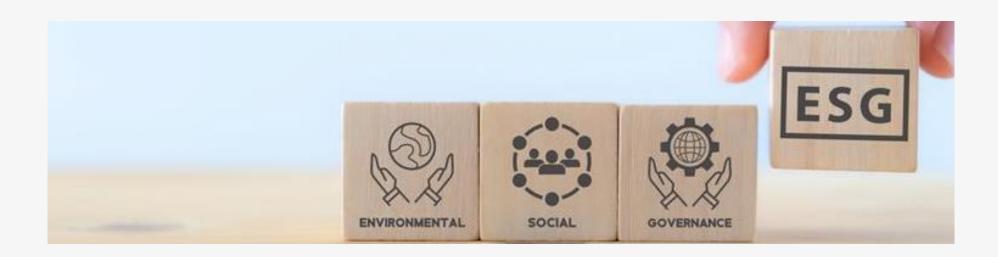
Special Report

ESG Investing





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Introduction

Evolution of ESG in Investing

ESG has been around for over a decade now. However, only in the past 2–3 years, have many investors started shifting to sustainable investing

<2005

Though the idea of integrating ESG with capital markets was conceived in 2005, many institutional investors were initially reluctant to accept the concept of ESG investing and focused on maximizing shareholder value irrespective of the nature of and impact on the business.

2006– 12

Launch of Principles for Responsible
Investment (PRI) at the New York Stock
Exchange (NYSE) in 2006 and
Sustainable Stock Exchange Initiative
(SSEI) in 2007 ignited the interest of
investors. Starting 2012,
investors avoided investing in tobacco
and gaming.

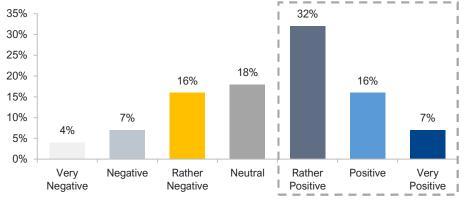
2012– 18

The Paris Agreement was adopted in 2015 to bring a positive impact to climate change, incorporate responsible investing practices, and promote sustainable businesses. By 2018, 80% of the world's largest corporations adopted GRI standards and over USD20 trillion of AUM was infused in ESG-related investments.

2018– 22

The Covid-19 crisis has changed the purview of investing. Investors in Europe and North America are foremost in following sustainable investing practices, accounting for more than 90% of the ESG market. Investors are now increasingly focusing on companies with a good track record in ESG aspects.

More than 57% of investors believe the COVID-19 crisis would boost the momentum of ESG investments in the next three years



Source: JP Morgan

Source: Forbes, Morningstar, Aranca Research



Key Sectors



Sectors of Interest



Sectors to Avoid



Alternative Energy



Alcohol



Major Disease Treatment



Conventional and Controversial Weapons



Nutrition



Civilian Firearms



Green Building



Gambling



Sanitation



Tobacco



Sustainable Impact Solutions



Nuclear Power and Weapons



Private Equity in ESG

Drivers for PE's Focus on ESG

The changing investment landscape is forcing PE firms to adopt ESG policies.

Access to Capital

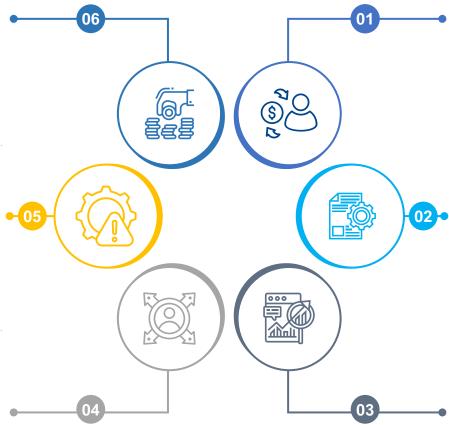
 According to the UN, an estimated USD3-5tn per year is needed to meet the United Nations Sustainable Development Goals (UN SDGs), and PE would play an important role in providing financial support to achieve these goals.

Improved Risk Management

 Investments in non-ESG funds are increasingly perceived as riskier.
 Considering the current scenario, ESG indices and ESG funds have somewhat outperformed most of the conventional peers.

Miss Out on Opportunities

- Firms face the risk of losing projects in case a competing firm has more mature ESG capabilities to leverage.
- ESG can attract better talent and lead to better engagement with them.



