

Sustainable financing and investing survey 2020

Pandemic intensifies
awareness of environment
and society

HSBC sustainable financing and investing survey 2020

A foreword from Daniel Klier,
global head of sustainable
finance, HSBC



Daniel Klier
Global head of sustainable finance, HSBC

Welcome once again to our Sustainable Financing and Investing Survey.

Despite the challenging global market conditions throughout 2020, the outlook for sustainable financing and investing appears to be extremely strong. Investors continued to pour money into sustainable funds in the first three months of 2020. Even as the coronavirus pandemic unfolded, they put \$45.6 billion globally into funds focused on environmental, social and governance (ESG) issues.

The question is whether this is a true reflection of the market's continually increasing interest in sustainability and ESG issues, or has COVID-19 created an unbalanced view?

In this year's HSBC Sustainable Financing and Investing Survey of 2,000 issuers and investors spread across Europe, Asia, the Middle East and the Americas, the response is clear. According to both issuer and investor

respondents, sustainable financing and investing continue to grow and their interest is also increasing, with 89% now regarding environmental and social issues as important or very important.

And what is heartening to see is that only 2% of issuers and 1% of investors say they are placing less importance on ESG and sustainability issues permanently as a result of COVID-19.

Perhaps more importantly, as we look forwards into 2021 and beyond, is the strong sentiment demonstrated from our respondents that the barriers to sustainable investing are falling. While in the 2019 Survey 61% of respondents cited significant obstacles, in 2020, this has fallen significantly to just 46%.

It is also clear that of those remaining barriers to investment, the biggest challenge for investors is that issuers' ESG data is not comparable enough. Globally, 50% of them find this an obstacle to full and broad ESG investing.

As the market grows and evolves, we believe the incorporation of environmental, social and governance factors will continue to have an increasing impact on investors' and issuers' choices. And perhaps as a nod to sustainable investing being considered more of a mainstream practice, it's interesting to see in our Survey that one of the main drivers for environmental and social engagement for investors is now risk and return, with 49% globally agreeing. Is this a sign of further evolution for this ever-changing market?

At HSBC, we recognise that finance has a crucial role to play in tackling climate change and we are committed to supporting responsible economic growth and enabling the low carbon transition of our customers using sustainable finance.

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

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Executive summary

Issuers and investors back sustainability beliefs with action

Environmental and social issues have never been more prominent in capital markets. New strategies, funds and financing instruments that engage with these issues are emerging at an accelerating pace.

This reflects the consensus among almost all players now that sustainability is a core dimension of value, according to our global survey of 2,000 market participants.

The research was conducted in July and August when market participants around the world had been dealing with the savage effects of the coronavirus on the economy for several months.

With markets hugely volatile as governments' and central banks' responses to the pandemic have played out, market participants' thinking on sustainability has been affected in a variety of contrasting ways — and often with notable differences between regions and even individual countries.

Some might expect this to make them take their focus off sustainability and environmental, social and governance (ESG) issues. Instead, the pandemic has made issuers and investors more convinced than ever of the need for sustainability. Nearly 30% of investors (and 40% in Asia) affirm that the pandemic has strengthened their commitment to considering ESG issues. Of issuers, 41% now believe even more strongly that becoming sustainable is important. Only a tiny proportion (some 1.5%) say the pandemic will make

them reduce emphasis on ESG permanently. A somewhat more statistically significant group (9% of investors, 12% of issuers) have put it on ice temporarily.

These positive responses — in the face of a global pandemic with unprecedented and still unfolding impact — underscore how central sustainability is becoming to financing and investing, all over the world.

Of the 1,000 issuers and 1,000 investors who answered our detailed questions, 89% regard environmental and social issues as important. Among issuers, the proportion is 93%.

This consciousness is very firmly rooted in all the regions and major markets we surveyed: in Asia, the Americas, Europe and the Middle East.

Finance practitioners have not just recognised the seriousness of these issues — they are determined to act themselves, by making the way they invest, raise capital and allocate it to projects more informed by sustainability.

There is strong support for further growth of the green, social and sustainable bond markets: 36% of all bond investors do not buy these bonds yet, but expect to start buying them seriously for the first time.

Moreover, many make a greater claim for sustainable finance — not just that it is important, but that it pays for itself. Half (49%) of investing institutions around the world argue that factoring environmental and social issues into their strategies improves portfolio returns and/or lowers investment risk.

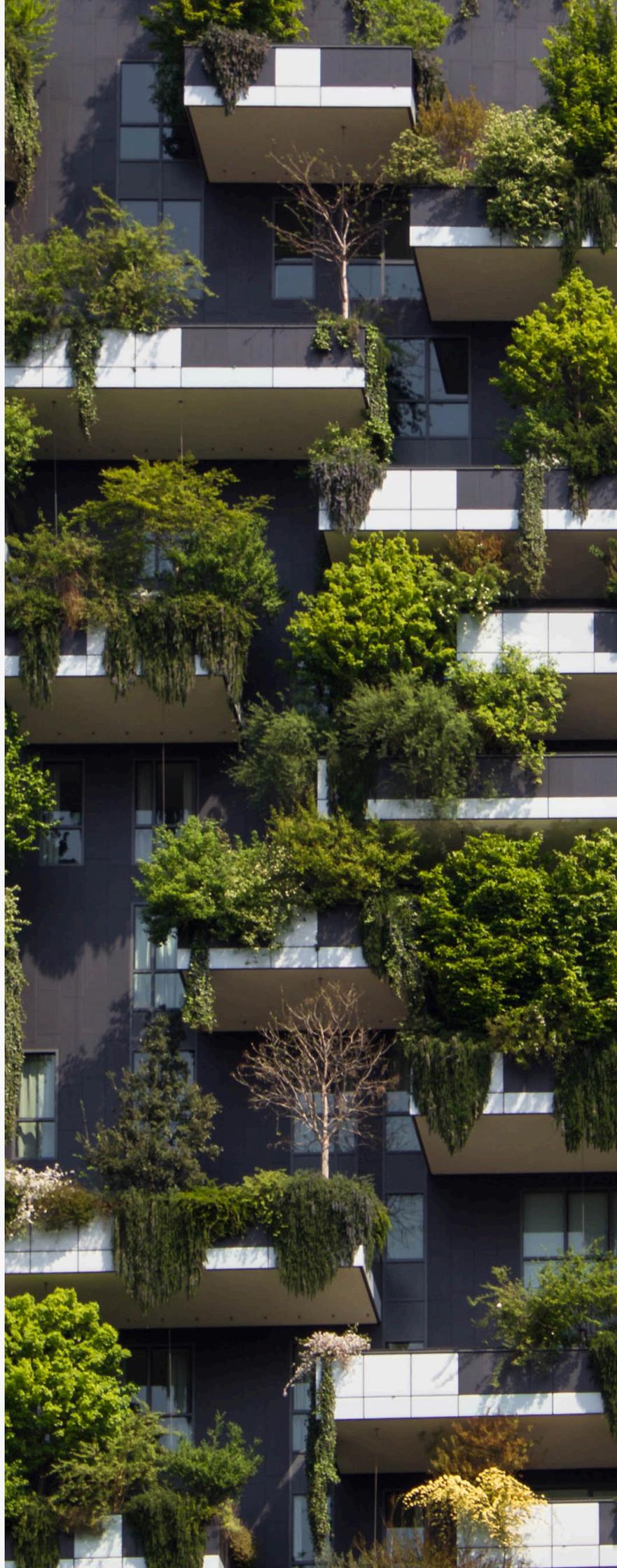
This is down slightly from 54% a year ago, and is one of many areas of the survey that reveal the profound and complex impact of the COVID-19 pandemic on sustainable finance. Among investors, 87% say it has changed how they consider environmental, social and governance issues, while 92% of issuers say it has altered their approach to sustainability.

49%

of investors
say ESG can
improve returns
or lower risk

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

- ◆ **Issuers have moved ahead of investors** in their commitment to sustainability: 97% globally expect to redeploy capital in response to environmental and social challenges and opportunities over the next five years, up from 94% in 2019
- ◆ Among issuers, 94% **disclose aspects of their environmental and social performance**, and 93% to 98% believe their capital providers (shareholders, bondholders and bank lenders) care about this
- ◆ **Values** are still the commonest driver for issuers' commitment to the environment and society: 55% say this is a reason for their stances
- ◆ **Risk/return and external pressures** are now more influential than values in pushing investors towards sustainability awareness: 49% cite risk/return versus 38% values
- ◆ Although the COVID-19 pandemic has influenced investor attitudes in a variety of ways, just 9% globally are **unwilling to pursue ESG investing** and only 46% still feel **held back by obstacles**. That is a big reduction from the 61% who felt obstructed a year ago
- ◆ Over half of investors (51%) have already adopted **firm-wide policies on responsible investing/ESG** issues and 35% now disclose the ESG characteristics of their whole portfolios — up from 24% in 2019
- ◆ Investment opportunities in **sustainable infrastructure** stand out — particularly in energy technologies (above all, renewable power and lower carbon fuels) and water and waste water systems
- ◆ **Climate change is acknowledged** — 55% of issuers say they are already affected or view it as a threat within 10 years, while 76% of investors recognise it as the most urgent threat to humanity or one of its most serious challenges



Global report

Introduction

Pandemic reinforces importance of sustainability

The movement of sustainable finance into the mainstream of capital markets has progressed even further than before in the last 12 months. But there is a conflicting development: market participants have also had to navigate the unprecedented challenge of a global pandemic.

Inevitably, this colours their stances — particularly among investors, whose strategies have been tested severely by market gyrations for much of 2020.

These trends stand out strongly in our annual Sustainable Financing and Investing Survey, which this year covers 1,000 capital markets issuers and 1,000 investors.

Focus on performance

The interaction of these two influences — growing interest in sustainable finance and navigating the pandemic — is evident in investors’ greater focus on investment performance. While they are increasingly adopting responsible investing policies and considering environmental, social and governance factors, they have also become notably more focused on risk and return.

