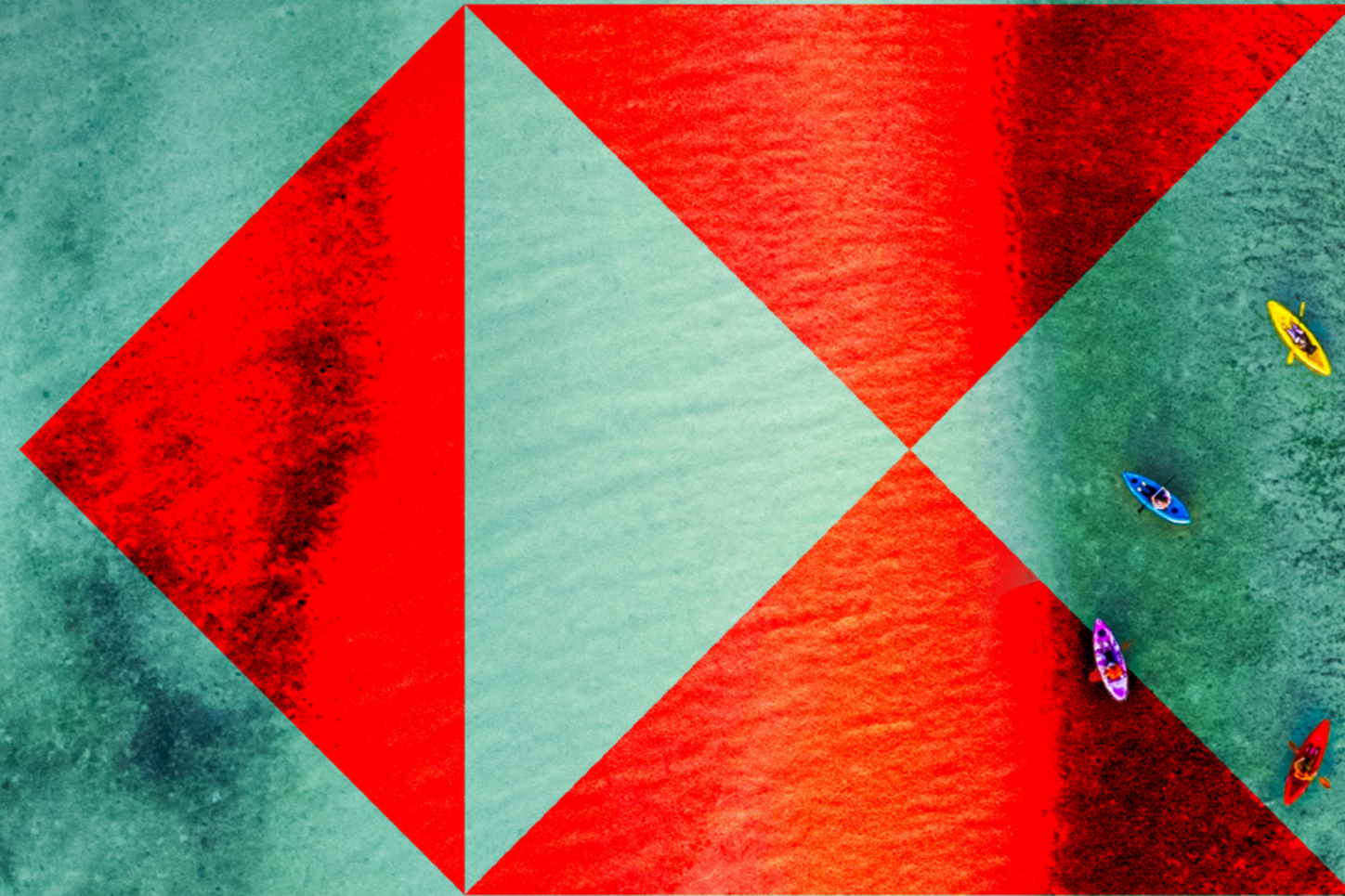


Sustainable financing and investing survey 2021

Global report

Capital markets undergo powerful shift in
embrace of environmental and social issues



HSBC

Opening up a world of opportunity

HSBC sustainable financing and investing survey 2021

A foreword from Dr Celine Herweijer,
Group Chief Sustainability Officer, HSBC



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Sustainability has never been more important to governments, investors and the corporate sector than it is today. The Covid-19 pandemic has rightly focused attention on building a more resilient global economy, and a safer and more sustainable world.

There is now widespread understanding and acceptance of the devastating consequences of inaction. A climate crisis could be the most serious threat faced by humanity, in both its consequences and longevity.

A critical mass of governments, businesses and investors now recognise the need to act swiftly and emphatically. This involves a profound change in the role and responsibilities of companies and investors – how they relate to society, to the environment, and how they support a more sustainable economy.

Our fifth annual global survey of 2,000 capital markets issuers and institutional investors not only shows that they are actively addressing these areas, but that they are doing so due to a powerful combination of values and financial rationale. Indeed, some 51% of our respondents this year say that paying attention to social and environmental issues can help them improve their returns or reduce risk – the highest percentage in three years. This shows that the financial benefits of protecting our environment are becoming increasingly obvious.