Investor-Driven Demand

- PE investors are demanding better returns, along with the safety of investment.
- Certain investors are also facing disclosure issues from their regulators, the requirements of which they are passing on to asset managers.

Increasing Disclosure

- PE and VC funds are expected to face more stringent regulations in future.
- Alternative investment fund managers (AIFMs) are being required to make detailed disclosures to the public (and not merely to their own investors) at both the manager and product levels.

Acting for Long Term

- ESG is being rapidly adopted by public companies and may eventually be adopted by private players as well.
- In the long term, adopting ESG would give PE access to capital at lower costs.

Key ESG Trends Affecting PE Players

PE firms are facing ESG-related demands from the regulatory agencies, investors and partner level

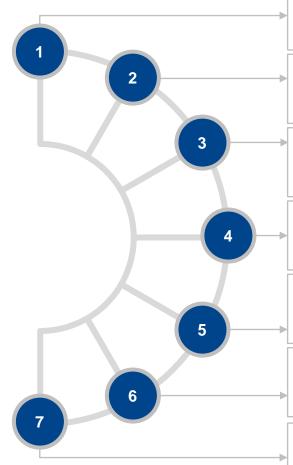
- Managing value creation alongside ESG factors would increasingly be based on best-in-class operational standards that are customized to establish and quantify the company's full ESG potential.
- Ensuring ESG adherence even during unfavorable conditions, by enforcing ESG compliance from the most senior level at the GP
- Disclosure requirements are expected to become stringent.
- Due diligence disclosures currently do not cover some aspects of sustainability issues. Due diligence reports are expected to expand to incorporate more disclosures.

- Industry players are working together to push ESG projects.
- A new private sector-focused initiative backed by 16 institutional investors was launched to support emission reduction in Australia.
- Major PE firms have joined to launch the One Planet PE Funds initiative.



- There are currently around 4,900 signatories to the 'Principles for Responsible Investment', an initiative which encourages investors to incorporate ESG factors into investment and ownership decisions.
- Three-fourth of LPs always or sometimes ask whether funds have an ESG consultant in place to advice on responsible investing across portfolios.

Key ESG Themes within PE Space



Just Transition to Reduce Impact on Communities

- Framework that encompass a range of social interventions that support communities through the shift to a more sustainable economy.
- Advocates for a just transition want to unite social and climate justice.

Net Zero Stays

- Net Zero transition requires business model transformation, and only companies that can transition to net zero would remain in the arena.
- Companies need to make decisions to ensure they are winners or at least not casualties in the transition.

Divestment vs Engagement

- How can investors decarbonize investment portfolios? Should they divest from high-carbon emitters or engage with them?
- Engagement allows investors (as shareholders) to push for necessary, significant changes in line with ESG.

ESG Funds Gaining Traction and May Attract Retail Investors

The number of ESG ETFs have increased more than six-fold, even as active ESG fund assets keep growing. This, along with record-breaking asset flows into sustainable funds, may spark the interest of retail investors.

Social Issues In Supply Chain

- In 2021, companies became acutely aware of their dependency on as well as the fragility of the supply chain.
- Existing and proposed legislation would make supply chain traceability and social risk management more important in the future.

Integrity of Growing Sustainable Debt Market

- In 2021, total sustainable debt issuance reached a record high of about USD960 billion.
- A key challenge for market participants in the coming year would be to manage this growth in a way that preserves the legitimacy of these financing instruments and combats rising concerns about greenwashing.

