

# GREEN FINANCE & ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS

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**CFA Institute**

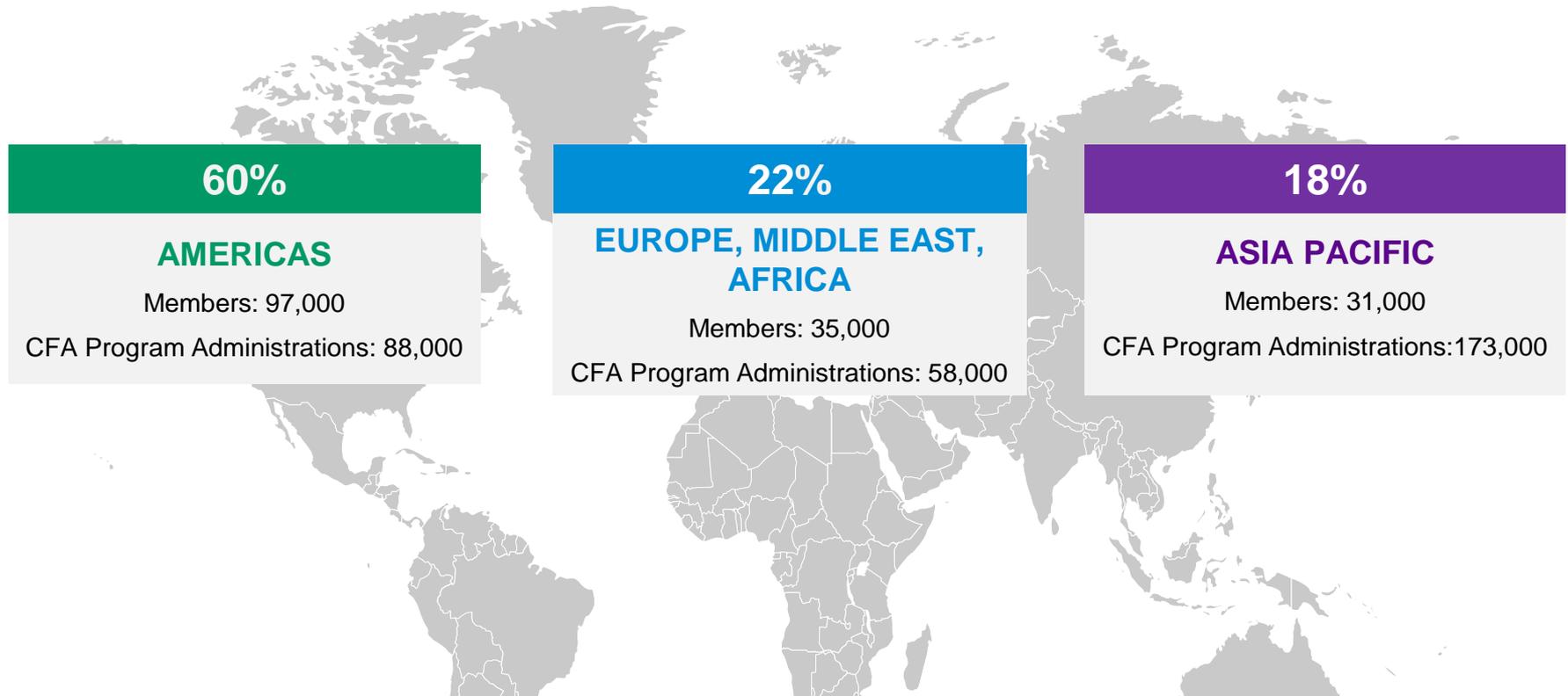
# OUR MISSION



**To lead the investment profession globally**

by promoting the highest standards of ethics, education,  
and professional excellence for the **ultimate benefit of society.**

