



# Sustainability. Resilience. Impact.

KPMG in the Cayman Islands

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[kpmg.ky](http://kpmg.ky)

# Foreword

Changing tomorrow, today.

**COVID-19 is a devastating reminder of the fragility of our society, our economies, and our life as a global community.** It is a defining moment in our history, one that has accelerated our move to a new reality.

A reimagined world and a clean break from the past.

There will be no springing back to the old times and there must not be either. Across the corporate ecosystem, we have a once-in-a-generation opportunity to stand shoulder to shoulder and build back better, together - to create a more resilient world where the side effects of today's turbo-charged capitalism, economic inequalities and the climate crisis are put firmly in the spotlight.

Building on expertise that brings together commercial acumen with knowledge and experience in sustainability, KPMG in the Cayman Islands has deep expertise in all relevant areas.

- 1. Environmental, social, governance (ESG) and sustainability:** Developing responsible and sustainable strategies, business models, operations and investments.
- 2. Sustainable finance:** Integrating ESG in responsible investment, financing, insurance and corporate finance strategies and processes.
- 3. Economic and social development:** Measuring impact and enabling societies to grow in a more equitable way, while allowing economies to prosper.
- 4. Climate change and decarbonization:** Driving business models, products and services that address climate change and help clients reduce carbon emissions.
- 5. Measurement, assurance and reporting:** Enabling clients to devise improved methods, tools and frameworks to better track and measure performance.

To provide the business community – and the alternative investment industry in particular – with deeper insights into the current ESG environment, our team, alongside KPMG International, CREATE-Research, AIMA and CAIA Association, recently published an in-depth report, **Sustainable Investing: fast-forwarding its evolution.**

Our sustainability service lines run parallel to the insights and issues raised throughout this report. Our solutions are customized to fit businesses of all shapes and sizes and help them achieve their ESG, sustainability and impact agendas for a responsible future.

**Arnaud van Dijk**  
Director,  
KPMG IMPACT,  
KPMG in the Cayman Islands

Deputy Head of IMPACT for  
KPMG Island Group (KIG)

# Sustainable Investing: fast forwarding its evolution

Institutional factors are quickly driving change. There is an increasing realization that finance must give something back to society, as well as making profit, and the early results are encouraging.



Our report ‘Sustainable investing: fast-forwarding its evolution’, produced in collaboration with KPMG International, CREATE-Research, AIMA and CAIA Association, was launched in February 2020.

The report provides a detailed examination of sustainable investing and its impact on the alternative investment industry, including insights from 135 institutional investors, hedge fund managers, long only managers and pension consultants in 13 countries.

Our team in the Cayman Islands worked closely alongside the aforementioned organizations in the interview process and development of the report, providing valuable insights and data.

The research highlights the lessons learned, exploring three key issues:

1. What is the current state of progress in implementing sustainable investing?
2. Why is the pace of progress being held back by various barriers?
3. How are these barriers being tackled on the ground by evolving best practice?

## Report highlights

As the highlights below suggest, ESG is of growing importance both to hedge fund managers and institutional investors – but barriers to progress also clearly exist.

The unique insights generated through the research have provided our Cayman Islands team with a deeper and holistic understanding of the state of progress of implementing sustainable investing, including where the majority of organizations sit in implementing an ESG plan. We would be delighted to discuss the findings in detail and how they may relate to your own business.

You can access the full report [here](#).

## Hedge fund managers’ survey – Key data points



85%

Institutional investors are the biggest drivers of demand for ESG-oriented hedge funds

55%

ESG-oriented hedge funds continue to target alpha returns, while managing fat-tailed far-off risks

15%

Hedge fund managers have embedded ESG factors across their strategies

63%

Progress hampered by lack of robust templates, consistent definitions and reliable data

## Institutional investors’ survey – Key data points



44%

ESG-oriented hedge funds can deliver alpha and also manage fat-tailed far-off risks

34%

ESG is material to the financial performance of investee companies

75%

Too early to decide whether sustainable investing delivers double bottom-line outcomes

49%

Lack of consistent quality data is a challenge in the adoption process

# Impact solutions

We are here to support you in understanding and adapting to new and emerging changes in the operating landscape.

## ESG and sustainability

Our experts will help identify, develop, embed and report on your sustainability strategy to create and protect long-term value.

