

ESG Global Investor Survey 2021

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Key takeaways

In the fourth quarter of 2021 we carried out a survey among 70+ investors, with assets under management of approximately €18 trillion, to gauge their approach to ESG investment.

Whilst there are several conclusions to be drawn, here are some of the highlights:

- A higher number of investors (31%) understand the importance of socially responsible investment without the need of a regulatory ‘stick’ compared with 2019 (21%)
- ESG strategies, as expected, vary depending on the fund, asset class, or geography as investors deal with disparate data and objectives
- In-house ESG expertise are preferred over advice from ESG rating agencies
- Investors agree that for regulations to be impactful they need to be focused and specific, and investor initiatives that are impactful need to be open to as many investors as possible
- Substance, not labels, enhance ESG credibility. The top two actions cited by investors, showed ‘issuers commitment to sustainability’ as being disclosure-based, (33% of investors cited quality reporting and targets), with validation from external parties being cited by less than 5% of investors
- Geographical width and economical depth – investors show clear appetite for sustainability debt from new markets and new sectors
- Trading premium for sustainability debt has become acceptable

Thank you to the 70+ participants, from over 10 major investment hubs, for making this analysis possible.

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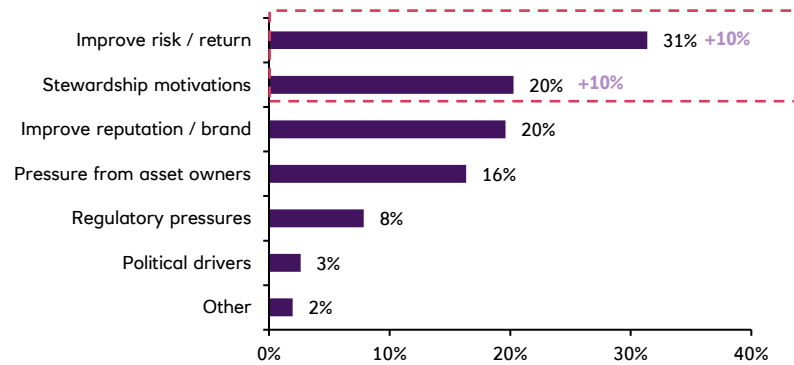
Parameters of ESG investment strategy

Responses from 70+ investors with over EUR18 trillion in assets under management

- A higher percentage of investors stated that **stewardship motivations** were one of the two main reasons to **incorporate sustainability strategies** in 2021 compared to 2019
- **Increased percentage** of organisations are using **ESG integration as sustainable investment strategy**, with 42% of respondents claiming so compared with 28% from 2019
- Despite an increase in consistent application of ESG strategy (38%), **application of ESG analysis continues to vary, within firms** (e.g. by fund/mandate and asset class)
- 44% of investor respondents would **not differ from their firms exclusionary policies**. The most noted justification among the 41% who would are investments' specific KPIs and uses of proceeds

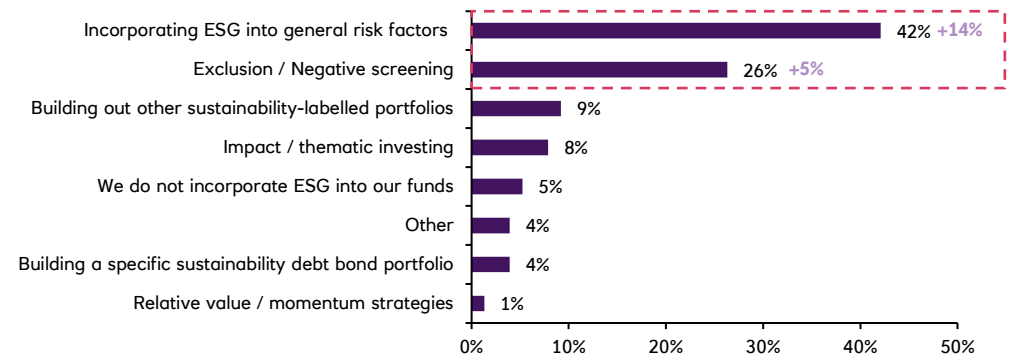
Drivers of sustainability strategies

What have been the two main motivations to incorporate sustainability strategies?



