



QUINLAN  
& ASSOCIATES

# The Value of Investing in Values

The ESG opportunity for  
APAC asset managers

Dec 2022





# FOREWORD

It is nearly impossible to read the news or scroll through social media feeds these days without seeing something on the topic of ESG. And sitting at the epicentre of the global ESG agenda are asset managers, who play a pivotal role with respect to regulatory advocacy, capital allocation decisions, and delivering on evolving public expectations.

While ESG adoption in Asia Pacific lags that of Europe by a considerable margin, a growing number of Asian regulators are localising ESG-related requirements in their home markets – in short, ESG is no longer a “nice to have”. It is a “must”. In addition, regional managers are becoming increasingly aware of the consequences of non-compliance (including the risk of reputational damage and capital outflows), as well as the benefits of getting ESG right (including potential valuation uplifts, the ability to charge higher management fees and enhanced access to offshore capital).

Despite the benefits that ESG integration can bring to regional managers, the ESG transformation journey is fraught with challenges, especially given the heterogenous nature of Asia Pacific – including fragmented rules, products, data, and cultures. As such, a robust ESG strategy and operating model is needed for regional managers who are looking to capitalise on the ESG opportunity beyond mere “box ticking”.

KPMG and Quinlan & Associates have co-authored this paper to provide regional asset managers with a fresh perspective on how to make ESG work for you; not just in terms of ensuring compliance with evolving regulatory norms in the region, but in delivering real economic value to your organisation.



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# EXECUTIVE SUMMARY (1/2)

## THE STATUS QUO

- **Asset managers** sit at the heart of the global ESG ecosystem, **playing a pivotal role with respect to regulatory advocacy, capital allocation decisions, and meeting rapidly evolving public expectations** regarding sustainable business practices
- **Asia Pacific (APAC) lags significantly behind global standards** when it comes to implementing sustainable practices across key environmental, social, and governance pillars

## APAC ASSET MANAGERS AT RISK

- Leveraging frameworks established by inter-governmental organisations (IGOs), a growing number of **APAC regulators** are **actively establishing ESG-related regulations** in their home markets
- In addition, **end-investors** in APAC, including pension funds, sovereign wealth funds, and high net worth individuals (HNWIs), are **increasingly taking ESG considerations into account** when selecting their asset managers
- As such, we believe **non-adherence** to rapidly evolving ESG standards will leave regional asset managers open to **sizeable reputational risks**, and create **challenges with respect to capital raising**, especially from offshore investors
- Given growing regulatory and investor pressure, we expect **stronger allocations** by regional managers to **ESG-friendly assets** in the coming years, offering a USD 1.8 billion revenue opportunity by 2025
- Despite the significant potential of ESG investing, most asset managers in the APAC region lag considerably behind their global competitors when it comes to **integrating ESG considerations into their operational / investment processes**, putting them at risk of losing market share to international managers who are currently operating in the region
- While most APAC managers can be considered “Starters” or “Fast Followers” in the ESG space, we see considerable potential for firms with a willingness to evolve to become true **“Market Leaders”**, **attracting significant ESG-related inflows**

# EXECUTIVE SUMMARY (2/2)

## THE ESG TRANSFORMATION JOURNEY

- Asset managers need to evaluate a holistic range of strategic and operational considerations when embarking on their ESG transformation journey
  - **Stakeholder Review:** as a first priority, managers should comprehend the different ESG needs – and levels-of-influence – of their key stakeholder groups, following which they can develop a fit-for-purpose ESG proposition
  - **Proposition Development:** managers should apply qualitative and/or data-driven quantitative screening methodologies, with a view to developing ESG funds that: (1) increase transparency; (2) prevent greenwashing; (3) redirect capital correctly; and (4) appeal to key target client segments
  - **Stakeholder Engagement:** managers may either outsource their shareholder activism activity to specialists or look to build their own internal expertise, which can serve as a source of competitive advantage
  - **Reporting:** in line with international standards and/or frameworks, managers should not only disclose their financial performance, but also their product-level ESG investment themes, strategies, stewardship approaches, and ESG-specific metrics at the fund and enterprise-level
  - **Data:** data solutions for ESG-related analytics and applications should be adopted across: (1) sales and marketing; (2) investment; and (3) investee engagement
  - **Corporate Structure:** a fit-for-purpose corporate structure should be established to mitigate risks and separate operational processes, via “green” or “brown” spin-offs or hybrid models
  - **Governance:** a decentralised governance structure should be crafted, with responsibilities distributed across the asset management firm
  - **Talent & Incentives:** managers should identify gaps and develop appropriate talent acquisition, development, compensation, and retention plans
  - **Measurement System:** while embarking on this transformation journey, a measurement system can help benchmark asset managers’ progress against industry best practices / market-leading peers, allowing improved identification of what is still left to be achieved
  - **Change Management:** the concept of ESG as a whole should be well-integrated across the organisation and embedded into its DNA, both in terms of its culture and operations

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01

# CASE FOR CHANGE







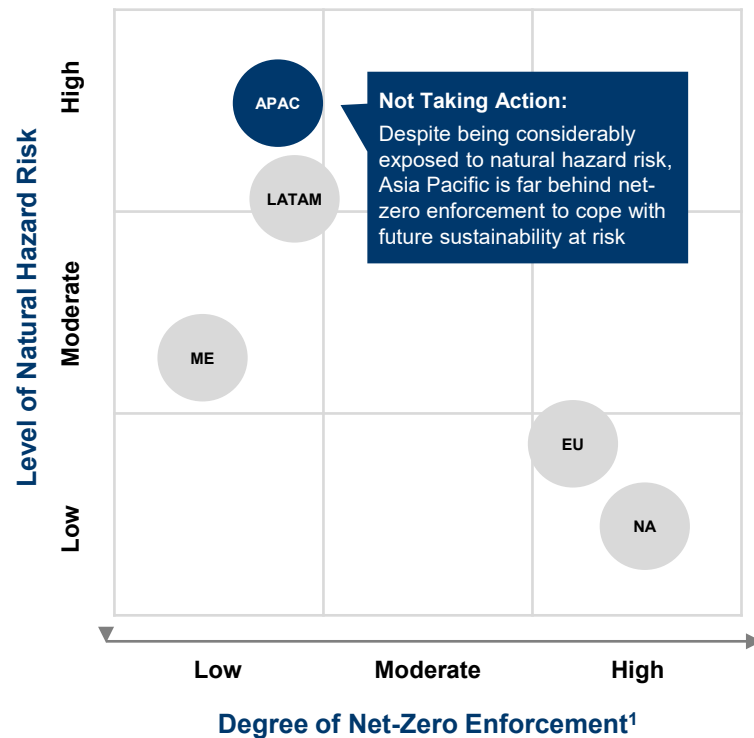
# ASIA PACIFIC ESG SNAPSHOT

Asia Pacific lags significantly behind global standards with respect to the adoption of sustainable practices across key environmental, social, and governance factors



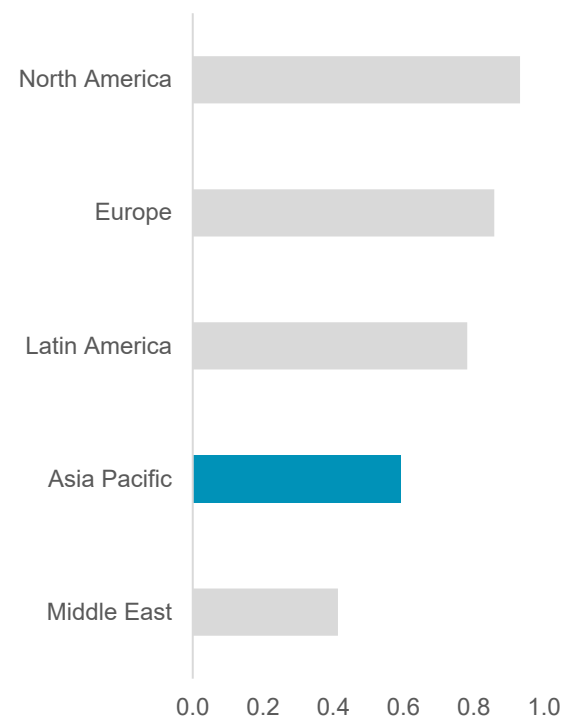
## ENVIRONMENTAL

(Level of Natural Hazard Risk vs. Degree of Net-Zero Enforcement)



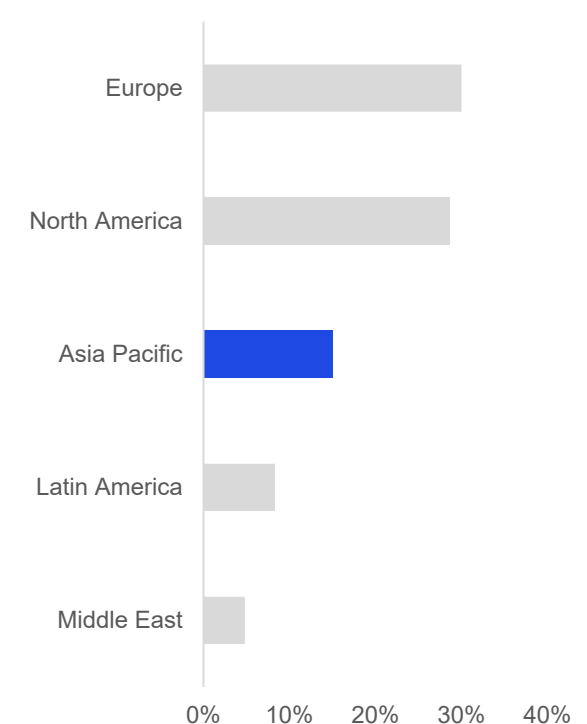
## SOCIAL

(Human Rights Index<sup>2</sup>)



## GOVERNANCE

(% Women on Boards)



Source: Swiss Re Institute, Visual Capitalist, KPMG / Quinlan & Associates analysis

Source: One World in Data

Source: UNGC

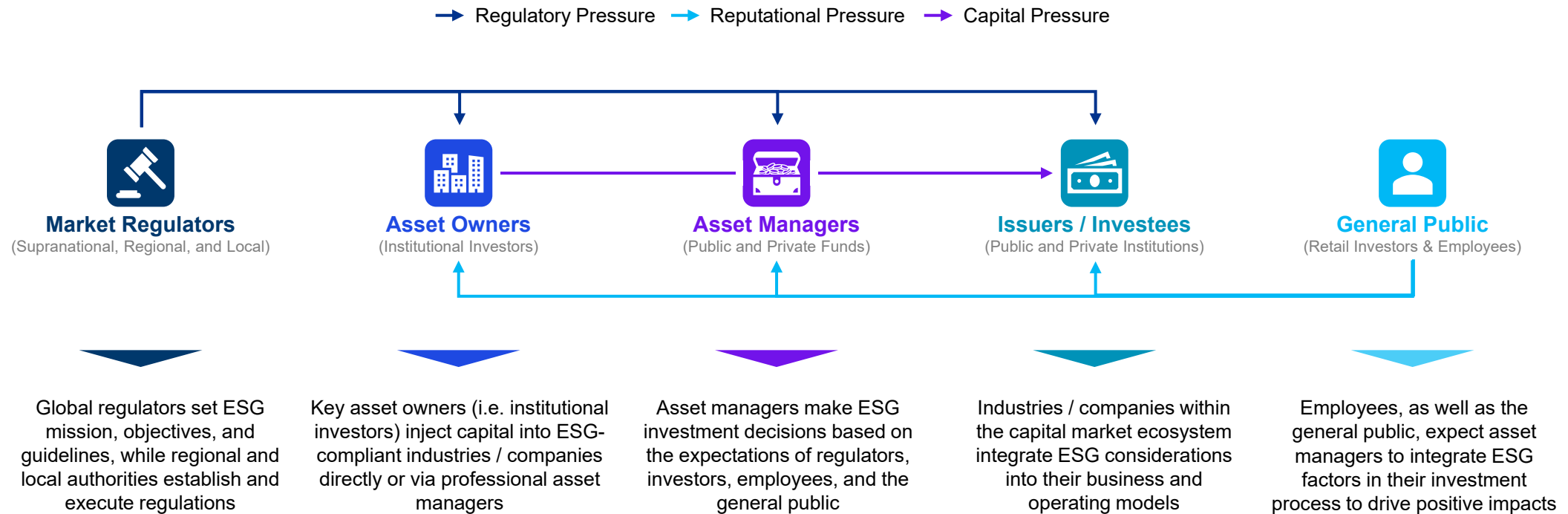
Notes: 1. Degree of enforcement is based on the proportion of jurisdictions that is enforcing net-zero targets through the adoption of policy or law, 2. The Human Rights Index measures the extent of the availability of human rights (e.g. people's freedoms of movement, property rights, religious expression etc.) Variables range from 0 to 1 (most human rights).

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# THE IMPORTANCE OF ASSET MANAGERS

Asset managers sit at the epicentre of the ESG ecosystem, playing a pivotal role in regulatory advocacy, capital allocation decisions, and delivering on evolving public expectations



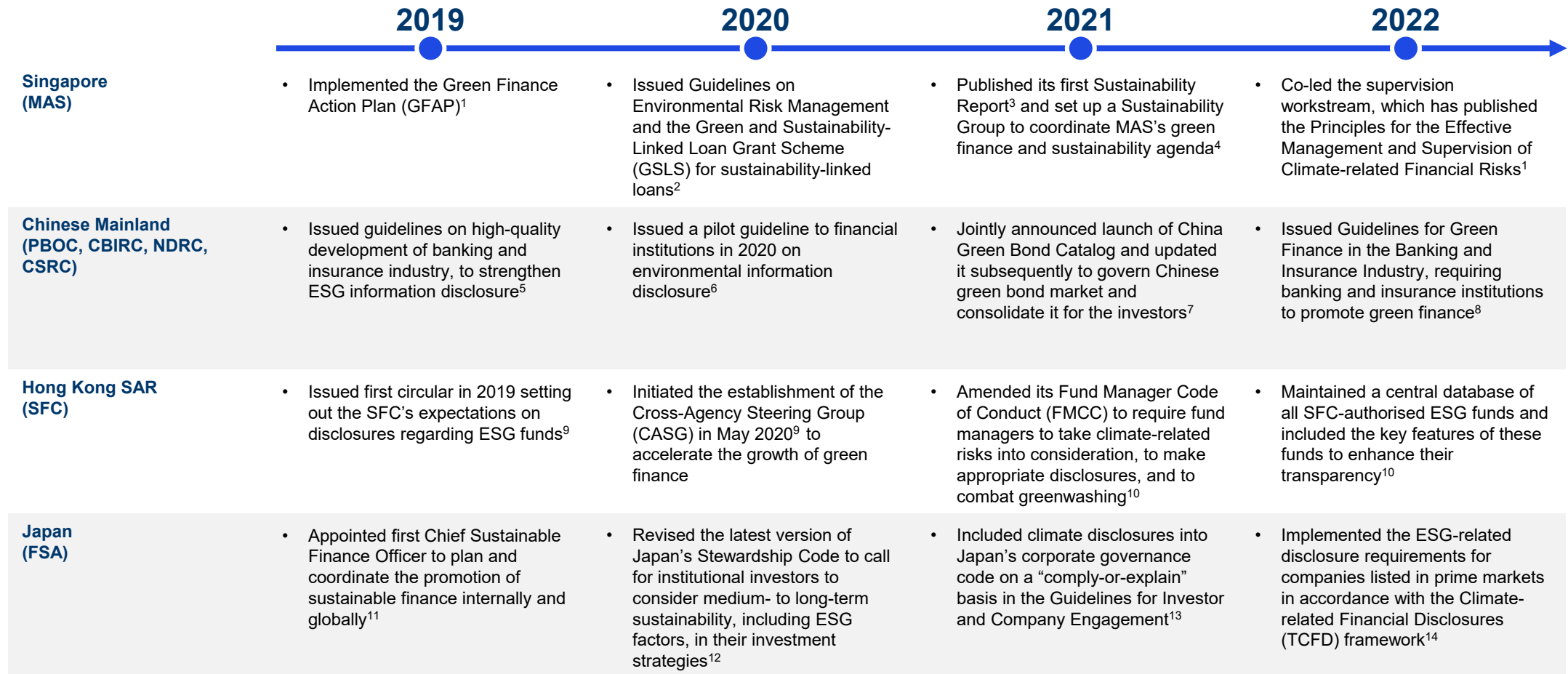
Source: KPMG / Quinlan & Associates analysis





# REGULATORY PRESSURE

Regulators in Asia are actively establishing and executing ESG-related regulations by leveraging frameworks and guidance set forth by inter-governmental organisations



Source: KPMG / Quinlan & Associates analysis

Note: 1-14. Please refer to [REFERENCES](#) for more details.



