

# FUTURE OF SUSTAINABILITY IN INVESTMENT MANAGEMENT: FROM IDEAS TO REALITY

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Future of Finance



# CONCEPTUAL FRAMEWORK

## Future State of the Investment Profession (2017)

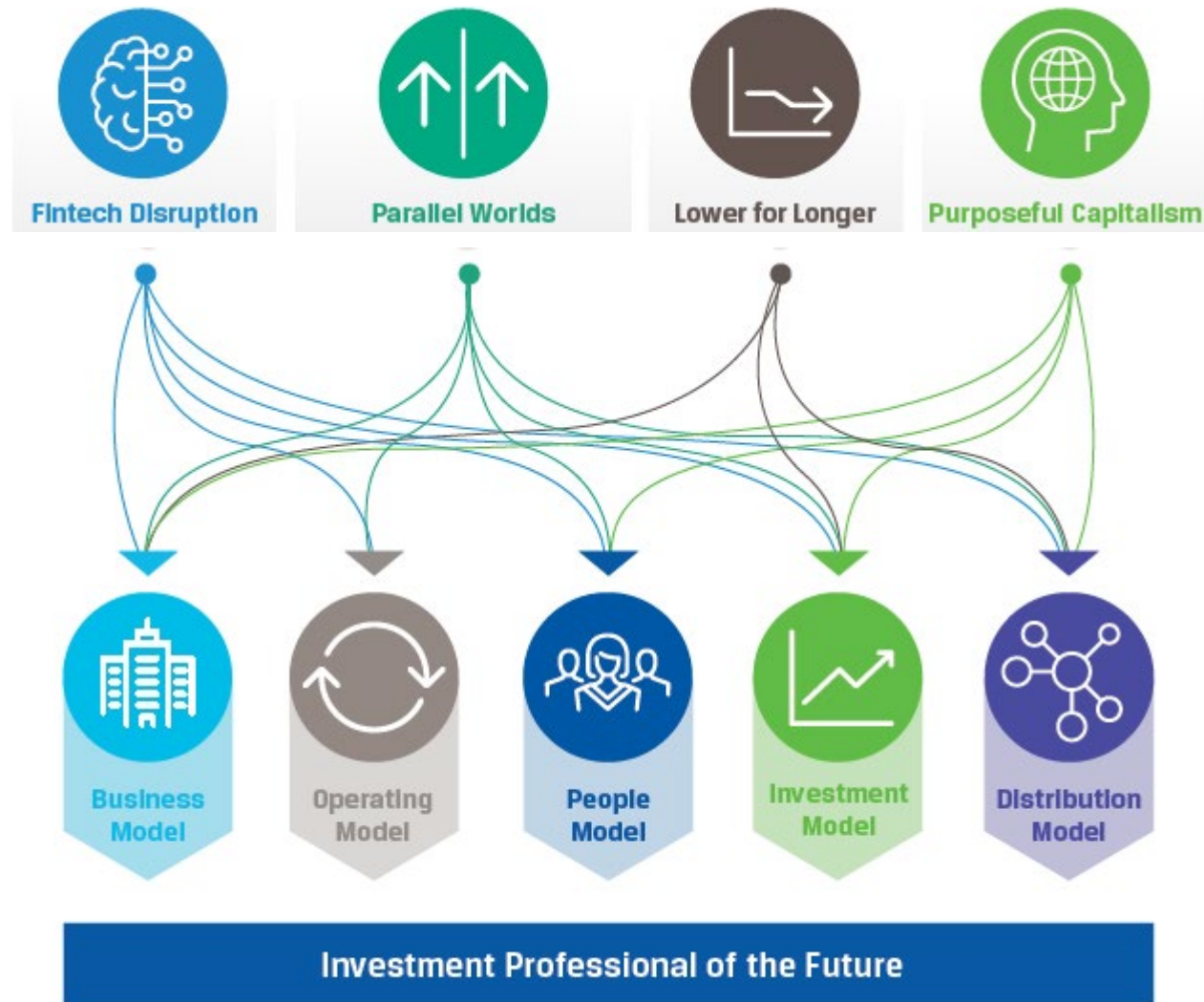
**Scenarios** reflect what the investment industry is, where it is headed, and how we would like it to develop

## Investment Firm of the Future (2018)

**Narratives** show how the scenarios apply to how investment firms work

## Investment Professional of the Future (2019)

**Roadmaps** for professionals and firms for changing roles, skills and organizational cultures



## Future of Sustainability in Investment Management (2020)

Implications for the future of the investment industry, its purpose, and its clients

Shifts firms will need to make to adapt, including products, teams, and identity

Ways investment professionals can build their sustainability-related skills and effectiveness

# NEW SCENARIO APPLICATIONS

## Climate Energy

Carbon pricing regimes emerge, supported by national regulatory frameworks to deliver transparency, liquidity, and ease of access. Investment organizations account for carbon prices, and the quality of climate risk management becomes a differentiator. Climate views are increasingly incorporated into wealth management, retail, and defined contribution contexts, following the lead of institutional investors. Investment professionals deepen their understanding of climate risk resilience and mitigation.



## Social Status

Innovations occur in transparency and reporting as social factors become better defined and measured. There is a greater ability to compare organizations on previously hidden areas of operation. Social media is increasingly influential in highlighting good and bad examples of company behaviors. Alternative data sources add further information to enable assessments to be made on the softer aspects of corporate conduct.



