ESG investing – a necessity or simply just good business practice?

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Minds made for building financial services

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Introduction

In early 2020, with the global COVID-19 crisis unfolding on a day-by-day basis, bringing restricted travel and country lock-downs, there has been an increase in both public and political awareness around environmental, social and governance (ESG) related issues.

In the long-term savings space, the increase in ESG awareness has been reflected in a quiet but substantial manner over the last few years, with trillions of dollars of assets under management (AUM) now invested in various flavours of ESG investment strategies. The growth in AUM has almost been matched by the increase in regulations focused on climate change, sustainable finance, stewardship and ESG investing.

With these observations in mind, EY undertook a survey involving some of the world's largest asset managers, some of whom have embraced ESG for many years, to take the temperature of an industry undergoing massive change.

For this ESG survey, we interviewed those responsible for implementing ESG strategies across whole businesses to gain an understanding of where they think the most progress is being made. We also asked them about where more progress is needed both within their own firms and investors' acceptance of this approach. There were 17 participants, with a collective AUM of more than £9.5tn.

We looked to understand:

1. Strategy and product offerings:
   What is their strategy on ESG and how are they developing their offerings to support this?
2. Market drivers – investment beliefs and client perspectives:
   What is driving the market in terms of investment beliefs and client demand?
3. Operations and product management:
   How are firms integrating ESG into operations and product management?
4. ESG reporting:
   How is the industry addressing reporting?
5. Future perspectives:
   What are industry viewpoints for the future?

We undertook this study in the hope that it will be helpful to both asset owners and investment managers, in providing a snapshot of the state of play across the industry and an insight into the future direction of travel.

Moreover, we recognise that asset managers have a critically important role to play in building the future as they act as the link between the providers of capital and the projects into which it is invested. Our purpose is to build a better working world and we look forward to working with the asset management industry as they play their pivotal role in this.

> "Fundamentally we are driven by the need to create a more equal society and have a planet that exists in 50 years.

ESG integration director, Global Asset Manager

> "Our mission is to invest in a responsible manner for both economic and social prospects for our clients.

Global Head of Equity Portfolios, Global Asset Manager

Executive summary

The key findings from our survey include the following points:

ESG is a major theme and a clear strategic priority across the sector – both for investment houses where it's been culturally and operationally embedded for several years, and for those who are rapidly upskilling. Across the board, the firms we spoke to all believe ESG provides an additional lens into risk mitigation and value creation. Across geographies and client segments demand is rapidly increasing.

Leaders have integrated ESG into systems and processes, with an accompanying cultural acceptance of ESG. They have comprehensive data and technology solutions that allow portfolio managers to see and interrogate ESG metrics as easily as they can traditional financial metrics. Portfolios managers are trained and empowered to bring ESG themes into conversations with investee companies. ESG performance is now a factor in discretionary remuneration for some. However, asset managers now also need to begin to think about the value of ESG risk in their portfolios and in particular the value of climate change risks, both physical and transition.

Leaders have implemented proprietary big data solutions incorporating artificial intelligence and natural language processing techniques to build their own ESG picture from raw data. They no longer rely solely on ESG data vendors. At the simpler end firms now purchase multiple data sets and overlay that with their own analysis.

All the firms we spoke to have a very clear conviction and belief in the direction of travel of the market. Many see ESG as a key growth area and have been investing significant (£50mn +) sums to seed ESG strategies with an expectation of inflows in billions. This belief justifies the significant investments in data, systems and specialists that are helping firms to drive up standards around the industry. Despite the competitive challenges faced by the industry, investing in ESG capability is considered as simply good business sense. However, we found little evidence that asset managers were taking ESG factors into account beyond the investing process. Firms must also consider their own corporate activity, reporting, governance, and risk frameworks, and how these will all need re-orientating into client engagement, education and experience.

