



# Sustainable Investing: Market Trends

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# Trends in Sustainable Investing

The Covid crisis has only accelerated the shift toward ESG investing

“Coronavirus is strengthening the hand of ESG investors”

## NEWS

Global ESG funds see highest inflows on record in July

Aug 10, 2020 | By Funds Europe

“ 73 per cent of its ESG indexes have outperformed their non-ESG equivalents since their inception (Morningstar)

Institutional investors plan to put ESG assets in ETFs

Aug 18, 2020 | By Funds Europe

 institutionalassetmanager

**Actively-managed ESG funds see fourth month of record inflows in July**

BY MADELEINE TAYLOR | 10/08/2020 - 12:46PM

Investment

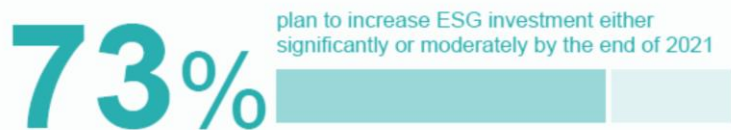
**ESG Blog: Bloomberg launches proprietary ESG scores**

Round-up of ESG coverage

- Three quarters of investors now take ESG criteria into account in their manager selection – up from half two years ago – and half of all investors now track the carbon footprint of their portfolio or plan to do so in 24 months – Greenwich Associates , 2020
- Invesco cite that 55% of the 101 European institutional investors surveyed believe the majority of their ESG investments will be held in passive products in five years' time - Reported in Funds Europe
- However, actively-managed ESG funds saw record inflows in July 2020 – Institutional Asset Manager
- More and more investors recognise the importance of ESG as a risk management tool, as well as its potential as a return generator – Camradata ESG report 2020

# Trends in Sustainable Investing

## Sustainable Investing the New Normal

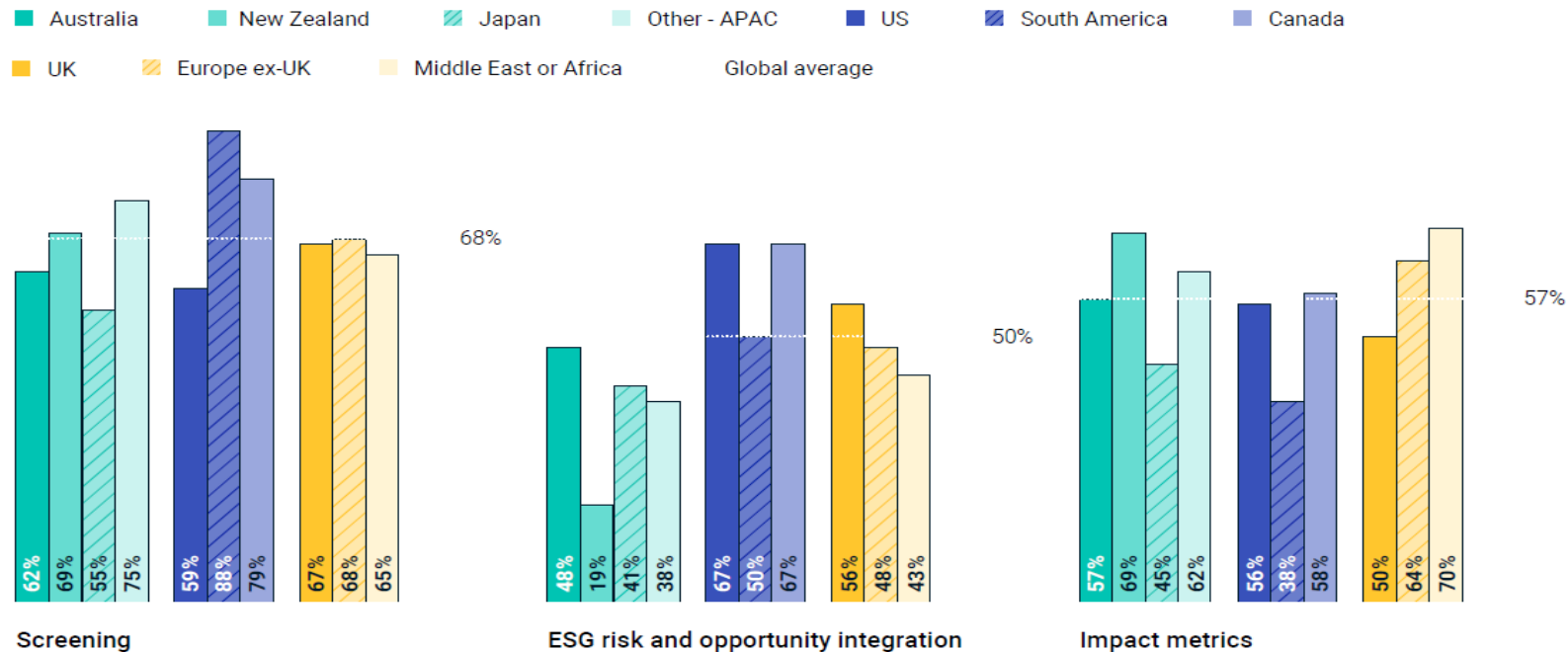


- The move towards incorporating environmental, social and governance (ESG) considerations into investment decisions accelerated due to the pandemic, transitioning from a side-fund to a main-fund issue.
- 72% of asset owners indicated that they believe companies with high ESG ratings had good continuity planning during the pandemic.
- As a result, more investors are putting greater emphasis on the “S” (social) in ESG. Progress on ESG is held back, though, by concerns over fiduciary duty, perceived issues with data, cost and manager inexperience.

