The numbers that are changing the world

Revealing the growing appetite for responsible investing
Contents

About this booklet 04

Definitions - in a nutshell 06

Exploring the numbers:

Investor transformation 09
Proliferation of ESG strategies 17
Impact investing 23
Green bonds 27
Diversity and inclusion 31
Real estate 37
Infrastructure 41
Private equity 47
Hedge fund 53
About this booklet

We’re seeing a global trend towards responsible investing. Increasingly, institutional investors are recognising the potential for ESG factors to affect the valuation and financial performance of the companies they invest in. At the same time, consumer demand for responsible investments is surging, especially from the younger generation.

“Responsible” or “sustainable” finance and a focus on environmental, social and governance (ESG) factors have moved firmly into the mainstream today.

This booklet presents the proof to address the issues around responsible investment implementation: statistics from across investment markets that show how significant this shift is.

Here we explore what’s driving the trend and we demystify the terminology used in this new and fast-developing space.

Where we put our money has the power to change futures. Today, with a growing awareness of the social impact of financing decisions and in the context of climate change and resource scarcity, this idea has begun to shape the investment landscape.

Embedding environmental, social and governance (ESG) factors into financing decisions is now a core concern.

Investors want to balance risk and return and “doing the right thing’. Governments and regulators are concerned for long-term economic and social stability. Asset managers and asset owners see ESG and responsible investment as a smart way to achieve competitive advantage.

As the younger generations become more active in the market, demographic shifts are creating a growing community of responsible investors.
$30tn
Globally, sustainable investing assets in the five major markets, representing a 34% increase in two years

But to meet the goal of limiting the global temperature increase to 1.5 °C (2.7 °F), about $90tn of investment is needed by 2030

81% most millennials want to know more about responsible investing

71% of CEOs feel it is their personal responsibility to ensure that the organization’s environmental, social and governance (ESG) policies reflect the values of their customers

55% of CEOs believe that their organizations must look beyond purely financial growth if we are to achieve long-term, sustainable success
Definitions - in a nutshell

There are several terms used to describe the universe of sustainable finance, and it’s important to be aware of the nuances. Terms are still used interchangeably. Here are the current definitions used at KPMG:

**UN Sustainable Development Goals (SDGs)**
The UN Sustainable Development Goals (SDGs) are a collection of 17 universal goals which set out to end poverty, protect the planet, and ensure that all people enjoy peace and prosperity. The UN brought them into life in 2015, with the intention to achieve them by 2030. The SDGs only propose what needs to happen, not how they will be financed: the global community of countries relies heavily on the private sector to solve some of the most urgent problems the world is facing. Both companies and institutional investors are being asked to contribute to the SDGs through their business activities and investment decisions.

**ESG**
Standing for environmental, social and governance, ESG is the umbrella term for the components of sustainable and responsible finance. ESG criteria focuses on factors related to the way companies operate.

**Sustainable finance**
Any form of financial service that integrates ESG criteria into business decisions for the lasting benefit of clients and society. Sustainable finance concerns the whole value chain in the finance sector. Responsible investment, responsible banking, responsible insurance and responsible corporate finance are all forms of sustainable finance.
Responsible investment

Often referred as Sustainable Investment, the numerous responses of investors to complex, real-world issues often grouped together under the heading of ‘ESG’ are known as responsible investment.

Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of ESG factors, and of the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well-governed social, environmental and economic systems.

In shorthand, this can be interpreted as investment that investment that combines financial and non-financial value creation.

Many other terms are used to emphasise differences of approach, the most common ones being ethical investment, green investment, best in class ESG, ESG integration, thematic investment, impact investment, and sustainable investment.

Green investment

Green investment refers to approaches that seek to invest capital in environmental assets, whether these are funds/bonds, companies, infrastructure or projects. Typically this might include low carbon power generation and vehicles, smart grids, energy efficiency, pollution control, recycling, waste management and waste of energy, process innovation, and other technologies and processes that contribute to solving particular environmental problems.

Green bonds in particular are designated bonds intended to encourage sustainability and to support climate-related or other types of special environmental projects.

Green bonds currently represent just a little more than 1 percent of the $53 trillion global bond market.

Impact investing

Investments with a clear intent to generate a measurable positive social and environmental impact alongside a financial return. Impact investments occur across asset classes and investment amounts, and target financial returns that range from below market to risk-adjusted market rate. Impact-fund managers, who invest mainly in privately held businesses, are having trouble finding companies that are ready to put large amounts of capital to work. Impact investing became an increasingly popular model for socially conscious high net worth individuals.