Demonstrable evidence of ESG capability will be critical to retaining and acquiring new mandates. Aspects including transparency on stewardship and engagement activities are considered key in demonstrating a strong ESG capability. Customers, both institutional and retail, must be able to understand what ESG means in investment strategies, and differentiate between different firms and strategies. This is an important reporting and product governance issue, and the industry must stay on top of it to avoid any potential issues in the future.

There is a proliferation of climate themed funds and strategies. Driven by TCFD[1] and the recognition of potentially systemic risk posed by climate change investment portfolios have adopted a range of approaches to align climate exposure and global climate goals. With UK regulators, led by the Bank of England, working with Banks, Insurance companies and Pension schemes to move the dial on stress testing and scenario modelling, wealth and asset managers need to ensure they aren't left behind and should think about how they leverage these initiatives in other sectors of financial services.

Impact investing is another area where several firms have developed strategies and are involved in global initiatives to develop standards around impact reporting. While this is an emerging area, a number of funds have been launched which are scaling rapidly. While private equity funds have led the way in launching multi-billion dollar funds, there are a growing number of listed equity impact funds on the market.

But in the minds of those we spoke with, financial returns are still king and will remain so, until we have a system of measuring returns that recognises and incentivises long term value delivery in its fullest sense, including positive environmental and social impacts.

However, ESG and impact themes are, in our view, moving from a customer choice to a survival imperative for asset managers. Winners will be those who are able to combine the digital, cost, distribution and reporting themes with a genuinely authentic ESG capability. They will have the potential to fundamentally redefine the customer engagement paradigm and change the narrative around the social purpose of investment management.

[1] The Financial Stability Board's Task Force on Climate Related Financial Disclosures

1 Strategy and product offerings

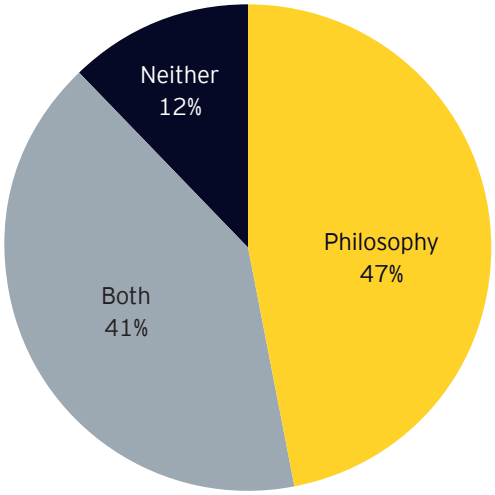
> ESG is the future of investment. Soon we will no longer talk of ESG, it will become mainstream.
>
> Head of Stewardship, European Asset Manager

ESG is a major theme and a clear strategic priority. It is high among priorities for both investment houses where it's been culturally and operationally embedded for several years, and for those who are rapidly upskilling. But, despite this alignment on the importance of ESG across all respondents, there was also clear variation in how firms spread across a spectrum of ESG maturity, approach and ambition.

None of our respondents view ESG as just a product anymore, it is fast becoming embedded culturally. We asked firms whether they saw ESG or responsible investment (RI) as a product or a philosophy. The results are as follows:

- Two respondents answered 'neither', both believing ESG is simply now an important investment discipline.
- Fifteen respondents saw ESG as a philosophy, with all now having a fundamental belief that ESG analysis is a central tenet of the investment process. Seven of these firms recognised that, for them, ESG is still a valid product descriptor.

Do you see ESG or RI as a product or a philosophy?



Further differences emerged regarding the extent to which firms have integrated ESG and their ambitions for doing so. Six respondents report themselves to now be fully integrated across all portfolio managers and investments. A further three respondents have shared with us clear deadlines, ranging from one to three years, for achieving full integration. A key theme running across several responses was the need to provide portfolio managers with appropriate tools and information. Educating managers on how to use these resources is considered critical in empowering them to raise ESG themes with investee companies.

“

We currently aim to embed ESG integration across all of our funds.