# REPUTATIONAL PRESSURE

Non-compliance with ESG standards and / or the opportunistic adoption of ESG practices can expose asset managers to considerable reputational damage

## Cost of Greenwashing

Stock Price of a Major European Asset Manager vs. SDAX Index, July 2021 - October 2022

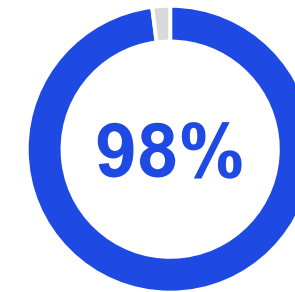


Source: Yahoo Finance

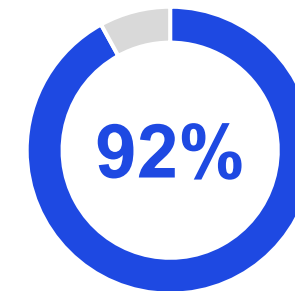
Note: 1. Please refer to [REFERENCES](#) for more details.

## Job Selection Priorities

Asia Talent Market



...of talent in Asia expects their position in a company to have a positive impact in the world



...of younger-generation talent in Asia agreed that ESG aligns with their values to life

Source: HR Magazine

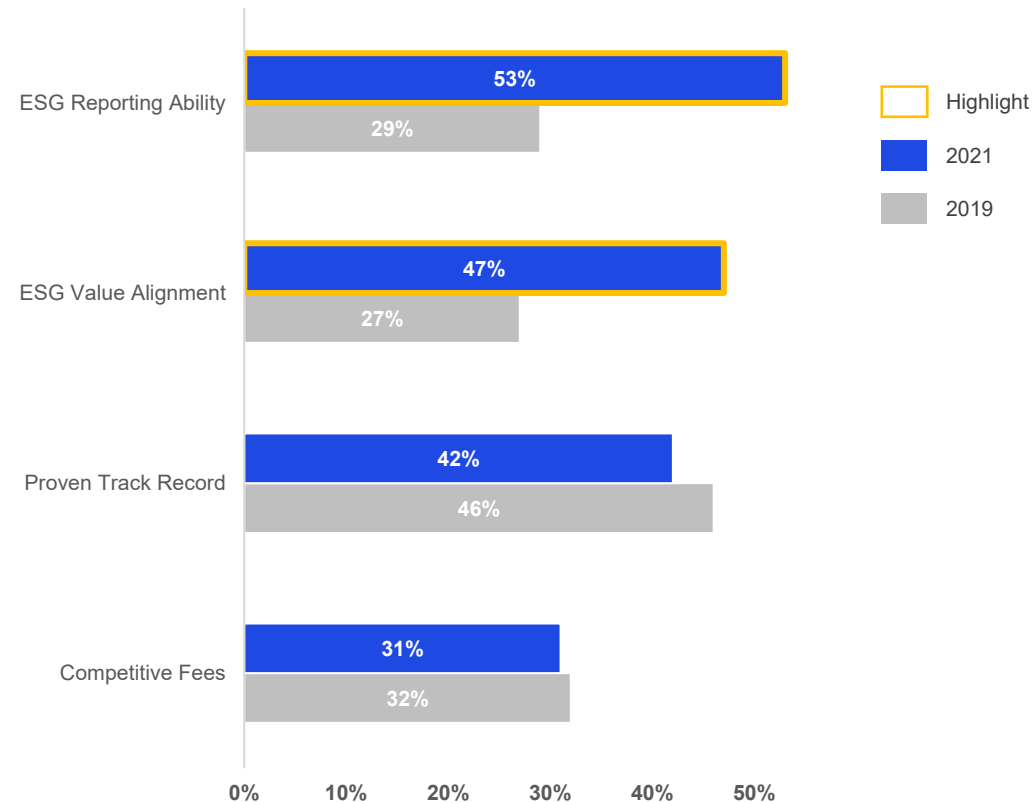


# CAPITAL PRESSURE (1/2) – ASSET MANAGER SELECTION

Asset-owners in Asia Pacific have already started to include ESG considerations when selecting their asset managers...

## Investors' Selection Criteria for Asset Managers

2019 vs. 2021, % of Respondents



Source: BNP Paribas, KPMG / Quinlan & Associates analysis

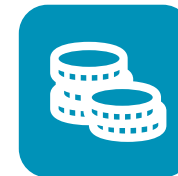
## ESG Expectation Enforcement

Asset Owners, Case Studies



### Government Pension Fund in Japan

- Signed the UN PRI, published own ESG investment principles
- Revised manager evaluation criteria, with significantly higher scores for good ESG-related activities
- Requires all EAMs in Japan to consider ESG as a fundamental measure of investment



### HNWIs in Hong Kong SAR

- Growing investment priorities in sustainable investment (ESG) amidst macroeconomic uncertainty
- In 2020, only 8% of HNWIs stated that sustainable investment (ESG) was core to their investment focus.<sup>1</sup> By 2022, this number had tripled to 25%<sup>2</sup>



### Sovereign Wealth Fund in Singapore

- Established a dedicated ESG function as a centre of knowledge for ESG research, data, and expertise
- Provides regular ESG training to investment teams, raising awareness of key sustainability themes
- Continues to monitor ESG trends and review ESG statements

Source: KPMG / Quinlan & Associates analysis

Note: 1-2. Please refer to [REFERENCES](#) for more details.



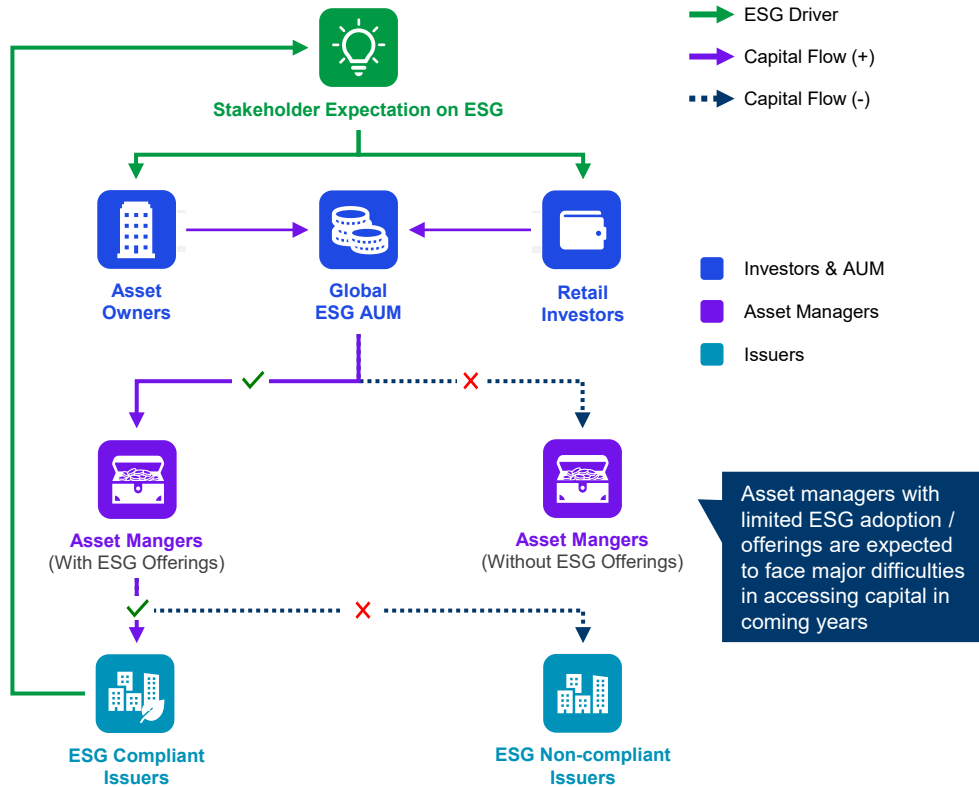


# CAPITAL PRESSURE (2/2) – LIMITED CAPITAL ACCESS

...driving greater allocations to ESG-related assets

## ESG Capital Flow

Virtuous Cycle



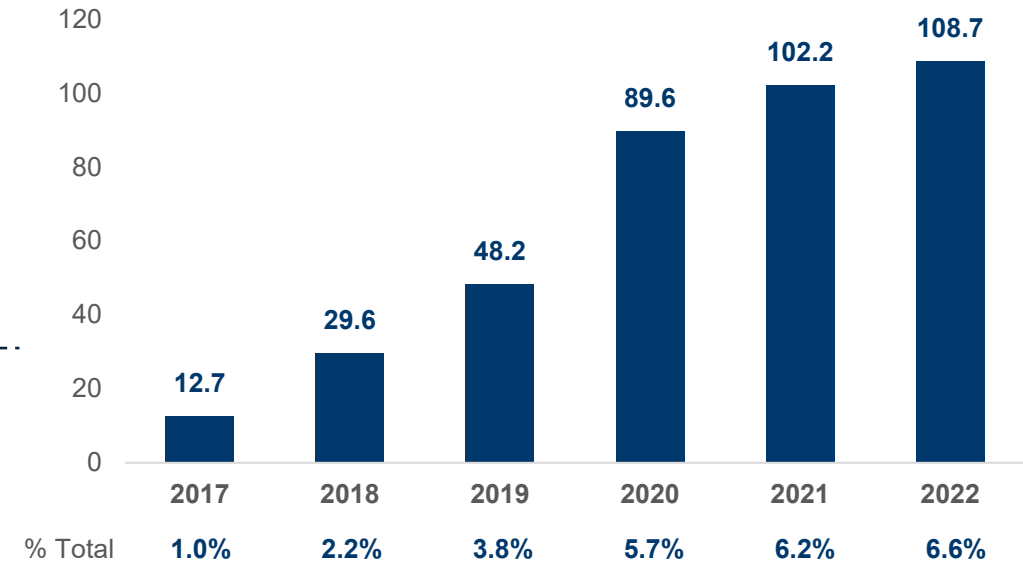
## ESG Allocations

Allocation to ESG-Related Assets, USD billion, 2017-2022



### Government Pension Fund in Japan

- Allocating a sizable portion of its investment portfolio to ESG-related assets after its first investment in 2017.
- ESG allocations have risen 9x between 2017 and 2022, growing at a CAGR of 53.6% over the period.



Source: KPMG / Quinlan & Associates analysis

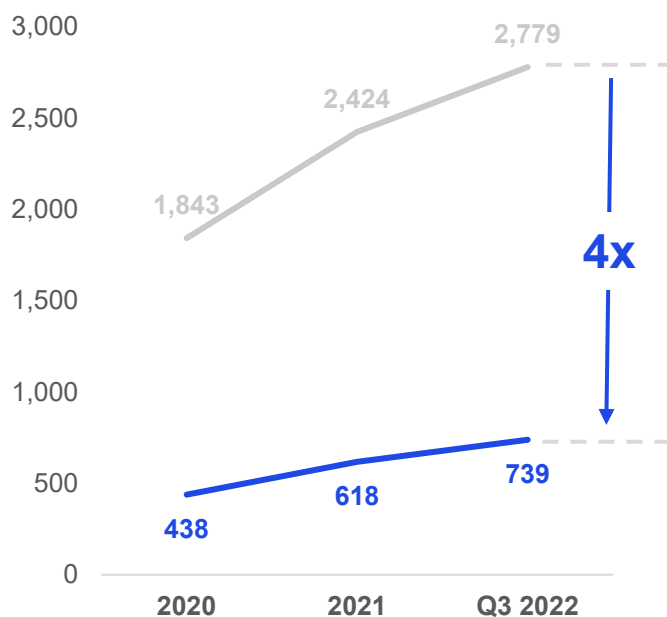


# FAR BEHIND THE CURVE

Despite fast-growing stakeholder interest in ESG, Asian asset managers trail far behind their Western rivals with respect to integrating ESG factors into their operational and investment practices

## Number of UN PRI<sup>1</sup> Signatories

Europe vs. APAC, 2020-2022

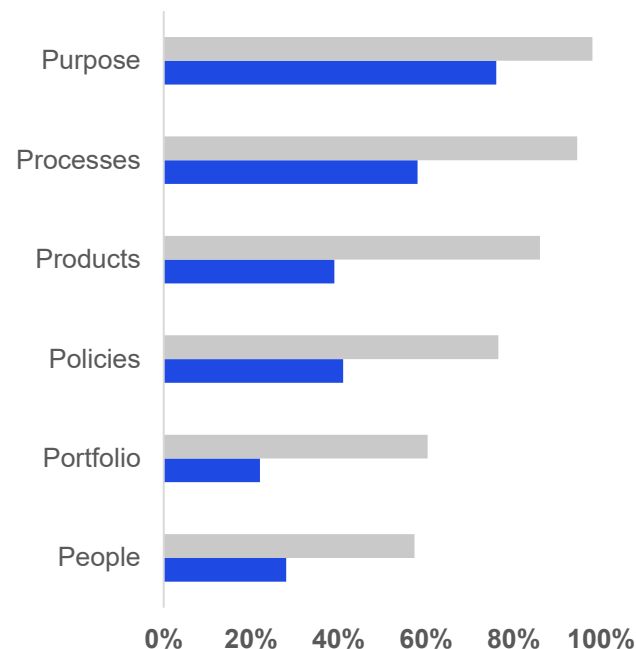


### ESG COMMITMENT

Source: UN PRI, KPMG / Quinlan & Associates analysis

## RESPOND<sup>2</sup> Framework ESG Scores

Europe vs. APAC, 2022

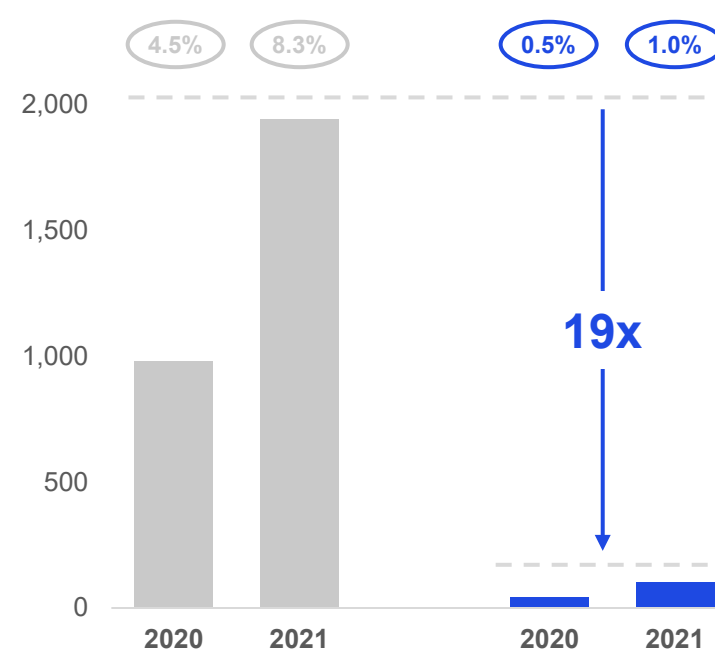


### ESG DISCLOSURE

Source: WWF

## Sustainable Funds AUM<sup>3</sup>

Europe vs. APAC, 2020-2021, USD billion, % of AUM



### ESG INVESTMENT

Source: Morningstar, KPMG / Quinlan & Associates analysis

Notes: 1. The United Nations Principle for Responsible Investing, 2. Resilient and Sustainable Portfolios that Protect Nature and Drive Decarbonisation (RESPOND) is a framework developed by WWF that assesses ESG-related disclosures made by asset managers, 3. Open-ended funds only.

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# OPPORTUNITIES AHEAD (1/2)

With significant net inflows into ESG-related investments, coupled with more attractive margins on thematic fund products...