Increasingly, ESG investors are also seeking to understand the impact of their investment. Thus, a new blend of ESG and impact investing is emerging.
Investor transformation

From sovereign funds to individuals, investors are driving demand for responsible and sustainable investments
Investor transformation

Forecast growth of the UK socially responsible investing market by 2027

67% of UK investors said sustainable investing was important to them – and were willing to hold sustainable investments for **two years longer** than the average investor.

56% of UK investors have increased their allocations to ethical funds over the last five years. Ethical investment is the practice of excluding investments in sectors that do not align to an investor’s belief or principles. Controversial sectors such as tobacco and armaments as well as those involved in animal testing are examples of this.
In 2019 Ireland became the world’s first country to divest from fossil fuels from its national investment fund.

Norway’s Government Pension Fund Global, the world’s biggest sovereign wealth fund, received the green light for the largest fossil fuel divestment in history and will have a legal mandate to invest directly in renewable energy projects rather than listed energy companies.

76% of global CEOs recently interviewed by KPMG say that their organisation’s growth will depend on their ability to navigate the shift to a low-carbon, clean-technology economy.

Climate Change and Environmental risks considered by global CEOs number one risk factor.

$30tn Estimated global value of sustainable investments that are professionally managed.
Investor transformation

With growing concern for environmental, social and governance issues coupled with increasing spending power and an entrepreneurial mindset, the generation born 1980 - 2000 is having a profound impact on the investment landscape.

However, the disconnect between this influential generation and the saving and investing industry is alarming.
Wealth transformation

2x

 Millennials are twice as likely as older generations to want their pension to be invested responsibly.

Research shows that there is an propensity amongst millennials to invest responsibly.

49% of millennial millionaires make their investments based on social factors.
However, wealth managers and financial advisors are only starting to understand and respond to this trend.

U.S. households will pass $68tn in assets to their children over the next 3 decades.

Over 70% of advisors say they do not meet with clients’ children in a given year. The transfer will present a challenge for wealth managers and financial advisers, as the two generations have different needs.

Only 38% of investors retain the same advisor when their spouse dies. Only 29% of the children who inherit their assets from parents retain the same advisor.
Proliferation of ESG strategies

Around the world, the volume and value of ESG is growing rapidly

“Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society.”

Larry Fink
CEO BlackRock in annual letter to CEOs
Proliferation of ESG strategies

$30tn
Global sustainable investment assets in 2018

$78bn
net inflows in ESG strategies worldwide, 2018

$400bn
Estimated growth in ESG ETFs over the next decade

63%
of sustainable funds performed in the top half of their respective categories in 2018, according to Morningstar

34%
Growth in ESG and impact investing assets under management across all regions from 2016-2019
Environmental
- Climate change
- Greenhouse gas (GHG) emissions
- Resource depletion, including water
- Waste and pollution

Social
- Working conditions, including slavery and child labour
- Local communities, including indigenous communities
- Conflict regions
- Health and safety
- Employee relations and diversity

Governance
- Executive pay
- Bribery and corruption
- Political lobbying and donations
- Board diversity and structure
- Tax strategy

$1.1tn
Assets held by Japan’s GPIF, the largest pension fund in the world, which in 2017 chose three ESG indexes for its passive investments in Japanese equities

17%
Annual growth of integration of ESG factors into financial analysis
Proliferation of ESG strategies

ESG outcomes are likely to become an integral part of investment solutions, and ESG analysis an essential investment tool.

€2.2tn

Amount of UK assets (by 2018 end) that exclude harmful industries such as tobacco and arms, making the UK the fastest growing market in Europe in terms of ethical considerations, followed by Switzerland (€2.3tn).

76%

Growth in 2018 of integrating ESG factors into investment decisions in the UK, compared with 60% in the rest of Europe.

200%

Growth of ESG assets in the US over the last 10 years.
$5.5bn
Record net flows attracted to sustainable funds in 2018 in the US, despite unfavourable market conditions

48.8%
Proportion of sustainable investing in Europe relative to total managed assets. This compares with 25.7% in the US, 63.2% in Australia/New Zealand, and 18.3% in Japan
Impact investing is about positively driving social change as well as profits.

“It’s not just 5 per cent of your money you give away that matters. What you do with the other 95 per cent is almost more important.”

Darren Walker
President of the Ford Foundation
$114bn
Value of the global impact investing sector in 2018

$502bn
Estimated value of the global impact investing sector in 2019

This represents a considerable growth when compared with previous attempts to quantify the value of assets dedicated to impact investing, which treats societal and environmental outcomes as equal to financial returns.

