Mainstreaming of Climate Risks and Opportunities in the Financial Sector

Observed and expected impacts of the current financial crisis on the investment industry's consideration of ESG and climate-related issues

Ivo Knoepfel

onValues
investment strategies & research

CLIMATE MAINSTREAMING

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Summary

This paper assesses potential impacts of the current financial crisis on the investment industry's efforts to integrate environmental, social and governance (ESG) issues in general, and climate change issues in particular, in its products and processes.

Over the short term the author expects set-backs in financial market actors' efforts to integrate ESG and climate issues. These set-backs will be particularly pronounced if the crisis persists for a longer time period, i.e. if financial markets do not stabilise by the end of 2009. The Copenhagen Climate Conference in December 2009 could become the 'make or break' tipping point for the financial market's continued efforts to integrate ESG and climate issues, at least for the short- to mid-term. The mid- to long-term prospects for ESG/climate risk integration, on the other hand, could be positive given a series of strong underlying trends, among others the change in attitude of the US market and the increasing manifestation of the financial implications of environmental and climate change impacts.

Imprint

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Executive Summary

The goal of this paper is to assess potential impacts of the current financial crisis on the investment industry's efforts to integrate environmental, social and governance (ESG) issues in general, and climate change issues in particular, in its products and processes.

Key insights can be summarised as follows:

- Over the short-term we expect set-backs in financial market actors' efforts to integrate ESG and climate issues. These set-backs (e.g. closing down of ESG investment products and research teams with consequent loss of know-how) will be particularly pronounced if the crisis persists for a longer time period, i.e. if financial markets do not stabilise by the end of 2009.

- We believe that the Copenhagen Climate Conference in December 2009 could become the 'make or break' tipping point for financial market's continued efforts to integrate ESG and climate issues, at least for the short- to mid-term. A combination of a protracted financial crisis and a perceived failure of the Copenhagen negotiations could lead a large number of financial institutions to stop or postpone their efforts to further integrate these issues in their investment activities.

- We believe that asset managers and investment researchers are particularly vulnerable to the crisis given the dependency of their business model on assets under management which have contracted considerably due to performance effects and divestment.

- In the short-term, there is a risk of a strong contraction of investments in renewable energy and climate mitigation strategies, given the fact that these investments are often of a higher risk nature (because of their exposure to private equity, small-cap companies, and emerging technologies). These investments have already seen a larger outflow of investor money in the past months compared to traditional investments or lower-risk broadly diversified SRI/sustainable investment strategies.

- On the other hand, the mid- to long-term prospects for ESG and climate issues integration in our view are positive, given a series of strong underlying trends, among others the change in attitude of the US market (under the influence of the Obama presidency), the increasing manifestation of the financial implications of environmental and climate change impacts, and governments' renewed efforts to put a price on environmental and social externalities.

- We also note positive signs from leading asset owners (pension funds, insurance companies etc.) drawing the right conclusions from the crisis: that in future a much more holistic approach to risk management (one that includes ESG and climate issues) and a disciplined approach to long-term investing (with the right incentives and monitoring systems for asset managers) are needed. This bodes well for the integration of ESG and climate issues. In particular, our impression is that asset owners' conviction that climate change is an important issue that needs more attention in the future is not impacted by the crisis. We also note an increasing awareness for the importance of ESG and climate issues in emerging markets.

- It remains to be seen to what extent governments that have become major shareholders of certain banks in the past months will push for better integration and disclosure of ESG and climate issues in banks' investment activities. A notable case has been the Irish government's request that Allied Irish Bank, Bank of Ireland and Anglo Irish Bank each launch a 100M euro environmental fund, as a condition for the December 2008 recapitalisation package granted by the government. Other governments so far have been too preoccupied with reviving the credit market and saving jobs to care for ESG issues.

"The credit crisis highlights our vulnerability to systemic issues; let's hope this has been a sufficient wake-up call for policy makers, corporations, investors and consumers alike to take other systemic risks more seriously, such as climate change – which in our opinion is the next elephant in the room that needs to be tackled with more urgency than is currently the case".