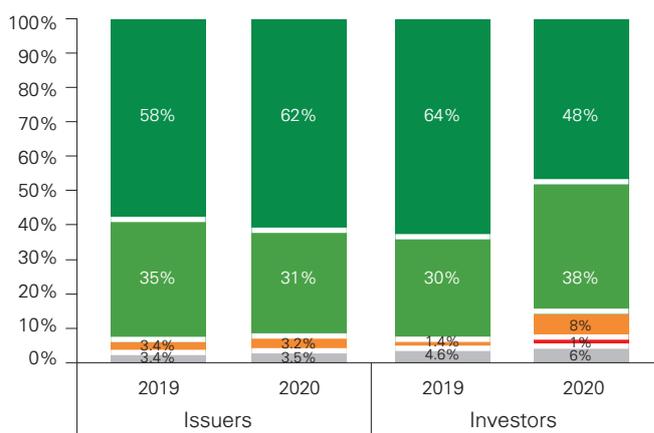
This has both positive and negative implications for their stances on ESG investing. Asked why they care about environmental and social (E&S) issues, the most popular reason given by investors, at 49%, is the possibility that ‘it can improve investment returns or reduce risk’. Other reasons such as the wishes of stakeholders and their own values have fallen behind risk/return as a driver. There is also still a very substantial consensus among investors that E&S issues are important. A total of 86% regard them as very or somewhat important.

However, this has declined slightly from 94% a year ago. The ‘very important’ measure has fallen quite significantly from 64% to 48%. Moreover, the proportion regarding E&S as not very important has risen notably to 8.5% from 2019’s 1.5%. These responses may show that for a minority of investors, the acute experience of trying to keep earning an investment return during the very tough market conditions of 2020 has made them pay less attention to E&S. That interpretation is borne out by the direct question we asked investors and issuers about how the pandemic had affected their attitudes to sustainability (see ‘Coping in the time of COVID’ below).

Although 49% of investors say they care about E&S because it holds the possibility of improving returns, as every investor

Issuers’ focus on sustainability intensifies while investors’ eases

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



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



knows, success is never guaranteed. As in 2019, we asked investors to describe their expectations about how practising ESG and responsible investing would affect risk and returns. The answers suggest a rise in consciousness of risk — understandable, after a very volatile period in markets for investors of all kinds. However, 41% say ESG has ‘a good chance of generating outperformance’ or ‘is an attractive way of trying to generate outperformance’.

Capital markets issuers tell a less dramatic story. Confirming their reports that the experience of COVID-19 has made sustainability more relevant to them, a higher proportion now reports E&S as very important: 62%, up from 58% last year.

Overall, 93% of issuers say they see these issues as important. This is unchanged from last year, as is the proportion regarding E&S as unimportant (3.5%).

Coping in the time of COVID

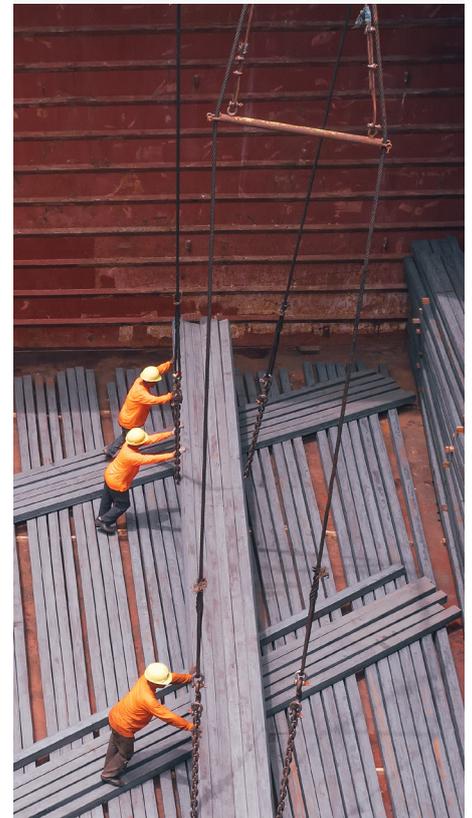
We also asked issuers and investors specific questions about how the pandemic has affected their approaches to sustainability and ESG issues. The answers make clear that this experience has had a huge influence — and for most, it has pushed sustainability up the agenda.

Among both issuers and investors, more than three quarters (see graph) have been driven to engage with sustainability in new ways. Very significant numbers — 38% of issuers and 23% of investors — are now paying more attention to social welfare and the social component of ESG. But the largest groups — 29% of investors and 41% of issuers — say the pandemic has reinforced their commitment to sustainability and ESG. A quarter (24%) of investors have reconsidered the ways they approach ESG, though this proportion declines in larger institutions and is much less true of pension funds than other categories of investors such as asset managers and insurance companies.

By contrast, only 12% of issuers say the pandemic has not made much difference to their approach to sustainability; 13% of investors say the disease has not affected how they consider ESG issues when they invest. All the rest have changed their views in some way. Only 2% of issuers and 1% of investors say they are placing less importance on these matters permanently as a result of COVID-19. Higher proportions (9% of investors, 12% of issuers) have focused less on these issues temporarily as they coped with more immediate challenges.

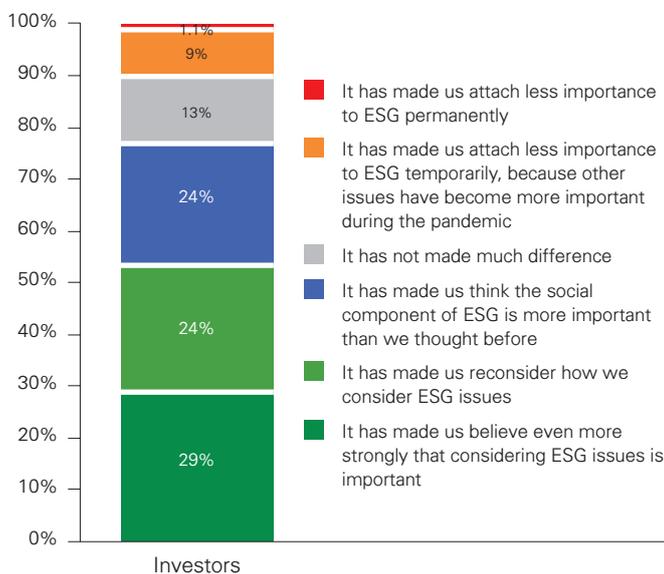
Analysis

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

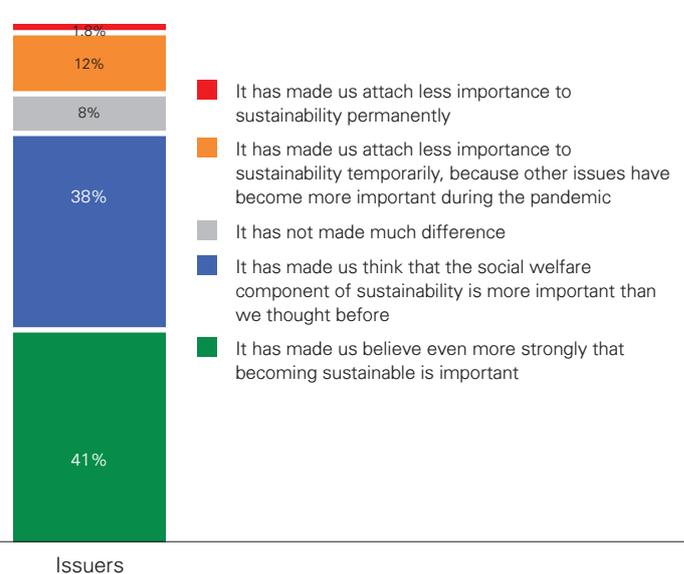


Pandemic brings profound change to thinking on sustainability

Investors — Has the COVID-19 pandemic changed how you consider environmental, social and governance (ESG) issues when you invest?



Issuers — Has the COVID-19 pandemic changed your organisation’s approach to sustainability?



Global report

Common themes

Returns in focus, disclosure rising



Key findings

- ◆ **Risk and return** and external pressures now carry more weight than values as drivers of investors' environmental and social engagement. Some 49% cite risk/return, 43% society's expectations and 41% regulators. Values is mentioned by 38%, down from 62% in 2019
- ◆ **Values** are still the strongest driver for issuers, however — 55% attribute their interest in E&S to this, though that is also down from last year's 65%. Next most important to issuers are NGOs (34%) and customers (33%)
- ◆ Disclosure of **environmental and social performance** is increasing, especially by issuers — only 6% of issuers do not disclose, down from 17% a year ago
- ◆ Nearly half of issuers (46%) expect to **increase disclosure**, either at their own initiative or at the request of regulators or investors
- ◆ Among investors, 35% disclose the **ESG characteristics of their whole portfolios** (up from 24% last year), while 40% declare the E&S impacts of some portfolios (26% in 2019)
- ◆ **Investment opportunities** in sustainable infrastructure stand out. Issuers especially, but also investors, highlight the potential in energy technologies (renewable power and lower carbon fuels in particular, but also electrifying transport, carbon capture, hydrogen power and electricity storage). Water and waste water systems also attract interest

Drivers for sustainable finance

Returns and social pressure rise in importance, values weaken

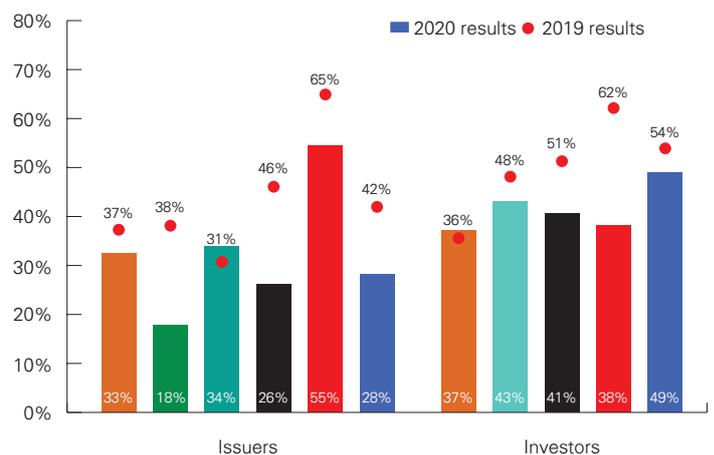
The drivers behind issuers and investors' focus on the environment and society appear to be shifting. Risk/return considerations and external pressures have risen in relative importance, while values have declined.

In 2019, when we asked issuers and investors why they cared about environmental and social issues, the most commonly cited reason by both groups was their values. Among investors, 62% said 'we believe it's right to care about the world and society' — well ahead of the belief that caring about E&S issues 'can improve investment returns and/or reduce investment risk'.