## Net Flows into Thematic Funds

2016-2020, % of AUM

### ENVIRONMENT

#### JPMorgan Climate Change Solutions ETF<sup>1</sup>

Seeks to achieve long-term capital appreciation by investing in companies that the adviser believes are developing solutions to address climate change.<sup>2</sup>

### SOCIAL

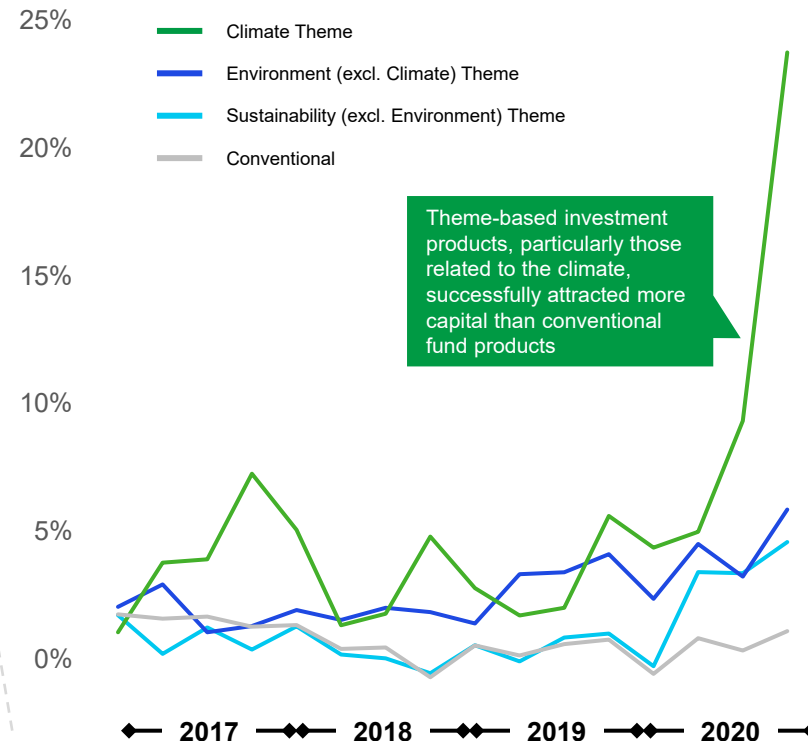
#### Impact Shares Affordable Housing MBS ETF<sup>1</sup>

Aims to invest at least 80% of its net assets in mortgage-backed securities backed by pools of mortgage loans that the fund's Sub-Adviser believes were made to minority families, low-income families, and/or families that live in persistent poverty areas.<sup>3</sup>

### GOVERNANCE

#### SPDR® SSGA Gender Diversity Index ETF<sup>1</sup>

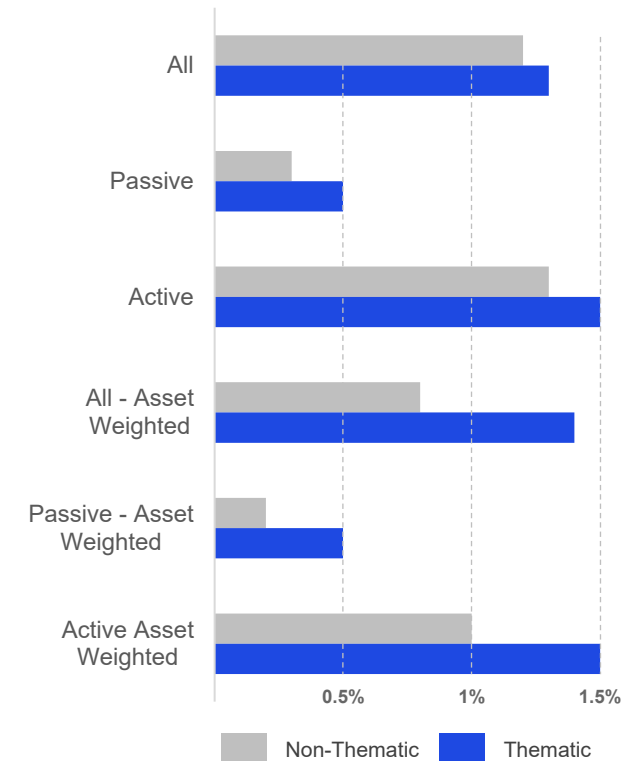
Seeks to provide exposure to US companies that demonstrate greater gender diversity within senior leadership than other firms in their sector.<sup>4</sup>



Source: IMF, KPMG / Quinlan & Associates analysis

## Average Fee

Thematic vs. Non-Thematic Fund Products



Source: Morningstar, KPMG / Quinlan & Associates analysis

Notes: 1. Products are mentioned for illustrative purposes only and do not represent KPMG / Quinlan & Associates recommendations. 2-4. Please refer to [REFERENCES](#) for more details.



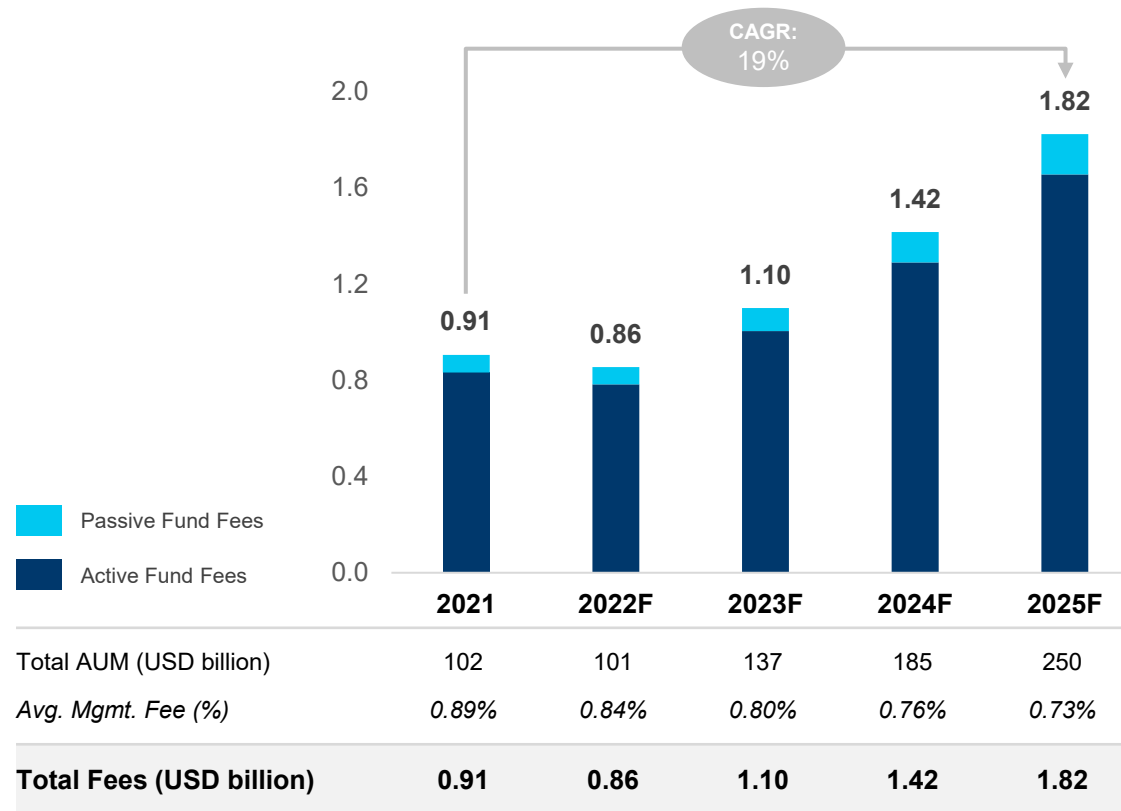


# OPPORTUNITIES AHEAD (2/2)

... ESG-friendly asset managers in APAC will be able to tap into USD 1.82 billion in revenues by 2025, while potentially benefitting from more favourable valuations

## Revenue Potential

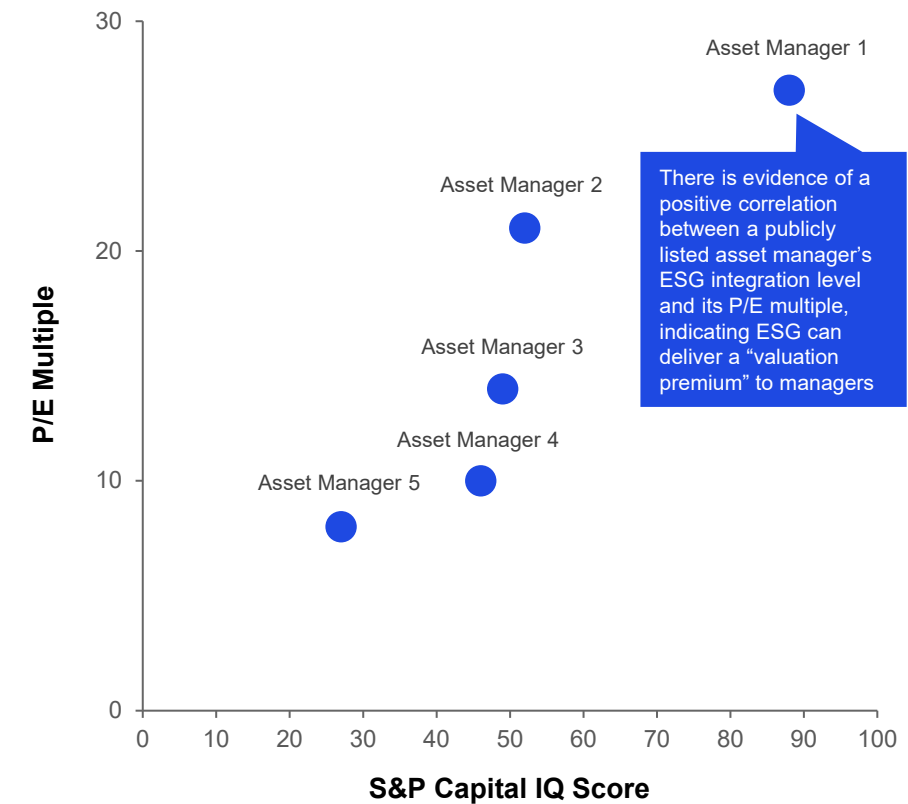
Sustainable Fund Revenues in APAC, 2021-2025F, USD billion



Source: Morningstar, KPMG / Quinlan & Associates analysis

## Valuation Potential

P/E multiple, S&P Capital IQ ESG Score (by Asset Manager)



Source: Bloomberg, S&P Capital IQ, KPMG / Quinlan & Associates analysis

02

# WHERE TO PLAY & HOW TO WIN





# ESG TRANSFORMATION FRAMEWORK

Asset managers need to evaluate a holistic range of ESG considerations – and respective initiatives – when preparing for their ESG transformation journey

## STRATEGIC CONSIDERATIONS: WHERE TO PLAY

1	2	3	4	5	6	7
<b>STAKEHOLDER REVIEW</b>	<b>VISION &amp; AMBITION</b>	<b>PROPOSITION DEVELOPMENT</b>	<b>INVESTMENT PROCESS</b>	<b>STEWARDSHIP PROCESS</b>	<b>STAKEHOLDER COMMUNICATION</b>	<b>CORPORATE STRUCTURE</b>
Who are your key stakeholders, what are their ESG preferences and how do you plan to address them?	What is your ESG vision and ambition and how does this align with your core capabilities and stakeholder priorities?	What different ranges of ESG products do you wish to structure and market to your target segment?	How should you seamlessly integrate ESG into existing or new investment processes in a fully compliant manner?	How should you engage with portfolio companies to maximise the ESG impact that is expected from both clients and shareholders?	How should you communicate with internal and external stakeholders on your expected ESG deliverables?	What kind of corporate structure should you set-up to effectively incorporate ESG propositions in a sustainable manner?
<a href="#">Click Here</a>	<a href="#">Click Here</a>	<a href="#">Click Here</a>	<a href="#">Click Here</a>	<a href="#">Click Here</a>	<a href="#">Click Here</a>	<a href="#">Click Here</a>

## TRANSFORMATION JOURNEY

## OPERATIONAL CONSIDERATIONS: HOW TO WIN

8	9	10	11	12
<b>DATA &amp; TECHNOLOGY</b>	<b>GOVERNANCE STRUCTURE</b>	<b>TALENT &amp; INCENTIVES</b>	<b>MEASUREMENT SYSTEM</b>	<b>CHANGE MANAGEMENT</b>
What are the different data and technology solutions you should consider adopting to enable your ESG transformation?	How do you plan to delegate supervision responsibilities across your organisation with regards to adopting ESG?	What are the ESG skills and competencies you should source and develop, and how do you motivate them?	What measurements / KPIs should you use to assess your ESG maturity status and track your transformation efforts?	How do you make these changes across your organisation and make them stick?
<a href="#">Click Here</a>	<a href="#">Click Here</a>	<a href="#">Click Here</a>	<a href="#">Click Here</a>	<a href="#">Click Here</a>

Source: KPMG / Quinlan & Associates analysis





# DIFFERENT STARTING POINTS

While most asset managers in APAC can be considered “Starters” or “Fast Followers”, we see considerable potential for many firms in the region to become ESG “Market Leaders”

		<b>STARTERS</b> Defensive    Compliant	<b>FAST FOLLOWERS</b> Managerial	<b>MARKET LEADERS</b> Strategic    Impactful
STRATEGIC READINESS	1 Stakeholder Review	✓	✓	✓
	2 Vision & Ambition	✓	✓	✓
	3 ESG Product Offerings	-	✓	✓
	4 Investment Process	-	-	✓
	5 Stewardship Process	-	-	✓
	6 Stakeholder Communication	✓	✓	✓
	7 Corporate Structure	✓	✓	✓
OPERATIONAL READINESS	8 Data & Technology	-	-	✓
	9 Governance	✓	✓	✓
	10 Talent & Incentives	-	-	✓
	11 Measurement System	-	✓	✓
	12 Change Management	-	-	✓
<b>ESG Demand</b>		<ul style="list-style-type: none"> <li>Understand minimum regulatory requirements and the basics of ESG</li> <li>Adopt a packaged solution to meet the minimum requirements</li> </ul>	<ul style="list-style-type: none"> <li>Understand peers' progress and ESG trends</li> <li>Design a comprehensive strategy to respond to stakeholder concerns regarding upcoming regulatory changes</li> </ul>	<ul style="list-style-type: none"> <li>Integrate ESG into all business functions</li> <li>Collaborate to influence future ESG trends</li> <li>Help design full transformation strategies / capture ESG value-creation opportunities</li> </ul>

Full Capability   
 Limited Capability

Source: KPMG / Quinlan & Associates analysis

# 2.1. STAKEHOLDER REVIEW



Back to ESG Transformation Framework





# ESG PRIORITIES

Building a compelling ESG proposition begins with understanding the different ESG needs and expectations of key stakeholders, including the level of influence each stakeholder has on the asset manager's business

## ESG stakeholders...

### Market Regulators

Global regulators set ESG mission, objectives and guidelines, while regional and local authorities establish and execute regulations

### Issuers / Investees

Industries / companies within the capital market ecosystem integrate ESG considerations into their business models and operating processes

### Asset Owners

Asset owners (e.g. institutional investors) inject capital into ESG-compliant industries / companies directly or via professional asset managers

### General Public

Employees, as well as the general public, expect asset managers to integrate ESG into their investment process to make positive impacts

## ...have different ESG agendas...



### Climate Change

Impact on climate change that the portfolio company's production / operational processes may have



### Resource Depletion

Consumption of renewable and non-renewable resources during the portfolio company's production / operational processes



### Waste & Pollution

Level of waste and pollution (e.g. carbon dioxide emission) from the portfolio company's production / operational processes



### Human Rights

Whether international human rights standards (e.g. industrial accidents, anti-discrimination) are incorporated across company frameworks



### Working Conditions

Working time, remuneration, as well as the physical conditions and mental demands that exist in the workplace



### Employee Relations

The effort of a company to create and maintain a positive relationship between employers and employees



### Bribery & Corruption

Whether the risks of bribery and corruption are managed by relevant anti-bribery policies



### Board Diversity & Structure

Number or percentage of diverse board directors in terms of gender, ethnicity and expertise in the board structure of an asset manager



### Policies

Whether policies (e.g. those that regulate tax and procurement regimes) are established and comprehensive