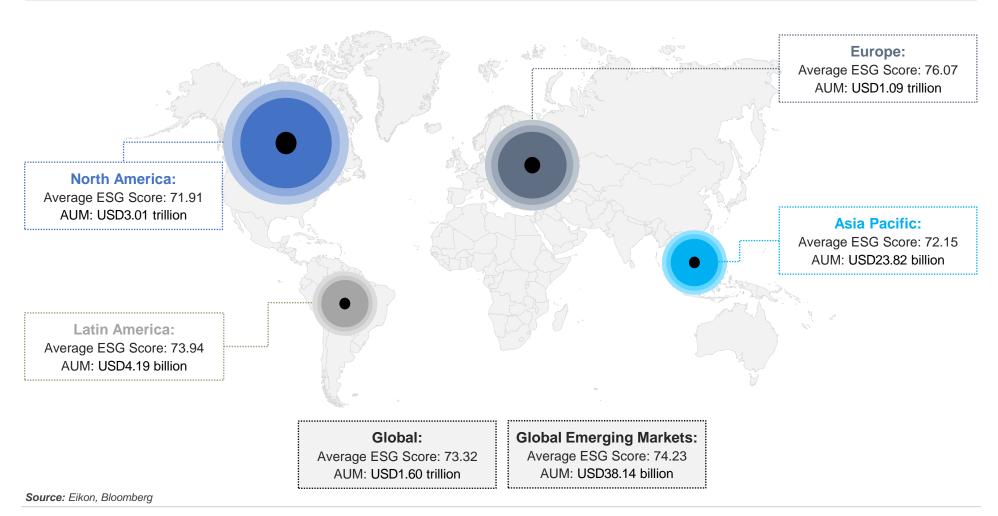
Other Themes Besides Climate Change

- Social issues in supply chains are likely to command more attention.
- Assessing natural capital and biodiversity risks is gaining importance.
- Climate stress testing would gain prominence in the financial services industry.

Public Fund Investments in ESG

Geographic Overview

North America and Europe are global leaders in ESG investments, while Asia Pacific, Latin America, and other emerging markets are witnessing increased awareness.



Major Fund Managers across the Regions

WISDOMTREE®

Total AUM USD6.52 Trillion Global Emerging Markets Global **NOMURA NORTHERN** Deutsche Bank DNB EURIZON ASSET MANAGEMENT Goldman Sachs **Ashmore** J.P.Morgan ALLIANCEBERNSTEIN HSBC (X) AXA









Financials





SulAmérica





Top Sectors





Source: Eikon, Bloomberg

3BG 3 Banken-Generali Investment-Gesellschaft m.b.H.

SwissLife

Global ESG Funds

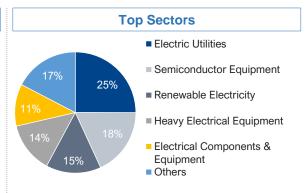
iShares Global Clean Energy ETF

Global Clean Energy Fund

Investment Strategy: The iShares Global Clean Energy ETF seeks to track the investment results of an index composed of global equities in the clean energy sector.

Fund Size	USD5.61 billion	
Fund Launch Date	06/24/2008	
Ticker	ICLN	
Number of Holdings	76	
Expense Ratio	0.42%	
Price to Earnings	25.14	
Beta vs S&P 500	1.09	





Top Holdings











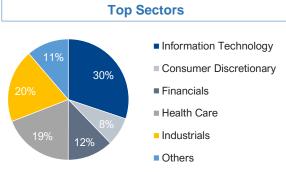
AllianceBernstein Sustainable Global Thematic Fund

High Performing Thematic Fund

Investment Strategy: The fund employs a "top-down" and "bottom-up" investment process with the goal of identifying securities that fit into sustainable investment themes. The fund identifies sustainable investment themes that are broadly consistent with achieving UN SDGs such as health, climate, and empowerment.

Fund Size	nd Size USD2.65 billion	
Fund Launch Date	10/01/1996	
Weighted Avg. Capital	USD179.0 billion	
Ticker	ATEYX	
Number of Holdings 59		
Turnover Rate	35%	





svb >





Top Holdings







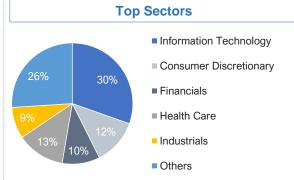
Select ESG Funds in US

ETF iShares ESG Aware MSCI USA **High Performing Fund**

Investment Strategy: The iShares ESG Aware MSCI USA ETF seeks to track the investment results of an index composed of US companies that have positive ESG characteristics. The fund aims to obtain exposure to higher rated ESG companies while accessing large and mid-cap US stocks.