For issuers, the equivalent percentage was 65% — far ahead of the 46% who said they cared because regulators required it. This year, the position has changed markedly. Now, only 38% of investors cite their values — it has been overtaken by three other factors. Issuers are still more likely to cite values than any other reason, but the percentage naming this has fallen from 65% to 55%.

External pressure and returns overtake values as drivers of ESG

We care about environmental and social issues because...



Issuers

- Our customers want us to
- Our employees want us to
- NGOs or pressure groups demand us to
- Regulators require us to
- We believe it's right to care about the world and society
- Paying attention to these issues can improve returns

Investors

- 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 risk

It is not just values towards which respondents seem colder this year. Smaller percentages of them cite most of the possible reasons for caring about E&S, as the graph on page 8 shows. This may be because engagement with E&S is now more of a normal activity for many — the reasons that drove them to it may no longer feel as pressing.

But the pattern that values has retreated, relative to the other reasons, is clear. For both groups, only one issue is mentioned by a higher percentage this year than last. For issuers, it is that 'NGOs or pressure groups want us to' — this is now the second most common reason for issuers, at 34%. For investors, the wishes of clients have become more important, mentioned by 37%.

But the top three drivers for investors to care about E&S issues

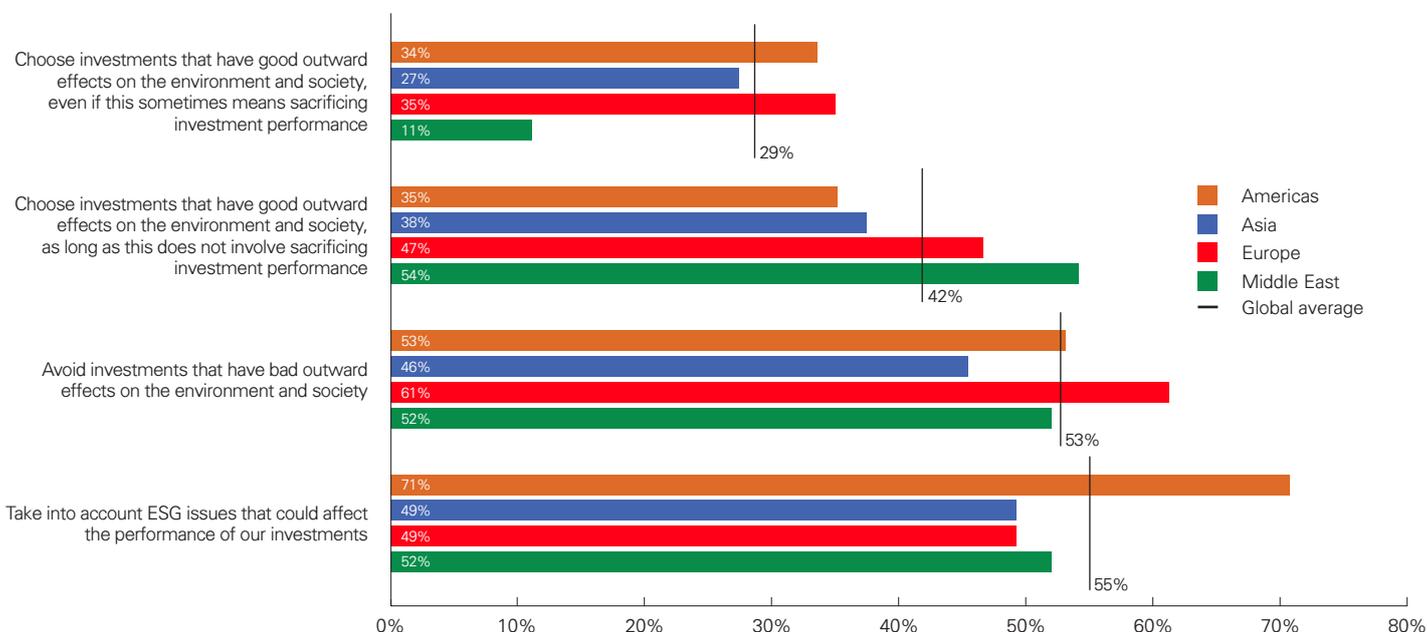
are the possibility of improving risk and returns, cited by 49%, 'society expects it' (43%) and regulators requiring it (41%).

There are regional variations. The region that cites values most — the Middle East — still has 47% of investors quoting this (50% in the UAE). In the UK 47% and in the US 45% of investors also take this stance. In mainland China only 25% do, Germany 29%, Canada 32% and Asia more broadly 33%.

Social expectations for investors are especially strong in the Americas (55%), while in the Middle East 58% are motivated by regulators. For issuers, the influence of customers is particularly strong in the Americas, at 52%, now ahead of values. In the Americas (45%) and Europe (41%) NGOs are more influential than in the other regions. In the Middle East only 12% cite the wishes of NGOs, 4% customers and 1.5% employees.

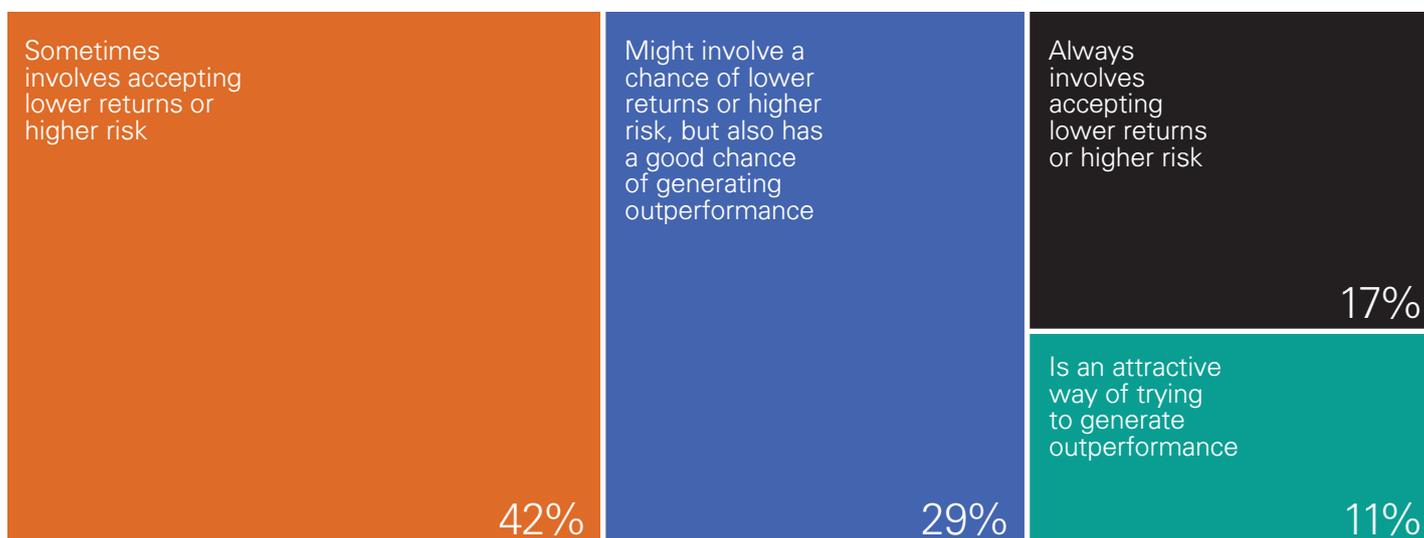
First: optimise performance; second: do no harm

As an investment firm, it is part of our responsibility to:



Investors conscious of trade-offs in ESG investing

I believe that practising ESG, responsible or sustainable investing



Global report

Common themes

46%

of issuers expect to increase disclosure

Environmental and social disclosures

Issuers stay ahead and expect to reveal more

Market participants across the world are stepping up their disclosure of environmental and social performance, though issuers continue to lead investors by sharing more thoroughly.

In 2019, one in six issuers in our survey was not yet disclosing information about its E&S impact. This proportion has shrunk to just 6%. It is lower still in the Middle East (2%) and Asia (4%, though mainland China registers an above average 11%).

However, not all issuers welcome this development. Globally, 11%, and 19% in Asia, believe they disclose too much — up slightly from last year. The vast majority accept it, though. Nearly half (46%) expect to increase current levels of disclosure, either at their own initiative or to satisfy demands from investors or regulators. This has increased slightly from 42% a year ago. The proportion of these that welcome it has fallen somewhat, however — from two thirds in 2019 to just over half in the 2020 survey.

European issuers expecting to increase disclosure remain at last year's level, nevertheless. They are also least inclined

to view their current disclosures as excessive. The share of issuers that feel pressure from investors or regulators to increase their disclosures, but regard the current level as about right, is 13% in Europe, the lowest anywhere. This unwanted pressure appears strongest in the Middle East (36%) and Asia (27%).

What information issuers disclose and the channels through which they disclose it vary widely. Sustainability strategies are the most common type of information. Globally, 96% of issuers report these, of which 58% — and as many as three quarters of those in the Americas — do so in their annual reports. The high figures here are a sign of how widely it has become an accepted norm for issuers to address sustainability — but also that having a sustainability strategy is a loose requirement which is perhaps the easiest for companies to fulfil. The next most common disclosures are strategies for climate change, which 91% of issuers say they report. However, only 54% are yet following the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). Only 28% of issuers disclose these through their annual reports.