Much of the recent growth in impact investing has come from a surge in interest from millennials - as well as the establishment of UN Sustainable Development Goals (SDGs), which have provided a framework for targets.
Overwhelmingly, impact investors report performance of impact investment funds in line with both financial and impact expectations.

### Performance relative to expectations

<table>
<thead>
<tr>
<th>Performance</th>
<th>Outperforming</th>
<th>In line</th>
<th>Underperforming</th>
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<tbody>
<tr>
<td>Impact performance</td>
<td>15%</td>
<td>82%</td>
<td>3%</td>
</tr>
<tr>
<td>Financial performance</td>
<td>15%</td>
<td>76%</td>
<td>9%</td>
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Green bonds are designated bonds intended to encourage sustainability and to support climate-related or other types of environmentally oriented projects.

Green bonds represent just a little more than 1 percent of the $53 trillion global bond market.

More generally, climate bonds are growing extensively and include blue bonds, sustainability bonds, sustainability loans in addition to green bonds.

Blue bond, inspired by the green bond concept, is a debt instrument issued by governments, development banks or others to raise capital to finance marine- and ocean-based projects that have positive environmental, economic and climate benefits.
Cumulative green bond issuance from 2007-2018. US leading at $118.6bn, followed by China ($77.5bn) and France ($56.7bn).

Green bond issuance by quarter in 2016, 2017 and 2018
The US, China and France were also the three largest green bond issuing countries of 2018.

US
$40,083.4M

France
$16,654.9M

China
$33,132.2M

The Netherlands
$7,409.2M

Germany
$7,972.1M

$167.3bn
Green bonds issued in 2018
Diversity and inclusion

Investors increasingly recognise that companies with higher levels of diversity and inclusion commercially perform better.
“Seeing opportunities and seizing them is core to our success. Therefore, it is critical that we have people with diverse perspectives, knowledge bases, interests, passions, and cultural identities. These differences in what we know, in how we see the world and in the approaches we take make us stronger and better able to deliver for our investors.”

Glenn Youngkin
Co-Chief Executive Officer, The Carlyle Group
75% of the investors surveyed said they plan to ask investment teams to report their diversity efforts (up from 60% last year).

37% of the investors surveyed said they will require disclosure of diversity statistics for all potential investments (up from just 16% last year).

42% of investors said they will require the firms in their portfolios to improve diversity, (up from just 11% last year).
Diversity and inclusion

Gender pay gap still has a long way to go in asset management.

In the UK asset management industry...

31%

median gender pay gap in the UK Asset Management industry.

This gap is greater than the median pay gap in the wider financial & insurance, mining & construction industries, which are 23.5%, 26% and 22% respectively.
With global attention on the gender pay gap over the past three years, some progress has been made to close the gap, but more is needed urgently.

Good news: The pay gap has narrowed slightly in the United States, United Kingdom, France and Australia since 2016.

Bad news: Significant pay gaps persist between men and women around the world, even after adjusting for worker and job characteristics.

Germany has the largest unadjusted gap with women earning about 78 percent of men in equivalent roles, while France has the smallest unadjusted gap with women earning about 88 cents per euro men earn.

Australia has the smallest adjusted gap with women earning 97 cents per dollar men earn, while the Netherlands has the largest adjusted gap with women earning 93 cents per euro.
Real estate

Real estate is a high-carbon asset class. Therefore, seizing opportunities to improve building efficiency will be key to mitigate the impact on climate change and move to a more sustainable world.
Real estate

The building and construction sector is a key contributor to climate change. At year end 2017, it accounted for 36% of final energy use and 39% of energy- and process-related emissions.

Energy demand from buildings and buildings construction continues to rise, driven by improved access to energy in developing countries, greater ownership and use of energy-consuming devices, and rapid growth in global buildings floor area, at nearly 3% per year.

Global share of buildings and construction final energy, 2017

36% of global final energy consumed by building construction and operations
Building construction and operations are responsible for 39% of energy-related CO₂ emissions globally. The buildings and construction sector therefore has the largest share of energy and emissions, even when excluding construction-related energy uses for transport associated with moving building materials to construction sites.

Global share of buildings and construction CO₂ emissions, 2017

- Non-residential: 32%
- Non-residential (indirect): 6%
- Residential: 23%
- Residential (indirect): 3%
- Construction industry: 11%
- Other industry: 6%
- Other: 8%
- Transport: 11%
Infrastructure

In infrastructure, actively managing ESG considerations can create more value and ensure positive impacts.