Danyelle Guyatt, Mercer Investment Consulting

"I believe that the process [of increasing investor awareness for ESG and climate issues] will be speeded up as a result of the credit crunch and the crisis in financial markets because people are now much more aware of the meaning of responsible management and investing. There will be a lot more focus on the integration of ESG factors in businesses and industries and on engagement services in the years to come"

Robert Oskam, Robeco

1 Introduction

The financial markets are in the midst of a seemingly unprecedented financial crisis, triggered in mid 2007 by the bursting of the US housing market bubble and which has started to have severe repercussions on the real economy starting from the autumn of 2008. The focus of governments, central bankers and investors is currently on avoiding an immediate collapse of the system with severe repercussions on the real economy. In this paper we are interested not just in short-term effects, but in the more mid- to long-term implications.

What are the observed short-term effects (1-2 year horizon) of this crisis on the financial industry's efforts to integrate environmental, social and governance (ESG) issues in general, and climate change issue in particular, in its investment and risk management decisions? And - once the dust settles - what is the more mid- to long-term outlook for the integration of ESG issues? And, more broadly speaking, what impact could the learnings from the crisis have on the industry's approach to risk management?

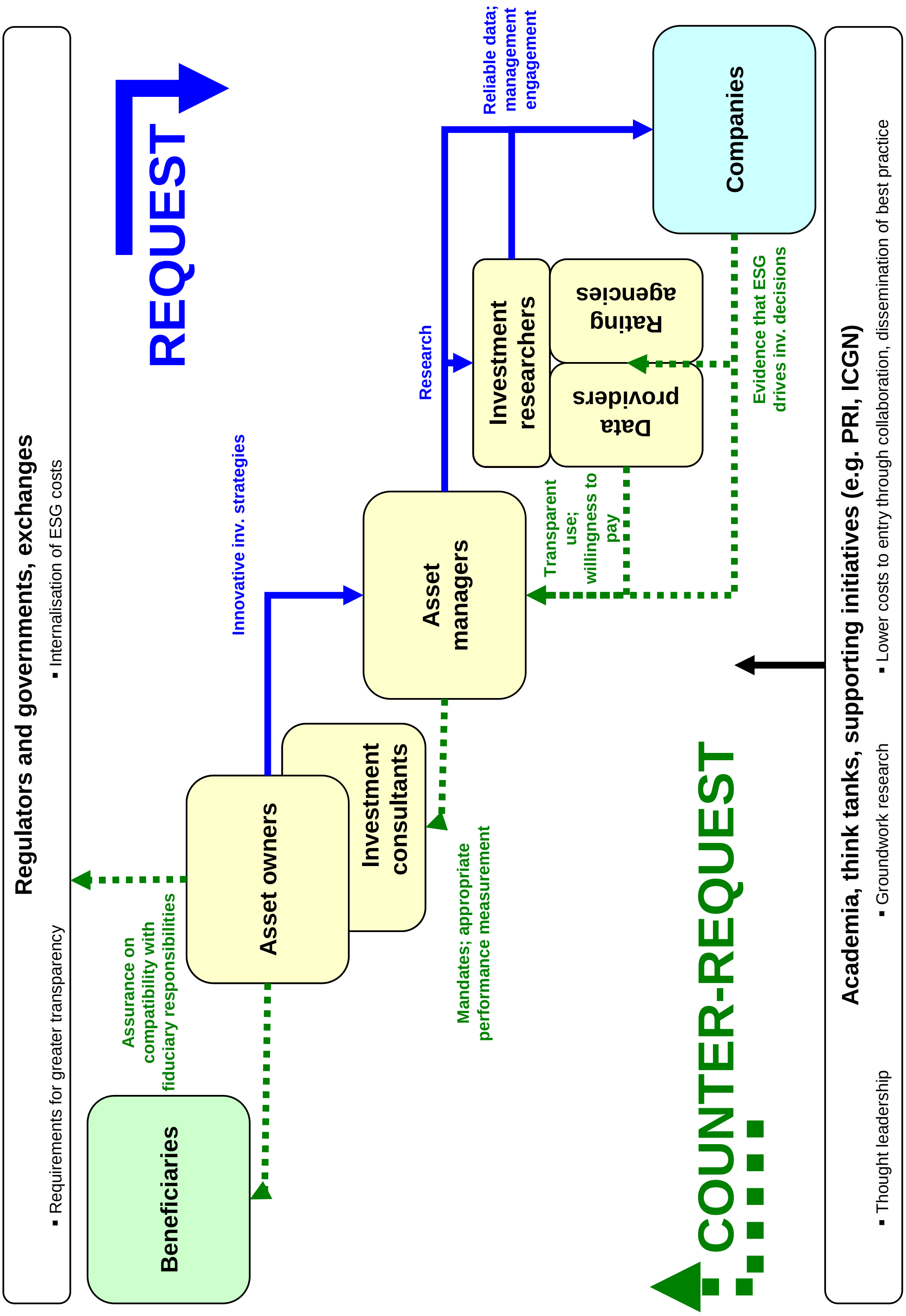
These are the questions that this paper attempts to answer. We start in the next section with a description of observed reactions of different financial market actors to the financial crisis. In the following chapter we take a more mid- to long-term view and attempt to sketch probable developments based on observed short-term effects and the more long-term underlying trends.