### We can help you:

- Understand and challenge your overall financial and sustainability ambition.
- Identify material issues, risks and opportunities – including climate risk mapping and supply chain assessments.
- Communicate your sustainability vision and strategy, both internally and externally.

Depending on your current position, our team can assist with tailoring a strategy to reflect your business.

If you are in the position where ESG priorities and revenue objectives complement each other, we can help create a sustainable growth strategy to fully leverage it. If however your business is finding challenges in monetizing the disruption created by the changing landscape, we can help create a defensive strategy to review the position and build greater alignment moving forward.

## Sustainable finance

Sustainable finance means taking account of ESG considerations when making investment decisions. Its guiding principle is to increase investment in activities that are longer term and sustainable in nature.

Our knowledge covers the full spectrum of sustainable finance, from enabling the integration of ESG in investment, financing, insurance and corporate finance strategies, to supporting financial flows across sectors and industries, including within the framework of the Sustainable Development Goals (SDGs).

### We can help you:

- Develop and implement your M&A strategy and review proposed investments from a sustainability perspective.
- Assess green options for your investments such as green bonds.
- Integrate ESG into risk management approaches and carry out ESG due diligence on your investments.

We also have close relationships with the major investors and capital providers for sustainable projects, making us the ideal partner for your fundraising activities.



## Economic and social development

Now more than ever, we should be aware of our impact on the planet and our vulnerability to threats of a global scale. Both of these factors must be key concerns for public authorities and private bodies alike when contemplating development projects and investments.

Resilience, mitigation, preparedness and sustainable growth are at the top of the agenda in board rooms, legislative chambers and the public domain.

Whatever your economic and social development aims, we are here to help you better understand the potential positive impacts, risks and vulnerabilities, so that you can maximize the benefits and manage outcomes effectively.

### We can help you:

- Model targeted investments for social and economic growth.
- Establish public service offerings to help strengthen healthcare systems, deliver sustainable infrastructure, improve education systems and deliver better social care to those who need it most.
- Create resilient supply chain and logistics management.

## Climate change and decarbonization

Governments and other stakeholders are pushing businesses and public bodies to reduce their own emissions through regulatory changes, investment decisions and purchasing choices. It's time to act now.

### We can help you:

- Measure your greenhouse gas (GHG) emissions and understand the most carbon-intensive activities in your value chain.
- Assess the impact of the move towards a low-carbon society on your current operations, quantifying the costs and risks of business as usual.
- Understand the opportunities that might arise from an accelerated transition to net zero.
- Formulate a strategy to reduce and ultimately remove GHG emissions from your value chain.



*The challenges identified are the teething problems of a better form of investing. Sustainability is beset by its own challenges. Early movers see it as no more than a concealed opportunity to create businesses of enduring value.*



*Only responsible ownership and savvy implementation will deliver sustainability. They will also differentiate the winners from the losers.*



A glowing blue jellyfish is the central visual element, set against a dark, almost black background. The jellyfish's bell is at the bottom right, and its long, thin tentacles trail upwards and to the left, creating a sense of movement and depth. The light from the jellyfish is a vibrant, ethereal blue, contrasting sharply with the dark surroundings.

# Impact measurement assurance and reporting

Your organization is expected to measure its sustainability performance and be transparent about this with your customers, NGOs, investors and other stakeholders.

Today, transparency means covering more and more ESG indicators in your corporate reporting and making sure these disclosures are reliable and in accordance with international guidelines.

We can help you to understand, measure and report on your performance and impact. Supporting you with tools, frameworks and approaches to design systems that clearly track performance against a wide range of outcomes and enable decisions that enhance that performance.

## Measurement and reporting

Measurement and reporting on the non-financial impact of investments represents the next frontier for sustainable investing, as investors and regulators are stepping up demand for timely, fuller disclosures.

We recognize your need to stay ahead of the curve to remain relevant in a world where best practice is a moving target.

KPMG will bring transparency to your ESG policies and framework so that you can clearly communicate the value add to all stakeholders.

We can help with:

- Regulatory disclosures, including EU non-financial reporting developments.
- Internal audit and readiness reviews.
- Indices and standards reporting, including GRI, DJSI, CDP, IIRC, UNPRI and UNSDGs.
- Climate risk reporting, including EU Commission developments and TCFD.
- Impact measurement and valuations through the KPMG True Value methodology.
- Measuring the impact of your investment portfolio through KPMG and the Cambridge Institute for Sustainability Leadership's Investment Impact Navigator tool.

