



a Morningstar company

---

# Trends in ESG Investing and Sustainable Finance

---

Catalina Secreteanu

Executive Director

13 October 2021

# Agenda

- 01 About Sustainalytics
- 02 Growth of ESG
- 03 How we measure ESG risk
- 04 The Rise of Sustainable Finance



# About Sustainalytics

# Sustainalytics

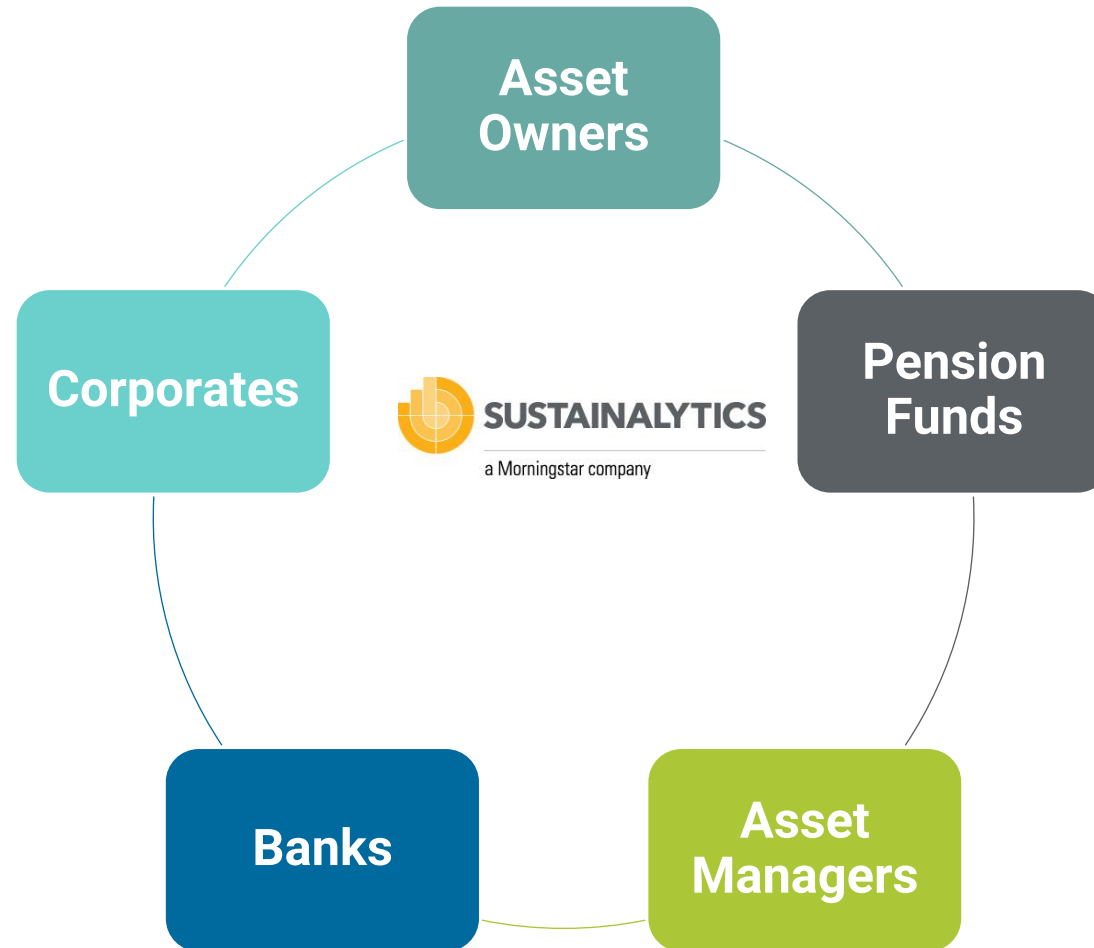
A global leader in ESG research and data, serving the world's leading institutional investors and corporations



- Sustainalytics
- Morningstar

# Who We Serve

Sustainalytics works with more than 1,000 institutional and corporate clients



# Key Areas of Expertise

A single market standard providing ESG solutions for clients across the entire investment value chain



## ESG Research and Ratings

- » ESG Risk Ratings
- » EU Action Plan Solutions
- » Corporate Governance Research & Ratings
- » Carbon Risk Ratings
- » Country Risk Ratings
- » Country Screening



## Impact Solutions

- » Sustainable Products Research
- » Impact Metrics



## Compliance & Screening

- » Controversial Product Involvement
- » Norms-based Screening
- » Defense Research
- » Human Rights Radar