Just as powerful for companies, however, is the recognition that they need to make fundamental changes to their business models and capital allocation. The next five years could be transformative – almost all (94%) issuers say they expect to move away from environmentally and socially challenged business models in that timeframe, and most of them will do so to a noticeable or substantial extent.

That is a striking statistic. It indicates the extent to which companies realise they need to change, and their strong intentions to make it happen.

For their part, investors are also helping to drive this transformation – some 88% overall say it is important companies prepare for the effects of climate change.

The transformation will include rapid decarbonisation. Investors and issuers are making important progress on setting net zero targets – about 17% of both types of respondent say they have already made a commitment – but much more can and must be done to cut global carbon emissions.

Progress is also being made in other important areas, such as in investing through an environmental, social and governance (ESG) lens. More investors this year (59%) than last year (52%) say their organisation has a company-wide policy on responsible investing or ESG issues, and 63% see nothing holding them back from pursuing ESG investing more fully and broadly – a significant change from 2020 and 2019 when most investors felt constrained by certain issues.

One of the perennial problems is a shortage of ESG expertise or qualified staff, which this year is the main issue investors face globally. This is especially the case for those in Asia and the MENAT. Other challenges include a lack of comparability of ESG data across companies, and regulatory or legal constraints.

Yet barriers to ESG investing are falling, and this investment approach is becoming ever more institutionalised in the practices of asset allocators and owners, large and small. More and more issuers are also positioning sustainability at the core of their strategy, business and operations. Many have been prompted into action by hard reality; some 45% of MENAT companies, for instance, report climate change is already affecting their business or activities, up from 7% in 2020. What's more, 71% of European issuers say they are considering drawing down or exiting some business activities that could be vulnerable to climate change – the highest percentage of any region globally.

Sustainable finance and investment will play a critical role in

supporting companies' transformation, and interest in this area is strong; some 78% of Asia issuers, for example, say they expect their company to actively seek advice on green, social or sustainability issues in relation to capital markets transactions in the next 12 months – the highest percentage of any region.

Moreover, sustainable infrastructure and the proliferation of clean energy technologies should enable transformation across the entire global economy. Investors have already spotted the opportunity for returns here – 38% say they are interested in and are planning to invest in sustainable infrastructure projects. Of particular interest are solar power, water and wastewater infrastructure, carbon capture and storage, electric vehicles and transport, smart cities and grids, and energy storage.

Such technologies must play a hugely important role in enabling companies and countries to decarbonise at the pace that is needed to hit net zero by mid-century, a target that more than 50% of countries, states and cities worldwide have already committed to. One of the goals for world leaders at the forthcoming COP26 summit is to secure commitments from all other countries.

In the private sector, our survey indicates that companies and investors are making some progress to decarbonise. It also provides powerful insight into where companies and investors are in their journey to operating and investing more sustainably.

Perhaps most importantly, many have made a good start already - redefining their roles and responsibilities to support the transition to a greener and more sustainable economy, reducing emissions and protecting our natural world.

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Key Findings & Overview

New roles and responsibilities for issuers and investors gains potency and permanence

The revolution in how companies and institutional investors see their role and responsibility on social and environmental issues has continued to gain strength and momentum in the past year.

Indeed, if the pandemic helped provoke a reassessment of the relationship the capital markets have with society, its participants are now actively redefining this relationship with sustainability increasingly at the core. Such profound change is evidenced in our fifth annual global survey of 2,000 capital markets issuers and institutional investors, conducted during May and June.

Powerfully, it shows that in addition to values underpinning why companies and investors care about these issues – 89% of issuers and investors say they are important – the financial benefits of doing so are now recognised more widely than before. In fact, 51% believe that paying attention to these issues can help improve returns or reduce risk, which is the highest percentage in three years.

The results also highlight the larger the size of company or investor (by annual revenues or assets under management), the greater the importance of environmental and social issues. Some 70% of issuers with revenues greater than \$10 billion or investors managing over \$25 billion see these issues as very important – significantly higher than the global average of 44%.

What's more, about two thirds of all issuers (64%) say they expect to actively seek advice on green, social or sustainability issues in relation to capital markets transactions in the next 12 months, indicating strong intent and interest in green and sustainable finance globally. And for investors, some 59% of them say they now have a firm-wide policy in place on responsible investing or environmental, social and governance issues – up from 51% last year.

The impact of the pandemic has been a primary driver of participants' increased focus and attention on these issues – 74% of respondents say so. But also important (more than 60% agree) has been the pressure on their company from society to pay more attention to these issues, and a recognition among respondents that their responsibility to society has in fact changed.

Such a response supports a palpable sense in the market that real, generational change is underway in how capital markets participants see their role and responsibility in supporting society and the transition to a more sustainable world.

This also aligns with moves in some economic regions, such as the EU, to encourage companies and investors to not only consider how environmental and social issues can affect

their investments, but also how their investments affect the environment and society.