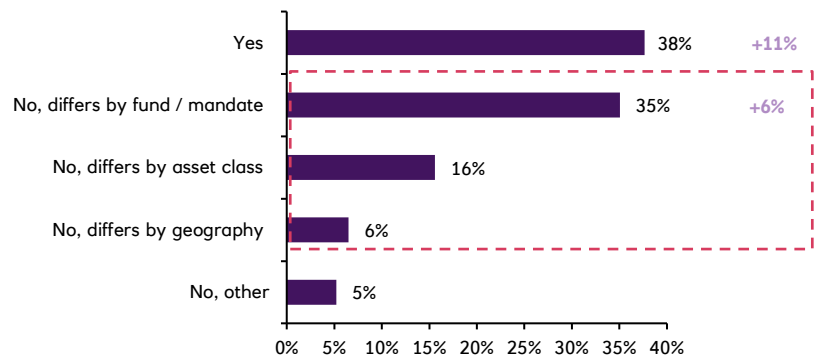
Implementation of sustainability strategies

How does your organisation incorporate sustainability into its overall investment strategy?



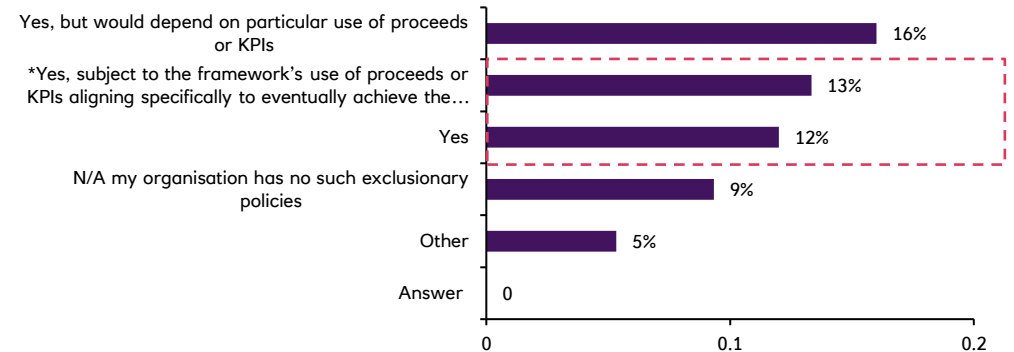
Sustainability strategy consistency

Is your organisation's ESG strategy consistently applied across investments?



Exclusionary policy exceptions

If your organisation has policies to exclude sectors or issuers would the use of a market-aligned sustainable financing framework by an issuer for its debt financing allow for an exception and investment?



Source: NatWest Markets Global ESG Investor Survey 2019, NatWest Markets Global ESG Investor Survey 2021

Note: (*) Yes, subject to the framework's use of proceeds or KPIs aligning specifically to eventually achieve the thresholds set out in the exclusion policy

Purple Text denotes delta between results from NatWest Markets Global ESG Investor Survey 2019 & 2021. Denotes key points mentioned at the top of the page

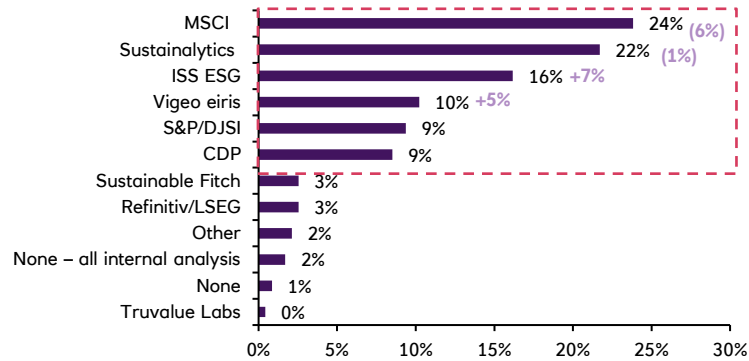
ESG tools for analysis and respective challenges

Balance between ESG ratings and their impact

- **MSCI and Sustainalytics** continue to be the **most used ESG data providers**, with other firms increasing their share of the ESG rating space (ISS ESG, Vigeo Eiris, etc.) compared to 2019
- **Over 50% of investors** use ESG focused analysts. Shift towards using dedicated ESG analysts away from portfolio managers (16%) compared to 2019 (38%)
- **Only 8% of investors significantly** take into account Credit Rating Agencies' assessments of how ESG factors impact credit ratings, with **31% not using them at all, and 61% moderately**
- **Lack of reliable ESG data** remains the largest challenge for investors with 35% of responses and 31% in 2019 with **reputational or performance concerns rising from 6% to 12%**