2 Market actors' short-term reaction to the financial crisis

In assessing market actors’ reaction to the financial crisis it is useful to take a systemic approach and consider the complex web of requests and ‘counter-requests’ that determine the different market actors’ willingness to integrate ESG and climate issues in their processes and products. The graph on the next page, taken from the final report of the Who Cares Wins initiative (a multi-year investor project aimed at understanding the systemic aspects of ESG integration) shows these inter-linkages: for example, when asset managers request improved ESG-inclusive research from investment researchers, they must show that they are willing to pay for this research (either directly or through brokerage budgets) and give feedback on the type of research needed and the way it is used in asset management.

In the next sections we assess how the financial crisis has affected the most important market actors’ willingness to integrate ESG and climate issues in their own processes and in the way they interact with other actors.

Figure 1: A series of requests and counter-requests between key market actors drives integration of ESG and climate issues in the investment industry



Source: Ivo Knoepfel and Gordon Hagart: 'Future proof? Outcomes of the Who Cares Wins Initiative 2004-2008', IFC/Federal Dep. Of Foreign Affairs/UN Global Compact, Jan. 2009

2.1 Asset owners

In the past years, leading institutional investors have increasingly supported the notion that ESG and climate issues have financially material impacts on their investment portfolios and therefore need to be included in both active ownership activities (equity voting and engagement with companies) and in portfolio management. The most vocal investors in this respect have been pension funds. Other institutional investors, such as insurance companies and large foundations, have not been very active in this respect – probably due to the fact that a larger part of their investment management is outsourced, which limits their possibility to directly influence investment decisions. Private investors (retail and private banking clients) have in recent years shown a great interest in the growing number of climate- and clean-energy- related funds offered on the market, albeit often not realising that they were investing in relatively high-risk products.

Notable is the fact that a growing number of institutional investors (mainly pension funds) have signed the UN Principles for Responsible Investment (PRI), committing to integrate ESG issues in investment management and active ownership activities. With over 450 signatories representing over USD 15 trillion in assets under management, the PRI have become the point of reference for institutional investors committed to a responsible and long-term orientated approach to investment management.

Since the outbreak of the crisis we have observed the following **positive signs** in terms of institutional investors remaining committed to ESG integration:

- The growth in the number of PRI signatories remains high and does not seem to be affected by the crisis.
- Hermes, one of the largest pension managers in the world (managing the BT Pension Scheme and several other UK funds), has issued a position statement[1] (supported also by other pension schemes) stressing the importance of institutional investors in future becoming 'better long-term stewards of their investments', stating that 'where there is a trade-off in our activities between short term and long term profitability we should choose the latter', that asset owners need to promote a sustainable financial system, and that they should define fund management mandates and incentives for fund managers on the basis of longer time horizons.
- The Hermes position statement also stresses the need to improve the way risks are assessed, e.g. 'risk management needs to have a higher profile within organisations', **risk assessments should include a wider range of information**, financial institutions should rely less on credit rating agencies and should change the agencies' business model which entails dangerous conflicts of interest.

[1] Hermes Equity Ownership Services: ‚Imperatives arising out of the crisis', Nov. 2008; 'The Way Ahead', Dec. 2008

- Another very reputable pensions industry initiative, the Marathon Club, in Dec. 2008 issued a Guidance for Long-term Investing[2], in which it expresses the concern that investment managers are not assessing the whole range of risks affecting companies (in particular ESG risks) and are too reliant on company information. The Marathon Club also recommends that pension funds review their asset managers' performance less frequently than a quarterly basis (risk of short-termism) and do so in greater depth

- The Network for Sustainable Financial Markets, a network of leading pensions and investment professionals (including influential academics such as Prof. Keith Ambachtsheer) issued a series of Guiding Principles, stressing the need to better identify and value hidden risks and rewards, including the following statement:

  '*Companies' ability to create both negative and positive externalities is rarely accounted for in the marketplace. All too often, companies offload hidden costs onto society, while capturing benefits for their private gain. Similarly, companies that invest in the creation of long-term value for society are rarely rewarded. Better recognition and valuation of intangibles is a necessary prerequisite to sustainable value creation. Capital cannot be efficiently allocated without assessing all risks, costs and benefits, including those items not currently reflected on balance sheets*.'[3]

There are positive signs, therefore, that asset owners recognize the fact that the current crisis is partly the result of insufficient risk and investment analysis and excessive short-termism and that they will step up their efforts to better integrate ESG and climate issues and shift to more long-term investment horizons in the future.