The emphasis on so-called 'double materiality' to bring about a deeper consideration of the impact investments can have, is important. Some 46% of investors surveyed this year say they use impact goals or metrics as part of their investment decision-making – up notably from 37% of investors who said the same in 2020.

Ultimately, investors and companies are thinking more deeply about the impact they and their investments can have because they believe it is right to care about the world and society. This is the main reason why respondents say they care about environmental and social issues, together with the financial benefits, an evolving regulatory regime requiring issuers and investors to act and report, and rising demand for change among customers and employees.

For all the advances, though, challenges inevitably remain. Some even grow. While two thirds of investors this year (63%) see nothing holding them back from pursuing ESG investing more fully and broadly – a significant improvement from previous years – for those that see issues, a shortage of expertise or qualified staff is their biggest problem. The ESG skills gap is a cross-industry issue, but one perhaps most acute in the finance and investment industry given such high levels of demand.

Another problem area is the practice of 'greenwashing,' which involves companies intentionally making false claims about their green or sustainable credentials. While such activity is unfortunately inevitable in a booming market, it is threatening to become a real problem, investors warn.

Indeed, some 39% of the largest investors (including pension and sovereign wealth funds with assets under management greater than \$25bn) we surveyed say they are very worried about greenwashing in all its various forms.

“The survey supports the sense that real, generational change is underway in how capital markets participants see their role and responsibility in supporting society and the transition to a more sustainable world.”



Top 10 key findings:

- ♦ **51% of issuers and investors** say they care about environmental and social issues because **paying attention to these issues can improve returns or lower risks** – up from 39% last year and a three-year high. This is particularly the case for issuers (54% say this – up from 33% in 2020) compared to investors (48% – flat to last year).
- ♦ **A genuine shift is underway in how capital markets participants view their responsibilities** – 61% of issuers and investors say their view of their responsibility to society has changed, where they are now more conscious and engaged than ever on making a positive impact.
- ♦ An astonishing **94% of companies expect to move away from environmentally- and socially-challenged business models in the next five years. Companies are transforming their business models and capital allocation** in response to climate change and this will accelerate: 70% of issuers are considering **ramping up business activities that might benefit from climate change** or starting new ones.
- ♦ **Half of issuers say that climate change is already affecting their business** or activities – up from 37% last year and a three-year high.
- ♦ **41% of issuers say they need a lot of financial help and investment to meet their sustainability goals** – up from 23% who said the same last year. Asia issuers are most in need – 63% say they need a lot of help – while 56% of their Americas peers say they don't need any help at all.
- ♦ **64% of investors say nothing is holding their organisation back** from pursuing ESG investing more fully and broadly – up from 54% last year and the highest percentage in three years. Yet for those investors (36%) who are being held back, a **shortage of expertise or qualified staff is the leading reason holding investors back** from pursuing ESG investing more fully and broadly – 37% say this, up from 30% last year and a three-year high.
- ♦ **A lack of comparability of ESG data across issuers and relatively poor financial returns** have fallen sharply as reasons holding back investors from ESG investing – dropping from 50% and 39% in 2020, respectively, to 31% and 25% this year.
- ♦ **64% of Americas investors say they are very worried about greenwashing** (companies intentionally making false claims about their green or sustainable credentials) and think it is a serious problem – the highest percentage of any region. Overall, greenwashing is now more widespread and sophisticated than ever before.
- ♦ **Social issues are rising in importance for issuers.** More than half of our issuer respondents agree or strongly agree that their investors want them to work harder on issues such as gender and ethnic equality. **The largest investors are especially focused on companies' social and human rights performance**, with 60% monitoring them and tasking them to make improvements.
- ♦ **61% of issuers say their investors understand their sustainability plans and performance** significantly up from 32% last year – with only 1% saying their investors don't understand what they do very well (down from 9% in 2020). Generally, this is being driven by the increasing amount of information disclosed on these issues together with companies improving how they communicate on these areas to investors.



Global Report

Key drivers

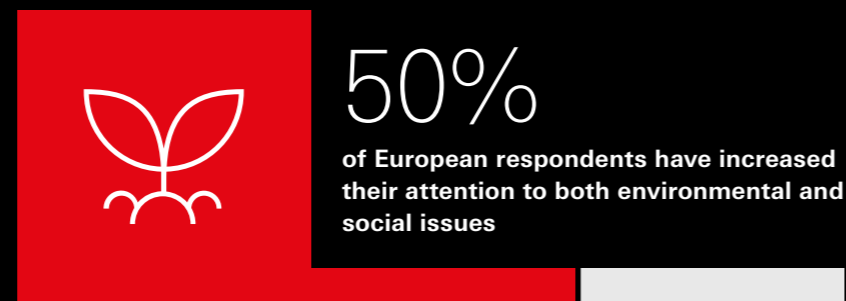
The pandemic has undoubtedly helped elevate the importance of environmental and social issues to unprecedented high levels across the public and private sectors worldwide. Now, at a deeper level, companies and investors are, as our survey shows, actively redefining their role and relationship with society and placing sustainability increasingly at the core.