Source: MSCI, February 2021 – MSCI Investment Insights 2021 Sample 200 Asset Owners

# Trends in Sustainable Investing

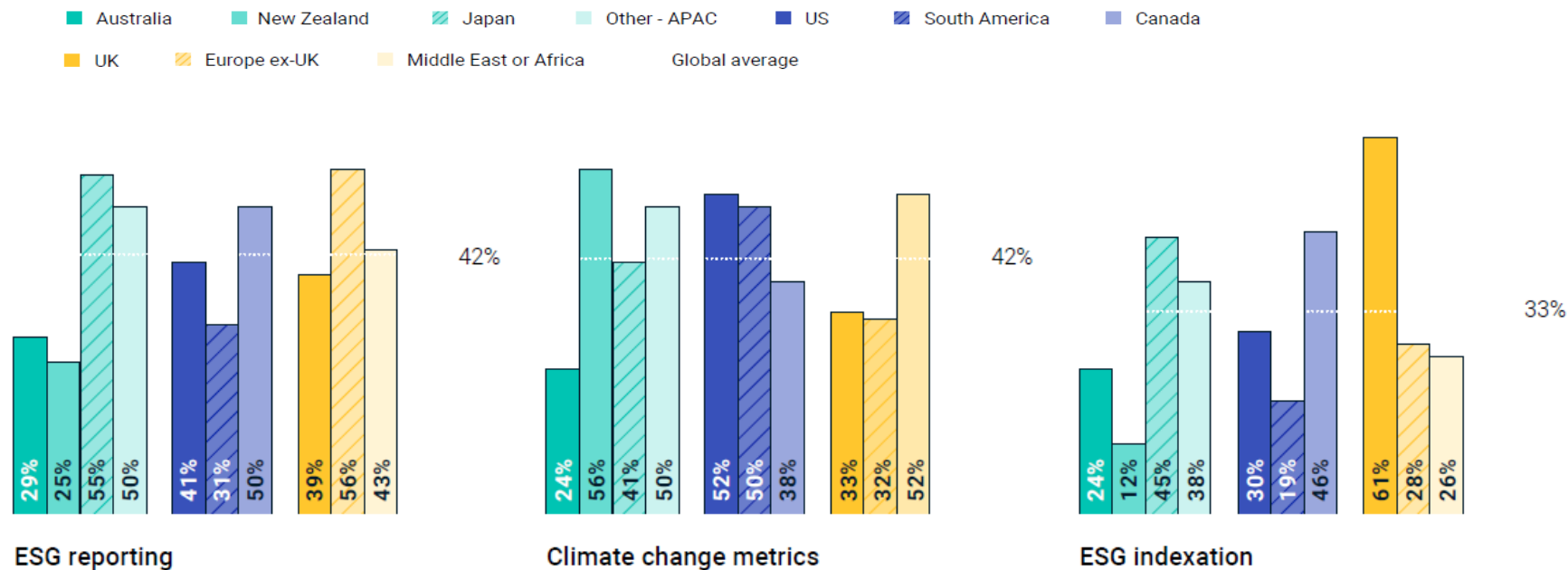
## Current ESG activities according to world regions



Source: MSCI, February 2021 – MSCI Investment Insights 2021 Sample 200 Asset Owners

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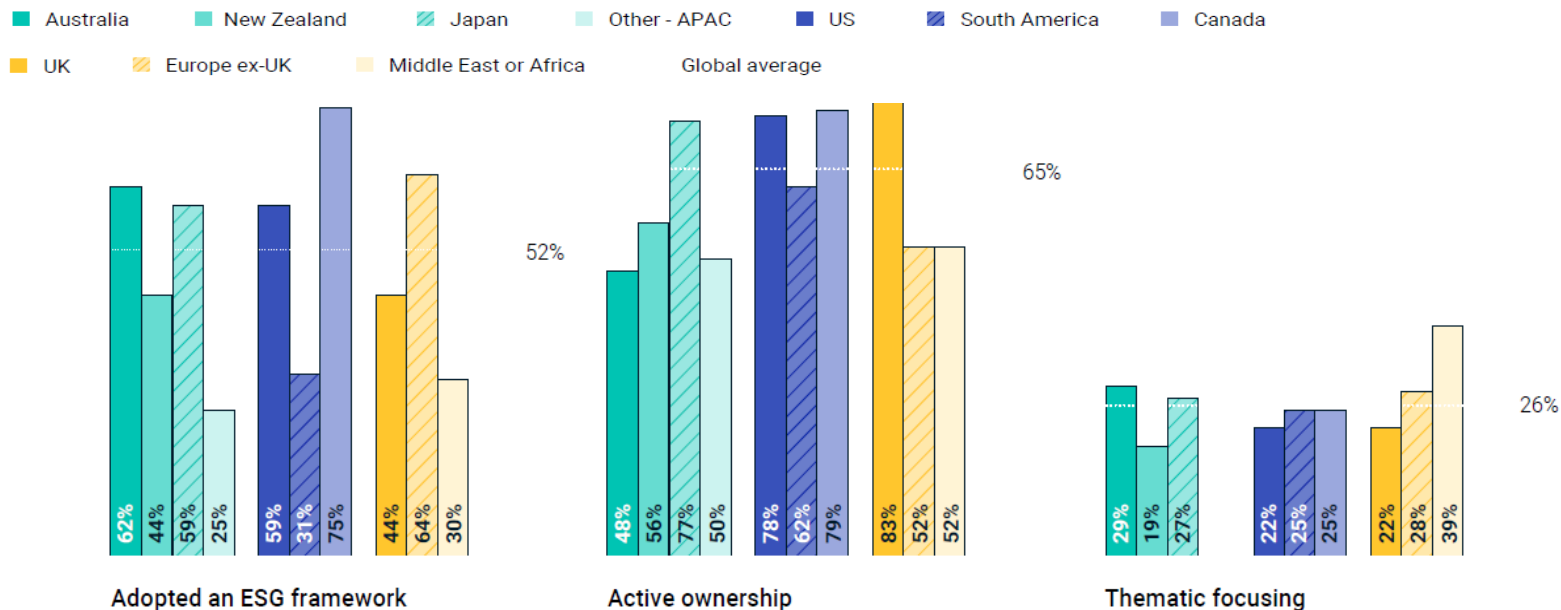
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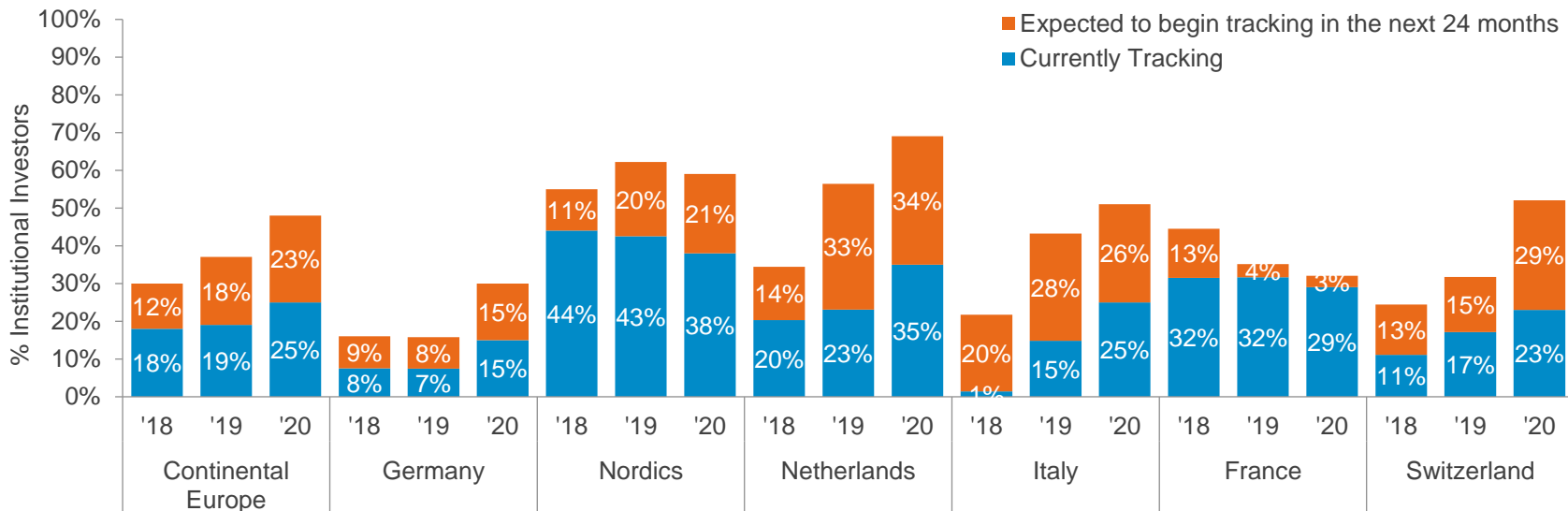
## Current ESG activities according to world regions



