

RISING IMPORTANCE OF ESG IN ASIA-PACIFIC



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SUMMARY

Financial institutions can play a significant role in assisting the transition by providing financing to sustainable industries, and helping investors in shifting capital toward investments that provide measurable ESG benefits. Asia-Pacific (APAC) is demonstrating a strong commitment to keep up with the growing emphasis on sustainability and ESG investing.

Increasingly, more asset owners and fund managers in APAC believe ESG plays a central, integral, or necessary role today. The level of adoption in the region is expected to rise as awareness among investors and policymakers grows. In several APAC countries, the likelihood of ESG being incorporated as a requirement in investment strategies is increasing.

While the future of ESG adoption in the region looks promising, there is still a long road ahead as challenges around reliable ESG data continue to impede wider integration. Moving towards a more sustainable investment landscape, the upcoming years will be a turning point in setting a global roadmap, and the role that financial institutions play would be more important than ever before.

TABLE OF CONTENTS

Article 1

When it comes to sustainable private capital, APAC leads the world 3

APAC holds a strong interest in integrating ESG into private market assets due to its asset' nature of granting a higher power for the investors to define the ESG profile.

Article 2

Why APAC investors are on the hunt for ESG talent 4

As ESG is thriving in APAC, investors are hunting for talents that are able to generat competitive returns and align values with the young investors with ESG adoption.

Article 3

How ESG regulations are challenging APAC asset managers 5

In the era of tightening ESG regulation, APAC asset managers failed to leverage ESG analytics tools will be difficult to compete.

Article 4

The challenge and opportunity in APAC investors' net-zero push 7

With the pressing needs to achieve net-zero mission in APAC, institutional investors who managed to become the first-mover will enjoy extra investment opportunity.

Article 5

Why SDGs are increasingly important for APAC investors 9

APAC investors are integrating SDGs framework into their investments, however, there is still a room for development.

Article 6

Why APAC fund managers must prove their values, as well as their value10

Fund managers in APAC can capture regional investors' growing interest in ESG values by providing solutions with high data accessibility.

Article 7

How sound data and analytics can help boost ESG's credibility 11

Importance for investors to have a scalable ESG data model.

WHEN IT COMES TO SUSTAINABLE PRIVATE CAPITAL, APAC LEADS THE WORLD

Private capital is booming in the Asia-Pacific, and so is sustainable investing. The region now leads the world in bringing these two investment strands together, with a strong emphasis on shared values between private asset owners and managers.

INCREASING FOCUS FOR APAC INVESTORS ON INCORPORATING ESG INTO PRIVATE ASSETS

The BNP Paribas [ESG Global Survey 2021](#) shows that 43% of Asia-Pacific (APAC) investors incorporate ESG (environmental, social and governance goals) into private market assets, compared to 38% of respondents globally. The approach varies by country. Investors in China tend to focus on incorporating ESG into private equity and debt, as do those in Singapore, whereas in Australia the focus is on real estate investments

Why are ESG and private capital converging in APAC? Improving the ESG profile of an asset is likely to increase its future value, given that [more and more](#) global capital is chasing ESG opportunities. And private markets grant APAC's investors greater power to define the ESG profile of the assets they are acquiring, because a small number of investors participate in a single deal, so each holds a proportionately larger ownership stake than do investors in listed companies.

ALIGNED ON ALIGNMENT

The survey also shows that APAC investors place significant importance on alignment between the ESG agendas of asset owners and managers.

"ESG considerations form an integral part of our Alternatives' team's investment process. When we look at investments in private equity funds and co-investments, our due diligence includes an assessment of ESG performance, potential risks and scope for improvement. Where applicable, we will seek to engage and influence the private equity managers to improve underlying businesses for long-term sustainability" says Michael Woolley, director, sustainability at Eastspring Investments.

Discussing the way ESG in alternatives is handled by the Australian superannuation fund, UniSuper Governance and Sustainability Manager Sybil Dixon says:

"We seek to have good alignment with our private market managers; we are quite explicit in how we expect them to manage ESG risks. We have a small number of private market mandates that provide us a focused range of opportunities, rather than allocating to a large number of funds."

At a time of increasing urgency around climate action, private capital is going to play a vital role in supporting the race to net zero. APAC's early lead may well be a function of this strong belief in making sure that asset owners and managers are on the same ESG page.