# METHODOLOGY: INPUT FROM 7,000 STAKEHOLDERS

Includes investment clients, investment practitioners, ESG specialists, and C-suite leaders

## Quantitative data

### Investor survey

**4,400+** investment clients:

- 3,525 retail investors (US\$100,000 asset minimum)
- 921 institutional investors (pension funds, endowments, foundations, insurance companies and sovereign funds of US\$50 million+ AUM)
- surveyed in Oct/Nov 2019

### Practitioner survey

**2,821** CFA Institute members globally, including

- 325 from the C-suite
- 373 ESG specialists
- surveyed in March 2020

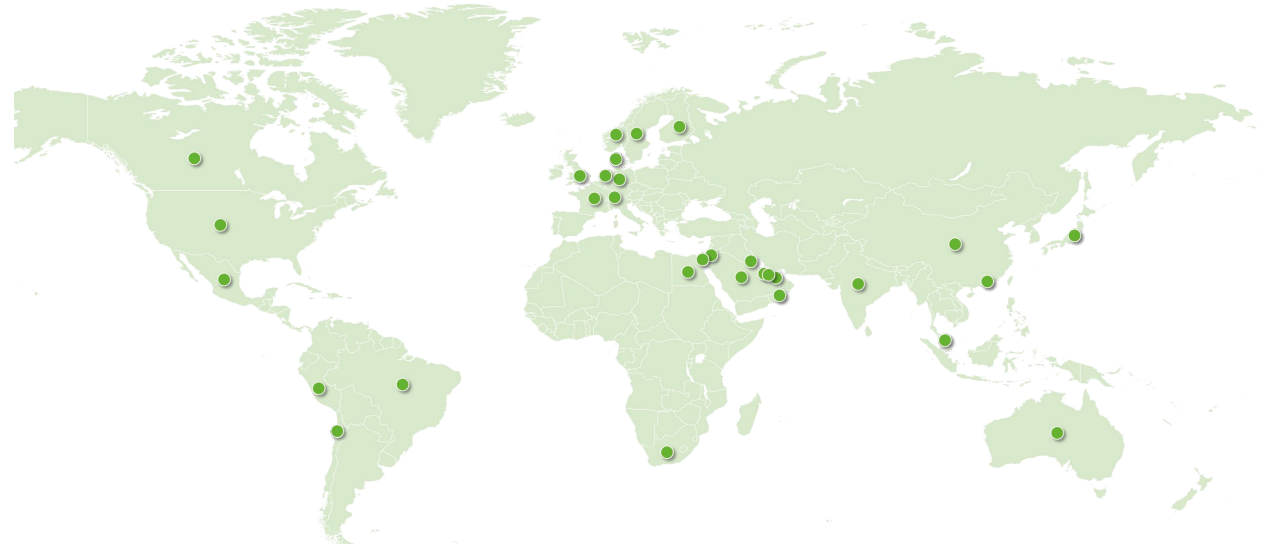
### LinkedIn Talent Insights data



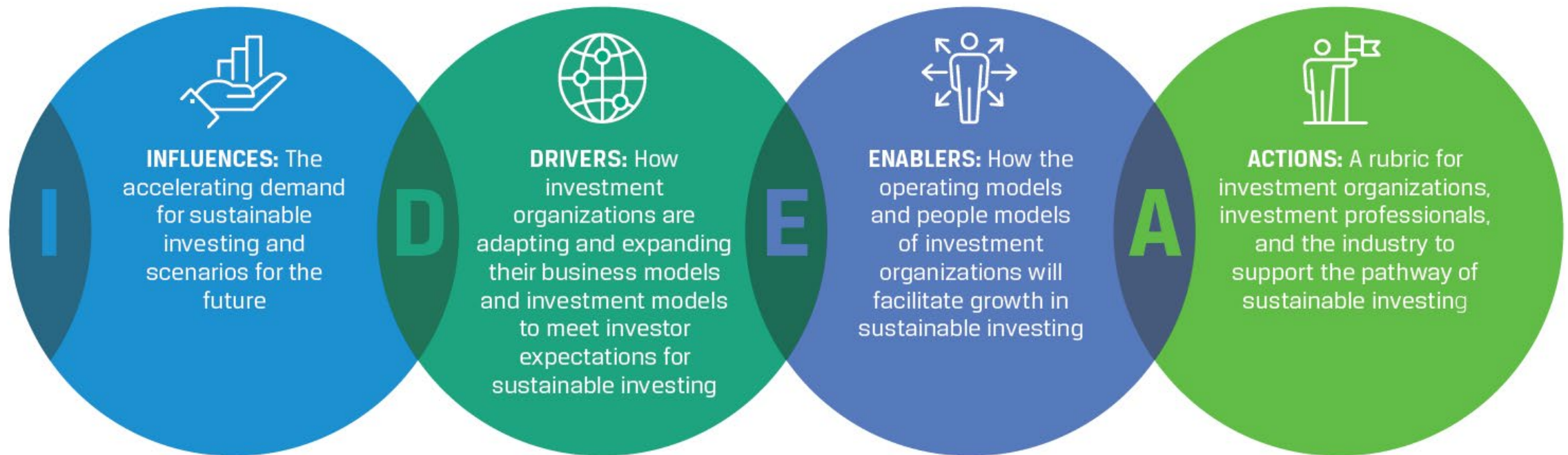
## Qualitative research

**23 virtual roundtables** with **250+ participants**

- investment practitioners, ESG service providers, policymakers, academics
- conducted from April to August 2020
- 31 markets represented