Source: MSCI, February 2021 – MSCI Investment Insights 2021 Sample 200 Asset Owners

# Current & Expected Carbon Exposure Tracking

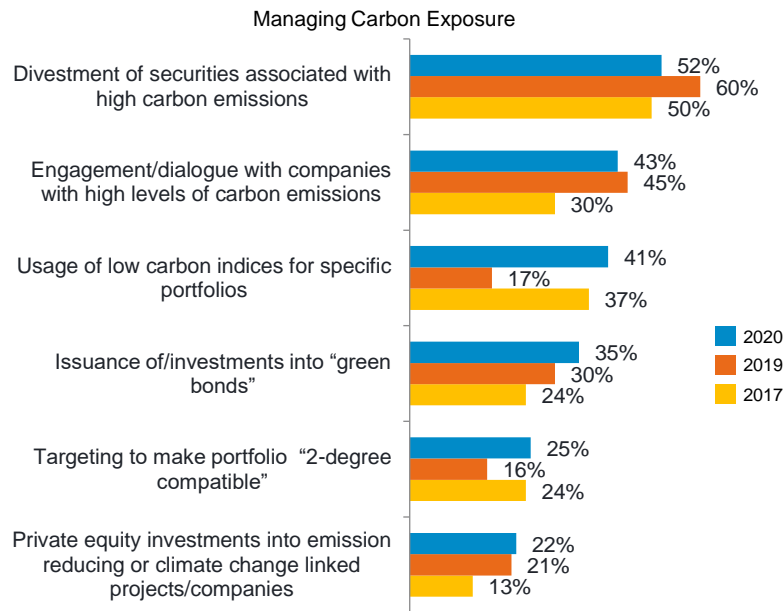
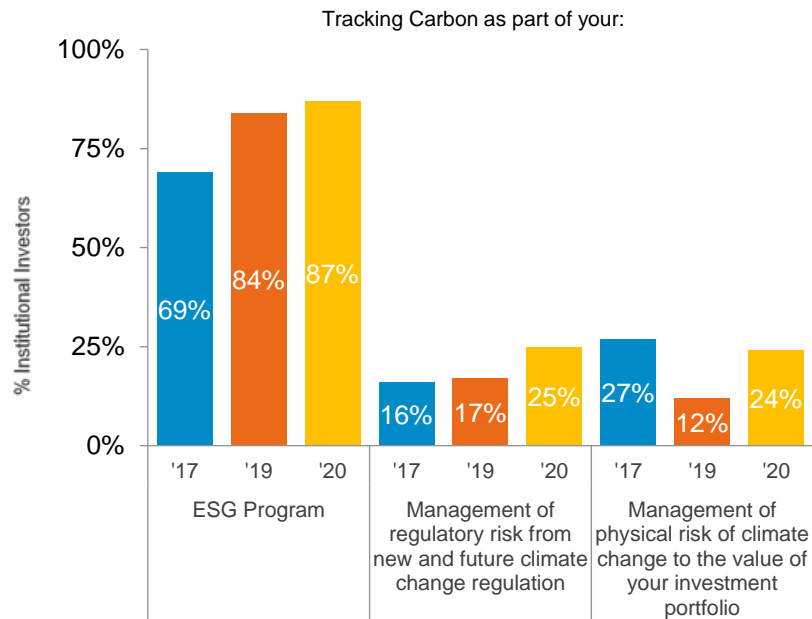
Half of all institutional investors already track the carbon exposure of their portfolio or expect to do so within 24 months.



Source: Greenwich Associates, July 2020.

# Measuring & Managing Carbon Footprint

Climate change risks are gathering more attention both from a regulatory and investment risk perspective; demand for low carbon indices is soaring.