Environment

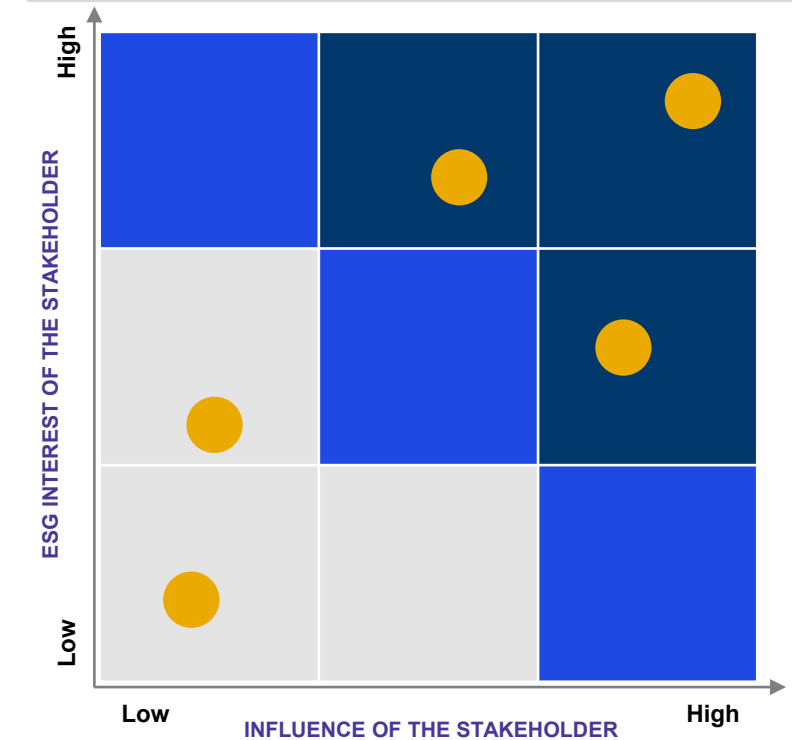


Social



Governance

## ...that carry different weight for each asset manager



High Priority

Moderate Priority

Low Priority

Stakeholder (Illustrative)

Source: KPMG / Quinlan & Associates analysis





# REGULATORY EXPECTATIONS – THE “PUSH”

As regulators have introduced different ESG-related standards, asset managers in Asia Pacific must understand the regulatory nuances in their key operating markets before formulating their short-to-long-term ESG strategy

## Investment Disclosure Metrics

Notable Regulatory Requirements, by Market

ESG-related Metrics	Description	European Union <i>Sustainable Finance Disclosure Regulation<sup>1</sup></i>	United Kingdom <i>Sustainability Disclosure Requirements<sup>2</sup></i>	United States <i>Investment Advisers Act; Investment Company Act<sup>3</sup></i>	Singapore <i>Guidelines on Environmental Risk Mgmt<sup>4</sup></i>	Hong Kong SAR <i>Fund Manager Code of Conduct<sup>5</sup></i>
<b>ESG Risk Management</b>	The risk management processes and policies surrounding ESG-specific risks	✓✓	✓✓	-	✓ <i>Environmental risks focused</i>	✓ <i>Climate-related risks focused</i>
<b>Adverse Impact Analysis</b>	Principal adverse impacts on sustainability of investment decisions	✓✓	-	-	-	-
<b>ESG KPIs and Targets</b>	Expected ESG targets and KPIs, as well as the measurement of progress	✓ <i>Proposed in SFDR Level 2</i>	✓✓	-	-	-
<b>ESG Investment Strategy</b>	Overview of the fund's ESG investment strategy	-	-	✓✓	-	-
<b>ESG Performance Assessment</b>	ESG metrics and data generated at the entity-level and fund / product level	✓✓	✓✓	-	✓ <i>Environmental risks focused</i>	✓ <i>Climate-related risks focused, for certain fund managers only</i>
<b>Active Engagement</b>	Engagement with investee companies, including approach and voting results	-	-	✓✓	✓ <i>Environmental risks focused</i>	✓ <i>Climate-related risks focused, for certain fund managers only</i>

Fully Applicable
 Partially applicable
 Unspecified

Source: KPMG / Quinlan & Associates analysis

Note: 1-5. Please refer to [REFERENCES](#) for more details.

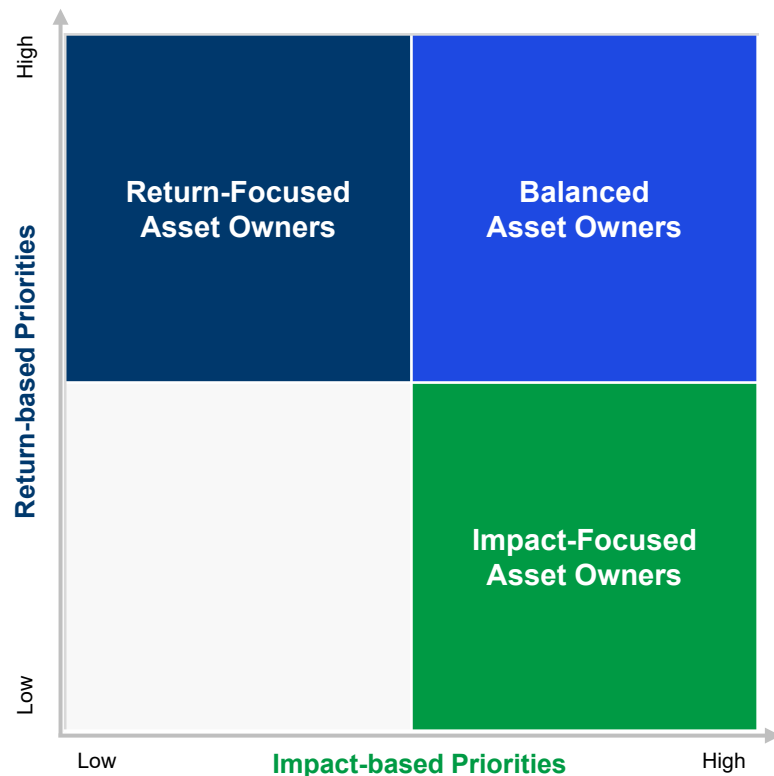


# CLIENT EXPECTATIONS – THE “PULL”

Just as critical is the need for asset managers to understand the priorities of both their “current” and “prospective” clients (i.e. asset owners)

## Asset Owner Universe

Based on Investment Mandate, Across Existing & Prospective Investors



Source: KPMG / Quinlan & Associates analysis



### Assets Under Management

Value of assets that are managed by the fund, which is an indication of the level of trust that investors have



### Absolute Financial Return

Investment return that is attributable to investors, which indicates the financial performance of the ESG fund



### Relative Financial Return

A benchmark measure against similar funds to identify underperformance or outperformance of the ESG fund



### Carbon Emission Rate

Level of carbon dioxide emissions from the portfolio company's production / operational processes



### Diversity and Inclusion Rate

Measure of diverse individuals working in a company and degree to which employees feel valued and respected



### Compensation Gap

Level of differences in pay between two different groups of people (e.g. male / female, with / without disabilities)



### Incorporation of ESG Standards

Level of ESG implementation towards daily practices (e.g. paperless client onboarding, hiring diverse employees)



### Portfolio Company Engagement

Level of engagement with the portfolio company towards improving ESG efforts and / or financial performance



### Disclosure

Extent of disclosure on material ESG factors and risks to the public, which is a measure of transparency



Return-based



Impact-based



# PRIORITISATION BASED ON DOUBLE MATERIALITY

Both financial and impact materiality must be considered when developing and prioritising ESG initiatives to meet different stakeholder expectations

## IDENTIFICATION OF ESG ISSUES

Identify ESG issues to be measured per peer review, research ESG megatrends and international ESG frameworks / standards (e.g. SASB)

Material ESG issues vary by investor objectives, investment style, industry, and macro conditions.

Dimension	General Issue Category	6 of SASB's 17 industries					
		Health Care Delivery	Non-Alcoholic Beverages	Electric Utilities & Power Generation	Advertising & Marketing	Auto Parts	Motors & Mining
Environment	GHG Emissions						
	Air Quality						
	Energy Management						
	Water & Wastewater Management						
	Waste & Hazardous Materials Management						
Social Capital	Ecological Impacts						
	Human Rights & Community Relations						
	Customer Privacy						
	Data Security						
	Access & Affordability						
Human Capital	Product Quality & Safety						
	Customer Welfare						
	Selling Practices & Product Labeling						
	Labor Practices						
	Employee Health & Safety						
Business Model & Innovation	Employee Engagement, Diversity & Inclusion						
	Product Design & Lifecycle Management						
	Business Model Resilience						
	Supply Chain Management						
	Materials Sourcing & Efficiency						
Leadership & Governance	Physical Impacts of Climate Change						
	Business Ethics						
	Competitive Behavior						
	Management of the Legal & Regulatory Environment						
	Critical Incident Risk Management						
	Systemic Risk Management						

## STAKEHOLDER ENGAGEMENT

Collect internal and external stakeholder views on which ESG issues to focus on

It is important to understand stakeholders' ESG preferences.

### External stakeholders

- HNWIs
- Insurance Companies
- Pensions
- Sovereign Wealth Funds
- Endowments
- Talent
- Public

### Internal stakeholders

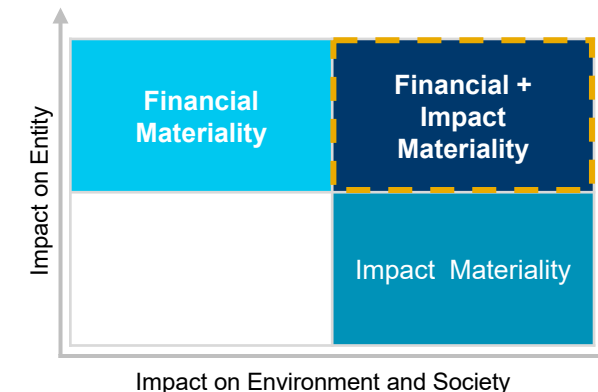
- Board of Directors
- Investment team
- Risk team
- Employees

## ASSESSMENT & PRIORITISATION

Analyse insights gathered from stakeholders and prioritise the ESG issues

When prioritising ESG issues, it is highly recommended to consider ESG issues that are:

- Material to the market, the environment, and people (impact materiality); and
- Financially material in influencing business value (financial materiality).



Source: KPMG / Quinlan & Associates analysis



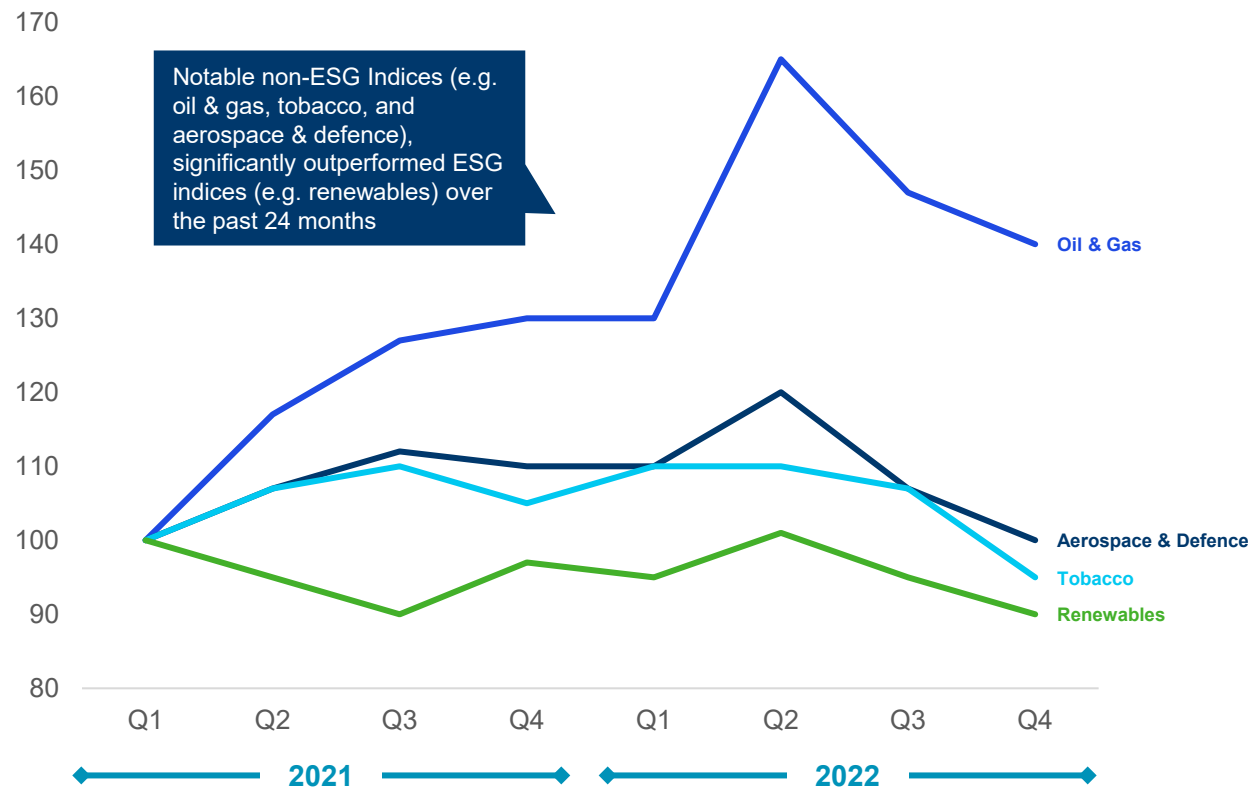


# COST OF EXPECTATION MISALIGNMENT

Pushing ESG agendas without fully comprehending the priorities of different stakeholders may lead to conflicts that could pose a threat to both current and future fund operations

## Stock Market Performance

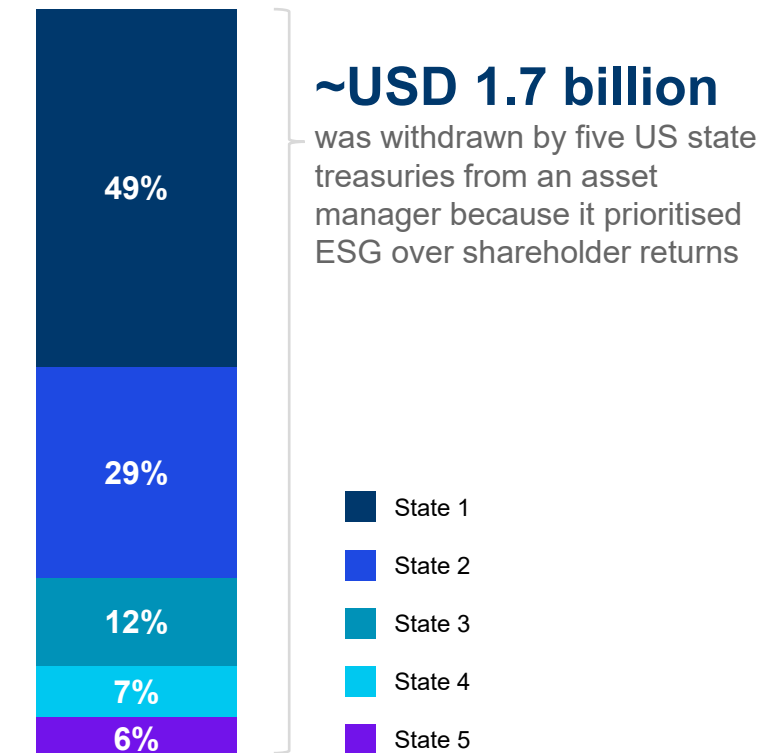
All World Sector Indices (rebased), January 2021 – November 2022



Source: Refinitiv, KPMG / Quinlan & Associates analysis

## Cost of Expectation Misalignment

Capital Withdrawals



## 2.2. VISION & AMBITION



Back to ESG Transformation Framework





# ESG PROPOSITION

After understanding and evaluating the needs and expectations of different stakeholders, asset managers should look to develop an ESG proposition that is best aligned to the assessment

## ESG Proposition

Expected Alignment with Global Standards vs. Purpose of ESG Integration



**1**

### Core Value Proposition

ESG represents the core DNA of the asset manager from both a compliance and revenue-generating perspective

**2**

### Strategic Proposition

Managers operate with ESG compliance requirements and provide ESG products to address investor demand

**3**

### Best-Practice Compliance

Asset managers deliver global best-practice ESG compliance, but have yet to offer a full suite of ESG products

**4**

### Moderate Compliance

Managers comply with regional regulatory requirements, but have not yet capitalised on ESG investment opportunities

**5**

### Minimum Compliance

Managers only comply with minimum requirements and have not yet capitalised on ESG investment opportunities

