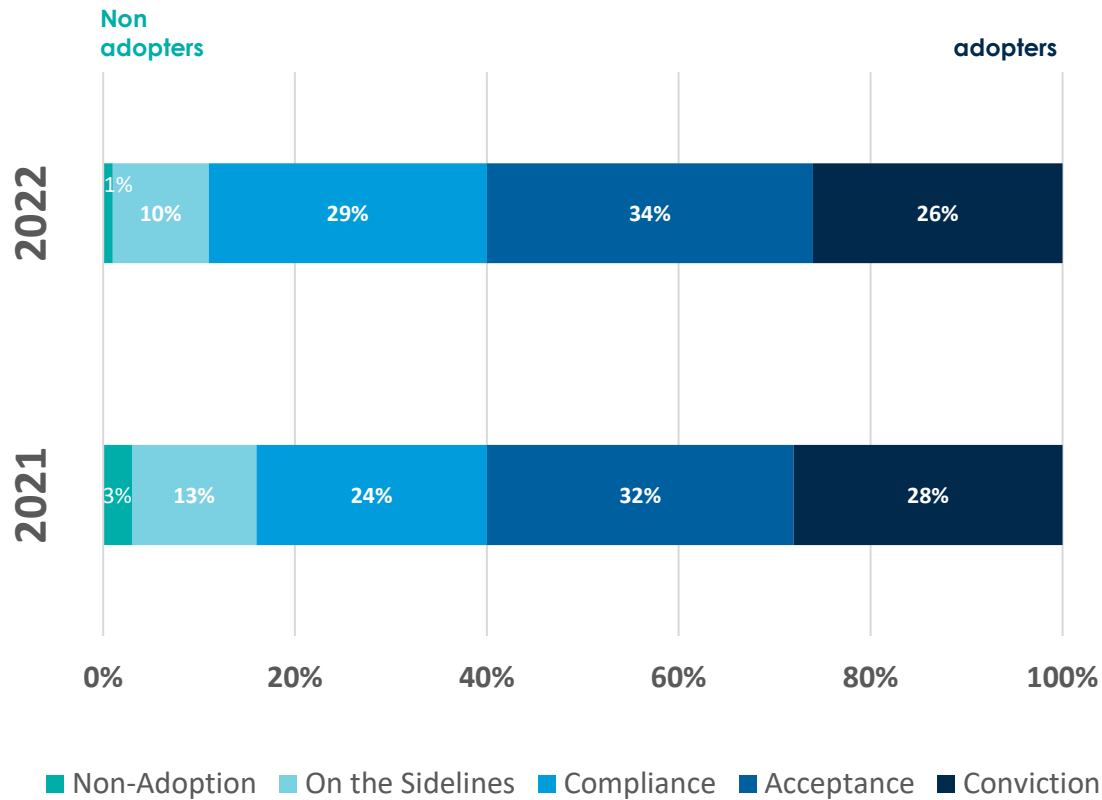


ESG Investment Workflows

Data and Modelling Challenges



Most Fund Institutional Investors now demand ESG focus



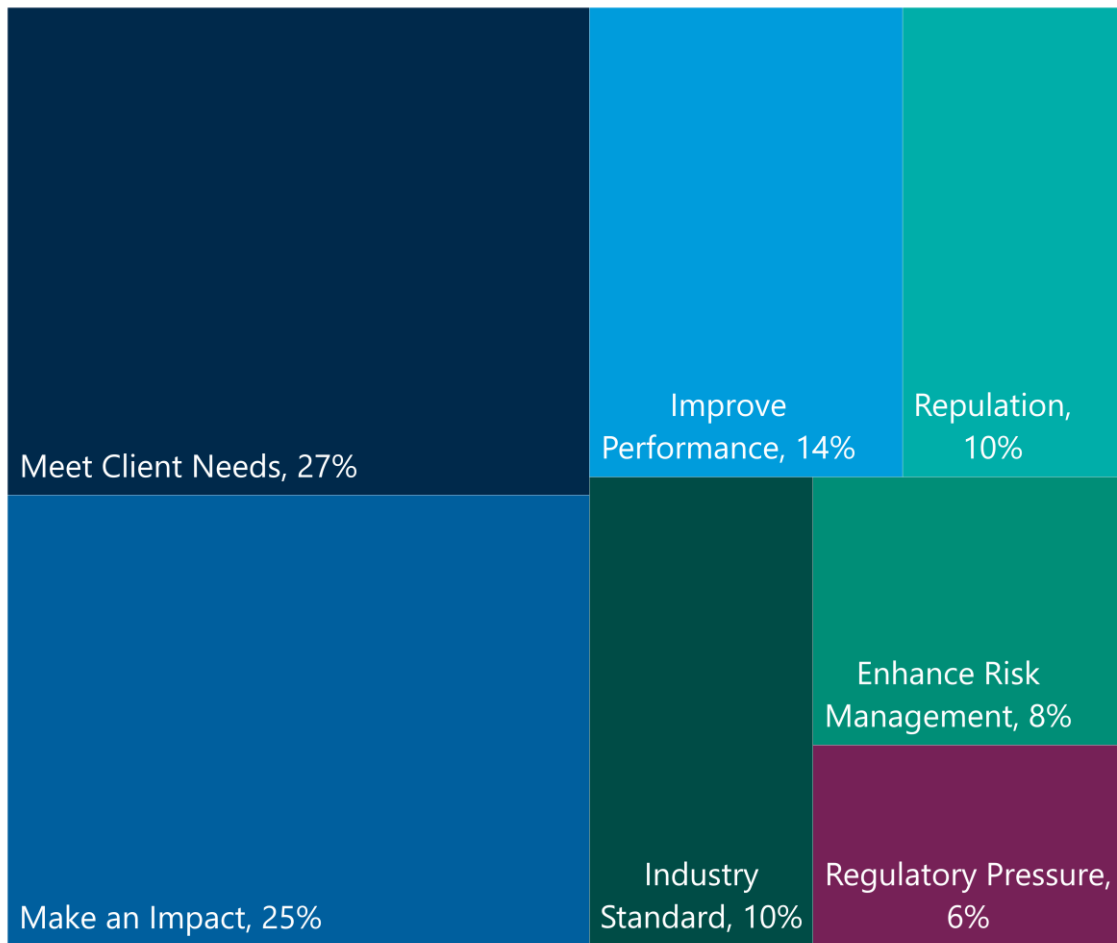
ESG adopters have increased from 84% to 89%.

Source: ESG Global Study, May 2022, Capital Group

- ESG adoption is nearly universal amongst large investors
- Most investors view ESG as a permanent and pre-eminent part of the investment landscape

This is a result from a survey of 1000+ Fund Institutional Investors comprising 500+ global institutional investors (pension funds, family offices, insurance companies, sovereign wealth funds, endowments, foundations, DC funds) and 500+ global wholesale investors (funds of funds, discretionary fund managers, private banks, wirehouse broker-dealers, registered investment advisors, independent advisory, investment division of insurance companies).