Some 61% of issuers and investors say, for instance, that their view of their responsibility to society has fundamentally changed, driven in part by increased concern for environmental and social issues.

In the past year about a quarter of respondents say they have increased their attention to social issues, while some 31% say environmental and 34% say both. (Fig 1). These issues are mutually important, but the reality of the climate change emergency perhaps brings environmental issues into sharper focus. Geopolitically, climate change remains high on the agenda as well.

In the US, President Biden's \$2 trillion green economic recovery plan is a strong demonstration of this, as it places clean energy and infrastructure investment at the centre of boosting the economy over the next four years. Our associated US deep dive survey this year shows overwhelming support for the administration's plan and drive to cut emissions by 2030 and achieve net zero by 2050; the policies seem likely to substantially change how issuers and investors act.

Elsewhere in the world, there have also been significant advances. The European Union's Green Deal, a strategy to reduce emissions by 55% by 2030 and achieve climate neutrality by 2050, outlines huge investments in environmentally friendly technology and the phasing out of fossil fuels in the energy sector among other goals. Europe's leadership on environmental issues is reflected in the attitudes of its issuers and investors: around half have increased the attention they pay to both environmental and social issues in the past 12 months, compared to a third globally (Fig 2).



“President Biden’s \$2 trillion green economic recovery plan places clean energy and infrastructure investment at the centre of boosting the economy over the next four years.”

Figure 1: Attention to environmental and social issues is high and rising
Has your organisation increased the attention it pays to environmental and social issues in the past 12 months?

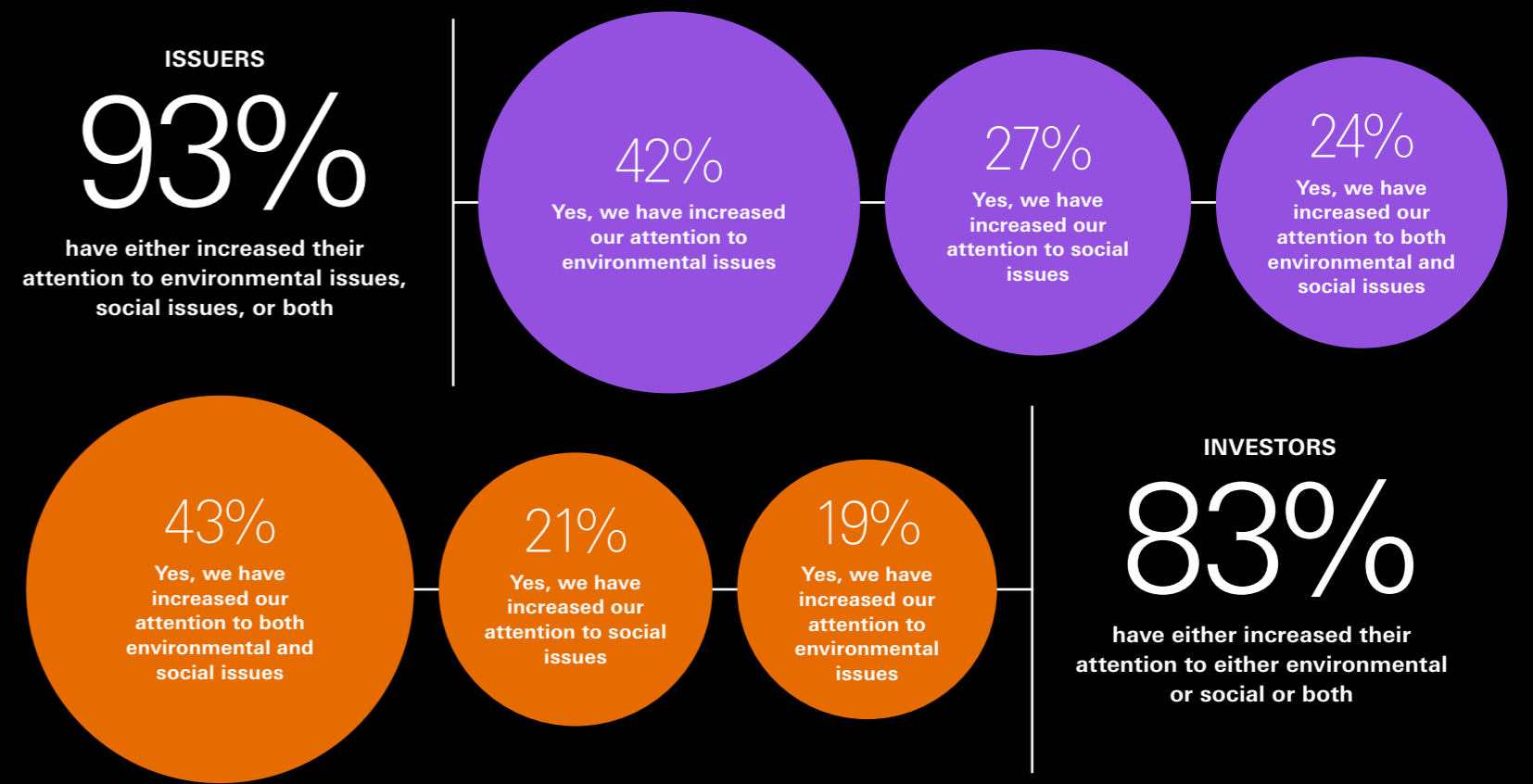
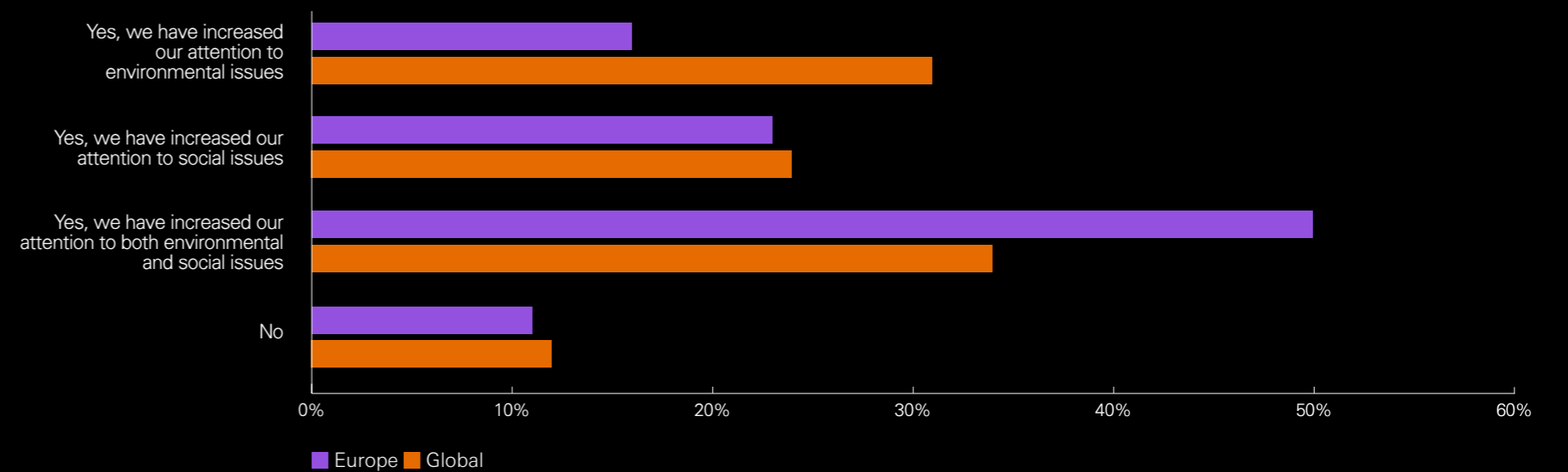


