GLOBAL SUSTAINABLE INVESTMENT REVIEW 2022

GLOBAL SUSTAINABLE
INVESTMENT ALLIANCE

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US SIF Sustainable Investment Forum

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GLOBAL SUSTAINABLE INVESTMENT ALLIANCE

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Global Sustainable Investment Alliance

FOREWORD

The Global Sustainable Investment Alliance (GSIA) is an international collaboration of membership-based sustainable investment organisations around the world who collaborate to deepen and expand the practice of sustainable, responsible and impact investment through intentional international cooperation.

Our mission is to unlock the power of the worldwide financial services industry to drive leadership, achieve a substantial impact on key global challenges, and accelerate the transition to a sustainable future. GSIA simultaneously works to enhance the synergies between members, participate in global initiatives, and provide advice and support to local and regional sustainable investment organisations as they setup and grow. Our vision is a world where sustainable investment is integrated into financial systems and the investment chain and where all regions of the world have coverage by vigorous membership based institutions that represent and advance the sustainable investment community.

The global network of sustainable investment organisations that make up the GSIA all work in their individual markets to progress this transition, ensuring sustainable investment is delivered in a manner aligned with best practice standards, driving positive change in corporate policies and performance and ultimately, aligning with a more sustainable future.

This report brings together regional data from across Europe, the United States, Canada, Japan, Australia and New Zealand. The report also includes additional market insights from the United Kingdom, China, and across Asia, to form a global picture of the sustainable investment industry. The report compiles the most comprehensive data from regional surveys, analysis and other available data, drawn from both primary and secondary sources.

We would like to thank the many contributors of the regional research reports used to prepare the Global Sustainable Investment Review 2022, and other contributing organisations who provided data and regional insights.

In particular, we would like to thank HSBC Global Research and A Future Worth Living In for their support in producing this global report. Without the support of HSBC Global Research as sponsor, and the research support of A Future Worth Living In, this report would not have been possible.

EXECUTIVE SUMMARY

This year's Global Sustainable Investment Review 2022 (GSIR) is the sixth in our series of biennial reports mapping the state of sustainable investment in the major financial markets globally.

Once again, the report demonstrates that, despite challenges including significant changes in methodology and associated regulations, sustainable investment is a major force shaping global capital markets.

> *'Sustainable investment across Europe, Canada, Japan, Australia and New Zealand has reached USD21.9 trillion in assets under management (AUM), having grown by 20% in the last two years.'*

Beyond the top line results, this year's report highlights that the industry is maturing. Developments that began in the EU have now spread across the globe, resetting expectations on how we define sustainable investment, with an emphasis on moving the industry towards a more consistent and transparent standard of practice, aligned to achieving real-world change.

Despite the varying pace of change across different regions, there are clear and consistent themes emerging. These themes include the tightening of regulatory frameworks and industry standards, in response to a rise in greenwashing concerns. In some instances, this has led to a reticence to disclose practices, known as 'greenhushing'. As a result we have seen revisions to methodology in multiple regions, which presents challenges when comparing across previous versions of this report. However, these revisions reflect a positive maturation of the sustainable investment industry and a broader re-baselining of what it means to adopt sustainable investment practices within an investment strategy or product. This trend is likely to continue as the EU Sustainable Financial Disclosures Regime (SFDR) develops, similar approaches are adopted by other regulators and as data availability increases.

This year's report reflects the increasing expectation that sustainable investment is defined, not just by the strategies involved, but by the short- and long-term impacts that investors are achieving through their sustainable investment approaches. For the first time 'corporate engagement and shareholder action' has become the predominant sustainable investing strategy. This highlights a growing recognition that investors cannot divest their way to a more sustainable future and that their rights and responsibilities as shareholders offer a powerful mechanism to effect real world change.

In reading this report it is important to note that in the United States, US SIF adopted a revised methodology which identified $8.4 trillion in sustainable investment assets under management in 2022, a material change from the $17 trillion reported for the US in the previous Global Sustainable Investment Review. Due to the materiality of the methodological change, the US figures have been excluded from elements of the trend analysis presented in this Review. More detail on this is included in the Methodology section.

Key findings in this year's report include:

- $30.3 trillion is invested globally in sustainable investing assets.
- In non-US markets, sustainable investment assets under management (AUM) have increased by 20% since 2020.
- A change in methodology in several markets reflects the growing maturity of the sustainable finance industry across the world.
- The absolute value of sustainable investing assets grew across most regions (Europe, Australia and New Zealand and Japan) which is reflective of broader market growth. Australia and New Zealand and Japan were the only regions to increase the proportion of sustainable investing assets relative to total managed assets.
- The most common sustainable investment strategy globally is corporate engagement and shareholder action, followed by ESG integration then negative or exclusionary screening.

Key themes emerging from this year's report include:

- Industry Maturing
- Shifting Definitions
- Rise in Greenwashing concerns and Greenhushing
- Focus on Stewardship and Engagement

This Global Sustainable Investment Review highlights the continuing journey being undertaken across the world to advance sustainability in financial services. Much has changed over the last two years, and the pace of change is accelerating. This includes broad realignment of the meaning of sustainable investment and the responsibility of the industry to avoid greenwashing.

However, this journey is far from complete. To ensure progress matches the pace and scale demanded by global sustainability challenges, the international community must do more to support the finance industry to optimise the impact we can have. GSIA makes the following policy recommendations to the international community that, if implemented, would drive capital flows towards projects and investments that will accelerate the world's transition to a sustainable future.

POLICY RECOMMENDATIONS

Net Zero Investment Opportunities

The GFANZ commitments made in 2021 at COP26 in Glasgow showcase the willingness of the world's asset owners and managers to move vast private capital towards net zero over the coming decades. However, investors now require a large-scale pipeline of net zero investment opportunities to allow investment to take place.

National governments can unlock significant flows of capital from global investors, particularly those with strong commitments to GFANZ, if they put in place the right policy signals, supportive policy frameworks, and create investment opportunities. This will enable an acceleration of capital flows consistent with net zero commitments. Governments need to provide supportive capital market environments which align subsidies, market incentives, and government structures to ensure transformative public and private investment flows can be unlocked.

International Regulatory Alignment

Many asset managers and financiers have clients and investments across the world and report increasing challenges in aligning with the large number of regulatory approaches being developed. These regulatory approaches are often designed to achieve similar outcomes.

Governments, regulators, and standard-setters should work together to support closer global alignment on sustainable finance regulations to address fragmentation and support greater convergence, while avoiding a 'lowest common denominator' approach and being mindful of different regional environmental and economic circumstances.

We are broadly supportive of global efforts underway, including the ISSB, ESRS, IOSCO, NGFS and GFANZ, but more needs to be done. We recommend the international community - perhaps under the G20 Sustainable Finance Working Group - rapidly convenes a *Sustainable Finance Regulatory Convergence Taskforce*, to review the landscape and make recommendations for enhancements and greater alignment. As a global organisation, GSIA is well-placed to support and contribute to such a taskforce.

Enhance Data Availability

Efficient markets rely on transparent, accessible and comparable data – nowhere is this more true than in the rapidly-evolving world of sustainable finance. To ensure investors receive the data necessary to effectively incorporate sustainability factors into investment decisions, we are calling for the widespread and rapid adoption of a global baseline for strengthened corporate sustainability disclosures, ESG ratings and benchmarks. Such a baseline should aim to be as consistent as possible, while taking into account variations in circumstances across the world.

Nature And Biodiversity

The international finance community can play a key role in simultaneously helping to address climate change alongside biodiversity and nature loss, particularly through consideration of nature-related dependencies, impacts, risks and opportunities. We support moves by the international community to rapidly address these interconnected challenges.

We encourage governments to support and advance the disclosure frameworks that allow for better assessment of such risks and impacts, including the global adoption of the disclosure recommendations prepared by the Taskforce on Nature-related Financial Disclosures (TNFD) and the incorporation of TNFD reporting for corporations into the ISSB framework.

DEFINITIONS OF INVESTMENT APPROACHES

Growing global interest in responsible and sustainable investment demands greater standardisation of terminology to enable institutional investors, regulators, and other industry participants to communicate with precision. In November 2021, the International Organization of Securities Commissions (IOSCO) highlighted the need for the global investment industry *"to develop common sustainable finance-related terms and definitions, including relating to responsible investment approaches, to ensure consistency throughout the global asset management industry."*

In response, CFA Institute, The Global Sustainable Investment Alliance (GSIA), and Principles for Responsible Investment (PRI) came together to harmonise definitions and provide guidance for usage. The report can be accessed here and the definitions are detailed in Table 1. For the purposes of this report the category of screening is further defined to identify norms based, negative and positive screening approaches, as detailed in Table 2. In addition, Stewardship is described as *"Corporate Engagement and shareholder action"*.

TABLE 1
Definitions: Investment Approaches

APPROACH	DEFINITION
Screening	Applying rules based on defined criteria that determine whether an investment is permissible.
ESG integration	Ongoing consideration of ESG factors within an investment analysis and decision-making process with the aim to improve risk-adjusted returns.
Thematic investing	Selecting assets to access specified trends
Stewardship	The use of investor rights and influence to protect and enhance overall long-term value for clients and beneficiaries, including the common economic, social, and environmental assets on which their interests depend.
Impact Investing	Investing with the intention to generate positive, measurable social and/or environmental impact alongside a financial return.

TABLE 2
Definitions: Screening Approaches

SCREENING APPROACH	APPLYING RULES BASED ON DEFINED CRITERIA THAT DETERMINE WHETHER AN INVESTMENT IS PERMISSIBLE
Norms-based Screening	Screening of investments against minimum standards of business or issuer practice based on international norms such as those issued by the UN, ILO, OECD and NGOs (e.g. Transparency International).
Negative/ Exclusionary Screening	The exclusion from a fund or portfolio of certain sectors, companies, countries or other issuers based on activities considered not investable. Exclusion criteria (based on norms and values) can refer, for example, to product categories (e.g., weapons, tobacco), company practices (e.g., animal testing, violation of human rights, corruption) or controversies.
Positive/Best in Class Screening	Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers, and that achieve a rating above a defined threshold.

A NOTE ON **METHODOLOGY**

This report provides a snapshot of sustainable investing based on the regional and national reports from GSIA members.

GSIA members are Eurosif (European Sustainable Investment Forum), UKSIF (UK Sustainable Investment and Finance Association), the US Sustainable Investment Forum (US SIF), Japan Sustainable Investment Forum (JSIF), the Responsible Investment Association Canada (RIA Canada), the Dutch Association of Sustainable Investors (VBDO) and the Responsible Investment Association Australasia (RIAA). Reference to 'global data' or 'regions' in this section refers to data from these regions unless otherwise specified. Eurosif, VDBO and UKSIF do not collect data directly, data for the European region has been sourced from the European Fund and Asset Management Association (EFAMA).

Each region or country covered by this report uses a different method to collect data for its respective report. The consolidation in this report is made on a best effort basis, based on best available regional data. Detailed information on the policy, regulatory, industry, customer and market drivers across global regions has been provided by the regional sustainable investment organisations.

All 2022 assets are reported as of 31 December 2021, except for Japan which reports as of 31 March 2022. For figures which are not displayed in the region's local currency, currencies have been converted to US dollars at the exchange rate prevailing on 31 December 2021.

Refer to Appendix 1 for further information on the methodology and data used in this report. Refer to Appendix 2 for a table of assets in each region in its local currency from 2018 to 2022.

A note on naming conventions

'Sustainable investment', as referred to in this report, is a term that is inclusive of investment approaches that consider environmental, social and governance (ESG) factors in portfolio selection and management across various strategies of sustainable or responsible investment. For the purpose of articulating our shared sustainable investment work in the broadest way, GSIA uses this inclusive definition, recognising there are distinctions and regional variations in its meaning and use, and related or interchangeable terms such as responsible investing and socially responsible investing. Despite more alignment of terminology across regions in this report than in previous years, some differences remain.

US Modified Methodology

The US SIF modified their methodology for the latest edition of the US SIF Trends report, which is used as the basis for the Global Sustainable Investment Review. The revised methodology does not include the AUM of investors who stated that they practice firmwide ESG integration but did not provide information on any specific ESG criteria they used (such as biodiversity, human rights or tobacco) in their investment decision-making.

Additionally, several asset managers in the 2022 Trends Information Request reported far lower sustainable investing AUM than they had in 2020 (in some cases, in the magnitude of billions and trillions of dollars). The modified methodology and change in money manager reporting led to a significant drop in total reported ESG AUM, as well as ESG AUM for specific criteria.

The revised methodology identified $8.4 trillion in sustainable investment assets under management in 2022, a material change from the $17 trillion reported in the previous Global Sustainable Investment Review. Due to the materiality of the methodological change, the US figures have been excluded from elements of the trend analysis presented in this Review. Where this is the case the US data is presented alongside the Global ex US data.

ESG Categorisation Methodology

In previous years, respondents have been able to select multiple sustainable investing strategies. This has meant that the value across the categories has often exceeded the total ESG AUM (150 – 200%). In this year's report respondents from the US and Canada selected the predominant category and were required to validate selection with provision of AUM incorporating this strategy. As a result of this change the value across the categories does not meet the total ESG AUM, representing around 66%.

Special Note on Time Series

The US and Canada have seen changes in the way their regulators (US Securities and Exchange Commission and Canadian Securities Administrators) require funds to disclose their ESG considerations/credentials. This follows significant changes in definitions of sustainable investment in Europe and Australia and New Zealand, as observed in the 2020 report. Therefore, direct comparisons between regions and with previous versions of this report are not easily made. GSIA advise against using this data for highly technical time-series analysis.

GLOBAL SUSTAINABLE INVESTMENTS **2022**

GLOBAL SUSTAINABLE INVESTMENTS 2022

OVERVIEW NARRATIVE

Given the material change in the US methodology and the quantum of assets represented by this region, the trend analysis has been conducted excluding the US data. On this basis the trend indicates a 20% increase in the percentage of sustainable investments, increasing from USD18.2 to USD21.9 trillion. However, if the US data were to be included in the trend analysis the reported figure would change to a global decline of 14%.

The absolute value of reported sustainable investing assets grew across most regions (Europe, Australia and New Zealand and Japan).

In Europe, sustainable investing grew from USD12 trillion in 2020 to USD14 trillion in 2022. However, the growth in sustainable investing failed to keep pace with broader market growth. This has been a longer-term trend in Europe where the percentage of assets defined as sustainable has been declining, by around 5% each year. This could be in part due to increasing regulatory requirements regarding disclosures and a shift to a more risk averse reporting approach as part of an overall picture of increasing maturity of sustainable investing definitions and approaches as the industry develops.

This trend is also reflected in the Canadian market where the reported sustainable investing assets were broadly static, from USD2.42 trillion in 2020 to USD2.36 trillion in 2022 due to more conservative reporting. However, the percentage of sustainable investing assets dropped from 62% in 2020 to 47% in 2022.

In contrast, there continues to be strong growth in the Japanese market which has seen sustainable investing assets increase from USD2.9 trillion in 2020 to USD4.3 trillion in 2022. Sustainable investing has grown from 24% of the market in 2020 to 34% in 2022.

The Australian & New Zealand market has grown on an absolute basis from USD906 billion in 2020 to USD1.22 trillion in 2022. A change in methodology during the 2020 reporting period saw relative assets decline from 63% to 38%, the 2022 reporting period sees a moderate rebound with relative assets increasing to 43%.

The US market for sustainable investments has dropped materially from USD17.1 trillion to USD8.4 trillion due to the change in methodology outlined previously.

FIGURE 1
Snapshot of global sustainable investing assets, 2016– 2022 (USD billions)

REGION	2016	2018	2020	2022
Europe	12,040	14,075	12,017	14,054
Canada	1,086	1,699	2,423	2,358
Australia & New Zealand	516	734	906	1,220
Japan	474	2,180	2,874	4,289
Sub-total (USD Billions)	14,115	18,688	18,220	21,921
% change		*32%*	*-3%*	*20%*
United States	8,723	11,995	17,081	8,400
Total (USD Billions)	22,838	30,683	35,301	30,321
% change		*34%*	*15%*	n/a

Note: 2022 not applicable due to a change in methodology

Global sustainable investment at **$30.3 trillion**

FIGURE 2

Snapshot of global sustainable investing assets, 2016-2022 (USD billions) including and excluding US data

REGIONS	2016	2018	2020	2022*	2022
Total AuM of regions (USD)	81,948	91,828	98,416	57,887	124,487
Total sustainable investments only AuM (USD)	22,872	30,683	35,301	21,921	30,321
% Sustainable investments	27.9%	33.4%	35.9%	37.9%	24.4%
Increase of % sustainable investments (compared to prior period)		34%	15%	20%	n/a

NOTE: 2022* excludes US data due to the change in methodology and to allow consistent comparison across regions. 2022 change not applicable due to the change in methodology.

