

AIMA Fund Manager event

Transparent Investing

How increases in corporate disclosures on ESG can be used strategically in the investment process

DRAFT FOR DISCUSSION/PRESENTATION PURPOSES ONLY

28 March 2022



Welcome

As highlighted in PwC's recent report, *Embracing transformation: how asset managers are leveraging regulation to drive value creation*, firms have ambitions to leverage the ESG regulatory agenda to drive broader firm-wide transformation. They want to embed ESG considerations across the full spectrum of their business and operating models to help establish a purpose-driven culture, help tackle important societal challenges and drive value creation across their business.

Today our specialists will share their thoughts on the following:

- a summary of the UK and EU regulatory environment and the divergence between them
- specific application to alternative investment management groups, their products and the investment process
- how value may be created and maximised through effective utilisation of data and disclosure by investment managers, and
- the pros and cons of additional diligence, disclosure and the use of data and getting the balance right



Peter Witton

Director - Alternative
Investment Funds (Tax)

M: 07702 699 224

E: peter.witton@pwc.com

The attendance list will be noted and sent to AIMA. The VC will be recorded for AIMA and for PwC internal purposes.

We kindly ask that you are on mute as a default unless speaking, in order to minimize background noise and prevent any disruptions.

Please use the comment box on the right of the screen to ask any questions. Alternatively, if you would like to remain anonymous, please email me using the details on the left of the screen if you would like me to ask a question.



Setting the scene:

UK and EU ESG disclosure
and regulation and the
application to alternative
asset managers

John Newsome + Seema Chandaria

Significant policy and regulatory activity globally

Policymakers around the world have been actively seeking ways to embed sustainability considerations into financial services to help mobilise finance for sustainable growth. This has resulted in numerous regulatory initiatives impacting virtually all types of firm operating within the financial services ecosystem, forcing them to integrate ESG risks throughout their organisations, make new disclosures, and play a more active role in driving sustainable outcomes.

EU: significant focus, particularly with Sustainable Finance Action Plan

- Significant focus, particularly with Sustainable Finance Action Plan aiming to embed sustainability concepts into the financial system
- Key current initiatives include the Taxonomy Regulation, the Low-Carbon Benchmarks Regulation, the Sustainable Finance Disclosure Regulation, and proposed amendments to various existing EU regulatory frameworks (e.g. MIFID II, AIFMD, UCITS)
- Attention is now being given to retail investment, corporate disclosure, and prudential considerations

UK: Focus on climate change

- UK government has committed to Net Zero by 2050
- All companies required to make climate disclosures in-line with TCFD by 2025 latest, by 2022 for most FS firms
- Bank of England performed climate stress test in June 2021
- FCA has developed sustainable investment principles to combat greenwashing in funds
- HMT's sustainable finance roadmap has committed to a new set of Sustainability Disclosure Requirements for corporates and asset managers/owners, and a UK Green Taxonomy.

China / Hong Kong: Net Zero 2060 commitment

- China has made a commitment to reach Net Zero by 2060
- Hong Kong Stock Exchange introduced new rules in 2020 on ESG disclosures with an emphasis on climate change.

Singapore: work now underway

- The Monetary Authority of Singapore is carrying out initial exploratory work exploring ways to incorporate climate-related risks into stress test scenarios

Australia: Focus on TCFD implementation

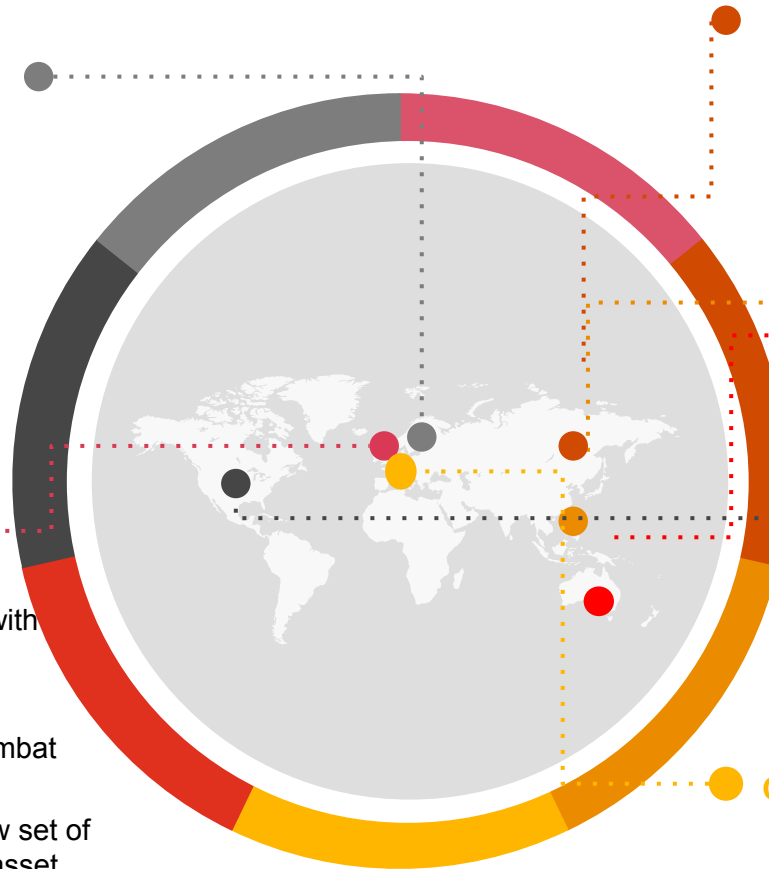
- The Australian Securities & Investments Commission published guidance in 2019 clarifying the application of existing disclosure provisions to climate-related risks, reflecting TCFD recommendations