Head of ESG, Global Asset Manager

To support their strategy on the product side, firms are expanding their portfolios, moving beyond sustainable and responsible investing, to develop capability in impact investing. We recognise the spectrum of capital is not a perfect tool; however, we felt it is a useful mechanism for measuring firms' approach to responsible and sustainable investing, including the move towards impact strategies. So, we asked firms where they would place themselves on the spectrum of capital.

All the firms we spoke with identified as sustainable, i.e., now operating strategies that incorporate ESG analysis into the investment process, both to mitigate risk and enhance value. The two firms that excluded RI from their answers believe they have gone beyond the point of thinking about ESG in terms of downside risk only, it is simply inherent in the way they do business. Unsurprisingly, none of the firms view philanthropy as a destination, with a consensus that financial returns remain paramount.

Choices and strategies for investors on the 'spectrum of capital'

Approach	Traditional	Responsible	Sustainable	Impact driven			Philanthropy	
				Finance first ←		→ Impact first		
Financial Goals	Target competitive risk-adjusted financial returns				Uncharted returns	Tolerate below market returns	Partial capital preservation	Accept full capital loss
Impact goals		Avoid harm and mitigate ESG risks						
			Benefits all stakeholders					
				Contribute to solutions				
Description	Limited or no regard for ESG practices or X impact	Mitigate risky ESG practices often in order to protect values	Adopt progressive ESG practices that may / are expected to enhance values	Address societal challenges that generate competitive financial returns for investors	Address societal challenges where returns are unknown, or investors risks largely unknown	Address societal challenges that require a below-market financial return for investors	Address societal challenges by supporting non-commercially viable models inc. guarantees	Address societal challenges with donations or with the expectation of full capital loss
Findings	Some firms will continue to operate in this space across the industry	Increasing agreement on ESG risks as fundamental to investment decision making	Small number of firms have reached full ESG integration, this remains aspirational for the majority	Achieving financial returns still paramount	Niche offerings, largely driven by segregated mandates	Nascent growth, limited number of offerings by client	Asset Managers currently across the board are in agreement that philanthropy is not an area in which they envisage their investment thesis reaching	
				Challenges that exist around measurement and scalability of offerings are key				
No. of votes	5	15	17	10	4	4	0	0

#CultureofSocialImpact

Source: The Rise Of Impact: Five Steps Towards An Inclusive And Sustainable Economy, UK National Advisory Board On Impact Inving, 2017 & Impact Management Project, 2017.

Most of the managers we surveyed now have an impact investing offering. This trend is consistent with the growing proliferation of impact strategies in the market. In addition to financial objectives, these strategies have goals around achieving and reporting on positive societal impact, in relation to themes such as climate change or the Sustainable Development Goals. As with ESG more broadly, there are challenges around the measurement of impact with no single clearly defined and agreed methodology.

An industry positioning for impact investing

Ninety-four percent of our respondents have active initiatives in the impact investing (finance first) space, either having already launched products or planning to develop capability in this space. For five companies, this is a medium-term project with a three-year timescale. But, for 11 companies, this is a current initiative with products either available now or in development.

A significant number of companies also reported initiatives in the 'uncharted' or 'impact first' sections of the spectrum of capital, with two respondents already having product offerings categorised here.

A variety of impact themes were raised by the firms we spoke to, the most common being climate change, the United Nation's Sustainable Development Goals (SDGs), social impact and gender diversity.

> "The definition of 'returns' could widen in the next 5–10 years. At the moment, we think of returns as financially driven, but with the growth of ESG this may well change to encompass societal returns.
>
> Head of ESG, Global Asset Manager

One manager commented that all sustainable funds have an impact, it is just that impact funds have a demonstrable and disclosed focus. Several commented on the need for a common framework to measure impact, with one manager speculating that the definition of returns could widen over the next decade to include societal impact as well as financial returns.

Thirty-five percent of respondents said they ran funds or products with the primary purpose of producing a specific impact, with the financial return as a secondary concern. The caveat here is often that these products have been created for an individual client with specific objectives.