ARTICLE HIGHLIGHTS

Private capital growing fast in APAC:



43% of APAC investors incorporate ESG into private market assets



Investors in **China** and **Singapore** focus on incorporating ESG into **private equity and debt** among the APAC region

WHY APAC INVESTORS ARE ON THE HUNT FOR ESG TALENT

As the adoption of environmental, social, and governance (ESG) factors in Asia Pacific (APAC) investing gathers pace, so has demand for professionals experienced in executing these practices. Finding people who can help drive sustainability remains a challenge, but given the importance of ESG to younger investors – and potential employees – it will be increasingly vital to do so.

THE GROWING APPEAL OF ESG

According to the BNP Paribas [ESG Global Survey 2021](#), about 60% of investors in APAC have been integrating ESG for less than 3 years, compared to 30% in Europe and 44% in North America.

However, that is quickly changing; ESG is becoming more mainstream. Our survey shows that in two years, 37% of investors in the region will consider ESG as central to or a necessity in their investment strategy, a twofold increase from 15% currently. There are several reasons for this uptick in ESG adoption in Asia.

First, as investors, both globally and in APAC, learn that competitive returns can be generated through sustainable investments, attracting capital will become harder without ESG adoption.

Second, young people are actively seeking investments that align with their values. Millennials, who make up almost 25% of the Asian population, are twice as likely to consider investing in companies that target social or environmental outcomes.¹

Additionally, Asia is seeing a top-down effect, with smaller firms following in the footsteps of larger, high-profile funds that have adopted and integrated ESG investing. Investors are also increasingly aligning with the UN's Sustainable Development Goals (SDGs) and showing a growing appetite for sustainability-linked products like green bonds.

THE WAR FOR TALENT

These factors point towards the rising need for individuals with ESG expertise to help firms integrate ESG principles into their strategy to meet different data management, reporting and data assessment needs.

However, identifying investment professionals with the right skillset is not simple. In some ways, it's a Catch-22 situation: firms need experts to grow their ESG investment strategy but these experts are hard to come by, which in turn slows down its broader implementation.

A shortage of ESG experts has also driven some organisations to depend on a handful of outsourced professionals. Our survey shows that about 7% of APAC investors are likely to hire external consultants to manage their ESG strategy, compared with just 3% in the rest of the world.

ESSENTIAL QUALIFICATIONS FOR ASIA FUND MANAGERS

¹ <https://www.morganstanley.com/ideas/sustainable-socially-responsible-investing-millennials-drive-growth>

“Effective ESG fund managers in Asia need to have a hybrid profile; they must have a handle on the data science, along with a robust understanding of business, investment strategy, and the region,” says Jules Bottlaender, Head of Sustainable Finance, Asia Pacific at BNP Paribas Securities Services. **“It is hard to find a strong candidate, but also equally challenging to attract them to firms in early stages of ESG adoption.”**

In fact, as more and more investment professionals become mindful of their employers' commitments to sustainability, 10% of APAC investors say attracting talent was among the top three reasons for incorporating ESG factors into investment decision-making.

Still, there is cause for optimism. As ESG momentum ramps up in APAC, regional expertise in the field is also bound to grow. In the meantime, as organisations in APAC compete for top ESG talent, they will need to make themselves as attractive as possible, focusing on embedding ESG investing into their businesses.

ARTICLE HIGHLIGHTS

Key factors for the growing appeal of ESG in APAC:

- Earning **competitive returns** from sustainable investing
- Asian Millennials tend to do investment that **target social and environmental outcomes**
- APAC investors prefer **sustainability-linked products**

Key factors for Asia ESG fund managers to be hired:

- Ability to handle on **data science**
- Robust understanding of **business, investment strategy, and the region**

HOW ESG REGULATIONS ARE CHALLENGING APAC ASSET MANAGERS

Investors in Asia Pacific (APAC) place a high priority on asset managers' research, reporting and disclosure capabilities, as regulators in the region are insisting on clearer, more consistent, and transparent standards around environmental, social, and governance (ESG) reporting.

The challenge is therefore on asset managers to ensure not only that they are in compliance with new regulations, but also that they are using the full suite of analytics tools to leverage the ESG data now at their disposal – catering to the growing expectation in the region among asset owners for clear information on the impact of their investments.

NEW RULES FOR A NEW WORLD

Streamlined regulations are key to a wider integration of ESG norms into investment processes around the world, according to the BNP Paribas' [ESG Global Survey 2021](#). Nearly two-thirds of global investors expect ESG regulations to accelerate and deepen the adoption of ESG strategies, according to the survey.