## Assurance

Many organizations have already established robust ESG policies and procedures.

Our expert team also specializes in providing third-party assurance on these existing strategies, as well as providing forward-looking plans to ensure strategy effectiveness and a realistic future.

Assurance can be provided in accordance with the International Standards on Assurance Engagements (ISAE) 3000.

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*Sustainability is set to morph into the new gold standard, as our societies seek to overcome the damage already made to our planet. There is an increasing realization that finance must give something back to society, as well as continue to make profit and early results are encouraging.*

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## KPMG True Value

Companies are under increasing pressure to show they make a positive contribution to society as well as generating profits for shareholders. Focusing on the financials alone is no longer enough.

A growing trend is to express all economic, social and environmental impacts in a common financial metric; doing this can inspire productive conversations in the boardroom and management meetings, and help to change thinking and action within organizations. The KPMG True Value methodology has been at the forefront of this movement since its launch in 2014.

## How True Value works

KPMG analysts carry out a detailed assessment of your organization's most significant economic, social and environmental impacts, both positive and negative.

The assessment is completely scalable: it can be applied to a single product or service, to a company's global operations or to the entire value chain including suppliers and the downstream use of the company's products.

Once they have defined the company's material impacts, KPMG analysts then apply a financial value to them. They select the most appropriate valuation factors from a comprehensive KPMG database which is sourced from academic research around the world and continuously expanded and updated.

The results of the KPMG True Value analysis are typically visualized as a KPMG True Value Bridge.

The KPMG True Value Bridge enables managers to compare and contrast the company's diverse impacts using a common financial metric. It also helps leaders to understand how the company's "true" earnings (including its socio-economic and environmental impacts) compare to its financial earnings.

## Sustainable Investment Framework Navigator

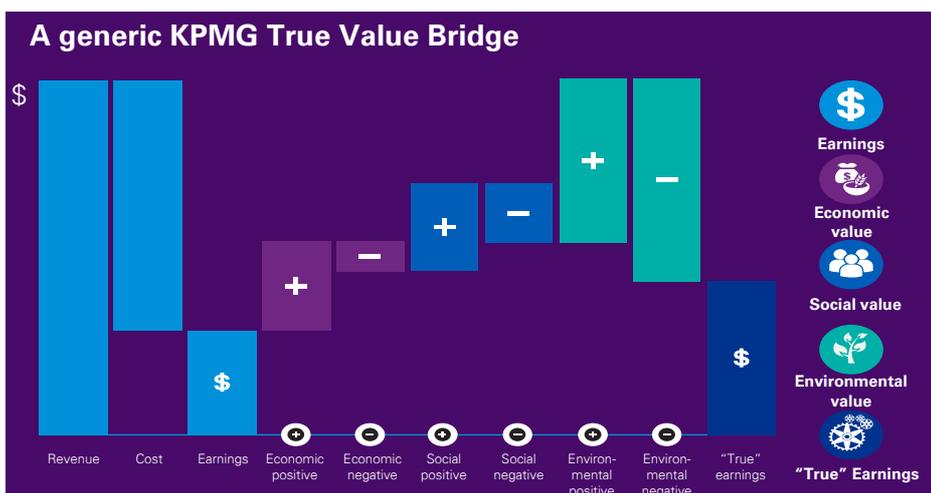
KPMG and the Cambridge Institute for Sustainability Leadership (CISL) have joined forces to develop a tool that can measure the impact of investment portfolios, called the "Sustainable Investment Framework Navigator".

This tool is based on a framework - The Sustainable Investment Framework - developed by CISL in conjunction with the Investment Leaders Group (ILG) with the goal of measuring the alignment of investment funds with the United Nations Sustainable Development Goals (SDG's).

The framework enables investors to make simple and practical measurements across six themes - three social and three environmental - which encompass the key dimensions of the SDGs. When combined across the six themes, they provide a quick 'dashboard' or readout on the sustainability of a fund. CISL in co-operation with ILG has developed this framework to meet the demands of a broad range of stakeholders for insight in the societal and environmental impact of investments on a portfolio level.

## The Sustainable Investment Framework:

- provides a solution to the issues on consistent and transparent portfolio impact measurement
- is based on universally acknowledged UN Sustainable Development Goals (UN SDG's) that have been grouped into six impact areas
- highlights the relative performance of a portfolio in comparison to the benchmark



# ESG by the numbers

The sustainability agenda is set to reshape the ecosystem. This requires mindset shifts as much as physical changes from the way investing has been done historically. Barriers persist. Creating the necessary infrastructure of data, skills and technology is proving challenging. Progress has been exponential, but the task remains huge.