## Stewardship Services

- » Engagement Services
- » ESG Voting Policy Overlay
- » Fiduciary Voting



## Sustainable Finance Solutions

- » Second Party Opinion Services
  - » Green, Social, Sustainability & Transition Bonds
- » ESG-Linked Loan Services
- » Sustainability Bond Issuance services




## Direct Corporate Solutions

- » ESG Risk Rating Licenses
- » Peer Performance Insights
- » Socio-Economic Impact Reporting Service
- » Supply Chain ESG Assessment Platform

# Sustainalytics + Bucharest Stock Exchange Partnership





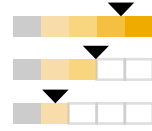
ESG Risk Rating:  
Now available for 70 Romanian  
Issuers



# Sustainalytics' ESG Risk Rating

## Methodology

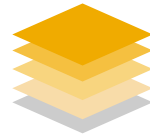
Sustainalytics' ESG Risk Ratings measure companies' exposure to and management of material ESG issues.



The rating measures and adds up the unmanaged risks of a company vis-à-vis a set of ESG issues that are considered material from a financial perspective.



Companies are exposed to different ESG issues to different degrees. Their exposure is driven by sub-industry and company-specific factors.



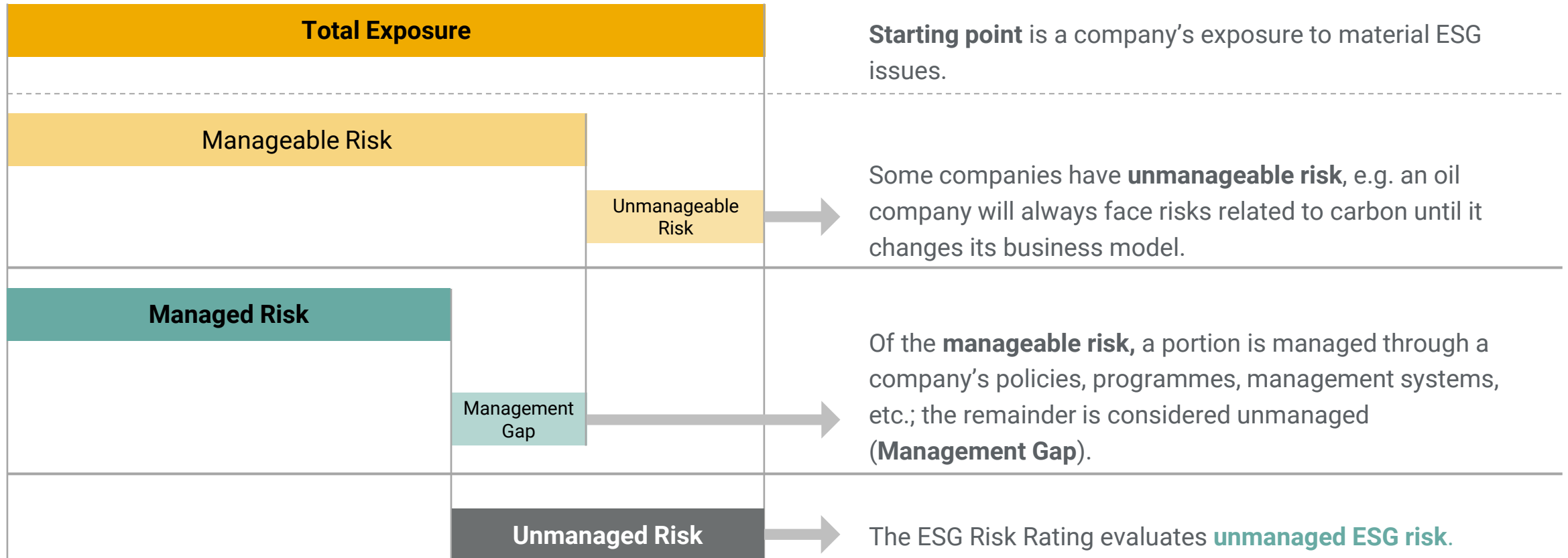
An ESG issue is considered material, if the company is sufficiently exposed to this issue. Corporate Governance is considered to be material for all companies.



Companies are allocated across five risk rating categories (negligible, low, medium, high, and severe risk).