Investors deepen disclosure

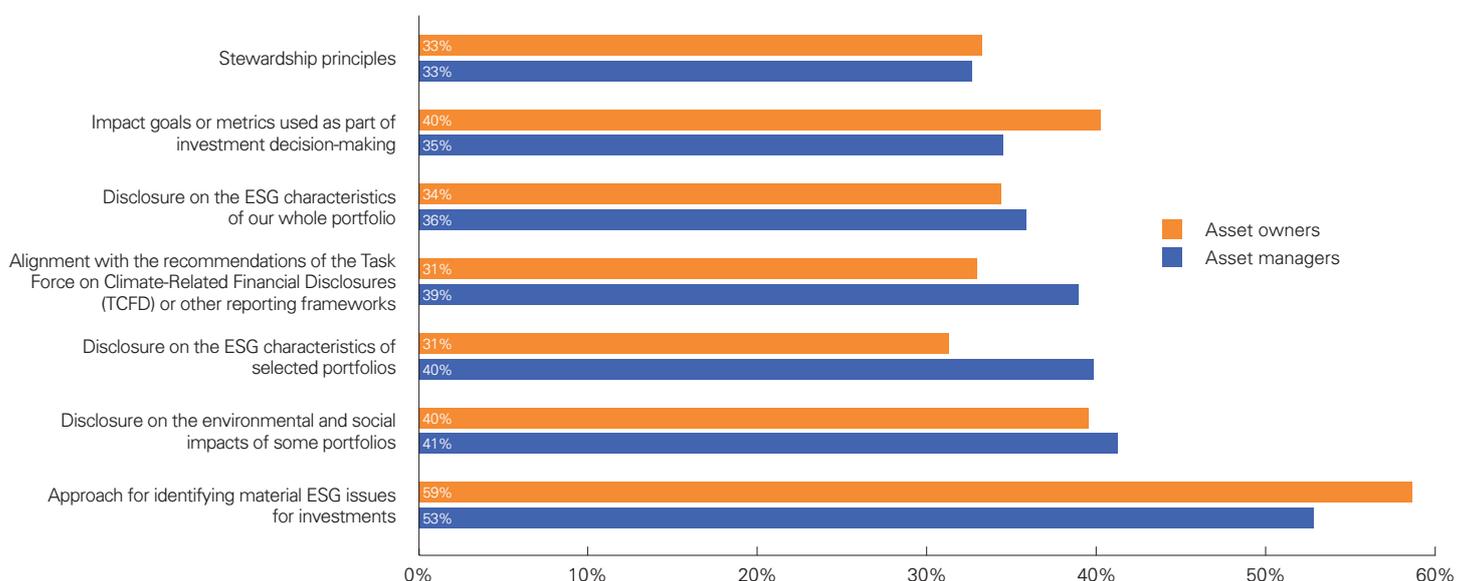
Investors, meanwhile, have also improved disclosure in the past year. Our survey asked those that operate firm-wide policies on responsible investing or ESG issues — 51% of the total — whether their policies included certain disclosures. In 2019 only 24% of this cohort disclosed the ESG characteristics of their whole portfolios. This proportion has now reached 35% globally, 42% in the Americas and 46% in the US.

Moreover, 35% now disclose the ESG characteristics of selected portfolios, up from 25% a year ago. This rises to 40% in the Middle East. Similarly, 40% now disclose the environmental and social impacts of some portfolios, against 26% in 2019. This disclosure rises to 50% in the Americas. These increases appear to reflect greater demand from clients for more insight into the E&S impact of their holdings.

Alignment with the TCFD recommendations and other reporting frameworks has also advanced in the past year — 36% of investors report being aligned with these now — up from last year's 32%.

Asset owners and asset managers well aligned on ESG practices

If our organisation has a firm-wide ESG policy, it includes the following:

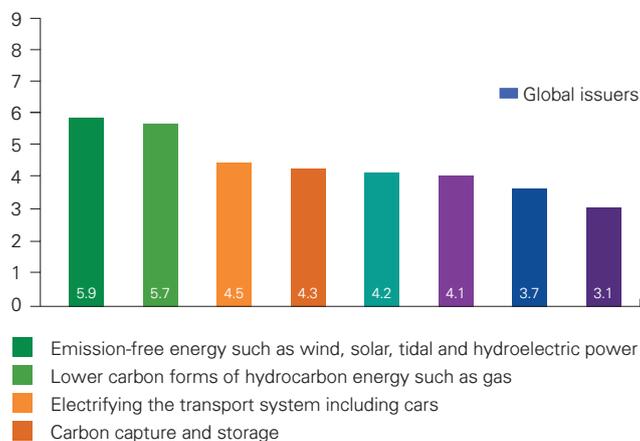


Infrastructure opportunities

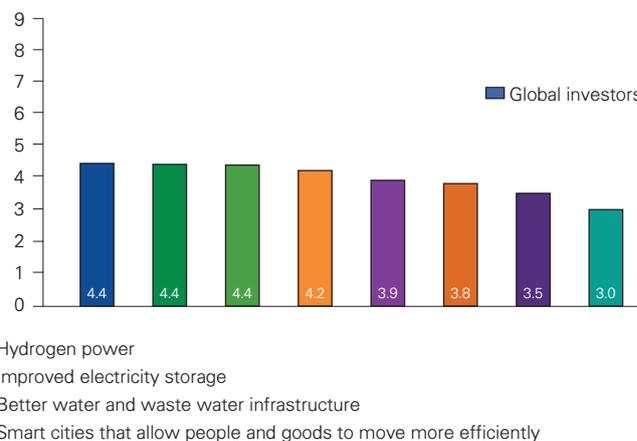
Broad support for cleaner energy

Issuers strongly support cleaner energy; investors like water too

Issuers – The highest priorities for sustainable infrastructure investment in the country where I work should be:



Investors – Across all the countries where you invest, which forms of sustainable infrastructure do you think offer the most attractive investment opportunities?



Issuers and investors were given nine kinds of sustainable infrastructure (including an option for 'Other', results not shown). They were invited to rank them in order of importance. Questions for issuers and investors were slightly different (shown above each graph), reflecting how they operate. We accorded 9 points to any item a respondent put as top priority, 8 points to items given second priority, and so on. The scores shown here are the average responses. Therefore they reflect the breadth of support each technology has, and the intensity of enthusiasm for it. The theoretical maximum points, if all respondents had chosen the same infrastructure as top priority, would be 9. A score of 5 or 6 thus indicates a very strong consensus of support.

Issuers and investors see sustainable infrastructure investment as an important priority and a source of attractive opportunities.

Our research explored which fields of sustainable infrastructure issuers and investors thought were most significant. The questions to issuers and investors were slightly different, reflecting the different ways in which they operate.

Issuers were asked a more general question: which technologies were the highest priorities for investment in the country where the respondent worked. This is because companies are specialised: a food business, for example, is unlikely itself to invest in hydrogen power. Issuers' answers therefore reflect the general demand of the business community for each kind of sustainable infrastructure.

The question to investors was more specific, reflecting their much greater ability to invest directly themselves — 'across all the countries where you invest, which forms of sustainable infrastructure do you think offer the most attractive investment opportunities?' This difference may explain why investors are collectively a little more reserved in their enthusiasm.

To each group we offered the same options: eight kinds of technology, plus the option to choose 'Other'. We invited them to choose as many as they wanted, and rank them, from highest priority to lowest. If a respondent chose something as top priority, we gave it 9 points, with 8 for a second priority and so on. The scores published here are simple averages of all responses. They therefore reveal both how broad the support for a particular technology is across the market, and the intensity of the respondents' enthusiasm for it. Bearing in mind that the maximum score of 9 could only be achieved if every single

respondent had chosen the same technology as first priority, it is clear that the scores of 4 and above for many technologies represent a strong consensus of support.

The dominant theme of answers is cleaner forms of energy, though investors' single most popular area is water and waste water. The strongest support is among issuers, with scores of nearly 6 for clean renewable energy and forms of hydrocarbon seen as lower carbon, such as gas. The highest marks from investors are around 4.5 — for those two kinds of infrastructure and water and waste water. The support for renewables is broad. Issuers in Asia and the Middle East give it a score above 6 and Europe 6.9, with 7 in the UK. Issuers in the Americas are more restrained, with a score of 4.

The same pattern is seen with lower carbon hydrocarbons. Asia, Europe and the Middle East all assign rankings above 6, with 6.9 in the Middle East. Issuers in the Americas are more lukewarm at 3.6. Power storage is the one area where Americas issuers are more eager than the global average, giving a score of 4.2, though Asian peers are slightly keener, at 4.4.

Investors like water and energy

Water and waste water infrastructure is more appealing to investors — who give it their highest mark of 4.4 — than issuers, for whom it registers 3.7. However, issuers in Asia, particularly the Hong Kong SAR and Singapore, do match global investors' level of interest in water infrastructure. Although their enthusiasm for energy infrastructure is less universal than issuers', investors do believe it offers attractive investment opportunities, with renewables and lower carbon hydrocarbons virtually equal at about 4.4.

Global report

Investor themes

Substantial progress in sustainability as investors tackle knowledge barriers

Key findings

- ◆ **Obstacles are falling away**, but there are concerns over performance
- ◆ Only 9% of investors globally are **unwilling** to pursue environmental, social and governance (ESG) investing
- ◆ **Less than half of investors** globally (46%) feel held back by obstacles to ESG investing, down from 61% a year ago
- ◆ The main obstacles that persist are **lack of comparability** in issuers' ESG data; limitations in quality and availability of ESG data; inconsistency of ESG definitions; financial returns; lack of demand from asset owners; and shortage of expertise
- ◆ Most investors globally (51%) have already adopted **firm-wide policies** on responsible investing or ESG issues
- ◆ A further third of investors **intend to adopt policies**, particularly in Asia and the Middle East
- ◆ Only 13% are **unwilling to adopt policies**
- ◆ There is significant demand for **ESG advice and information** — the majority of investors globally (51%) are seeking insight
- ◆ Key topics on which investors want advice are in **environmental and impact areas**: how the economy is likely to develop in response to climate change; fundamentals of environmental risks and problems; measuring the impact of investments; and how to invest so as to promote the UN's Sustainable Development Goals
- ◆ Investors are wary about the outlook for **investment performance**. Globally, 17% believe ESG strategies always involve accepting lower investment returns or higher risk, up from 12% in 2019
- ◆ **Green and other labelled bonds** are gaining further traction. Half of bond investors expect to increase their allocations to them or start buying them significantly for the first time

Obstacles to sustainable investing

Barriers shrink but still significant

Investors feel better able to pursue ESG investing fully and more broadly than a year ago.