# #1

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

# 200%

Growth of ESG assets in the USA in the last 10 years.

# 34%

Growth in ESG and impact investing assets under management across all regions from 2016-2019.

# 65%

of sustainable equity funds rank in their category's top half in the first quarter of 2020, which saw the biggest downturn in stock prices globally.

# \$167.3bn

Green bonds issued in 2018.

# \$521bn

Cumulative green bond issuance from 2007-2018. US leading at \$118.6bn, followed by China (\$77.5bn) and France (\$56.7 bn).

# 76%

of global CEOs say that their organization's growth depends on their ability to navigate the shift to a low-carbon, clean- technology economy.

# 62%

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

# 89%

of limited partner signatories say that they are using some form of Responsible Investment due diligence questionnaire, or request for proposal, as part of the fund selection process.

# 69%

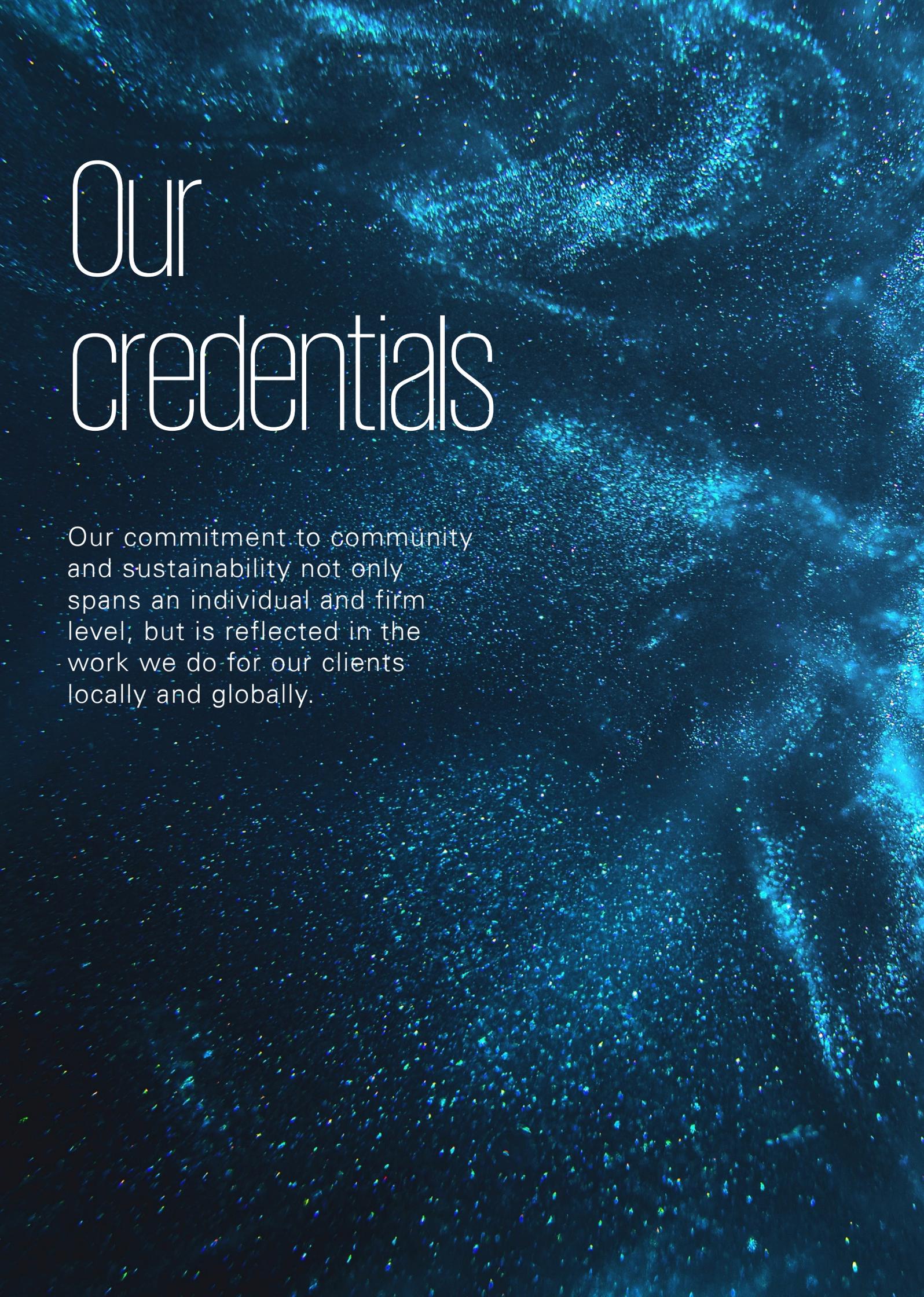
made a formal commitment to responsible investment in their latest fund terms (either LPA or side letter).