Figure 2: European respondents increase interest on environmental and social issues
Has your organisation increased the attention it pays to environmental and social issues in the past 12 months?



Global Report

Key drivers

The announcement by China that it aims to achieve climate neutrality by 2060, backed by detailed plans and interim targets, represents a landmark in the climate change debate. Our associated China deep dive survey this year shows that already; some 40% of issuers recognise the need to develop their own net zero plans and a similar percentage anticipate the need to turn to investors for extra funding.

Extreme weather events in North America, Europe and elsewhere during the summer of 2021 – as well as confirmation the Amazon, the lungs of the world, is now emitting more CO2 than it absorbs – have brought home the reality of climate change far more than warnings of 2°C rises ever could: 67% of respondents say they have become more aware of the urgency of climate change (Fig 3), for instance. As a result, society is putting greater pressure on governments, companies and the financial sector to act.

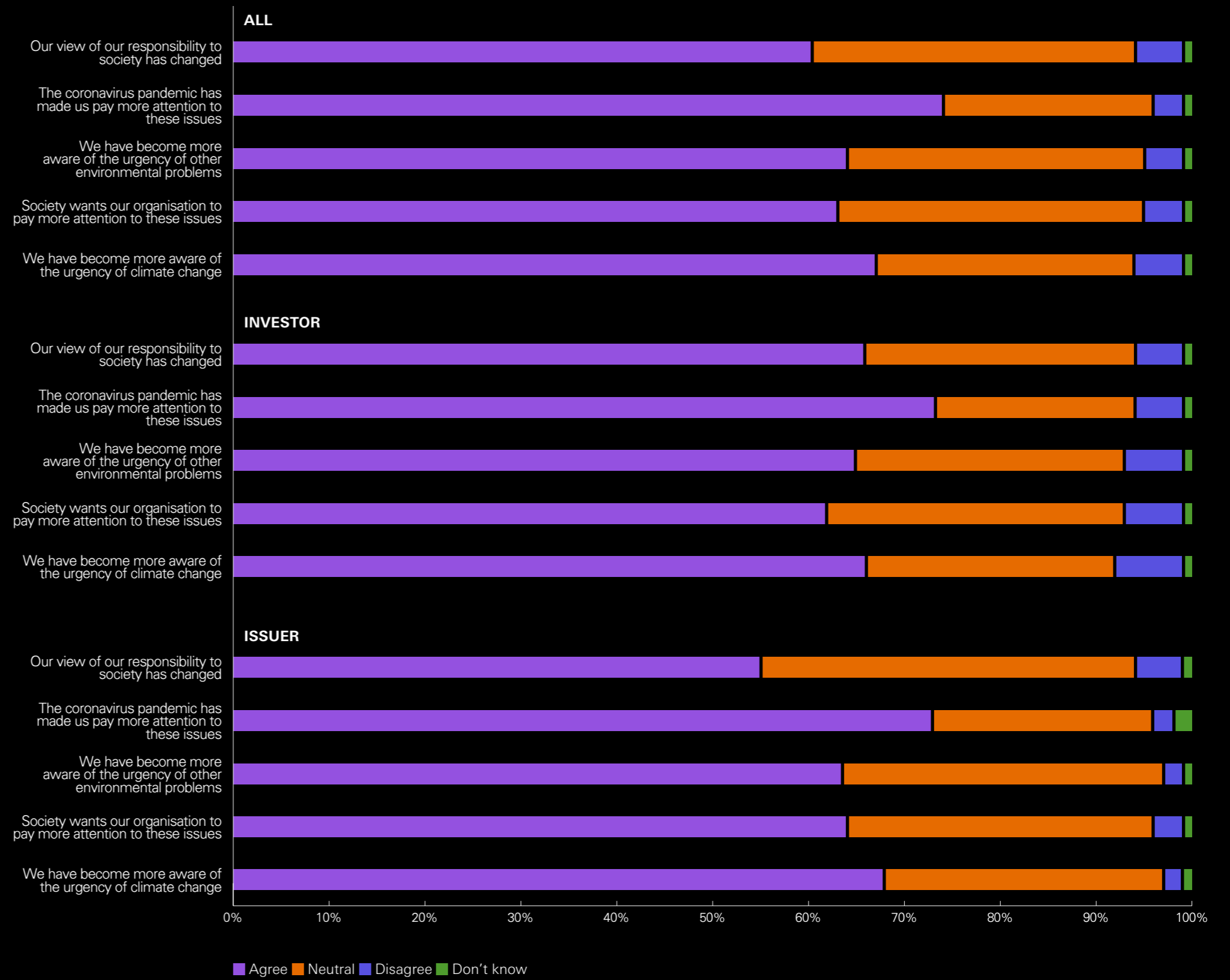
Social issues have also come to the fore over the past year, although they have yet to achieve the relevance afforded to some environmental concerns. Social and economic disparities in many countries have been highlighted by the impact of the pandemic. In response, social housing, workers conditions and, most particularly, racial and gender discrimination have risen up the agenda: three-quarters of issuers believe they have a responsibility to promote gender equality in their workforce.

The shifts in public discourse on environmental and social issues over the past year have inevitably filtered through to the worlds of sustainable finance and investing. Some 59% of investors say they have a firm-wide policy on responsible investing or ESG issues – up from 52% last year – while 24% say they do not but intend to develop one. Increasingly, issuers across industries worldwide are raising green, social or sustainable bonds or sustainability-linked bonds, as well as green loans or loans with pricing linked to sustainability metrics.



“The shifts in public discourse on environmental and social issues over the past year have inevitably filtered through to the worlds of sustainable finance and investing.”

Figure 3: Key driving forces to embracing environmental and social issues
Do you agree or disagree with the following statements?



Has the pandemic been an ESG tipping point?



There are multiple motivations why issuers and investors have increased their focus on ESG issues in the past year. However, according to our survey the pandemic has been a key driver – about three-quarters of respondents agree that it has made them pay more attention these issues.

This is the case across all regions and industries and different types of investors, highlighting just how profoundly impactful the pandemic has been.

What’s particularly interesting, though, is that that for both issuers and investors, the larger their size (by annual revenues or assets under management) the greater the importance of environmental and social issues. Indeed, some 70% of issuers with revenues greater than \$10 billion or investors managing over \$25 billion see these issues as very important (**Fig 4**) – significantly higher than the global average of 44%. By comparison, among issuers with revenues up to \$250 million or investors with sub-\$1 billion AUM, just a third of them say the same.

So size of institution seemingly has as a bearing on the level of importance they assign to these issues. Regionally, there are also some interesting differences. For instance, more Americas (56%) respondents – the majority of which are US based – than their peers in any other region see environmental and social issues as very important to their organisation. This difference is most stark when comparing Americas investors to their peers elsewhere (**Fig 5**).