CURRENT TREND OF ESG REGULATIONS IN APAC

Authorities across APAC are playing a leading role. Hong Kong's Securities and Futures Commission in January 2022 introduced enhanced disclosure requirements for ESG funds,¹ while the Monetary Authority of Singapore is moving towards a more detailed and prescriptive approach to ESG issues, including issuing guidelines for portfolio construction and risk management.²

Meanwhile, New Zealand's Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill, introduced in 2021, requires large financial market participants to disclose information about climate change-related risks and opportunities.³ And the Australian Prudential Regulation Authority's Superannuation Data Transformation Programme updated reporting standards in 2021, including practices related to climate change financial risk management.⁴

Furthermore, exchanges in Malaysia, Thailand and Vietnam have made ESG reporting a listing rule for all companies.⁵ The Association of Southeast Asian Nations (ASEAN) has also set up the ASEAN Taxonomy of Sustainable Finance to promote the adoption of green finance and encourage sustainable development.⁶

MORE DEMANDED OF ASSET MANAGERS

In this new environment, enhanced ESG reporting, and disclosure requirements will help institutional investors better structure their investments, while asset managers will be compelled to leverage ESG analytics tools, accurately explain their portfolio performance, and deliver better value to their investors.

Indeed, those who do not do so will struggle to compete. The BNP Paribas study showed 47% of APAC investors highly value a manager's ESG research capabilities when selecting an investment manager for ESG-factored

investments, compared to a global average of 35%. Some 55%, meanwhile, say the alignment between the manager and its ESG values and mission is crucial (compared to 47% globally), and some 40% say the same of the managers' ESG reporting and disclosure capabilities.

KEY GOAL TO SUIT ON NEW REGULATIONS

The emphasis on research, reporting and disclosure underscores a key goal of the suite of new regulations: **to encourage genuine and efficient sustainable policies that facilitate investors' attempts to align their investments to their ESG commitments.**

As Michael Woolley, Director, Sustainability at Singapore-based Eastspring Investments, noted, **"Regulation has a big part to play, and harmonisation of regulation is very important as well. Otherwise, there could be confusion or conflict between different regulatory systems. It will be difficult to have an 'apples to apples' comparison until you have data consistency, and that is a significant challenge."**

1 <https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/products/product-authorization/doc?refNo=21EC27>

2 <https://www.mas.gov.sg/regulation/guidelines/guidelines-on-environmental-risk-management-for-asset-managers>

3 https://www.parliament.nz/en/pb/bills-and-laws/bills-proposed-laws/document/BILL_109905/financial-sector-climate-related-disclosures-and-other

4 <https://www.apra.gov.au/news-and-publications/apra-determines-superannuation-data-transformation-reporting-standards>

5 <https://sseinitiative.org/stock-exchange/>

6 <https://asean.org/wp-content/uploads/2021/11/ASEAN-Taxonomy.pdf>

HOW ESG REGULATIONS ARE CHALLENGING APAC ASSET MANAGERS



APAC CATCHING UP ON ESG REGULATIONS

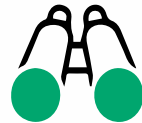
The good news for APAC is that while Europe is leading in adopting ESG regulations, the region is quickly catching up in terms of recognising the role regulations play in addressing ESG-related issues, and designing and implementing a coordinated regulatory approach, according to a report by auditing firm EY.¹

“As APAC regulators boost their ESG guidelines, we are pleased to see investors welcoming and leveraging them to create better value for themselves,” said Josephine Maiorana, Head of Regulatory Watch & Market Advocacy, APAC at BNP Paribas Securities Services. **“Regulations need to be looked at as catalysts, not obstructions, to climate-aligned investments.”**

¹ https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/banking-and-capital-markets/ey-climate-change-and-sustainability-global-regulators-step-up-the-pace.pdf?download

ARTICLE HIGHLIGHTS

Importance for asset managers to show abilities on ESG reporting and requirements



47% of APAC investors highly value an asset manager’s ESG research capabilities



55% of respondents expressed the significance in aligning the ESG values and mission with asset manager

THE CHALLENGE AND OPPORTUNITY IN APAC INVESTORS' NET-ZERO PUSH

With more governments, companies and financial institutions committing to reducing carbon emissions, institutional investors have realised quickly they cannot afford to be left behind. And while market participants across the world are taking note, investors in Asia Pacific (APAC) are emerging as pioneers among their global peers, according to BNP Paribas' [ESG Global Survey 2021](#).