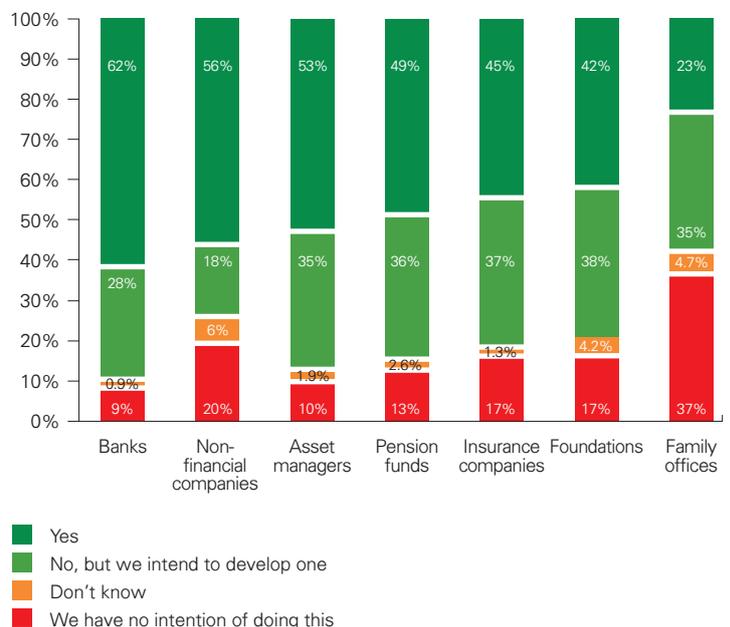
Then 61% globally reported obstacles holding them back; now less than half (46%) do. Indeed, barely a third in Europe (34%) and little more than a quarter in the UK (28%) feel hampered. However, 69% of Middle Eastern investors experience obstacles to their ESG investing, while in the Americas the proportion is 51%, and 56% in Canada.

Investors' most common complaints are about various aspects of ESG data. There is dissatisfaction with the quality and availability of ESG data — particularly in the Middle East, where 36% feel obstructed by this lack. In Saudi Arabia, 40% do.

But the biggest problem of all is that investors feel issuers' ESG data is not comparable enough. Half of investors globally find this an obstacle to full and broad ESG investing. Institutions in the Americas (56%), the Middle East (55%) and France (58%) feel particularly strongly about this. How concepts in ESG are defined also worries investors, especially in Europe, where

Banks and asset managers lead the way in adopting ESG policies

Investors — our organisation has a firm-wide policy on responsible investing or environmental, social and governance (ESG) issues



39% cite inconsistency of definitions as an obstacle. French institutions are particularly irked: 58% of them point to it.

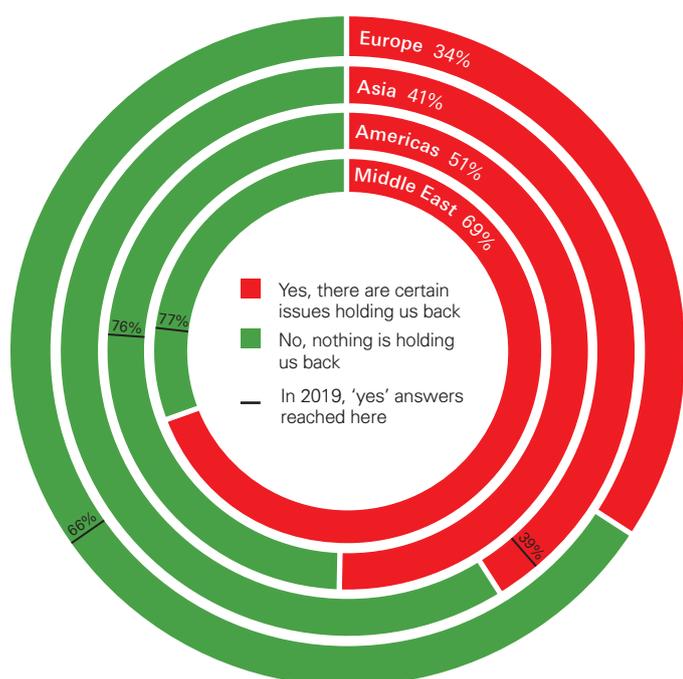
Away from technical ESG factors, investors report three other main obstacles: performance, demand and expertise. Globally, 39% of investors are put off by a fear that ESG investing offers relatively poor financial returns, while 35% point to lack of demand from asset owners and 30% to a shortage of expertise or qualified staff. Performance is a particular concern in the Americas, where 48% of institutions cite it. But the point is widespread: only in Asia (29%) do fewer than 40% of respondents worry about this (see further discussion in 'Performance implications' section below). Weak demand from asset owners undermines interest most in the Americas and the Middle East. In both regions 44% of investors see lack of client demand as an obstacle to expanding their ESG investing.

The Middle East is also the region most concerned about a lack of expertise. Half of institutions here feel this shortage, while the other three regions cluster between 20% and 26%. This result is reinforced by Middle Eastern investors' appetite for advice and information. Of investors there, 56% want external guidance on ESG, the highest level of any region except the 58% in the Americas.

Meanwhile, a small group of institutions is still holding out against ESG investing. Globally, some 9% of investors say they are unwilling to go further in this direction. The scepticism is strongest in Europe. In one of the survey's more unexpected results, given the region's advanced engagement with ESG practices, an unmatched 18% of investors believe their firm does not want to go further. Conversely, only 5% of investors in the Middle East and 6% in the Americas feel this way.

Barriers to ESG investing fall

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



Green and sustainable bonds

Investor demand set to boom

Labelled green, social and sustainable bonds — where issuers commit to use the proceeds for environmental purposes; to support socially desirable outcomes in areas such as health, housing and education; or some combination of the two — go from strength to strength. COVID-19 has contributed to this, as some issuers, particularly in the public sector, have used the product to raise funding for their responses to the pandemic.

Nevertheless, there is still a long way for the product to go. Of 681 investors in our survey that buy bonds of any kind, 32% are so far buying green and sustainable bonds. Of these, 44% expect to increase their purchases of this product, while 45% will keep their allocations steady. Only 11% expect to reduce purchases.

Around a third of the total say they are unlikely to start buying labelled bonds. The big opportunity for the market is the 36% of all bond investors who do not buy these bonds yet, but expect to start buying them seriously for the first time. That suggests investor appetite for this paper will at least double. Combining the shares that expect to increase their allocations to this product with those who will start buying for the first time, it is 50% of bond investors globally. The Middle East, Asia and Americas are above average for these future new buyers, who make up 38% and 42% of all investors there. Europe is slightly below average, reflecting the fact that 45% already buy labelled bonds. And of the existing buyers in Europe, 58% will increase their purchasing. The region with the happiest labelled bond buyers is the Middle East. Only 12% of bond buyers already use the product, but all of them say they will buy more in future.



29%

of investors believe they should seek good impact, even if it may mean sacrificing return

Global report

Investor themes

ESG policies and advice

Investors get serious about sustainability and want help

Investors' increasing acceptance of ESG and responsible investing can be seen in their widespread adoption of firm-wide policies on these issues. Over half of investors globally (51%) now have such policies, and in the Americas, 69% have.

A further third of investors intend to develop such policies. This intention is most common in the Middle East (41%) and Asia (39%) and least common in the Americas (23%), where policies are more widespread already. Only 13% do not intend to adopt policies. This stance varies quite widely between regions, from 6% in the Americas (4% in the US) to 23% in Europe (30% in Germany).

As well as adopting firm-wide policies, over half of investors (51%) are also seeking advice and information on ESG. Appetite for this is especially strong in the Americas (58% of investors in the region affirming their appetite and as

many as 64% in Canada) and the Middle East (56%). Although the Asian regional average is somewhat lower, 56% of Chinese investors also want ESG advice.

The topic on which investors have greatest appetite for advice is how the economy is likely to develop in response to climate change. Almost half (49%) of institutions globally are seeking insight on this, with demand especially strong in the Middle East (58%) and Europe (54%). The latter score is striking as Europe has a lower overall demand for ESG advice than other regions.

Other environmental issues also feature strongly among the topics investors most want guidance on. At 48%, the fundamentals of environmental risks and problems rank closely behind the economic impact of climate change as the second most popular. Demand is strongest in the Americas (54%) and Asia (53%). Despite Europe's lower regional score here, 53% of French

59%

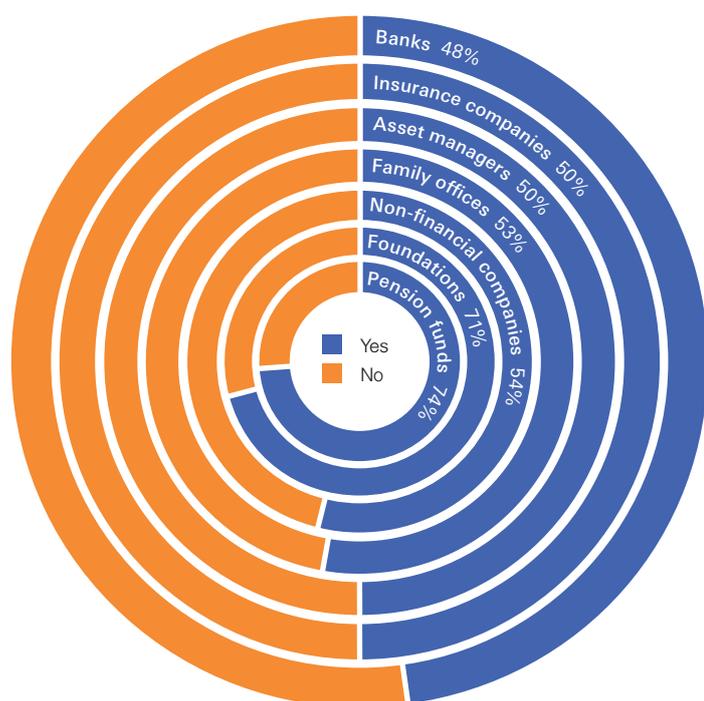
believe ESG strategies may or will involve accepting lower investment returns or higher risk

investors are also seeking insight on environmental fundamentals. Impact is also an area investors want help with. Globally, 46% want advice and information on measuring the impacts of their investments, while 45% seek insight on how to invest so as to promote the UN's Sustainable Development Goals (SDGs). Guidance on both is especially sought after in the Americas (52% impact measurement, 51% SDG promotion) and the Middle East (51% and 54%, respectively). These issues are also the third and fourth most popular topics with Asian investors, but at lower levels.

European institutions, though, are keener to learn about investing techniques that would enable them to use ESG data more effectively. This topic is important to both German and UK investors (50% each), but much less so to their French peers.

Half of investors want advice on ESG — and three quarters of pension funds

As a firm, do you need more advice and information on aspects of ESG investing?



“The topic on which investors have greatest appetite for advice is how the economy is likely to develop in response to climate change”



Investment performance

Caution rises about whether ESG lifts returns

Perhaps as a result of the sell-off in financial markets in March, caused by the coronavirus crisis, investors are more cautious about the outlook for returns on ESG investments than they were a year ago.

We asked investors to describe their beliefs about what difference practising ESG, responsible or sustainable investing would make to investment risk and returns. They were given four options to choose from, capturing a range of views.