FIGURE 3

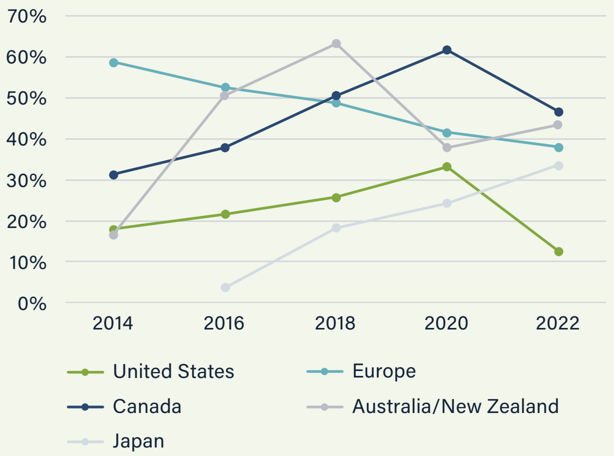
Growth of sustainable investing assets by region in local currency, 2014 – 2022

						GROWTH PER PERIOD				COMPOUND ANNUAL GROWTH RATE (CAGR) 2014-2020
	2014	2016	2018	2020	2022	2014-2016	2016-2018	2018-2020	2020-2022	
Europe (EUR)	€9,885	€11,045	€12,306	€10,730	€12,401	**12%**	**11%**	**-13%**	**31%**	**4%**
United States (USD)	$6,572	$8,723	$11,995	$17,081	$8,400	**33%**	**38%**	**42%**	**-51%**	**3%**
Canada (CAD)	$1,011	$1,505	$2,132	$3,166	$3,014	**49%**	**42%**	**48%**	**-5%**	**15%**
Australia & New Zealand (AUS)	$203	$707	$1,033	$1,295	$1,680	**248%**	**46%**	**25%**	**30%**	**30%**
Japan (JPY)	¥840	¥57,056	¥231,952	¥310,039	¥493,598	**6692%**	**307%**	**34%**	**59%**	**122%**

NOTE: Asset values are expressed in billions. All figures are in regional currencies. New Zealand assets were converted to Australian dollars.

FIGURE 4

Proportion of sustainable investing assets relative to total managed assets, 2014 – 2022



REGION	2014	2016	2018	2020	2022
Europe	59%	53%	49%	42%	38%
United States	18%	22%	26%	33%	13%
Canada	31%	38%	51%	62%	47%
Australia & New Zealand	17%	51%	63%	38%	43%
Japan		3%	18%	24%	34%

NOTE: Multiple regions have implemented significant methodological changes in 2020 or 2022, making comparisons with previous reports particularly difficult.

Proportion of sustainable investing relative to total managed assets

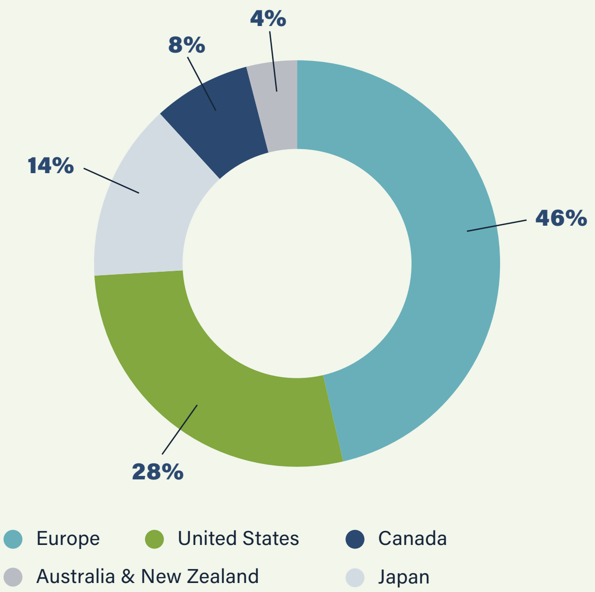
As shown in Figure 4, the proportion of sustainable investing relative to total managed assets continued to grow strongly in Japan, increasing from 24% to 34%.

In contrast both the United States and Canada reported a lower proportion of sustainable investing assets relative to total managed assets for 2020 to 2022. This reflects significant changes in the research methodology in these regions, making comparisons with previous reports particularly difficult.

The decline in Europe, from 42% to 38% could reflect increased regulatory requirements and a subsequent move to more conservative fund labelling and reporting. This follows the introduction of a suite of legislation and regulation under the Sustainable Finance Action Plan.

The Australia and New Zealand markets experienced a moderate increase in the proportion of sustainable investing relative to total managed assets, increasing from 38% to 43%. This followed a material drop in 2020 due to a revised methodology.

FIGURE 5
Proportion of global sustainable investing assets by region 2022



NOTE: Multiple regions have implemented significant methodological changes in 2020 or 2022, making comparisons with previous reports particularly difficult.

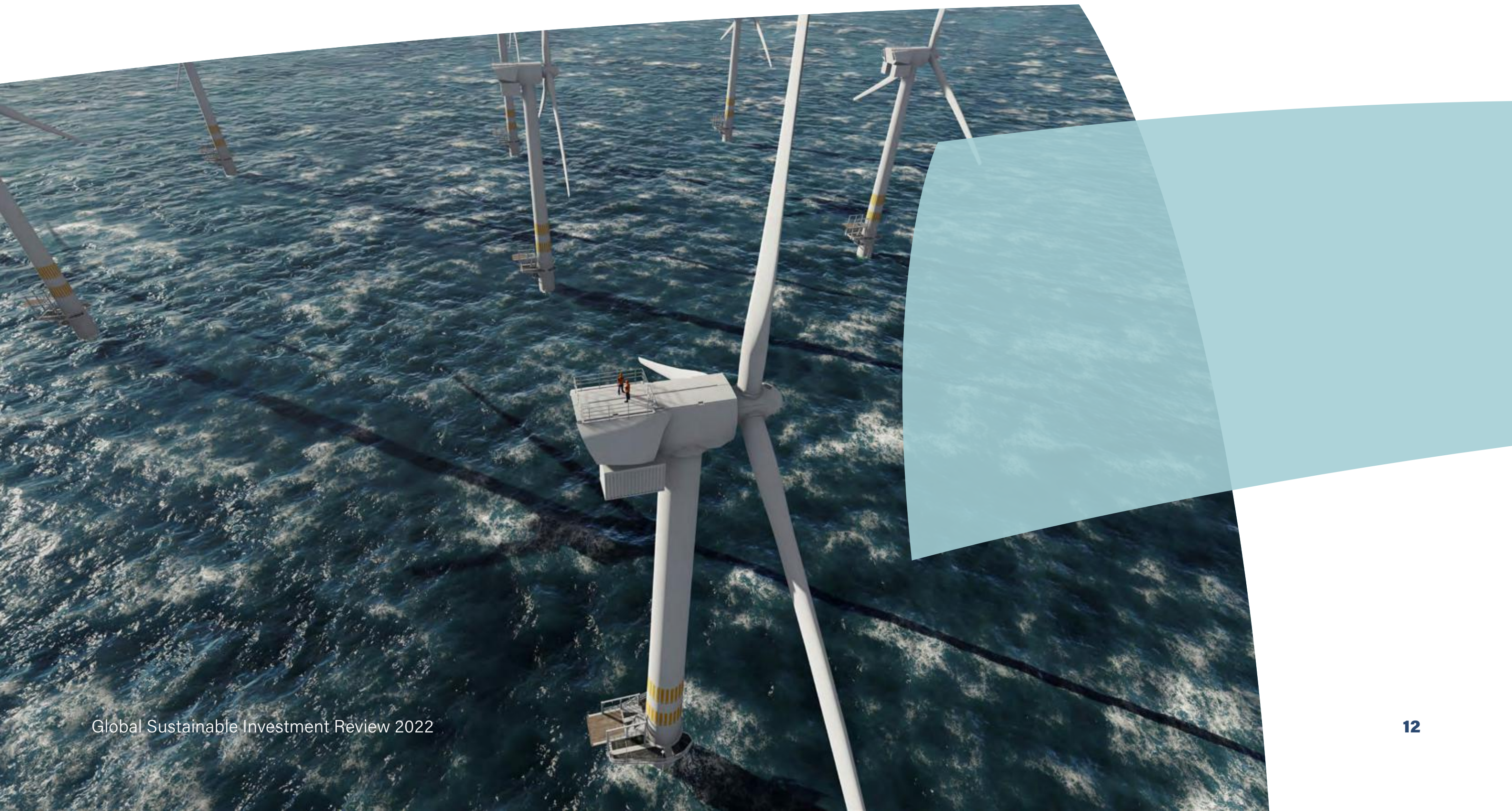
Proportion of global sustainable investing assets by region

The United States and Europe continue to represent the majority of sustainable investing assets during 2020 to 2022, which is indicative of their market size.

Europe has taken an increased proportion of global sustainable investing assets, from 34% to 46% during 2020 to 2022. This is a function of the size and growth of the European market and the change in US methodolgy.

There are signs that the proportion of global sustainable investing assets are beginning to shift, with Japan increasing from 8% to 14% during 2020 to 2022 and Australia and New Zealand increasing from 3% to 8%.

In contrast, the Canadian market has declined from 7% to 4% and the United States from 48% to 28% during the 2020 to 2022 period.



SUSTAINABLE INVESTMENT STRATEGIES

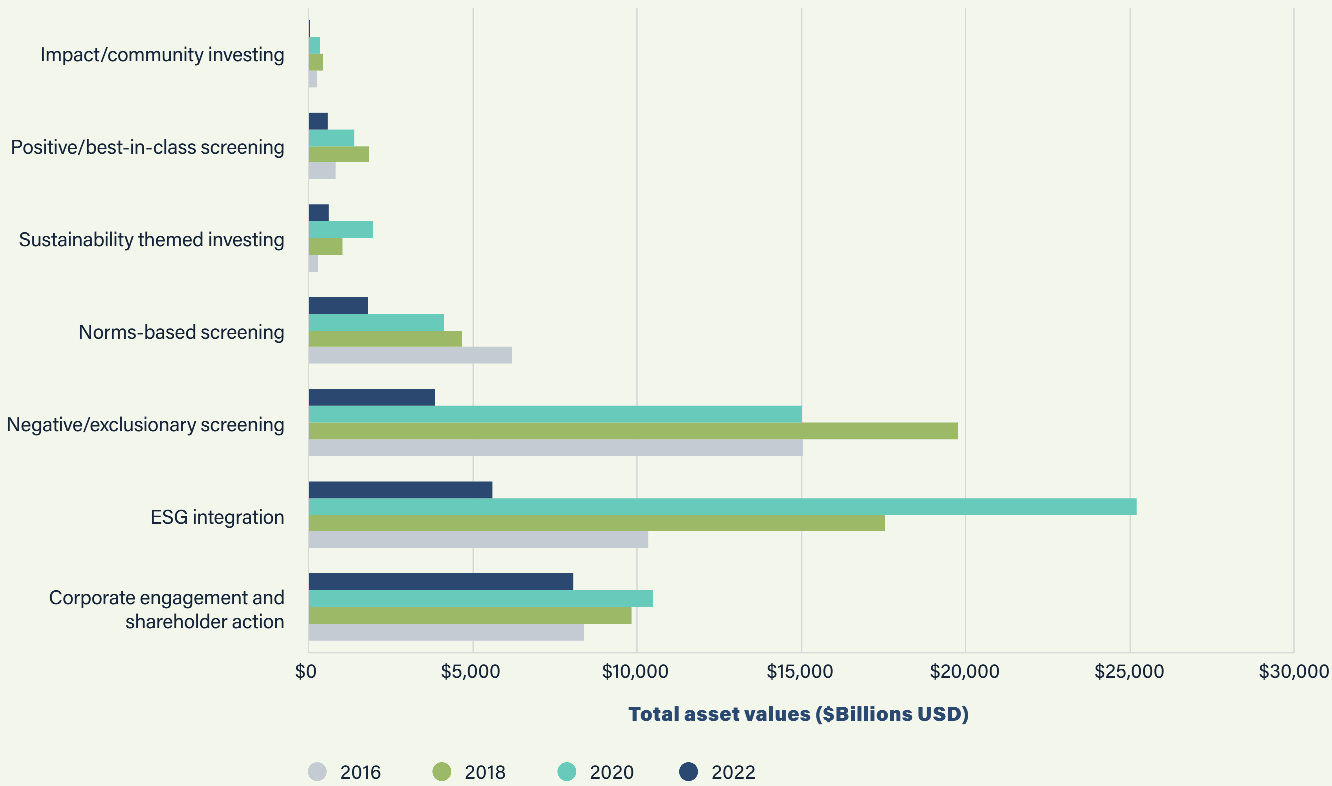
Popularity of sustainable investing strategies

Figure 6 demonstrates the use of sustainable investing strategies from 2016 – 2022.

In 2020, respondents were able to select multiple strategies, during 2022 respondents in the US and Canada were asked to select their predominant strategy and to provide the AUM aligned with this strategy. Data from Europe was not available during this reporting period. As a result total AUM reported across all strategies fell, which was a combination of the single selection process and the requirement to allocate a value to the strategy deployed.

This makes comparison across reports difficult when comparing absolute values. However, the trend and ranking of the strategies is in line with the experience of practitioners who indicated that investors are increasingly focused on engagement with the aim of influencing change both within the companies they own and in the real economy.

FIGURE 6
Sustainable investing assets by strategy, 2016 – 2022



STRATEGY	2016	2018	2020	2022
Impact/community investing	248	444	352	55
Positive/best-in-class screening	818	1,842	1,384	574
Sustainability themed investing	276	1,018	1,948	598
Norms-based screening	6,195	4,679	4,140	1,807
Negative/exclusionary screening	15,064	19,771	15,030	3,840
ESG integration	10,353	17,544	25,195	5,588
Corporate engagement and shareholder action	8,385	9,835	10,504	8,053
Total across all categories	41,340	55,133	58,552	20,517
Total Sustainable Investments	**22,838**	**30,683**	**35,301**	**30,321**
%	181%	180%	166%	68%

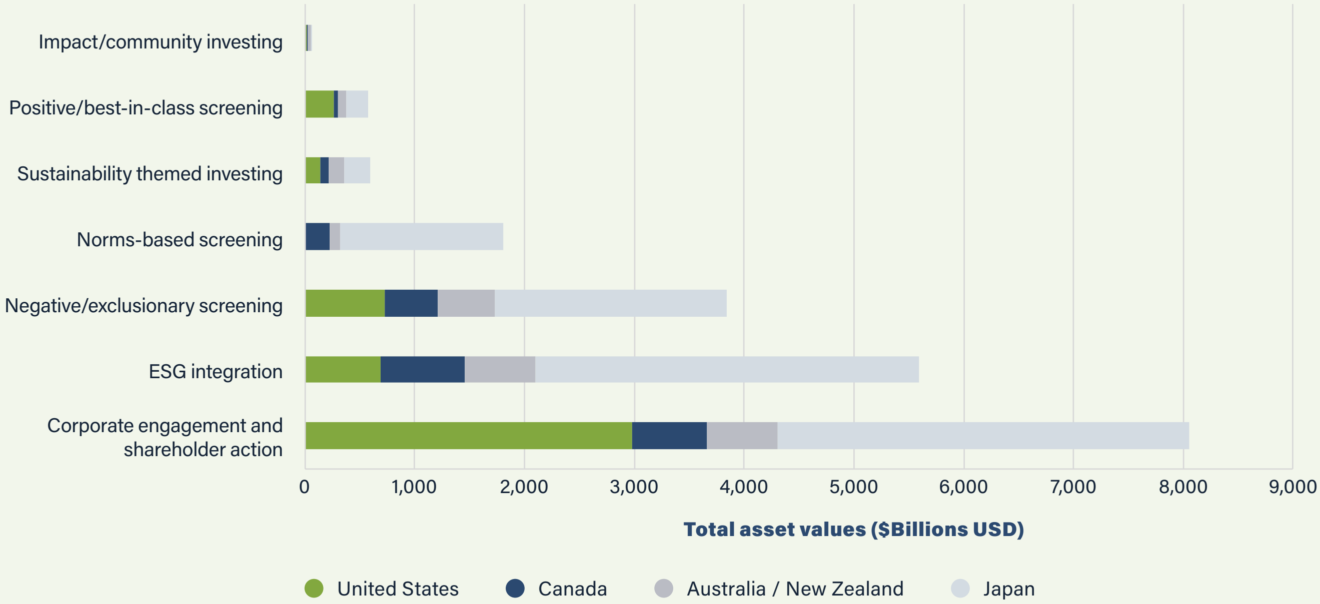
NOTE: The sum of assets across each strategy does not equal the total assets. A change in methodology during 2022 makes comparison across report periods challenging. European data for the use of each strategy was not available in 2022.