Two overarching factors are behind this trend. First, with the region's vast coastlines, several small island states and low-lying territories, countries in APAC are at significant risk from global warming and rising sea levels. Second, as pressure from at-risk communities, local media and companies mounts, more governments in the region are taking their climate commitments seriously and driving policy changes,¹ leading to top-down action.

1 <https://reliefweb.int/report/world/undps-climate-promise-action-asia-and-pacific>

In this context, APAC's asset managers are now required to meet the region's demand for net-zero-aligned portfolios and investment strategies. Given the scale of the investment required in the region to achieve net-zero, the potential rewards for those who can meet this challenge are considerable.

APAC INVESTORS EMERGE AS NET ZERO LEADERS

The BNP Paribas survey studied investor action to support the goal of a net-zero economy by 2050. The survey identified three types of investors: Net Zero Leaders, who are already implementing their commitment to reaching a net-zero target, Net Zero Explorers, who have committed to a net-zero goal but are yet to start implementing it, and Net Zero Observers, who have not committed to a net-zero target yet.

Across the global sample in the survey, 37% emerged as Leaders, 36% as Explorers and 27% as Observers. Investors in APAC, though, are considerably more committed to reaching net-zero goals – 44% of the respondents in APAC were Leaders, while 41% were Explorers. By contrast, only 24% of North American investors fell into the Net Zero Leader category.

EXPLORING MORE ASSET CLASSES AND STRATEGIES

Asset managers in APAC will have to cater to growing demands among these Net Zero Leaders for suitable investments, an appetite that extends across asset classes and strategies. For the majority of survey respondents



(88%), equities remain the primary asset class used in their climate-related considerations, according to the BNP Paribas study.

Even so, some 52% of APAC investors said they invest in thematic Exchange Traded Funds (ETFs), compared to 37% globally, and 16% in ETF broad market indices to reach their net-zero targets. Only about 8% of APAC investors choose corporate credit for these investments, the survey showed.

APAC investors are also employing more sophisticated strategies and tools to manage climate change risks, according to the Asia Investor Group on Climate Change (AIGCC).²

Half the APAC investors surveyed in the BNP Paribas study said they include climate risk mitigation measures, such as portfolio temperature scoring, to help align their investments with net-zero targets. In comparison, 48% of global investors currently practice this.

2 <https://www.aigcc.net/new-industry-survey-finds-large-appetite-for-net-zero-investment-across-asia/>

THE CHALLENGE AND OPPORTUNITY IN APAC INVESTORS' NET-ZERO PUSH

A HUGE OPPORTUNITY

Even as several APAC institutional investors have committed to lowering their carbon footprint, more need to join the fray to meet the Paris Agreement goal of limiting the rise in global temperatures to 1.5°C of pre-industrialisation levels. Indeed, the AIGCC estimates that the investment opportunity for Asia's energy supply to achieve net-zero is between USD 26 trillion to USD 37 trillion cumulatively from 2020 to 2050. ¹

NET ZERO LEADER IN THE BUSINESS WORLD

The scale of the investment needed in the region makes the role Net Zero Leaders play even more critical. Some recognise the scale of the challenge and the opportunity. Australian superannuation fund UniSuper, for instance, is among the institutional investors in the region issuing and implementing Investor Climate Action Plans. ²

Sybil Dixon, Senior Investment Analyst at the fund, noted: **"We put our carbon targets in place last year and set a net-zero carbon emissions target for our portfolio by 2050. This is our first push into being more mindful of our impact and measuring progress against those targets... The shift to sort of being more cognisant of the impact our investments are having is something I find quite powerful."** Organisations like UniSuper are key to driving a mindset shift in the asset management space and can lead by example.