US: Biden Administration means step change

- Biden Administration rejoined the Paris Agreement and announced major bilateral cooperation with China
- In March 2022, the SEC published proposals for mandatory climate risk disclosures that will be subject to intense debate

Germany: sustainability risk guidelines

- Bafin published guidance in December 2019 on how FS firms should manage sustainability risks (focus on climate) and, in July 2021, published a consultation to tackle greenwashing in funds.



Snapshot of the UK/EU ESG regulatory environment

There is significant overlap between the various ESG-related regulatory initiatives in terms of the nature of the requirements and/or the impacts on a firm's business. As a result, many of our clients are approaching their ESG regulatory programmes on a thematic basis to achieve operational efficiencies.

		ESG policies	Conflicts of Interest	Skills and resourcing	Remuneration	Investment processes/due diligence	Product classifications/governance	Engagement and stewardship	Reporting	Data
EU Sustainable Finance Action Plan	Taxonomy Regulation <i>(from end-2021)</i>	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Sustainable Finance Disclosure Regulation <i>(from March 2021)</i>	✓			✓	✓	✓		✓	✓
	Amendments to MiFID II Directive <i>(from 2022)</i>		✓	✓		✓	✓			✓
	Amendments to AIFMD/UCITS Directives <i>(from 2022)</i>		✓		✓	✓				✓
UK Green Finance Strategy	FCA response to TCFD <i>(FCA-authorized asset managers from June 2023, Premium listed companies from January 2021)</i>			✓		✓			✓	✓
	UK Taxonomy	✓	✓	✓	✓	✓	✓	✓	✓	✓
	FCA ESG principles	✓		✓		✓	✓	✓	✓	✓
	UK SDR and investment labels			✓		✓	✓		✓	✓

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ESG disclosure and
compliance:

A strategic,
transformative and value
focused approach

Leanne Bouvet, Simon Oswald
and Chris Rutt

There are a number of drivers putting ESG top of the agenda for asset managers



Changing consumer sentiment

Consumers are more responsive to issues of inequality, wealth disparity, and climate change

58%

Consumers saying a company's purpose plays an important role in their decisions



Build reputation

ESG-linked reputational damage can have a significant impact on company value

-£500m

Impact of revelations of poor working conditions on Boohoo's value



Revenue Growth

Increasing evidence suggests a synergy between performance and sustainability

c.60%

Proportion of sustainable funds delivering higher returns than non-sustainable equivalents



Societal expectations

Greater focus on purpose and society informing staff retention and attraction

73%

Employees expecting employers to offer opportunities to shape society



Investor expectations

Institutional investors expect ESG factors to be considered, to protect value and enhance returns

3rd

Ranking of ESG as a top priority for investors, outranking fees.



Regulatory change

Increasing regulatory focus on ESG, inc. TCFD, SDR, Transition Plans.

100%

Of listed companies subject to mandatory TCFD disclosures.



Transformation & value creation

Embedding ESG values across processes, services and deals can release value

44%

companies identifying growth as the impetus for ESG programmes.

Each of these drivers presents a real commercial and transformative opportunity



Changing consumer sentiment

Embedding **ESG-driven purpose** into the business model, **attracting more customers/markets** with sustainable finance products.



Build reputation

Consistent and credible approach to ESG offer **brand differentiation** and reduce the cost of legal intervention and scrutiny



Revenue growth

New revenue streams through diversification of portfolios, with **enhanced returns** on longer-term sustainable investments



Societal expectations

Demonstrate social purpose; and attract and retain key **talent** from the increasingly purpose-driven talent pool



Investor expectations

Increase **attractiveness to asset owners** and other stakeholders through proactive ESG narrative and practises.