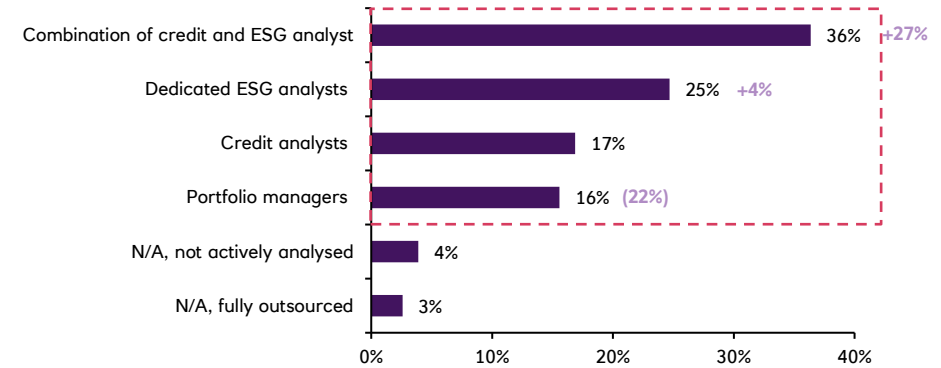
ESG Rating Agency usage

Which sustainability agencies support you in assessing an issuer's ESG profile?



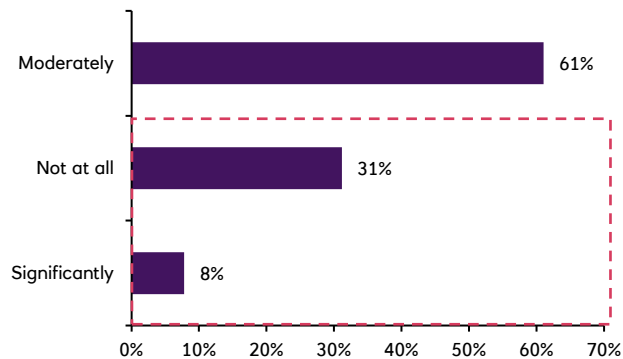
ESG analysis responsibility

Who in your organisation is primarily responsible for ESG analysis?



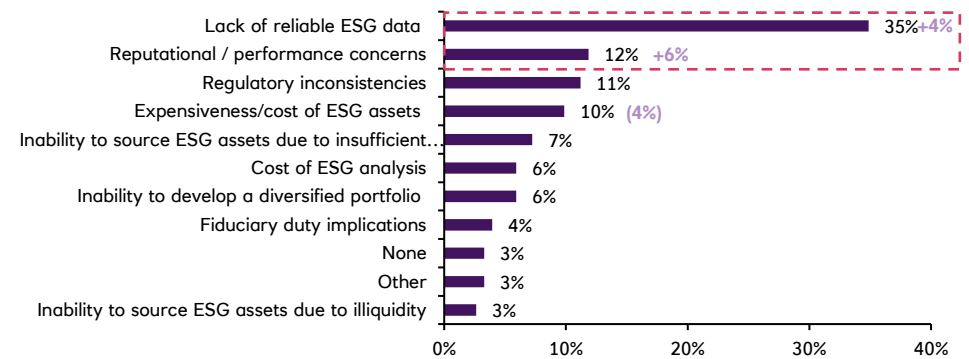
Credit Rating Agency usage

When analysing issuers, to what extent do you use or refer to the Credit Rating Agencies' specific assessments / modifiers of how ESG factors impact credit ratings?



Barriers to ESG investing

What are your two main barriers to ESG investing?