Source: KPMG / Quinlan & Associates analysis

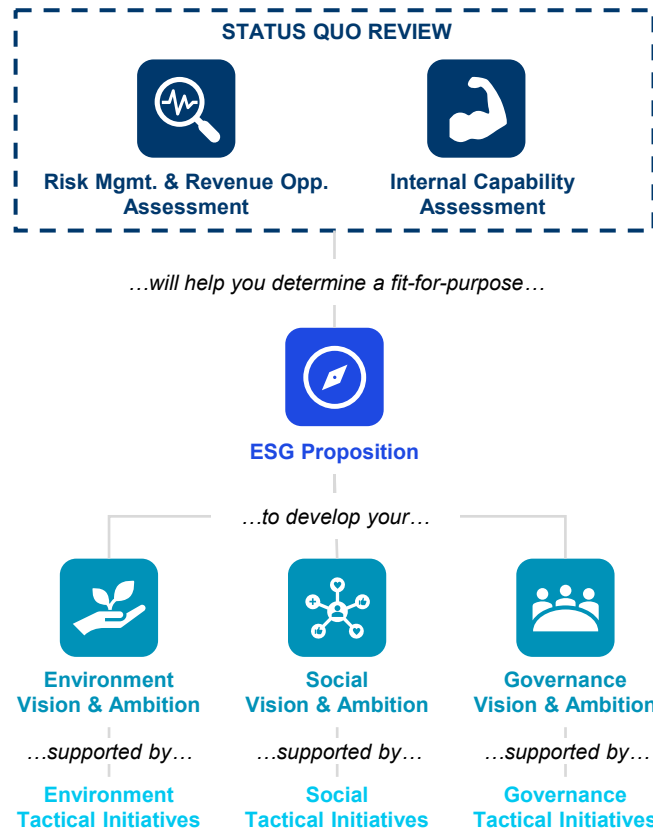


# ESG VISION & AMBITION

In developing an ESG vision & ambition, asset managers should have a deep understanding of the status quo and point of arrival (i.e. risk, opportunity, and internal capability assessment) to determine a suitable ESG proposition

## ESG VISION & AMBITION

ESG Proposition, Vision & Ambition, and Tactical Initiatives



Source: KPMG / Quinlan & Associates analysis

## SMART Framework

Developing ESG Vision & Ambition

### Specific to ESG pillars

covering ESG proposition for both internal and external stakeholders

### Measurable Results

based on international standards / initiatives / principles

### Actionable Initiatives

based on current and planned strategic and operational capabilities

### Realistic Execution

without going against core needs and demands of key business stakeholders

### Timeframe

set on tactical initiatives across ESG goals to ensure they are achieved as promised

## CASE STUDY: ASSET MANAGER BASED IN EU

Building on a strong foundation in environmentally and socially responsible investment, the company aims to become a shaper of sustainable investing solutions across public and private markets – leading clients and companies on an inclusive transition pathway to a better future

### ENVIRONMENT VISION & AMBITION

- Working towards sourcing **100%** renewable electricity for our operations by **2023**
- Reducing greenhouse gas (GHG) emissions by **38%** per employee by **2025**

### SOCIAL VISION & AMBITION

- Listed equity and corporate bonds – **25%** GHG reduction, Scope 1 and 2, by the end of **2024** (baseline: 2019)
- Infrastructure equity – **28%** GHG reduction, Scope 1 and 2, by the end of **2025** (baseline: 2020)

### GOVERNANCE VISION & AMBITION

- Women at group executive committee level targeting **30%** by **2025**
- 27%** female representation among senior management by **2025**



# 2.3. PROPOSITION DEVELOPMENT



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# ESG PROPOSITION TAXONOMY (1/2) – KEY QUESTIONS

There are five key questions that asset managers should ask when categorising their ESG-related investment products

## 5-Key Criteria Differentiating ESG Products

ESG Product Taxonomy

### FUND PROPOSITION

### INVESTMENT PROCESS

### ACTIVE STEWARDSHIP

# 1

Is ESG the primary objective of the product / mandate?

# 2

Is a qualitative screening methodology applied?

# 3

Is a quantitative screening methodology applied?

# 4

Are ESG factors considered in assessing the risk-adjusted return of the asset?

# 5

Is active stewardship exercised?

Source: KPMG / Quinlan & Associates analysis



# ESG PROPOSITION TAXONOMY (2/2) – PRODUCT UNIVERSE

KPMG and Quinlan & Associates see four broad ESG products that can be differentiated from traditional investment fund products

ESG PRODUCT TAXONOMY	Primary Fund Objective (ESG Impact vs. Financial Return)	Fund's Investment Mandate Inclusion of ESG objective	Investment Process Adoption of ESG factors for investment decisions	Active Stewardship Exertion of ESG-specific influence
<b>1. Impact Fund</b> Fund products that fully incorporate expected ESG practices and prioritise ESG impact over financial returns	<b>ESG Impact</b>	✓	✓	✓
<b>2. Sustainability Fund</b> Fund products that fully incorporate expected ESG practices, but prioritise financial return over impact	<b>Financial Return</b>	✓	✓	✓
<b>3. ESG Investment Fund</b> Fund products that help investors get access to a portfolio of companies that are ESG compliant	<b>Financial Return</b>	✓	✓	✗
<b>4. ESG Influence Fund</b> Fund products that help investors to influence various issuers that are yet to be ESG compliant	<b>Financial Return</b>	✓	✗	✓
<b>Traditional Fund</b> Widely available fund products that do not incorporate ESG expectations on fund operations	<b>Financial Return</b>	✗	✗	✗











✓ Applicable ✗ Inapplicable

Source: KPMG / Quinlan & Associates analysis



# ESG PRODUCT COMPONENTS

ESG fund products should broadly incorporate the following product components to: (1) increase transparency; (2) prevent greenwashing; and (3) redirect capital correctly

	Components	Description	
OBJECTIVE	 <b>Strategy</b>	Explain the strategy implemented in the investment process on a continuous basis	1
	 <b>Governance</b>	State the policy to assess good governance practices at the investee companies	
ASSESSMENT	 <b>Indicators</b>	Identify indicators to measure the environmental or social characteristics that the product promotes	2
	 <b>Benchmarks</b>	State the designated reference benchmark and whether it is aligned with sustainable objectives	
	 <b>Sustainability</b>	Describe how sustainable investments contribute to the objectives of the product	
	 <b>Impacts</b>	Disclose how principal adverse impacts are taken into consideration in sustainability factors	
	 <b>Emissions</b>	Indicate whether the product aims to reduce carbon emissions	
INVESTMENT	 <b>Criteria</b>	Explain the criteria used to select the investments to attain sustainable investment objectives	3
	 <b>Allocation</b>	Disclose the planned proportion of asset allocation that is not aligned with sustainable objectives	
	 <b>Derivatives</b>	Explain how derivatives are used in portfolios to attain sustainable investment objectives	

**INCREASE TRANSPARENCY**  
Product-level compliance increases the transparency around the sustainability of ESG products

**PREVENT GREENWASHING**  
Clear ESG criteria and disclosure requirements can help prevent potential greenwashing

**REDIRECT CAPITAL**  
Regulations help investors understand / compare when redirecting capital to sustainable products

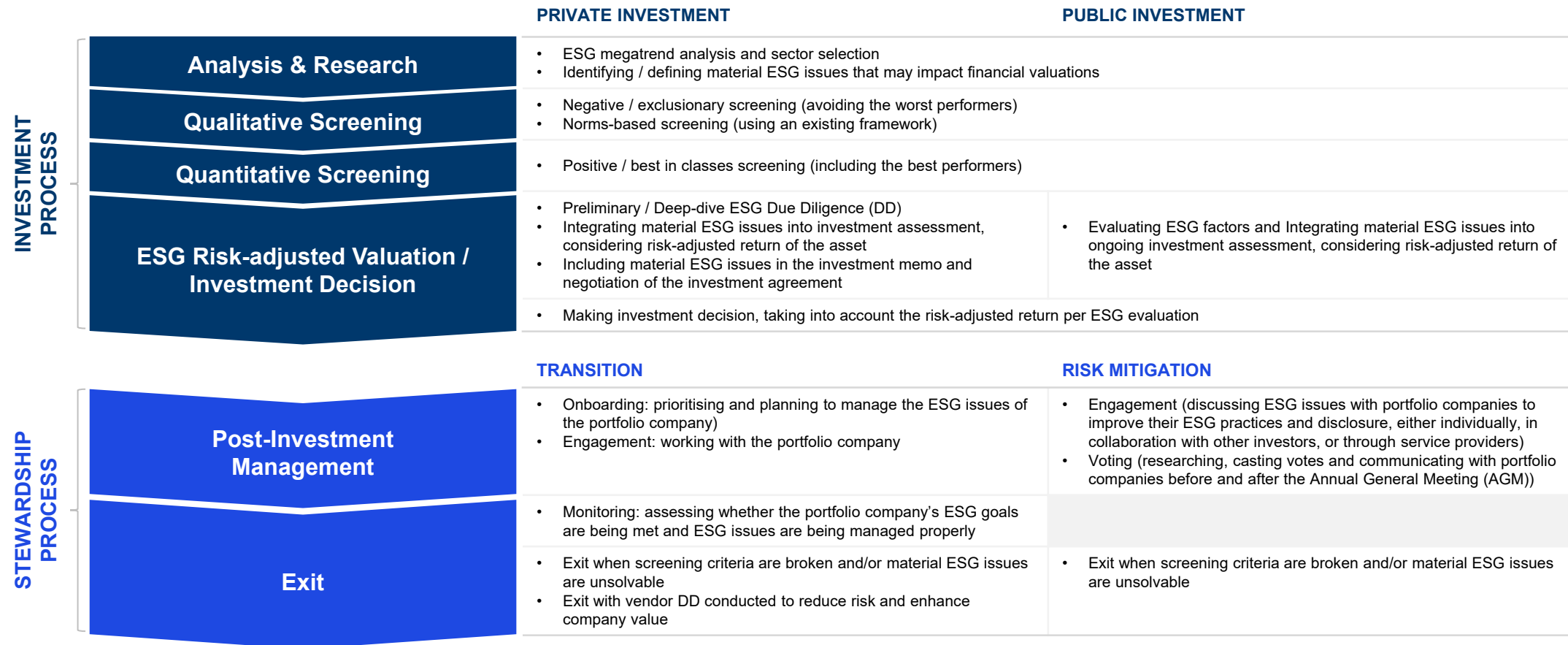
Source: SFDR, KPMG / Quinlan & Associates analysis





# ESG INVESTMENT CYCLE

Prior to a new ESG product launch, asset managers should ensure ESG practices are systematically incorporated throughout their investment cycle



Source: KPMG / Quinlan & Associates analysis

# 2.4. INVESTMENT PROCESS



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# QUALITATIVE & QUANTITATIVE SCREENING

Asset managers must apply qualitative and / or ESG data-driven quantitative screening methodologies when building their portfolios; however, there is currently no “golden source of truth” when it comes to ESG market data

## Qualitative and Quantitative Screening

Norm-Based Screening, Negative Screening and Positive Screening

	Definition <sup>1</sup>	Notable example
QUALITATIVE	<b>Norm-Based Screening</b> Screening of investments against minimum standards of business practices based on international norms	<b>Standards:</b> <ul style="list-style-type: none"> <li>UN Treaties</li> <li>OECD Guidelines</li> <li>Human Rights Declaration</li> </ul>
	<b>Negative Screening</b> The exclusion from a fund or portfolio of certain sectors, companies, or practices based on specific ESG criteria	<b>Industries:</b> <ul style="list-style-type: none"> <li>Tobacco</li> <li>Gambling</li> <li>Fossil Fuels</li> </ul>
QUANTITATIVE	<b>Positive Screening</b> The active inclusion of companies with positive ESG performance relative to industry peers	<b>ESG Data Coverage</b> <ul style="list-style-type: none"> <li>Environment</li> <li>Social</li> <li>Governance</li> </ul>

## Challenges in Filtering the Best-In-Class Companies

Lack of standardisation in third-party ESG data

	Data Provider #1	Data Provider #2	Data Provider #3
<b>Main Data Source</b>	<ul style="list-style-type: none"> <li>3,000+ alternative media sources</li> <li>Company disclosures</li> </ul>	<ul style="list-style-type: none"> <li>Corporate filings</li> <li>Company websites</li> <li>News sources</li> </ul>	<ul style="list-style-type: none"> <li>Corporate filings</li> <li>Company websites</li> <li>News sources</li> </ul>
<b>Indicators</b>	250+	500+	600+
<b>ESG Data Coverage</b>			
<b>Environmental</b>			
Damage	✓	✓	✓
Resource Usage	✓	✓	✓
Future Planning	✓	✓	-
<b>Social</b>			
Supply Chain	✓	-	-
Human Resources	✓	-	✓
External Efforts	-	-	✓
<b>Governance</b>			
Company	✓	-	-
Risks	✓	-	-
Executive Rights	✓	✓	✓

✓ Comprehensive Coverage    - Relatively Low Coverage

Source: KPMG / Quinlan & Associates analysis

Note: 1. Please refer to [REFERENCES](#) for more details.



# RISK-ADJUSTED VALUATION

ESG factors are increasingly being incorporated into valuation models to support investment decisions

## Approaches of Incorporating ESG Factors by Investment Strategy<sup>1</sup>

	Actively vs. passively managed products	Non-ESG elements in valuation	Valuation process of integrating ESG factors
<b>Fundamental Strategies</b>	Active	Forecasted financials <ul style="list-style-type: none"> <li>• Revenue</li> <li>• Operating cost</li> <li>• Asset book value</li> <li>• Capital expenditure</li> </ul>	Adjust the impact of ESG factors into the forecasted financials and via valuation models <ul style="list-style-type: none"> <li>• Dividend discount model</li> <li>• Discounted cash flow model</li> <li>• Adjusted present value model</li> </ul>
<b>Quantitative Strategies</b>	Active	<ul style="list-style-type: none"> <li>• Value size</li> <li>• Size</li> <li>• Momentum</li> <li>• Growth</li> <li>• Volatility</li> </ul>	Construct models integrating ESG factors alongside non-ESG factors
<b>Smart Beta Strategies</b>	Active	Financial weight	Use ESG factors and scores as a weight in portfolio construction to create excess risk-adjusted returns, reduce downside risk and/or enhance portfolios' ESG risk profile
<b>Passive &amp; Enhanced Passive Strategies</b>	Passive	Non-ESG stock index	Apply adjustment for the index constituent weights by taking ESG risk profiles into consideration

Source: KPMG / Quinlan & Associates analysis

Note: 1. Please refer to [REFERENCES](#) for more details.

## Case study on Passive & Enhanced Passive Strategies

A stock index is established based on the mainstream index in the Eurozone. All components of the parent index are included in this stock index but are over- and under-weighted according to sector-based proprietary ESG KPI integration scores, which reduces the large-cap bias associated with mainstream indices and other ESG indices.