What is driving the ESG focus

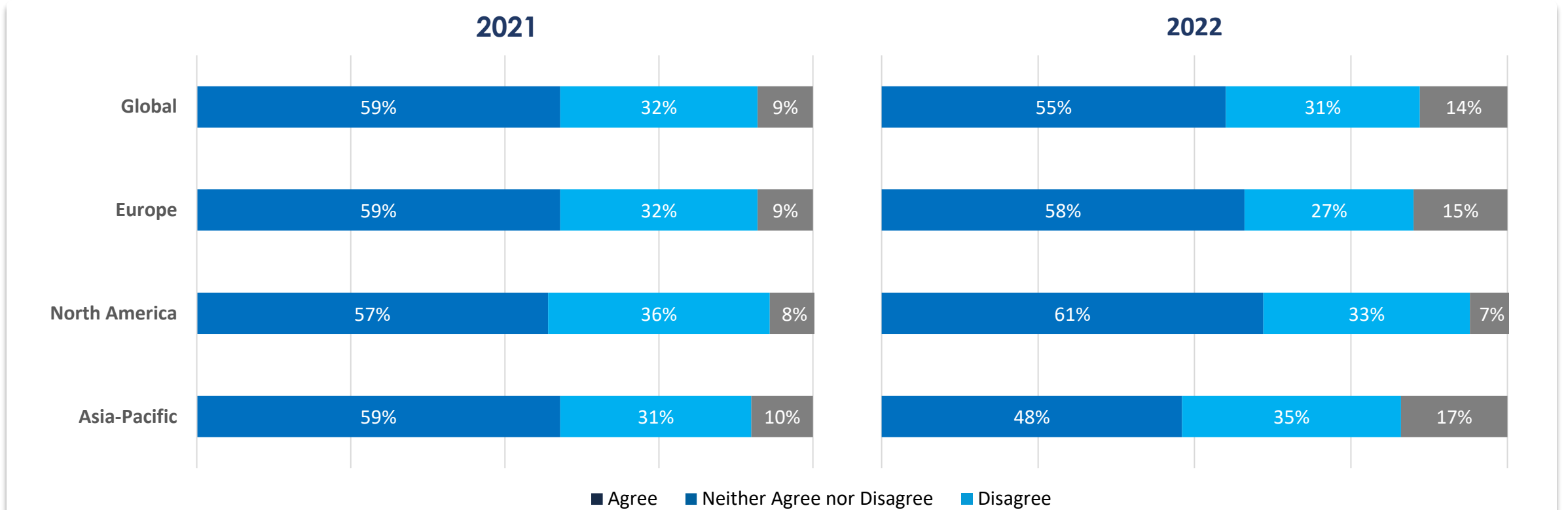


Source: ESG Global Study, May 2022, Capital Group

- Meeting client needs is the biggest driver; followed by 'Making an impact'
- 'ESG can improve performance' – this belief continues to grow

Signs of trust deficit