# GLOBAL INFLUENCE TODAY

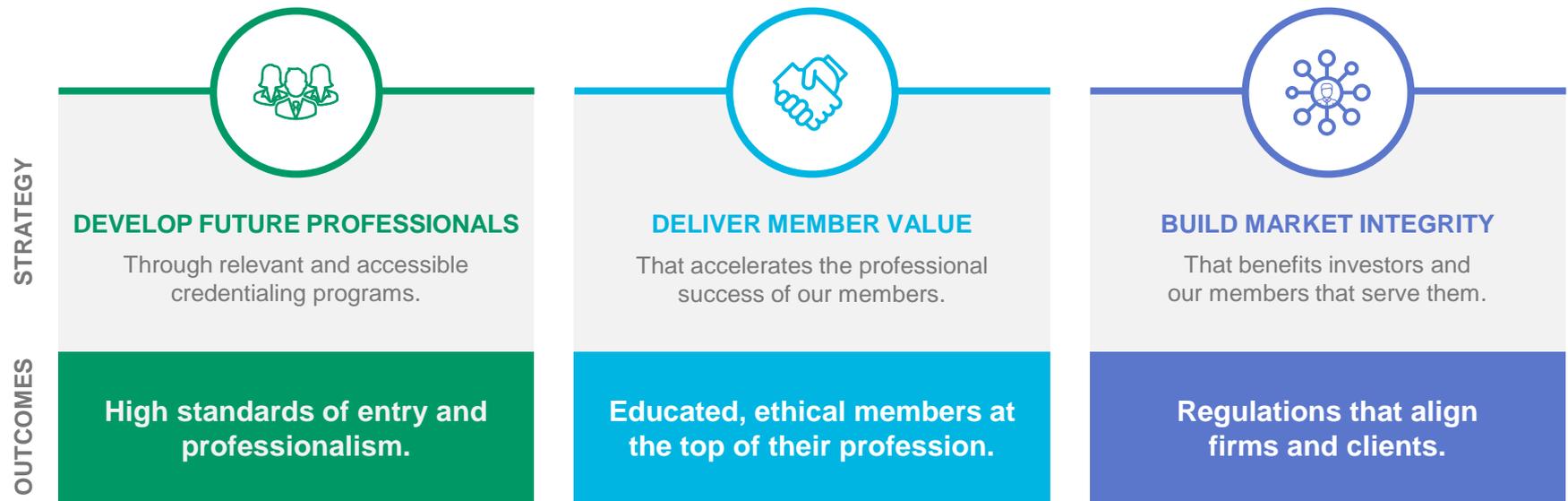


**152 member societies**

**More than 171,000 members and 319,000 candidates  
in more than 150 countries**

Member data as of Sept. 2018; CFA Program for FY18; numbers rounded

# OUR STRATEGY AND OUTCOMES



**Business models geared toward achieving investor outcomes.  