Proportion of sustainable investing assets by strategy and region

The largest sustainable investment strategy globally is corporate engagement and shareholder action, as shown in Figure 7 with a combined USD8.06 trillion in assets under management employing this approach. The next most reported strategy is ESG integration, with USD5.59 trillion employing this approach.

This result shows an evolving approach to sustainable investing. In 2018, negative/exclusionary screening was reported as the most popular sustainable investment strategy. In 2020, ESG integration was the most popular strategy.

FIGURE 7
Proportion of sustainable investing assets by strategy & region 2022



STRATEGY	UNITED STATES	CANADA	AUSTRALIA & NEW ZEALAND	JAPAN
Impact/community investing	19	7	25	4
Positive/best-in-class screening	264	34	75	201
Sustainability themed investing	136	77	144	240
Norms-based screening		222	100	1,485
Negative/exclusionary screening	724	487	517	2,112
ESG integration	693	767	638	3,491
Corporate engagement and shareholder action	2,977	689	641	3,747

NOTE: Asset values are expressed in billions of US dollars. European sustainable investing strategy data was not available for the reporting period.

Regional use of sustainable investing strategies

Figure 8 details the use of sustainable investment strategies within each region. This reflects a change in methodology from the previous report which calculated the regional share, by asset weight, for each strategy. This revised approach gives a clearer picture of preferences within regions and is not skewed by relative size of markets.

The top three sustainable investment strategies consistently account for over 80% of the assets across each region, however there are differences in the preference for each strategy across regions.

In Canada, ESG integration remains top (34%) closely followed by corporate engagement and shareholder action (30%) and negative or exclusionary screening (21%). It is worth noting that this section of the Canadian survey was not mandatory.

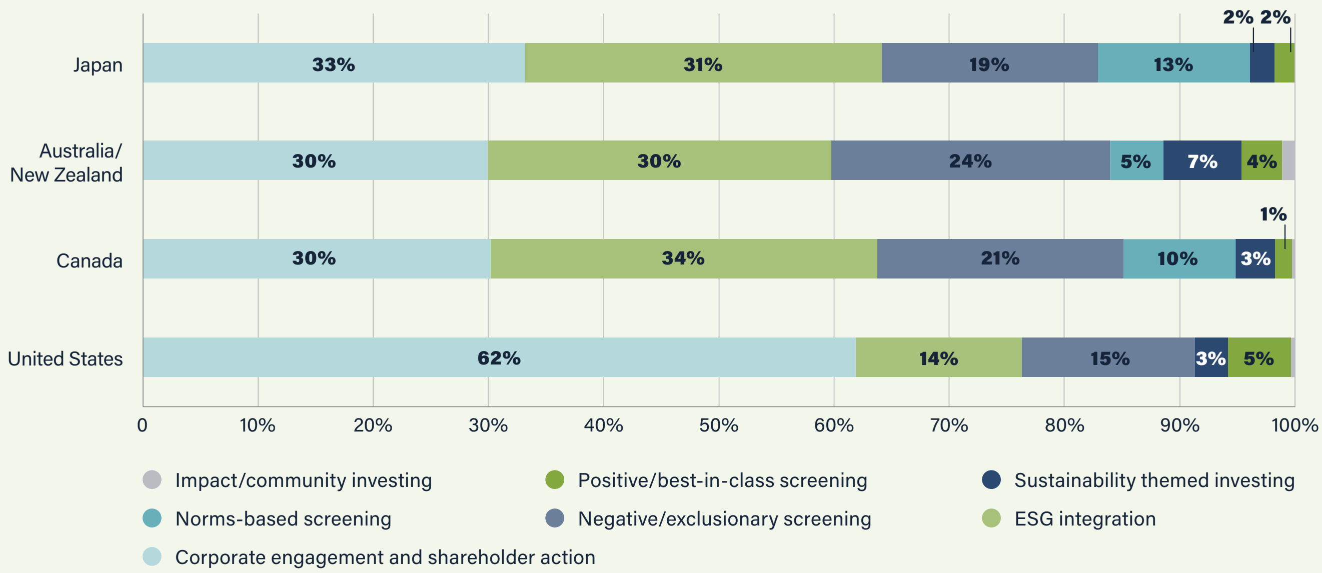
In Australia and New Zealand, corporate engagement and shareholder action and ESG integration tie for top place (30%) followed by negative or exclusionary screening (24%). In Japan, corporate engagement and shareholder action is the most prevalent strategy (33%) with ESG integration a close follower (30%) whilst negative or exclusionary screening is less prevalent than most other regions (19%).

The United States is the outlier within these results. There has been a marked shift away from ESG integration (15%) towards corporate engagement and shareholder action (62%), which has the highest proportion across all regions.

The United States results are due to both the change in methodology which focuses on the predominant strategy used and the decision by US SIF to exclude funds that did not share the specifics of their firmwide ESG integration strategy. See the US regional section for more details.

FIGURE 8

Regional use of sustainable investing strategies, 2022



	UNITED STATES	CANADA	AUSTRALIA & NEW ZEALAND	JAPAN
Impact/community investing	0%	0%	1%	0%
Positive/best-in-class screening	5%	1%	4%	2%
Sustainability themed investing	3%	3%	7%	2%
Norms-based screening	0%	10%	5%	13%
Negative/exclusionary screening	15%	21%	24%	19%
ESG integration	14%	34%	30%	31%
Corporate engagement and shareholder action	62%	30%	30%	33%
Total	100%	100%	100%	100%

NOTE: European sustainable investing strategy data was not available for the reporti

GLOBAL MARKET DEVELOPMENTS AND CHARACTERISTICS

Global Developments

2020 began with nations responding to the Covid-19 pandemic which has had far-reaching impacts across society and the economy.

The onset of the pandemic was met with swift policy responses from governments around the world. Leading to a rapid and deep economic contraction, which saw global output decline three times more than during the global financial crisis, in half the time (IMF, 2021). Global Real GDP growth fell by 2.8% in 2020 before rebounding by 6.3% in 2021 (IMF).

Since the pandemic, global poverty and inequality have risen, and evidence suggests recovery from the crisis will be uneven between countries (World Bank, 2022).

In financial markets, the onset of the pandemic saw historically large and rapid declines across all sectors, however market turbulence settled as supportive policy responses took effect and the development of the vaccine progressed. By the end of 2021, global financial markets had regained the losses from early 2020 and were reaching new highs. The MSCI All Country World Index annual performance was 16.82% in 2020 and 19.04% in 2021 (MSCI Factsheet).

Due to the worldwide economic shut down, energy demand plummeted in 2020 reducing global CO2 emissions by 5.2% (IEA, 2022). This reduction is broadly in line with the annual emissions reductions required to meet the goals of the Paris Agreement. Despite calls for a 'green recovery', global carbon emissions have since rebounded by 6% to reach their highest ever annual levels (IEA, 2022).

Global Politics

The 26th annual meeting of the Conference of Parties (COP26) was due to be held in Glasgow (UK) in November 2020, however this was delayed until 2021 due to the global pandemic. The agenda for COP26 included ratification of outstanding Article 6 from the Paris Agreement made at COP21 in 2015. COP26 was to be the first climate negotiations with a strong financial sector presence.

Following the United States election, which took place in November 2020, President Biden officially reinstated the United States as a party to the Paris Agreement, signalling a shift in global climate politics and providing much needed momentum ahead of the delayed climate negotiations.

COP26 saw the launch of the Glasgow Financial Alliance for Net Zero (GFANZ) which called on financial institutions to set and declare net zero targets. It was announced at COP26 that over 450 firms across 45 countries with assets exceeding US130 trillion had signed up to GFANZ, with signatories committing to net zero targets, reviewing these every five years, and reporting on progress annually.

As 2021 came to a close it seemed as though support for action on climate change had grown substantially and there was a global consensus from the corporate and financial sector that they have an important role to play in enabling the transition to a low carbon economy.

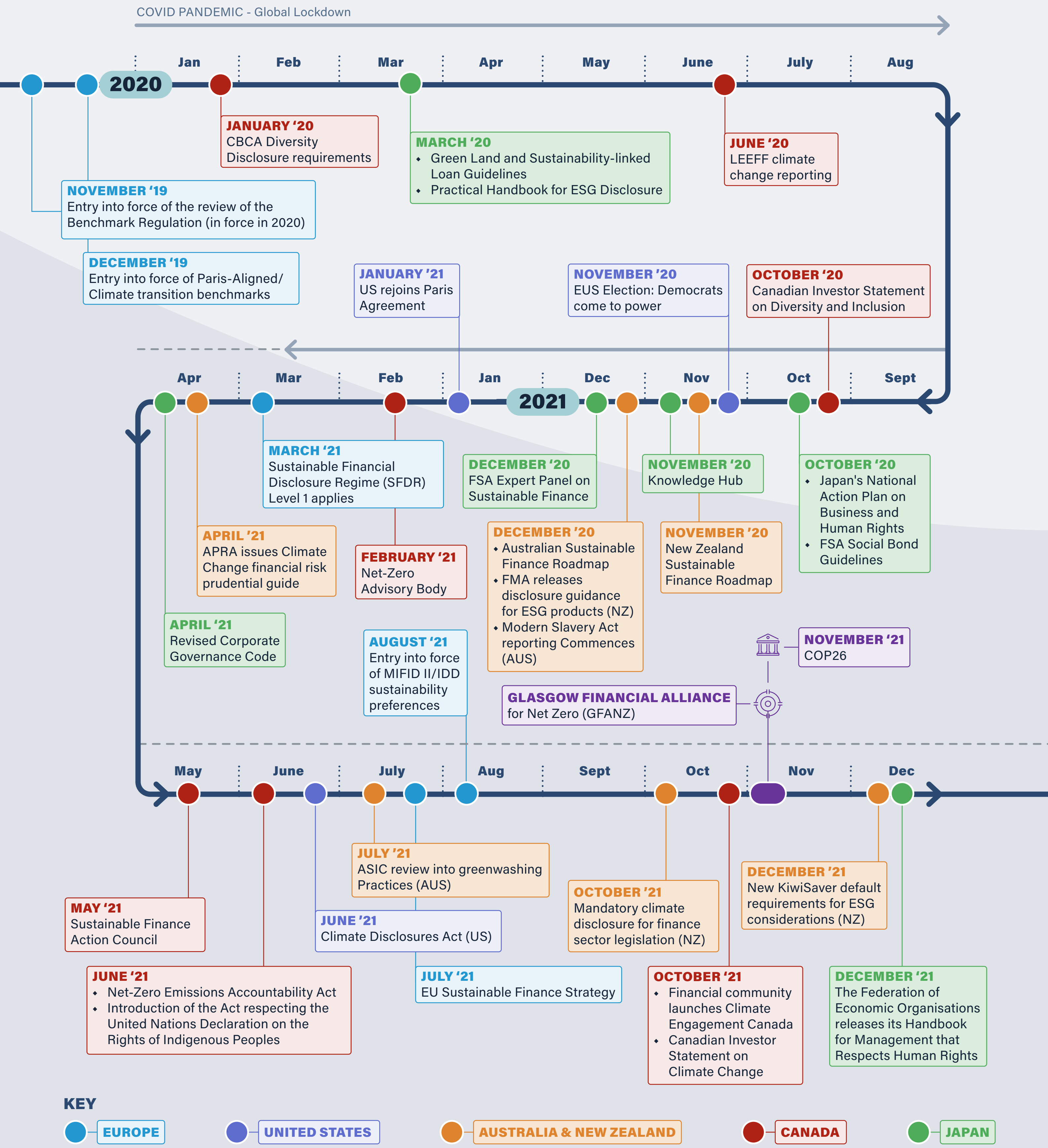
As we now know, 2022 and beyond were not without challenges. The war between Ukraine and Russia, increasing tensions between China and the United States, concerns about energy security, the return of inflation, a cost-of-living crisis and increasingly frequent and more extreme weather events have all challenged the emerging consensus on climate, and diverted political attention on to other issues.

The Glasgow Financial Alliance for Net Zero (GFANZ) is 'the world's largest coalition of financial institutions committed to transitioning the global economy to net zero greenhouse gas emissions' (GFANZ, 2023). GFANZ was launched in April 2021 by UN Special Envoy on Climate Action and Finance Mark Carney and the COP26 Presidency. The mission is two-fold: to expand the number of net zero committed financial institutions and to establish a forum for sharing sector wide challenges associated with the transition, ensuring ambition is met with credible action. GFANZ is made up of eight sector specific alliances, including asset owners, asset managers, and insurance. The Alliance currently has over 650 member firms in more than 50 countries. GFANZ provides recommendations and guidance on portfolio alignment, transition plans and strategies, and sectoral pathways. Read more about GFANZ on the website.

FIGURE 9

Timeline of Regulatory, Legislative and Market interventions

(Europe, United States, Canada, Japan, Australia & New Zealand)



Developments in global regulations

Foundations for the 2020s 'decade of action' were laid in 2015 with the Paris Agreement, the subsequent adoption of the Sustainable Development Goals and the launch of the Taskforce on Climate-related Financial Disclosures (TCFD). TCFD now has 4,000 supporters in 101 jurisdictions (TCFD, 2023). During this reporting period, regulators around the globe have been working to embed sustainability into the financial and economic system.

The European Union (EU) has introduced the broadest range of regulatory intervention, building on the foundations of the Sustainable Finance Action Plan (SFAP), which launched in 2018. The plan has three core objectives; to reorient capital flows towards sustainable investments, mainstream sustainability into risk management and foster transparency and long term-ism. In 2020, the EU Taxonomy and EU Climate Benchmarks Regulation were adopted, followed by the Sustainable Finance Disclosure Regulation in 2021. The aim of these interventions is to direct capital flows to enable the transition to net zero by 2050 while preventing greenwashing. The EU Taxonomy and the Sustainable Financial Disclosures Regime in particular target the redirection of capital.

The introduction of sustainable finance regulation in other regions is covered in the Regional Insights section of this report. The growing tide of regulation requires more stringent reporting and disclosure by corporate entities and financial institutions, and has both admirers and detractors. Some see the establishment of a reporting process as a necessary first step for action. Others argue that the pendulum has swung too far in this direction and resources and effort are now directed to producing disclosure reports rather than taking the actions necessary to enable the transition. What is clear is that regulators are seeing disclosure as a first, not a final, intervention.

In 2021, a new Taskforce on Nature-related Financial Disclosures (TNFD) was created to deliver a framework for organisations to report and act on evolving nature-related risks. The establishment of TNFD came from growing international awareness of the twin crises of biodiversity loss and climate change. The COP15 biodiversity summit was delayed three times in 2021 due to the pandemic, but at the end of 2022, the historic Convention of Biological Diversity was agreed.