Over the **short-term** (next 1-2 years), though, there might be set-backs in asset owners' efforts to integrate ESG and climate issues. We note a series of developments that seem to point in that direction:

- All over the world, pension funds (due to regulatory and internal constraints) are reducing their exposure to higher-risk investments, are reducing their allocation to equities, and are selling liquid assets in order to meet their liabilities. Our impression is that sustainable/ESG-inclusive investments are particularly hit by these general trends: many specialist sustainable investments are in listed equities (therefore relatively liquid) and, given their focus on certain themes and bias toward emerging technologies, they are considered relatively high-risk.

- Since the outbreak of the crisis, the number of public tenders for ESG-inclusive investment mandates by institutional investors in Europe has decreased from 6-7 per year to almost zero

- A small number of investors have interpreted the crisis as proof that a long-term orientated and fundamental approach to investing does not work (indeed most equity investment strategies currently show net losses over a period of 7-8 years),

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[2] The Marathon Club: ‚Guidance for Long-term Investing', Dec. 2008
[3] Source: www.sustainablefinancialmarkets.net

and therefore conclude that also efforts to integrate ESG do not make much sense. Our impression so far is that these investors are a small minority and that the majority of investors draws the exact opposite conclusion: More attention needs to be paid to fundamental analysis and better risk analysis in the future. A long-term approach to investing (inclusive of ESG analysis) is the only way forward.

To overcome barriers to a better integration of ESG and climate issues in investment decisions, the final report of the Who Cares Wins initiative[4] lists a series of key recommendations for the different market actors, including:

1. All investment actors: mobilise top management. CEO / CIO leadership is needed to unblock stalled situations between different actors and agree on how to share the costs of further market-building efforts
2. Regulators and governments: require greater transparency on ESG performance / integration from companies and investors. Engage in an open dialogue with the financial industry on this issue, and support neutral platforms aimed at fostering that dialogue. 'Walk the talk' in terms of the way you invest your own capital. Help the industry's integration efforts by giving a price to public goods, thereby internalising external environmental and social costs
3. Asset owners: make ESG inclusion a specific criterion in new asset management mandates. Commit to evaluating ESG capabilities systematically when formulating mandates and selecting managers. Professional staff: increase the awareness and knowledge of trustees in this area
4. Investment consultants: develop and communicate a house view on the integration of ESG issues. Be explicit about how that position is reflected in your services (e.g. investment strategy, asset-liability management / asset allocation and manager selection)
5. Asset managers (senior management): lead ESG integration by communicating clear goals and providing appropriate incentives for employees and service providers (e.g. sell-side research). Involve human resources / compensation managers in your planning
6. Asset managers: pro-actively develop and distribute investment strategies and services that focus on ESG as a tool for improving risk-adjusted return. Design integrated methodologies[5] for ESG that go beyond simple screening approaches
7. Asset owners, asset managers and research providers: enter a dialogue with companies to explain how ESG issues drive investment decision-making and to request improved reporting on ESG performance

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[4] Ivo Knoepfel and Gordon Hagart: 'Future proof? Outcomes of the Who Cares Wins Initiative 2004-2008', IFC/Federal Dep. Of Foreign Affairs/UN Global Compact, Jan. 2009

[5] Methodologies that integrate ESG into the traditional fundamental analysis (profit and loss / cash flow modelling, cost of capital, multiples-based valuations, etc.) and into established investment processes

8. Asset owners, asset managers and research providers: improve the quality and coverage of country-specific ESG research in emerging markets. Include ESG issues in regular company meetings and engagement activities. Consider collaborating with other investors in requiring minimum ESG disclosure standards from emerging markets legislators and exchanges

9. Research providers: leverage the knowledge of analysts covering industries with a high degree of ESG integration, and expand the quality and scope of ESG inclusive research to include other sectors, regions (including emerging and frontier markets) and asset classes

10. Rating agencies: improve and communicate your efforts to integrate ESG issues into rating methodologies.

2.2 Asset managers

Asset managers have been hit hard by the crisis, given that their business model is based on charging clients a percentage fee of the assets under management. Many asset managers have seen their assets under management shrink by 30%, 50% and sometimes more due to a combination of investors selling their investments and the investments being worth considerably less. This has a direct impact on the asset managers' revenues.