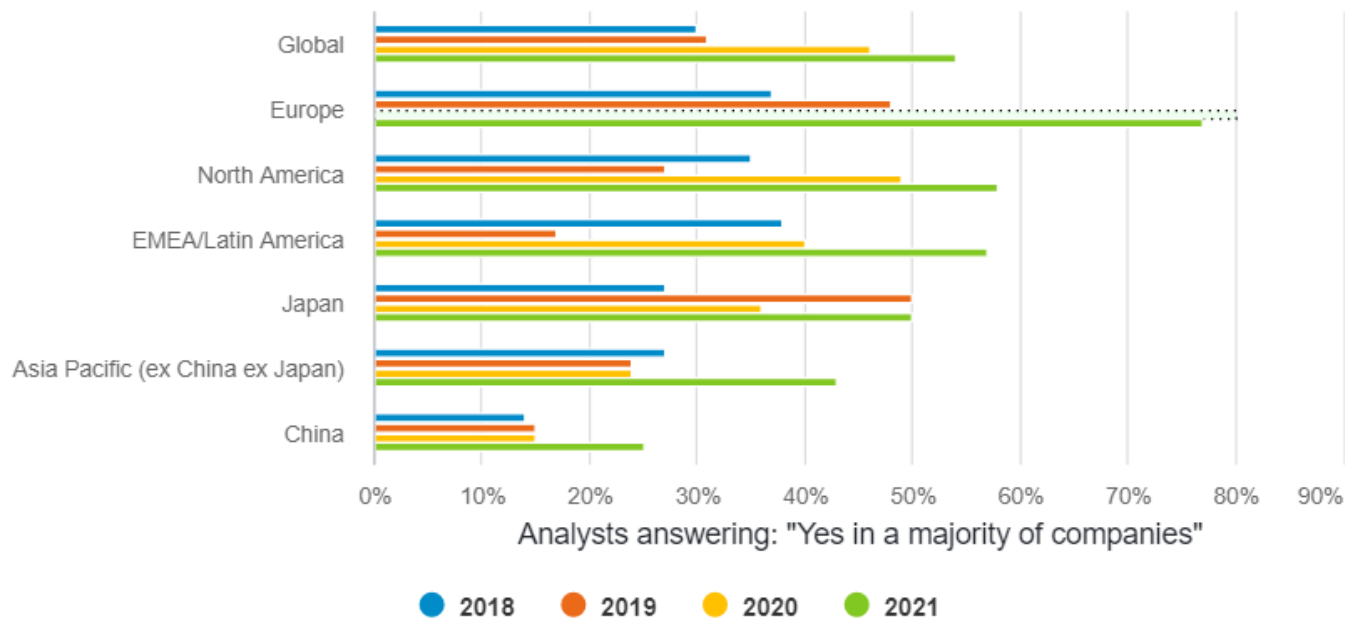


Source: Greenwich Associates, July 2020. Note: question was not asked in 2018.



# Trends in Sustainable Investing

Alongside Investors companies ESG continues to grow as a focus for companies



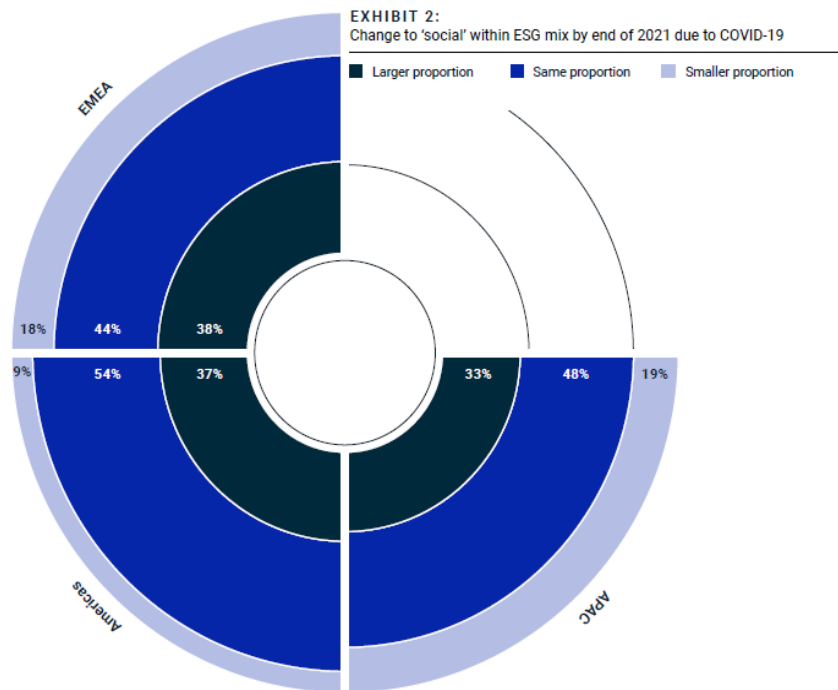
Source: Fidelity International, March 2021 – Fidelity Analyst Survey 2021

# Sustainable Investing Trends - Themes

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# Trends in Sustainable Investing

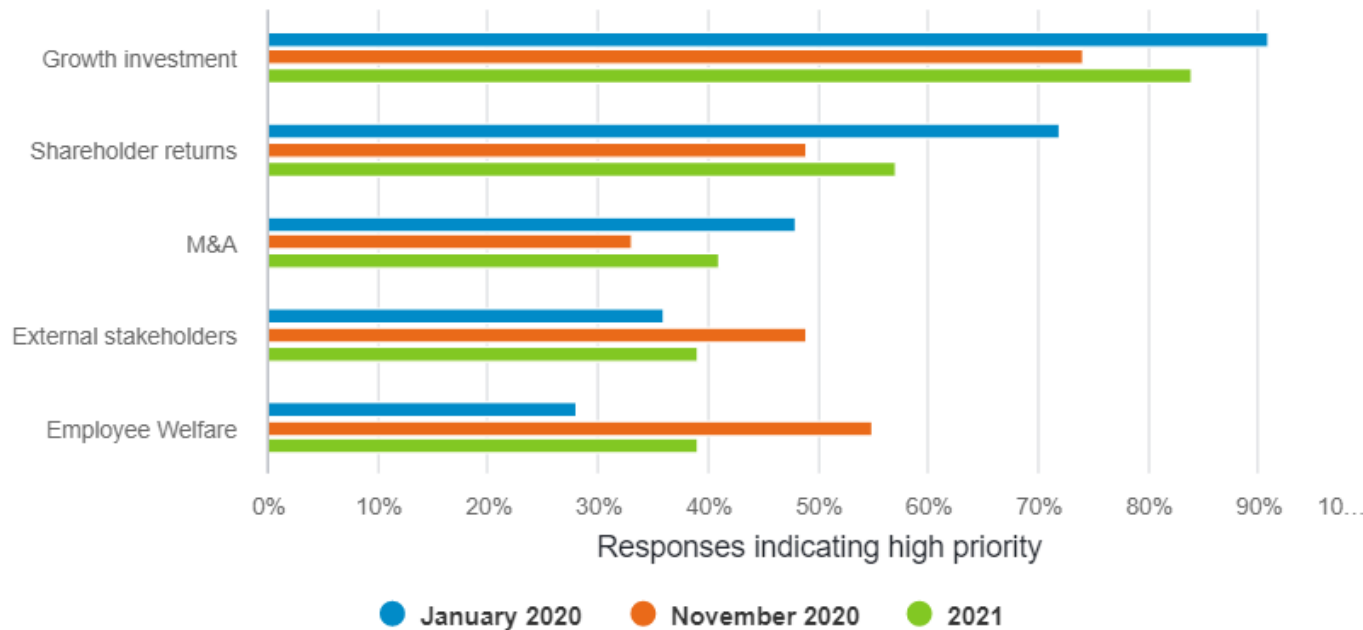
Social Issues coming more into focus for investors