Fund Size	USD25.7 billion	
Fund Launch Date	12/01/2016	
Number of Holdings	321	
Avg. Weighted Market Cap	USD569.27 billion	
Expense Ratio	0.15%	

Annualized Performance (%) 27.1 27.3 26.8 27.0 19.2 19.0 1-Year 3-Year 5-Year ■ ESGU NAV ■ MSCI USA Extended ESG Focused Index



Top Holdings







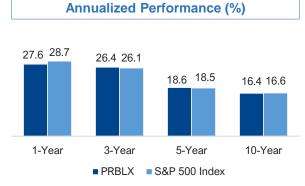
Alphabet

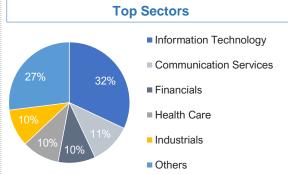
Parnassus Core Equity Fund Large Blend Fund

Investment Strategy: The Parnassus Core Equity Fund invests with low turnover and high conviction in approximately 40 holdings. The fund focuses on identifying high-quality companies and strives to outperform the S&P 500 Index on a risk-adjusted basis with a high active share.

Every investment made must meet rigorous fundamental and ESG criteria.

Fund Size	USD32.3 billion	
Fund Launch Date	08/31/1992	
Number of Holdings	38	
Avg. Weighted Market Cap	t Cap USD510.4 billion	
Net Expense Ratio	0.84%	





Top Holdings













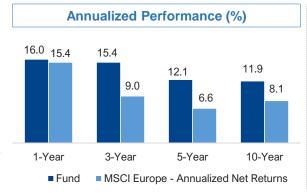
Select ESG Funds in Europe

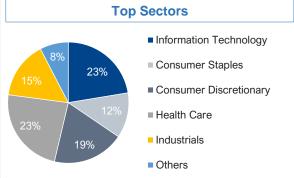
Acc Comgest Growth Europe EUR

High Performing Value Fund

Investment Objective: In order to increase the value of the fund (capital appreciation) over the long term, it intends to invest in a portfolio of highquality, long-term growth companies.

Fund Size	USD4.94 billion	
Fund Launch Date	05/15/2000	
Avg. Weighted Market Cap	USD110.43 billion	
Number of Holdings	38	
Current NAV	USD41.13	





Top Sectors

Industrials

■ Financials

Others

■ Health Care

Consumer Staples







Top Holdings



14%

17%



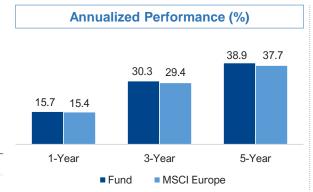
Consumer Discretionary

Europe Amundi Index MSCI UCITS ETF

Top European ESG Fund

Investment Objective: The Amundi Index MSCI Europe UCITS ETF seeks to replicate as closely as possible the performance of the MSCI Europe Index, whether the trend is rising or falling.

Fund Size	USD3.93 billion
Fund Launch Date	06/29/2016
Average Market Cap	USD78.33 billion
NAV	USD75.71
Expense Ratio	0.18%















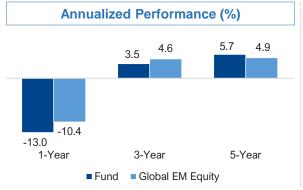
Select ESG Funds in Emerging Markets

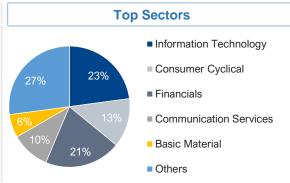
Vontobel Fund - mtx Sustainable

High Performing Fund

Investment Objective: The sub-fund aims to generate long-term capital growth and promote environmental or social characteristics by employing a number of safeguards and evaluating all investments against sustainability criteria with hard thresholds that must be met for inclusion. The starting investment universe is the Emerging Markets equity markets.

Fund Size	USD6.70 billion
Fund Launch Date	07/15/2011
NAV	USD157.78
Weighted Average M-Cap	USD148.67 billion
Net Expense Ratio	2.03%





tsmc

Tencent 腾讯



Top Holdings



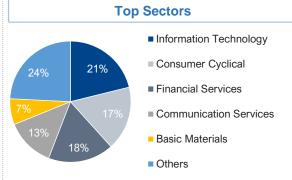


Top Emerging Market Fund
Credit Suisse Index Fund Equity
Emerging Markets ESG

Investment Objective: The sub-fund tracks the MSCI Emerging Markets ESG Leaders Index as its benchmark index. The sub-fund aims is to provide shareholders a return in line with the performance of the MSCI Emerging Markets ESG Leaders Index.