Source: NatWest Markets Global ESG Investor Survey 2019, NatWest Markets Global ESG Investor Survey 2021

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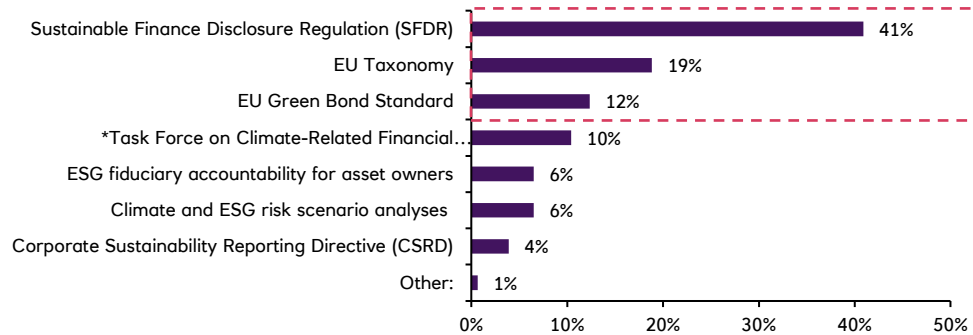
ESG regulatory influence / issuer and investor actions

Regulations are having stronger impact on investors

- 41% of Investors believe the **Sustainability Finance Disclosure Regulation (SFDR)** is among the most **impactful** regulations, with 19% noting the EU Taxonomy and 10% noting TCFD
- Despite having a global sample of investors, there is a heavy focus on **European standards & regulations**
- **25% of investors** want to see **stronger global climate goals** and **33%** want **more support to transitioning sectors and countries** coming from of **COP 26**
- The top two actions cited by investors that show an issuers commitment to sustainability are **disclosure-based** (33% of investors cited quality reporting and targets as the top two actions an issuer can take), while **validation from third-parties** – e.g. via index inclusion, awards or ratings were each cited by **less than 5% of investors** - Improvement in ESG ratings declined in importance (2% in 2021 vs. 26% in 2019)
- Investors see the **UN PRI** and the **Net Zero Asset Manager Initiatives** as **most impactful** (impactful meaning has been successful in achieving initiative goals)

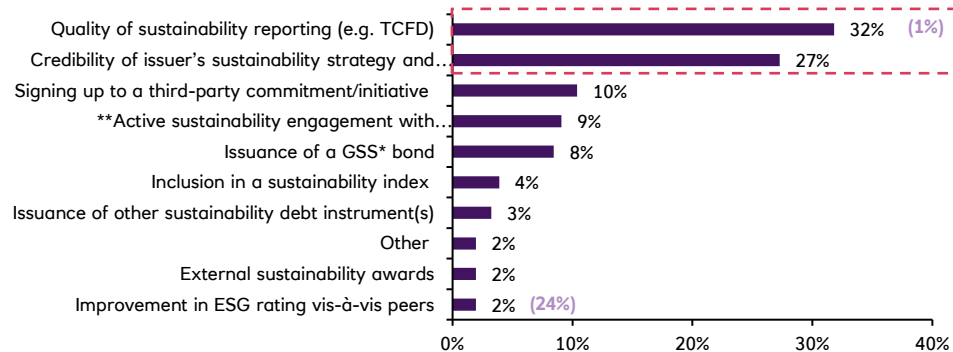
Impactful sustainable finance regulations

Please select two proposed/existing regulations you find to be most impactful on the sustainable finance market



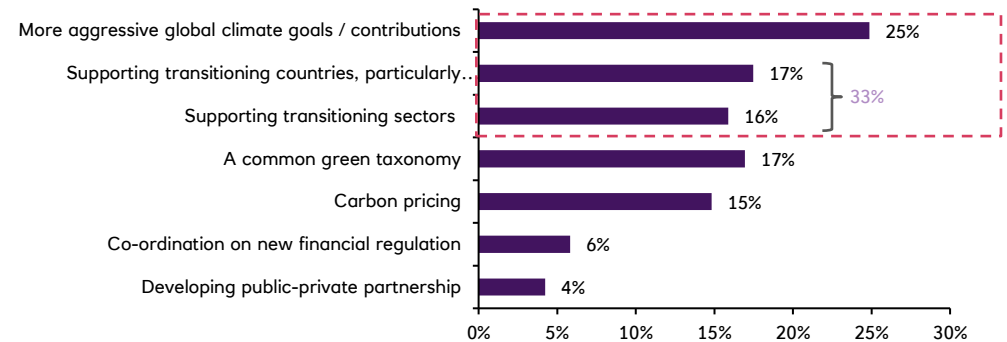
Issuers commitment to sustainability

Which two actions best underscore an issuer's commitment to sustainability?