# How does the ESG Risk Rating work?

Management gaps and unmanageable risks are combined to determine unmanaged risk





# Growth of ESG

# Global Growth of Sustainable Investing

Global sustainable investing assets continue to increase

**FIGURE 1** Snapshot of global sustainable investing assets, 2016-2018-2020 (USD billions)

REGION	2016	2018	2020
Europe*	12,040	14,075	12,017
United States	8,723	11,995	17,081
Canada	1,086	1,699	2,423
Australasia*	516	734	906
Japan	474	2,180	2,874
<b>Total (USD billions)</b>	<b>22,839</b>	<b>30,683</b>	<b>35,301</b>

\*Europe and Australasia have enacted significant changes in the way sustainable investment is defined in these regions, so direct comparisons between regions and with previous versions of this report are not easily made.



Source: GSIA 2020 Report

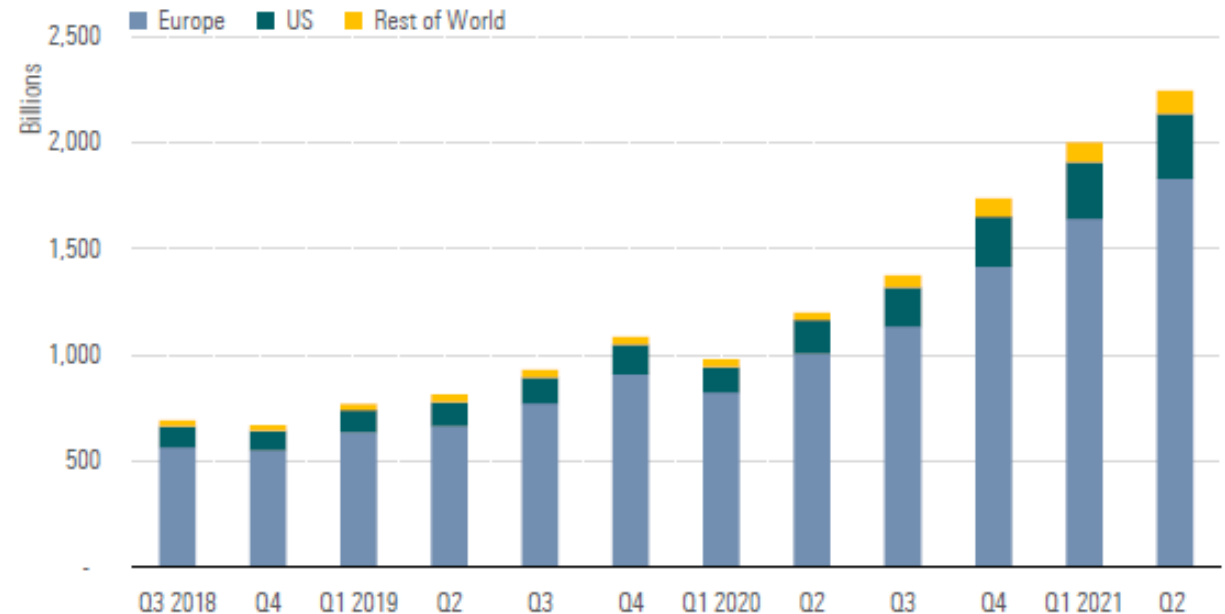
# Global Growth of Sustainable Investing

Global sustainable fund assets continue to climb

- » Global sustainable fund assets climbed to USD 2.25 trillion, up 12% from the end of Q1 2021.
- » Europe remain the most developed and diverse market, accounting for 82% of global assets, followed by the U.S. with 14%.



Exhibit 3 Quarterly Global Sustainable Fund Assets (USD Billion)