55% of LPs believe Investment Managers use ESG as a marketing and PR tool
More tellingly, only 14% disagree with this



Source: ESG Global Study, May 2022, Capital Group

Catch 22



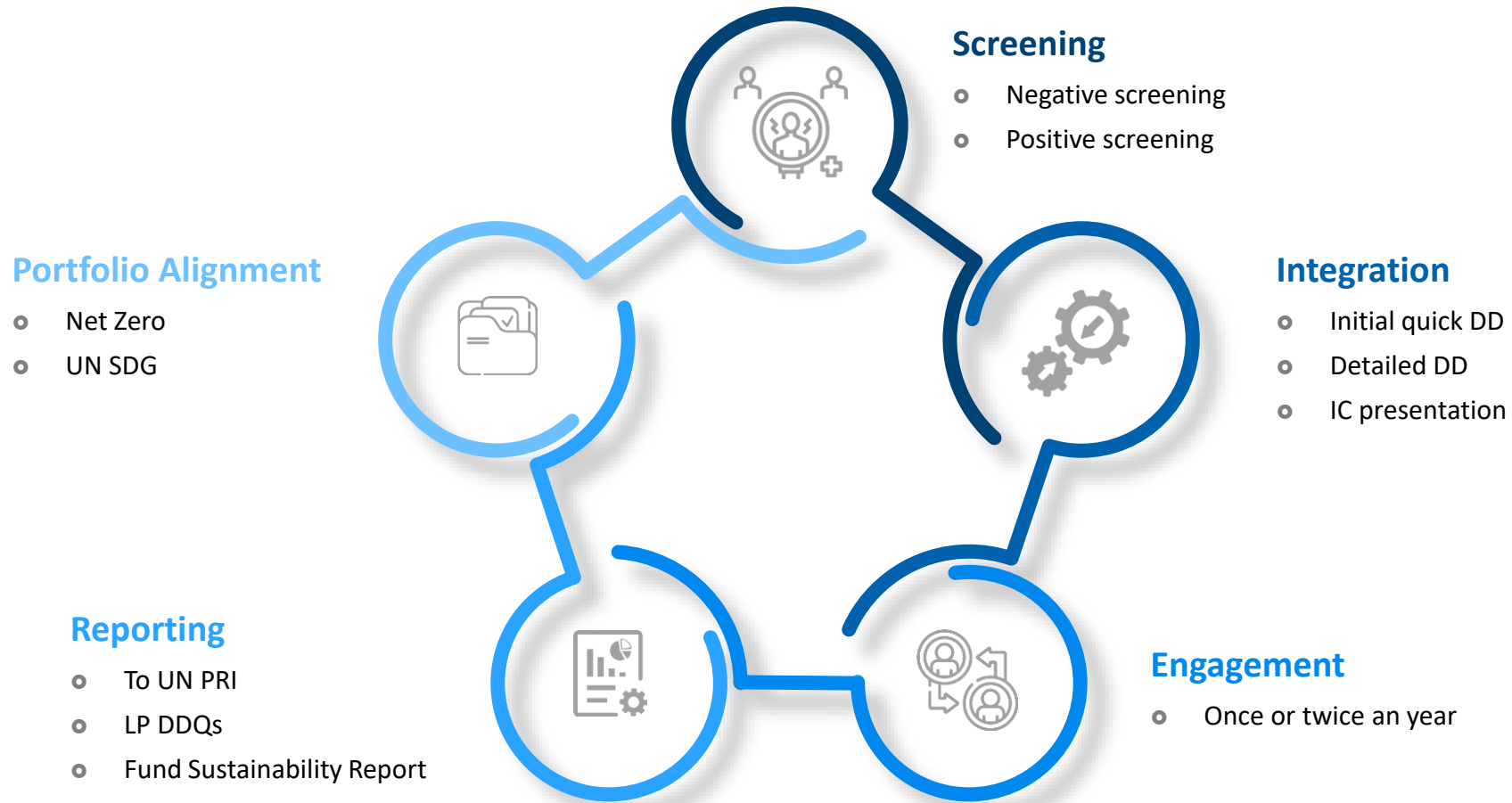
LPs are gungho on ESG, and want GPs to be ESG compliant