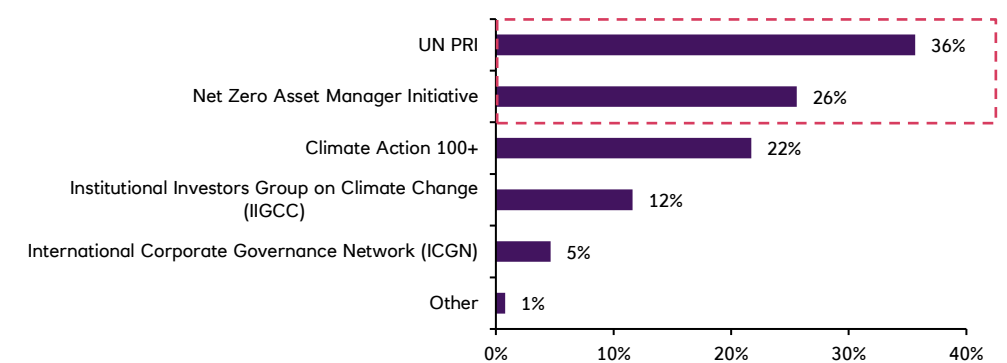
What investors want from COP 26

What do you see as the most critical areas of focus for the policy makers at COP26 to agree on?



Investor actions

What ESG investor Coalitions / pledges do you consider most impactful as an investor?



Source: NatWest Markets Global ESG Investor Survey 2019, NatWest Markets Global ESG Investor Survey 2021

Note: (*)Task Force on Climate-Related Financial Disclosures (TCFD) (**) Active sustainability engagement with investors/stakeholders

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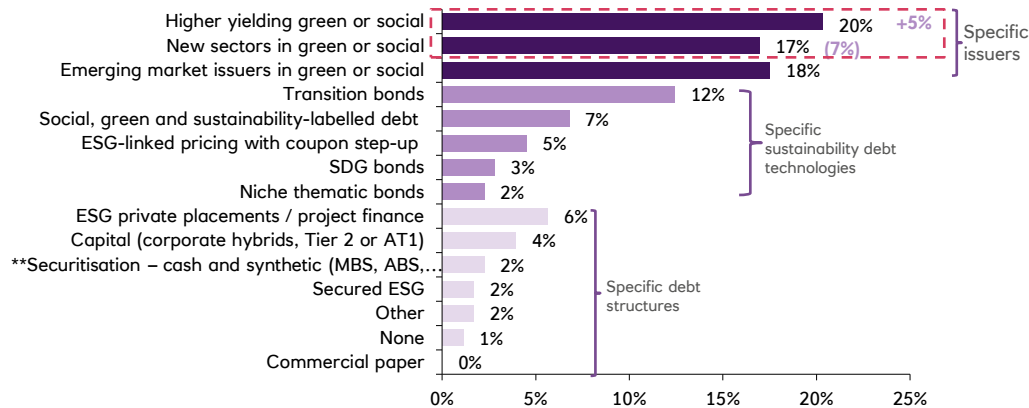
Outlook on sustainability debt bond market generally positive

More demand for high yield and emerging market issuers

- Investors continue to want a more diverse range of *sustainability debt issuance (i.e., new sectors, emerging markets) and high yielding sustainability debt products
- Investors seek more supply in the automotive, manufacturing, infrastructure sectors, and demand seems to have reduced for the FI and SSA sectors compared to 2019
- Investors are taking a more holistic, issuer wide approach (not reliant on alignment to a standard or an SPO or Rating) with over 40% of responses showing their assessment methods relating to the issuers sustainability strategy or disclosure compared to 2019 where 67% of responses relied on external alignment or opinion
- Over 90% of investors believe that sustainability**** Use of Proceeds bonds will trade with either a modest or meaningful premium, in 2019 that number was only 52%, and 35% of investors in 2019 believed that sustainability UoP instruments should trade with zero premium with 69% now feeling that a modest “greenium” exists, up to 5 bps