¹ https://www.aigcc.net/wp-content/uploads/2021/03/March-2021_-_Asias-Net-Zero-Energy-Investment-Potential-English.pdf

² <https://theinvestoragenda.org/casestudies/>

"It is encouraging to see APAC investors moving in the right direction," said Jules Bottlaender, Head of Sustainable Finance, APAC at BNP Paribas Securities Services. **We look forward to seeing these numbers grow, not just in Asia, but across the world. The investment community must understand the critical role it plays in propelling change. Those asset owners and managers who haven't yet thought about net-zero can learn a lot from APAC's Net Zero leaders. "**

ARTICLE HIGHLIGHTS

Three types of APAC investors to support net-zero economy goal by 2050:



44% of Net Zero Leaders, who already implementing commitment



41% of Net Zero Explorers, who committed but yet to start implementing it



15% of Net Zero Observers, who have not yet committed



WHY SDGS ARE INCREASINGLY IMPORTANT FOR APAC INVESTORS

As sustainability considerations grow in importance for institutional investors worldwide, BNP Paribas has found that those in the Asia Pacific (APAC) region are increasingly leveraging the universal framework to align their investments / taking a holistic approach to aligning with the universal framework.

According to BNP Paribas' [ESG Global Survey 2021](#), 35% of institutional investor respondents in APAC said they try to align their investments with all of the [UN's 17 Sustainable Development Goals \(SDGs\)](#). By comparison, the figure globally is 32%.

5 AREAS OF SDGS IN THE 5 APAC MARKETS

The numbers come from our questions to institutional investors on their attitudes to SDGs that cover five areas: climate change and sustainability; human rights and social issues; health, well-being and quality of life; work, growth and responsible consumption; and biodiversity and life on Earth.

In the five APAC markets we assessed – China, Hong Kong, Japan, Singapore, and Australia – institutional investor respondents appeared to be most focused on the group of SDGs that relate to climate and sustainability: 85% align their investments factoring these into account, only slightly below the global average of 89%.

APAC institutional investors lag the world in the other four SDG groupings, though – and significantly in three of those. While 44% say they align their investments with the SDGs related to work, growth, and responsible consumption (just behind the global figure of 46%), only 38% consider SDGs on health, well-being and quality of life compared with 53% globally.

And while one-third say they do so for SDGs related to human rights and social issues (globally, 56% do), just 8% of APAC institutional investors we surveyed factor in SDGs on biodiversity and life on Earth; that is far behind the global figure of 37%.

FOR SUSTAINABLE INVESTING, ASSET CLASSES MATTER

Also of interest is our finding that regional investors who factor environmental, social and governance (ESG) considerations into their strategies are increasingly keen to seek out the right asset class to buy into.

This chimes with a paper published by the Principles of Responsible Investment (PRI), a UN-supported network of investors, which notes that the role investors play in shaping SDG outcomes hinges on the asset classes they invest in, the markets they operate in, and the size and duration of the investment. By way of example, the ownership shares and medium-to-long-term horizon in private equity and infrastructure projects give investors greater scope to shape outcomes.¹

When it comes to aligning investments and sustainability, APAC institutional investors are more focused on certain alternative assets. Take private equity and debt: 43% say they use this asset class to integrate ESG, compared with 38% globally, while 29% use thematic ETFs versus 22% globally. Equities, on the other hand, are favoured by 69% of respondents globally, but by just 58% of those in APAC.

Additionally, 35% of institutional investors in APAC are choosing to align only their impact and thematic strategies to relevant SDGs, compared with 34% globally.

¹ <https://www.unpri.org/download?ac=10795>

“It is heartening to see regional investors care more and more about the long-term impact of their investments,” says Caleb Wong, Head of Alternatives for Asia-Pacific region at BNP Paribas Securities Services. **“Asset managers in APAC are well positioned to help them enter the hard-to-navigate ESG space for alternatives and accelerate investments into private equity, venture capital, infrastructure or pension funds.”**

APAC STILL HAS A LONG WAY TO GO FOR ESG

Encouragingly, 41% of APAC institutional investors surveyed report to be also signatories of the PRI, which plays a pivotal role in helping the world meet the SDGs. This is only slightly lower than the global figure of 44%.

That said, the survey shows there is plenty of room for improvement in APAC. While we saw earlier that 35% of respondents try to align their investments with the SDGs, we also found just 14% manage to comply with the SDGs – well short of the global figure of 24%.

If nothing else, the results show that the substantial gap between ambition and attainment, while narrowing, is still there. In short, although institutional investors in APAC are taking crucial steps on the road to sustainable investing, there is still much to do.

ARTICLE HIGHLIGHTS

SDGs are becoming highly significant to APAC investors:



85% of investors mostly focused on climate change and sustainability among the SDGs



Private equity and debt are the most common asset classes used by investors to integrate ESG

WHY APAC FUND MANAGERS MUST PROVE THEIR VALUES, AS WELL AS THEIR VALUE

Investors in Asia Pacific (APAC) are on the lookout for the right asset managers to help them build the best environmental, social, and governance (ESG) compliant portfolio as they deepen their commitment to sustainable investing. For fund managers in this rapidly evolving field, proving that they share clients' values has become all the more crucial to maintaining competitiveness.