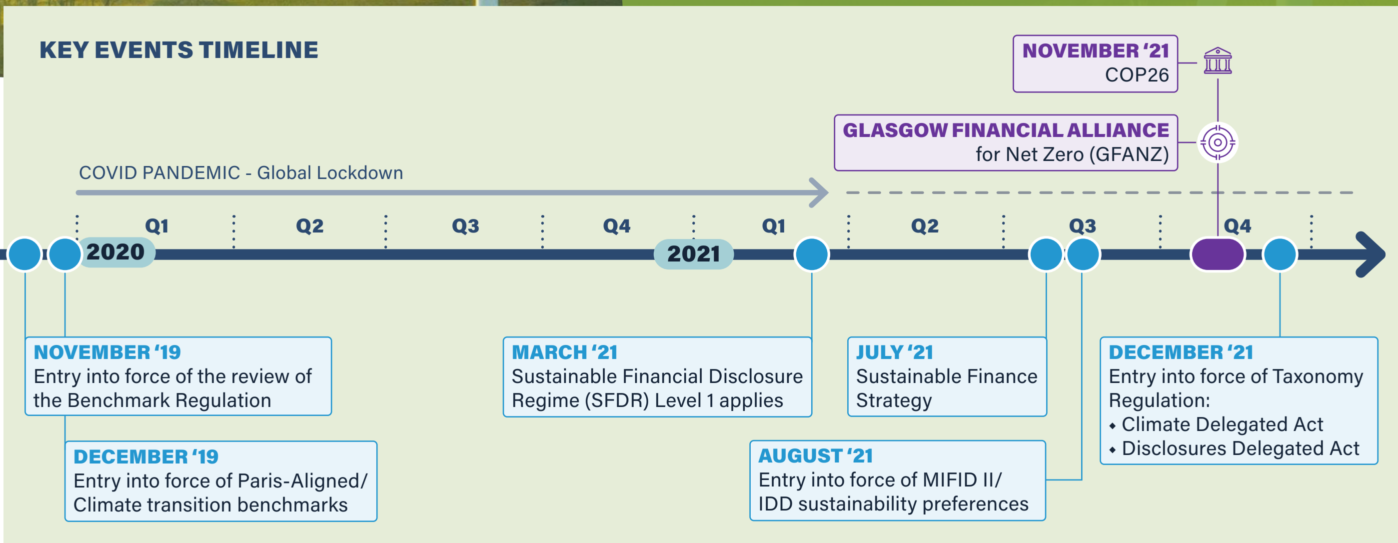
In 2021, at COP26, the Transition Plan Taskforce was announced as the UK committed to making transition plans mandatory as more organisations make net zero pledges. The Financing a Just Transition Alliance launched in 2020 in the UK, bringing together financial institutions, investors, trade unions, universities and civil society to set out how to achieve a Just Transition. The Just Transition imperative has also been recognised by Climate Action 100+, who integrated a Just Transition indicator into their disclosure framework in 2022.

The challenge for the corporate and financial sector over the coming years is to integrate the required regulatory reporting into coherent and transparent disclosure which is decision-useful. However, to translate disclosure into action, the international community need to ensure greater global alignment on regulatory approaches as outlined in the policy recommendations on page 6, while addressing areas of misaligned incentives for companies and investors. This would enable action and direct financial flows towards the transition to a just, net zero and nature positive economy and society.

REGIONAL HIGHLIGHTS

This section illustrates examples of policy and regulatory developments, industry drivers and collaboration, customer preferences and demand, and operational and market drivers across the specific regions covered in the previous section (Europe, the United States, Canada, Australia/New Zealand and Japan).

EUROPE



10 Year Reflections

United Nations Principles for Responsible Investment were launched in 2006, and in 2015 the Sustainable Development Goals were adopted. Since then, Europe has arguably led the way in developing regulation to drive climate action and responsible investment in the financial sector.

Increasingly, the financial sector in Europe (and globally) has assumed a more prominent role in addressing environmental and social challenges, and the expectation that financial institutions should be part of the solution to sustainability challenges has become deeply embedded (Eurosif, 2022). The consideration of sustainability risk has been recognised as an integral part of risk management. If these risks are neglected and accumulate over time there are potential implications for financial stability at a systemic level. Asset managers are now embracing better risk management and the ESG preferences of their clients in portfolios (*ibid.*).

The EU Sustainable Finance Action Plan and suite of accompanying regulations and legislation are arguably the most comprehensive of any region or country in the past 10 years. This is not to say that confusion around sustainability terms and concerns about greenwashing have been eliminated. Alongside reorienting capital flows towards sustainable investments, the regulatory and legislative interventions aim to increase transparency and provide clarity for clients selecting investment products.

10 Year Forward Look

Momentum is likely to continue on the Sustainable Finance Action Plan, with refinement of the Sustainable Finance Dislcosure Regulation (SFDR) and additions to the sustainable finance framework. With the introduction of the Corporate Sustainability Reporting Directive, transparency on sustainability risks and the environmental and social impacts of companies, as well as financial insitutions, will increase. As the market adapts to the new regulatory regime, the next few years will show if it has had the desired real-world impact.

Alongside the growing recognition of the importance of double materiality, investors will need to move beyond the integration of ESG risks and opportunities to achieving real world impact. As action on Europe's transition progresses, government collaboration with private actors on strategic projects will be essential. 90% of unaccounted carbon costs must be internalised by 2050, and public banks and governments are expected to foster Public-Private Partnerships and blended finance schemes. The industry should be preparing to support this work to transition the real economy (Eurosif, 2022).

In 2021, the historic UN Convention on Biological Diversity and Global Biodiversity Framework highlighted the importance of recognising the twin crises of climate and biodiversity. The EU has recognised the nature degradation crisis and made a biodiversity strategy part of the EU Green Deal.

Policy & Regulatory Drivers

Many of the provisions associated with the EU Sustainable Finance Action Plan came into effect during the reporting period and represent a step change for the investor community in how they measure and disclose the sustainability attributes of funds. One of the most significant changes is the introduction of double materiality, requiring transparency on both how sustainability risks are integrated in investment decisions and how investment decisions may impact the environment and society.

Further developments in European regulation include:

- Climate Transition Benchmarks Regulation was updated in November 2019 to create two new categories/labels of climate-related benchmarks: climate transition benchmark and Paris-aligned benchmark. The December 2020 update provided the minimum standards for both climate-related benchmarks. These benchmarks are intended to enable market participants to make well-informed choices through greater transparency.
- In July 2021, the European Commission published its Strategy for financing the transition to a sustainable economy. The strategy reinstated the European Commission's committment to the sustainable finance agenda and aimed to support the financing of the transition to a sustainable economy by proposing action in four areas: transition finance, inclusiveness, resilience and contribution of the financial system, and global ambition.
- The Taxonomy Regulation entered into force in July 2020. It was complimented by further acts establishing its technical criteria. The Delegated Act on sustainable activities for climate change adaptation and mitigation objectives, as well as the Delegated Act supplementing Article 8 of the Taxonomy Regulation. A further complementary Delegated Act on climate, introducing nuclear and gas energy under specific conditions entered into force in August 2022.
- The Sustainable Finance Disclosure Regulation (SFDR) started to apply from March 2021, imposing mandatory ESG disclosure obligations for asset managers and other financial market participants. SFDR introduced sustainable investments (often referred to as Article 9 products) and producst with ESG characteristics (so-called Article 8 products). Together with the EU Taxonomy, SFDR created a new sustainability-related disclosure framework for financial market participants and financial advisers with regards to the integration of sustainability risks and the consideration of adverse sustainability impacts in investment processes. However, the market has started using SFDR as a de facto classification system which has attracted some controversy.
- The updates to the MiFID II sustainability assessment incorporating the sustainability preferences of clients were published in August 2021 and started to apply in August 2022. The preferences test has three options: an EU Taxonomy alignment, a percentage in sustainable investment as defined by the SFDR, or products which consider, on a quantitative or qualitative basis, principle adverse impacts. Clients can choose from these three options, and the advisor must ensure the product offering matches the preferences.

This suite of legislation and regulation has grown from a need for clearer legal definitions and greater transparency and accountability in sustainable investment. The EU Taxonomy and SFDR has begun this work to define sustainable investments and enforce effective sustainability-related disclosure.

Industry Collaboration

A range of investor stakeholders joined the European Commission's Platform on Sustainable Finance, which was first established in October 2020. The Platform is an advisory body working on the development of the technical screening criteria complementing the EU Taxonomy, its implementation and useability and its interactions and consistency with the sustainable finance framework more broadly.

There are over 400 signatories of Climate Action 100+ in Europe. In 2021, Climate Action 100+ reported that European investors secured a large number of significant climate commitments through private engagement – this followed an intense period of engagement and consideration of filing shareholder resolutions. 18 Climate 100+ companies also agreed to put their climate transition strategies to a voluntary shareholder vote during the European and Australian proxy seasons. These events were significant highlights for investor engagement in the 2021 proxy season (Climate100+, 2021).

Customer Drivers

2021 was a transition year as asset managers worked to comply with SFDR. It is expected that the range of sustainable funds will continue to grow as asset managers work to meet investor demand for investment choices that align with their sustainability and ESG preferences (Morningstar, 2022).

Retail investors are increaingly interested in understanding what impact their investments have on the world, demonstrated by both market developments and academic research (Eurosif, 2022). Increasingly, these ambitions are seen as being in line with investors' fiduciary duty. This trend is reflected in Invesco's 2021 survey, which found 79% of surveyed investors declared sustainability was important to how they invest, with 95% of under-45s saying it was important that their money was invested responsibly (Invesco, 2021).

'Retail investors are increaingly interested in understanding what impact their investments have on the world, demonstrated by both market developments and academic research.'

Market Drivers

By the end of 2021, Europe continued to dominate the sustainable investment space, accounting for almost 80% of Q4 inflows (Morningstar, 2022). Product development and fund launches grew steadily over the reporting period, hitting a high of 204 in Q2 2021 (*ibid.*). Climate remained the most popular theme among new product launches.

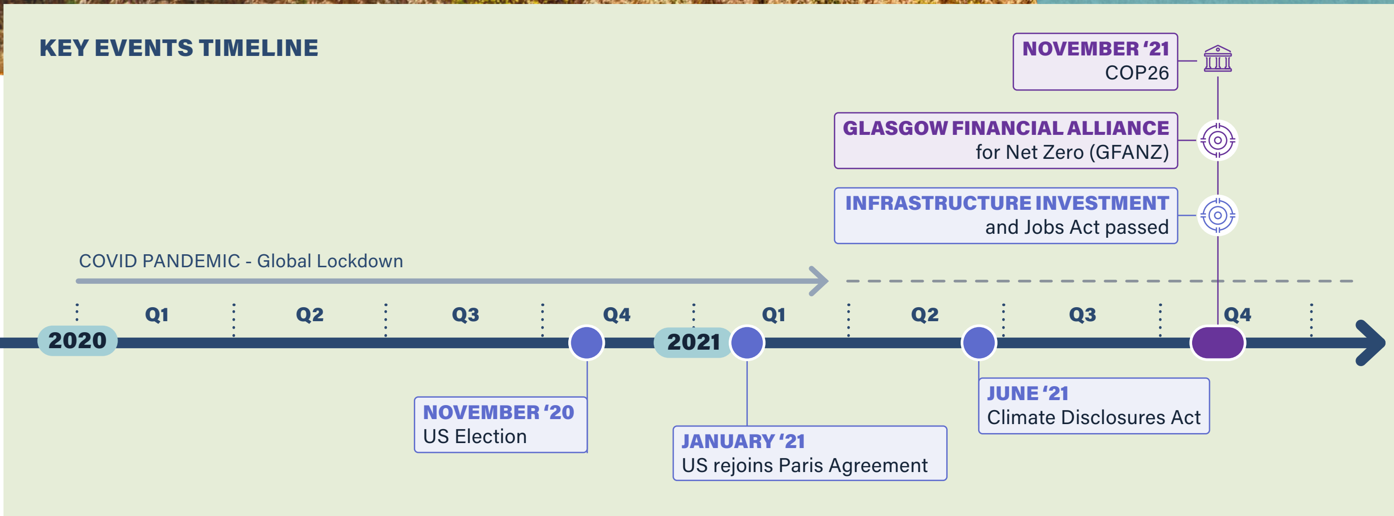
As well as driving new product launches, the new EU regulation has prompted asset managers to review and rebrand their offerings to be SFDR compliant. Morningstar identified 536 repurposed funds in 2022, double the number in 2021 (*ibid.*).

The development of benchmarks and proliferation of ESG ratings and tools, show investors have considerable interest in companies' ESG performance. Investors have conveyed these preferences to the market, sending the signal that high value is placed on strong ESG performance (Eurosif, 2022).

Sustainable investment association in the region – Eurosif

Eurosif is the leading pan-European association promoting Sustainable Finance at European level – encompassing the EU, the wider European Economic Area (EEA) and the United Kingdom (UK). Eurosif is a partnership comprised of Europe-based national Sustainable Investment Fora (SIFs). Most of the SIFs have a broad and diverse membership including asset managers, institutional investors, index providers and ESG research & analytics providers. More information can be found on Eurosif's website.

UNITED STATES



10 Year Reflections

Since 1995, when the US Sustainable Investment Forum began tracking and measuring sustainable investing assets in the United States, the field has evolved into a multi-trillion dollar industry with a considerable acceleration of ESG integration in the past 10 years.

Despite an uncertain political environment, there has been a steady increase in ESG product choices for American investors. There was a significant jump during the pandemic, with huge investment flows directed into mutual funds and exchange traded funds (ETFs) (KPMG, 2022). This follows the US rejoining the Paris Agreement in January 2021.

Since 2012, there has been a seismic shift in shareholder activism, stewardship and voting activity. This is a long-term trend which has seen asset managers increasing the internal resources allocated to stewardship and engagement, defining shareholder voting rules, and enhancing their approach to proxy season. Although the methodology change shows a decrease in responsible/sustainable assets, there is a clear ongoing commitment among asset managers to shareholder engagement, and we have seen record levels of participation and success in the past three years.

The Climate Risk Disclosure Act which passed in June 2021 looks set to change the availability of data, as publicly traded companies will be required to make climate risk disclosure reports to the US Securities and Exchange Commission (SEC). The SEC Request for Public Comment on Climate Disclosures received 550 letters (the majority from investment, banking/financial organisations and corporates), with many respondents recommending the disclosures incorporate the TCFD requirements (Kirkland & Ellis, 2021). This Act and the finance sector's response is another sign of the growing focus on climate under the Biden administration (*ibid.*).

Data collection and availability has informed investing around E, S and G themes. Historically, there has been more data available across environmental factors. More recently, there has been a focus on social criteria although measurement in this field remains challenging.

> *'Despite an uncertain political environment, there has been a steady increase in ESG product choices for American investors.'*

10 Year Forward Look

Sustainable investing in the US has become increasingly mainstream and we expect to see a trajectory of growth in reported assets for sustainable investing in the coming decade. Market demand for ESG products is expected to grow, while regulatory interventions could enhance the rigour of the field and promote the use of material financial information in investment decision-making. For example, California's landmark climate disclosure law, passed in October 2023, goes even futher than the SEC's climate change proposal, mandating disclosure of scope 1, 2, and 3 emissions for companies. This could become a de facto national standard until the SEC acts and shows that states can drive policy change, as well as the federal government.

The Congressional Sustainable Investment Caucus, formed in January 2023, is one such example of how sustainable investing is entering the mainstream. The Caucus is endorsed by the following organisations: The US Sustainable Investment Forum (US SIF), U.S. Impact Investing Alliance, Ceres, American Sustainable Business Network, As You Sow, Impact Capital Managers, Inc., Interfaith Center on Corporate Responsibility, Northwest Coalition for Responsible Investment, and Tobacco Free Portfolios. It will 'provide a space for members of congress to learn about and discuss sustainable investment practices to better inform policy making'.

Following the Covid-19 pandemic, President Biden has enacted the Build Back Better agenda, with the bipartisan Infrastructure Investment and Jobs Act passed in 2021. This Act represents an historic investment into the nation's infrastructure, including the national grid, and future policy, such as the Inflation Reduction Act of 2022, looks to direct billions into clean energy technology and manufacturing.

Policy & Regulatory Drivers

In the US, there are multiple concurrent regulatory developments. The current administration has made efforts to move the field forward in the use of ESG in retirement assets, enhancing rules related to funds, and creating the first mandated climate-related disclosures climate for corporations.

In June 2021, the Climate Risk Disclosure Act passed, requiring the US Securities and Exchange Commission (SEC) to issue rules within two years on climate risk reporting for all public companies. Public companies would need to both disclose the climate risks they are exposed to, and their strategy to mitigate these risks.

The same month the Act became law, the SEC announced its annual regulatory agenda, including plans for rule amendments on climate risk disclosure. In efforts to increase transparency, the SEC has sent letters asking publicly traded companies to make climate risk information available to investors, and initiated a 90-day input period for feedback on mandatory climate disclosure.