# FUTURE OF SUSTAINABILITY IN INVESTMENT MANAGEMENT: FROM IDEAS TO REALITY

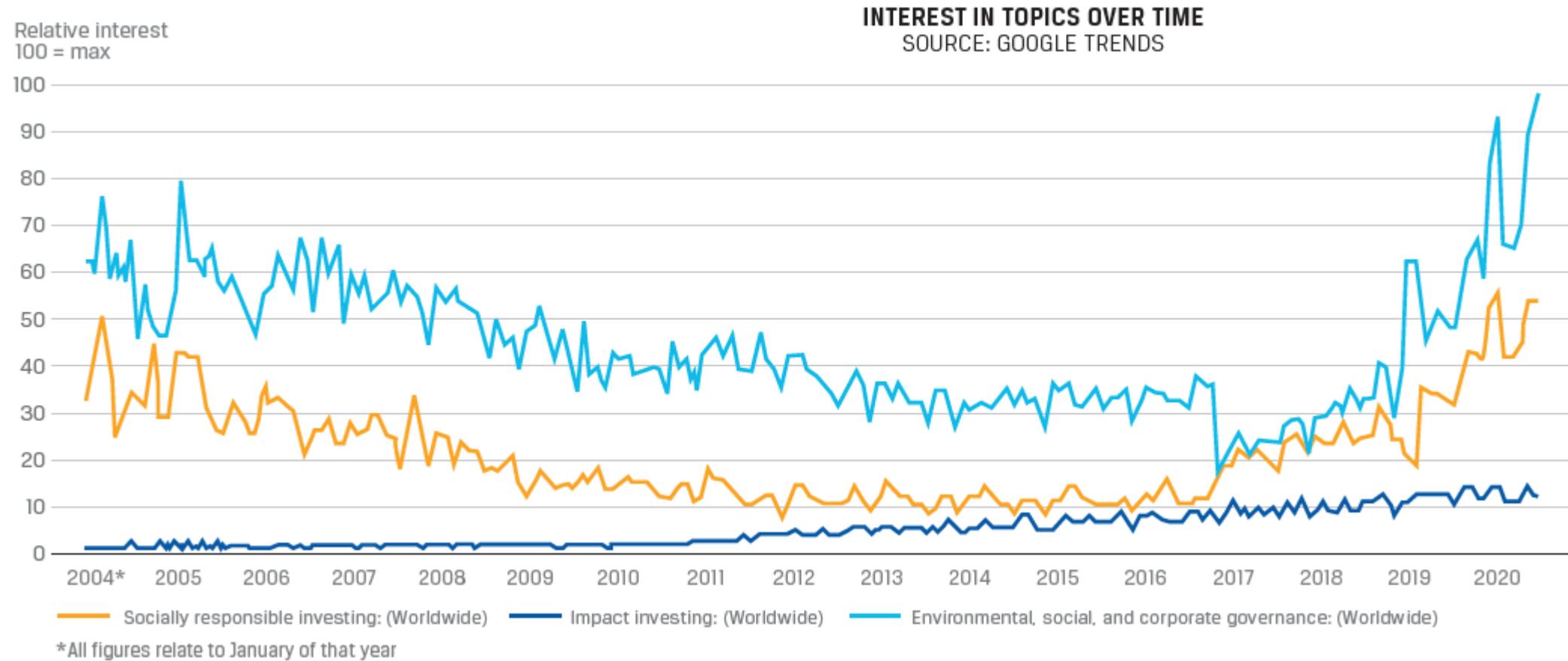


# INFLUENCES

To understand the future of sustainable investing, it is helpful to understand how we got here. Both internal efforts of the investment community and external forces are driving change in this space.



# THE TOPIC OF ESG HAS NEVER BEEN MORE POPULAR

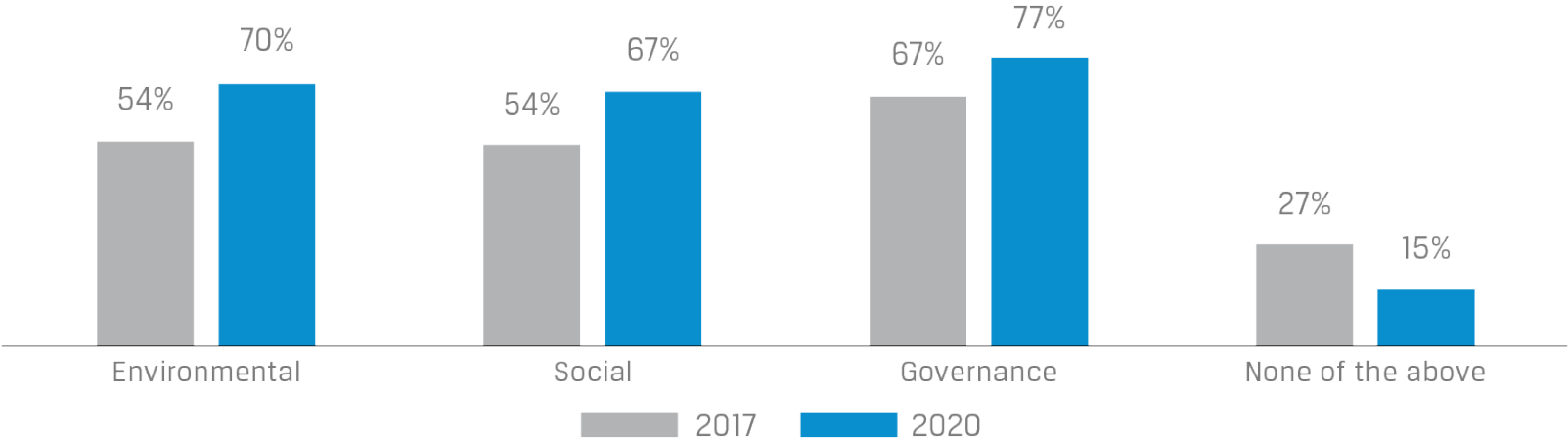


# GROWTH IN ESG INVESTING IN THE LAST THREE YEARS



**85%** of CFA Institute members surveyed now take E, S and/or G factors into consideration in their investing, up from 73% in 2017

**WHICH, IF ANY, OF THE FOLLOWING ESG AREAS DO YOU AND/OR YOUR ORGANIZATION TAKE INTO ACCOUNT IN YOUR INVESTMENT ANALYSIS OR DECISIONS?**  
(SELECT ALL THAT APPLY)

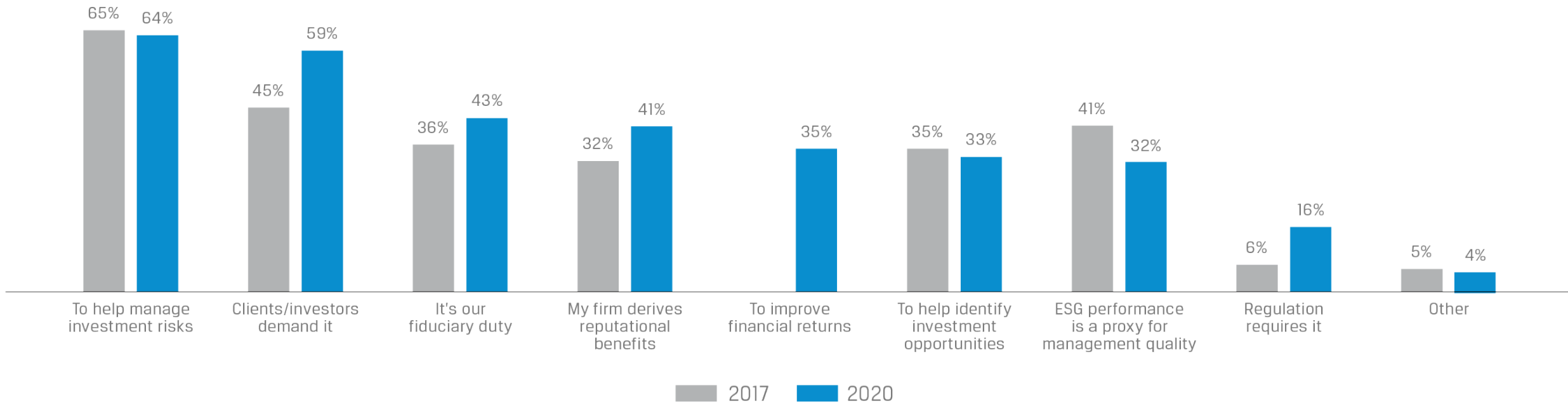


N = 1,585 in 2017 and N = 2,683 in 2020



# MOTIVATION OF FIRMS FOR CONSIDERING ESG

**WHY DO YOU OR YOUR ORGANIZATION TAKE ESG ISSUES INTO CONSIDERATION IN YOUR INVESTMENT ANALYSIS/DECISIONS?**  
(SELECT ALL THAT APPLY)



