

PRESS RELEASE

Sustainable investing industry grows during COVID-19, CFA Institute

[SYDNEY, AUSTRALIA], 14 December 2020: A new study survey by CFA Institute, the global association of investment management professionals, reveals sustainable investing has been accelerated by the COVID-19 pandemic, though improved standards around ESG products are needed to mitigate 'greenwashing'.

Among the findings, 85% of CFA Institute members surveyed now say that they take environmental, social and/or governance (ESG) factors into account when investing, up from 73% just three years ago. Although only 19% of institutional investors and 10% of retail investors currently invest in products with ESG factors, 76% of institutions and 69% of retail investors said they have interest in ESG investing (65% in Australia).

The report, *The Future of Sustainability in Investment Management: From Ideas to Reality*, reveals retail investor interest has risen most in the last two years in the UK, followed by Canada, Germany, Australia and Hong Kong. The study includes the perspectives of over 7,000 industry participants, including investors, investment practitioners and ESG specialists.

A majority (71%) of participants agreed that alternative data, or data derived from non-traditional sources such as the internet and social media, have the potential to improve the robustness of sustainability analysis. Most respondent (78%) also believe there is a need for improved standards around ESG products to mitigate 'greenwashing' and to boost transparency about 'green;' claims.

"Incorporating sustainability in investment management has become part of our industry's mission to serve society by improving long-term outcomes," said Margaret Franklin, CFA, President and CEO of CFA Institute. "This moment represents a valuable opportunity for organisations to address this challenge and help shape a future worth investing in. As the focus on sustainability in investing gathers momentum, it will eventually dictate the sustainability of investing itself."

The reason for incorporating ESG in investment decisions are varied. For asset managers who consider ESG in their investment analysis and decisions, client and investor demand is one of the biggest factors (for 59% of firms), as well as the need to manage investment risks (for 64% of firms). Just 35% consider ESG to improve financial returns, despite the outperformance of ESG indexes during the COVID crisis.

"For many years, sustainable investing could be characterised as 'a slow-moving but unstoppable train,' but this year's events have accelerated it. With the COVID-19 pandemic, the health and safety of various communities has become a larger consideration. In addition, unrest over racial inequality in the US increased focus on social responsibility," said Lisa Carroll, CEO of CFA Societies Australia.

In addition to these findings, the report found that 90% of investment professionals expect their firm's commitment to ESG research will increase, up from 72% just two years ago, which has led to a shortage of investment professions with ESG expertise. Other findings from the study include:

- **ESG ratings:** Company ratings are widely used, with 63% of investment professional respondents using them as a part of their data analysis. In addition, 73% expect the influence of ESG ratings on firms' cost of capital to be greater in the next five years.

- **Climate risk:** 40% of investment professionals surveyed incorporate climate risk into their analysis, and the most common types of risk considered are physical and transition risks.
- **Implementation:** The most used features are best-in-class/positive screening (used by 56% of survey respondents) and ESG integration (53%), followed by ESG-related exclusions (48%). Voting, engagement, and stewardship are used by 40%, and thematic is used by 35%.
- **Expected growth areas:** Industry professionals expect to see more ESG index tracking and quant funds, ESG thematic products, ESG multi-asset products, climate transition strategies, long-term engagement, and better benchmarks.
- **Demand for ESG expertise:** A review of 10,000+ LinkedIn investment professional job posts found in August 2020 that approximately 6% mentioned sustainability-related skills. Demand for sustainability talent is rated as “very high.”
- **Current structure and roles:** About one-third of investment organisations have dedicated ESG specialists, and a third have portfolio managers conduct ESG analysis.
- **Supply of ESG expertise:** An analysis of 1 million investment professionals on LinkedIn found that less than 1% had disclosed sustainably-related skills in their profile, despite 26% growth in sustainability expertise in the last year. Women represent 42% of ESG analysts, which is much higher than the 26% of women overall in the sample

About the survey

The report is informed by views of more than 7,000 industry participants, including more than 4,400 investment clients, consisting of 3,525 retail investors (with minimum assets of US\$100,000) and 921 institutional investors (pension funds, endowments, foundations, insurance companies, and sovereign funds of US\$50 million assets under management or greater across 15 markets, surveyed in October/November 2019 by Greenwich Associates. More than 2,800 investment practitioners, CFA Institute members globally, were surveyed in March 2020. Research was conducted via surveys and virtual roundtables across 31 markets globally including Australia.

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About CFA Societies Australia

CFA Societies Australia is part of the worldwide network of CFA Institute member societies that lead the investment profession globally by promoting the highest standards of ethics, education and professional excellence for the ultimate benefit of society. CFA Societies Australia represents the interests of over 3000 investment professionals through advocacy, education, events, and professional development. For more information visit www.cfas.org.au, or follow us on Twitter at [@CFASocietiesAus](https://twitter.com/CFASocietiesAus), Facebook at facebook.com/CFASocietiesAus or on LinkedIn.

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