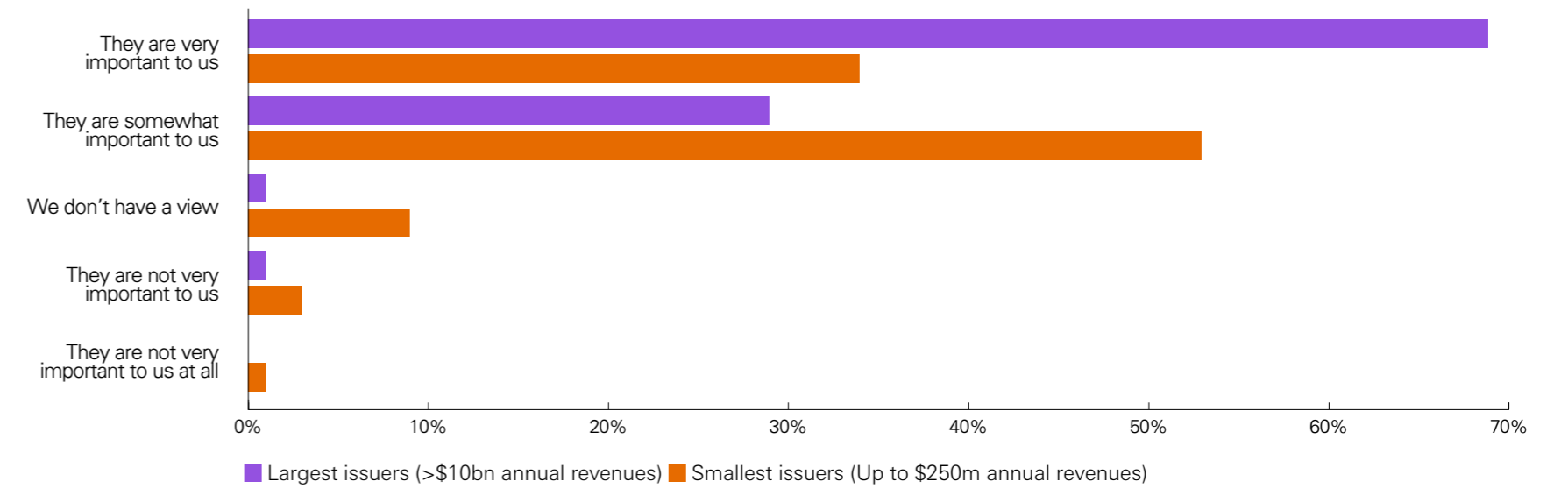
One explanation could be the changed political environment in the US. Although many states and companies pushed forward on the environmental and social agenda during President Trump’s term, the election of President Biden has been critical to changing the parameters of the sustainability debate. This catch-up at central government level has potentially helped push ESG to front-of-mind.

“For both issuers and investors, the larger their size (by annual revenues or assets under management) the greater the importance of environmental and social issues.”



Figure 4: The larger the company the higher the importance of these issues

What is your organisation’s attitude to environmental and social issues?



The larger the investor the higher the importance of these issues

What is your organisation’s attitude to environmental and social issues?