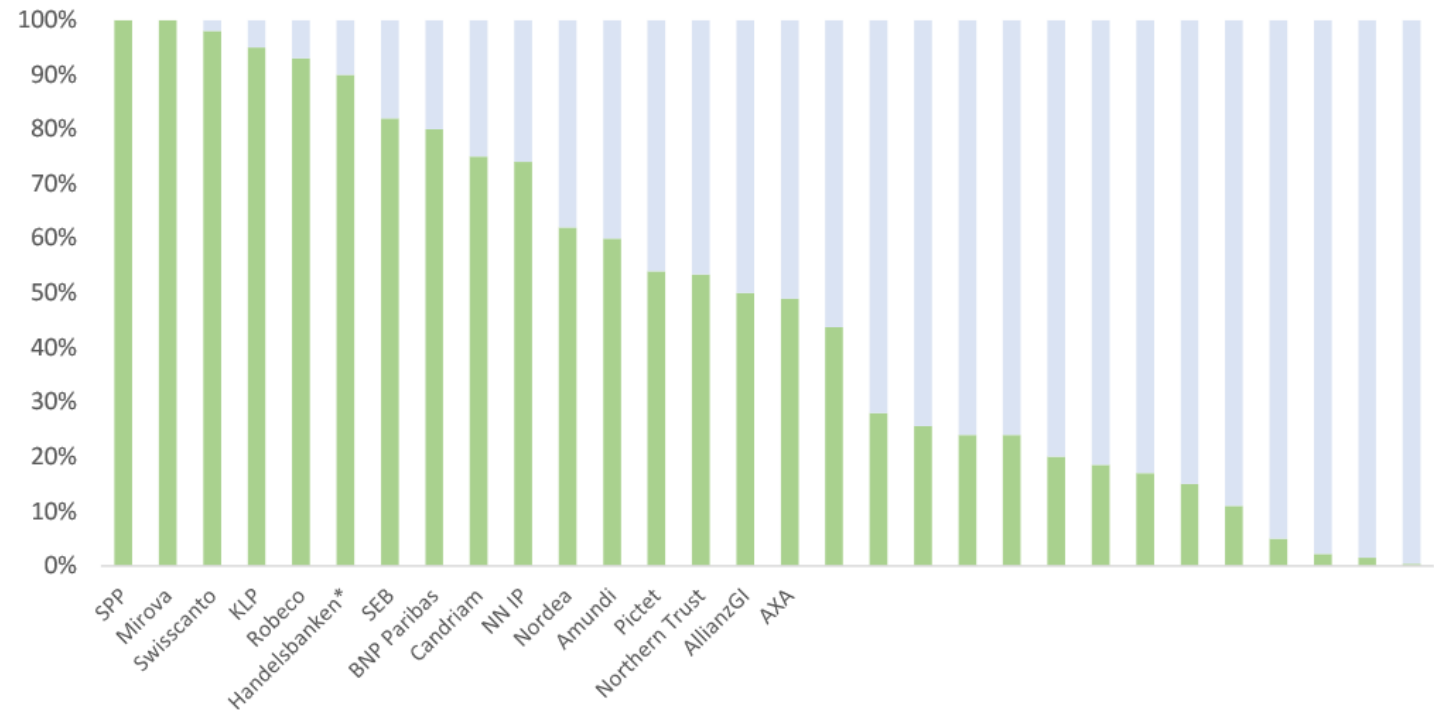


Source: Morningstar Direct, Manager Research. Data as of June 2021.

# Investor reporting under the EU Action Plan A push for article 8 and 9

- Article 8 (general ESG), funds that promote environmental or social characteristics, Article 9 (Sustainable) Funds that have a sustainable investment objective
- Some fund managers have already placed >90% of their funds under article 8 or 9

**Exhibit 3** Article 8 and 9 Fund Assets as a Percentage of Total Fund Assets in Scope of SFDR



Source: Asset Managers. (\*) Estimated using Morningstar Direct. Data as of March 2021.

From Morningstar research paper: SFDR -The First 20 Days. What the early batch of new disclosures are telling us so far