Regulatory change

Respond to regulation in a thematic, strategic way, at the same time delivering operational efficiencies and streamlining compliance



Transformation & value creation

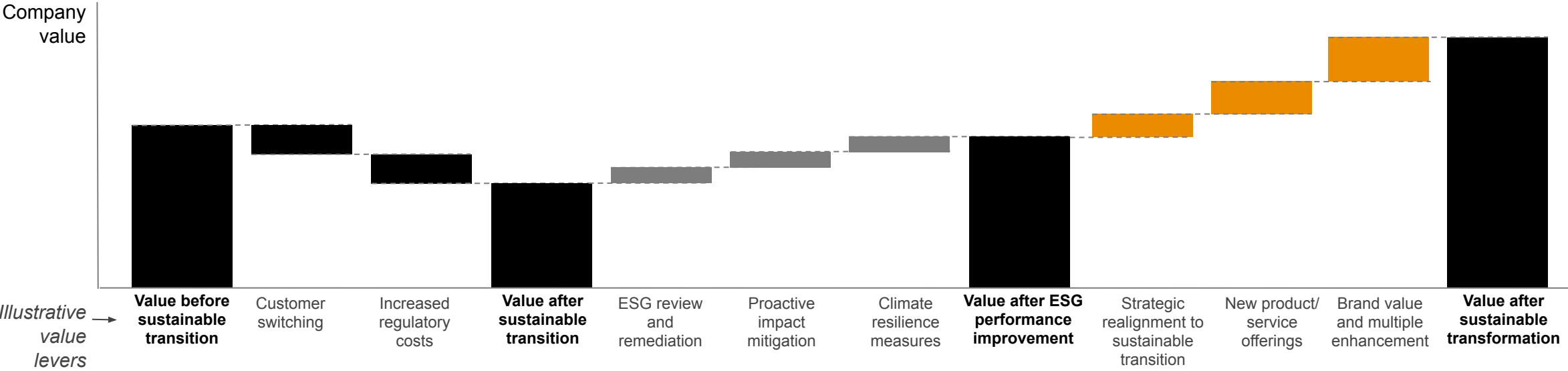
Build ESG into major transformation programmes, notably across cost-, customer- and business models.

A value-led approach to ESG quantifies ESG-linked value erosion, implements rapid actions to protect value and identifies strategic options to create value through the sustainable transition

Value erosion
 from ESG headwinds is the 'do nothing' outcome for funds and assets

Value preservation
 can be achieved through targeted ESG performance improvement

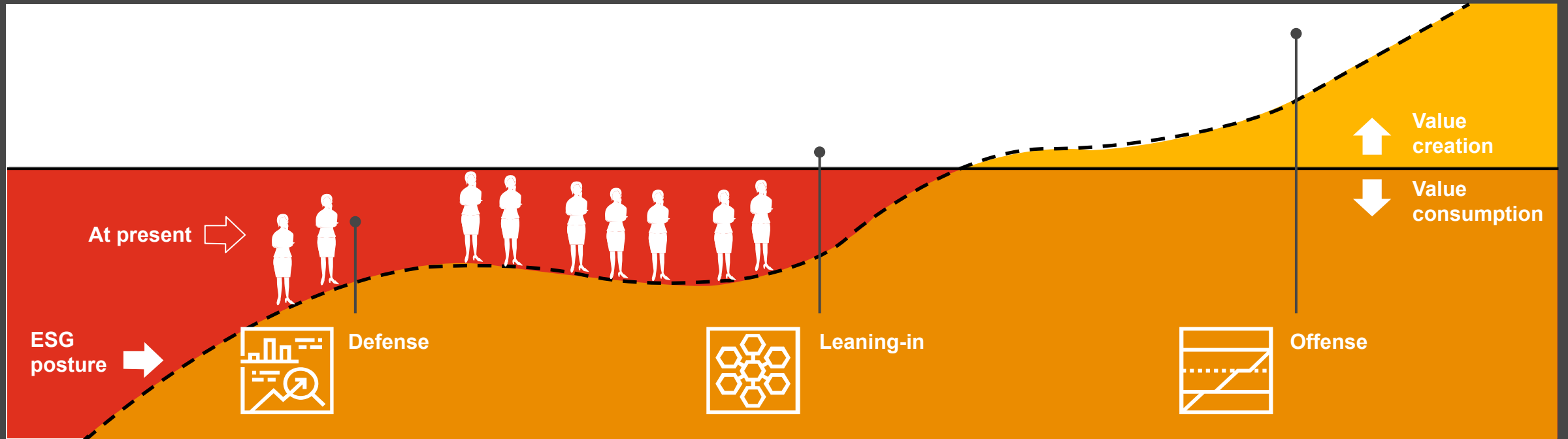
Value creation
 can be achieved through ESG-led investment strategies and sustainable transformation



