



SUSTAINABLE INVESTING GUIDE

Acknowledgment

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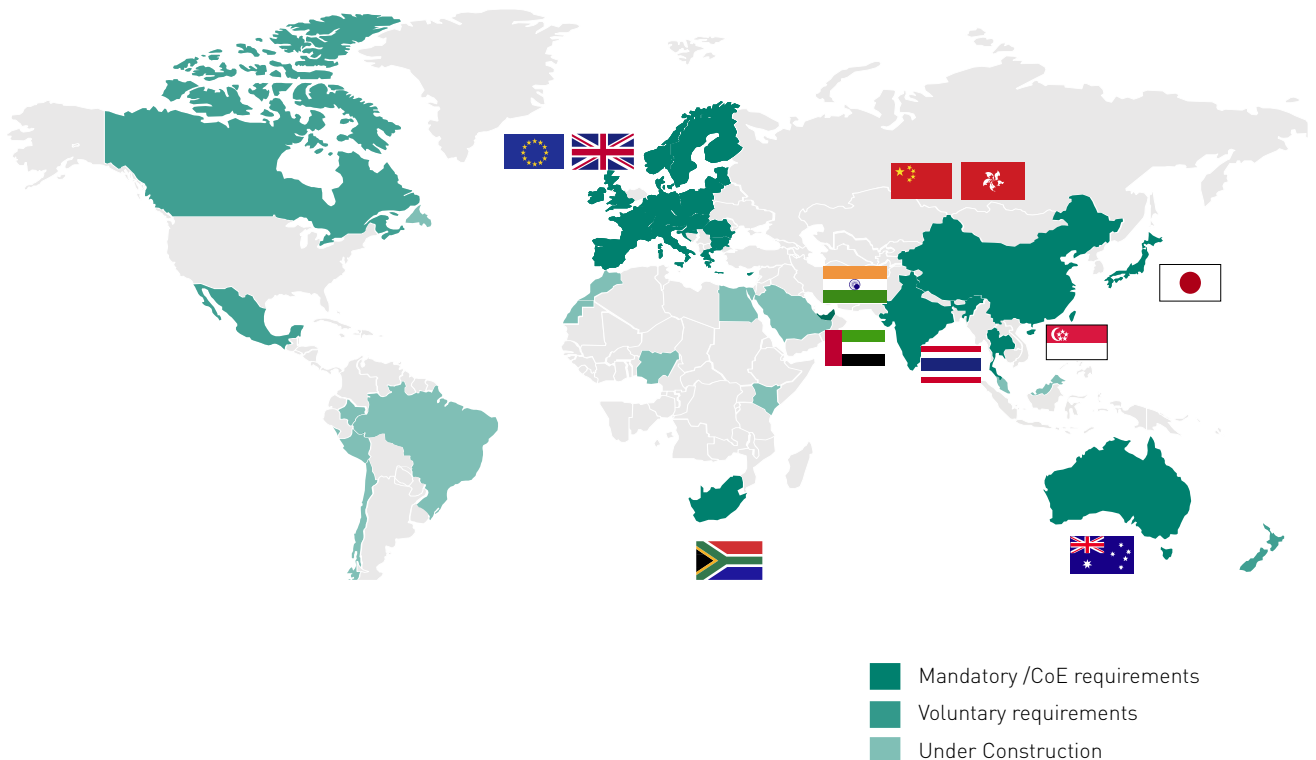
1 ESG as a Regulatory Imperative:

Increasing requirements to meet ESG objectives in general business operations

Increasing shift towards regulators requiring ESG compliance

- Several jurisdictions, in what is a growing trend globally, now require listed and/or public companies (including banks, financial institutions and funds & investment/asset managers) to have greater regard to ESG related matters in their everyday business operations often requiring listed entities to make relevant disclosures regarding their level of compliance with specific ESG principles.
- Creating ESG regulations, guidelines and frameworks is a growing priority for financial regulatory authorities. Some jurisdictions are further along prioritising ESG compliance than others, however the overall movement has been to encourage moves toward increased ESG integration and compliance.
- While the approach has been bespoke with each jurisdiction adopting an individual approach to regulating ESG compliance (a mixture of mandatory requirements, comply-or-explain (CoE) requirements and/or voluntary codes of best practice), there has been an increasing shift towards requirements in regulations to mirror internationally accepted standards of ESG disclosure (e.g. Global Reporting Initiative (GRI) Sustainability Disclosure Standards or the Financial Stability Board – Task Force of Climate-related Financial Disclosures (FSB TCFD)) in order to provide investors with a standardised amount of material ESG-related information.

