

# ESG and impact investing: an emerging business driver



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ESG investing and ESG integration are becoming more and more vital and main stream to the business and operations of asset managers and asset owners as part of their license to operate. EY has multiple ESG and impact investing Advisory and Assurance services to support financials from thought to finish in implementing or enhancing their ESG and impact profile.

## ■ Overview

*Responsible Investing*, with a focus on Environmental Social & Governance (ESG) elements and ESG integration in the investment process, is an emerging trend for Financial Institutions. Responsible Investing seeks to combine the financial objectives of investors with social, ethical, environmental and corporate governance issues.

*Impact investments* are investments made into companies, organizations and funds with the intention to generate measurable social and environmental impact alongside a financial return.

There is an increased focus on policy setting, implementation and showcasing accountability related to ESG and impact investing. Some key business drivers are:

- ▶ Increased customer demand, also due to higher track records and lower risk levels.
- ▶ Increased stakeholder demand (e.g. NGO's, industry bodies, regulators, government, raters).
- ▶ Increased focus of companies on Integrated Reporting (including the value creation process of the investment decisions), UN PRI, UN PSI and Equator Principles.
- ▶ Growing need to contribute to the global Environmental and Social debate and challenges.
- ▶ Higher returns and lower risks.

## ■ Challenges

There are several challenges to empower ESG integration:

- ▶ Awareness of the impact of ESG investing.
- ▶ ESG vision and policy determination (also as part of the fiduciary role).
- ▶ ESG integration, taken into account capital requirements.
- ▶ Establishing clear definitions.
- ▶ Measuring to ensure that the investments meet the criteria of the definition.
- ▶ Availability of and consistency in data (including look through approach).
- ▶ Impact investing assessment, also taken into account capital requirements for more illiquid investments and impact measurement of applied ESG policy, including lack of a Global excepted framework.
- ▶ Sound KPI setting.
- ▶ ESG reporting and according assurance levels on ESG reporting.

# ESG investing

*In our opinion ESG investing and integration is becoming main stream and a key business driver. Key elements are:*

## 1. Vision

An ESG policy is sound, transparent and comprises all key ESG related topics including the level of ESG integration in different portfolio's, products, asset classes etc. The policy reflects the company's strategy for creating value and future ambition.

## 2. Design

The ESG design of the framework is in line with the policy and meets the industry best practices and standards. Per asset class the different levels of ESG integration are considered. The framework comprises effective data management, measurement, governance and reporting elements.

## 3. Implementation

The ESG implementation is consistent with the companies own Sustainability Strategy and shows a clear linkage. It ensures an efficient management of ESG risks. Furthermore the applied framework is embedded in the risk and control framework of the company, e.g. in the ISAE 3402 and GIPS report, SII/ORSA/Basel III analysis etc.

## 4. Reporting

As part of the accountability the impact of the ESG integration is described in a qualitative and quantitative way, supported by best practices, KPI's and outlook ambitions. A holistic overview is presented in a separate, professional ESG report or in an integrated report, which connects the outcome with the policy and implementation. The information is independently verified, supported by an assurance report (COS 3000 etc.).

# Benefits

Some potential benefits of a sound ESG integration are:

- ▶ Stakeholder satisfaction.
- ▶ Lower risks and better long-term social and financial performance.
- ▶ Contribution to (inter) national ESG issues.
- ▶ Contribution to the value creation process, also as part of Integrated Reporting.
- ▶ Decreased reputational risks.



# The approach and propositions of EY

## ■ Approach

An example structure of our typical roadmap to ESG integration is:

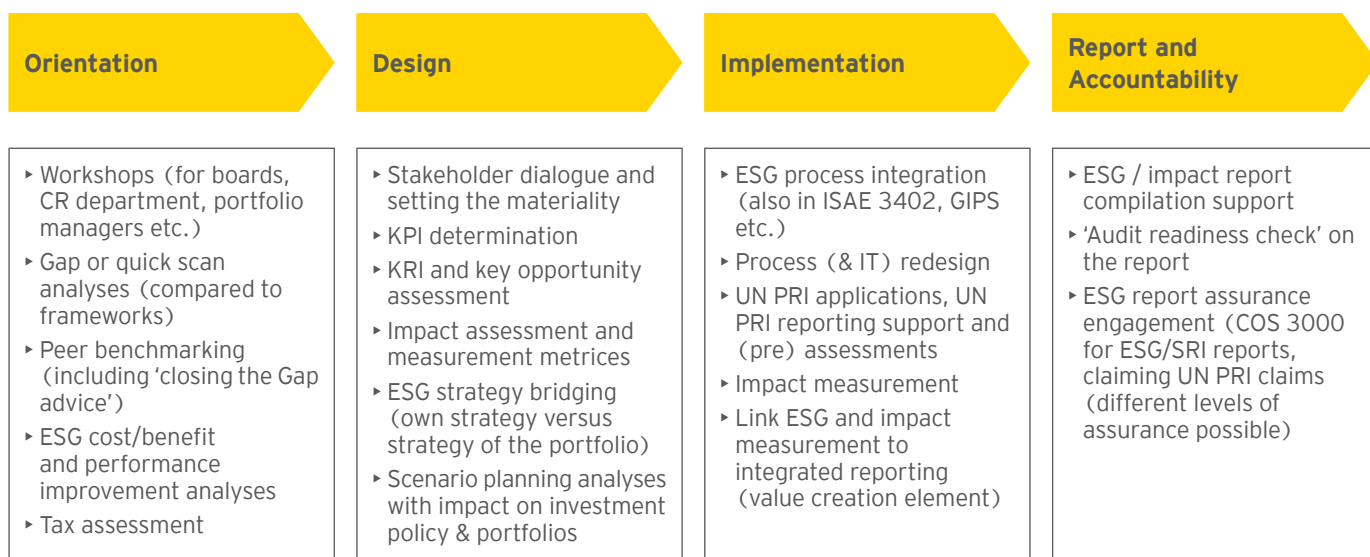
- ▶ Creating awareness, including stakeholder analysis.
- ▶ Strategy development, including ESG benchmarking, strategy bridging, gap analysis, feasibility study, KPI and KRI setting, impact measurement framework analyses, risk impact assessment and product innovation.
- ▶ Strategy execution, including ESG due diligence, process redesign, UN PRI application, Equator Principle assessment and impact measurements according to GIIN, IRIS etc.
- ▶ Reporting, including peer benchmark analyses.
- ▶ Verification, including a readiness check.

## ■ Propositions

We have developed a proven approach and track record to support clients with impact assessments, implementation and assurance. Furthermore, our proposition is most competitive due to:

- ▶ **Partnerships** - We have sound collaboration credentials with leading organizations related to ESG integration, like UN PRI, Sustainalytics, VBDO, Eerlijke Bank- en Verzekeringswijzer, Eurosif, IIRC and GRI. We are also working jointly with our EY Cleantech and Sustainability colleagues, with in depth technical and strategic sustainability background and international networks.
- ▶ **Track record** - Our global network of sustainability practitioners has direct experience working with financials to embed ESG into their investment process, product proposition and risk & control frameworks.
- ▶ **Integrated Reporting** - We have been involved in the global initiative to develop Integrated Reporting from the very outset, and our CEO Mark Weinberger is an active member of the IIRC. We will draw on our ongoing support to the IIRC to deliver the best insights and solutions for Integrated Reporting including ESG integration to our clients.
- ▶ **Research/thought leadership** - We conduct groundbreaking research on ESG issues and made publications available on a regular basis.

## ■ ESG / impact investing related services of EY



# More information

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