N = 1,099 in 2017 and N = 2,140 in 2020

# POLLING

# DRIVERS

Updates to two frameworks are needed to implement sustainable investing. The investment model and business model of both asset owners and asset managers will need fresh approaches.

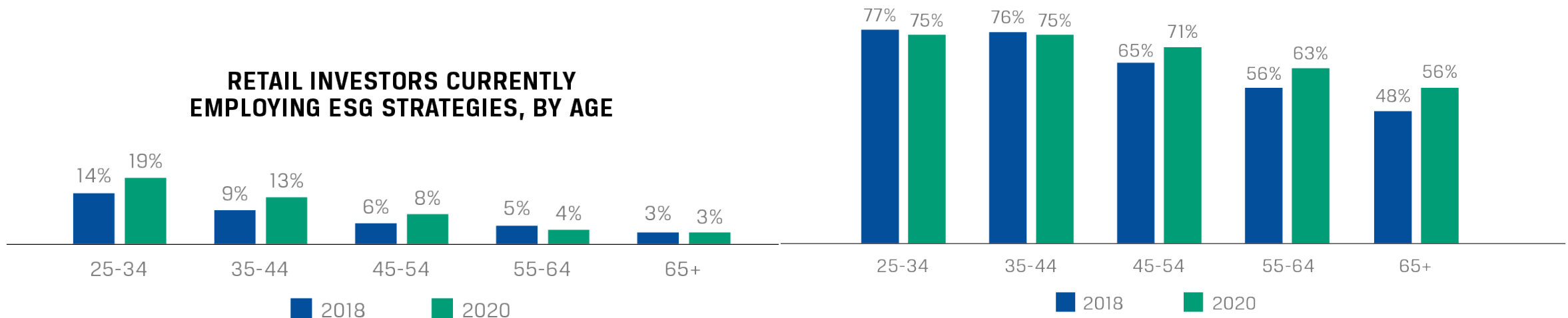




# THE BUSINESS OPPORTUNITY

- The business model looks at the way in which firms create value and competitive differentiation. Organizations need to understand external factors influencing client demand and the impact of regulation.
- Sustainability should be reflected in the governance surrounding the development of new products and strategies, including client reporting, disclosures, and incentives.
- Future growth opportunities in the product space include ESG index tracking and quant funds, ESG thematic products, ESG multi-asset products, climate transition strategies, and better benchmarks.