For larger asset managers, there is a challenge around identifying a theme that will resonate with a mass audience and attract the requisite scale of funds to make commercial sense.

2

Market drivers – investment beliefs and client perspectives

> ESG is no longer a peripheral exercise, thanks to investor demand, regulation and greater certainty about the link between ESG risks and long-term financial performance.

CIO team member

We wanted to understand the driving forces of the strategic focus on ESG, whether it is driven by fundamental investment beliefs, client demand or other factors.

In line with the responses on strategy, all our respondents said they now believe ESG factors provide an additional lens into risk mitigation and value creation, and therefore have adopted a responsible approach as a core part of their product offering.

Over half the companies we spoke with also cited market dynamics, saying that 'We are seeing significant increase in client demand for a range of RI options which do not impact financial returns, so we have adopted responsible and sustainable approaches as a core part of our offerings.'

Channel and geographical insights

> We are seeing an uptick in client interest and engagement on ESG across all customer segments.

MD Insurance, Global Asset Manager

In terms of global uptake, ESG is found to be moving more rapidly in certain locations: respondents commented that ESG is now well established in Europe, particularly in France, the Netherlands, the Nordic countries and Switzerland. The rest of the EU is starting to join in as well. In the UK, respondents have experienced a huge uptick in client interest, and similar patterns have been found in Japan, Hong Kong and Singapore. Some firms reported demand in new areas including the Middle East. The US is seen as somewhat polarised on this topic and moving more slowly, particularly at the policy level, although there are some progressive institutions. Respondents also commented that China and Korea are not there yet, but there is an expectation of potentially rapid uptake.

We also asked firms if there were differences in interest between different client segments.

Pension funds, HNW and other institutional were the three client types where almost all respondents had seen growth in demand for ESG products in the last 12 months.

Of those polled, a majority also answered that they had seen more demand from retail investors and life funds, whereas less than half had seen more demand from sovereign wealth funds.

The ESG capability gap

Clients aren't sure what they're demanding, the vast majority of clients aren't educated enough for market signals to determine which products are suitable to invest in.

Global Head of RI, Global Asset Manager

ESG means many things to many people.

Head of CSR and ESG, Global Asset Manager

We didn't ask any questions around ESG capability and understanding in the market. But, one of the messages that came through strongly in the additional comments was the need for significant upskilling in this area. It is clear that some clients of investment firms are currently finding it incredibly difficult to navigate the ESG landscape.

An observation would be that this is simply a new language for many market participants. ESG, impact and related themes have not, until very recently, been a part of any professional syllabi. This gap has been exacerbated by a deeply embedded cultural belief that ESG will cost more somehow. This perception is perhaps born out of the experiences in the final decades of the last millennium when exclusionary strategies often meant losing out on some returns.

So, who is the onus on for helping to address this widely acknowledged capability challenge? Does it rest with regulators, professional bodies, advisors, product providers, market participants or all of the above?

The UK Government as part of its Green Finance strategy is launching a Green Finance Education charter and is encouraging professional bodies to sign. Regulators, notably in the EU, are defining standards. Product providers must ensure there is clarity around what their products are delivering on ESG and impact. Asset owners and trustees must also upskill to ensure they can distinguish between good and bad managers.

What is clear from our conversations is that there is no easy solution here. Individual survey participants pointed to a number of important components including:

- The emergence of clear standards and common understanding
- Bona fide collaboration between the various players in the investment value chain
- The need to create and define frameworks for measuring, incentivising and hence delivering medium and long term value
- The need for regulatory intervention to accelerate change and standardization

Interestingly, many of these comments echo the findings from the Embankment Project for Inclusive Capitalism, a coalition of 31 global organisations – including nine asset owners and nine asset managers with a combined US$31tn in assets under management – which collectively developed an open-source framework for measuring and reporting on long-term value.[2]

[2] 'Coalition for Inclusive Capitalism, '*Coalition for Inclusive Capitalism*, www.epic-value.com, 29 August 2019.