Delivering member value and advocacy through societies.**

**The twin peaks of professionalism are Continuing Professional Development and Advocacy**

# THE FUNDAMENTAL QUESTION

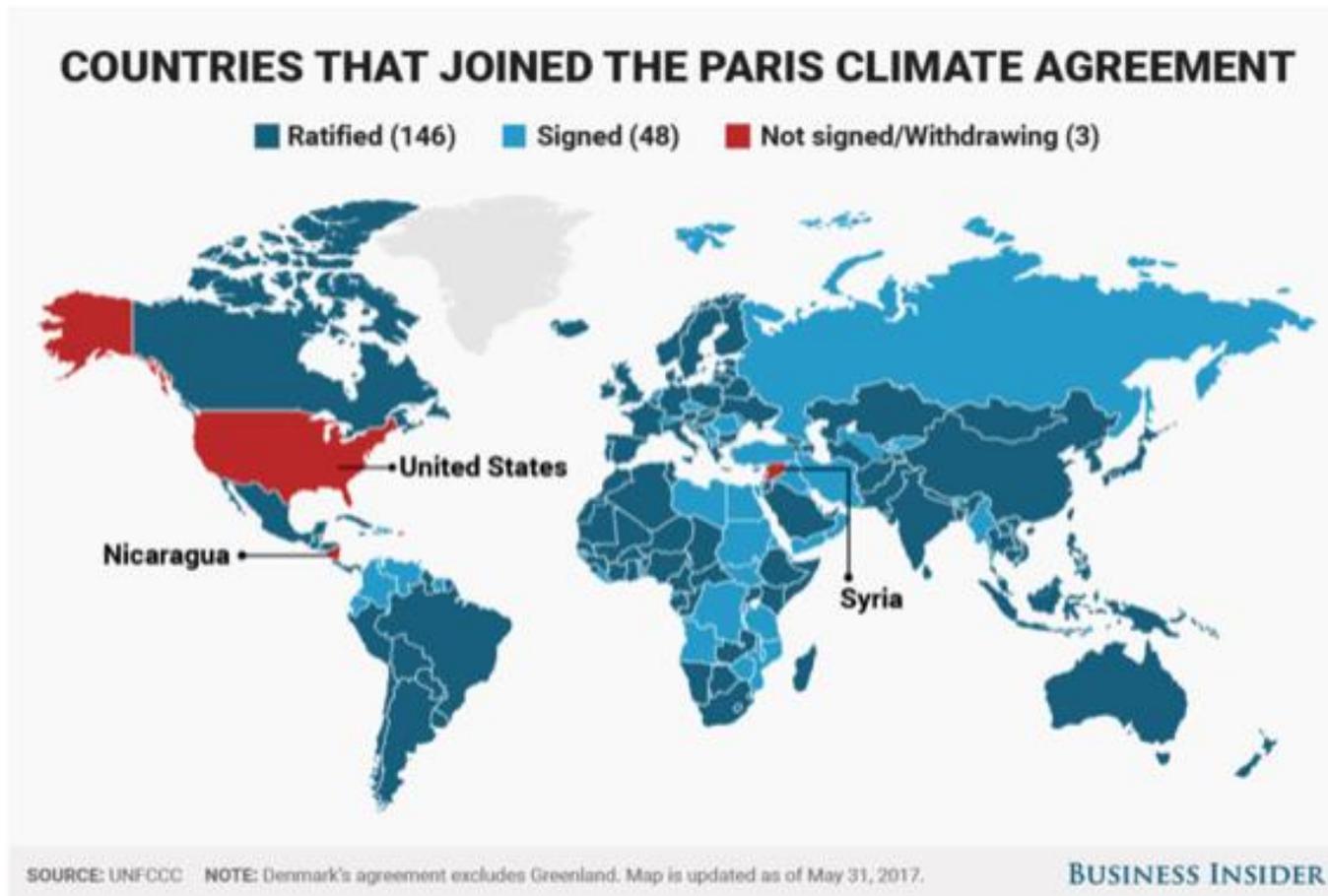
*“There is one and only one social responsibility of business — to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.”*