Below is a non-exhaustive summary of the approaches taken in various jurisdictions to date.





European Union

2016: EU Non-Financial Reporting Directive (NFRD) requires inclusion of non-financial and diversity information in annual reports

2019: EU Disclosure Regulation – standardises approach and content of ESG disclosures in annual/periodic reporting, product/investment decisions and websites of asset managers and investment firms

2020: EU Taxonomy Regulation – enables firms and investors to identify environmentally sustainable activities (facilitates the effective functioning of the Disclosure Regulation)



United Kingdom

2006: Companies Act requires ESG disclosures for companies listed on LSE Main Market, NYSE, Nasdaq and in the European Economic Area (EEA)

2017: LSE Guide to ESG reporting published – CoE requirement



China

2016: The Chinese central bank together with several ministries & commissions published Guidelines for Establishing the Green Financial System, which requires all listed companies to disclose environmental information by 2020

2017: China Securities Regulatory Commission (CSRC) requires companies discharging key pollutants to disclose relevant environment information in their annual and interim reports. Shenzhen Stock Exchange & Shanghai Stock Exchange provide voluntary guidelines for ESG reporting



Hong Kong

2014: Companies' Ordinance requires all companies incorporated in Hong Kong SAR to include information on environmental policies & performance in the directors' report

2017: Hong Kong Stock Exchange (HKEX) requires listed companies to report environmental KPIs on CoE basis



Japan

2003: Ministry of Environment issues voluntary Environmental Reporting Guidelines (revised in 2012) covering ESG matters

2014: Ministry of Economy, Trade, and Industry recommended broader disclosures to investors beyond purely financial metrics

2015: Tokyo Stock Exchange issues Corporate Governance Code which requires listed companies to disclose information on ESG matters



Thailand

2017: Thailand's Securities Exchange Commission issues Corporate Governance Code for listed companies requiring company boards to ensure sustainability reporting using an appropriate framework



South Africa

2019: Code for Responsible Investing in South Africa (CRISA) published – voluntary code to further ESG reporting of funds



Australia

2011: Financial Services Council (FSC) & Australian Council of Superannuation

Investors (ACSI) jointly published the ESG Reporting Guide for Australian companies (updated in 2015)



India

2011: Ministry of Corporate Affairs issues National, Voluntary Guidelines on Social, Environmental, and Economic Responsibilities of Business containing ESG KPIs

2018: Bombay Stock Exchange published Guidance Document containing a comprehensive set of voluntary ESG reporting recommendations



UAE

2018: Dubai Financial Services Authority issues Green Bond Best Practice Guidelines

2019: Dubai Financial Market issues ESG Reporting Guide for corporates looking to enhance ESG reporting

2021: Securities and Commodities Authority (SCA) requires listed companies to disclose sustainability reporting



Singapore

2016: SGX published Sustainability Reporting Guide mandating annual sustainability reporting by all listed companies on a CoE basis

2018: Monetary Authority of Singapore requires listed companies to provide sustainability report on a CoE basis

2 ESG as a Commercial and Policy Imperative: Growth in voluntary ESG reporting, ESG as a ratings and investment consideration and as a driver of improved financial performance

Increasing incorporation of ESG as an advantageous business strategy

Growth of voluntary ESG reporting

- Voluntary corporate disclosure on ESG matters has steadily increased since the launch of the Global Reporting Initiative (GRI) in 1997. The GRI Sustainability Reporting Standards (GRI Standards) are the first and most widely adopted global standards for sustainability reporting. Around 93% of the world's largest 250 corporations report on their sustainability performance (KPMG Survey of Corporate Responsibility reporting 2017) including over 200 companies from the GCC group of countries (see table below).
- The International Integrated Reporting Initiative (IIRC) and the US-based Sustainability Accounting Standards Board (SASB) have also helped to advance industry sector-specific reporting and its relevance for investors.