**RETAIL INVESTORS INTERESTED IN  
ESG STRATEGIES, BY AGE**



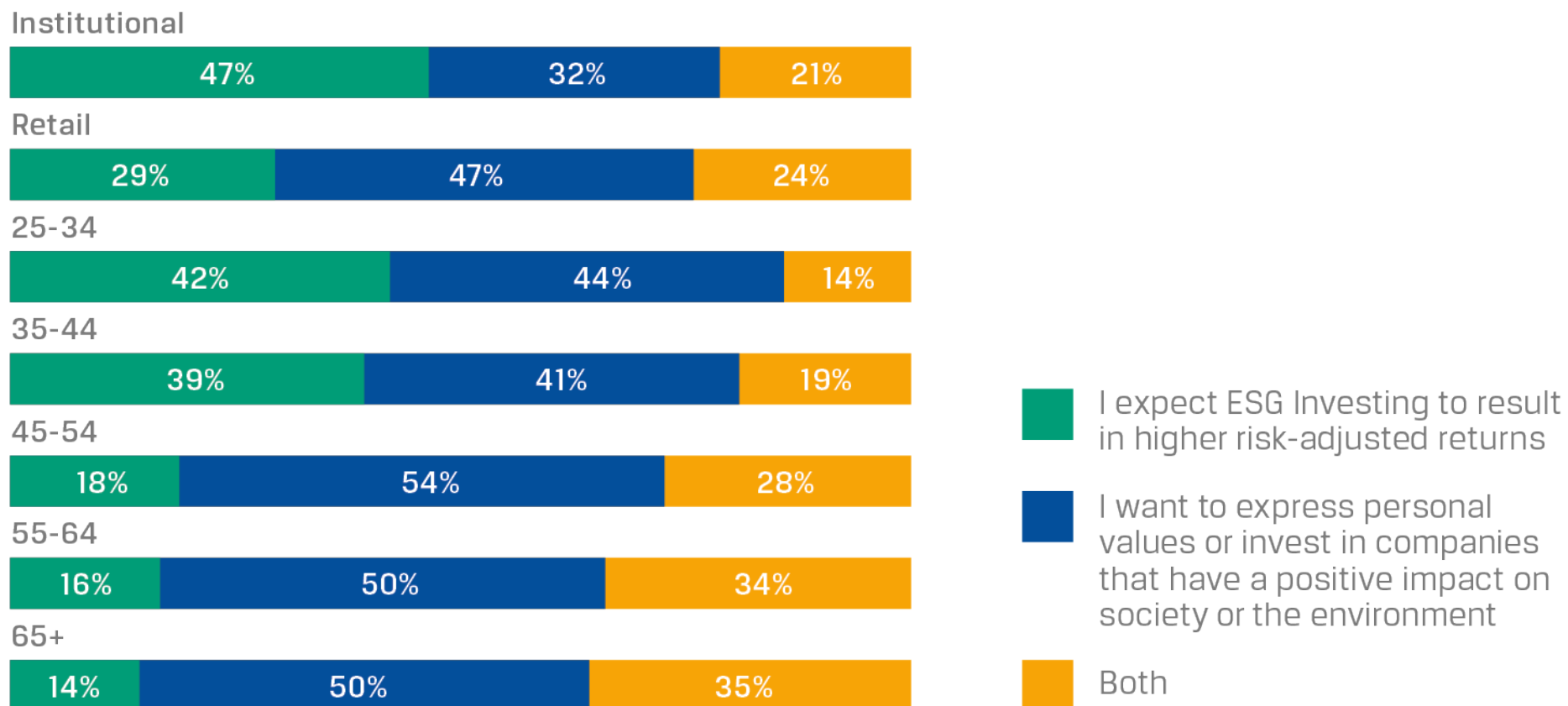
N = 2,430 in 2018 and N = 2,840 in 2020





# CLIENT MOTIVATIONS

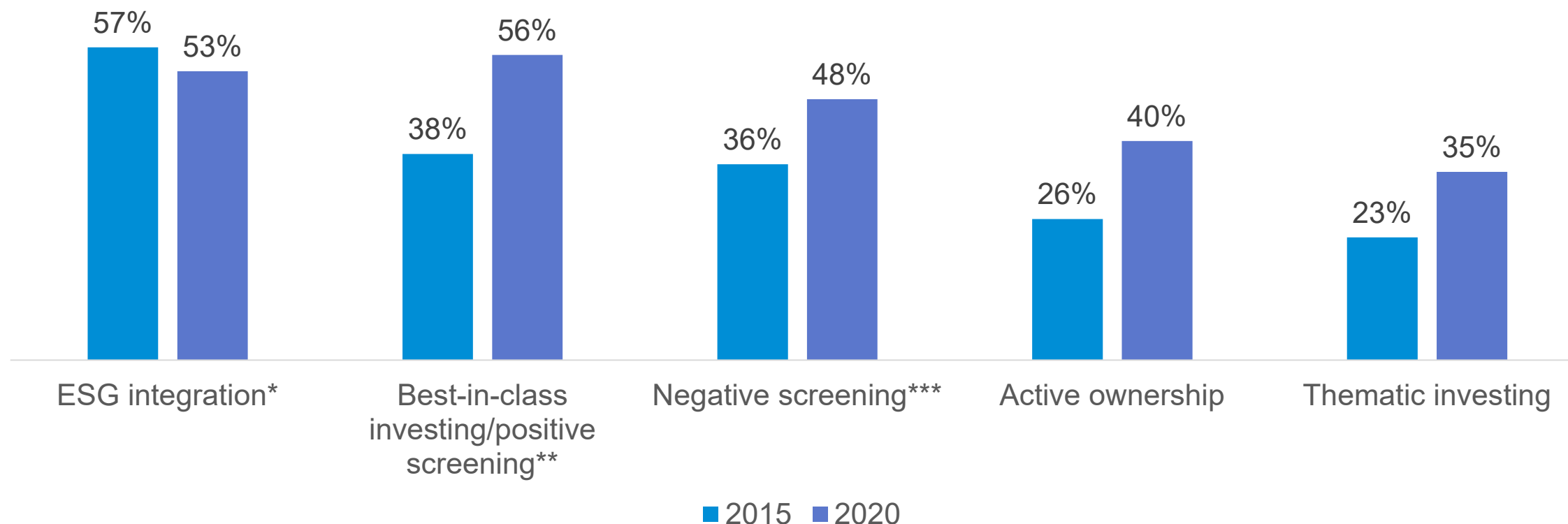
## WHICH BEST DESCRIBES YOUR INTEREST IN ESG INVESTING? (ASKED OF THOSE WITH AN INTEREST IN ESG INVESTING)



N = 2,505 for retail investors and N = 864 for institutional investors

# IMPLEMENTATION APPROACHES

What is your approach to ESG investing? (select all that apply)



Source: CFA Institute Member Survey, March 2020, N = 946 in 2015 and 2,081 in 2020  
See additional notes on final slide

## ENABLERS

The organizational configuration needed for sustainable investing practice will come from the fundamental resources used in the investment industry production function — namely, from people, organizational process, and information. Through technology, the synergies between these fundamental resources can be more completely developed and exploited.

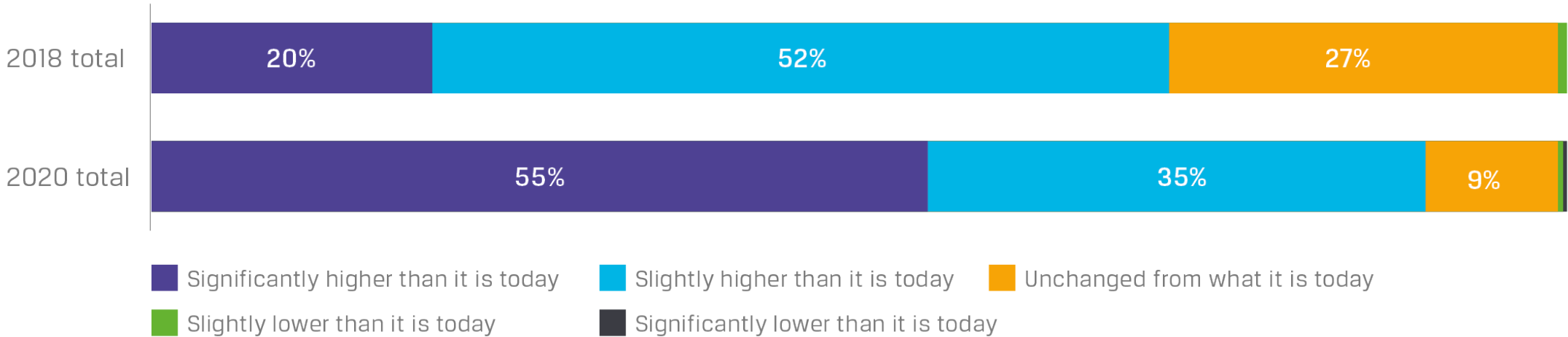




# 90% EXPECT THEIR FIRMS WILL HAVE A GREATER COMMITMENT TO ESG RESEARCH IN THE NEXT 5-10 YEARS

**Expectations are much higher than just two years ago**

**IN THE NEXT 5-10 YEARS, I EXPECT MY FIRM'S FUTURE COMMITMENT TO THE RESEARCH OF ESG AND SUSTAINABILITY ISSUES WILL BE:**



