
- Failure to comply with adaptation regulation
- Insurance claims for a failure to manage physical climate risks
- Negligent financial or professional services, contractual disputes

OTHER RISKS TO CONSIDER

Risk	Potential effects of climate risk drivers (physical and transition risks)
Credit risk	Credit risk increases if climate risk drivers reduce borrowers' ability to repay and service debt (income effect) or banks' ability to fully recover the value of a loan in the event of default (wealth effect).
Market risk	Reduction in financial asset values, including the potential to trigger large, sudden and negative price adjustments where climate risk is not yet incorporated into prices. Climate risk could also lead to a breakdown in correlations between assets or a change in market liquidity for particular assets, undermining risk management assumptions.
Liquidity risk	Banks' access to stable sources of funding could be reduced as market conditions change. Climate risk drivers may cause banks' counterparties to draw down deposits and credit lines.
Operational risk	Increasing legal and regulatory compliance risk associated with climate-sensitive investments and businesses.
Reputational risk	Increasing reputational risk to banks based on changing market or consumer sentiment.

CONCLUSIONS

- ESG is no longer a 'nice to have'. It's been a huge contributor to performance and it's here to stay
- ESG considerations are a growing area of interest for many investors around the world
- This is a personal choice. Investor interests need to be fully understood
- Huge investment opportunity whilst also doing what is 'good'
- Soon 'ESG investing' will just be known as 'investing' because these issues will be ingrained in every corporation and there will be no tolerance for non-compliance
- Many security factors to consider
- Must look at portfolio context
- Regulations can be helpful

OVERVIEW OF THE CERTIFICATE IN ESG INVESTING

CERTIFICATE IN ESG INVESTING

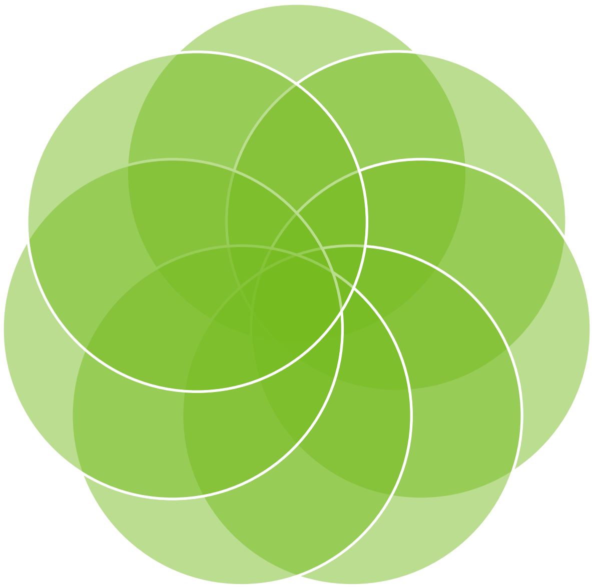
A qualification **created by practitioners, for practitioners,** developed to deliver knowledge and skills required by investment professionals to integrate ESG factors into the investment process.

WHO IS THE CERTIFICATE DESIGNED FOR?

Portfolio Managers

Trustees

Fund Managers



Wealth Managers

Sales, Relationship & Distributions Teams

Analysts

Product Development Teams

HOW TO EARN THE CERTIFICATE

Self-paced study program, supported by a dedicated training manual.

Recommended study time is **130 hours on average**.

No formal entry requirements but prior investment knowledge is helpful.

2 hour 20 minute exam, 100 questions: multiple choice and item sets.

Price is **USD 675** including study materials and exam registration.

Testing is conducted through **Prometric Online Testing (Pro-Procter) or Prometric Test Centres.**

Over 20,000 registrations since UK launch in 2019.

Leading employers are:

- adding it to approved training subsidy programs;
- mandating it for certain job functions; .