But there is still considerable doubt about whether they are truly putting their money behind ESG compliant investing

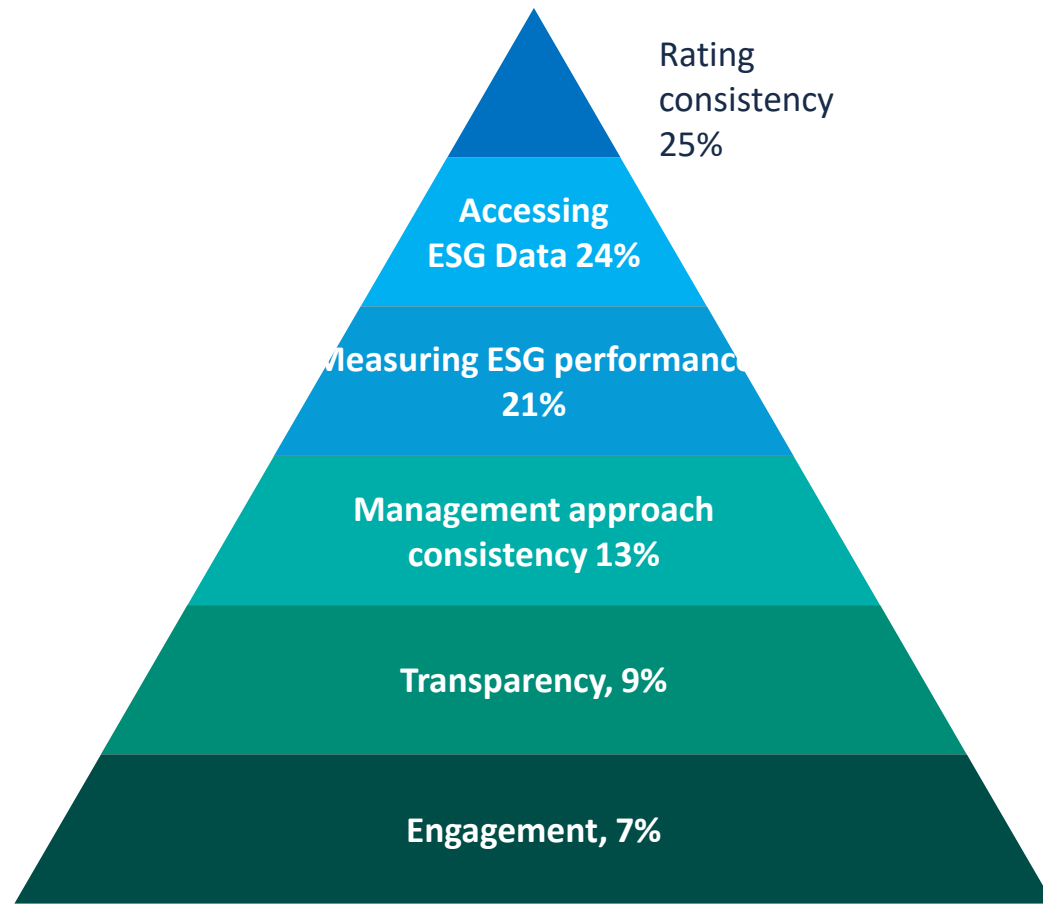
What are the Investment Managers doing to bridge this divide?