Approximately $90 trillion will need to be invested in the infrastructure sector globally by 2030 – which requires roughly doubling current investments - in order to achieve UN’s Sustainable Development Goals (SDGs) and reduce climate risk in line with the Paris Agreement.
Infrastructure

$79tn
Estimated investment in infrastructure based on the current trend

$94tn
Investment needed by 2040

$15tn
Infrastructure gap by 2040: amount needed to provide adequate global infrastructure by 2040

82%
of indirect infrastructure investment signatories to the Principles for Responsible Investment (PRI) consider ESG to some extent in the selection, appointment and monitoring of their investment manager
Total forecast infrastructure investment gaps

- >$4,000 billion
- $3,000 to $4,000 billion
- $2,000 to $3,000 billion
- $1,000 to $2,000 billion
- £0 to $1,000 billion
- N/A
There are still many challenges and opportunities for infrastructure projects to address. However, the infrastructure gap remains alarming and more investment in several areas is needed.

Possible infrastructure areas

- Energy
- Telecommunications
- Transport: Airport
- Transport: Ports
- Transport: Rail
- Transport: Road
- Water

840M people live without electricity
3 in 10 people lack access to safely managed drinking water services
59% of all wastewater are safely treated
1bn live more than two kilometres from an all-season road
50% of the world population does not have internet access
Private equity

Private equity firms increasingly recognise the importance of integrating ESG considerations into their investment processes to maximise value on exit.
Private equity

The private equity industry is increasingly adopting responsible investment strategies and factoring ESG considerations in investment decisions.

Responsible investment is naturally aligned to private equity through its long-term investment horizon and stewardship-based style.

28% of general partners at private equity firms said that the potential for high returns was one of the top three drivers for responsible investment.
The Principles for Responsible Investment (PRI) published a global overview of responsible investment practices in private equity and also highlights areas of progress by looking at comparable data points from 2015 to 2018. The data is based on 486 private equity signatory responses to the PRI Reporting Framework. Highlights from the snapshot report:

60% of General Partners who reported in 2018 now have responsible investment strategies implemented in the development or training plans for investment analysts, an increase of 25% from 2015.

89% of limited partner signatories that reported on their private equity assets say that they are using some form of Responsible Investment due diligence questionnaire or request for proposal as part of the fund selection process.
Private equity

ESG has marketing value but is also becoming a formal component of fund governance:

Over a third are linking responsible investment objectives to the KPIs of their investment staff.

35% of private equity houses now have teams dedicated to responsible investment.

62% of private equity firms used ESG factors to help identify opportunities for value creation.

69% helped identify risks.

62% helped identify opportunities for value creation.

49% abandonment of potential investments.

19% no impact.
89% of General Partner respondents referred to responsible investment in their latest Private Placement Memorandum and...

69% made a formal commitment to responsible investment in their latest fund terms (either LPA or side letter). Larger General Partner signatories of UN PRI are more active than their smaller peers across all of these areas of activities

41% of private equity firms included ESG factors at exit

- Included in pre-exit information
- Did not include in pre-exit information
- No exits in the reporting year
- Not reported
The adoption of responsible investment is a permanent, structural trend across the hedge fund industry and is mostly driven by investor demand.

Hedge funds are adopting an ESG lens to improve their understanding of risk.
Big or small, hedge fund firms are adopting responsible investment

51%

of hedge funds firms surveyed reported increased investor interest in responsible investment.

This trend encompasses hedge fund firms of different sizes.

80%

of firms with $1 billion or more in hedge fund assets reported an increase in their responsible Investment capabilities, compared to approximately 30% of sub-$1 billion firms.

As the number of smaller firms that practice responsible investment grows, the assets being managed under responsible investment principles will continue to expand
There is still a way to go; however progress is being made by hedge fund managers to build up responsible investment strategies.

1/3 of all hedge fund firms surveyed have hired a responsible investment expert, or plan to make a hire in this area over the next 12 months. **One in five** hedge funds surveyed reported having over **50%** of their total investment capital being managed under responsible investment principles.
Sources

Page 4 – About this booklet
The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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KPMG’s international network of professionals across practices

KPMG has 630 sustainability professionals in over 50 countries. Sustainable finance (incl. responsible investment, responsible banking, responsible insurance and responsible corporate finance) is a prioritized service area among KPMG’s sustainability services and has a wide network of professionals.

Our portfolio of services includes assurance of a wide range of disclosures including environmental and social performance, climate-related financial risks, carbon footprints and greenhouse gas inventories. We also offer a wide range of advisory services from renewable energy to human rights, sustainable finance, impact measurement and sustainable supply chains.

Our global network of several hundred sustainability professionals offers expert subject matter knowledge combined with in-depth understanding of local regulatory landscapes.