**-- Milton Friedman  
September, 1970**

*“To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate.”*

**-- Larry Fink  
January, 2018**

# IN THE NEWS...



Source: Business Insider, June 1, 2017

## IN THE NEWS...

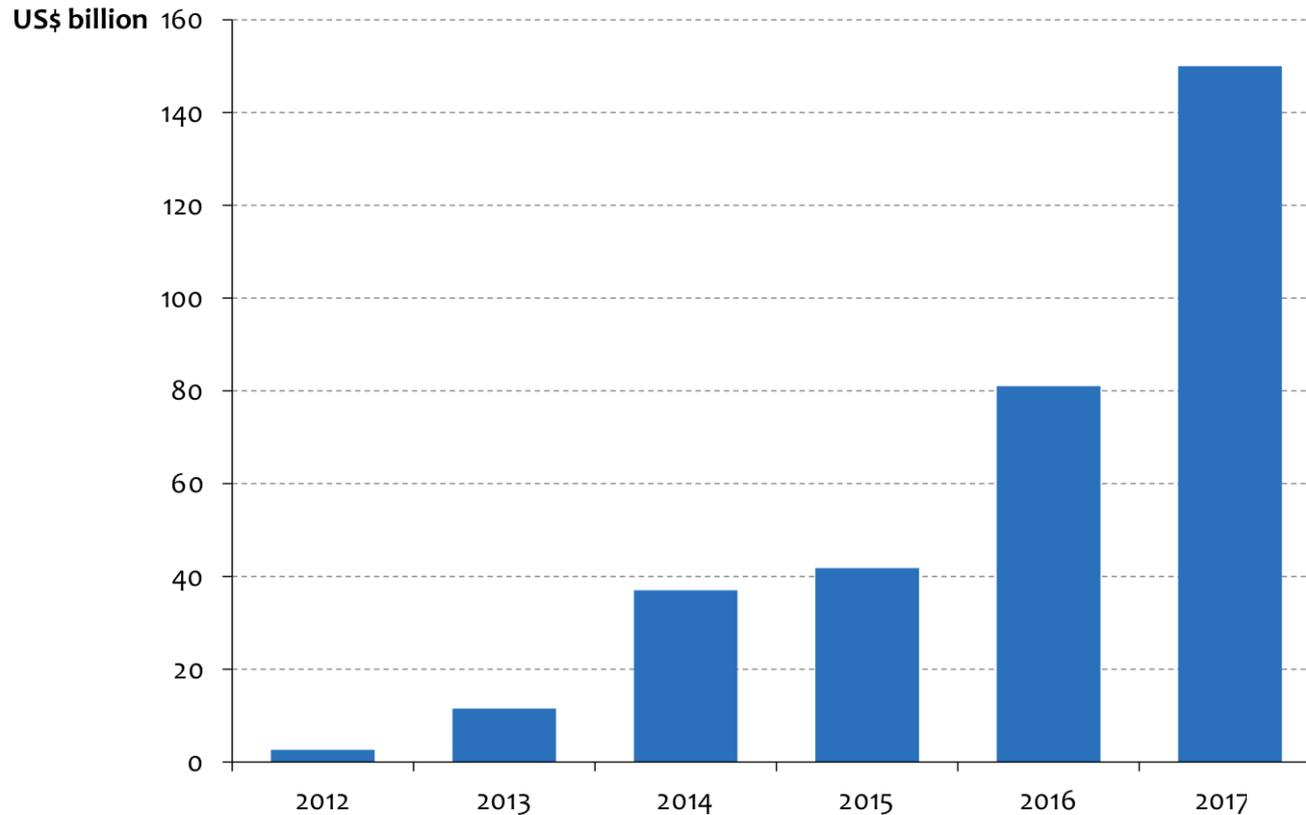
# Majority of Pensions Ignoring Climate Change Impact: Study

More than 60% of the world's largest public pension funds provide “very little” to no information on the financial implications of climate change on their portfolios, leaving them at risk of breaching their fiduciary duty to beneficiaries, according to a report issued yesterday by the **Asset Owners Disclosure Project (AODP)**.

The report tracked investments by the world's 100 largest public pension funds which oversee more than \$11 trillion in combined assets. The AODP found 63% of the systems do not have a climate change strategy. Just 10% of the funds have adopted policies that exclude coal from their portfolios, while less than 1% of the total funds' assets – about \$90 billion – is invested in low-carbon technology.

*Source: Fundfire, Sept. 11, 2018*

# GREEN BOND ANNUAL ISSUANCE



Source: Climate Bond Initiative



# TOP 10 FINDINGS FROM CFA INSTITUTE & PRI RESEARCH

- 1. There is no “one best way” or “silver bullet” to ESG integration.**
- 2. Governance is the ESG factor most investors are integrating into their process.**
- 3. Environmental and social factors are gaining acceptance, but from a low base.**
- 4. ESG integration is farther along in the equity world than in fixed income.**
- 5. Financial professionals are integrating ESG, rarely adjusting their models based on ESG data.**
- 6. The main drivers of ESG integration are risk management and client demand.**
- 7. The main barriers to ESG integration are a limited understanding of ESG and ESG data issues.**
- 8. ESG data has come a long way; advances in quality and comparability of data still need work.**
- 9. A single ESG reporting standard could streamline data collection, produce more quality data.**
- 10. ESG mutual funds and ETFs may be driven by marketing and not offer true ESG investments.**