The Swiss sustainable investment market survey per end of 2008[6] shows this in a very clear way: the value of specialist sustainable investments in Switzerland per end of 2008 has decreased 38.7% since the end of 2007 (mainly due to a decrease in value, not redemptions), compared to strong increases in the previous years. At the European level, environmental themed funds and SRI funds experienced major client outflows especially in September and October 2008[7], but this was broadly in line with the development in the overall European equity funds market.

It is therefore more than understandable that asset managers offering ESG-inclusive products or services (funds, mandates, advisory services) are doing everything they can to cut costs. onValues monitors the leading ESG-inclusive asset managers in Europe on behalf of its clients, and so far our observations show a relatively positive development:

- We have not seen asset managers shutting down ESG services, closing products or disbanding entire ESG specialist teams so far
- Asset managers are trying to maintain the ESG know-how and to avoid disruptions in the quality of their products and services as much as they can
- Sometimes we have observed cost-cutting measures in the form of single in-house research analysts (but not whole teams) being laid off
- We also observe that asset managers are currently very reluctant to launch new ESG-inclusive products: the launch of new products has almost come to a halt in the past two quarters (which also means that product innovation has come to a halt).

A lot will depend on how long the crisis will last. Our impression is that if there are no signs of a stabilisation of financial markets in the next 7-8 months, we will start seeing more drastic measures such as the closure of whole ESG teams and some managers shutting down their ESG investment offer. The market will switch to a **'survival mode'** and focus only on traditional, well established asset classes, and unfortunately ESG investments are not yet considered part of that. This trend could be mitigated by

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[6] onValues and Interessengemeinschaft Nachhaltige Anlagen: ‚Sustainable investments in Switzerland 2008', March 2009

[7] Hugh Wheelan, Responsible Investor: 'Green and SRI fund sales hit hard by credit crisis', 19 Nov. 2008; 'Europe's green funds haemorrhage a billion dollars in a month', 16 Dec. 2008. Noteworthy is the fact that throughout Europe client redemptions have been much more pronounced for environmentally themed fund, than for SRI funds – this is in line with investors' propensity to sell riskier assets and some investors' conviction that SRI strategies contribute to portfolio risk management

concerted actions by asset owners to increase the demand for ESG-inclusive investments and sustain the market.

In the mid- to long-term, on the other hand, the prospects are much rosier as discussed in Chapter 3.

2.3 Investment research

The most important sources of investment research on ESG and climate issues before the outbreak of the financial crisis (in descending order of importance) were:

- Specialist ESG/SRI research agencies
- In-house research teams at asset managers
- Sell-side research (also referred to as brokerage research).

It is very difficult to say how the financial crisis will change the research landscape and demand for research. We currently do not observe major changes in the asset managers' willingness to source specialist ESG/SRI research. This type of research is quite cost-efficient and those managers under pressure to cut costs will rather reduce the size of their in-house research teams - which are costlier to maintain - than renounce to buying external research.

Brokerage research is generally funded through brokerage fees that asset managers pay for trading equities through investment banks. Given the current low trading volumes due to the crisis, the business model of brokerage research is under great pressure. This is amplified by the fact that brokerage research is usually part of larger investment banking or diversified banking groups that are heavily exposed to the crisis also in other parts of their business.

It is therefore not surprising that several ESG teams at brokerage houses, some of which had been built up over the course of the past years in response to investor demand and initiatives such as the Enhanced Analytics Initiative, have been strongly reduced or completely shut down (including teams at Citigroup, JPMorgan, Deutsche Bank, Merrill Lynch, ING).

Should the crisis last for a long time, we expect the ESG know-how embodied by specialists at asset managers and brokerage houses to be increasingly disbanded and ultimately lost for the industry. Should markets stabilise in the course of 2009, there is a good chance that laid-off specialists will be reemployed in the industry and will continue their work on ESG integration.

We have recently seen leading asset owners and managers collectively sending a letter to brokerage research institutions reiterating the importance of ESG-inclusive research in the hope of convincing brokers to retain the knowledge and services that have been built up in the past years.