Fund Size	ze USD4.16 billion	
Fund Launch Date	05/26/2017	
NAV	USD1324.77	
Weighted Average M-Cap	ap USD229.55 billion	
Expense Ratio	0.13%	





tsmc

Tencent 腾讯



Top Holdings



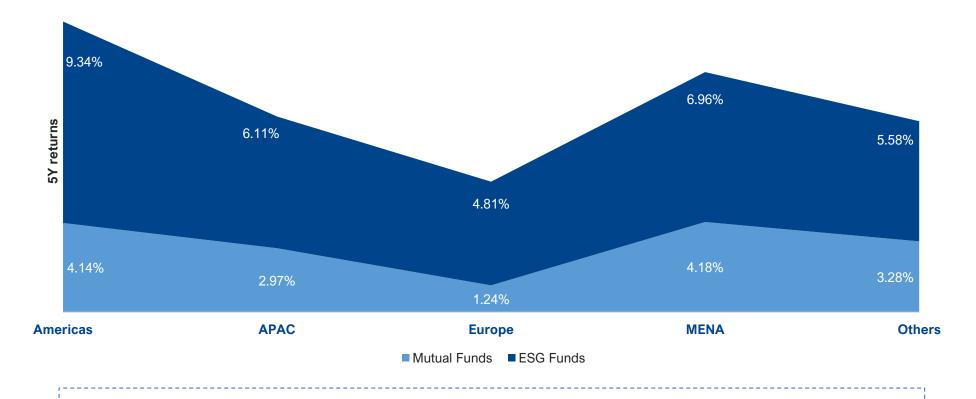




ESG Fund Performance Analysis

Returns Generated by ESG vs Traditional funds

Better ESG scores result in 10% lower Cost of Capital as risks to operate business are reduced, improving returns in the long term



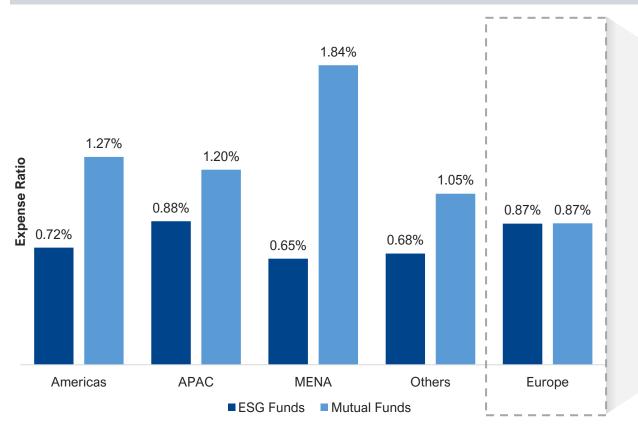
ESG funds outperformed conventional mutual funds by an average of 3.4% over a 5-year period

Source: Bloomberg, Morningstar



Cost of Funds – Traditional vs ESG

ETFs categorized as sustainable in 5 out of 6 large fund categories, charge lower average annual fees than non-ESG funds in Europe, as quoted by Morningstar



ETF category	ESG	Non-ESG
Europe Large-Cap Blend	0.22	0.24
Eurozone Large- Cap	0.21	0.22
Global Emerging Markets	0.27	0.39
Global Large-Cap Blend	0.28	0.30
UK Large-Cap	0.19	0.17
US Large-Cap Blend	0.19	0.22

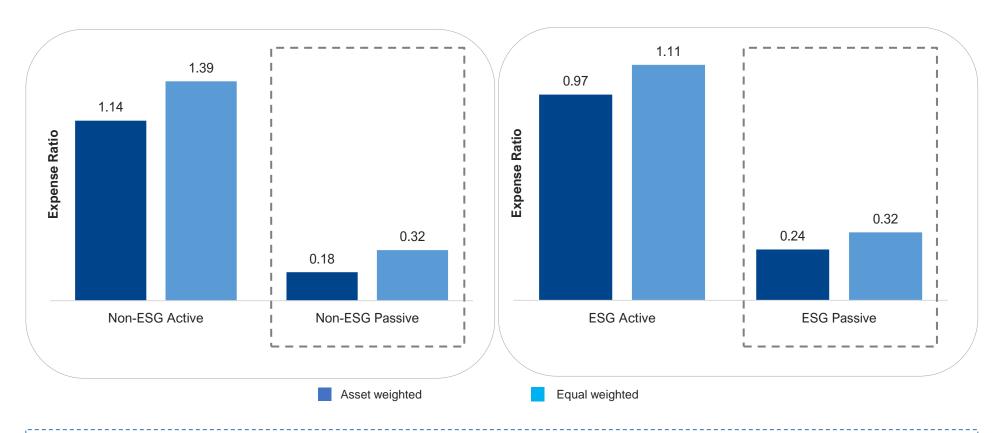
ESG funds have showed lower volatility during black-swan events in the past when compared to traditional funds according to the study conducted by Morgan Stanley