*Source:* CFA Institute and Principles for Responsible Investment research, 2018

# MOST WANT TO KNOW HOW TO DO IT...

## No consensus on “how” ESG is best done

- No agreed-upon definition of what ESG is
  - ESG analysis is **not** the same as ESG investing
- Many still feel ESG = Socially Responsible Investing
- No agreement on “how” best to do ESG
- Data issues

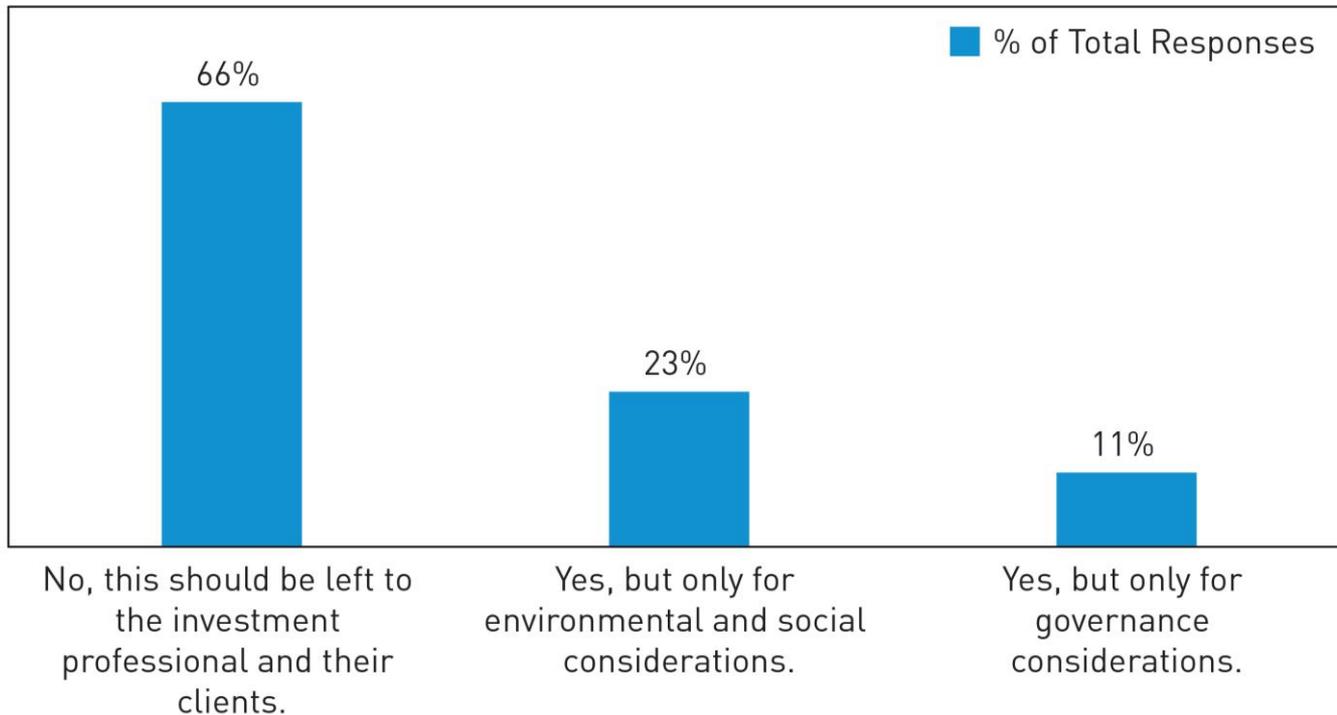
Source: CFA Institute and Principles for Responsible Investment research, 2018

# THERE IS MORE TO ESG THAN G...

- An initial focus on **Governance** has brought many investors to the table...
- But it seems clear that when investors respond to ESG surveys and say they are taking ESG factors into account, they primarily mean Governance...
- And they may be obscuring the fact that they don't focus much on **Environmental** and **Social** factors...
- The industry needs to focus **more broadly** on the whole of ESG investing because ...
- The **challenge is not simply climate change**. It's about **sustainable growth** -- which includes climate change but also touches upon the **social impact of growth** too.
- How do we build a financial system that better prices in all of the externalities of corporate actions?