3 Operations and product management

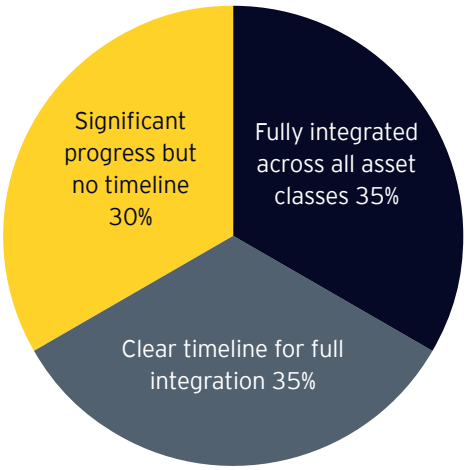
> ESG is in everything.
>
> CIO Real Assets, Global Asset Manager

Market leaders are now deeply integrated with ESG culturally embedded throughout working practices. Two-third of respondents have had ESG strategies running for over 10 years, although for some firms these have been limited to exclusionary strategies or specific asset classes.

Of the 17 firms that took part in the survey:

- Six firms identify themselves as fully integrated across all asset classes.
- Six firms shared with us that they are close to achieving this or have clear timelines for achieving this, between one and three years.
- Five firms are making significant progress but did not share specific timelines.

Managers' assessment of ESG integration



What are the characteristics of the leaders?

We asked firms for insights around how ESG integration had impacted their organisations. The questions specifically addressed the three areas of investment process; organisational design, and data analysis and architecture. All but two firms said there had been changes across all these areas. Of these two firms:

- One respondent, who identified as fully integrated, said that there had been no major changes recently, as ESG is part of 'fund manager DNA'.
- Another fully integrated firm said that they had only made changes in the data analysis space, in relation to their analysis of ESG risks in corporates.

These two and other leading firms exhibited some common characteristics, including:

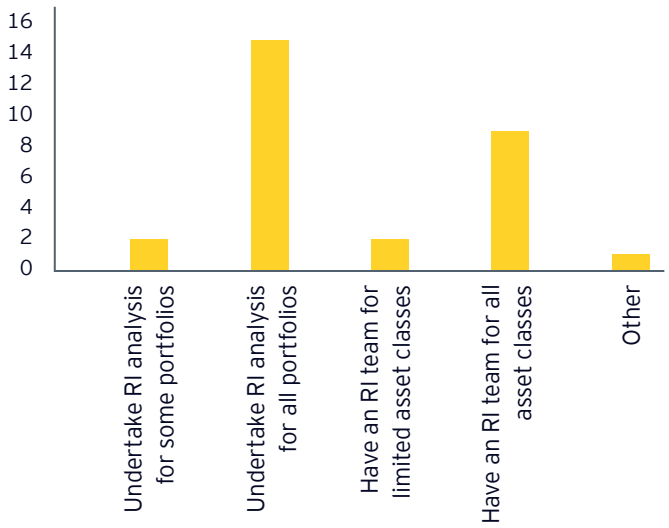
- The incorporation of ESG as a factor into remuneration
- ESG analysis being a fundamental part of portfolio manager and analyst research
- An investment in technology solutions to facilitate access to dynamic ESG information for PMs and analysts
- Empowerment of PMs to raise and discuss ESG issues with investee companies

We have explored below further details around the investment process, organisational design and data themes.

Investment process

We asked firms: **'How are you integrating RI into the fundamentals of your investment process and philosophy?'**

How are you integrating RI?



Fifteen firms said they undertake RI analysis for all portfolios – noting that this does not equate to full ESG integration. Of the two firms that didn't answer this way:

- One firm said that they have an RI team which does not cover all asset classes yet but is moving towards doing so.
- One firm said that stewardship activities take place across all investments and the expectation is that in the next three years, ESG will be integrated across all investments.