The most pessimistic view, that ESG ‘always involves accepting lower returns or higher risk’, is now held by 17% of investors — with higher shares in Europe (21%), especially France (26%) and the UK (27%). A year earlier, only 12% thought this.

The second most cautious view is that ESG ‘sometimes involves accepting lower returns or higher risk’. This group outnumbers the first in all regions. The opinion is most widely held in the Americas (46% of investors), but even in the most optimistic region, the Middle East, 35% think this. The global average of 42% is up from 26% a year ago.

This is surprising, considering that several studies have shown ESG assets tending to outperform general markets during the coronavirus crisis. However,

investors’ concerns may reflect their general risk aversion after experiencing this year’s exceptionally volatile markets. Conversely, the most bullish view, that ESG strategies are ‘an attractive way of generating outperformance’ is chosen by only 11% (and just 8% in Europe and 4% in Germany). A year ago the global figure was 17%. However, there has been a modest swelling of support for the second most optimistic expectation: that responsible investing ‘might involve a chance of lower returns or higher risk, but also has a good chance of generating outperformance’. It now attracts 29% support, with minimal variation between regions. A year ago, it was only a quarter.

These results should be read in conjunction with the separate question about the reasons why investors care about E&S issues (see page 8). Seeking improved risk and return is the most common reason investors give for their attention to E&S. That result is not contradicted by the fact that they have various degrees of optimism about how successful this will be.

Another window on the question of performance — and what investors believe ESG is for — is exploring the trade-offs investors are willing to make between achieving good environmental and social impacts and financial returns. We asked investors how they see their

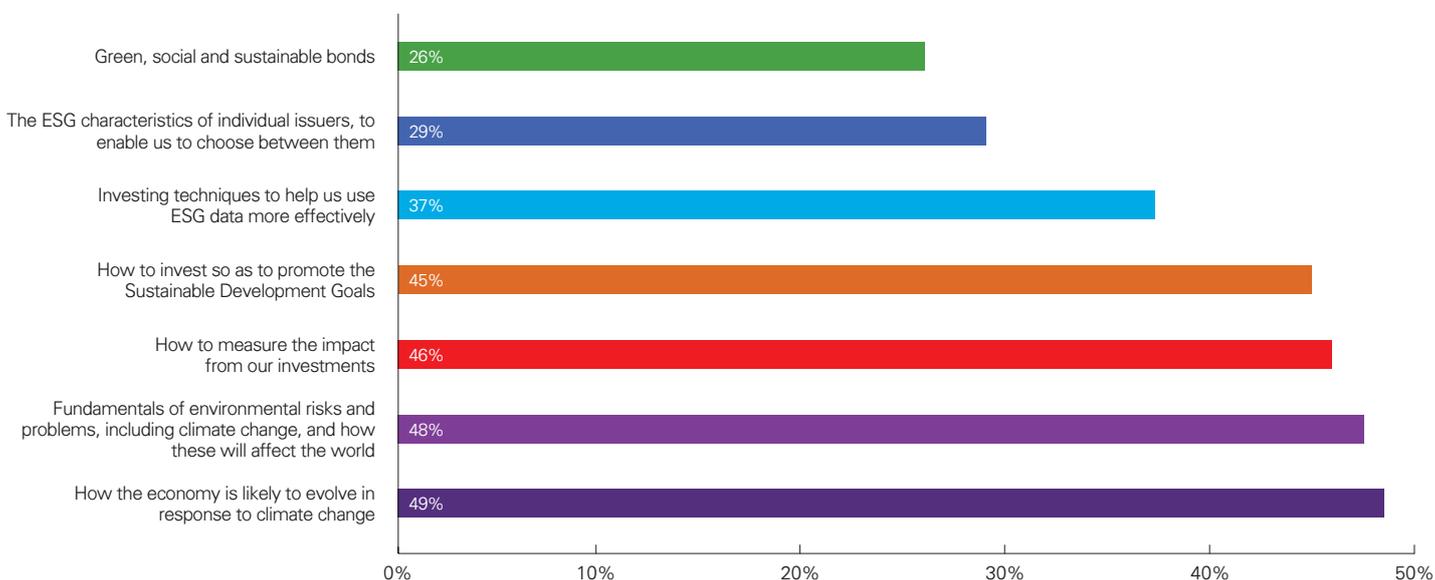
responsibilities, this time letting them choose more than one option (see chart on page 9). The most popular view, held by 55%, is that investors should take into account ESG issues that could affect the performance of their investments. The proportion is higher among larger institutions — rising to 70% among the very largest, with over \$100bn under management. But almost as many, 53% globally and 61% in Europe, believe they should avoid investments that have bad impacts on the environment and society. This is a remarkable result, showing that over half of investors believe their responsibility is not only to their clients, but also to the wider world.

As to how far they will go in pursuit of this objective, investors are divided. Some 29% believe their responsibility includes choosing investments with positive environmental and social impacts, even if this sometimes involves sacrificing returns. Support for this ranges from 11% in the Middle East to 35% in Europe.

A larger share of 42% say it is right to choose investments with positive environmental and social impacts as long as this does not involve sacrificing returns. The popularity of this view ranges from 34% in the Americas to 54% in the Middle East.

Climate change and environmental risks are where investors most need guidance

Investors — if you need more advice and information on ESG investing, which aspects do you need it on?



Global report

Issuer themes

Environment and society rise up agenda for issuers and stakeholders



Key findings

- ◆ Globally, 97% of issuers expect to **redeploy capital** in response to environmental and social challenges and opportunities over the next five years. A third (32%) will make substantial changes and nearly half (45%) noticeable changes
- ◆ Issuers feel their **shareholders, bondholders and bank lenders** are all increasing their focus on issuers' environmental and social performance. Only 2%-7% of issuers believe their capital providers are indifferent to these, while 65% to 75% think they are significantly interested
- ◆ Only 12% of issuers feel their **investors do not understand** or pay attention to their sustainability efforts
- ◆ The **impact of climate change** is now seen as further out — while 37% of issuers believe they are already affected, more than a quarter only view it as a threat on a 10 to 30 year horizon, up from 15% in 2019
- ◆ **Climate change denial** is minimal (2% of issuers globally), though 5% believe their own organisations will not be affected
- ◆ **Sustainability-linked loans** are gaining momentum, and issuers say they are satisfied with the experience of using them

97%

of issuers expect to redeploy capital in response to environmental and social challenges and opportunities over the next five years

Capital shift

Environment and society increasingly drive capital allocation

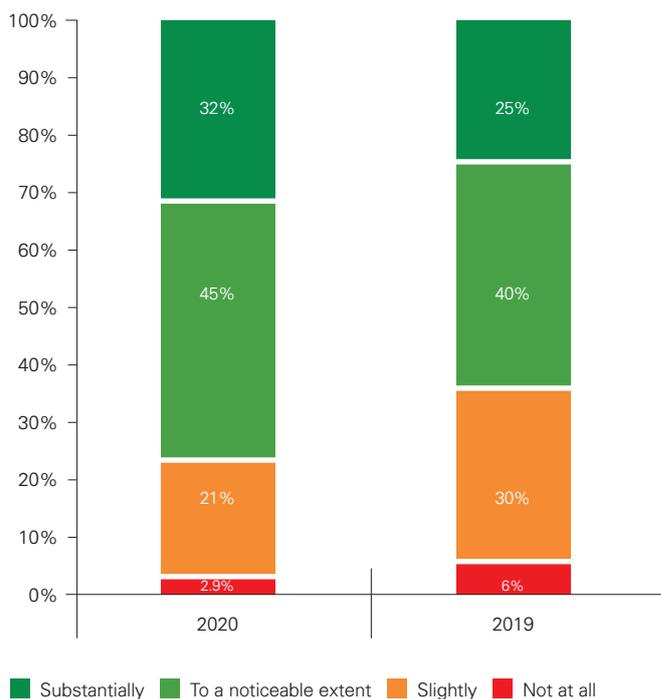
In the face of the climate crisis, the COVID-19 pandemic and social justice movements, public sector bodies, companies and banks are accelerating their reallocation of capital.

A year ago, only 6% of issuers globally expected to leave their deployment of capital unchanged in the face of environmental and social challenges and opportunities over the next five years. Now this group has halved to 3%.

Indeed, it has fallen as low as 1.5% in Asia and to zero in the Hong Kong SAR. Conversely, some important markets are moving more slowly in this direction, though only Germany, at 8%, is still above last year's average global proportion of issuers expecting to make no changes in capital allocation. Others at or close to last year's level include Canada (6%), France (6%) and Saudi Arabia (5%).

Expectations of capital shift increase

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



Similarly, more issuers anticipate making 'substantial' changes than last year. The global average has risen clearly from 25% in 2019 to 32%. Asia at 43% is again in the vanguard, while Europe on 20% and the Americas at 27% are the laggards.

Equally, the proportion of issuers globally expecting to make a 'noticeable' change has grown from 40% a year ago to 45%. Europe leads this category, at 54%, led by France (56%). Middle Eastern issuers (48%), especially in the United Arab Emirates (51%) are also above average.

Capital providers' perceptions

Banks and investors care more about the environment and especially society

Issuers not only have their own plans for shifting their capital. They are also keenly aware what their capital providers think.

As in 2019, we asked issuers a detailed set of questions about how much they think three kinds of investor — shareholders, bondholders and bank lenders — care about their environmental performance and their impact on society.

A year ago around 10% judged that these investors had little or no interest in their E&S performance. Now these proportions are all in single digits. Around 7% of issuers globally report that their bank lenders care little about their environmental performance (using the lowest two points in the five point scale that respondents applied, equivalent to caring not at all or not much). The figure for both bondholders and shareholders is just 3%.

Banks appear to be focusing more sharply on social impact in the current environment. Only 2% of issuers now judge that their banks care little about this, while 75% say they are concerned. A year ago, only 57% thought this. Issuers perceive bond and equity investors as highly focused on social impact, too. Only 5% and 4%, respectively, see them as caring little

As a result, over three quarters of respondents are now in the two categories indicating the strongest expectations of change in the near term. Only two thirds were in 2019. The change is understandable — and encouraging — considering that governments in many parts of the world are sending stronger signals that they want the economy to shift to a low carbon model. Mainland China, for example, joined the list of countries that have set a date to go carbon neutral in September.