# CFA INSTITUTE EU MEMBER SURVEY ON ESG

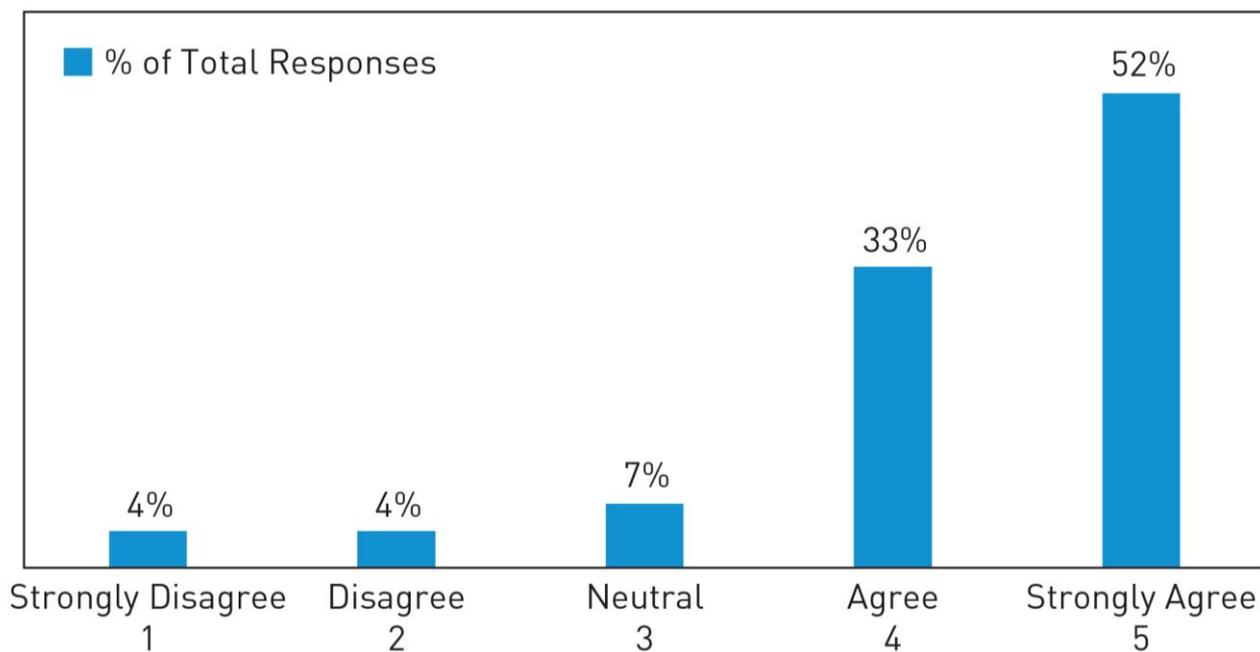
Do you think it is appropriate for regulators to **require** ESG factors, specifically, to be considering during analysis?



Source: CFA Institute, The Evolving Future of Fiduciary Duty in an ESG World, October 2018