More than half of APAC investors (55%) believe that when selecting an investment manager for sustainable investing, the manager's ESG values and mission should align with their own. This compares to 47% of investors globally, according to the BNP Paribas [ESG Global Survey 2021](#).

A major reason behind this is that investors who are relatively new to ESG-investing find it reassuring to have a manager whose interests are the same as theirs. And according to our survey, 60% of regional investors said they are

new to ESG integration – meaning the onus is increasingly on fund managers to prove that their values align with potential new clients if they want to win their business.

FROM SCREENING TO INTEGRATION TO IMPACT

Several other factors dictate the need for alignment of interests when investors look for a fund manager. One is the rapidly evolving landscape of ESG investing in Asia: regional investors are moving beyond the negative screening method – identifying and staying away from companies that score poorly on ESG factors – towards ESG integration, which involves actively incorporating sustainability information into investment decisions, and finally onto making positive ESG contributions through thematic and impact investing.

It's important for asset managers to recognise that the demand for sustainable investing in the region is growing at the grass-roots level, rather than being driven by regulatory requirements. Our survey findings revealed that APAC investors are less motivated by regulatory, or disclosure demands when it comes to incorporating ESG into their decision-making, and more inclined to integrate sustainability into their overall investment approach. Only 8% of APAC investors rank regulatory or disclosure demands in their top three reasons for using ESG, compared with 10% of global investors.

ROBUST RESEARCH CAN MEET DEMAND FOR RELIABLE ESG DATA

In a region like Asia with several emerging markets, the need for accurate data is acute. Accordingly, APAC investors deeply value research capabilities: nearly half the investors in the region view research capabilities as important, compared with 35% of investors globally.

Reliable ESG data is something all investors want. Low-quality ESG data, including a lack of historical information, is an issue in various markets, including China, according to a report by the CFA Institute and PRI. The dearth of comparable and historical ESG data in Singapore, likewise, remains the top barrier to incorporating ESG factors into equity investments in the city-state.¹

Data could therefore be a crucial point of differentiation for asset managers in the region. Our survey shows APAC investors currently tend to turn to other suppliers for ESG data and research, with only 16% saying they would source risk monitoring and analytics from an asset manager. And only 35% of APAC investors would turn to an asset manager for ESG reporting at the company, portfolio, or fund level, compared with 39% globally.

“Top-notch research capabilities set any fund manager apart, but especially in Asia where there is a burning need for reliable data,” says Nadim Jouhid, Head of Investment Solutions, Asia Pacific at BNP Paribas Securities Services. **“The growing appetite for ESG investing in Asia is a welcome shift, but this glaring gap in accessing the right data could easily deter otherwise keen participants. Asset managers that fill this gap stand to become a one-stop-shop for investors.”**

ARTICLE HIGHLIGHTS



55% of APAC investors highlight the importance of selecting managers who are in line with their ESG values and mission



Asset managers can be a one-stop-shop for APAC investors to fill the gap in data accessibility

¹ <https://www.unpri.org/download?ac=6459>

HOW SOUND DATA AND ANALYTICS CAN HELP BOOST ESG'S CREDIBILITY

Appetite for ESG solutions is growing, with more ESG products every day. But investors are still looking for tools to verify corporate and sovereign ESG claims.

This generates debates and questions around sustainable investing. What counts as valid ESG data? How can ESG claims be assessed across asset classes and business types? What is the true picture of ESG business impacts right through extended supply chains?

In the absence of data that is verifiable, consistent and comparable, investors need access to tools and platforms that enable them to easily access relevant data from multiple sources and integrate this into their decision-making processes.

BUY OR BUILD FOR ESG ANALYTIC CAPACITY?

And that means that for many investors and the institutions that serve them the data challenge comes down to a simple question: whether to build ESG analytic capacity, or buy it? The selfbuild option can be attractive in terms of maintaining ownership of insights and supporting data, but it calls for extensive human and data resources that might be better directed elsewhere. The buy-in option is likely to be simpler, but it is costly and it generates counterparty risk.