Source: MSCI, February 2021 – MSCI Investment  
Insights 2021 Sample 200 Asset Owners

# Trends in Sustainable Investing

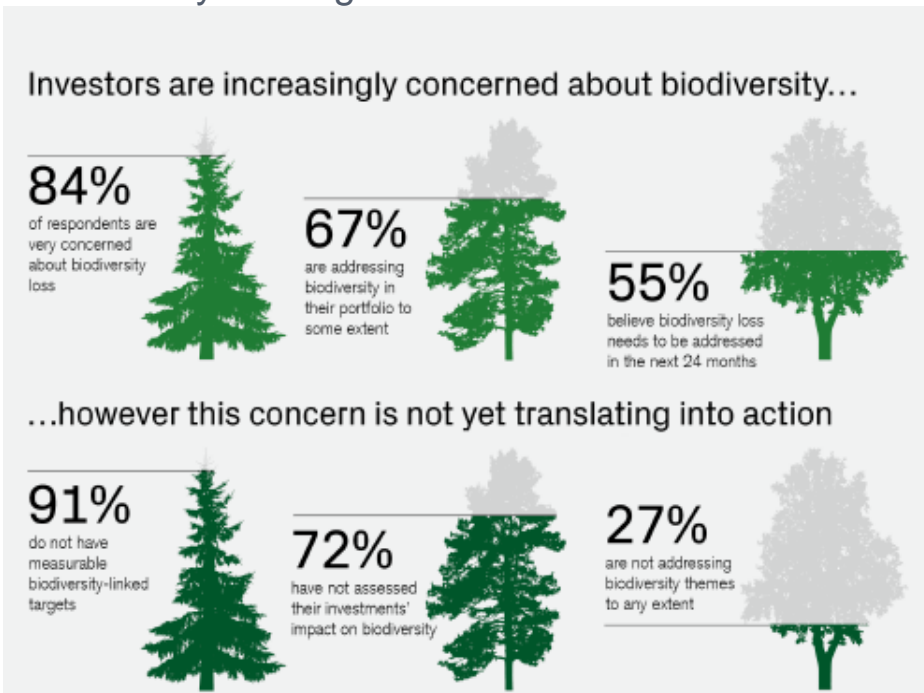
However for companies the importance of social issues is reverting to pre-covid times



Source: Fidelity International, March 2021 – Fidelity Analyst Survey 2021

# Trends in Sustainable Investing

## Biodiversity coming more into focus for investors



- 72% have not assessed the impact of their investments on biodiversity.
- 27% of respondents are not currently addressing biodiversity.
- Fewer than one in 10 respondents currently have measurable biodiversity-linked targets.
- 67% of respondents say they are addressing biodiversity to some extent in their portfolios. Most do so through seeking to reduce negative impact, mainly through shareholder engagement and exclusions.
- Two-thirds of respondents are considering setting measurable biodiversity-linked targets.
- Of the investors that have not yet assessed their investments' impact on biodiversity, more than one-third aim to do so going forward.

Source: Credit Suisse, January 2021 – Unearthing investor action on biodiversity - 327 respondents EMEA 66% Americas 25% APAC incl. Japan 9%

# Net Zero and it's implications for our industry

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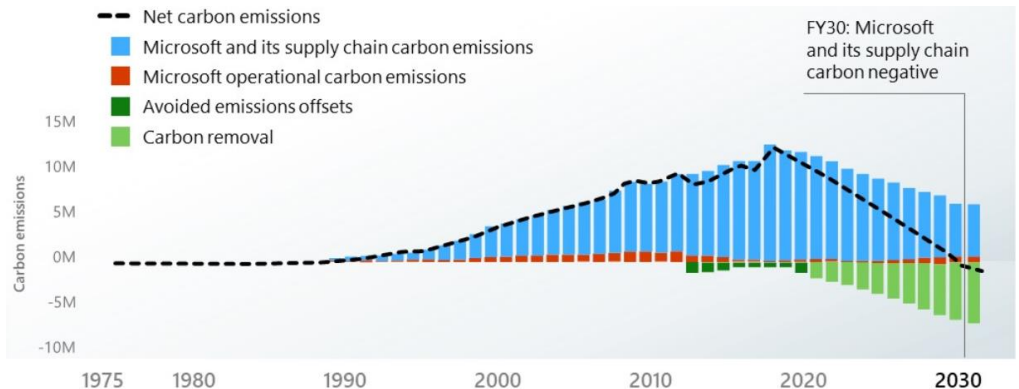
# Clarifying terminology

Many companies use terms like carbon neutral, zero carbon and climate positive interchangeably with net zero

Key differences are emerging though (*draft table*):