N = 2,206 in 2018 and 2,125 in 2020; includes 244 CEOs/CFOs/CIOs

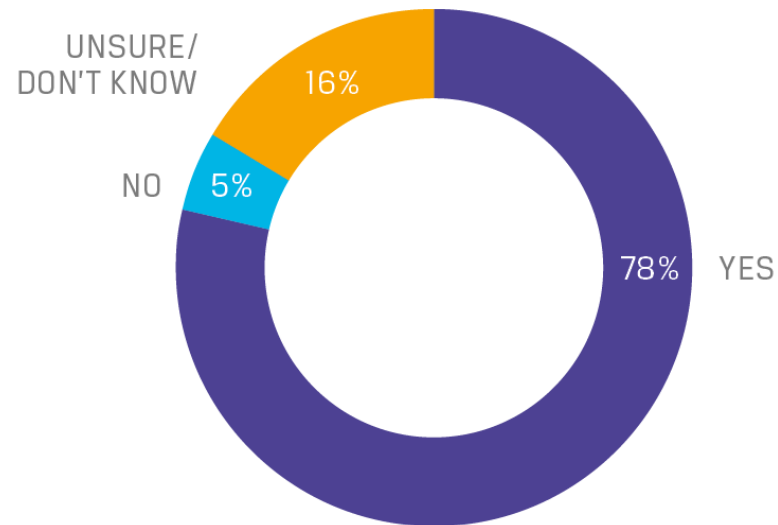


# DISENTANGLING DATA NEEDS ACROSS THE VALUE CHAIN



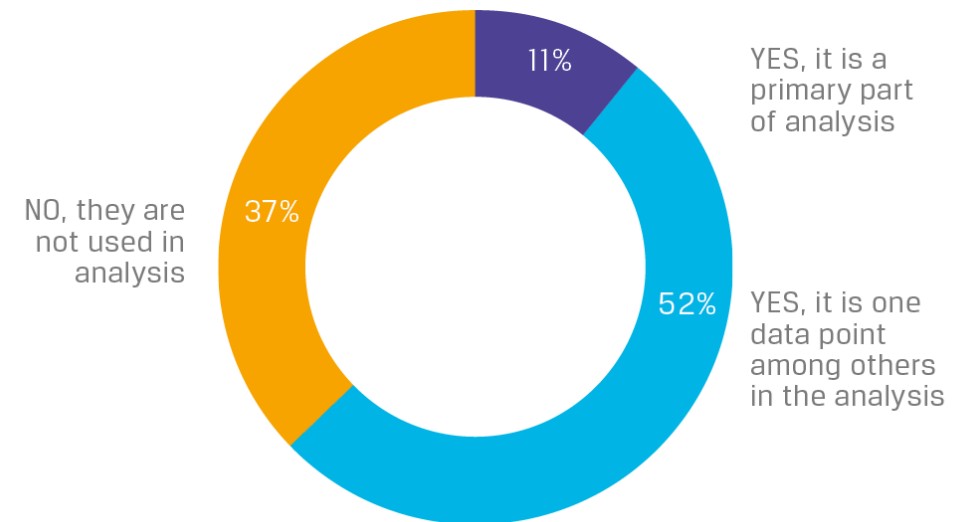
# DATA USAGE

**IN YOUR OPINION, DO YOU THINK THAT THERE IS A NEED FOR IMPROVED STANDARDS AROUND ESG PRODUCTS TO DIMINISH "GREENWASHING"?**



**DO YOU CURRENTLY USE ESG COMPANY RATINGS IN COMPANY ANALYSIS?**

N=2,113

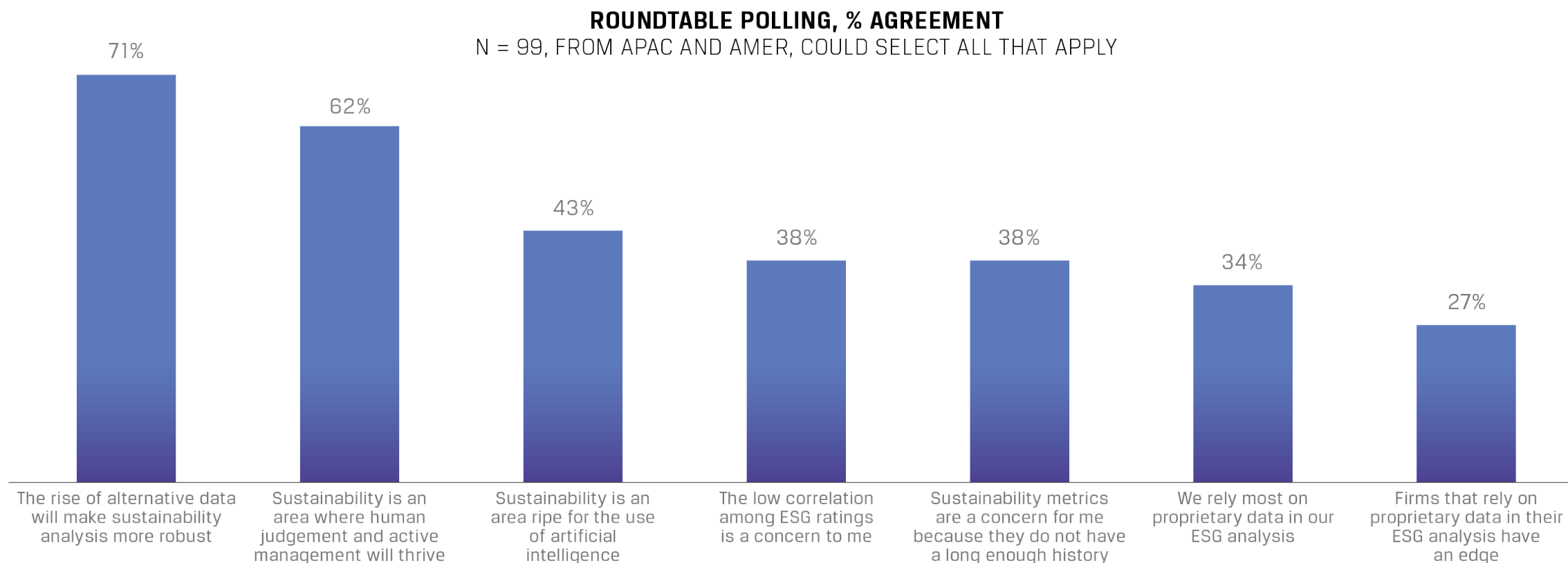


**73%** expect the influence of ESG ratings on firms' cost of capital to be greater in the next five years

Source: CFA Institute member survey

# THE RISE OF ALTERNATIVE DATA

- Technology is a necessary foundation for competitive advantage in ESG analysis, with more data sources becoming available and more differentiation among data.
- Sustainability data often is contextual and subjective.