Integration Score	Component Weights
0-20	Under-weighted 50%
20.01-40	Under-weighted 25%
40.01-60	No change
60.01-80	Over-weighted 25%
80.01-100	Over-weighted 50%





# 2.5. STEWARDSHIP PROCESS



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# ACTIVE STEWARDSHIP

Shareholder activism is an important part of ESG investing (including engagement and voting processes), which may be outsourced to specialist providers

## ESG Engagement

Asset Managers

		Current-state Stewardship	Mature Active Stewardship
PROPOSITION	APPROACH	Compliant	Activist
	STEWARDSHIP GOAL	Selective E/S/G issues meeting regulatory expectations	Tied to key sustainable development goals or issues and connected to firm's ESG vision & ambition
	IMPLEMENTATION COORDINATION	Lightly-staffed stewardship team	Expertise across sectors, regions and themes
PROCESS	MONITORING	High-level ESG evaluation process	Specific, tailored KPIs tied to deepen sustainability research
	ENGAGEMENT	Solely relying on risk-and-return driven engagement	Set clear framework to define: <ul style="list-style-type: none"> <li>Engagement channels</li> <li>Point of contact</li> <li>Timelines</li> </ul>
	ESCALATION	No escalation communication implemented	Develop clear communication in the event of unsuccessful engagement to public
	DISCLOSURE	Focus on activity reporting	Transparent and outcome-based reporting to clients

Source: KPMG / Quinlan & Associates analysis

## Example: Voting

Processes & Result

### Process



#### Issue Prioritisation

State how asset managers prioritise certain issues that they choose to vote on (or not)



#### Decision Making

Describe the process to inform voting decisions, including proxy voting advisors and internal research



#### Record Transparency

Explain how asset managers keep a record of votes cast and relevant results to report transparently

### Outsource Active Ownership

- Some asset managers choose to outsource active ownership activities to external third-party specialist service providers
- Asset managers need to identify key ESG voting and engagement frameworks that they want third parties to follow
- Managers also need to report to clients periodically



# BEST PRACTICE

Some ESG-focused active managers have built up specialist expertise to engage investee companies on specific ESG issues, which can be a source of competitive advantage

## UK Stewardship Code<sup>1</sup> 2020

	REPORTING ITEMS	EXAMPLES FROM A SIGNATORY ASSET MANAGER
GOVERNANCE	1 PURPOSE & STRATEGY	• Outline that their stewardship purpose is to work together to build better financial futures
	2 RESOURCES & INCENTIVES	• Establish a committee which has oversight of all sustainable investments
	3 CONFLICT MANAGEMENT	• Issue global conflicts of interest policy document
	4 RISK MANAGEMENT	• Enhance internal processes to identify and respond to market-wide and systemic risks
	5 POLICIES	• Review ESG-related policies annually
INVESTMENT	6 COMMUNICATION	• Offer a range of different ESG and stewardship reports on their website
	7 INTEGRATION	• Tailor to the different ownership rights inherent in each asset class
	8 MONITORING	• Utilise a variety of service providers to monitor ESG stewardship
ENGAGEMENT	9 ENHANCEMENT	• Maintain an ongoing dialogue with investee companies through formal meetings and other events
	10 PARTICIPATION	• Join collaboration programmes to develop engagement and monitor progress
	11 ESCALATION	• Determine response case-by case and escalate issues with a formal escalation process
EXERCISING	12 IMPLEMENTATION	• Vote according to stewardship policies and disclose voting results on their website

Source: KPMG / Quinlan & Associates analysis

Note: 1. Please refer to [REFERENCES](#) for more details.

# 2.6. STAKEHOLDER COMMUNICATION



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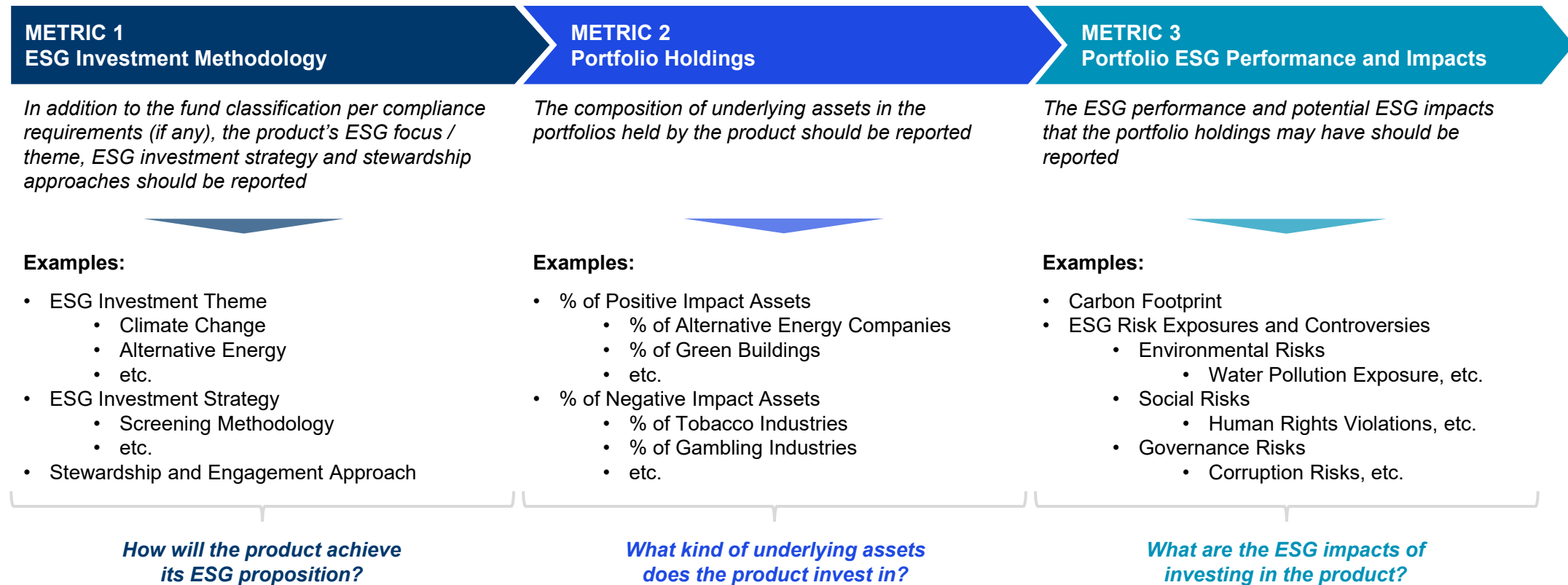


# WITH REGULATORS: PRODUCT DISCLOSURE

Beyond compliance requirements on ESG-related fund classifications, asset managers should provide ESG reporting to showcase product-level ESG investment themes, strategies, stewardship approaches, and ESG performance

## Communication

Product Level



Source: KPMG / Quinlan & Associates analysis



# WITH INVESTORS: CLIENT REPORTING

In addition to their financial performance, asset managers should disclose the overall ESG performance of their clients' investment portfolios, including product-level ESG information on portfolio holdings

## Communication

Client Reporting



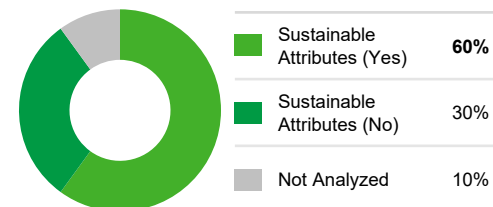
Source: KPMG / Quinlan & Associates analysis

## Sample

### Portfolio Summary

Corporate Sustainability Score	Portfolio	Benchmark
	27	23.2
Sovereign Sustainability Score	Portfolio	Benchmark
	42	33.5
Carbon Risk Score	Portfolio	Benchmark
	23	30

### Sustainable Fund Portion by EU Regulations



Carbon Footprint (emissions of CO2 in millions metric tons)	Portfolio	Benchmark
Scope 1 and 2	2.5	0.8
Scope 3	1.7	1.2

### Portfolio Holdings

Fund Holdings	Asset %	Sustainability Rating	Sustainability Risk	Carbon Risk	Overall Sustainable?
Fund A	35.00	4	Medium	Low	Yes
Fund B	22.00	4	Medium	High	Yes
Fund C	19.00	3	Low	Low	Yes
Fund D	13.00	2	Severe	Low	No
Fund E	11.00	2	Severe	High	No

Asset Holdings	Asset %	Sustainability Rating	ESG Risk Rating	Highest Controversy Level	Carbon Intensity
Asset A	5.00	4	Low	Low	18.9
Asset B	5.00	3	Medium	Moderate	29.1
Asset C	5.00	2	Low	Low	34.2
Asset D	5.00	2	Medium	Low	50.8
Asset E	5.00	1	Low	High	98.4



# WITH SHAREHOLDERS: CORPORATE SUSTAINABILITY REPORT

Asset managers should also look to disclose ESG information at the enterprise level to all stakeholders, in line with international ESG standards and / or frameworks

**A good Asset Management Company (AMC) sustainability report should include:**

## 1 ESG Definition, Vision and Objectives

- ESG vision, ambition, and objectives
- Definition of responsible / ESG investment
- How the fund's portfolios are broken down on an ESG-basis

## 2 ESG Governance, Policies and Guidelines

- ESG governance structure with well-defined delegation and escalation processes
- ESG-related policies that are material to the fund's daily operations
- Responsible / ESG investment policies and management procedures

## 3 ESG Integration and Stewardship Approach

- Overview of ESG integration approach into investing processes
- How its ESG priorities in investing are given
- Overview of its ESG engagements
- How the company's strategy is implemented to fulfil its fiduciary duty to its clients
- How the company leverages its resources to achieve its ESG goals

## 4 ESG Performance and Impact Disclosure

- Investment strategy's positive impact with quantified impact metrics and / or case studies
- ESG performance report with ESG key performance indicators (KPIs)

Source: KPMG / Quinlan & Associates analysis

# 2.7. CORPORATE STRUCTURE



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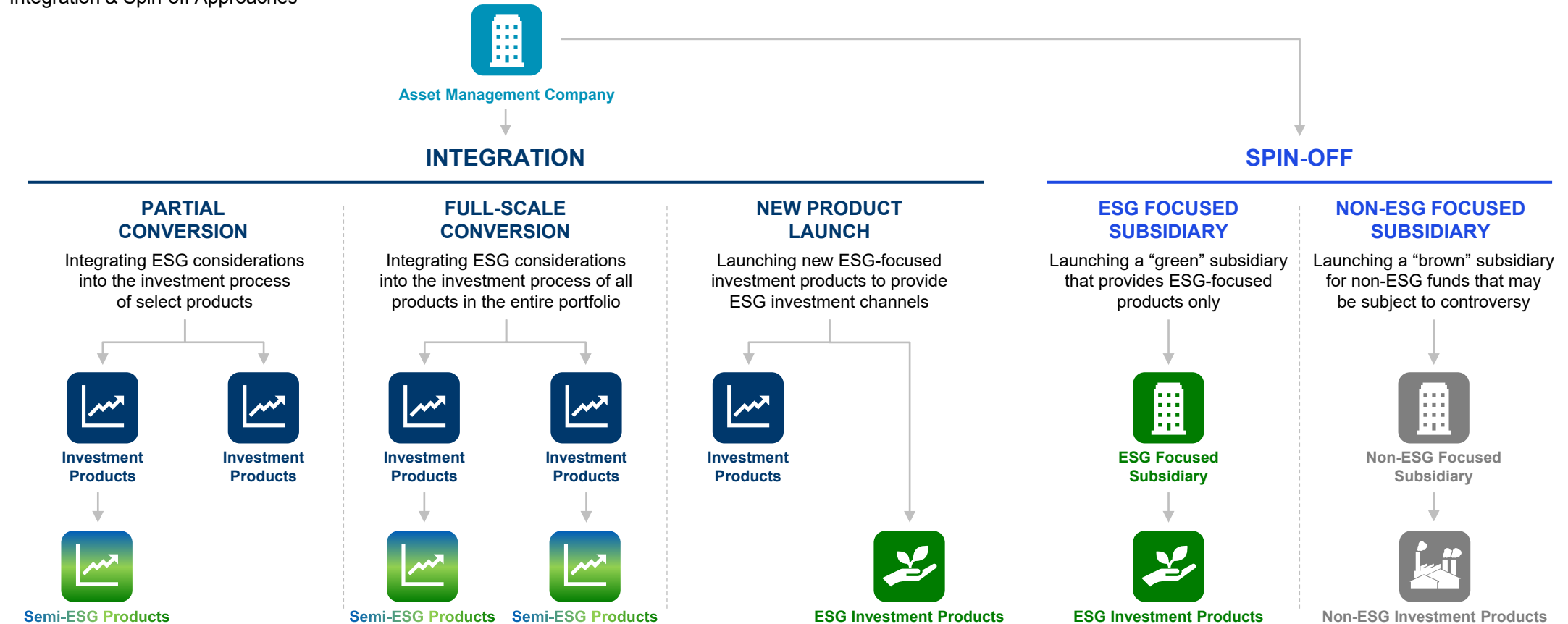


# RESTRUCTURING OPTIONS

Finally, consideration should be given to setting-up a fit-for-purpose corporate structure that can best deliver on an asset manager's ESG proposition, including the potential for “brown” and / or “green” spin-offs

## Corporate Structure

Integration & Spin-off Approaches



Source: KPMG / Quinlan & Associates analysis





# RESTRUCTURING BENEFITS

Adapting a fund manager's corporate structure can not only help to mitigate ESG-related risks, but can also help it to optimise its fund operations processes

## Benefits

Integration & Spin-off Approaches



Source: KPMG / Quinlan & Associates analysis

## Description

## Cost



### Risk Mitigation

Mitigate regulatory and reputational risks with full-scale ESG integration



### Existing Investors' Demands

Satisfy growing demand of existing investors for ESG integration / new product launches



### ESG Specialisation

Dedicate all ESG talent and resources to provide specialised ESG solutions



### Capital Attraction

Attract global investors with the highest ESG requirements with focused ESG offerings



### Fund Maintenance

Maintain the reputation, focus, and business agility of the original fund(s)



### Opportunity Capture

Capture alpha-generating opportunities in non-ESG sectors for select investors

Integration

Green Spin-off

Brown Spin-off

High

Low

# 2.8. DATA & TECHNOLOGY



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# ESG DATA

With ESG data aggregators adopting different data collection and analysis methodologies, asset managers should carefully consider different data solutions and craft ESG data strategies that allow them to stay ahead of the competition

## ESG Data Strategies

Investment Management



### 1 In-House Proprietary Data

Collect, process, and analyse ESG data fully in house, with proprietary ESG evaluation metrics and benchmarks



### 2 Partnerships with Data Aggregators

Partner with data aggregators which collect and distribute ESG data, and provide ESG ratings and indices for asset managers



### 3 Partnerships with Alt. Data Providers

Partner with alternative ESG data providers, which generate ESG data from alternative sources (e.g. social media) by using AI

	Japanese Asset Manager	Japanese Asset Manager	South Korean Asset Manager	Chinese Asset Manager
<b>Equity</b>				
<b>Benchmark Data Strategy</b>				
Proprietary	✖	✖	✖	✓
Partnership	✓ <sup>1</sup>	✓ <sup>1 &amp; 2</sup>	✓ <sup>1</sup>	✖
<b>ETF</b>				
Large-Cap Focused	✓	✓	✓	✓
Small-Cap Focused	✖	✖	✖	✖
<b>Active Funds</b>				
	✓	✓	✓	✓
<b>Fixed Income</b>				
<b>Benchmark Data Strategy</b>				
Proprietary	✖	✓	✖	✓
Partnership	✖	✖	✖	✖
<b>ETF</b>				
ESG Bond	✖	✓	✖	✖
Green Bond	✖	✓	✖	✓
Social Bond	✖	✓	✖	✖
<b>Bond Issuance</b>				
	✓	✓	✓	✓

✓ Applicable ✖ Not Applicable

Source: KPMG / Quinlan & Associates analysis

Note: The superscripts represents the partnership with the following companies: 1. MSCI, 2. S&P



# ESG TECHNOLOGY

Successful ESG transformation needs to be enabled by adoption of analytics and applications across key processes – including sales and marketing, investment, and engagement with client / investee companies



## Sales and Marketing Process

## Investment Process

## Engagement and Communication

### ESG Applications

- Customise the client-centric conversation according to clients' ESG preferences and beliefs
- Enables matching of clients' ESG preferences and ESG offerings

- Incorporate material ESG data and insights into investment decision-making (e.g. screening, risk-adjusted performance)

- Automate ESG data consolidation into a single report that visualises and analyses the latest data

### ESG Analytics

- Segmentation of clients and prospects based on their ESG priorities

- Perform ESG risk and impact analytics with research, portfolio management, trading and operations tools
- Analyse ESG profile of portfolios and portfolio holdings

- Evaluate the data readiness in producing the ESG report
- Enrich machine learning by sharpening the analytics of incoming ESG reporting requirements