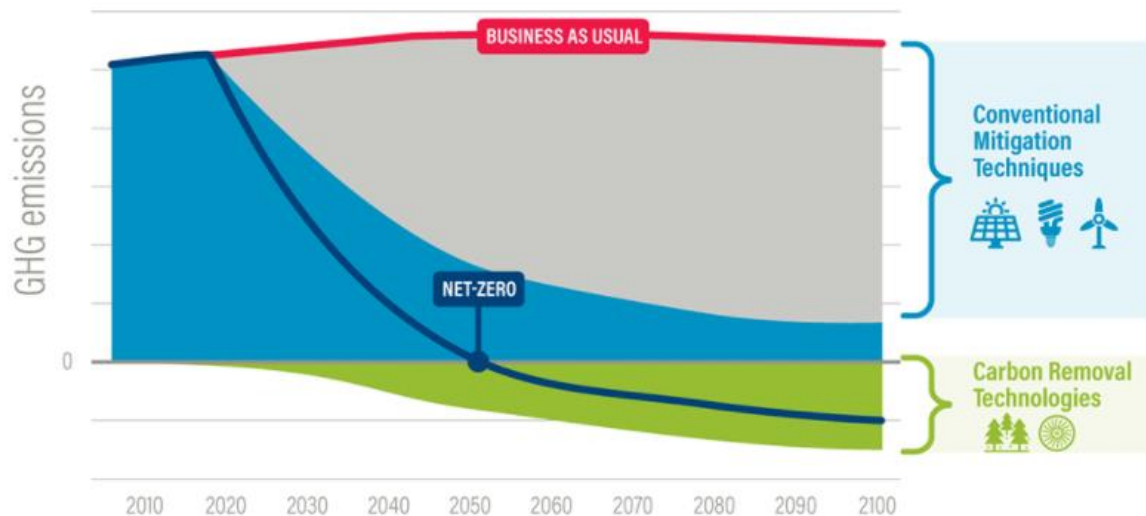
	Carbon neutral	Net Zero	Carbon negative
Emissions	CO2 only	All GHG emissions	All GHG emissions
Carbon reduction required	No	Yes	Yes
Carbon offsetting permitted	Yes	No	No
Carbon removal	Yes	Yes	Yes

## Example: Microsoft's pathway to carbon negative by 2030



# When do we need to reach net zero emissions?

Limiting global warming to 1.5 degrees entails reaching net zero CO2 emissions by 2050



Source: IPCC Special Report on Global Warming of 1.5C



# What would be needed to reach net zero?

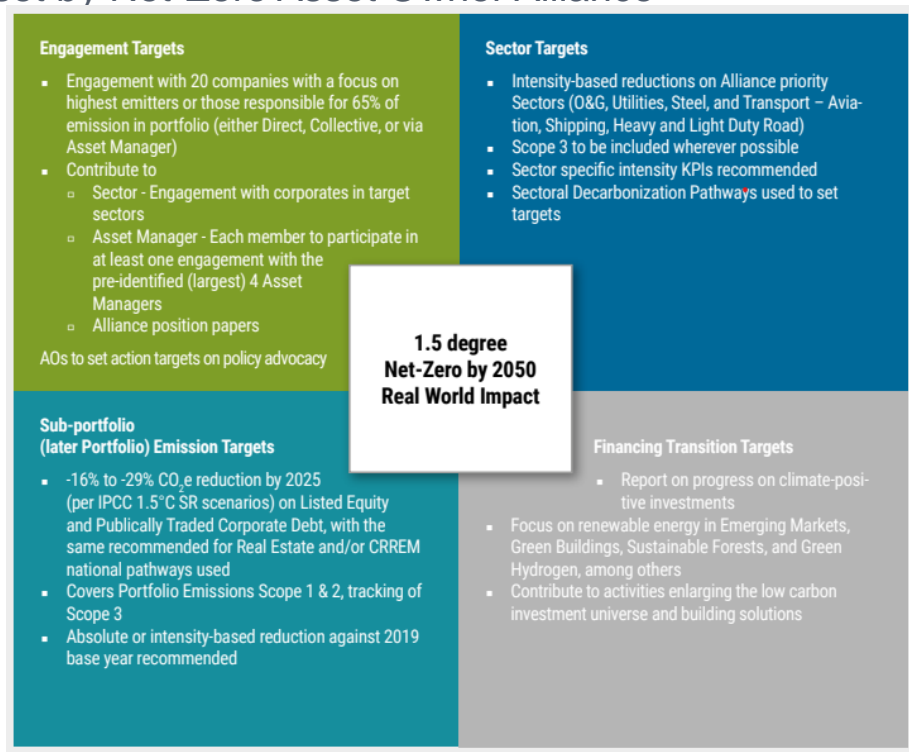
Extracts from the new IEA case called Net Zero Emissions by 2050 (NZE2050)

- *Total CO2 emissions would need to fall by around 45% from 2010 levels by 2030.*
- *Primary energy demand in the NZE2050 falls by 17% between 2019 and 2030, to a level similar to 2006, even though the global economy is twice as large*
- *Electrification, efficiency gains and behaviour changes are central to achieving this.*
- *Coal demand falls by almost 60% over this period to a level last seen in the 1970s. No subcritical and supercritical coal plants without CCUS are still operating in 2030.*
- *In addition to investment in technologies, such as CCUS, low-carbon gases and buildings retrofits, behaviour changes would form an integral part of the emissions reduction strategy (e.g..*

Source: World Energy Outlook 2020, IEA

# What do asset owners need to do?

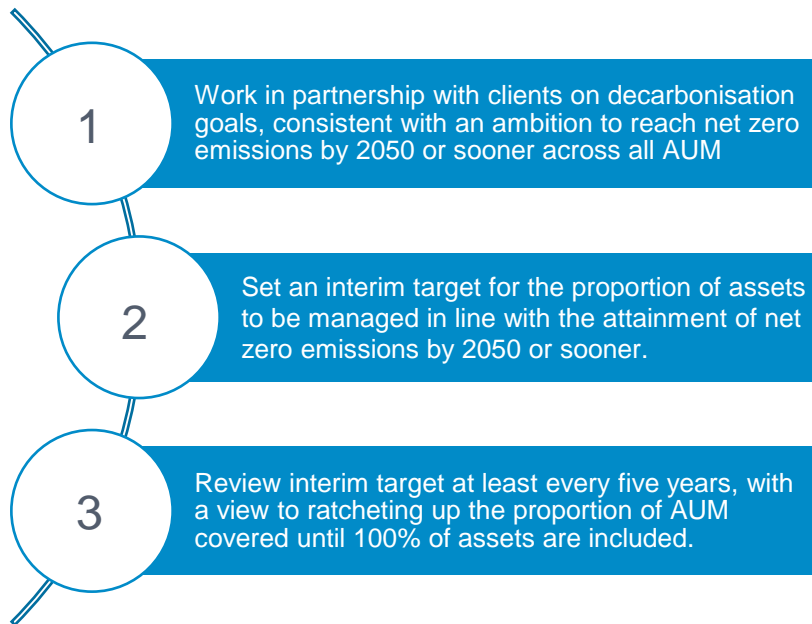
## Extracts from targets set by Net-Zero Asset Owner Alliance



Source: Net-Zero Asset Owner Alliance, January 2021

# What do asset managers need to do?

Three core commitments and 10 supporting initiatives



Category	Supporting initiatives
Under core commitment 2	Set interim targets for 2030
	Consider Scope 1, 2 and material Scope 3 emissions
	Focus on real economy emissions reductions
	For offsets, use long-term carbon removal
	Create investment products aligned with Net Zero
Across all AUM	Provide Net Zero analytics to clients
	Adapt engagement and voting policies to Net Zero
	Engage with a range of finance system stakeholders
	Ensure policy advocacy aligns with Net Zero
Accountability	Publish TCFD disclosure and ensure it is aligned with Net Zero commitments

Source: Net Zero Asset Managers Initiative, Fidelity International, January 2021.