## UNDERSTANDING DATA QUALITY

**Materiality** is the degree to which the precise form of a measure reflects decision-useful insight about investment-relevant questions.

**Validity** is the degree to which an actual data point is an accurate representation of the measure in question, where validity is reduced by subjectivity and various problems of accuracy, timeliness, granularity, and transparency.



# POLLING

# ENABLERS: PEOPLE

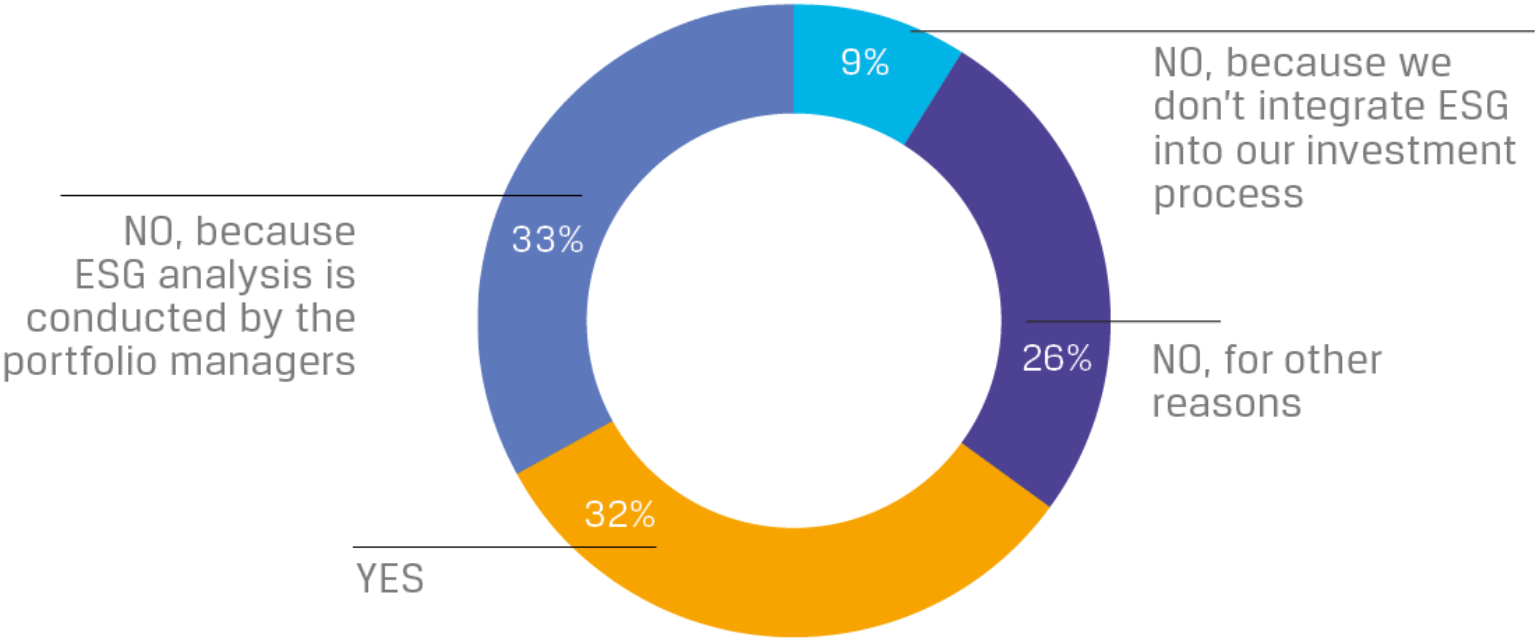
## ESG Expertise Supply and Demand

(source: LinkedIn Talent Insights)

Job title family	Profiles on LinkedIn (rounded)	% with sustainability skills	1-year sustainability expertise growth	% of postings seeking expertise
Portfolio Manager	146,000	1.5%	32%	18%
Chief Investment Officer	15,000	2.0%	18%	10%
Financial Advisor	630,000	0.5%	32%	5%
Analyst	180,000	0.7%	34%	2%
Chief Executive Officer	37,000	1.9%	12%	0%
<b>Total</b>	<b>1,008,000</b>	<b>0.7%</b>	<b>26%</b>	<b>6%</b>