# The Rise of Sustainable Finance

# Sustainable Finance Ecosystem

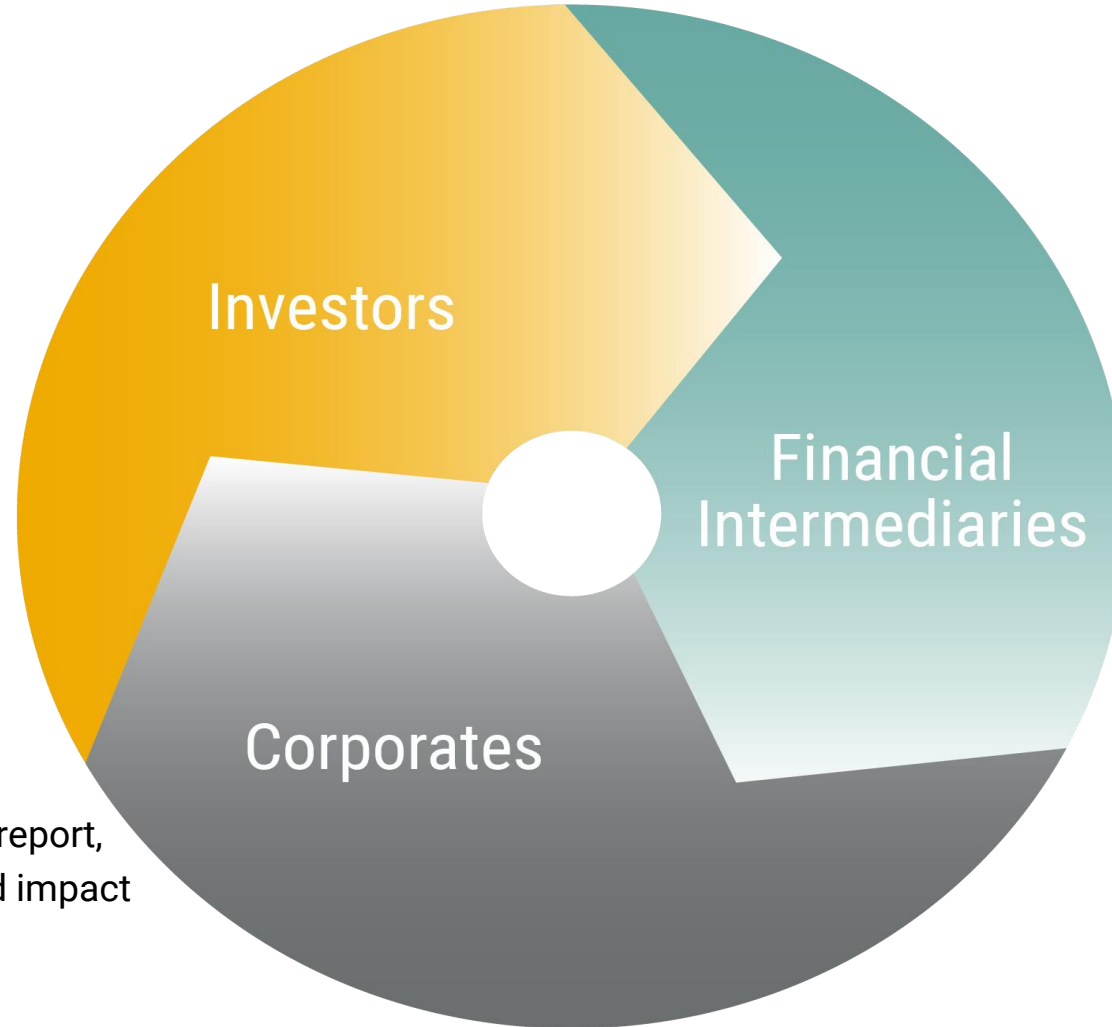
Issuers and investors leverage sustainability opportunities

## Investors

Empowering investors (the owners and managers of capital) to create portfolios that align with a more just and sustainable world.

## Corporates

Supporting corporates to measure, report, and promote their sustainability and impact performance.



## Financial Intermediaries

Helping banks, insurers, brokers, exchanges and other platforms to offer financing and investment solutions related to ESG and impact.



# Sustainalytics' Role in the Field of Sustainable Finance

We play a critical role as part of a dynamic and robust sustainable finance ecosystem

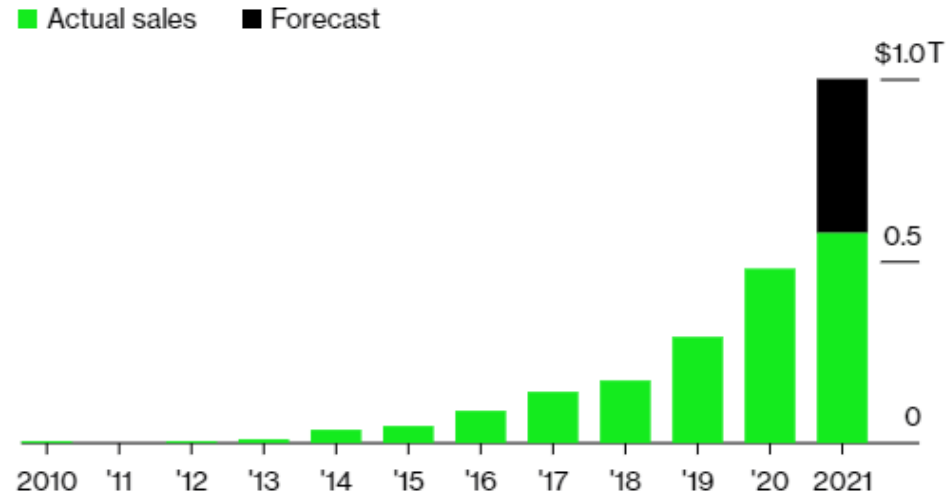


- » Sustainalytics' supports the growing demand for green and sustainability themed finance instruments in debt capital and loan markets
- » Sustainalytics' Second-Party Opinions provide investors with assurance that bond frameworks are aligned to accepted market principles
- » We also offer issuers opinions on sustainability-linked loan transactions and ESG Risk Ratings licenses for capital raising activities and more
- » Our Peer Performance Insights offer information about a company's ESG Risk Rating compared to industry peers