Source: KPMG / Quinlan & Associates analysis

# 2.9. GOVERNANCE STRUCTURE



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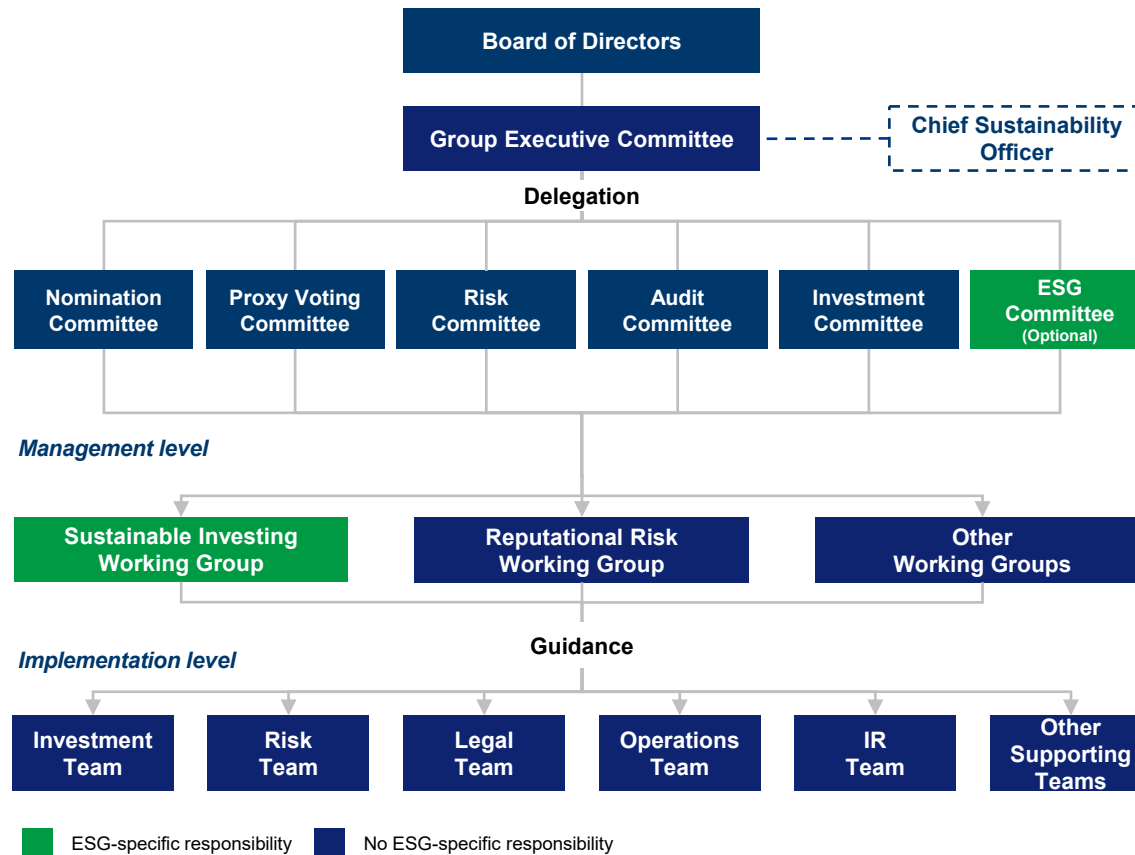


# CENTRALISED STRUCTURE

Considering ESG integration is a collective effort across multiple departments – the traditional, centralised ESG governance structure is not an ideal model for asset managers to consider

Board level

Illustrative



Source: KPMG / Quinlan & Associates analysis

## CENTRALISED ESG GOVERNANCE

1. Centralise ESG governance responsibilities within the Board, or
2. Form a separate centralised ESG Committee reporting to the Board
  - Review the progress of ESG activities
  - Revise and approve the ESG policies, active ownership activities, external development opportunities (e.g. third-party data partnership)
  - Propose ESG strategies to the board

## LIMITATIONS WITH CENTRALISED ESG GOVERNANCE

### Sub-Optimal Execution Result

Without proper delegation of ESG responsibilities at the implementation level, specific ESG strategies and commitments made by the Board and committees will not materialise in the company, both in its day-to-day operations and in the fund's investments.

### Concentrated Responsibility for Collective Efforts

ESG responsibilities assigned to other committees will not be thoroughly implemented due to the lack of accountability towards ESG-related matters.

### High Maintenance Cost

Asset managers with centralised ESG governance models require more oversight in their ESG implementation, thereby incurring additional costs to the organisation.

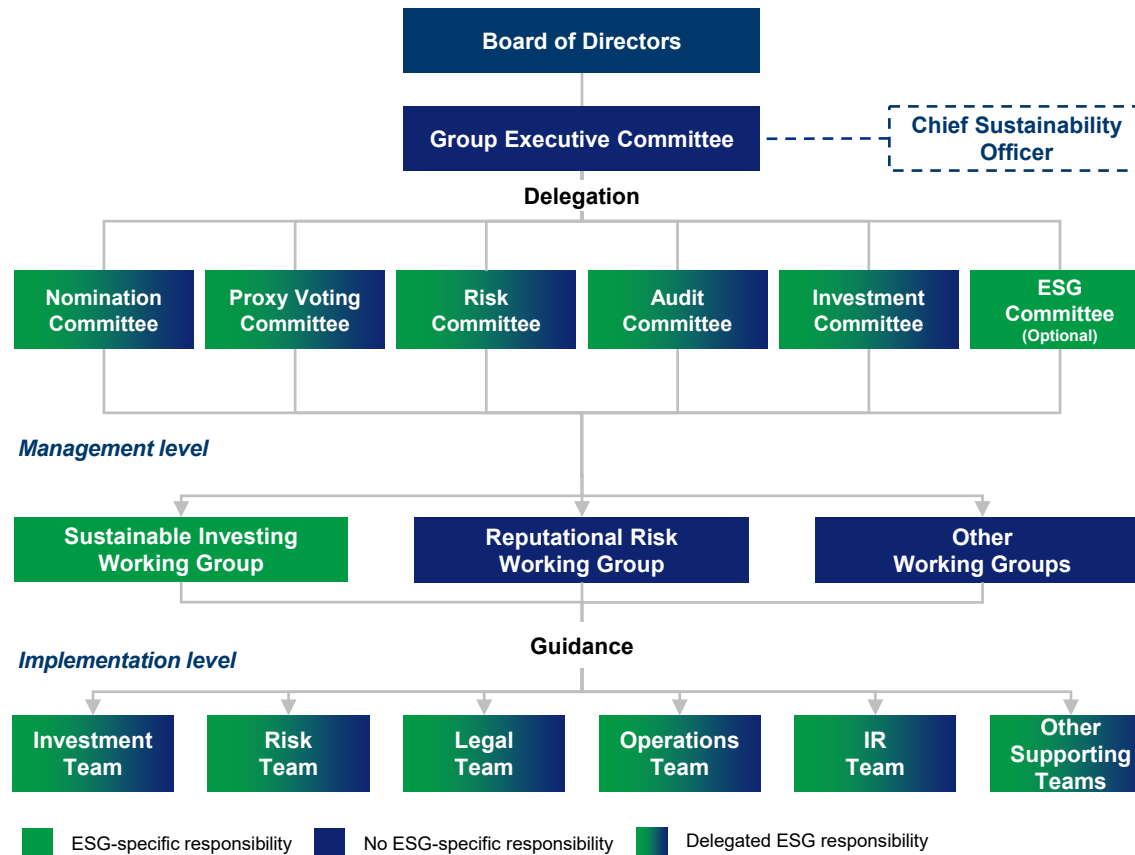


# DECENTRALISED STRUCTURE

Asset managers should consider adopting a decentralised governance structure, where ESG responsibilities are evenly distributed across the firm, with active delegation and guidance provided by the executive team

Board level

Illustrative



Source: KPMG / Quinlan & Associates analysis

## DECENTRALISED ESG GOVERNANCE

A decentralised ESG governance structure engages employees across the fund to monitor and implement ESG responsibility in their day-to-day operations and fiduciary duty. As opposed to traditional ESG governance, ESG ownership and responsibility are spread across the organisation, allowing for a more agile and thorough execution of ESG responsibility and values.

## SUGGESTED APPROACH FOR A SHIFT

### Delegate specific ESG responsibilities across the organisation

ESG ownership in committees and at the working level allows for a thorough implementation of ESG values throughout the fund. Each team should bear responsibility for implementing ESG and should be able to provide the board with the relevant ESG metrics when required to supplement the board's decision making.

### Establish a proper ESG reporting structure

A proper organisation reporting structure for all ESG-related matters should be established within the firm for both committees and working-level teams. A proper chain of command will help raise accountability across teams throughout the firm. Additionally, employees should be able to escalate ESG-related concerns to the relevant parties to prevent misconduct such as greenwashing.

### Establish proper communication pipeline

The board should be able to effectively communicate the fund's ESG strategic directory across teams through established communication pipelines. This helps prevent a disconnect between the board's strategic vision and the fund's implementation of ESG. Inversely, employees should also be given the opportunity to voice their ESG priorities and concerns to the board.

# 2.10. TALENT & INCENTIVES



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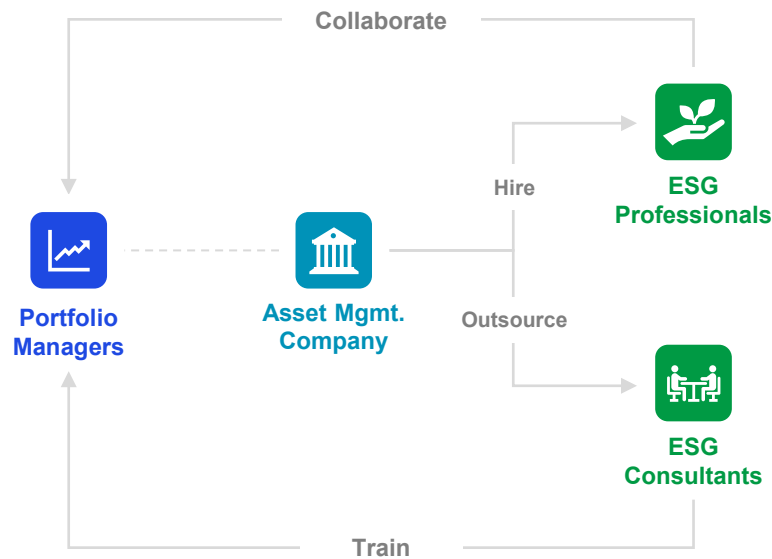


# TALENT

Given the considerable demand for ESG expertise in the market, asset managers must identify potential talent gaps and develop appropriate talent acquisition, development and retention strategies

## Talent Model

Illustrative



## Suggested Talent Model

1. **Build:** Recruit ESG talent for in-house capabilities
2. **Partner:** Outsource ESG matters to external consultants
3. **Hybrid:** Develop in-house capabilities and external partnerships

## Relevant Expertise by Function

Examples

FUNCTION	RELEVANT EXPERTISE
<b>Board and Committee</b> (e.g. ESG Committee, etc.)	<ol style="list-style-type: none"> <li>1. Overseeing abilities to manage the company's ESG vision &amp; ambition</li> <li>2. Define and implement suitable ESG management approaches and strategies to evaluate and prioritise ESG-related issues and risks</li> <li>3. Progress reviewing capabilities towards ESG-related goals and targets</li> <li>4. Structuring ability to adjust the company hierarchy to incorporate ESG</li> </ol>
<b>Front Office</b> (e.g. Portfolio Managers, Sales, etc.)	<ol style="list-style-type: none"> <li>1. Able to integrate ESG as part of their investment processes</li> <li>2. Great communication skills to understand ESG needs of different clients and promotion skills to recommend suitable ESG funds</li> <li>3. Ability to interpret ESG data and evaluate how it impacts the investment decisions labour</li> </ol>
<b>Middle Office</b> (e.g. Risk Team, Product Team, etc.)	<ol style="list-style-type: none"> <li>1. Ample knowledge regarding ESG regulations of different jurisdictions and standards of different initiatives</li> <li>2. Ability to design ESG fund taxonomy and conduct cost-benefits analysis</li> <li>3. Good understanding of different ESG data and their vendors</li> <li>4. Capabilities to collect and analyse internal and external ESG data and convert these data into reporting metrics in an industry consistent manner</li> <li>5. Generate client reports according to ESG standards' requirements</li> </ol>
<b>Back Office</b> (e.g. HR team, IT team, etc.)	<ol style="list-style-type: none"> <li>1. Ability to establish ESG-related KPIs scheme and create compensation policy to encourage people to reach it</li> <li>2. Build up a mature ESG technology architecture to smooth the internal communication channel and ESG data flow</li> <li>3. Understand the needed ESG expertise of different positions within company and can develop related ESG training materials</li> <li>4. Great network to external ESG talent pool</li> </ol>

Source: KPMG / Quinlan & Associates analysis

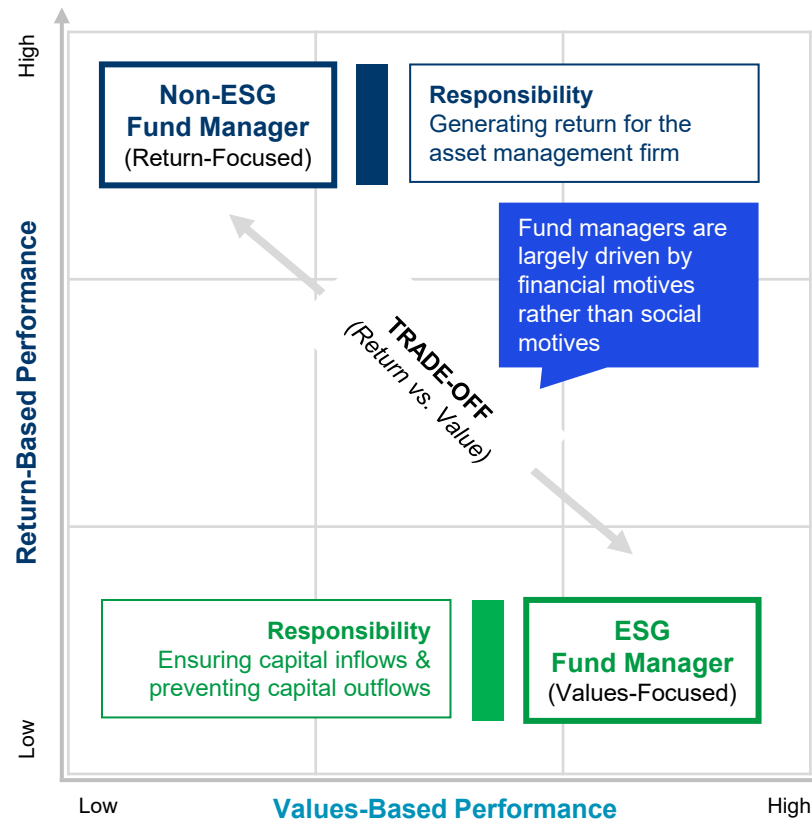


# COMPENSATION & INCENTIVE STRUCTURE

Considering both ESG- and non-ESG -focused fund managers play pivotal roles in running the overall business, albeit with different objectives, a carefully calibrated compensation strategy should be considered

## Trade-off

Return vs Impact



Source: KPMG / Quinlan & Associates analysis

## Potential Solution

Illustrative

### RESTRUCTURED COMPENSATION MODEL

creating balanced compensation system for fair distribution of return for both ESG and non-ESG managers

### KEY ENABLERS

#### Corporate Governance

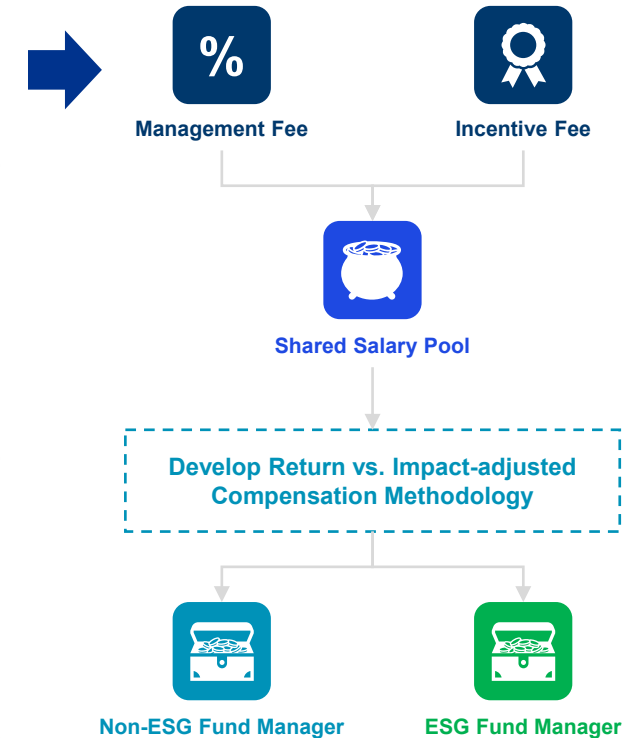
...elevating the importance of ESG practices setting the tone from board-level