# \$30tn

Global sustainable investment assets in 2018.

# 35%

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



# Our credentials

Our commitment to community and sustainability not only spans an individual and firm level, but is reflected in the work we do for our clients locally and globally.

Our invaluable experience has helped shaped our Sustainable Services team and service offerings. KPMG’s commitment to sustainability is clear and ever-evolving.

- KPMG has helped the Institutional Investors Group on Climate Change (IIGCC) and the Principles of Responsible Investment (PRI) prepare a guide on climate change for private equity investors.
- As a member of AIMA (The Alternative Investment Management Association), KPMG has hosted several events on responsible investing on behalf of the association.
- Arnaud van Dijk, Director for KPMG in the Cayman Islands and Deputy Head of ESG for KPMG Island Group (KIG) is a certified responsible investment professional (RIPC) with the Responsible Investment Association (RIA) in Canada.
- KPMG in the Cayman Islands has provided support to The Prince of Wales Charitable Foundation's Accounting for Sustainability (A4S) project and KPMG is represented on the advisory council of (A4S).
- Wim Bartels, a Partner for Corporate Reporting at KPMG in the Netherlands, is a member of the Task Force on Climate related Financial Disclosures (TCFD).
- KPMG International has been a signatory of the UN Global Compact (UNGC) since 2002 and is a LEAD participant in the UNGC. KPMG is also a member of the UN's Human Rights and Labor working group, which was launched in 2011 for businesses with a history of engagement with the UNGC, and a member of the UN PRI Advisory Committees (Assurance Working Group).
- Bill Thomas, Global Chairman and CEO of KPMG International, is a member of the Sustainable Markets Council.
- KPMG in the Cayman Islands is a proud Executive Platinum Sponsor of the Cayman Alternative Investment Summit (CAIS) 2020. At CAIS20 the themes 'Global. Digital. Responsible', were front and centre, guiding the speaker line-up and shaping the focus of each panel. ESG themes - most notably, sustainability, diversity and inclusion - dominated discussions on the future of the investment industry. CAIS20's game-changing commitment to gender equality was evident with a 50% female speaker line-up; a pledge the summit has made to adhere to for each future event.
- KPMG global member firms and the Cambridge Institute for Sustainability Leadership (CISL) have joined forces to develop a tool that can measure the impact of investment portfolios, called the "Investment Impact Navigator". The framework enables investors to make simple and practical measurements across six themes - three social and three environmental - which encompass the key dimensions of the SDGs. When combined across the six themes, they provide a quick 'dashboard' or readout on the sustainability of a fund.



Sustainable Markets Council



## Case study

### ESG & sustainability

#### Challenge

- An asset manager required a holistic ESG strategy and framework that would ensure compliance with 'best in class' standards, including disclosures on all underlying investments in its portfolios.

#### Approach

- KPMG conducted an ESG health assessment and gap analysis across all asset classes against the forthcoming EU ESG regulations, identifying business requirements, policy and procedure changes. KPMG initiated discussions on how our ESG scoring solution could bring consistency across asset classes.

#### Outcome

- KPMG's work gave the client an immediate and growing understanding of the upcoming ESG regulatory obligations, which in turn has helped them define the ESG approach they are able to offer their own clients. This has enabled them to begin a dialogue with investees on how they can improve their sustainability to retain investment.

## Case study

### Sustainable finance

#### Challenge

- KPMG was engaged to support a client's deal teams in integrating ESG in their due diligence processes for private equity investments across the globe. To date, KPMG has supported more than 50 transactions across a wide range of sectors.

#### Approach

- For each transaction, KPMG assisted the client's in-house team by determining the relevant investment specific ESG topics to include in the due diligence scope; agreeing on the best approach to identify and assess ESG risks and opportunities; coordinating ESG due diligence across work streams (legal, financial, environmental); identifying, assessing and summarizing findings; and developing post-signing and/or post-closing action plans.