# Sustainable Investing - External initiatives & Organisations

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# External initiatives & Organisations

Investing for positive change through key industry initiatives



Working closely with other stakeholders for maximum impact – collaborative initiatives on specific topics increasing likelihood of companies to positively engage with, and react to, the engagement.



ESG-related bodies that seek to improve the way industries are regulated and companies are managed. These bodies provide overall guidance to the industry and we support them with our expertise.



From time to time we may engage with companies in collaboration with other shareholders. In certain circumstances, we may also co-file shareholder proposals with other shareholders.



# External initiatives & Organisations

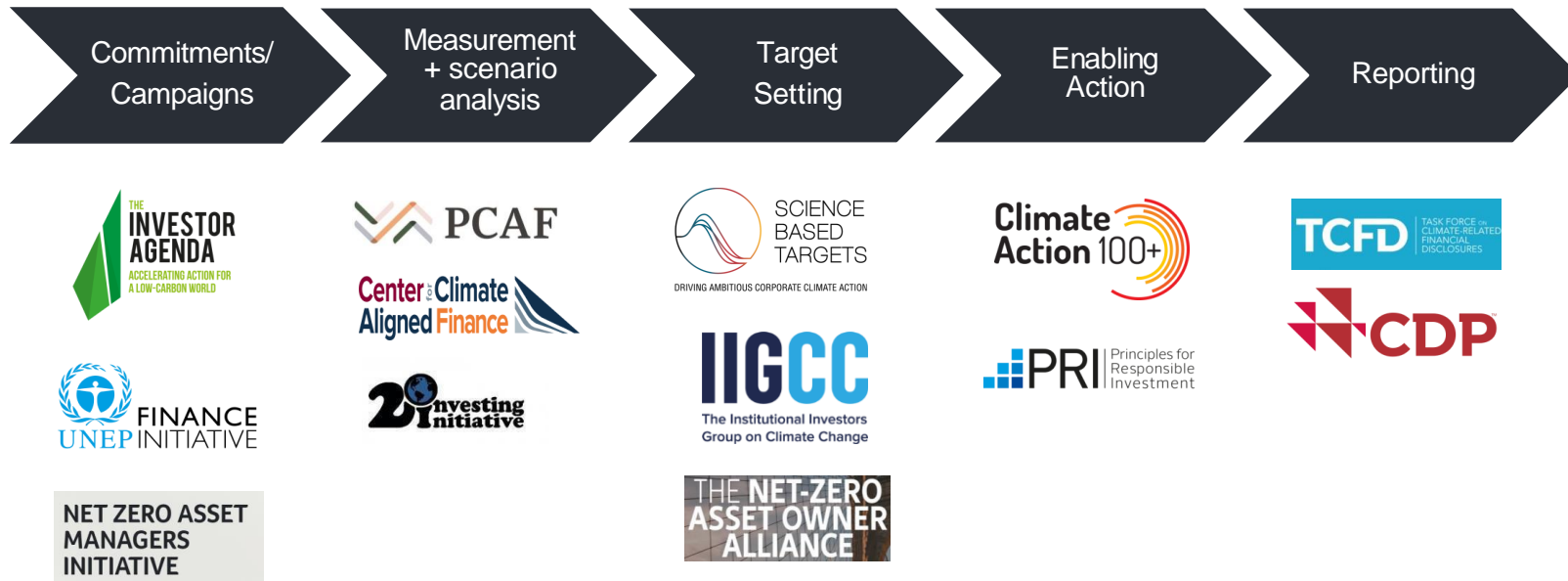


Thinking Ahead Institute

& more...

# External initiatives & Organisations

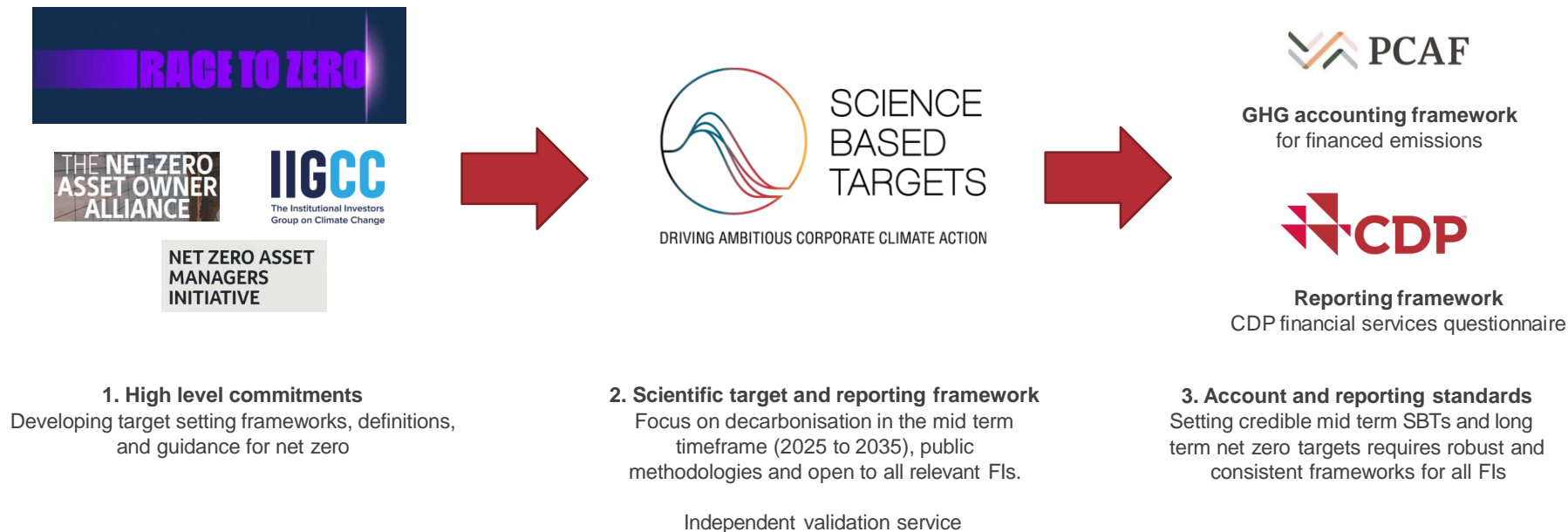
## External initiatives & Organisations



Source: Science Based Targets, February 2021

# External initiatives & Organisations

## Climate related initiatives for Financial Institutions



Source: Science Based Targets, February 2021



# Climate Action 100+



## Strengthen Climate-Related Financial Disclosure

### What do they do?

The Climate Action 100+ is an investor-led initiative engaging with the world's largest corporate greenhouse gas emitters to manage emissions, strengthen climate-related financial disclosures and improve governance on climate change risks.