2.4 Investment consultants and accountants

Since the outbreak of the crisis we have observed a strong engagement by the accounting profession aimed at learning from the crisis and helping the financial system improve its consideration of corporate governance, ESG risks and more long-term investment horizons.

The influential UK Association of Chartered Certified Accountants, for instance, published a paper on 'Corporate governance and the credit crunch'[8] in which it stresses the importance of financial companies better considering the effects of their decision on society as well as their shareholders, and focussing more on good corporate governance and alignment of employee incentives to risk management in the future.

The paper also stresses that '...risk should have been more fully taken into account when making decisions about strategy or operations' and that 'more use should have been made of scenario planning as a risk tool [..] The risk management function needs to earn, and be accorded, higher status'.

In January 2009, in the midst of the financial crisis, the Federation of European Accountants released a series of position statements acknowledging the urgent nature of the challenge of sustainability for the future of financial markets. In its introduction, the FEA stresses that 'At a time we are all concerned, and rightly so, by the effects of the most profound financial crisis and economic recession of our generation, we should nonetheless not forget about future generations and focus our collective efforts on building a more sustainable world'.

It notes that 'humanity's "ecological footprint" exceeds the capacity of the planet. In accounting terms we are living beyond our income and therefore we are destroying our capital. A consequence of the destruction of capital is that, even if a sustainable level of consumption is attained, it will be at a lower level than it need have been if capital had not been destroyed. Each year of unsustainable living will reduce long term sustainable prosperity'. And it calls on accountants to 'help operationalising this general concept of sustainability at the level of strategy formulation, process improvement and performance measurement'.

Noteworthy is also the strong warning of one of the leading and most influential investment consultancies, Mercer[9]: 'The credit crisis highlights our vulnerability to systemic issues; let's hope this has been a sufficient wake-up call for policy makers, corporations, investors and consumers alike to take other systemic risks more seriously, such as climate change – which in our opinion is the next elephant in the room that needs to be tackled with more urgency than is currently the case'. Mercer also offers an excellent analysis of the problems that triggered the crisis, of possible solutions and needed actions by pension funds in the table below.

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[8] Association of Chartered Certified Accountants: 'Corporate governance and the credit crunch', Nov. 2008
[9] Danyelle Guyatt, Mercer: ‚Beyond the credit crisis', Investment & Pensions Europe, Dec. 2008

Table 1: Actions that pension funds might take to improve systematic procedures

Problems	Solutions	Pension fund actions
Behavioural biases built in to decision making process	'Thinking the unthinkable' at the trustee board level	Fiduciaries could build a process into their strategic thinking to challenge conventional thinking across the financial markets, to think about systemic issues and listen to contrarian ideas that stretch beyond the here and now. Integrate scenario analysis and event testing into portfolio reviews to test the assumptions. This includes taking major discontinuous/exogenous phenomena like **climate change** seriously.
	Institutionalise innovation into trustees board decisions	Asset owners and asset managers to spend time and resources on people and processes that constantly seek to improve and challenge the status quo. Regularly look for systemic risks that might not be adequately priced; ask investment managers, industry thought-leaders and advisors for regular input.
Short-termism	Complete review of agency reward system	Reward all agents along the chain so they are paid in alignment with a pension plan's long-term objectives. Introduce mechanisms to claw back fees and bonus payments to promote risk sharing.
	Complete review of investment management performance metrics	Rethink the benchmarks used to remunerate investors and the time horizon under which they are reviewed to discourage short-term thinking.
Absence of responsibility	Re-specify investment policy statements	Spend more time and money investing in evaluating strategic, big picture impacts on the pension plan (beta allocation) and less on rewarding short-term alpha. Define investment beliefs that embed long-termism, responsible business and responsible investor conduct into the core policy statement.
	Better articulate 'investment actions'	Translate and articulate the investment policy and beliefs into expectations and outcomes for all investment agents along the chain. Embed behavioural cross-checks in decision making of trustee boards processes to instil a sense of responsibility and protect against the shortcomings of over and under-reaction, myopia, herding and the status quo bias at the board level.