**DOES YOUR ORGANIZATION EMPLOY  
DEDICATED ESG ANALYSTS?**  
(EXCLUDES THOSE WITHOUT ESG STRATEGIES)



# POLLING

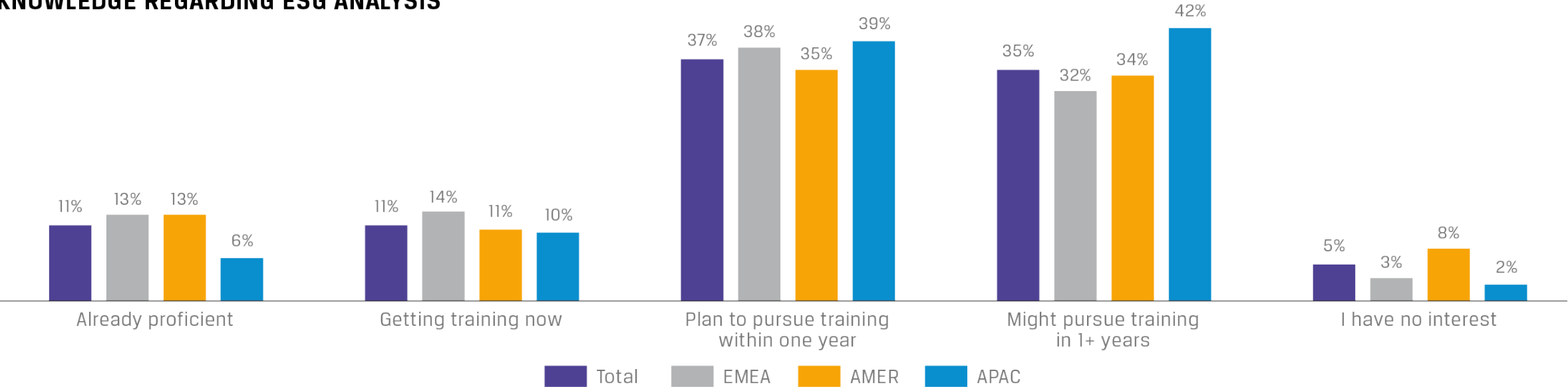




# INTEREST IN ESG TRAINING

Few are already proficient, though more than 70% may increase skills

## INTEREST IN BUILDING SKILLS AND KNOWLEDGE REGARDING ESG ANALYSIS



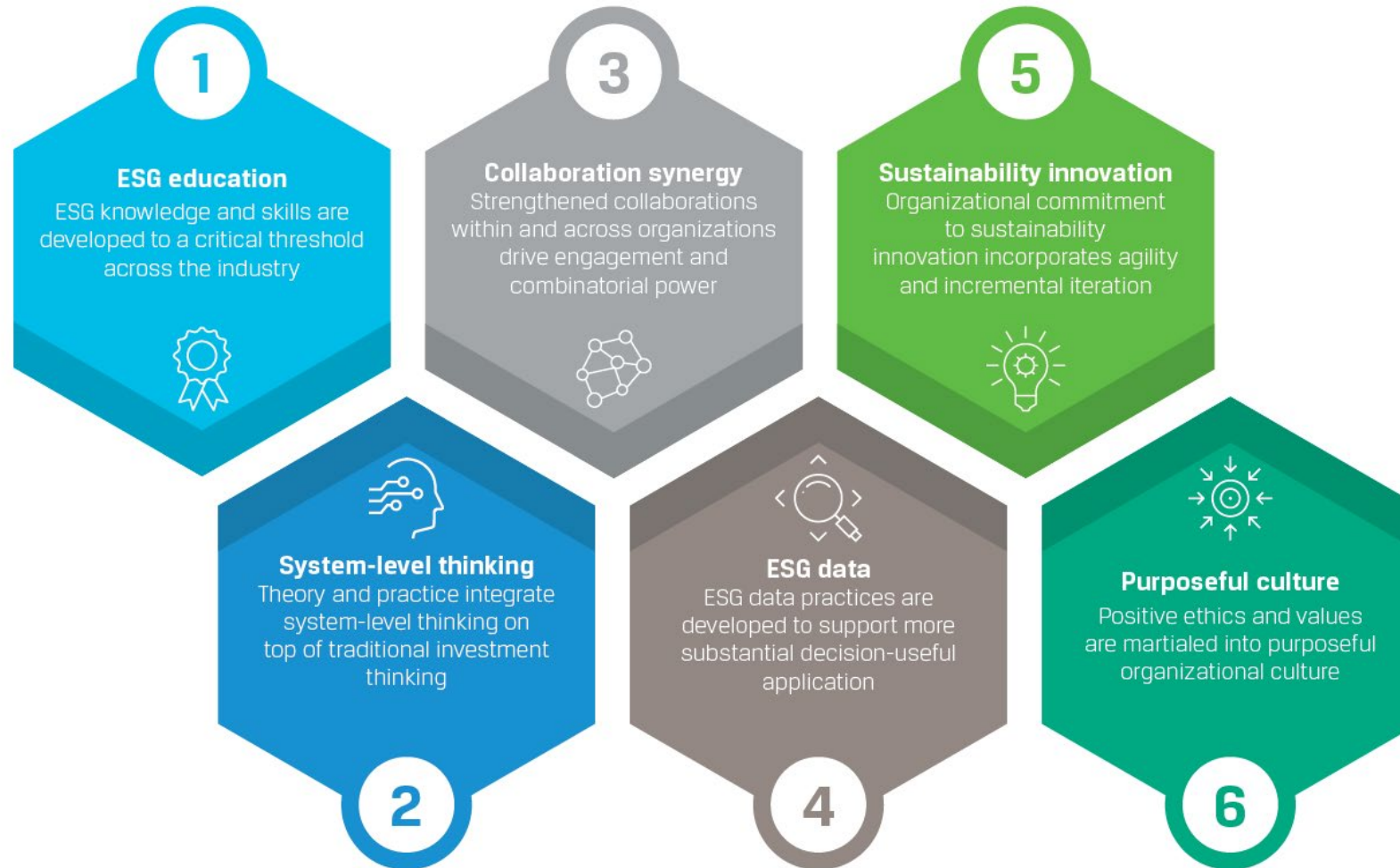
N = 2,501

# ACTIONS

Where are we on the sustainable investing journey? Where are current trends likely to take us, and what *scenarios* are plausible for the next 5–10 years? The preferable future state is the industrywide attainment of excellent investing outcomes, balancing intergenerational equity and regard for multiple stakeholders. What are the catalysts to achieve this outcome? What is holding us back?



# A RUBRIC FOR PROGRESS



# RUBRIC AND RESOURCES

<http://cfainst.is/rubric>



# REFERENCES AND NOTES

## References

See [www.cfainstitute.org/esg-investing](http://www.cfainstitute.org/esg-investing) for various resources, such as:

- *ESG and Responsible Institutional Investing Around the World: A Critical Review*, a Research Foundation literature by Pedro Matos, May 2020
- *Climate Change Analysis in the Investment Process*, Sept 2020
- *Positions on Environmental, Social, and Governance Integration*, CFA Institute policy position, Jan 2019

## Notes

For Drivers slide:

- The 2020 descriptions were taken from the 2018 *Financial Analysts Journal* paper “Why and How Investors Use ESG Information: Evidence from a Global Survey” by Amir Amel-Zadeh and George Serafeim
- In 2020, “ESG integration” combines “full integration” (26%), “risk factor/risk premium investing” (25%), and “overlay/portfolio tilt” (15%), and the total is the number of respondents who selected one or more of these options. The latter two were not collected in 2015.
- 2020 combines “relative/best-in-class screening” (30%) and “positive screening” (45%) and the total counts each respondent only once; in 2015 there was a single category called “best-in-class investing/positive alignment.”
- In 2015 the term used was “exclusionary screening.”