Country	Bahrain	Kuwait	Qatar	Saudi Arabia	United Arab Emirates
No. of companies using GRI Standards	4	46	29	34	110

Source: GRI Sustainability Disclosure Database

ESG as an investment consideration

Following a spate of high-profile incidents - attributed to poor management of ESG risks - that led to sudden and substantial losses on listed equities (e.g. BP Macondo oil spill, Facebook's privacy breach, Wells Fargo's accounting misconduct), investors (including asset/investment managers, private equity and hedge funds) have increased their awareness of ESG considerations and are increasingly integrating ESG assessments into their investment decision-making.

According to a July 2020 CoreData Research study of 500 global institutional investors, 51% now fully integrate ESG into their investment approach, up from 36% at the end of 2019.

Rise of ESG ratings

The increased focus of shareholders investors and governments on ESG integration within business operations has led to the rise of new ESG rating agencies, who scrutinise businesses and assess corporate ESG performance using their individual research methodologies.

The ESG rating segment has traditionally been dominated by index providers such as MSCI and Dow Jones as well as specialist firms, such as Sustainalytics and Corporate Knights. International credit rating agencies (Moody's, S&P Global & Fitch Ratings) have also started incorporating separate ESG scores on companies in addition to assessments of creditworthiness.

ESG as driver of improved financial performance



Environmental

In many industries, costs are often environment-related such as those for naturally occurring raw materials (including extraction, procurement, transportation of the same) and energy use. Recognising and addressing these environmental factors through initiatives to increase resource and energy efficiency and waste reduction, can not only reduce greenhouse gas emissions and pollution, but also decrease costs conferring both environmental and financial benefits.



Social

Social factors have also been shown to enhance revenue generation through, for example, elevating workforce productivity. Results from a 2017 study by human management consultancy Aon Hewitt found that a 5% increase in employees' commitment to their employer led to a 3% increase in revenue the following year.



Governance

In 2019, Bank of America examined the impact on stock prices of companies in the S&P 500 index of 24 controversies resulting from failures in governance and found that these led to losses in market value of USD534bn as the share prices of the companies involved sank over the following 12 months.

3 The Growth of Sustainable Investments

Global sustainability challenges such as climate change along with social issues, demographic shifts and regulatory pressure are emerging as new risks for modern investors that impact upon both the quality and profitability of their investments.

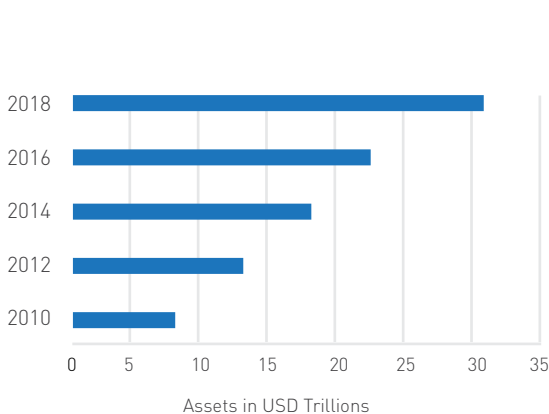
Sustainable investments have grown significantly over the past decade as awareness has grown that managing ESG issues does not lead to greater costs but can actually decrease business risks that can both save money and increase profits as well in the short, medium and long term.

Global investors now increasingly recognise that ESG is integral to an organisation’s resilience, adaptability and long-term sustainability and hence its capacity to deliver growth and profitability in the long term and so have increased allocation of capital in line with ESG considerations.

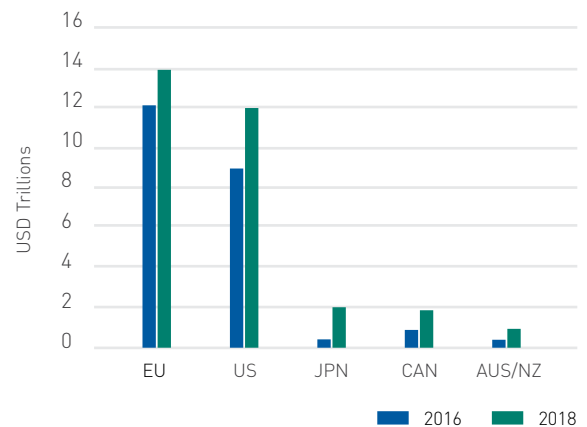
This growing trend is confirmed by the Global Sustainable Investment Alliance report. The biennial report summarises the status of sustainable and responsible investing in markets worldwide, by bringing together the results from regional studies notably in Europe, the United States, Japan, Canada, Australia and New Zealand. In summary:

- Sustainable investing assets have grown in all regions to reach USD30.7 trillion in 2018, a significant growth of 34% from 2016. Europe and the United States represent the biggest markets in sustainable investments, with respectively USD14.1 trillion and USD12 trillion.
- All of the regions expect sustainable investment strategies to expand as increasing numbers of investors become aware of the value in considering ESG issues and the importance of sustainable investment to risk management and long-term performance.
- Sustainable investing is increasingly accessible with options available through a broadening array of investment vehicles and across asset classes.

Global Sustainable Investment Asset Growth 2010 - 2018



Global Sustainable Investment Assets by Region 2016 - 2018



Source: The Global Sustainable Investment Alliance (GSIA)



2018 GLOBAL INVESTMENT SUSTAINABLE REVIEW

The marked growth of signatories to the United Nations supported Principles for Responsible Investment (PRI) is also a strong indicator of the growing trend towards sustainable investing.

The PRI is an international organisation that works to promote the incorporation of ESG into investment decision-making and ownership practices to better align their objectives with those of society at large. Launched in 2006, the PRI has grown consistently over the years, from 63 to 2,372 signatories responsible to managing close to USD86 trillion of assets in 2019.



Source: Under Nations Principles for Responsible Investment as at 31st March 2019

Signing the six Principles for Responsible Investment expresses commitment to becoming a responsible investor. Many asset managers, private equity firms and other investment actors see the PRI as a path to improving their risk management practices by including ESG considerations, and by doing so, enhancing their standing with existing and future clients, investors and regulators.

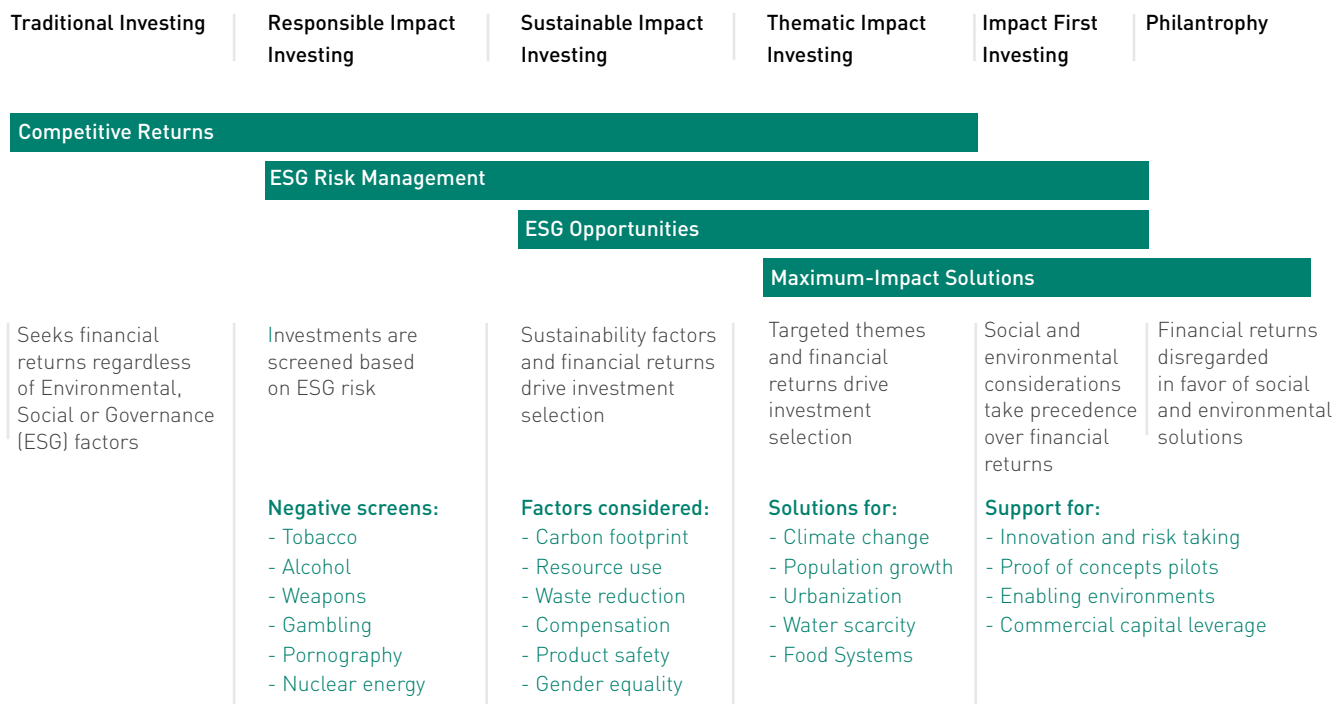
Indeed, the business rationale behind this surge of signatories can be explained for many reasons:

1. Signing the PRI grants legitimacy and is a signal to clients that the investment firm takes ESG issues seriously.
2. It is an important tool to manage the rising market demand for responsible investment, by fulfilling the expectations of existing and future clients.
3. The PRI is also a useful framework for information, opportunities and support in integrating ESG into investment as a performance enhancing strategy.

4 Sustainable Investment Approaches and Examples

Historically, there were only two approaches to investing: traditional investing, targeted exclusively on earning returns, and philanthropic donations that are entirely values-driven. However, several new forms of investing approaches involving ESG considerations have been developed in recent years, as investors, through stakeholder pressure and rising demand for more ethical and sustainable investments, developed new ESG-driven approaches to investing.

The illustration below provides an overview of these ESG-driven approaches.



These investment approaches encompass the full spectrum in which investors have been integrating ESG into their investment decisions, from “traditional investing” (no ESG considerations) to ESG being used for risk management (such as negative screening and ESG integration), all the way to focusing on impact over financial returns (e.g. impact first investing).

With the growing suite of ESG funds available to investors pursuing sustainable investment options, and the diversity in terms of definition and strategies, it is important to understand what the differences are.

Seven strategies are defined below, as per the classification forms of sustainable investing elaborated by the Global Sustainable Investment Alliance (GSIA). It is important to reiterate that ESG funds often employ more than one of the below strategies into their investment criteria.

As cited in the the 2018 GSIA report, the largest sustainable investment strategy globally is negative screening (USD19.8 trillion), followed by ESG integration (USD17.5 trillion) and corporate engagement/ shareholder action (USD9.8 trillion).

The examples provided for each strategy are used for demonstration and offer a non-exhaustive list of the options available to investors.



1. Negative Screening

This approach involves excluding certain sectors, such as weapons, gambling, tobacco from a fund portfolio. More recently, environmentally harmful practices may also be excluded, such as palm oil, coal, and the oil and gas sector. Negative screening is one of the most common forms of ESG investing approaches worldwide.

Example: Parnassus Endeavor Fund

This fund seeks to invest in companies with positive performance on ESG criteria and excludes companies that derive revenue from tobacco, gambling, weapons, nuclear power and fossil fuel.



2. ESG Integration

This strategy is focused on integrating ESG risk/opportunity analysis into the financial analysis of an investment. ESG integration doesn't require making specific exclusions, but compels the investor to be aware of, and assess the non-financial risks of investment options before making investment decisions. ESG integration is one of the fastest growing ESG investment strategies and is now considered as best practice in terms of risk management for investments.

Example: Blackrock ESG Multi-Asset Fund

This multi-asset fund seeks to maximize returns in a manner that is consistent with ESG principles. This means that the fund will "take into account" ESG characteristics when selecting securities for investment. The fund also includes prohibitions on certain sectors such weapons, gambling and tobacco, meaning it also employs a negative screening approach as well.



3. Corporate Engagement

This investment strategy involves exercising ownership rights on sustainability issues, as a shareholder, and engagement with company management to address key environmental and social challenges. This is particularly important for private equity, asset management and large fund managers, who can have a positive influence on companies where they own a stake, and can influence management to increase ESG and sustainability performance.

Example: Australian Ethical Advocacy Fund

This fund invests in Australian and international companies that have strong ESG characteristics and also uses its investments to advocate for corporations to improve their practices and governance.