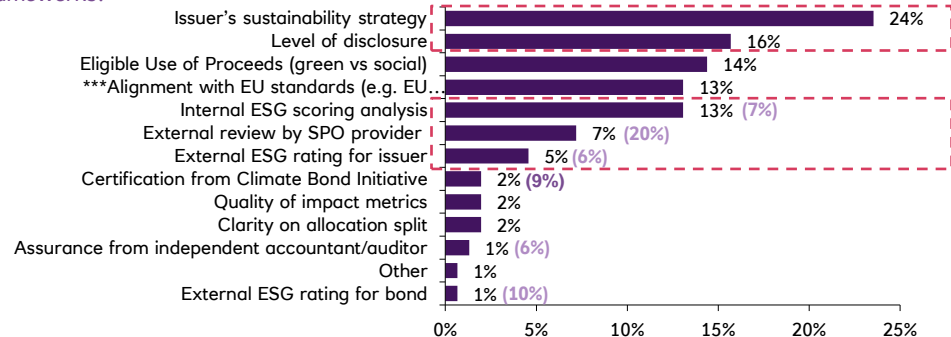
New sustainability debt issuance - types

Select up to three types of sustainability debt issuance you would most like to see



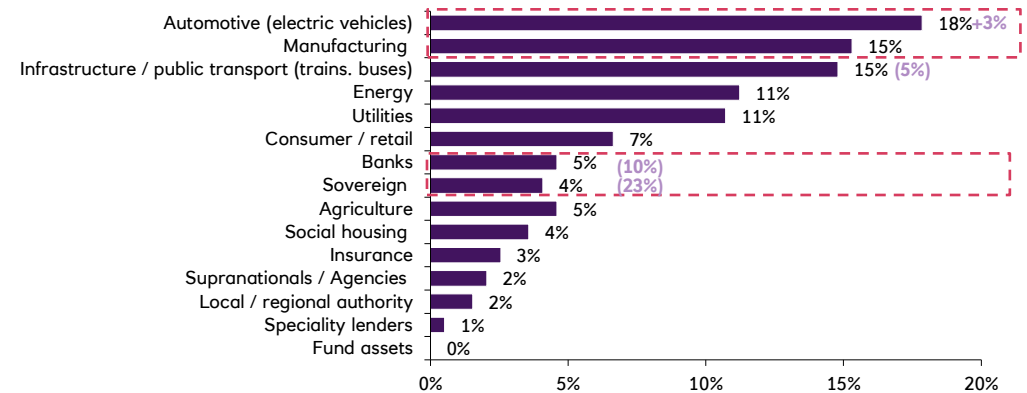
Sustainability debt finance framework assessment

Which two factors are most important when assessing the robustness of Sustainability Debt finance frameworks?



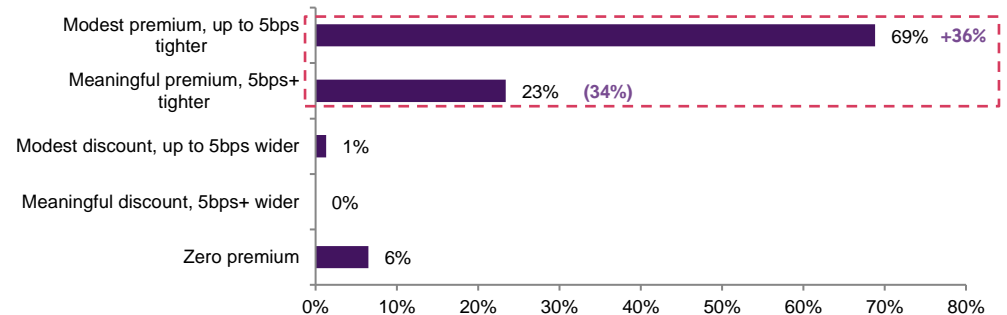
New sustainability debt issuance - sectors

Select up to four sectors from which you would like to see more sustainability labelled debt supply



Investor outlook on Greeniums

Noting the scarcity of *Sustainable “Use of Proceeds” bonds, would you expect these instruments to trade at a premium/discount for the foreseeable future (6-12 months)?



Source: NatWest Markets Global ESG Investor Survey 2019, NatWest Markets Global ESG Investor Survey 2021

Note: (*) Sustainable use of proceeds is referring to Green, Social, and Sustainable labelled bonds (**) Securitisation – cash and synthetic (MBS, ABS, CLOs)

(***) Alignment with EU standards (e.g. EU Taxonomy, EU Green Bond Standard)