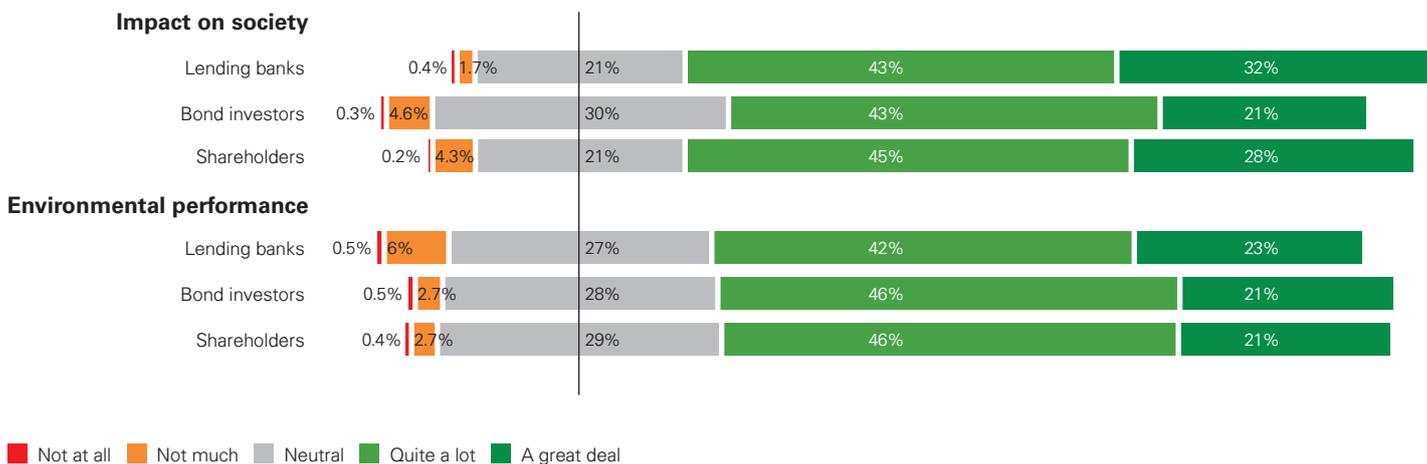
about the issue. Moreover, some 73% of issuers globally report that their shareholders now show at least quite a lot of concern over social impact, up from 69% a year ago. Meanwhile 64% say this of their bondholders, versus 57% in 2019.

In a separate question, we asked issuers if they were confident their investors — of all kinds — understood their efforts towards sustainability. The answers are encouraging. Only 12% globally judge that investors do not understand what they do (9% or do not pay attention to it (3%). Europe is the region where issuers are most critical of their investors: 12% feel they lack understanding and 4% that they fail to pay attention.

By country, Chinese (23%) UK (19%) and Canadian (16%) issuers are notably more likely than average to feel investors misunderstand them. German, Canadian and French issuers are most likely to feel overlooked (10%, 6% and 6%). Conversely, no Middle Eastern issuers say their investors fail to pay attention and only 3% that they lack understanding. At 1.5%, Asia is also below average for lack of attention.

Banks most attentive to issuers' social impact, bondholders to environment

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



Global report

Issuer themes



Climate change impacts

Expected crunch time deferred further into future

Perhaps reflecting the more immediate challenge of the COVID-19 pandemic, the survey suggests issuers are slightly less concerned about climate change than a year ago.

A very similar proportion (37% compared to 2019's 38%) report that it is already impacting their business or activities, but others have pushed the threat further out to the future.

Globally, 18% expect it to impact them within 10 years while 27% see it as a longer term threat 10 to 30 years away. Last year these percentages were reversed, at 30% and 15%.

At 55%, Europe is the region that reports the highest level of impact (measured by the assessment that climate change is already affecting the respondent). While France and Germany both report slightly above average impact, the UK leads on this with 54%. The US is also fractionally above average at 39%, while mainland China stands out as the least concerned major market (21%) outside the Middle East (11% on average, 10% in the UAE).

Conversely, Europe has fewest subscribers to the 'impact within 10 years' scenario. It records 15% on this

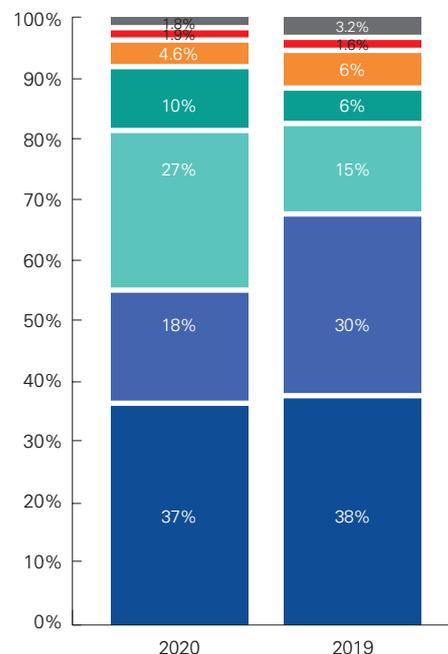
— and France just 12% — while other regions all gather around 20%. A third of UAE issuers take this stance, while Hong Kong SAR (23%) and Canada are also above average (22%).

At the same time, around 5% of issuers believe that their organisations will not be affected by climate change. Indeed, 11% of those in the Middle East take this view (13% in Saudi Arabia, 12% in UAE), as do 10% in Germany. At the other end of the spectrum, only 1% of issuers in the UK believe this. Major Asian markets have similarly low proportions (2% in Singapore, 3% in mainland China).

Outright climate change denial is very limited among issuers, at just 2% globally. It is most pronounced in Canada (10%) and France (8%), with none in mainland China or the Hong Kong SAR taking this view.

Most issuers see climate change as a near term issue for the business

Will climate change begin to affect our business or activities?



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

Sustainability-linked borrowing

Gaining users and satisfaction

One of the most successful recent innovations in corporate finance has been sustainability-linked loans.

These are distinct from green loans, in which the borrower commits to using the proceeds for environmental purposes. In a sustainability-linked loan, the borrower may use the proceeds for whatever purpose it wishes. The transaction's sustainable nature is that the company is incentivised to raise its overall environmental or social performance because the interest margin can be reduced if it hits pre-agreed targets. Equally, the margin may be raised if the borrower underperforms. A year ago, 75% of respondents globally regarded sustainability-linked loans (SLLs) as very interesting or potentially interesting, while 20% judged that they were unlikely to suit them. Now 30% of issuers say they already have experience of SLLs or green loans.

This compares with 40% of issuers saying they have raised debt through

the longer established product of green, social and sustainable bonds, in which the proceeds must be used for specified purposes. Moreover, a third of issuers say they view ESG-linked and green loans as interesting and may finance through them in future. This suggests further conversion of issuer interest in the product into transactions is close.

The Americas (40%) and Europe (39%) lead growth in ESG-linked and green loans so far. There has been much less activity in the Middle East (3%) — though nearly half of those surveyed (46%, a proportion unmatched in any other region) may use the product in future. At a country level, take-up has been strongest in France (60%), the US (56%) and Germany (52%). Mainland China (44%) is also above the global average, whereas the UK (33%) is somewhat below. Issuers' satisfaction with the product is striking. Globally, half of respondents reported themselves very satisfied, as did 55% of green, social and sustainable bond issuers.

49%

of investors say ESG can improve returns or lower risk

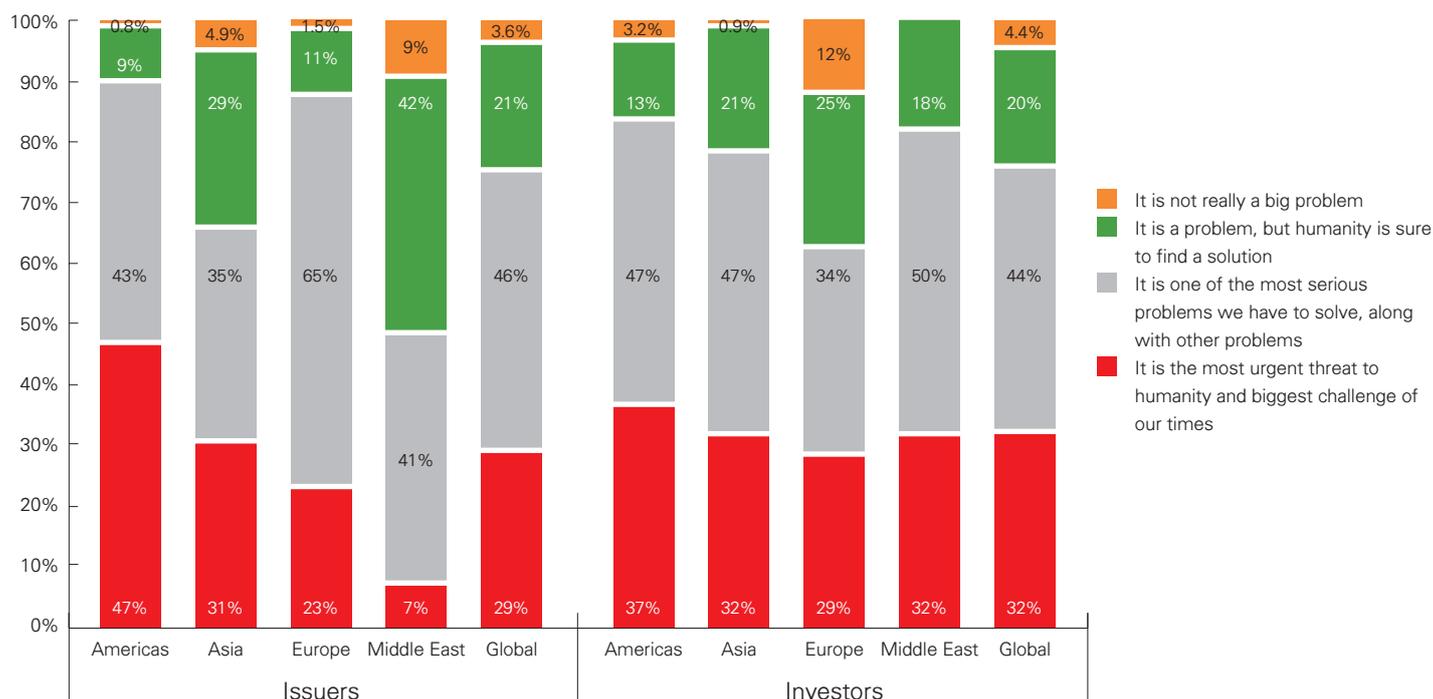
Factoring in substantial levels of moderate satisfaction (slightly higher for ESG-linked loans at 37% versus 35% for labelled bonds) as well, the newer debt financing tool is already achieving very similar performance.