4. Norms-based Screening

This strategy is another screening method where investors restrict their investment options to companies that meet or exceed relevant international norms and standards such as the UN Declaration of Human Rights, Kyoto Protocol, International Labor Organisation standards, etc. This approach is an established method as it sets clear expectations on corporate ESG management by investigating the compatibility of potential investments and global norms such as climate protection, human rights, working conditions and action plans against corruption.

Example: Vanguard FTSE Social Index Fund

Companies included in the underlying index of this fund are measured against 300 different ESG criteria covering, among others, international water and pollution norms, corporate risk management and impact on the community and human rights, labor and anti-corruption standards.



5. Thematic Investing

Under this approach, investors select a specific ESG theme, such as renewable energy, water management, sustainable agriculture or gender diversity for example, and focus their investment options on companies and/or bonds within that theme or sector. With thematic investing, investors can then address ESG issues by investing in specific solutions they support while also pursuing investment returns.

Example: SPDR® SSGA Gender Diversity Index ETF

This fund seeks to track the performance of an index of companies that are leaders within their respective industry sectors in advancing women through gender diversity on their boards of directors and in senior leadership positions.



6. Best in Class Screening

Also known as 'positive screening', this approach consists of investing in companies that are leaders in ESG performance compared to their peers in a specific industry or category. This also includes avoiding firms that do not meet certain ESG benchmark thresholds. The best-in-class approach encourages competition among companies as they have to continually increase their sustainability initiatives to be included or remain in a specific index, to the benefit of investors and, ultimately, society as a whole.

Example: Neuberger Berman Sustainable Equity Fund

This fund invests in companies that they believe are industry leaders with sustainable competitive advantages. For example, all the companies listed in this fund are compliant with the UN Global Compact and publish a Corporate Social Responsibility report.



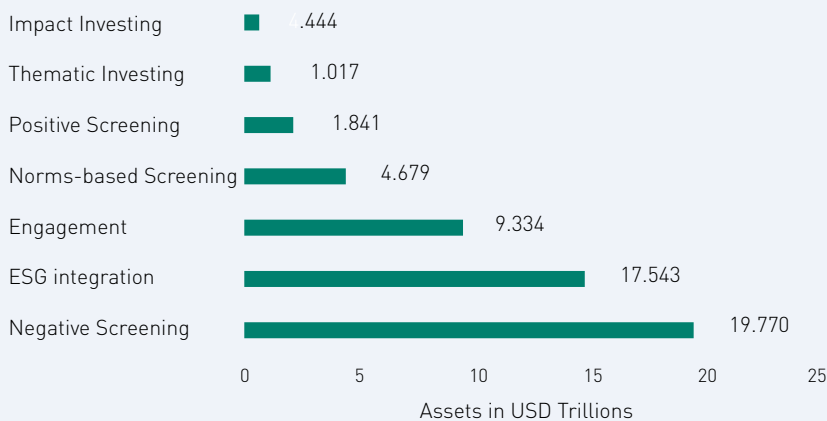
7. Impact Investing

Impact investors are focused primarily on the social or environmental impact of an investment, but without foregoing financial returns in the process. This often involves accepting a lower rate of return in the investment, in pursuing the wider social or environmental objective. This investment strategy explicitly targets positive environmental and social outcomes, entailing investors to have clear visions of what sort of changes they wish to effect in society through their investments, while aiming to also achieve financial returns.

Example: Vital Capital Fund

A private equity fund that invests in developing areas, principally sub-Saharan Africa, in businesses and projects designed to enhance quality of life (infrastructure, housing projects, renewable energy, healthcare and education).

Global Sustainable Investing Assets By Strategy 2018



2018 GLOBAL INVESTMENT SUSTAINABLE REVIEW

Source: Sonen Capital and The Global Sustainable Investment Alliance (GSIA)

5 Sustainable Investment Options Overview

A wide array of sustainable investment products exist today across asset classes ranging from equities to fixed income and real estate with an equally wide array of offerings such as actively-managed funds, passive tracker funds, exchange traded funds (ETFs) and Real Estate Investment Trusts (REITs).

The below provides an overview of each product type as well as select (and non-exhaustive) examples of each. This is a growing market segment and new offerings continue to be developed.