#### Outcome

- The client was given clear and concise executive reports, including summaries for investment presentation packs, in which KPMG distilled complex assessments into key points. Complete procedures and outcomes were documented in comprehensive summary reports. KPMG's ESG team focused on material risks, saved the client time and money by addressing only commercially relevant topics in diligence.

## Case study

### Economic and social development

#### Challenge

- The Bahamian Government wanted to develop a National Health Insurance (NHI) program as the financing mechanism to provide Universal Health Coverage (UHC), a key component of the UN and WHO's Sustainable Development Goals.

#### Approach

- KPMG provided comprehensive project management support to develop an NHI system. KPMG facilitated the organizational design of the National Health Insurance Authority (NHIA), and advised and supported the NHIA on the development of a business case and financial analysis for proposed expansions of NHI services and reforms. This included an evidence-based investigation of service delivery costs and the development of risk-adjusted capitation rates to provide a reimbursement model for providers (doctors, laboratory, etc.).
- KPMG advised on the development of the NHI Target Operating Model and IT System Blueprint.

#### Outcome

- The Bahamas has successfully implemented NHI, with close to 70,000 Bahamians enrolled: 4,000 are under the age of five, and 9,250 are senior citizens. 55 provider facilities and nearly 100 primary care physicians are registered across 14 islands.

## Case study

### Climate change and decarbonization

#### Challenge

- A multinational consumer goods company asked KPMG to help the business better understand its exposure to climate-related risks. Its key objectives were to identify climate-related risks and material business impacts; design and test scenarios across business units; and deliver concrete and pragmatic results by setting up a roadmap for adaptation.

#### Approach

- KPMG used the Dynamic Risk Assessment model to enable the client to visualize the climate risks impacting their business as interconnected clusters. The client could then better understand the full impact of the risk clusters facing its business and the isolated impact each of these had on cashflow statements and balance sheets.

#### Outcome

- The client now has a comprehensive understanding of how its business – and specific product lines – may be affected by climate-related risks. By giving executives detailed insights, KPMG has been able to drive significant consensus across the client's management team on the appropriate and proportionate mitigation and adaptation responses for the company. It is in a better position to channel innovation investment into climate resilient product innovation strategies.

## Case study

### Impact measurement, assurance and reporting

#### Challenge

- KPMG's banking client wanted to demonstrate its leadership position on the green bond market to investors. This included publicly clarifying its approach on use-of-proceeds, project evaluation and selection, management of proceeds and impact reporting. The client also wanted to encourage comparability by using an External Review Form - as developed by the Green Bonds Principles.

#### Approach

- KPMG was engaged to perform a reasonable assurance on the client's Green Bond Statement. KPMG checked that the green bond internal criteria used were in line with the Green Bonds Principles; tested a sample portfolio of projects; checked the application of the green bonds proceeds to eligible projects; and conducted interviews with sector experts to cross-check the approach and assumptions used for greenhouse gas calculations and other impact reporting indicators, verifying their consistency with the Bank's methodology.

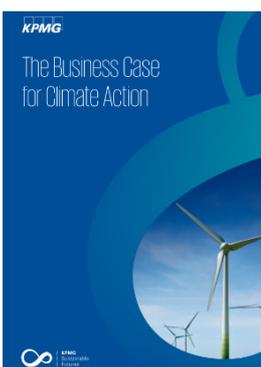
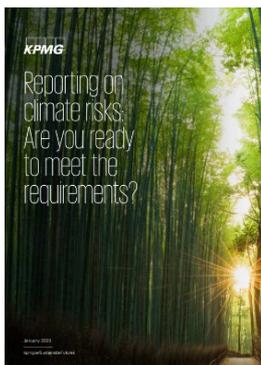
#### Outcome

- KPMG made a number of recommendations to the client to ensure disclosures on the bond were clear and accurate, as well as recommendations to improve the collection, validation, recording and reporting of impact indicators. KPMG confirmed the information contained in the External Review Form, enabling the client to be compared on a common basis to other green bond issuers.



## Thought leadership

KPMG is a thought leader on Sustainability, with unparalleled insights into the evolving market regulations and expectations. Instant access to KPMG's [Insights](#) from around the world to today's most pressing business issues and challenges. Read some of our latest thought leadership by clicking on the reports below.



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