The 'buy or build' question is a classic corporate dilemma – but we believe it may be the wrong question here. Most if not all of the data that investors need is accessible: what is lacking is integration and analytic power. There is a strong case for investors to move to a platform solution, such as ours which unifies multiple ESG data sources on a mix-and-match model, that will preserve the upside of both 'build' and 'buy' but eliminate the downsides of cost and risk.

THE MINDSET HAS CHANGED

We know from the BNP Paribas ESG Global Survey 2021 that there is a strong need for a richer and broader ESG data solution. This latest iteration of our survey shows that for banks, investors and financial traders, ESG has moved firmly into the mainstream, and the need for data that is credible, detailed and transparent is widely recognised.

For example, in our 2019 survey, not a single respondent expected that 75 per cent or more of any portfolio would incorporate ESG by 2021. Yet in this year's survey, 22 per cent of investors said their portfolios are now at this level, with 34 per cent expecting portfolios to be more than 75 per cent integrated by 2023.



This upward trend is supported by external data: by late 2021 the Net Zero Asset Managers Initiative, which supports a goal of net zero by 2050 or sooner, had attracted 220 signatories accounting for more than USD 57 trillion of assets under management. That is more than half the global managed asset pool.

Our survey also highlighted that there is much still to be done. A significant portion of respondents still incorporate ESG into less than half of their portfolio, and common challenges around data continue to impede wider integration.



HOW SOUND DATA AND ANALYTICS CAN HELP BOOST ESG'S CREDIBILITY



THE MARKET HAS CHANGED

Despite this mainstreaming of ESG, there remains little in the way of standardised frameworks that allow investors to make robust comparisons of ESG performance across assets, industries and geographies. Many critical disclosures – especially corporate ones – are discretionary and often unsupported by rigorous data, and while ESG rating frameworks for equities are developing and the IFRS Foundation has recently announced a continuing initiative to create new reporting prototypes, ESG-linked private and public sector bonds are still a very small fraction of securities in issuance and the market is fragmented.

So just as ESG investing has gained traction, the gap between ambition and verifiable compliance has widened. Regulations are not widely understood, and reliable data on which to base decisions is scarce. In our latest survey, 59 per cent of respondents in Europe said that data – or the lack of it – remains the biggest barrier to integrating ESG into their investment processes.

To drive these changes home, they need a scalable ESG data model that can support their operations.

TIME FOR SOLUTIONS

The BNP Paribas ESG Global Survey 2021 shows that investors are moving decisively from learning about ESG investing to putting it into effect. They have typically identified their base-level compliance requirements for the EU's Sustainable Finance Disclosure Regulation (SFDR) and have conducted compliance risk assessments. Moreover, they have begun to move towards

making ESG an operational investment model, integrating ESG targets into their investment strategies, decisions and marketing.

But to drive these changes home, they need a scalable ESG data model that can support their operations. They need to ingest and analyse data across a huge range of subjects, in many formats, using hundreds or even thousands of data points, and make it serve their ESG strategies.

MANAOS FROM BNP PARIBAS SECURITIES SERVICES

This is what BNP Paribas Securities Services' Manaos data platform offers. Manaos, which has won multiple awards for innovation, stands out from existing data solutions by providing a single point of access to a universe of third-party data providers, selected by the user, with all data feeds integrated into a single interface. All the data can be analysed in the background according to parameters set by the user. Manaos works across asset classes, geographies and regulatory frameworks, whatever ESG methodologies are used.

This multiple-source, data-market approach is effectively an evolving ecosystem of applications and providers, not a preconfigured tool.

It creates a customisable data model, offering multiple advantages including price transparency. Users avoid having to invest time, money and IT resources in their own ESG data infrastructure, and don't have to become dependent on limited but costly outsourced solutions. Manaos creates a single platform source of reliable information available to investment, risk, marketing and regulatory teams who today generally rely on their own, often incompatible, databases.

This is a data solution engineered for change. Few aspects of investment are evolving as rapidly as the ESG arena, so the Manaos data market model is designed to be inherently flexible and adaptable. We believe this is the best solution to the challenge of sifting through incomplete and inconsistent disclosure and across multi-source, multi-format data streams to build the fullest picture possible of ESG performance and compliance.

Our latest survey results say it loud and clear: this is what investors know they are missing, a data gathering platform that will support transformative sustainable investing ambitions.

ARTICLE HIGHLIGHTS



Investors expecting ESG portfolios to be more than 75% integrated by 2023



There is an urgent need for investors to have a scalable ESG data model



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