Product	Description	Examples			
Equity Funds	<ul style="list-style-type: none"> Portfolios of equities for which ESG factors have been integrated into the investment process. Equities selected for the fund have passed stringent tests over how sustainable the particular company is regarding its ESG criteria. Screening can either be through bespoke ESG scoring and/or negative screening of non-ESG companies such as fossil fuels, tobacco combined with other considerations such as poor records on pollution and poor labour practices. 	Name	Underlying	CCY	AUM USD bn
		Vanguard FTSE Social Index Fund	US Large Cap Equity	USD	6.75
		TIAA-CREF Social Choice Equity Fund	Blended Equities	USD	4.83
		DFA Emerging Market Social Core	APAC Equity	USD	1.27
		DFA US Social Core	US Equity	USD	1.16
Fixed Income Funds	<ul style="list-style-type: none"> Similar to equity funds except underlying investment are bonds/Sukuk. Similar screening methodologies adopted to that of equity funds with additional screening for sovereign fixed income offerings of governments with poor records on pollution, human rights etc. Funds offered are either segmented by market or type of instrument (e.g. money market, EM IG securities, US IG securities etc.), or a mixture of different types of securities. 	Name	Underlying	CCY	AUM USD bn
		Morgan Stanley Institutional Liquidity ESG	Govt & Corp money market securities	USD	3.29
		PIMCO Total Return ESG Institutional	Primarily IG securities	USD	1.54
		State Street ESG Liquid Reserves	Govt & Corp money market securities	USD	0.62
		DFA Social Fixed Income	US IG bonds	USD	0.37
Multi Asset Funds	<ul style="list-style-type: none"> Funds that invest in a mixture of asset classes - typically equities and fixed income (including money market). Screening methodologies are similar to those adopted by equity & fixed income focused funds. 	Name	Underlying	CCY	AUM USD bn
		CREF Social Choice	Equity & Fixed Income	USD	14.87
		Pioneer Balanced ESG	ESG stocks & bonds	USD	0.32
		HC The ESG Growth Portfolio	ESG stocks & bonds	USD	0.12
ETFs	<ul style="list-style-type: none"> An exchange traded fund (ETF) is a type of marketable security that represents a basket of underlying securities (stocks or fixed income) that often track an underlying index (typically one of the many global ESG Indexes offered by providers such as MSCI & S&P Dow Jones). ESG ETFs select the securities basket based on a company's or issuer's ESG practices, alongside more traditional financial measures. 	Name	Underlying	CCY	AUM USD bn
		JPMorgan Beta Builders Europe	Developed Europe Equities	USD	5.24
		iShares ESG MSCI EAFE	Developed Market Equities (ex. US)	USD	2.45
		iShares Global 100	Large Cap Global Equity	USD	2.38
		iShares MSCI UK	UK Equity	USD	1.16

Product	Description	Examples			
REITs	<ul style="list-style-type: none"> Real Estate Investment Trusts (REITs) are traded investment companies that own, operate, or finance income-generating real estate. As REITs have continuous demands for additional capital, they are sensitive to ESG-focused investors showing a strong preference for investing in companies that meet specific ESG criteria. As commercial and residential buildings account for a good chunk of global energy consumption, REITs are uniquely positioned to improve on environmental issues such as seeking LEED certification on their properties, adopting eco-friendly building techniques, providing sustainable housing, reducing emissions at buildings, installing efficient lighting and providing electric vehicle charging points and bike storage. 	Name	Property Location & Type	Property Size (Sqft)	AUM USD bn
		Prologis	Global (Commercial)	965m	125
		American Tower	Global (Telco Towers)	Not disclosed	33.0
		Equinix	Global (Data Centres)	Not disclosed	22.5
		Host Hotels & Resorts	USA (Commercial)	4.0m	12.3
		Hannon Armstrong	US (Green energy infrastructure)	Not disclosed	6.2
JLL Income Property Trust	USA (Commercial & Residential)	11.6m	3.2		