Seventy percent of the large firms that took part in this survey claim to have had some allocation to ESG or RI for more than a decade. However, several said that these have only become a major part of the business in the last three years as investor demands have changed.

> We have been globally sustainable for over 20 years.
>
> Head of Sustainable Investing Products, Global Asset Manager

Organisational design – more than one way to achieve ESG goals

> The philosophy is that the analysts are the ones that are responsible or conducting the ESG research, however, they are also supported by a wider team (training, tools, research reviews, etc.).
>
> Head of RI, European Asset Manager

> We have a team of 18 people focused on integrating sustainability into investments.
>
> Head of Sustainable Investing Products, Global Asset Manager

Almost universally, there has been investment in people, with:

- Growth of and recruitment into specialist ESG teams, with several firms now having teams of around 20 or more people to support various aspects of analysis and stewardship
- Investment into the training of PMs and analysts to accept ESG as an approach, with one firm saying they have spent five years on this research and stewardship teams

Two of the fully integrated firms did not have specialist ESG teams, with ESG analyses being carried out by portfolio teams. However, both firms have separate specialist ESG businesses in their groups which provide ESG services to the market and have access to considerable resources to support their portfolio teams.

A significant investment in data and technology

> We now use an extensive set of data providers — around 60 of them. We use third-party solutions for technology in the form of niche FinTech providers and also have bespoke proprietary solutions.
>
> CIO, Global Asset Manager

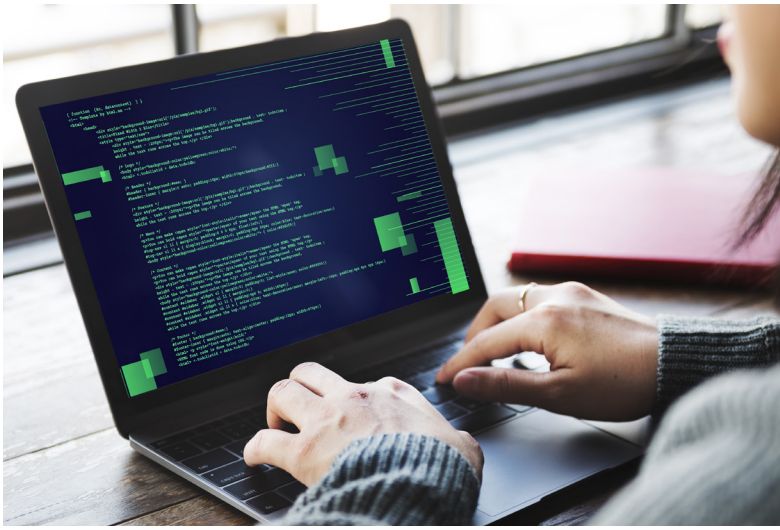
Eighty-eight percent of managers reported a significant focus — and therefore spend — on upgrading technology to hone analysis and improve reporting capabilities around ESG data. The ability to access, collate, cleanse and analyse data is going to be one of the key battlegrounds as managers strive to get ahead in this sector. Within the group, there was a mix of companies developing in-house technology solutions and working with third parties, particularly to access and analyse non-traditional data.

Linked to this, an increasing level of innovation has been taking place around big data solutions for ESG, incorporating techniques such as artificial intelligence and natural language processing, to build on the traditional data sources available. Four of the managers we spoke to confirmed that they have developed in-house ESG data engines of varying complexity. These solutions allow managers to bypass the various data providers in this space to build their own analysis from raw data.

Success criteria for product development

In addition to the various initiatives and product launches described above, firms are taking action to develop new product areas, with several respondents seeding investments in RI strategies of over £50mn, with a clear expectation of inflows in excess of £500mn.

Given this investment, we asked firms how long they would give new strategies to become successful and what criteria they had for the success of product launches. 73% of respondents to this question would give between two to three years, with only two firms allowing products to run for more than three years with suboptimal levels of AUM.