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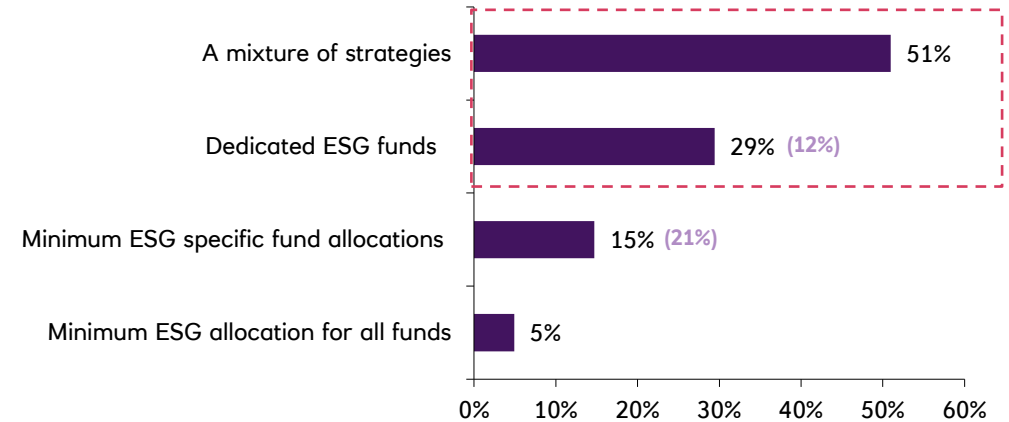
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Overview of Institutional Investor Participants

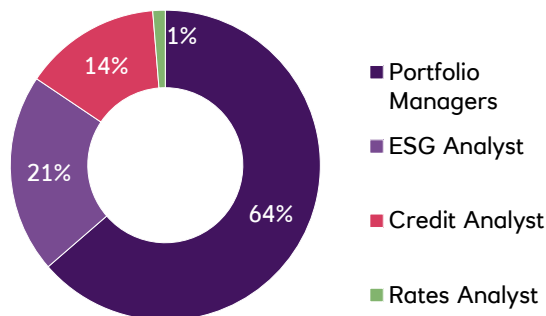
Responses from 70+ investors with over EUR18trillion in assets under management

- Survey was completed by leading ESG-focused investors globally –with **29% having dedicated ESG funds** and further **51% using a mixture of ESG strategies**
- Investors from **around the world participated** with **30% from the UK**, **35% from Europe**, **18% from North America** and **17% from Asia**
- Majority of respondents were **portfolio managers** and **20% being dedicated ESG analysts**
- Survey was tailored specifically for the respondents based on PM responsibility and rates/credit focus
- This survey covered a range of asset classes from Alternative credit to rates; **69% focused on investment grade credit** (corporates and financials), **14% focused on Rates** (governments, supranational and covered bonds), and **13% covered High yield** assets

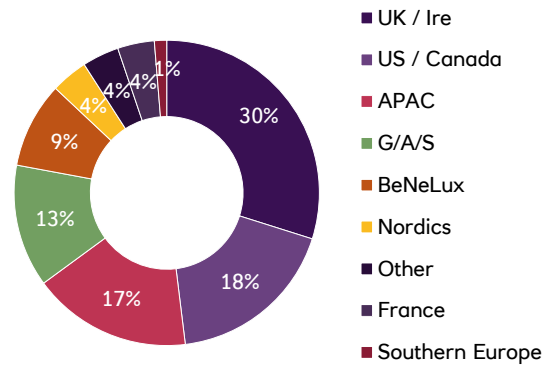
How does your organisation manage its ESG strategies



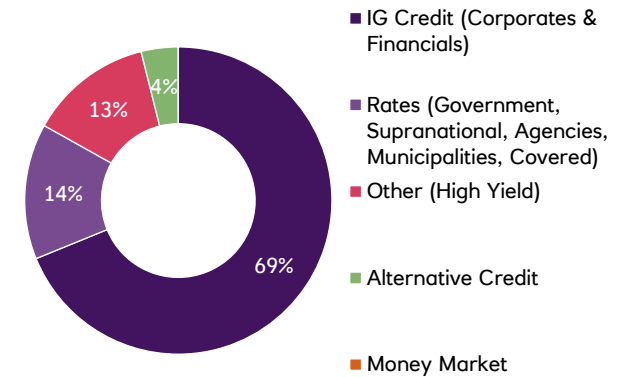
Investor breakdown by type



Investor breakdown by geography



Fixed Income class of primary focus



Source: NatWest Markets Global ESG Investor Survey 2019, NatWest Markets Global ESG Investor Survey 2021

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