ADOPTION BY GLOBAL ORGANIZATIONS

Leading global firms are adopting the **Certificate in ESG Investing** by:

1. Adding it to approved training lists for employees,
2. Mandating it for certain job functions,
3. Putting cohorts of employees simultaneously through the program to create an ESG community,
4. Referencing the number of certificate holder employees in client pitch books or RFPs to evidence their ESG commitment and credibility to investors.

Examples of firms supporting their employees in taking the Certificate in ESG Investing include:

- **Aegon Asset Management**
- **AXA Investment Managers**
- **BBVA Asset Management**
- **BNY Mellon**
- **BTG Pactual**
- **Fleishman Hillard**
- **Goldman Sachs Asset Management (GSAM)**
- **HSBC Wealth and Personal Banking**
- **Invesco Asset Management**
- **Mercer Consulting**
- **Nykredit/Sparinvest**
- **Pictet Asset Management**
- **SURA Investment Management**
- **UBS Asset Management**
- **Voya Investment Management**
- **William Blair Investment Management**

WHAT DOES THE CERTIFICATE COVER?

CFA Institute®
Certificate in ESG Investing

CURRICULUM OVERVIEW

- Introduction and Overview of the ESG Market
- Environment, Social and Governance Factors
- Engagement and Stewardship
- ESG Analysis & Valuation
- ESG Portfolio Management and Reporting

TOPIC BREAKDOWN BY CHAPTER

Introduction to ESG (4-8 questions)

- ESG Concepts & Approaches
- Benefits & Challenges
- Materiality of ESG Issues
- ESG Megatrends

CHAPTER 01.

The ESG Market (4-8 questions)

- Size & Scope of ESG Investing
- Key Market Drivers
- ESG Issues & Sustainability Trends
- ESG Implementation Challenges

CHAPTER 02.

Environmental Factor (6-12 questions)

- Key Environmental Concepts
- Megatrends & Relationship to Business Practices
- Applying Material Impacts on Investment Opportunities

CHAPTER 03.

Social Factors (6-12 questions)

- Key Social Concepts
- Social Issues & Relationship to Business Practices
- Applying Material Impacts on Investment Opportunities

CHAPTER 04.

Governance Factors (6-12 questions)

- Corporate Governance Frameworks
- Applying Material Impacts on Investment Opportunities
- Applying Factors to Financial Modelling, Risk Assessment, etc.

CHAPTER 05.

Engagement & Stewardship (6-10 questions)

- Purpose of Engagement & Stewardship
- Stewardship Codes & Principle Requirements
- Methods and Engagement in Practice

CHAPTER 06.

ESG Analysis, Valuation & Integration (20-32 questions)

- Objectives of ESG Integration by approaches and challenges
- Qualitative & Quantitative Approaches
- ESG Databases, Scoring & Screening

CHAPTER 07.

ESG Integrated Portfolio Management (8-14 questions)

- Portfolio Construction & Mgmnt.
- ESG Factors on Strategic Asset Allocation Models
- Evaluating ESG Investments

CHAPTER 08.

Portfolio Analytics & Client Reporting (4-8 questions)

- Mandate Construction and Delivery
- Client Types & ESG Strategy
- Reporting, Monitoring, and Measurement

CHAPTER 09.

CFA Institute

ESG in the CFA Curriculum--2022

- Two dedicated core ESG readings (LI and LII) to introduce terminology, explain concepts, and provide tools.
- Provide a variety of ESG coverage throughout the curriculum to reflect practice.

We have substantially increased our coverage of ESG content in the CFA Program curriculum for the 2022 curriculum year. That increase is summarized as follows:

- Number of readings with some ESG content: **23 readings (2022) vs. 10 readings (2020) — 130% increase**
- Percentage of total readings with ESG content: **16% in 2022 vs. 7% in 2020**

	ESG related content in the CFA Program Curriculum				
	Number of Readings		Percentage of Readings		Y-O-Y Growth
Level	2020	2022	2020	2022	2022
L I	2	9	4%	16%	350%
L II	5	7	10%	15%	40%
L III	3	7	8%	18%	133%
	10	**23**	**7%**	**16%**	**130%**

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For more information, please contact:
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