4

ESG reporting

> ESG is evolving, everybody is asking more questions.
>
> Corporate Governance Director, UK Asset Manager

If ESG capability is now critical to retaining and acquiring new mandates, demonstrable evidence of this ESG capability – including transparency on stewardship and engagement activities – will soon be equally critical. Our inaugural survey of stewardship and engagement reporting shows that to improve their practices and meet regulatory requirements, asset managers and assets owners will need to achieve greater transparency and clarity across all areas of stewardship. They will also have to engage more effectively with investee companies and better measure the outcome of that engagement.

For this complementary survey, we asked managers how they were reporting against ESG and whether they were members of the United Nations' Principles for Responsible Investment (UN PRI).

Widespread and developing ESG reporting

All our respondents publish information in an annual report on ESG and stewardship. This is augmented by client reports, thought leadership and, for all but two managers, information on voting and company engagement. One company is planning to include key ESG information in fund fact sheets and others are considering how to develop their ESG reporting.

Two managers admitted that they needed to improve their communication around their ESG process, approach and philosophy, so that existing and potential clients can better understand what they stand for and offer.

As investors demand more transparency and clarity over how their capital is being used, this area of reporting may need more resourcing with digital technology, potentially offering solutions to cut down man-hours.

UN PRI membership almost universal

All but two of the managers we surveyed have signed up to the UN Principles of Responsible Investment (PRI), with three founding signatories in our survey set. Of the two managers that have not signed up yet, one is in the process of doing so.

PRI reporting is onerous. We asked the firms in our survey how long PRI reporting took and how resource-intensive it is. Each said they allocated the equivalent of at least one FTE to complete the reporting required by the organisation, with most needing between two and five FTEs for several weeks.

Not all managers shared how long PRI reporting took. But, of those that did, two-thirds estimated it to take between two to four weeks. Four managers said it took more than four weeks, with one manager saying they managed to complete PRI reporting in a week.

With the PRI requiring signatories to report on elements of TCFD in 2020, it is unlikely that PRI reporting will become any less onerous going forward.

Given the wide variation in time and resources required to complete PRI submissions, it did become apparent that some members feel there is inconsistency across the level of detail in individual firms' submissions. Some firms articulated the fact that they would like to see the PRI take some level of action to address this to achieve greater consistency across all submissions.

Participation in wider initiatives

> As investors, we also have a responsibility to communicate and educate the corporates on the scoring policies and ranking we attach; without this, it is hard to expect the companies to raise their standards.

CIO team member, listed UK Asset Manager

Although we didn't ask questions on wider initiatives, several managers noted significant traction with investee companies through initiatives outside of the PRI, with some citing the UK Stewardship Code, updated in 2019, as a firm backbone for discussions with companies.

Other initiatives mentioned by respondents were:

- The Sustainability Accounting Standards Board
- The International Corporate Governance Network
- Climate Action 100
- Global Impact Investing Network
- The Asian Corporate Governance Association

Another topic mentioned by several participants was the United Nation's SDGs, with participants highlighting the need for investment managers to provide a way to invest in these and the risk of 'SDG washing'.

Caveat venditor

With accusations of greenwashing still prevalent, authenticity and rigour in ESG are likely to become ever more important – with material product governance implications. Regardless of carefully nuanced wording in regulatory documents, the introduction of phrases like impact, climate and ESG into the investment lexicon set clear customer expectations. While some respondents voiced real concern about an industry still rife with greenwashing, others were encouraged that support from regulators and a push from clients will make this more difficult. Some also pointed to the need for some form of independent assurance around elements of this reporting.

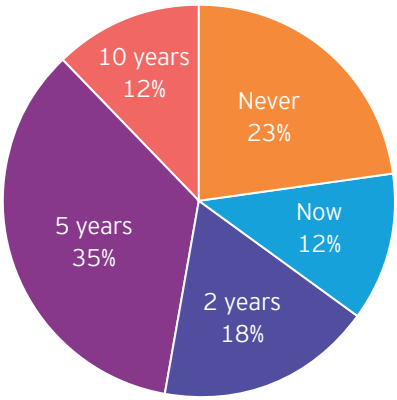
5 Future perspectives

> One of the biggest questions out there is whether asset flows will go to strategies that go beyond responsible and therefore negatively impact returns.