Investors signing on to the initiative:-

- support a public statement outlining these goals.
- commit to engage with at least one company during each year of the initiative and report back on their engagement.
- will only represent the assets that they own.

The initiative is coordinated by the Principles for Responsible Investment (PRI) and several regional networks.

### Benefits of Membership

1. Membership to a group that has been highlighted as one of 12 key global initiatives to tackle climate change.
2. Access –to engagement knowledge sharing
3. Distinction – helps demonstrate to clients and beneficiaries effort to manage the material risks associated with climate change.

### Why FIL is a member

We believe the benefits for the ESG and investment team are twofold: to learn from other investors' expertise in engaging with companies on climate risks; to support/ demonstrate to clients who regularly question us on climate engagement that Fidelity is active on this issue and participates in collaborative initiatives.

### Other named asset managers supporting

#### Supporter AuM \$35 tn

- 370 Investors
- Includes: Aberdeen Standard; Amundi; Axa; Australian Super Annuation; BT Financial Group; Hermes; HSBC; Investec; L&G; Rababobank; Robeco; Schroders
- Climate Action 100+ is coordinated by five partner organisations: Asia Investor Group on Climate Change (AIGCC); Ceres; Investor Group on Climate Change (IGCC); Institutional Investors Group on Climate Change (IIGCC) and Principles for Responsible Investment (PRI).

# IIGCC / AIGCC

## Institutional Investor Group on Climate Change



### What do they do?

IIGCC/AIGCC (The Institutional Investors Group on Climate Change (Europe)/ The Asia Investor Group on Climate Change) provides investors with a collaborative platform to encourage public policies, investment practices, and corporate behaviour that address long-term risks and opportunities associated with climate change.

#### **IIGCC pursues its mission through two strategic objectives:**

1. Changing market signals by encouraging the adoption of strong and credible public policy solutions that ensure an orderly and efficient move to a low carbon economy, as well as measures for adaptation.
2. Informing investment practices to preserve and enhance long-term investment value.

### Benefits of Membership

1. Influence – Both forums bring investors together to use their significant collective influence to engage with policymakers on national, EU and international regulations which will accelerate the shift to a low carbon economy.
2. Access – events and meetings with policy makers.
3. Knowledge sharing – webinars and events, expert guidance.
4. Distinction – helps demonstrate to clients and beneficiaries effort to manage the material risks associated with climate change.

### Why FIL is a member

FIL is a member to contribute to the discussions on and support the improved practices and perception of true ESG integration.

IIGCC members have met with or been invited to make contributions to the UNFCCC, IPCC, OECD, IEA, and other multilateral forum on the subject of climate change which presents significant high profile opportunities for FIL.

### Other named asset managers supporting

#### **Supporter AuM €28tn (190 members)**

Allianz Global Investors	Amundi
Aviva	BlackRock
BMO	Hermes
Investec	Legal & General
M&G	Robeco

# SASB Alliance



## Sustainability Accounting Standards Board

### What they do?

- The SASB Alliance develops and explores best practices to integrate material sustainability information into existing investment processes.
- Members share the belief that today's capital markets need standardized sustainability disclosure and effective ESG integration into investment practices – for the benefit of both companies and investors.
- SASB has developed standards for over 70 industries, and engaged thousands of participants in its standards setting process.

### Benefits of Membership

1. Member portal including SASB toolkit which is a set of resources to help introduce SASB to colleagues (this includes an Engagement Guide, Industry Briefs, ESG Uncovered, Climate Risk technical Bulletin)
2. Convenings with members and experts
3. Opportunities to weigh in on SASB foundations programmes
4. SASB Foundations webinars
5. Sustainability accounting newsletters
6. Member meetings / receptions
7. Listing on the SASB website
8. Use of SASB Alliance logo

### Why FIL is a member

SASB is an ambitious organisation that is fast growing and as FIL aims to further integrate ESG factors into valuations and train analysts in how to use sustainability accounting, becoming a member of the alliance will further add ESG credibility to FIL's integration process and proprietary rating.

Joining the alliance helps to further standardise sustainability accounting, which is a key tool to improve the objectivity of sustainability analysis on companies.

### Other named asset managers supporting

AGI	Amundi
Aviva	BlackRock
BMO	Hermes
FMR	Impax
Investec	LGIM
M&G	Pictet

## Farm Animal Investment Risk and Return

### What do they do?

FAIRR Initiative is a collaborative investor network that raises awareness of the material ESG risks and opportunities caused by intensive livestock production.

FAIRR helps investors to identify and prioritise these factors through research that investors can then integrate into their investment decision-making and active stewardship processes

FAIRR also runs collaborative investor engagements with global food companies to improve performance on selected ESG issues in intensive livestock production.

### Benefits of Membership

1. Exclusive member research including individual company analysis.
2. Regular updates, presentations, newsletters and private events.
3. The opportunity to join collaborative engagements with relevant companies
4. Access to best practice tools, networking and knowledge sharing with the FAIRR investor network.
5. Showing a public commitment to considering factory farming issues as part of the investment process

### Why FIL is a member

It provides access to features such as the Collier FAIRR Protein Producer Index, which ranks over 60 producers on their sustainability risks.

It helps strengthen our commitment and engagement potential in relation to animal protein which is a theme within our thematic engagement programme.

### Other named asset managers supporting

#### Supporter AuM \$19.3tn

Aegon	Actiam
Amundi	Aviva
Candriam	Handelsbanken
Hermes	Legal & General
Robeco	Schroders
UBS	

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