Source: Danyelle Guyatt, Mercer: ‚Beyond the credit crisis', Investment & Pensions Europe, Dec, 2008

3 Potential mid- to long-term developments

In spite of the short-term negative impacts that the crisis has on the industry's ESG integration efforts, the mid- to long-term prospects in our view **remain positive** and are supported by a series of **strong underlying trends**:

- Climate change impacts (both of a political and of a physical nature) will increasingly lead to financial impacts and therefore force the investment industry to take them into account. This process could be either slowed down or accelerated in the mid-term depending on the outcomes of the 2009 Copenhagen climate negotiations. But the long-term trend will remain intact.
- In the coming years a series of local/regional environmental and resource issues (from water to energy shortages, from local air pollution leading to devastating health effects to waste management challenges etc.) will have profound financial and economic growth impacts on emerging economies. This will convince financial markets of the importance of these issues in light of the increasing importance that emerging economies will play for the world economy.
- The large bail-out and stimulus packages approved in the past months will lead to a growing pressure on government budgets and rising government indebtedness. The already high fiscal burden in many countries will reach prohibitive levels. We can envisage a future in which governments will do anything they can to push back environmental and social costs not accounted for by the private sector, thereby reducing the burden on the public. We therefore see governments stepping up their efforts to put a price on environmental and social externalities through legislation or market mechanisms. This will automatically lead to costs previously not accounted for being integrated in investment decision-making. The expected introduction of carbon trading systems in the US falls under this trend.
- We also expect the Obama presidency in the US to have important mid- to long-term effects on the perception of ESG and climate issues by the financial sector. There are direct positive effects, such as President Obama's commitment to invest US$150bn over the next 10 years and to introduce supportive legal and tax regimes to catalyse private investment into clean energy[10]. By 2012 it is planned that 10% of US energy needs will come from renewable energy, until 2025 this target will increase to 25%. But there are also important indirect effects, such as the fall of a psychological barrier in the US corporate world vis-à-vis sustainability and the unleashing of a wave of positive technological and social innovations in the US.

[10] Incentives worth $78.6bn for clean energy, energy efficiency and sustainable mobility initiatives were approved on 17 Feb. 2009 as part of the latest US stimulus package (Environmental Finance, 3 March 2009, p. 8)

- Ultimately, we believe that a consensus is emerging from this crisis that in future a **much more holistic approach to risk analysis and risk management** is needed. This includes the recognition that difficult to quantify, emerging risks (and this includes ESG and climate related risks) will need to be assessed and integrated better in risk and portfolio management.

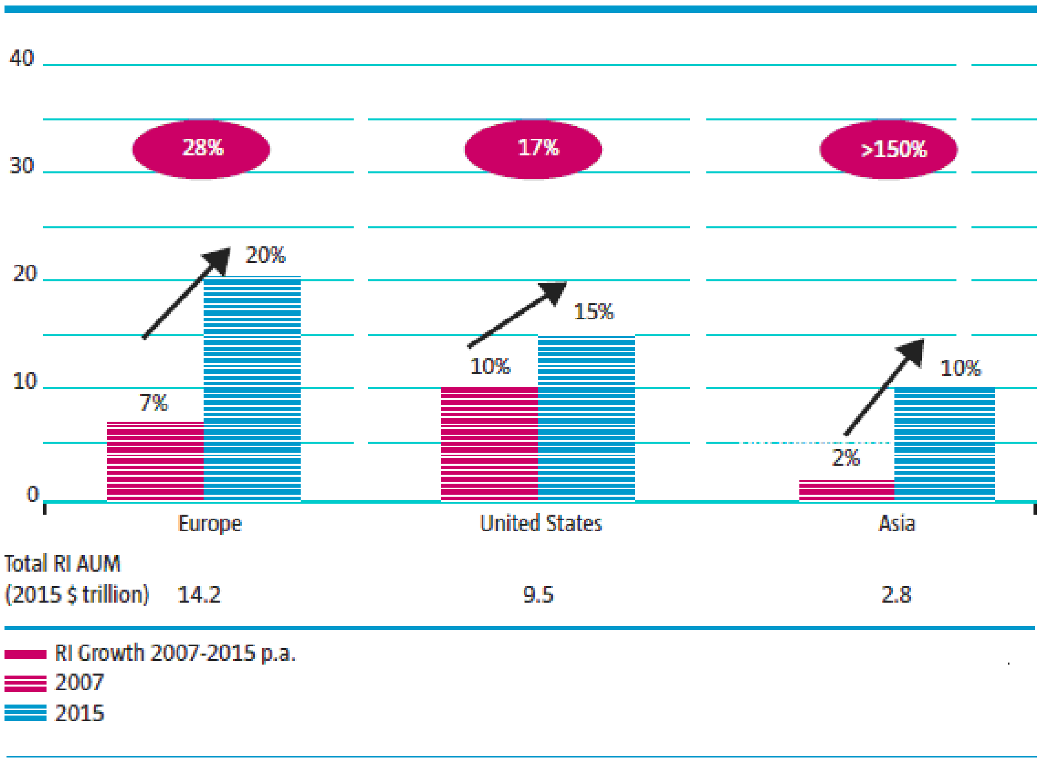
Some industry analysts are even convinced that the current crisis will speed up the financial industry's uptake of ESG factors. Robert Oskam, the co-author of a detailed Robeco/Booz & Co. study on ESG market developments until 2015[11], for instance, recently said that: "I believe that the process will be speeded up as a result of the credit crunch and the crisis in financial markets because people are now much more aware of the meaning of responsible management and investing. There will be a lot more focus on the integration of ESG factors in businesses and industries and on engagement services in the years to come"[12].