Head of RI, Global Asset Manager

We asked clients whether they thought ESG performance would become as important as investment performance and when this might happen. **Seventy-seven percent of respondents believed ESG performance is now, or will in the future, be as important as investment performance**.

How long till ESG performance is as important as investment performance?



None of the firms we spoke with saw ESG products either returning to or remaining on the margins as investor demand and regulatory compulsion continue to drive a move to these new approaches.

We also asked clients for their views on whether ESG comprised fiduciary duty. In line with responses given to earlier questions, managers were almost unanimous on this not being an issue, although one manager pointed out the policy backdrop in the United States as a potential challenge here.

Mixed response to EU action plan

> With any global trend or initiative, one of the fastest and most efficient ways to accelerate change and standardization is through regulator intervention.

CIO team member, listed asset managers

The move by the EU, under its Action Plan for Sustainable Investment, is one amongst the numerous initiatives being carried out by international governments and regulators to encourage, or force, better alignment of financial service sector goals with societal goals. It is probably the largest current global plan in terms of the scale and scope of its ambition. Respondents' views around the plan were broadly positive, with a general view that it would encourage better disclosure from corporates, facilitate more in-depth stewardship and help to drive consistency of approach amongst market participants.

Many agreed that creating taxonomies that are accessible and useable by all will generally be a positive move. Without firm standards, it is currently difficult to measure and compare ESG performance and impact. However, some managers are concerned about the risk of rigid taxonomies which may unintentionally stifle innovation or struggle to keep pace with developments. One manager raised the point that the view and expectation of ESG around the European continent was incredibly varied, so it could make sense to have global and local guides. However, the practicability of such strategy coupled with an increasingly global investment market is an unknown.

Conclusion

As we've explored here, ESG is a major theme and a clear strategic priority – both for investment houses where it's been culturally and operationally embedded for several years, and for those who are rapidly upskilling.

There is a clear challenge with the lack of consistency in ESG currently, driven by the absence of any clearly defined corporate reporting standards, and the variety of taxonomies and methodologies used by the various ESG data providers. Asset Managers will need to think about the value of ESG risk in their portfolios, and in particular the value of climate change risk and transition risk. As the Bank of England is already working with Banks and Insurance companies on stress testing and scenario modelling, wealth and asset managers won't want to be left behind should think about how they leverage these initiatives from other sectors of financial services.

We expect industry standards to emerge rapidly, and this will need to be driven by constructive collaboration between investee companies, investors and regulators.

Stewardship is the other side of the ESG coin. Alongside this ESG survey, we are delighted to launch our first review of stewardship and engagement reporting, the results of which can be viewed here – https://www.ey.com/Publication/vwLUAssets/Turning-the-tide-to-greater-corporate-accountability/$FILE/ey-turning-the-tide-to-greater-corporate-accountability.pdf

Transparency will also increase. Customers, both institutional and retail, must be able to understand what ESG means. We see this as a product governance issue and the industry must stay on top of it to avoid potential issues in the future.

But, ESG is not the only theme in asset management and it must be understood in the context of what we see as a real inflection point for the investment management industry as a whole. The myriad of challenges ahead include margin pressure, a need for increased transparency on both fees and ESG, a move to factor-based and smart beta strategies, the growth of alternatives, digital capability, and profound changes to distribution.

However, ESG and impact themes are, in our view, moving from a customer choice to a survival imperative for asset managers. Winners will be those who are able to combine the digital, cost, distribution and reporting themes with a genuinely authentic ESG capability. They will have the potential to fundamentally redefine the customer engagement paradigm and change the narrative around the social purpose of investment management.

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