Effective ESG strategies can deliver benefits that generate long term sustainable value



ESG: a Client Journey





rewired
.earth



Creating a business case
for sustainable action

DATA AND RISK

Price sensitive	✓	
Strong demand signals	✓	Clear market balance - Risk vs Return aka quality vs price.
Supply chain complete	✓	All costs and profits of supply chain captured in last invoice.
Comparable reporting	✓	e.g. IFRS/US GAAP.
Trustworthy	✓	Audited.
Publicly available	✓	Released to everyone at least annually on given day.
Decision grade	✓	Analysts provide colour and opinion but standalone results support investment case. Company can control the message.
Transparent	✓	Methodologies publicly available.
Supports transition	✓	Forward looking statements can be measured and evaluated.
Flexible	✓	Generally, new reporting is just a mapping exercise of existing data.

Given the risks and opportunities, would you have it any other way?

DATA AND RISK

Price sensitive	<input checked="" type="checkbox"/>	
Strong demand signals	X	Absence of market signals to motivate action.
Supply chain complete	X	Questionnaire based with limited penetration.
Comparable reporting	X	No data driven standard for comparability.
Trustworthy	X	Unable to audit as no comparable approach or comfort over completeness.
Publicly available	X	Only on largest companies – insight is commercial offering.
Decision grade	X	Not sufficiently complete or comparable. Ratings agencies step in for profit – companies not in control of the message.
Transparent	X	Rating agencies methodologies proprietary, confidential, and different.
Supports transition	X	No ability to measure forward, transition assets look worse.
Flexible	X	Every new ask is a new information gathering challenge.

Given the risks and opportunities, how is this acceptable?

HOW DO WE DO THAT?

1. EXPRESS DEMAND: THE CITIZEN SQUARE

Areas of focus from the UN Sustainability Goals (SDGs)



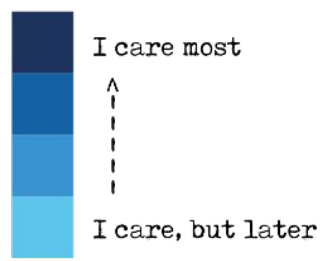
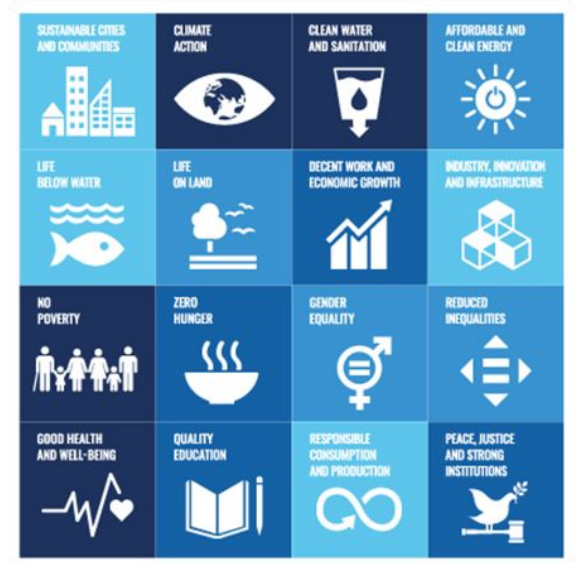
Online survey



Gender
Age
Country
Earnings
etc.



Blue square showing DEMAND



All



UK



USA



S. Africa



India



Brazil



Australia



Germany



Mexico



China



France



Philippines



UK - Whole Country



Male



Female



Age 16-22



Age 23-35



Age 36-55



Age 56-80



HOW DO WE DO THAT?

2. UNDERSTAND SUPPLY: THE IMPACT SQUARE

Areas of focus from the UN Sustainability Goals (SDGs)



rewired.earth
framework
based on SDGs.
Data captured
throughout the
supply chain.



Traffic light square
showing IMPACT



Most positive impact



Most negative impact /not measuring

A not-for-profit organisation supported by PwC



FIND OUT MORE

Show your SUPPORT & sign
the LETTER at www.rewired.earth

Q&A

Speakers:



John Newsome

Director

ESG Regulations

+44 (0)7808 027 371

john.newsome@pwc.com



Seema Chandaria

Senior Manager

AIF Legal

+44 (0)7483 935 845

seema.chandaria@pwc.com



Leanne Bouvet

Assistant Director

Sustainable Investing

+44 (0) 7483 440 137

leanne.bouvet@pwc.com



Simon Oswald

Assistant Director

Sustainable Investing

+44 (0) 7483 447 175

simon.j.oswald@pwc.com



Chris Rutt

Specialist

Technology, Data &

Analytics

chris.rutt@pwc.com

Thank you

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