Chinese (95% very or moderately satisfied) and German issuers (90%) are particularly enthusiastic about their ESG-linked loans. The tiny proportion of UAE issuers that have taken out ESG-linked loans were all very satisfied by them. Satisfaction levels are comfortably above 80% in all four regions.

The evidence suggests sustainability-linked loans — as well as their newer and much rarer cousins, sustainability-linked bonds — will continue to proliferate, as companies find them a useful way to communicate their sustainability priorities to stakeholders, including banks and the wider capital markets.

Investors' views on climate change more consistent than issuers'

Which of the following statements about climate change do you most agree with?



Methodology

GlobalCapital, the capital markets newspaper, and *Euromoney Insight* conducted a global survey of investors and capital markets issuers in July and August 2020. 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.

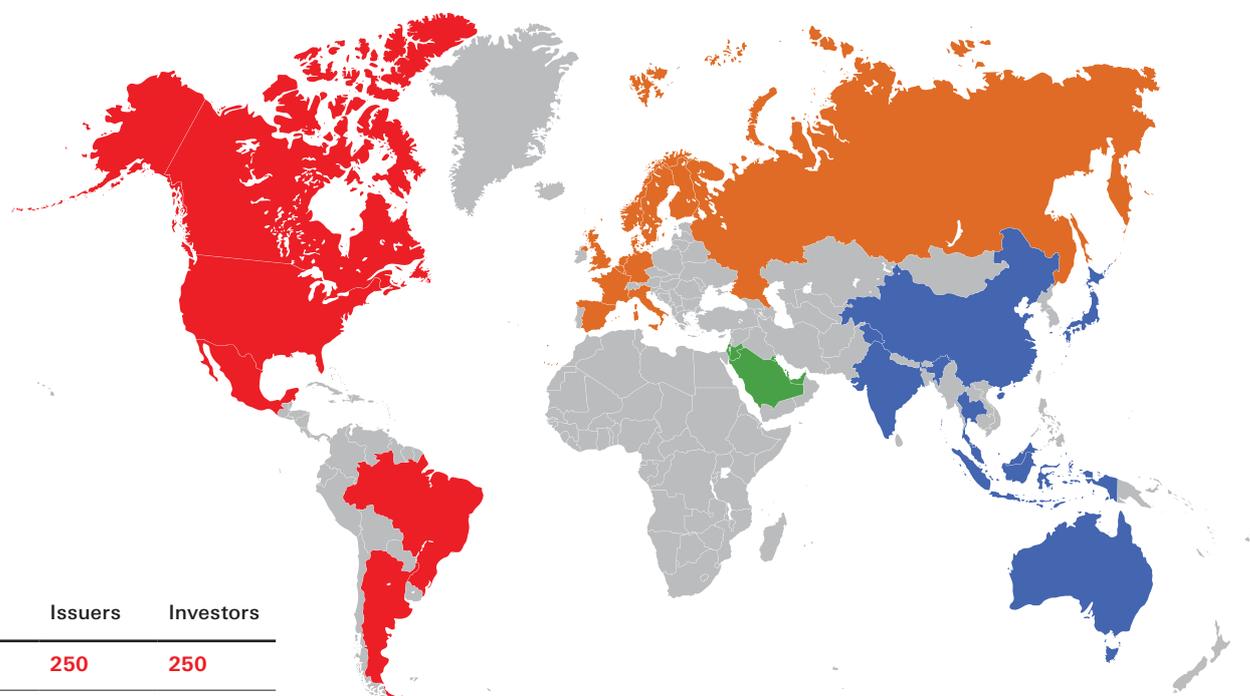
The surveys were offered in Chinese, English, French, German, Japanese, Portuguese, Russian and Spanish. Over 2,500 responses were received from issuers and investors. To participate, each respondent had to state their name, contact details, job title, the name, nature and size of their organisation, and where they were based. Responses are treated anonymously.

From these, a structured sample was extracted for use in the survey. This comprised 1,000 issuers and 1,000 investors, distributed across 34 territories in four regions. The sample was designed to give broad geographical coverage of each of the regions.

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

All data shows percentages of those who answered that question.

The sample analysed is as follows:

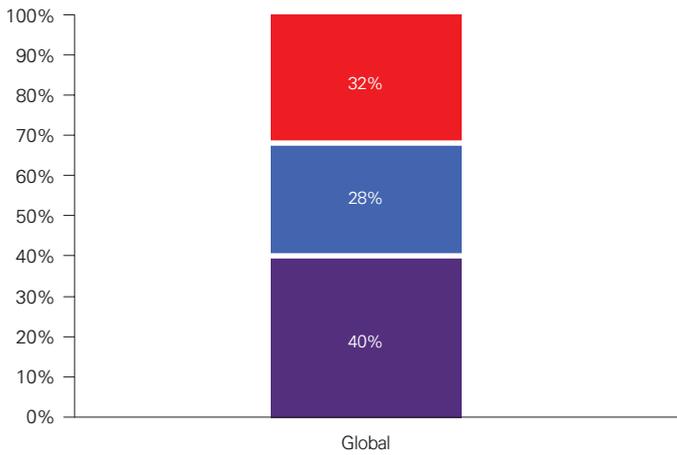


	Issuers	Investors
Americas	250	250
US	125	125
Canada	50	50
Argentina	22	24
Brazil	29	30
Mexico	24	21
	Issuers	Investors
Middle East	150	150
Saudi Arabia	46	50
UAE	49	51
Bahrain, Jordan, Israel	13	20
Kuwait	21	16
Qatar	21	13

	Issuers	Investors
Europe	275	275
United Kingdom	75	75
France	50	50
Germany	50	50
Belgium, Netherlands, Luxembourg	20	22
Italy	23	22
Denmark, Sweden, Norway, Finland	20	19
Russia	14	15
Spain	23	22

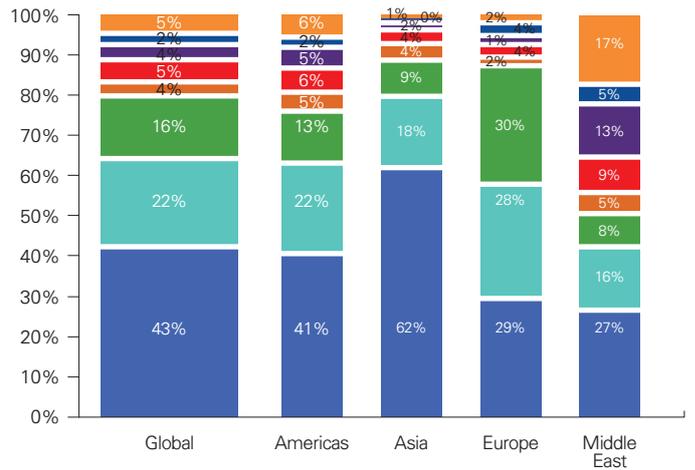
	Issuers	Investors
Asia	325	325
Mainland China	104	100
Hong Kong SAR	47	50
Singapore	50	50
Australia	21	25
India	22	20
Indonesia	19	19
Japan	19	19
Malaysia	21	23
Thailand	22	19
TOTAL	1,000	1,000

Investors by asset type



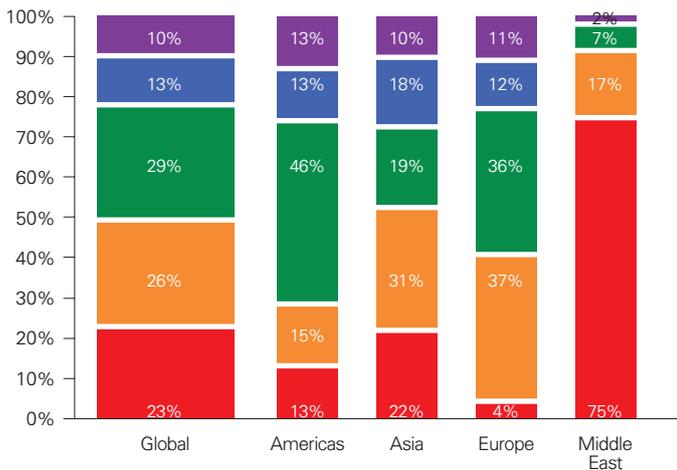
- Equity
- Debt
- Both equity and debt

Investors by type



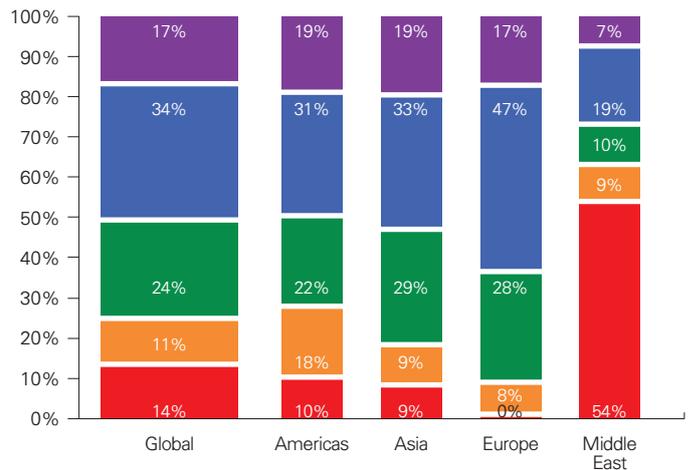
- Asset manager
- Bank
- Insurance company
- Pension fund
- Non-financial company
- Family office
- Foundation
- Other

Investors by assets under management



- Over \$100bn
- \$25bn to \$100bn
- \$5bn to \$25bn
- \$1bn to \$5bn
- Up to \$1bn

Issuers by annual revenue



- \$10bn+
- \$1bn to \$10bn
- \$500m to \$1bn
- \$250m to \$500m
- Up to \$250m

Issuers by type

Central government	7	Oil, gas, coal and chemicals	55	Telecoms	49
Supranational organisation	1	Metals and mining	35	Information technology	99
Local government	15	Building materials	36	Consumer goods	52
Banking	187	Transport	35	Retail and consumer services	70
Insurance	41	Electricity and water	37	Business services	54
Real estate	67	Industrial goods	57	Agriculture, food, beverages, tobacco	38
Other	12			Healthcare	53



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