The SEC has released two proposals that focused on preventing misleading or deceptive fund names and requiring more detailed environmental, social and corporate governance (ESG) disclosure by funds and advisors. This mirrors similar developments around the globe, including the European Union.

While not solely focused on sustainable investing, the SEC enhanced the Names Rule for funds (first created in 2001) that should lead to more clarity in fund objectives and marketing, which will help individual investors seeking sustainable investing products.

The SEC also released a proposal on climate change disclosure for issuers, and the US Department of Labor (DOL) released a new rule clarifying the use of ESG criteria and proxy voting in ERISA-governed retirement plans. This clarification regarding the use of ESG data in investment decision-making has played a part in the increase of sustainable investment assets within retirement plans (both public and private sector).

Rules proposed by the SEC could lead to mandated reporting for some areas of climate (emissions – scope 1, 2, and potentially 3) and human capital. Should any become final rules, they would be the first standards in the US for climate and social criteria reported by corporations.

Industry Collaboration

US SIF regularly seeks industry collaboration, particularly as it relates to policy drivers. This includes policy recommendations, comment letters created with the input of our many member firms, and Investor sign-on letters, amongst other efforts:

- Toward a Just and Sustainable Economy | Policy Proposals for the Next Administration (October 2020)
- US SIF letter to Congress on strong climate provisions in reconciliation bill (October 2021)
- US SIF letter in response to DOL request for information on climate risk in retirement plans (5/2022)

Customer Drivers

We have seen both investors and politicians debate climate change mitigation strategies, net-zero commitments, and virtually all environmental, social, and governance topics. Despite recent political headwinds in the US, individual customer interest in sustainable investing remains high across multiple demographics.

Surveys and studies from the reporting period show that investors across generations and political parties increasingly want ESG objectives in their investment products. It is worth noting that there is a generational gap with a larger proportion of younger generations interested in climate action within their investments.

Schroders 2021 Institutional Investor Study showed that 41% of North American investors felt that sustainable investment became more important as a result of Covid-19 (Schroders, 2021). The same study revealed investor appetite around sustainability is maturing, with 54% of respondents saying their primary driver to invest sustainably was to positively impact society and the planet (*ibid.*).

Market Drivers

Russell Investments' 2021 Manager ESG Survey found that globally, asset managers were increasing efforts to improve the overall quality of inputs when integrating ESG considerations, with 55% of respondents hiring dedicated ESG professionals.

The US SIF Trends Report identified 349 money managers and 1,359 community investing institutions incorporating ESG criteria into their investment decision-making and portfolio construction across a total of $5.6 trillion in AUM.

Climate change was the most important specific ESG issue reported by money managers in asset-weighted terms, addressed across $3.4 trillion in assets.

The US Trends Report also researched the ESG incorporation practices of institutional asset owners (e.g., public funds, educational institutions, foundations, etc.). The report identified 497 institutional investors applying ESG incorporation practices across $6.6 trillion in AUM.

Public funds represented both the largest value of ESG AUM and the greatest number of institutional investors incorporating ESG in their investments.

For the first time, institutional investors reported climate change and carbon emissions as the leading ESG criteria they addressed, in asset-weighted terms.

Other leading ESG issues include the restriction of investments in companies doing business with conflict risk countries, board issues, sustainable natural resources/agriculture and exclusions on tobacco.

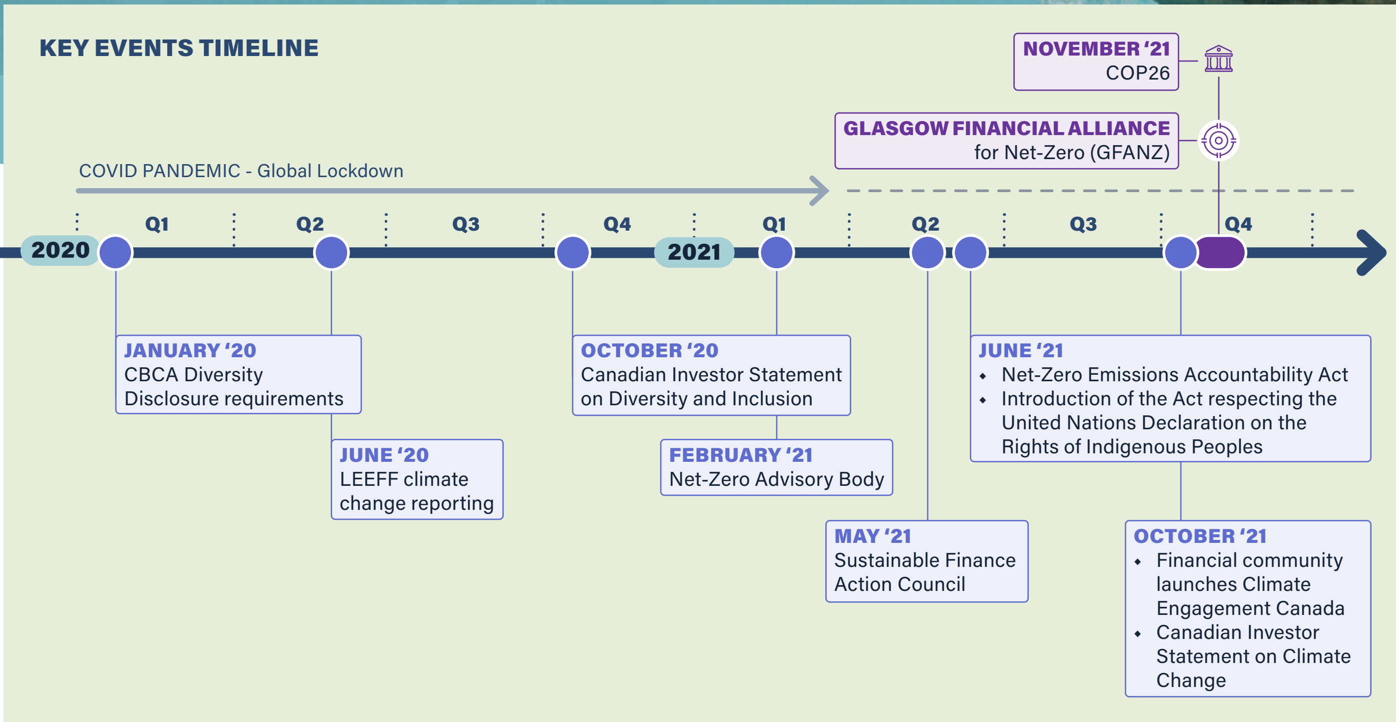
History of the US Sustainable Investment Forum

US SIF was founded in 1984 under the name Social Investment Forum (SIF) and produced research on the growth trends of sustainable investing in the United States since 1995.

US SIF is the leading voice advancing sustainable investing across all asset classes. Our mission is to rapidly shift investment practices toward sustainability, focusing on long-term investment and the generation of positive social and environmental impacts. Our vision is that environmental, social and governance impacts are meaningfully assessed in all investment decisions resulting in a more sustainable and equitable society.

Our members, representing 5 trillion in assets under management or advisement, include investment management and advisory firms, mutual fund companies, asset owners, data and research firms, financial planners and advisors, broker-dealers, banks, credit unions, community development financial institutions and non-profit associations. US SIF is supported in its work by the US SIF Foundation, a 501(C)(3) organization that undertakes educational, research and programmatic activities to advance the mission of US SIF. US SIF is a member of the Global Sustainable Investment Alliance (GSIA) and a member of the US Impact Investing Alliance's Industry Advisory Council. Visit the US SIF website.

CANADA



10 Year Reflections

Significant milestones in Canada include:

2015 - Indigenous Reconciliation:

- Canada's Truth and Reconciliation Commission (2015) Call to Action #92 called upon Canada's corporate sector to adopt UNDRIP as a reconciliation framework. This would include committing to meaningful consultation and obtaining the free, prior, and informed consent of Indigenous peoples before proceeding with economic development projects; ensuring equitable access to jobs, training, and education opportunities in the corporate sector, and, providing education on Indigenous history, residential schools, UNDRIP, Treaties and Aboriginal rights, Indigenous law, and Aboriginal–Crown relations.
- In 2019, British Columbia passed the Declaration on the Rights of Indigenous Peoples Act. In 2021, the federal United Nations Declaration on the Rights of Indigenous Peoples Act came into force.

2019 - Sustainable Finance:

- The next phase of growth for RI and sustainable finance saw the launch of the Final Report of the Expert Panel on Sustainable Finance. The report provided 15 recommendations to the federal government to mainstream sustainable investment in Canada. The creation of the Sustainable Finance Action Council (SFAC), the development of Canada's Green and Transition Taxonomy, and the launch of Climate Engagement Canada (CEC) are all examples of actions resulting from recommendations of this influential report.

'Over the last 10 years, the growth of responsible investment in Canada has been primarily bottom-up.'

Over the last 10 years, the growth of responsible investment in Canada has been primarily bottom-up - driven by investors who are incorporating ESG factors in their investment analysis and decision-making intending to improve risk-adjusted returns for their clients/beneficiaries.

In 2019, the conversation around sustainable finance accelerated with the launch of the Final Report of the Expert Panel on Sustainable Finance. The report provided 15 recommendations to the federal government to mainstream sustainable investment in Canada. The creation of the Sustainable Finance Action Council (SFAC), the development of Canada's Green and Transition Taxonomy, and the launch of Climate Engagement Canada (CEC) are all examples of actions resulting from the recommendations of this influential report.

Recent years have seen greater scrutiny and regulation in the industry. Climate is seen as a systemic risk, greenwashing has come under the regulatory microscope, and disclosures around diversity measures are being extended to personal characteristics other than gender. Indigenous rights and reconciliation, including economic reconciliation, are garnering greater attention from responsible investors as they seek to implement actions under Call to Action #92 from Canada's Truth and Reconciliation Commission.

10 Year Forward Look

RI in Canada is at an inflection point where the future growth of the industry will be characterised by greater transparency, standardisation and integrity. Canadian responsible investors view the greatest deterrents to growth of responsible investment to be: concerns about greenwashing, the current lack of standardised ESG disclosure frameworks, and the lack of reliable ESG data. Looking ahead, we expect scrutiny around greenwashing claims to increase and be addressed by regulation. We also expect to see a shift in alleviating responsible investors' concerns, with progress on improving ESG data with standardised reporting, as definitions are refined, and as gaps in regulation are filled.

We will be watching for the implementation of the ISSB disclosure requirements, globally and in Canada, providing responsible investors with access to the reliable, consistent, and comparable ESG data they have been asking for. In addition, the GSIA, CFA Institute and the PRI have been collaborating to harmonise global definitions for RI strategies. Confusion and misunderstanding due to inconsistent terminology/definitions have likely contributed to perceptions of greenwashing. Adoption of this common language will provide much needed clarity to the market.

Understanding and addressing the interactions of climate, nature, and society are vital to achieving Canada's commitments to net zero. This will require a transition of the whole economy. Ensuring sustainable jobs for communities negatively affected by the transition, preserving biodiversity and respecting Indigenous rights and economic inclusion will be key to the "just transition" in Canada, in addition to the commitment of significant capital from domestic and global investors.

Policy & Regulatory Drivers

ESG and responsible investment has been receiving increased attention from regulators in Canada. In 2020, corporations governed by the Canada Business Corporations Act (CBCA) with publicly traded securities became required to provide information on the corporation's policies and practices related to diversity on the board of directors and within senior management. This includes the number and percentage of members of the board and of senior management who are women, Aboriginal persons, members of visible minorities and persons with disabilities. Canada became the first jurisdiction in the world to mandate diversity disclosure concerning specific personal characteristics in addition to gender.

In 2021, the CSA published for comment proposed climate-related disclosure requirements for issuers. In 2023, they announced the intention to conduct further consultations to adopt disclosure standards based on ISSB Standards, with modifications considered necessary and appropriate in the Canadian context.

The federal government formed the Net-Zero Advisory Body and the Sustainable Finance Action Council (SFAC) in 2021.

The mandate letter for Canada's Minister of Finance and Deputy PM Chrystia Freeland, issued in December 2021, includes several provisions for sustainability, making this the first-ever sustainable finance mandate for Canada's Minister of Finance.

The IIROC (Investment Industry Regulatory Organization of Canada) published updated Know Your Client (KYC) rules in November 2021, where they accepted the RIA's proposal to position clients' ESG preferences and personal values as part of their potential investment objectives.

In January 2022, the Canadian Securities Administrators (CSA) published guidance for investment funds on their disclosure practices related to ESG considerations, where funds use ESG strategies, market themselves ESG-focused or have investment objectives that reference ESG factors.

In January 2022, OSFI and the Bank of Canada published a report highlighting the fact that Canada's financial institutions are at risk of "sudden and large losses" as the global economy transitions away from carbon emissions.

Industry Collaboration

The RIA launched the Canadian Investor Statement on Diversity and Inclusion launched in October 2020, committing signatories to integrating diversity and inclusion (D&I) into their investment processes, as well as strengthening D&I practices within their own organizations. As of December 31, 2021 there were 53 institutional investor signatories representing over $3 trillion in assets under management (AUM).

In October 2021, the RIA launched the Canadian Investor Statement on Climate Change with 36 institutional investor signatories managing more than $5.5 trillion in assets. The statement includes expectations of institutional investors and investees with regard to climate change management, oversight, and accountability.

Also in October 2021, Climate Engagement Canada (CEC) launched. CEC is a finance-led initiative that drives dialogue between the financial community and corporate issuers to promote a just transition to a net zero economy, setting a new bar for climate engagement in Canada. The CEC is based on Canada's Expert Panel on Sustainable Finance's recommendation for a national engagement program, akin to the global Climate Action 100+ initiative. In partnership with Shareholder Association for Research and Education (SHARE) and supported by Ceres and the Principles for Responsible Investment, the CEC launched with 27 Founding Participants representing more than $3 trillion in assets.

The Canadian Investment Funds Standard Committee (CIFSC) published a Responsible Investment (RI) Identification Framework in 2022 that defines six non-mutually exclusive RI approaches with the aim to provide clarity for investors who wish to invest in products following responsible investment strategies.

Customer Drivers

The responsible investment market in Canada is dominated by institutional investors. Canadian retail mutual funds and ETFs represented a very small subset of all funds in Canada as of December 31, 2021, with total AUM of only $34.5 billion (source: Morningstar). However, 2021 was a year of significant product launches and positive asset flows into retail RI funds: 73 Canadian-domiciled RI products launched in 2021, bringing the total to approximately 240 funds.

Despite this relatively small retail footprint, individual interest in responsible investment is quite high. RIA has been tracking continued individual investor perspectives on responsible investment through our annual Investor Opinion Surveys. In 2021, 73% of respondents expressed interest in responsible investment, while about one-third of respondents said they currently own responsible investments There is a notable advice gap: 77% of respondents said they want their financial services provider to inform them about responsible investments that are aligned with their values, but only 27% said they had ever been asked if they were interested.

Market Drivers

In Canada, reported Canadian RI AUM was $3.0 trillion as of December 31, 2021, similar to the $3.2 trillion reported as of the end of 2019. As a proportion of all professionally-managed assets in Canada, responsible investment estimated market share was 47% in 2021.

Responsible investors cite risk management as their principal motivation for incorporating ESG factors into their investment decisions. The second-highest ranked reason was to improve returns. Put together, responsible investors are incorporating ESG factors into their investment decision-making for the opportunity to generate better risk-adjusted returns.

Meeting fiduciary obligations was the third-ranked reason to consider ESG factors. Over time, the idea that investors incorporating ESG factors is consistent with, not in conflict with, an investment manager's fiduciary duty, has become more widely accepted in the investment industry. Modern fiduciary duty arguably requires investors to consider all relevant information and material risks in investment analysis and decision-making, which includes considering relevant, material ESG information and risks. Responsible investors' stated motivations are consistent with ESG integration being the most prevalent responsible investment approach in Canada.