Source: Bloomberg, Morningstar



Cost of Funds in ESG – Active vs Passive

ESG funds are often perceived as the greenium funds because of expensive fees paid for actively managed funds



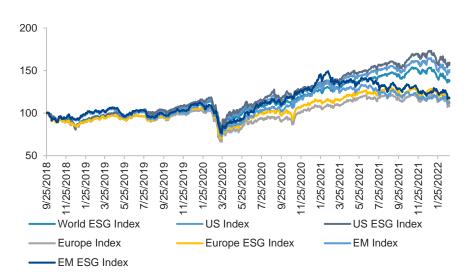
However, many passive funds (through index funds and ETFs) came into existence which brought the average expense ratio of ESG funds down when compared to conventional mutual funds



Performance Analysis (1/2)

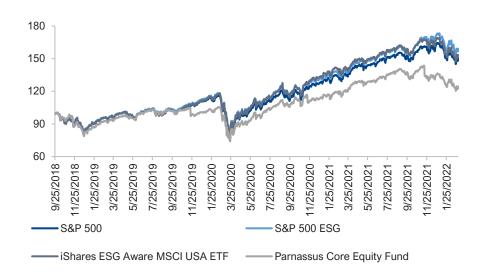
ESG funds outperformed their respective country indices by a narrow margin. In the US, ESG was the best performing fund

ESG vs World vs Region Index



- The World ESG Index outperformed the World Index by a small margin of 3%.
- With a 59% increase, the US ESG Index outperformed all the other indices by a significant percentage during the tracked time period.
- The Emerging Markets ESG Index showed 18% returns, which is higher than the European ESG returns of 13%.
- The outperformance of ESG funds compared to the market index was in range of 3– 9%.

US ESG vs Index vs Select Public Funds



- The ESG Index outperformed both the market index as well as the leading public fund indices.
- iShares ESG Aware underperformed the ESG Index by only 6% and outperformed the S&P 500 by 3%.
- The top 10 constituents of both the S&P 500 ESG and iShares ESG Aware consist
 of the top technology companies, which can explain their outperformance and
 similar returns.

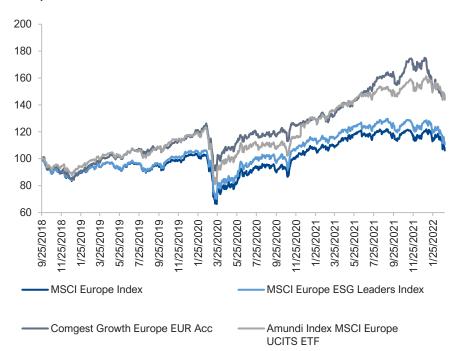
Source: Capital IQ, Bloomberg



Performance Analysis (2/2)

In Europe and EM, ESG funds outperformed the region index, but underperformed the public funds chosen

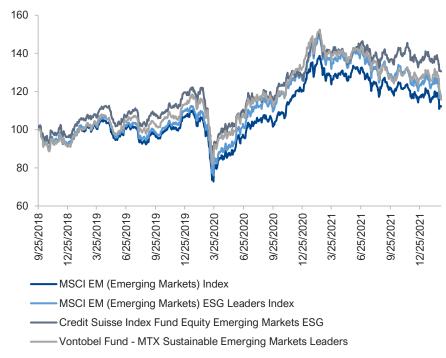
Europe ESG vs Index vs Select Public Funds



- The ESG index outperformed the overall Europe Index.
- Public funds managed to significantly outperform the ESG and Europe indices during the tracked time period
- ASML and Roche are in the top holdings of ESG and public funds.

Source: Capital IQ, Bloomberg

Emerging Markets vs Index vs Select Public Funds



- The ESG Index outperformed the overall EM Index.
- Credit Suisse Index managed to outperform the ESG and market indices by 18% and 13%, respectively.
- TSMC and Tencent are the top holdings of ESG and public funds.
- IT and Financials are the top allocated sectors in all three funds.



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