# Sustainable Finance is Growing Rapidly Globally

## ESG Explosion

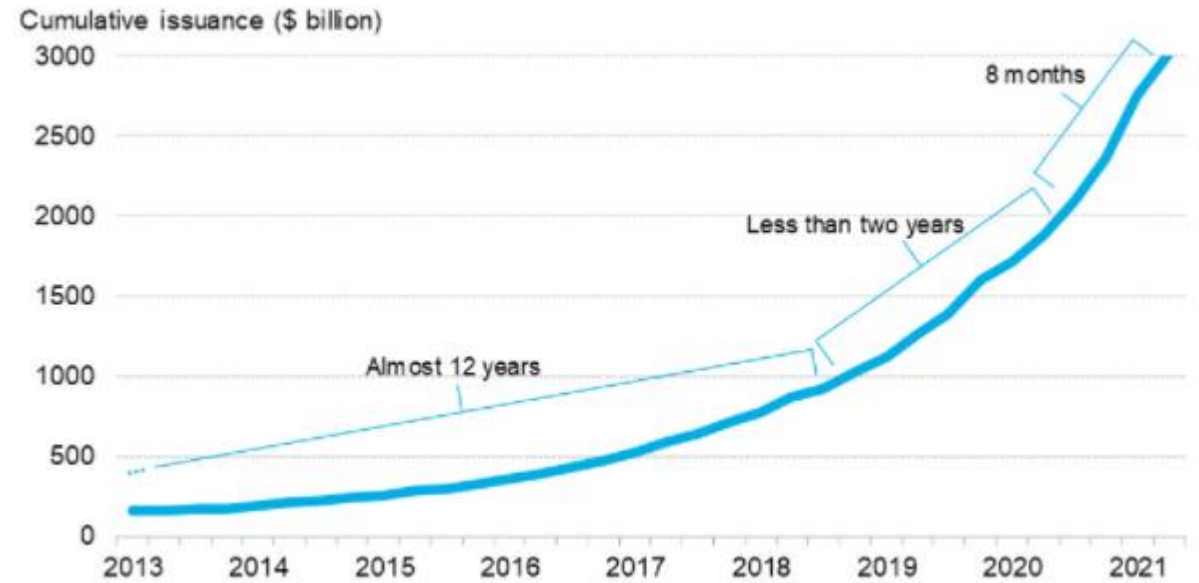
Bankers expect sustainable bond sales to hit \$1 trillion in 2021



Source: Bloomberg

Note: Issuance includes green, social, sustainability and sustainability-linked bonds globally. Forecast is from underwriters

**Figure 1: Cumulative sustainable debt issuance by quarter, through June 7, 2021**



Source: BloombergNEF, Bloomberg L.P.

- » New issuance of green, social, sustainability and sustainability-linked bonds from corporations and governments worldwide has already topped \$575 billion so far this year, \$100 billion more than all of 2020, according to Bloomberg
- » Geographic diversification across Asia of sustainable finance with more sectors issuing or raising loans in labelled formats

# Legal Disclaimers

Copyright © 2021 Sustainalytics. All rights reserved.

The information, methodologies, data and opinions contained or reflected herein are proprietary of Sustainalytics and/or its third parties suppliers (Third Party Data), intended for internal non-commercial use, and may not be copied, distributed or used in any way, including via citation, unless otherwise explicitly agreed in writing. They are provided for informational purposes only and (1) do not constitute investment advice; (2) cannot be interpreted as an offer or indication to buy or sell securities, to select a project or make any kind of business transactions; (3) do not represent an assessment of the issuer's economic performance, financial obligations nor of its creditworthiness.

These are based on information made available by third parties, subject to continuous change and therefore are not warranted as to their merchantability, completeness, accuracy or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics nor any of its third-party suppliers accept any liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.