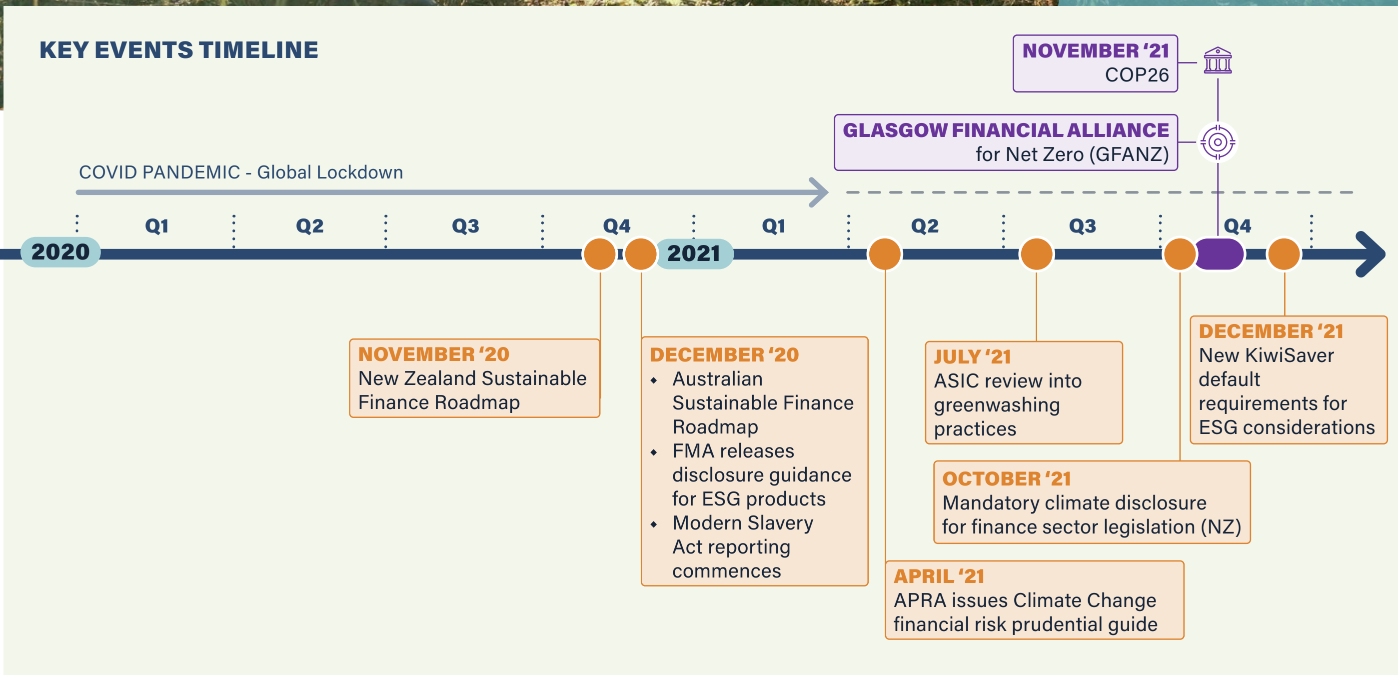
History of the Canadian Responsible Investment Association (RIA)

The RIA's predecessor, the Social Investment Organization (SIO), was established in 1990 to advance socially responsible investing (SRI) in Canada - with a focus on what we now term negative screening as a means for investors to express their values in their investments. The SIO played a central role in building and developing SRI in Canada for 23 years.

In 2013, the SIO was rebranded as the Responsible Investment Association to evolve with the industry and encompass the broader scope of responsible investment, which incorporates environmental, social and governance (ESG) issues into the selection and management of investments.

RI in Canada has grown tremendously, largely linked to the global growth. Since we started counting RI AUM in 2006, assets have grown from CAD$460 billion to CAD$3.0 trillion (as of December 31, 2021). Find out more about RIA and its work on its website.

AUSTRALIA AND NEW ZEALAND



10 Year Reflections

The last decade saw unprecedented growth in the responsible investment markets of Australia and New Zealand. Responsible investment practices cover close to half of all managed funds occurring across a period where responsible investment has moved from a purely industry-led, opt-in initiative, to one that is based in a regulated and compliance-based environment. As a result, responsible investment today is firmly embedded in the financial sector standards and regulations, and this is expected to continue.

We saw the emergence of three main approaches to responsible investing: ESG integration, negative screening and corporate engagement and shareholder action. In more recent years, we also saw diversification emerge as a hallmark of responsible investing. Diversification manifests as a broadening of the range of responsible investment approaches used by fund managers as well as the types of fund managers engaged in responsible investing (from smaller, boutique or specialist firms to large super funds), and in terms of the range of responsible investment or sustainable finance products launched.

The two nations took vastly different approaches to responsible investment. In New Zealand, regulation was a key driver, while in Australia, in the absence of regulatory pressure until more recently, industry-led initiatives dominated (see timeline).

'Overall, standards have evolved and improved over the last decade.'

The number of fund managers and asset owners engaged in responsible investment grew steadily, prompting RIAA to introduce a new methodology in 2019. This methodology was designed to raise the bar on the assessment of asset managers and asset owners claiming to be engaged in responsible investing, reflecting the ever-higher standards now expected of investors. A scorecard was developed to assess the responsible investment practices of fund managers, and determine which managers demonstrated leading practice and would contribute to reported responsible investment AUM. Overall, standards have evolved and improved over the last decade; constituting a maturation of responsible investment industry which is increasingly becoming mainstream in the financial services industry.

10 Year Forward Look

The momentum of the last two years will continue as we move into a period where a significant regulatory agenda rolls out, covering disclosures frameworks, taxonomy developments, and strengthened standards to prevent greenwashing. Increased transparency, facilitated by standardisation of ESG disclosure, and improved ESG data capabilities are expected to improve responsible investment practices in our region over the next decade. We expect to see increased disclosure of climate and nature-related financial risks as corporates and fund managers begin to report in alignment with the TCFD, the ISSB, and eventually TNFD. Climate-related financial risk disclosure is already mandated for large financial institutions in New Zealand, and Australia is expected to follow suit from mid-2024. We also anticipate that the emergence of sustainability standards (e.g. ISSB) and regional taxonomies will lead to more and improved disclosure of stewardship and impact outcomes.

Domestic regulators will continue to monitor compliance, target greenwashing and act on fund managers' responsible investment claims. It is likely that Australia and New Zealand will see further actions to prevent greenwashing, including ESG product labelling standards that may include some regulatory intervention, as regulators and law makers around the world move in this direction. Drawing on 15 years' experience operating RIAA's Certification Program, we know there are strong labelling norms in the local market. We anticipate that these norms will continue to be built on, in collaboration with government and regulators. Overall, we expect that the entire managed fund industries of Australia and New Zealand will be covered by at least one, but potentially all three main responsible investment approaches: ESG integration, corporate engagement and shareholder action, or negative screening.

The next stage of the shift to mainstreaming responsible investment will be increased capital flows towards sustainable assets and companies, aligned to Paris Agreement commitments. In this vein, we continue to urge our members to both disclose their impact and focus on supporting real world sustainable outcomes.

Policy & Regulatory Drivers

Regulatory and government activity around responsible investment is playing an ever greater role in accelerating responsible investment in the Australasian markets. Both the Australian and New Zealand regulators have issued guidance on avoiding greenwashing when promoting ESG or sustainable financial products. Securities regulators have also emphasised the need for management of climate risks. New Zealand was an early mover in mandating climate disclosures for corporations and financial entities, while in Australia, a long-awaited requirement for pension funds (superannuation funds) to disclose portfolio holdings has come into force. The New Zealand government introduced requirements for default pension schemes (KiwiSaver schemes) to exclude fossil fuel investments from their funds, and that pensions schemes must have responsible investment policies in place. The ever-increasing focus on greenwashing has had a significant impact on funds looking to be clearer and more precise in their product marketing and legal documents.

Stewardship activities of investors across the region are increasing and becoming more targeted, and we are also seeing increased accountability within these activities. The development and launch of a New Zealand Stewardship Code in 2022 was a major step forward in the New Zealand market.

Customer Drivers

Consumer demand for responsible investments continued to grow over 2020-21, with consumer research in both markets showing that the majority of Australians and New Zealanders expect their investments and pensions to be managed in a manner that is both responsible and ethical. Four out five Australians (or 83%) expect their bank account and their super (pension) to be invested responsibly and ethically (RIAA, 2022) and in New Zealand, 62% said it is important their investment makes a positive difference in the world (RIAA, 2022).

Demand for an independent Certification Program is also growing, with RIAA certified products totalling 218 by the end of 2021, and reaching over 350 products at time of publishing this report. Consumers and financial advisors are driving this demand as they look for third party verification that product claims are true to label.

Market Drivers

In Australia, responsible investment assets under management crossed the one trillion mark, reaching AUD 1.3 trillion (or 40%) of total managed funds in 2020, and AUD 1.5 trillion (or 43%) in 2021, compared to just AUD 983 billion in 2019. In New Zealand, the responsible investment market also made significant gains, covering almost half (49%) of the total managed funds market or NZD 179 billion by the end of 2021.

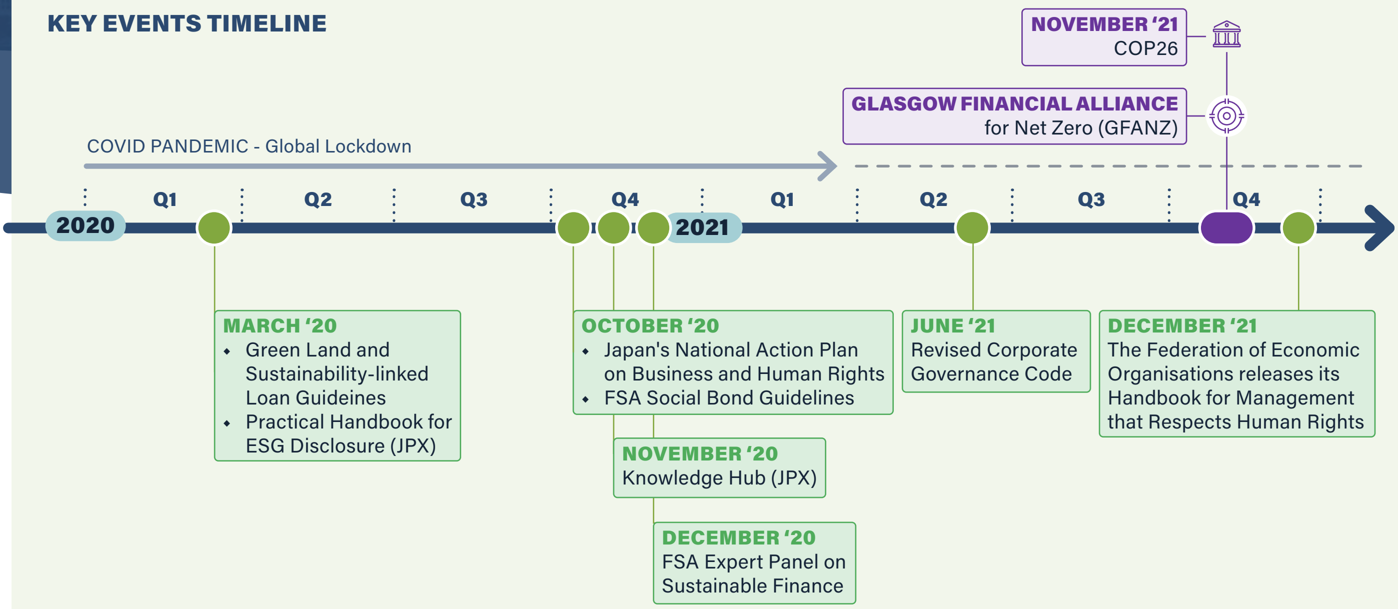
Driving this market growth in the Australasia region is a deep market understanding that ESG issues are impacting financial markets, as shown by the significant proportion of the market that is applying ESG integration as a core responsible investment approach, alongside corporate engagement and other stewardship practices.

Sustainable Investment Association in the region – RIAA

The Responsible Investment Association Australasia's (RIAA) mission is to promote, advocate for, and support approaches to responsible investment that align capital with achieving a healthy and sustainable society, environment and economy. RIAA advocates for strong sustainability standards that embed real world outcomes as a measure of focus, and this focus is incorporated in RIAA's policy work, research and Certification Standards. More information on the developments in the region can be found on the RIAA website, and the most recent reports on responsible investment in Australia and New Zealand. RIAA works with our 500 members representing USD 29 trillion to champion responsible investing and a sustainable financial system in Australia and New Zealand.

JAPAN

KEY EVENTS TIMELINE



10 Year Reflections

Over the past decade, Japan's sustainable investment landscape has experienced significant growth and change. 2013 marked a foundational year for responsible investing, beginning with the Abe administration's Japan Revitalization Strategy in 2013, which laid the foundation for sustainable and responsible investment in Japan. In the same year, the Government Pension Investment Fund (GPIF) underwent a governance restructuring, leading to the diversification of its portfolio by cutting down on bond investments, primarily in Japanese government bonds, and increasing its equity proportion. The subsequent years saw the introduction of the Japanese Stewardship Code (2014) and the Corporate Governance Code (2015) by the Financial Services Agency (FSA), solidifying the framework for responsible investments and corporate transparency.

In 2015, GPIF became a signatory of the Principles for Responsible Investment (PRI), in a move that catalysed ESG's growth in the country. GPIF, as a PRI signatory, subsequently published its Responsible Investment Policy and amended its stewardship responsibilities to ensure asset managers consider ESG factors in their engagement activities. Moreover, GPIF required detailed reporting from asset managers on their PRI activities and stance.

In 2017, the Stewardship Code and the Ito Report were updated, the Japan Exchange Group joined the Sustainable Stock Exchanges. TCFD (Task Force on Climate-related Financial Disclosures) garnered attention, leading the Ministry of Economy, Trade and Industry (METI) to develop TCFD guidance and initiate a consortium in 2018. Japan led in TCFD support and was a significant backer of Science Based Targets and RE100 initiatives. In 2019, the Ministry of Foreign Affairs released the National Action Plan (NAP) focusing on Business and Human Rights. The following year, METI published the Ito Report on Sustainable Corporate Value, specifically addressing human capital considerations. The 2021 update to the Corporate Governance Code was significant due to its inclusion of a mandate for appointing a minimum of one-third independent external directors, as well as a new section addressing sustainability.

> *'Over the past decade, Japan's sustainable investment landscape has experienced significant growth and change.'*

Japan's bond market has also seen strong growth. In 2014, the first green bond was issued, followed by subsequent issuances by commercial banks and local governments. The Ministry of Environment's (MoE) Green Bond Guidelines in 2017 and the Financial Services Agency (FSA)'s Social Bond guidelines in 2021 bolstered this section of the market. In May 2021, the MoE, METI, and FSA jointly formulated foundational guidelines for climate transition finance following the publication of ICMA's Climate Transition Finance Handbook (December 2020). In 2022, the Japan Stock Exchange (JPX) launched an ESG Bond Information Platform. There have been notably more transition-labelled bonds issued in Japan than in other countries.

Finally, sustainable investment trusts witnessed significant growth from 2020 onwards, with the funds surpassing previous records. In 2023, guidelines for ESG Investment Trusts were issued by the FSA, aiming to streamline the sustainable investment process.

10 Year Forward Look

Japanese sustainable investment has been and will be marked by collaborative efforts between the public and private sectors. Combined initiatives have allowed Japan to quickly advance in responsible, sustainable investment. A hallmark of Japan's responsible investment is its emphasis on transitional strategies, influenced by its manufacturing-centric economy. Instead of rapid shifts, Japan is innovating in areas like battery technology, green fuels, and environmentally friendly steel production. The global adoption of Japanese green technologies, such as electric railways, showcases Japan's contribution to reducing GHG emissions.

At the 2023 PRI in Person event, Prime Minister Fumio Kishida announced that seven public pension funds (worth $600 billion) would become PRI signatories[1]. This is another indicator of Japan's increasing commitment to responsible, sustainable investment. The FSA is developing the Draft Basic Guidelines on Impact Investment, indicating forthcoming discussions and advancements in this sector.

Finally, the Japanese government is advocating for Green Transformation (GX), in order to 'change the industrial and social structure to shift away from fossil fuels', with an emphasis on clean energy. The government plans to raise $1 trillion in transition finance for Net Zero by 2050. The key strategy to raise this finance is the government's Climate Transition Bonds. These sovereign transition bonds are the world's first and will be worth JPY 20 trillion ($130 billion), aimed at renewable uptake and industrial innovation by attracting private sector investment worth JPY 130 trillion ($870 billion) or more, which is said to be necessary for decarbonisation in Japan. All in all, responsible investing, particularly investing in the net zero transition, looks to become increasingly mainstream in Japan over the next 10 years.