The authors of the Robeco/Booz & Co study – which is based on extensive interviews with investment professionals - expect the ESG market to become mainstream by 2015, reaching between 15% and 20% of total global assets under management (USD 26.5 trillion) and total revenues of about USD 53 billion. Figure 2 below shows the authors' assessment of the size and average annual growth rate of the market in different regions of the world (growth rates between 17% p.a. for the US and more than 150% p.a. in Asia). Figure 3 lists the key drivers propelling these changes. The authors are convinced that the main driver will be the fact that until now the ESG market was driven by relatively small, specialist asset managers. They expect large global players to enter the market and boost its growth in the coming years.

The Robeco/Booz & Co. study results are broadly confirmed also by other market studies published in the past months.[13]

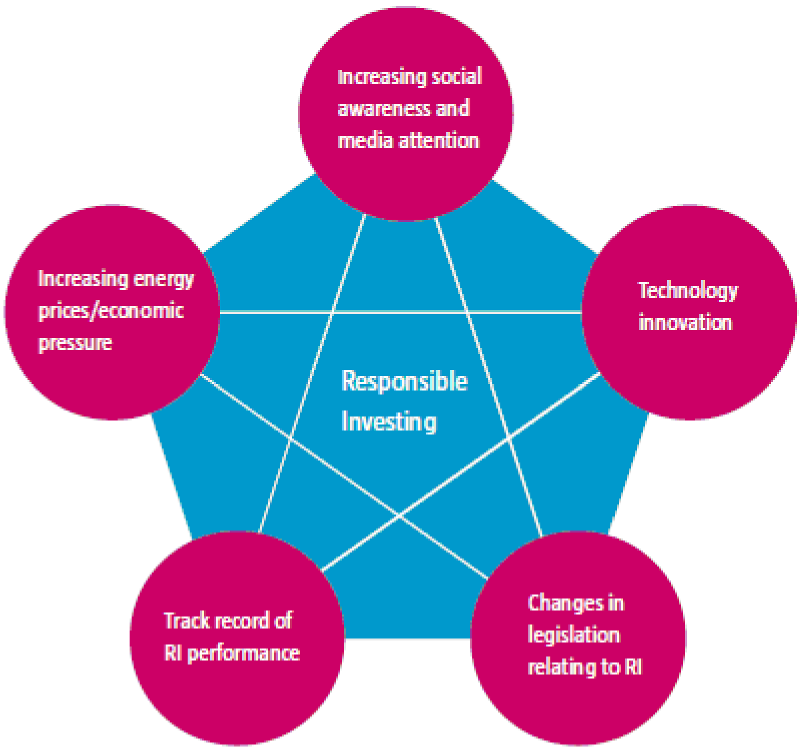
[11] Robeco/Booz & Company: 'Responsible Investing: a Paradigm Shift, From Niche to Mainstream', 2008
[12] Nina Röhrbein: 'On the road to mainstream', Investment & Pensions Europe, Jan. 2009
[13] E.g. the Responsible Investor/IPE Magazine Landscape Asset Managers 2008 Survey

Figure 2: Responsible Investment (RI) market growth



Remarks: Asset Under Management (AUM) as % of total AUM
Source: Robeco/Booz & Company: 'Responsible Investing: a Paradigm Shift, From Niche to Mainstream', 2008

Figure 3: Key drivers for market change



Source: Robeco/Booz & Company: 'Responsible Investing: a Paradigm Shift, From Niche to Mainstream', 2008

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