ESG Investment Offerings for Investors in Dubai

- Investment managers across the region, particularly in the UAE, have been responding to the growing demand and awareness among the local investment community and have registered a number of international ESG funds with the Securities & Commodities Authority (SCA) to provide local investors opportunities to access global ESG investment options.
- Examples of some of the mutual funds available to local investors through investment managers include the following (non-exhaustive):
 - Allianz Global Sustainability Fund (Equity)
 - Blackrock Sustainable Energy Fund (Equity)
 - Schroders Sustainable Multi Asset Income Fund
 - Schroders Global Climate Change Fund (Equity)
- For investors interested in ESG investments, leading Dubai-based investment and asset managers can help provide ESG investment options for funds registered with the SCA. For investors looking to invest in local companies with strong ESG credentials, S&P Dow Jones Indices and Hawkamah (The Institute for Corporate Governance for the MENA region) have developed the S&P/Hawkamah ESG Pan Arab Index which measures the performance of 50 of the best performing ESG stocks in the MENA region. With Dubai Financial Market (DFM), they have also developed the S&P/Hawkamah UAE ESG Index on the 20 top performing sustainable listed companies in the UAE.
- In the Middle East, Dubai has emerged as the leading listing venue for sustainable bonds, notably but not exclusively Sukuk.
- Since 2018, eight green and one Covid-19 related debt issuances have listed on Nasdaq Dubai with a total value of USD7.8 billion. The issuers include Dubai-based Majid Al Futtaim as well as the Islamic Development Bank, the Republic of Indonesia and China Construction Bank. Investors in the issuances include institutions in Asia and Europe as well as the Middle East.
- The local investment landscape is still under development and it is likely that further ESG investment opportunities will be available in the very near future.

6 Future Trends of Sustainable Investment

Sustainable investment has grown over the past decade and is attracting more and more investors. It is no longer considered as a niche practice with the long-held misconception that such investments come with a lower return. A prime example comes from Blackrock, the world's largest asset manager, that highlighted in January 2020 that sustainability is the firm's "new standard" for investing.

It is increasingly becoming evident that management of ESG issues and having a strong ESG performance leads to better company performance and attracting new investments.

Morningstar Inc, a US-based global financial services firm that provides investment research and investment management services, examined how ESG funds held up in the market downturn due to the global COVID-19 pandemic. According to their Global Sustainable Fund Flows report, in the first four months of 2020, sustainability-themed funds attracted inflows of USD45.6 billion from investors globally, almost double the amount that the same funds attracted in the same period in 2019.

Moreover, the report shows that ESG investments were more resilient during the initial stage of the COVID-19 crisis. In the first quarter of 2020, more than 70% of sustainability-related funds across all assets classes performed better than their traditional counterparts. An April 2020 analysis by S&P Global Market Intelligence confirms the same trend, revealing that sustainable equity funds managed to withstand the early phase of the pandemic better, on average, than conventional funds.

In an April 2020 research paper, DWS argues that the Covid-19 crisis is advancing the strategic case for sustainable investment, accelerating ESG investing and corporate sustainability practices. Many investors are fundamentally reassessing economic, environmental, social and governance factors to adjust to the "new normal": they have realised the scale of human and economic costs already incurred and are looking for resilience, in companies that can adapt and are able to bear the short-term crisis and positioning their business for long-term success.

The trends driving the rise to sustainable investments prior to the pandemic, notably environmental concerns, technology change and social dynamics change, demonstrates that the crisis is a catalyst for ESG investing. The pandemic has highlighted the markets' vulnerabilities and dependence on the natural environment and wider society. It has also amplified digitalisation across all sectors of the economy impacting the way we work and consume and has increased awareness on social issues such as employment conditions, welfare and access to health, reinforcing ESG values.

Finally, the demographic shift is also supporting this trend as the millennial generation is demanding sustainable organisations, products and services – both as consumers and as employees. A 2019 survey by Morgan Stanley's Institute for Sustainable Investing found that 95% of millennials are interested in sustainable investing, reinforcing the idea that sustainable investment will be the new normal in the near future.

Source: Blackrock, Morningstar's Global Sustainable Fund Flows Report, S&P Global Market Intelligence, DWS Research Institute, Morgan Stanley Institute for Sustainable Investing



DUBAI SUSTAINABLE FINANCE WORKING GROUP

The Dubai Sustainable Finance Working Group launched in July 2019 to coordinate efforts to create the most sustainable financial hub in the region, as part of the UAE's Sustainable Development Goals 2030 and the Dubai Strategy Plan 2021. The group aims to combine Dubai's finance sector's initiatives to promote best practices in Environmental, Social and Governance (ESG) integration. It focuses on four key pillars including responsible business operations, responsible investing, growing sustainable finance and diversity and inclusion.

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