Policy & Regulatory Drivers

In Japan, the growth of the sustainable and responsible investment market during the reporting period was accelerated by policy and regulatory developments. These developments were the result of collaboration between the government and regulators alongside market participants.

The Japanese FSA established the Taskforce on Sustainable Finance in 2020, made up of business, financial, and academic experts and observers from relevant ministries and agencies. The Taskforce was initially brought together to discuss issues and policies to achieve carbon neutrality by 2050, and later broadened to wider sustainable finance issues. The first report was released in 2021, and since then the Taskforce has been following up on the issues raised in this report.

The government launched Japan's National Action Plan on Business and Human Rights in 2020, and started the Liaison Conference of the Relevant Ministries and Agencies. Since then, follow-up roundtables have been held regularly to facilitate and implement human rights issues across the business sector including Guidelines on Respecting Human Rights in Responsible Supply Chains issued by METI. In October 2020, the FSA announced the Social Bond Guidelines. The Ministry of the Environment launched the Green and Sustainability-linked Loan Guidelines in 2020 and revised them in 2022. The guidelines are consistent with the internationally recognised Green Loan Principles and Sustainability Linked Loan Principles and intend to provide a framework for borrowers, lenders and other parties. The guidelines present measures and interpretations in line with the characteristics of the Japanese market and ensure credibility of greenness and reduction of administrative cost for borrowers.

Finally, the FSA announced the Code of Conduct for ESG Evaluation and Data Providers in December 2022 and called for endorsement of the Code to data providers.

Industry Collaboration

The development of industry guidelines is becoming more commonplace. The Federation of Economic Organisations (Keidanren) revised Chapter 4 on Respect for Human Rights in its Charter of Corporate Behaviour Implementation Guide. It published the Handbook for Management Respecting Human Rights in December 2021. The handbook provides specific information for officers in charge of practical implementation in their organisations. The Japan Stock Exchange Group (JPX) issued the Practical Handbook for ESG Disclosure in May 2020 and launched the JPX ESG Knowledge Hub. On this platform, listed companies and other parties can access ESG investment and sustainable finance information as of November 2020. In 2022, JPX started a website on listed companies' ESG information, ESG ETF/ETN information, and a platform on ESG bonds in July 2022 where issuers disclose the details of ESG bonds listed on the Tokyo Pro-Bond Market.

1. All currency figures on this page (namely JPY to USD) are converted as of November 2023.

Customer Drivers

The retail market saw a substantial expansion in ESG and sustainable investment trust funds during 2021 and 2022. After peaking in 2008, the sustainable investment trust funds lingered at a low level until a remarkable increase in 2021 and 2022, reaching close to JPY 4 trillion ($ 27 billion), quadrupling the original 2007 peak. This resurgence was mainly in dollar-dominated funds due to a weaker yen and a depressed domestic equity market. Most of these funds focused on specific ESG themes rather than broader ESG-themed funds, with some releasing impact reports outlining the fund's ESG targets, alongside disclosures such as total carbon emissions and carbon offsets used to achieve net zero emissions of the funds. Increased reporting has notably heightened retail investors' awareness regarding the impact of ESG funds. To further promote and facilitate sustainable investment for retail investors, the FSA updated its guidelines regarding ESG investment trusts in March 2023 and plans to initiate a stakeholder dialogue aimed at improving sustainable investment products.

Market Drivers

In Japan, Sustainable Investment assets under management continued to increase by 59.2 % to JPY 493.6 trillion ($ 2,874 billion) in 2022 from JPY 310.0 trillion ($ 4,289 billion) in 2020[2]. The proportion of sustainable investing assets relative to total managed assets in 2022 was 33.6% compared to 24.3% in 2020. ESG equity investing levelled off since 2018, while green and sustainable bonds increased rapidly from 2019. Mainstream investors embraced ESG Integration and sustainability-themed investing focused on investment impact in 2021.

JSIF reported in the GSIR 2020 that using sustainable investment to drive positive outcomes was still in the early stages in Japan due to legislation that limited shareholder activism. However, by tightening the voting rights standards for domestic investors and introducing non-Japanese proxy advisors' criteria for climate change and board gender diversity, the shareholders' actions were drastically altered and the number of shareholder proposals increased considerably for 2023 AGMs.

Sustainable Investment Association in the region – Japan SIF

The Japan Sustainable Investment Forum (JSIF) was formed in 2003 as Japan's not-for-profit organisation promoting the concept and practices of sustainable and responsible investment in the country. JSIF provides a forum for the interactive exchange of ideas and research for financial institutions, academics, government organisations and other interested parties in the field of sustainable investment. JSIF also encourages companies to provide disclosures of non-financial information to build a sustainable society through the sound development of the financial market. JSIF is a member organisation of the Global Sustainable Investment Alliance (GSIA) and contributes to the market study of Japanese sustainable investing. Visit JSIF's website.

2. The denominator of the above figures was based on the flow-of-funds figures released by the Bank of Japan. The proportion calculated by the reported figures by the institutions that replied to JSIF's survey was 61.9% in 2022 against 51.6% in 2020.

ADDITIONAL REGIONAL HIGHLIGHTS

UNITED KINGDOM

10 Year Reflections

Over the past decade, there has been an increasing expectation that investors contribute positively to the economy and society. This comes from the aftermath of the Financial Crisis of 2008, a wider focus on culture and diversity, and growing sustainable and responsible investment agenda (IA, 2019). Although the last 10 years have been turbulent, with the country leaving the EU and then the Covid-19 pandemic, the UK has been a leader on climate action, becoming the first major economy to legislate to achieve net zero by 2050 in 2019.

In 2013, Mark Carney joined the Bank of England and became a driving force for climate in the finance sector. In 2015, he gave his 'Tragedy of the Horizons' speech which highlighted the chronic short-termism of the business and political cycles and the risks that climate change presents to financial stability. As Head of the Financial Stability Board, he launched the TCFD with the first recommendations released in 2017, and the UK becoming a lead adopter.

In 2021, during the global Covid-19 pandemic, the UK hosted COP26. Industry activity increased in the lead up to COP, and a number of important initiatives were announced. Nigel Topping was appointed High Level Climate Action Champion for UN talks by the UK, recognising the key role business has to play in addressing the climate crisis. In January 2021, Race to Zero launched, a global campaign to rally leadership and support from business and investors for a sustainable, inclusive recovery from Covid-19. The Glasgow Financial Alliance for Net Zero was announced in April by the COP26 presidency in collaboration with the UNFCCC.

Since COP26, the UK government has taken further action to make climate targets a reality, as well as taking steps to increase transparency and disclosure around responsible and sustainable investing.

10 Year Forward Look

Since becoming one of the first adopters of TCFD, UK regulators will continue to introduce regulation around the sector's climate impacts, fund labelling and transition plans. Regulators are also planning to introduce policies for ESG ratings providers, ensuring investors have access to the best possible information for decision-making.

The Taskforce on Nature-Related Financial Disclosures is likely to be integrated into UK regulation, in recognition of the growing biodiversity crisis. Demand for nature-themed investments will likely continue to grow as the UK looks for innovative forms of finance for nature-based solutions.

Despite leading climate action and legislation in the past few years, the UK remains challenged by political headwinds. An uncertain policy environment for investors has persisted, particularly around the future of North Sea oil and gas. Although there is broad consensus on the need to address climate change, the pace of progress remains hampered by policy uncertainty. It remains to be seen if the UK can overcome these political challenges to accelerate action, while also ensuring increased disclosure produces real world change alongside transparency.

'Over the past decade, there has been an increasing expectation that investors contribute positively to the economy and society.'

Policy & Regulatory Drivers

Following important regulatory developments in 2018-2020, this reporting period was defined by the UK's COP26 Presidency. A range of actions were taken to convene industry, develop disclosure requirements and assist new product development.

Work continued on the UK's Green Finance Strategy launched in 2019. The strategy outlined the government's expectations around embedding TCFD, and all listed companies and large asset owners were expected to disclose in line with TCFD by the end of 2022. The government also convened the Green Technical Advisory Group to support the development of its green taxonomy.

COP26 Presidency

- In April 2021, the Glasgow Financial Alliance for Net Zero was launched by UN Special Envoy on Climate Action and Finance Mark Carney and the COP26 presidency, in partnership with the UNFCCC Race to Zero campaign. The Alliance aims to coordinate efforts across the financial system to enable the transition to a net zero economy.
- In October 2021, Greening Finance: A Roadmap to Sustainable Investing was published. The Roadmap highlighted the need for climate to be central to investors' decision-making processes.
- At COP26, Rishi Sunak, then Chancellor of the Exchequer, announced that the UK would aim to become the world's first net zero financial centre, and the establishment of the Transition Plan Taskforce, committing to making transition plans mandatory in the UK.
- Greening Finance Investing Roadmap

Financial Conduct Authority (FCA)

The FCA is the UK's financial regulator.

- In July 2021, the FCA wrote to every fund manager to express concern about misleading labelling of ESG funds. The letter set out expectations around building trust in the market, appropriate disclosures and measuring impact. The FCA has subsequently consulted on a series of sustainable fund labels and a new anti-greenwashing rule.
- The FCA's Business Plan for 2021/22 highlighted the regulator's commitment to implement the roll out of TCFD to different parts of the economy, cautioned that action would be taken if investors did not make progress on stewardship, and would assess how well firms were being served by ESG ratings providers.
- The first long-term asset fund (LTAF) was authorised in 2023. The FCA enabled the creation of LTAFs with regulation that came into force in 2021.
- In 2022, the FCA launched a consultation on disclosure and investment labels, aimed at clamping down on greenwashing.

Bank of England

The Bank's 2021 Biennial Exploratory Scenario tested the resilience of the UK's financial system to different transition pathways. Many of the UK's largest banks and insurers participated in the test.

Financial Reporting Council (FRC)

The FRC is an independent regulator responsible for setting the UK's corporate governance and stewardship codes.

The FRC launched the revised Stewardship Code in September 2020. The code sets high expectation for how investors invest and manage money and how this leads to sustainable benefits for the economy and society (FRC, 2021). The Code places a greater emphasis on consistent reporting, including disclosing outcomes and improvements. The Code has principles for asset owners and managers and separate principles for service providers. The first reporting round was in Q1 2021 and more than 250 asset managers and asset owners are now signatories.

Industry Collaboration

Ahead of COP26, the UK industry ramped up activity. The 2021 AGM season was characterised by another increase in shareholder resolutions, with climate related resolutions being put to eight FTSE 100 companies (Slaughter & May, 2021). This included HSBC working with the ShareAction coalition to table a successful resolution to commit to phase out coal financing by 2040 (*ibid.*).

Ahead of COP26, GFANZ was launched – a coalition of eight independent net zero financial alliances, whose members are committed to support the transition to net zero by 2050. Alliance members include banks, insurers, asset managers, asset owners, financial service providers and investment consultants. Following the COP26 commitment to create the world's first net zero financial centre, UKSIF conducted a net zero inquiry, outlining the UK sustainable finance sector's vision for how the UK can achieve this.

The Association of British Insurers published their Climate Change Roadmap in 2021, acknowledging the crucial role their sector has to play in addressing the climate crisis The Investment Association published several reports on responsible investing, including the Role of the Long Term Asset Fund in July 2020 and Investing with Purpose in November 2020.

The Climate Financial Risk Forum was convened by the FCA and the PRA to facilitate among firms a shared approach to under understand and mitigate financial risks from climate change. Their Guide was published in 2020, with a chapter written by each working group: risk management, scenario analysis, disclosures and innovation.

Customer Drivers

The Wisdom Council surveyed more than 2,000 UK consumers who had a workplace or private pension, and found that 6 in 10 retail investors don't realise they can invest in a way that contributes to addressing issues like climate change. 52% of consumers didn't even recognise that the financial services industry can make a difference at all. This is a worrying disconnection – UK consumers don't associate the investment industry with sustainability (Wisdom Council, 2021).

This is not to say UK consumers don't care about sustainability – Standard Life found that while some customers do 'only' care about returns, the majority want to avoid harm and make a difference where they can (Standard Life, 2022). UKSIF's Good Money Week polling shows a steady increase in consumer interest in reflecting their values in their investments over the last decade.

Market Drivers

Demand for sustainable investment products has remained high since the last reporting period, despite Covid-19 severely disrupting the global economy. By the end of 2021 it appeared the UK investment industry had maintained its resilience, with the growth of sustainable and responsible investment becoming a stand out trend (IA, 2022). In 2021, sustainable funds gained £37.1 billion, compared to the total market net flow of £27.4 billion (Morningstar, cited in ESG Clarity, 2022).

Sustainable Investment Association in the region – UKSIF

UKSIF exists to bring together the UK's sustainable finance and investment community and support our members to expand, enhance and promote this key sector. Our work drives growth and new opportunities for our members as global leaders in the sustainable finance industry. UKSIF represents a diverse range of financial services firms committed to these aims, and our 300+ members, managing over £19trn in assets under management (AUM), include investment managers, pension funds, banks, financial advisers, research providers, NGOs, among others. UKSIF and our members have been hugely active in, and supportive of, efforts to promote the sustainable finance agenda and work closely with policymakers and others to find new ways to overcome the barriers to the growth of sustainability and deliver progress towards decarbonisation of the economy.

CHINA

Policy & Regulatory Drivers

The People's Bank of China (PBoC) has summarised the development strategy of green finance with the "three major functions" and "five pillars." The "three major functions" refer to the roles of green finance in resource allocation, risk management, and market pricing. The "five pillars" encompass the standard system, regulation and information disclosure, incentive and constraint mechanisms, product and market systems, and international cooperation.

The China Securities Regulatory Commission (CSRC) is steadily advancing the ESG information disclosure of listed companies and is guiding the Shanghai and Shenzhen Stock Exchanges in drafting guidelines of ESG reporting for listed companies.

The key issues tackled by policy and regulation include climate change, information disclosure and engagement and stewardship.

Since China announced its carbon neutrality goal in 2020, climate-related finance issue has become the core focus of green finance and ESG. The recent focus is on transition finance. PBoC has organised studies on transition finance standards in four areas: steel, coal-fired power, building materials, and agriculture.

In 2021, the central bank formulated the "Guidelines for Environmental Information Disclosure by Financial Institutions," promoting nationwide and local financial institutions, especially commercial banks, to release environmental information disclosure reports. The State-owned Assets Supervision and Administration Commission (SASAC) proposed the goal of full coverage of ESG reports for central enterprises and centrally-controlled listed companies by 2023. In 2023, approximately one-third of A-share listed companies in the stock market released ESG reports, compared to only one quarter in 2022.

In September 2022, the Insurance Asset Management Association of China (IAMAC) launched an initiative for engagement and stewardship of ESG and then drafted the "Stewardship Guideline (Draft)". In July 2023, the China Sustainable Investment Forum (China SIF) and the Institute of Finance and Sustainability launched the "China Climate Engagement Initiative (CCEI)" platform to promote listed companies' response to climate change and orderly transition through the practice of responsible management.

Market Drivers

In the past few years, the scale of ESG investments in the mainland Chinese market has grown rapidly. As of September 2023, the market size for major types of responsible investments in China was approximately CNY 31.59 trillion. However, the majority of this comprises green loans from commercial banks, with ESG investments from mutual funds constituting only a small portion.

Nevertheless, the growth of mutual funds is significant. In 2008, there were fewer than a hundred ESG mutual funds, with a total size of just over CNY 40 billion. As of September 2023, 98 mutual fund companies have launched 747 ESG mutual fund products, with a total size exceeding CNY 500 billion.

Overall, the asset quality of green credit is good, with a non-performing loan rate consistently below 0.7% over the past five years, significantly lower than the overall non-performing levels of various loans during the same period.

The key issues tackled by policy and regulation include climate change, information disclosure and engagement and stewardship

Sustainable Investment Association in the region – China SIF

China Sustainable Investment Forum (China SIF) was established in Beijing as a non-profit organisation in 2012 by SynTao Green Finance. It is dedicated to promoting ESG in China and strengthening international collaboration. Since 2012, China SIF has held 10 Annual Conferences, 5 Summer Summits, 6 China SIF Weeks, and a series of featured seminars. China SIF publishes research reports regularly, such as China Sustainable Investment Review, Top 10 ESG Trends in China, etc. For more information, please visit the China SIF website.