# BUT OUR EU MEMBERS BELIEVE ESG FACTORS SHOULD BE TAKEN INTO ACCOUNT

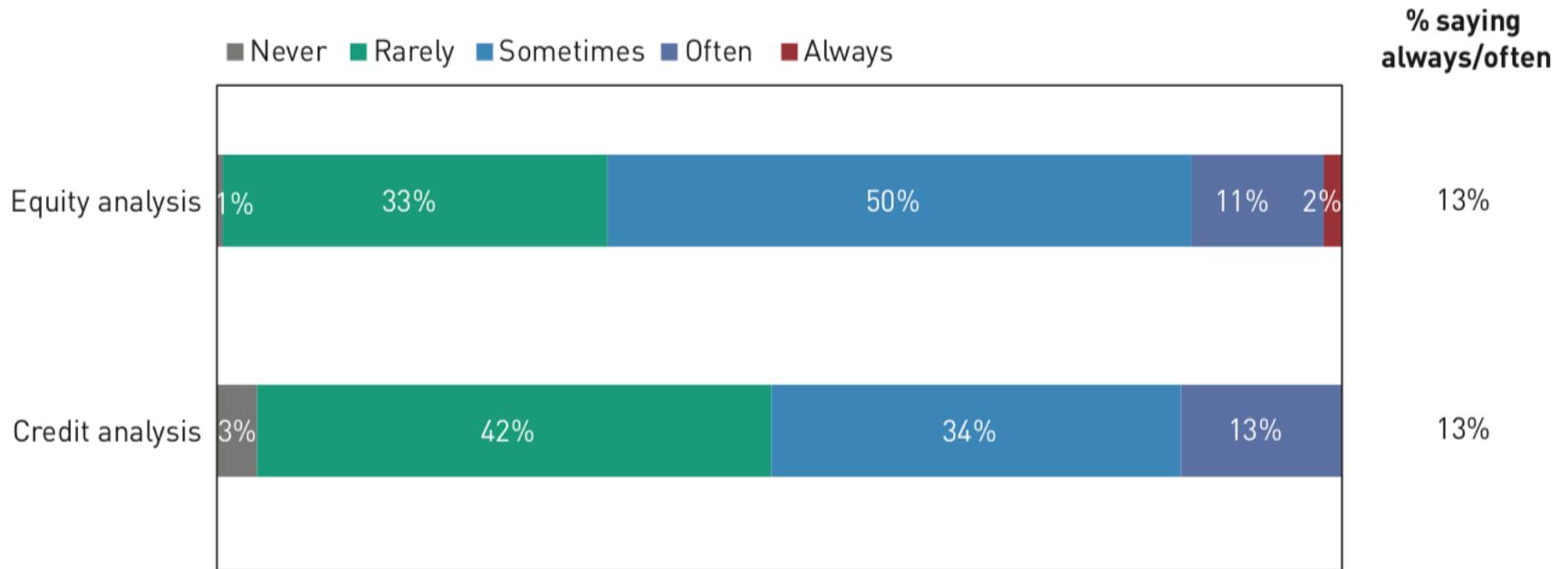
To what extent do you agree or disagree that it is appropriate for institutional investors (e.g., pension funds) to take ESG factors into account when making investment decisions?



Source: CFA Institute, The Evolving Future of Fiduciary Duty in an ESG World, October 2018

# ESG USE BY PORTFOLIO MANAGERS AND FINANCIAL ANALYSTS IN THE US

How frequently are industry portfolio managers and financial analysts including material ESG issues in their credit analysis/equity analysis?



Source: CFA Institute, PRI, October 2018

# ESG INTEGRATION FRAMEWORK



Source: CFA Institute, PRI, October 2018

# A FUTURE WITH SUSTAINABILITY EMBEDDED

## ESG MODELS

Firms can do more to integrate sustainability into their investment models

## STEWARDSHIP & GOVERNANCE

Stewardship as the principal alignment tool

## INVESTMENT IMPACTS

Impact positioned alongside risk and return

Source: CFA Institute, Investment Firm of the Future, May 2018

# CAN YOU IMAGINE A FUTURE INVESTING WORLD IN WHICH...

- Stewardship activities are given more than 5% of the investment management firm's budget?
- Universal owners -- large-scale, long-term, and leadership-minded institutions -- work together in highly collaborative ways in their stewardship activities?
- Asset owners all report on the impacts from their portfolios relative to the UN Sustainable Development Goals?

Source: Investment Firm of the Future, May 2018

# WHAT DOES THE FUTURE HOLD?

- Asset owners and investors have a **responsibility to engage**; they cannot be innocent bystanders
- ESG considerations surely to **rise** in the years ahead given generational and gender trends among investors
- Growing **social consciousness** around the globe will trickle down into investment decisions, both retail and institutional
- **Demand** from investors for **ESG products** will continue to rise, particularly given demographic trends
- Index investing poses a challenge for ESG investors – **more scalable passive products** are needed
- **Impact investing** will rise
- And the future is bright for **Green Finance**

***THANK YOU***



**CFA Institute**