What should an investment manager do under their ESG mandate continues to grow



Barriers to implementing ESG frameworks

What is your number one challenge when implementing ESG investments?



Source: ESG Global Study, May 2022, Capital Group

Basic issues continue to hinder ESG efforts

- 1 Data availability and consistency
- 2 Ratings consistency if external ratings subscribed
- 3 How do maintain data for Reporting?
- 4 How to do Portfolio Alignment Reporting?

Data challenges continue to be a critical issue that manifests throughout the investment process. Difficulties with the quality and accessibility of data and inconsistent ratings are hampering the ability of investors to adopt, incorporate and implement ESG.

Structural issues with ESG data

Data Frequency

- The demands of asset management business and ESG data don't go together.
- Asset managers need to take day to day investment decisions, while the ESG data they have is static, updated once a year.
- Controversy track, a tool to give currency to ESG data, has its limitations

Data Type

- Some of the ESG data is also in unstructured form. How to integrate it into an investment model is a challenge
- Nonstandard taxonomies and nomenclature

Ratings

- Ratings have become a structural problem, rather than the solution they were meant to be.
- Rating providers are engaged in a competition of complexity
- Institutional investors' concerns include inaccuracy and inconsistency of data, inexperienced research analysts, and a perception that ESG quality cannot be distilled to a score

The approaches we see..

Among the larger funds, a preference for inhouse ratings over third party

- Almost all large asset managers are using or currently developing their own ESG ratings to supplement, or form part of their investment processes.

Large funds are buying data from vendors, and building their own models

- An EY analysis of 62 of the largest asset managers worldwide shows that most asset managers use between 2 and 5 different providers. Some even use up to 10 different third-party vendors to cover their ESG data needs.
- Smaller institutions are more likely to subscribe to platforms with scoring information, while larger clients subscribed to databases of raw ESG data

The approaches we see..

Assessment framework – each investment level / industry generalisations?

- Generalised risk analysis has its limitations

Some are marrying inhouse research with external consultant help

- Independent ESG consulting firms can present unbiased findings
- This can ensure the investment manager will not manipulate ESG rating to suite the investment thesis

Diverse approaches to Portfolio Alignment calculations

- PAT models can make ratings irrelevant. However, approaches are still developing



Affordability barrier determines a fund's options

- Producing proprietary internal ESG ratings may not be feasible or cost effective for small or medium sized asset managers.
- Smaller investment managers are more likely to subscribe to an over-the-counter ESG ratings solution, and claim compliance by keeping their weighed average ESG score in an acceptable range.

Does ESG Improve Performance?

ESG = ≠ α

- Does ESG improve performance? Asset managers seem to be tilting towards this view, though academic research keeps coming around negative a performance affect
- Is a rigorous ESG modelling intended to improve performance, or simply to adhere to UN PRI, UN SDG or Climate commitments?

Thank you