ADDITIONAL ASIA MARKET INSIGHTS

Policy & Regulatory Drivers

Regulatory and policy drivers have played a pivotal role in driving the robust growth of several financial centers in Asia. These drivers have not only influenced investor confidence but have also spurred the development of new sustainable investment products in the region. Noteworthy regulatory developments during the reporting period include the following:

In **Taiwan**, the FSC released the Green Finance Plan 2.0 in November 2020, establishing short- and medium-term objectives for the creation of a sustainable finance ecosystem by public and private actors. Short-term objectives include measures to increase the effective operation of the sustainable finance market (transparency, directing funds to support green industry and sustainable development). Medium term objectives include improving awareness of climate change in the industry, capitalising on associated opportunities and strengthening competitiveness of the financial market. The Green Finance Plan 3.0 was launched in September 2022. Additionally, the FSC released the 'Taiwan Sustainable Taxonomy' in December 2022, providing guidance for financial institutions in conducting investment decision assessments, product design, and corporate alignments, to support enterprises transition towards a sustainable and low-carbon economy.

In **South Korea**, the Korean Financial Services Commission (FSC) unveiled plans in 2021 to enhance corporate ESG disclosure. The objective of this plan is to foster sustainable investment by expanding ESG reporting. The FSC aims for a 20% annual growth rate in the number of companies publishing sustainability reports. As part of this plan, the Korea Exchange (KRX) will introduce ESG disclosure guidelines by 2025, making it mandatory for all Korea Composite Stock Price Index (KOSPI) listed companies to disclose their ESG practices. Starting in 2026, these companies will also be required to disclose information on corporate governance. Additionally, the Korean FSC has established a taskforce to develop guidelines for supervising and evaluating stewardship code activities, ensuring the expertise and impartiality of voting advisors.

In **Hong Kong**, the Green and Sustainable Finance Cross-Agency Steering Group (CASG) has outlined key priorities to promote green and sustainable finance. These priorities encompass climate-related disclosures, carbon market opportunities, and the establishment of a multi-disciplinary platform to manage climate risks and opportunities in the financial industry. CASG aims to mandate the disclosure of climate-related information based on the TCFD framework by 2025. The Hong Kong Securities and Futures Commission (SFC) released a circular in June 2021, outlining requirements for SFC-authorised funds that incorporate ESG factors as their primary investment focus. The circular offers guidance on ESG-related products to facilitate investor understanding and assessment of whether these products align with their investment objectives. Furthermore, in July 2023, the SFC and the Hong Kong Stock Exchange (HKEX) adopted the ISSB S2 standard in collaboration with the Financial Reporting Council and the Hong Kong Institute of Certified Public Accountants.

ASEAN Regions: Various national taxonomies have been developed in ASEAN member states, albeit with differing priorities, scopes, and approaches. The ASEAN Taxonomy for Sustainable Finance, established by the ASEAN Taxonomy Board, serves as a common framework to standardise the classification of economic activities while promoting interoperability with international taxonomies and green investment standards. Version 2 of the ASEAN Taxonomy for Sustainable Finance was updated in June 2023 following extensive stakeholder consultations held between May and July 2022 (after the publication of Version 1). Economic activities seeking classification under the ASEAN Taxonomy must demonstrate their contribution to at least one of the following four environmental objectives: Climate Change Mitigation, Climate Change Adaptation, Protection of Healthy Ecosystems and Biodiversity, and Resource Resilience and the Transition to a Circular Economy. The ASEAN Taxonomy incorporates technical screening criteria to assess and classify activities as Green (substantially contributing to one or more environmental objectives), Amber (causing or potentially causing significant harm but with remediation plans within five years), or Red (causing harm with no remediation plans in place).

Malaysia: Malaysia has implemented a Climate Change and Principle-based Taxonomy, which categorises economic activities into three main groups: Climate Supporting, Transitioning, and Watchlist. The taxonomy document emphasises that even businesses making efforts to shift toward low-carbon and sustainable practices may still pose potential harm to the environment in the near term. Consequently, financial institutions must evaluate the actions taken to mitigate or eliminate this potential harm.

'The sustainable investment markets in Asia ex-Japan continue to experience robust growth, with a particular focus on the interconnected impact of climate change, energy security, and energy transition.'

Industry Collaboration

Global investors have exerted pressure on Asian markets to integrate sustainable investment strategies and address ESG issues within corporations. Notably, collaborations among industry players have emerged within Asia. For instance, the Hong Kong Stock Exchange (HKEX) and Indonesia Stock Exchange have initiated collaborative efforts on ESG initiatives and joint listings. Additionally, work on the sustainable finance taxonomy by the ASEAN mission has involved various bodies such as the Capital Markets Forum, Insurance Regulators' Meeting, Senior Level Committee on Financial Integration, Working Committee on Capital Market Development. It has also involved stakeholders including nonprofits, local government bodies, and communities, all working under the 2017-2025 regional action plan for Southeast Asia.

Customer Drivers

The sustainable investment markets in Asia ex-Japan continue to experience robust growth, with a particular focus on the interconnected impact of climate change, energy security, and energy transition. As the region faces increasing levels of physical damage from weather volatility, investors are exploring opportunities in environmentally related sustainable investments. Investments in sustainability-themed sectors such as electric vehicles/battery technology and renewable energy have witnessed significant fund inflows in regions like Mainland China and South Korea.

Market Drivers

A key market driver in the Asia ex-Japan region is the "regulatory evolution." Many countries and regional organisations have either issued or are considering regulations that support investment in "transition" companies. These regulations aim to facilitate the dual objectives of energy security and an effective energy transition, leading to a surge in demand for various decarbonisation technologies. China, for example, is encouraging an orderly transition and has emphasised that traditional energy sources should only be phased out when renewable sources become sufficiently reliable. The country is prioritising "investment before de-investment" by incentivising the use of renewable energy while ensuring the reliability of traditional energy sources during the interim period. In Taiwan, the investment theme of the low carbon energy transition has attracted a lot of attention, with growth in thematic investing related to renewable energy and energy efficiency increasing significantly.

APPENDIX

APPENDIX 1 - METHODOLOGY AND DATA

Each region covered by this report uses a different method to collect data for its respective report. The consolidation in this report is made on a best effort basis based on best available data sourced in conjunction with the regional SIFs, however due to methodological differences across regions, and changes in methodologies by regions as explained in the text, direct comparisons between regions and with previous versions of this report are not easily made.

All 2022 assets are reported as of 31 December 2021, except for Japan which reports as of 31 March 2022. For figures which are not displayed in the region's local currency, currencies have been converted to US dollars at the exchange rate prevailing on 31 December 2021.

Exchange Rate Conversion

EXCHANGE RATES USED IN GSIR 2022

CONVERSION	EXCHANGE RATE	REPORTING DATE
EUR/USD	1.13240	31/12/2021
UK/USD	1.34894	31/12/2021
CAD/USD	0.78241	31/12/2021
AUD/USD	0.72559	31/12/2021
NZD/AUD	0.94160	31/12/2021
NZD/USD	0.68337	31/12/2021
JPY/USD	0.00869	31/12/2021

SOURCE: OANDA Currency converter https://www1.oanda.com/currency/converter

Core Challenges During The Reporting Period

Since the 2020 report was published, regulators in the US and Canada have introduced new ESG disclosure requirements for funds. Europe has seen the introduction of the Sustainable Finance Action Plan, with a specific focus on preventing greenwashing. Likewise, in Australia and New Zealand, regulators have taken steps to issue guidance on greenwashing. New Zealand in particular has introduced comprehensive legislation on disclosure, divestment, and stewardship.

With the industry growing and maturing, the regional SIFs have found it appropriate to alter their different methodologies. The differences in methodology have presented key challenges in both comparing 2020-2022 data across regions, and comparing 2020-2022 data with previous years.

United States

The US SIF has conducted its trends research since 1995. With its research partners, the US SIF developed an information request that was circulated via email to 652 money managers and 1,155 institutional investors. Money managers and institutional investors responding to this information request provided much of the data for this report. Supplementary data were obtained through primary and secondary source research conducted by the US SIF Foundation and Croatan Institute.

The US SIF also used the online information request to gather responses from money managers and institutional asset owners that would provide insights into the motivations, techniques and additional activities behind their sustainable investment practices.

The research team also conducted additional research in publicly available sources including annual reports and financial statements, IRS form 990 filings by non-profit organizations, assets reported by colleges and universities to the National Association of College and University Business Officers, assets reported by retirement plans to the Department of Labor, and assets reported by asset owners that are signatories to the Principles for Responsible Investment.

Enhancements in the 2022 information request included additions to ESG criteria, refreshed definitions for labor, climate change, pollution/toxics and an optional question on respondents' opinions on how US sustainable investment will evolve by 2025.

In 2022, the US SIF made key changes to its methodology. This modified methodology distinguishes between a firmwide reference to ESG integration and a fund-level ESG strategy. While the total assets of a money manager that references ESG integration across the firm without the identification of any specific criteria are not counted, a fund that explicitly references ESG integration as part of its decision-making and portfolio construction in its prospectus is included in total ESG assets under management. However, the name of a fund with "ESG", "sustainable" or similar terms was insufficient, in itself, for the fund to be included.

The 2022 data excludes the AUM of investors who stated that they practice firmwide ESG integration but did not identify any specific ESG criteria used in their investment decision-making. To have their AUM included, money managers had to have documented that ESG factors were incorporated into investment decision-making and portfolio construction, not just made available within the firm through research and analysis.

Finally, several asset managers in the 2022 Trends information request reported far fewer sustainable investing AUM than they had in 2020 (in some cases, in the magnitude of billions and trillions of dollars). The modified methodology and change in money manager reporting led to a significant drop in total ESG AUM, as well as ESG AUM for specific criteria. For more information, refer to the 2022 Trends Report on the US SIF website.

Europe

The European data was provided by the European Fund and Asset Management Association (EFAMA). EFAMA collects data from its member associations and asset management companies. EFAMA has stopped collecting data on sustainable investment strategies and now collects data on Article 8/9 funds, which is the reason there is no breakdown of investment strategies for Europe in this report. The EFAMA data contains the size of the market, the split of institutional and retail investment and share of sustainable investment. You can read more about EFAMA's data and research on their website.

Japan

The Japan Sustainable Investment Forum (JSIF) conducted a survey that gathered data for this report, receiving responses from 54 institutional investors in 2022. The report also includes data from two government pension funds, bringing the total coverage to 56 institutions. The 2022 survey was distributed with the help of the Financial Services Agency, the PRI Japan Network, and CSR Design Green Investment Advisory Co., Ltd.

The 56 institutions reported JPY1,046.4 trillion in total assets, of which 61.9% - JPY628.7 trillion – was managed using sustainable investing strategies. To obtain the net sustainable investing assets amounting to JPY493.6 trillion, the assets that were managed by fund managers and which came from pension funds were subtracted from JPY628.7 trillion to avoid double-counting. To calculate the percentage, JSIF divided the net sustainable investing assets by the total professionally managed assets in Japan, using the most reliable and extensive data set of Japan's Flow of Funds Accounts compiled by the Bank of Japan.

More information about the Sustainable Investment Surveys can be found on the JSIF website.

Canada

Canada's Responsible Investment Association (RIA) commissioned Environics Research to undertake the data collection and analysis for this report. Respondents were invited from a database of 390 organizations, including investment managers, Canadian asset owners including pension funds and foundations, and other institutional investors. There were 90 survey respondents, comprising 77 asset managers and 13 asset owners. The RIA conducted desktop research for an additional 26 entities that did not complete the survey, using publicly available information.

Survey data is self-reported and not verified, although reasonability checks were conducted resulting in minimal adjustments to the collected data. It is important to note that the Canadian RI Trends Report survey does not represent a census, as it is based on survey results from a subset of the research universe. However, the RIA have a high level of confidence that this sample is sufficiently representative of the broader Canadian responsible investment industry.

The 2022 report sets a new baseline for our evaluation of RI assets under management (AUM) and market share in Canada. For more information, please refer to the 2022 Canadian Responsible Investment Trends Report on the RIA's website.

Australia And New Zealand

Data used to compile the Responsible Investment Association Australasia's (RIAA's) Australia and New Zealand Responsible Investment Benchmark Reports were collected from the following sources: directly supplied by asset managers and asset owners; Morningstar statistics which provided data for the average performance of mainstream managed fund categories and also provided a secondary source of AUM data for some of the funds listed; Plan for Life for RIAA certified product performance; RIAA's databases; desktop research of publicly available information regarding assets under management, performance data and investment approaches from sources including company websites, annual reports and PRI Responsible Investment Transparency Reports; other RIAA research outputs. The survey was delivered online through a platform designed by EY and distributed to investment managers by RIAA.

For the Australian Benchmark Report a total of 239 investment managers and asset owners were targeted as respondents to this survey; survey respondents totalled 56, while 85 were assessed through desktop analysis. For the New Zealand Benchmark Report a total of 289 investment managers were targeted as respondents to this survey. In total, 52 organisations were identified as managing AUM on behalf of New Zealand investors. Survey respondents totalled 28, while 24 investment managers and asset owners were assessed through desktop analysis.

All New Zealand assets were converted to Australian dollars as of 31 December 2021, in order to combine assets for the region for this report. More detail on the methodology is available in the Responsible Investment Benchmark Report 2022 Australia and Responsible Investment Benchmark Report Aotearoa New Zealand 2022 on RIAA's website.

APPENDIX 2 - DATA TABLE

Assets in each sustainable investment strategy, per region and global

2018 BILLIONS

	EUROPE (EUR)	UNITED STATES (USD)	CANADA (CAD)	AUSTRALIA & NEW ZEALAND (AUD)	JAPAN (YEN)	GLOBAL (USD)
Impact/community investing	€109	$295	$15	$8	¥823	$19,771
Positive/best-in-class-screening	€586	$1,102	$12		¥6,425	$9,835
Sustainability themed investing	€149	$781	$41	$31	¥1,192	$17,544
Norms-based screening	€3,148		$981		¥31,604	$4,679
Corporate engagement and shareholder action	€4,858	$1,763	$1,497		¥140,755	$1,842
Negative/exclusionary screening	€9,464	$7,921	$878	$226	¥17,328	$444
ESG integration	€4,240	$9,503	$1,890	$768	¥121,512	$1,018
Total (net)*	€12,306	$11,995	$2,132	$1,033	¥231,952	$30,683

2020 BILLIONS

	EUROPE (EUR)	UNITED STATES (USD)	CANADA (CAD)	AUSTRALIA & NEW ZEALAND (AUD)	JAPAN (YEN)	GLOBAL (USD)
Impact/community investing	€95	$212	$20	$25	¥140	$352
Positive/best-in-class-screening	€511	$658	$21	$4	¥14,643	$1,384
Sustainability themed investing	€130	$1,688	$48	$5	¥7,989	$1,948
Norms-based screening	€2,745		$1,050		¥28,308	$4,140
Corporate engagement and shareholder action	€4,236	$1,980	$2,673		¥187,170	$10,504
Negative/exclusionary screening	€8,253	$3,404	$1,361	$127	¥135,263	$15,030
ESG integration	€3,697	$16,059	$3,008	$1,135	¥204,958	$25,195
Total (net)*	€10,730	$17,081	$3,166	$1,295	¥310,039	$35,301

2022 BILLIONS

	EUROPE (EUR)	UNITED STATES (USD)	CANADA (CAD)	AUSTRALIA & NEW ZEALAND (AUD)	JAPAN (YEN)	GLOBAL (USD)
Impact/community investing		$19	$9	$34	¥499	$55
Positive/best-in-class-screening		$264	$43	$104	¥23,108	$574
Sustainability themed investing		$136	$99	$199	¥27,643	$598
Norms-based screening		$0	$284	$138	¥170,903	$1,807
Corporate engagement and shareholder action		$2,977	$880	$883	¥431,194	$8,053
Negative/exclusionary screening		$724	$623	$712	¥243,050	$3,840
ESG integration		$693	$980	$879	¥401,686	$5,588
Total (net)*	€12,410	$8,400	$3,014	$1,680	¥493,598	$30,320

NOTE: Assets were reported as of 31 December for all regions except Japan, which reported as of 31 March.

2022 European sustainable investing strategy data was unavailable. 2020 European sustainable investing strategy data is based on extrapolation from historic data from the 2018 GSIR report and applying the same proportion to 2020 sustainable investing data across the different sustainable investing strategies.

*The totals shown are the disclosed sustainable investment assets and may not be equivalent to the summation of assets across strategies.

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