#### Internal Communication

...converging with internal stakeholders on roles of ESG fund managers

### ADOPTION CHALLENGE

There could be an initial outflow of talent, which is a natural resistance stage for any transformation. When ESG becomes the norm in the industry, then such a compensation practice will likely be more accepted. It is a long-term educational process





# 2.11. MEASUREMENT SYSTEM









Back to ESG Transformation Framework





# MEASUREMENT SYSTEM

To drive ESG transformation, a measurement system should be set up to assess the manager's current state of maturity vs. leading practices and to identify what is needed to achieve the desired state over time

	 <b>ESG Vision/Principles</b>	 <b>Governance and Leadership</b>	 <b>Client and Marketing</b>	 <b>ESG-integrated Investment Process</b>	 <b>Data and Technology</b>	 <b>Talent and Incentives</b>
<b>KEY MEASUREMENTS</b>	<ul style="list-style-type: none"> <li>The existence of an ESG vision and how relevant it is to the company's original strategic vision</li> <li>The existence of ESG principles and how similar the established principles are to principles for responsible investment</li> </ul>	<ul style="list-style-type: none"> <li>The readiness of ESG / responsible investment policies and ESG issues report procedures</li> <li>The establishment of an ESG integration committee and its participation frequency (and accountability) on ESG issues</li> <li>The establishment of a spin-off committee and its participation frequency (and accountability) on spin-off issues</li> </ul>	<ul style="list-style-type: none"> <li>The variety of customer segmentation approaches and the conversion extent of segmented clients' products</li> <li>The effectiveness of approaches to communicate with clients</li> <li>The variety of measures to avoid greenwashing risks during disclosure / reporting and marketing</li> </ul>	<ul style="list-style-type: none"> <li>The existence of ESG investment strategies and the integration progress</li> <li>The development of an ESG product taxonomy and the product range of the taxonomy</li> <li>The common sense of active ownership and how clients evaluate their experiences</li> <li>The internal disclosure requirements and how these reference international standards / frameworks (TCFD, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>The utilisation of internal ESG databases and digital analytic tools, and the sophistication of the analytics tools</li> <li>The existence of an internal and external ESG data quality audit mechanisms and their frequency / effectiveness</li> <li>The development of internal ESG technologies and integrated completeness with the ESG transformation processes</li> </ul>	<ul style="list-style-type: none"> <li>The promotion of a culture of diversity, equity and inclusion throughout the organisation and to what extent the company values these</li> <li>The frequency of ESG trainings provided to employees to raise their understanding of ESG, including the quality of the training provided</li> <li>The existence of incentive plans to promote fund-level ESG performance and the range of employees such incentives cover</li> </ul>
<b>SAMPLE KPIs<sup>1</sup></b>	<ul style="list-style-type: none"> <li>Number of principles referenced within PRI framework</li> </ul>	<ul style="list-style-type: none"> <li>Number of ESG experts sitting on the Board</li> </ul>	<ul style="list-style-type: none"> <li>Customer ESG product conversion rate</li> <li>Greenwashing litigation rate</li> </ul>	<ul style="list-style-type: none"> <li>Revenue from the impact funds</li> <li>Transparency rate of client report</li> </ul>	<ul style="list-style-type: none"> <li>Deployment rate of ESG data / digital tools over time</li> <li>ROI on ESG data</li> </ul>	<ul style="list-style-type: none"> <li>Staff turnover</li> <li>Training and qualification rate</li> <li>Gender diversity across ranks / departments</li> </ul>

Source: KPMG / Quinlan & Associates analysis

Note: 1. Please refer to [REFERENCES](#) for more details.

# 2.12. CHANGE MANAGEMENT



[Back to ESG Transformation Framework](#)

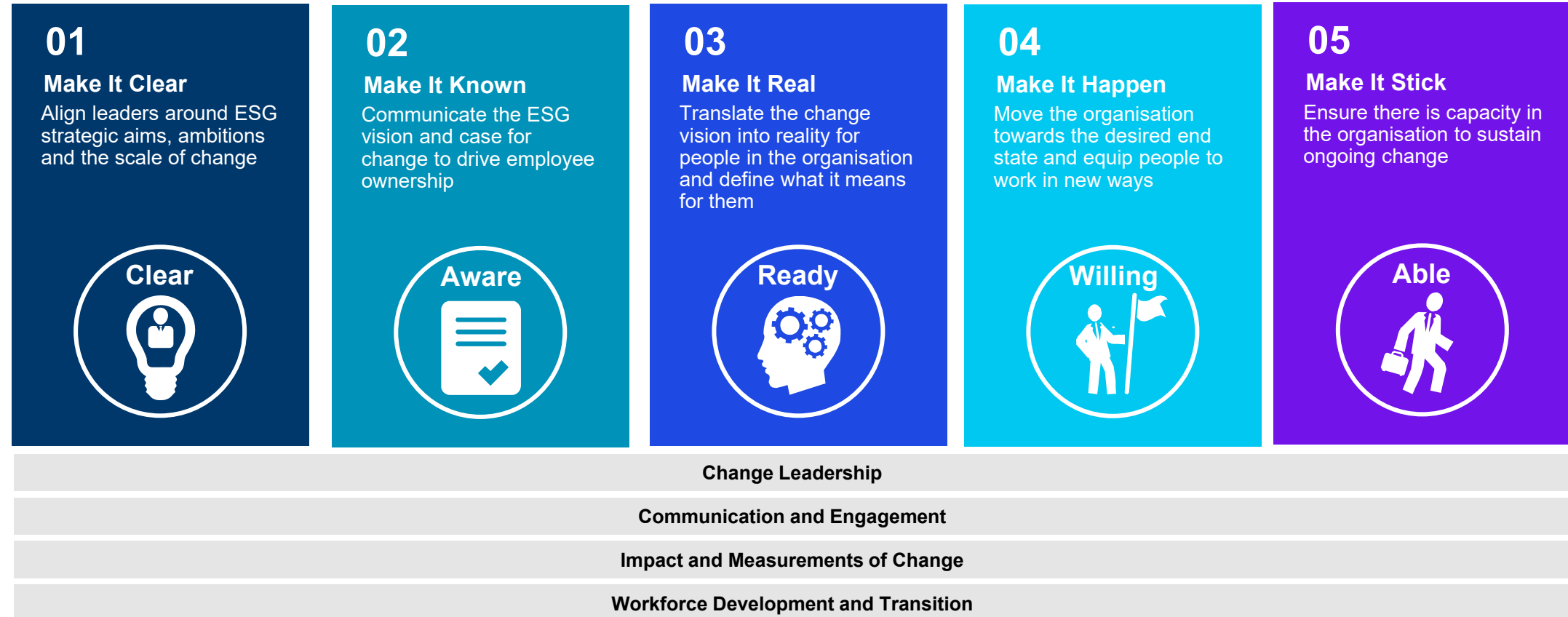




# CHANGE MANAGEMENT

The “Make-It” approach simplifies the ESG transformation for asset managers with engaging phases and activities

## The “Make-It” Approach



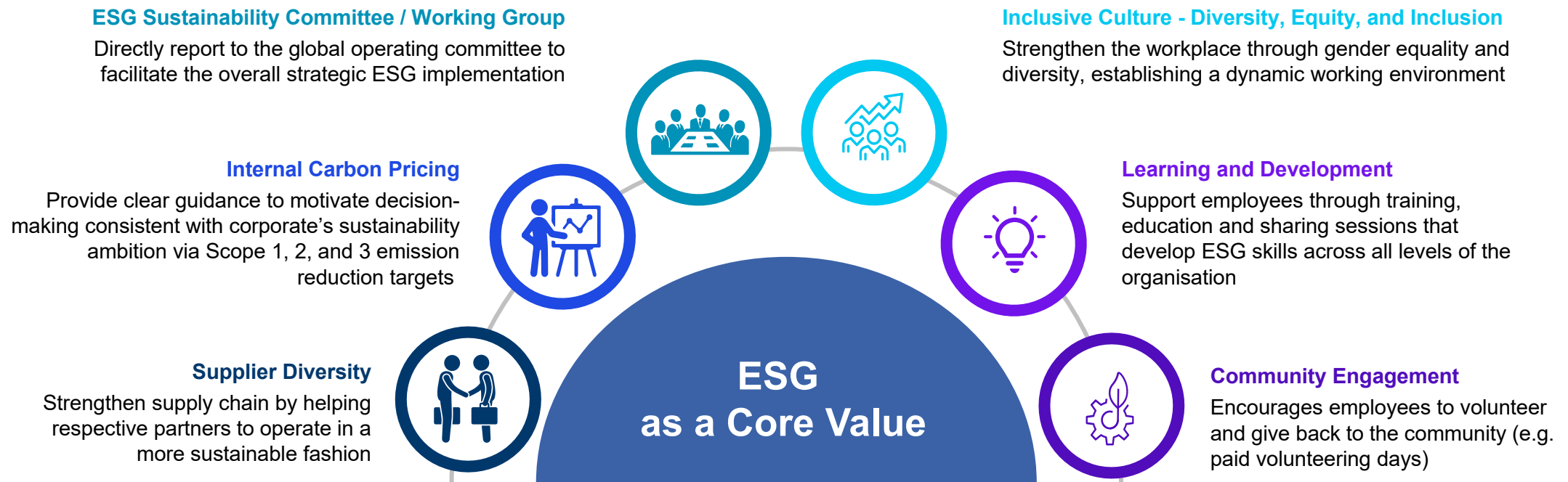
Source: KPMG / Quinlan & Associates analysis



# TRANSFORMING INSIDE-OUT

ESG is not just integral to investment, but should be integrated across the asset manager's culture and operations

## Changing Mindsets and Behaviours...



Source: KPMG / Quinlan & Associates analysis



**03**

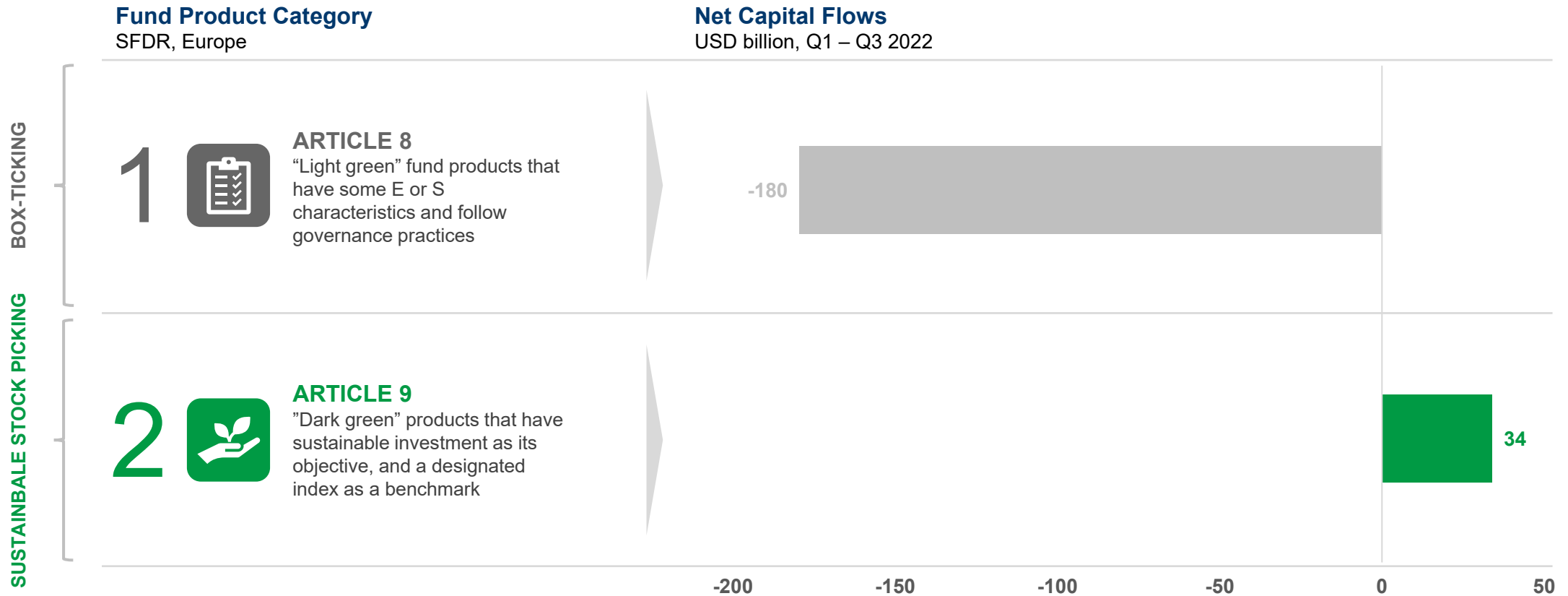
# **FINAL REMARKS**





# BUSINESS AT RISK

Although many asset managers see ESG as a “box ticking” exercise, it is becoming clear that merely complying with ESG requirements is not enough; a clear ESG strategy and operating model are needed to drive real outcomes



Source: Refinitiv, KPMG / Quinlan & Associates analysis



04

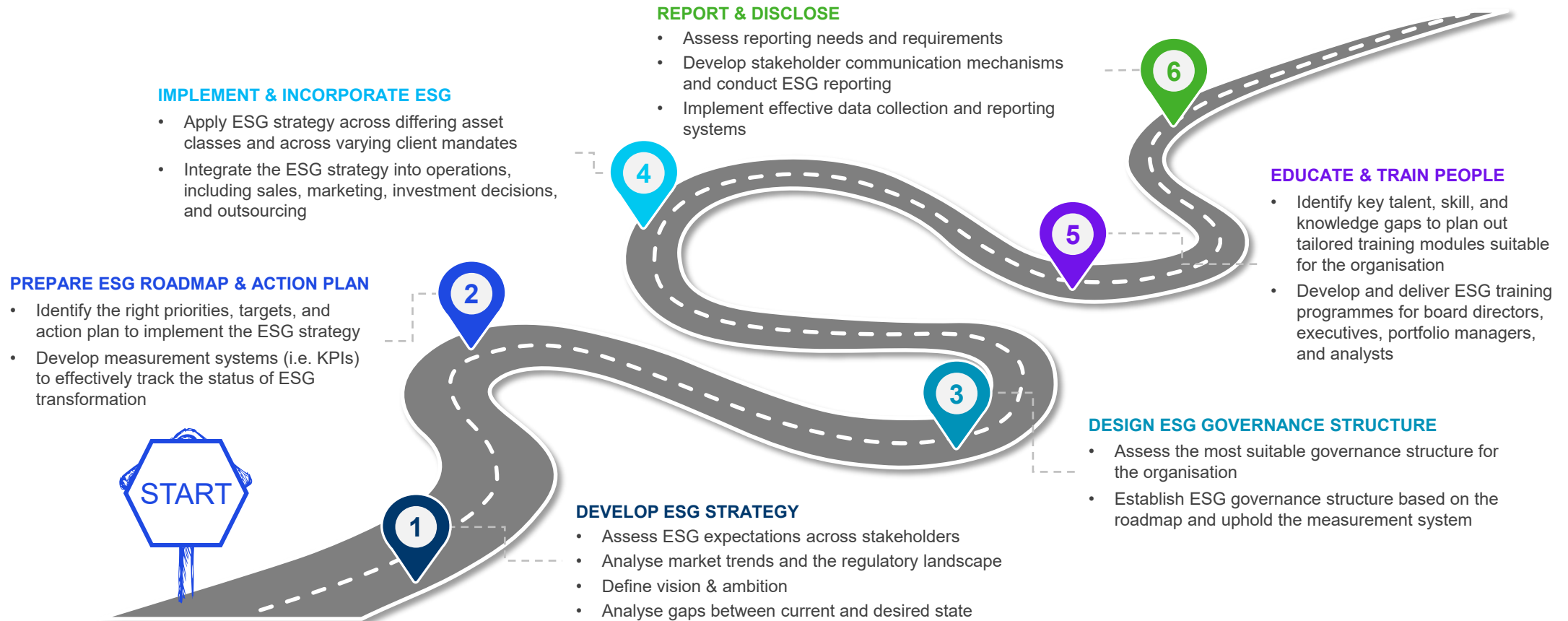
# HOW WE CAN HELP





# ESG TRANSFORMATION – ROADMAP (SIMPLIFIED OVERVIEW)

KPMG and Quinlan & Associates can help you on your end-to-end ESG journey – from developing your ESG strategy to adapting and implementing your target operating model, ensuring a successful transformation



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