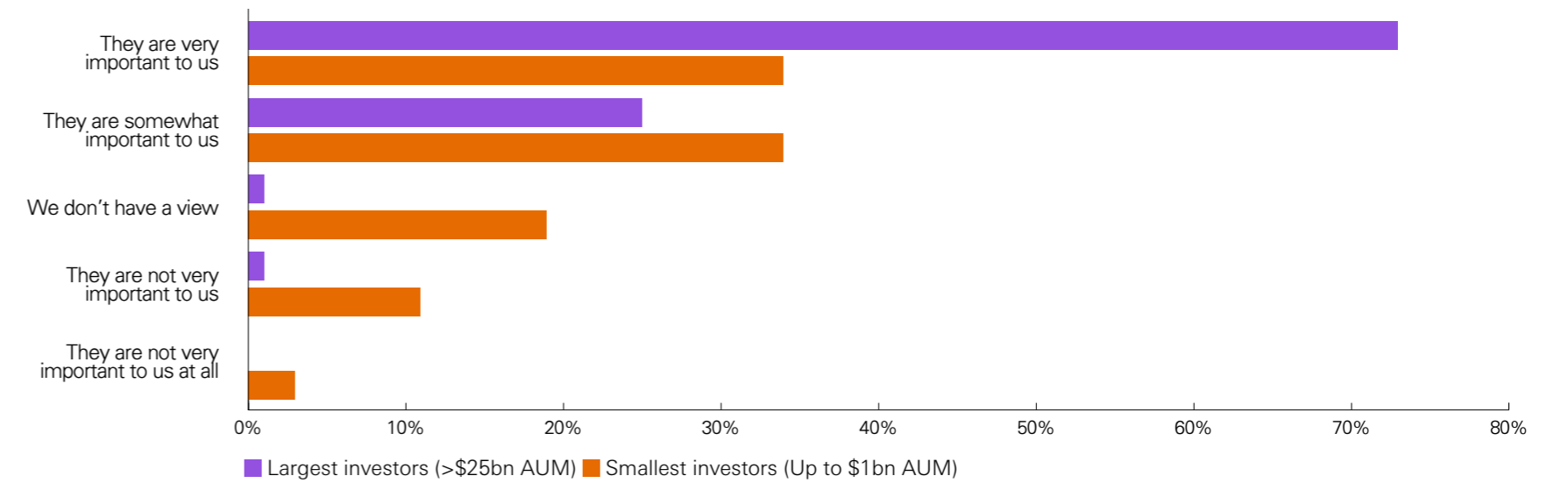
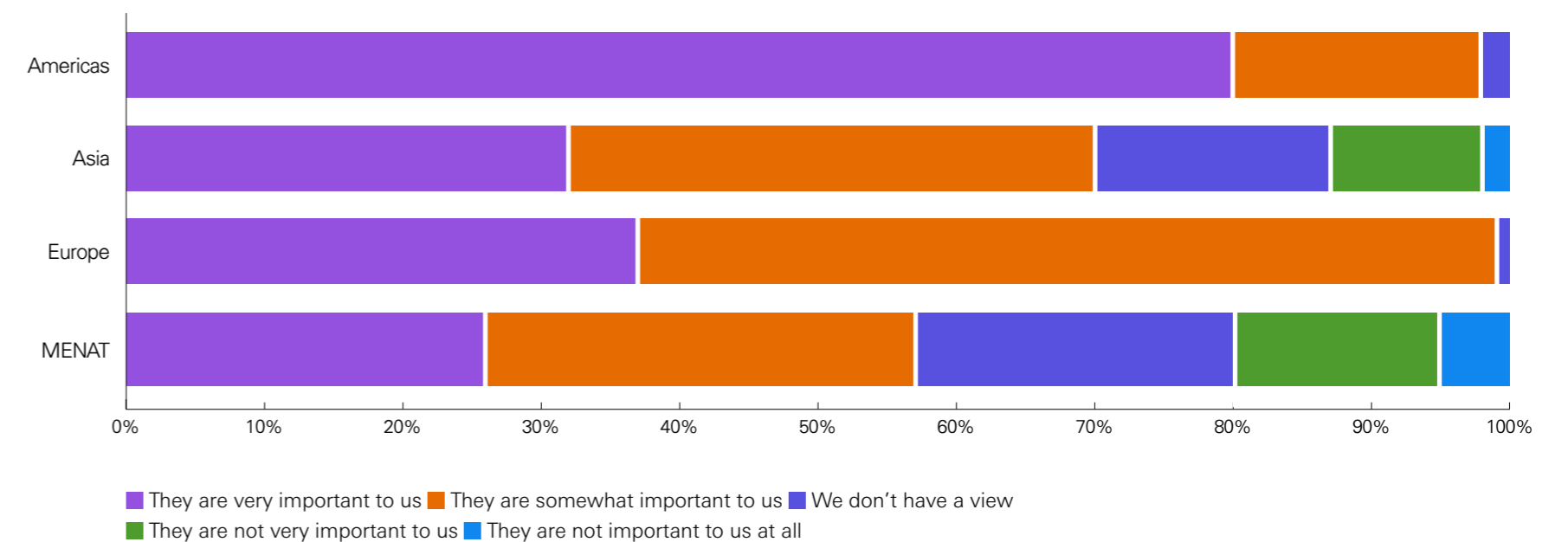


Figure 5: Americas investors showing global leadership

What is your organisation’s attitude to environmental and social issues?



Has the pandemic been an ESG tipping point?

Values and financial benefits drive ESG-focus

Corporate values are an important determinant of how serious and engaged companies are in embracing environmental and social issues. This year's survey indicates a distinct strengthening in this engagement.


Some 58% of respondents – up from 47% last year – say the main reason they care about these issues is that it is right to care about the world and society (Fig 6a), while an impressive 66% of investors say they feel more responsible to society (Fig 6b). In other words, values appear to have become critical to the sustainability debate in a way they were not in previous years.

This is also reflected by the increase in focus on 'impact' – how investments affect the environment and society in the broadest sense – among investors; 46% now say impact goals or metrics are used as part of investment decision making, up from 37% last year. New regulations, such as the EU's double materiality standards, are likely to reinforce these shifts in coming years.

At the same time, some 51% of respondents – the second highest percentage after a belief that it is right to care about the world and society (58%) – say ESG issues are important

because they can improve returns or reduce risk; last year, this answer was ranked third and in 2019 it was ranked fifth: ESG is now being seen as a competitive differentiator rather than an administrative burden. This is especially the case for issuers in sectors such as transport (68%); information technology (62%); metals and mining (62%); banking (60%); and insurance (55%). The larger the company, the more important returns and risk are as a driver: 67% of the largest issuers take heed of ESG for this reason compared to 34% of the smallest issuers. The attitudes of companies may be shifting because they are aware of how important ESG is becoming to providers of capital.

The needs and views of employees and customers are also an important reason to care. For issuers, 41% point to employees' opinion as being an important motivation – up from 18% in 2020. More broadly, a greater percentage of issuers and investors this year (38%) than last year (35%) say their customers want them to care about these issues. These changes reflect the increasingly mainstream nature of ESG concerns among the general public in many countries.

51%
of respondents say ESG issues are important because they can improve returns or reduce risk

Figure 6a: Values and financial benefits come to the fore
Why does your organisation care about social and environmental issues?

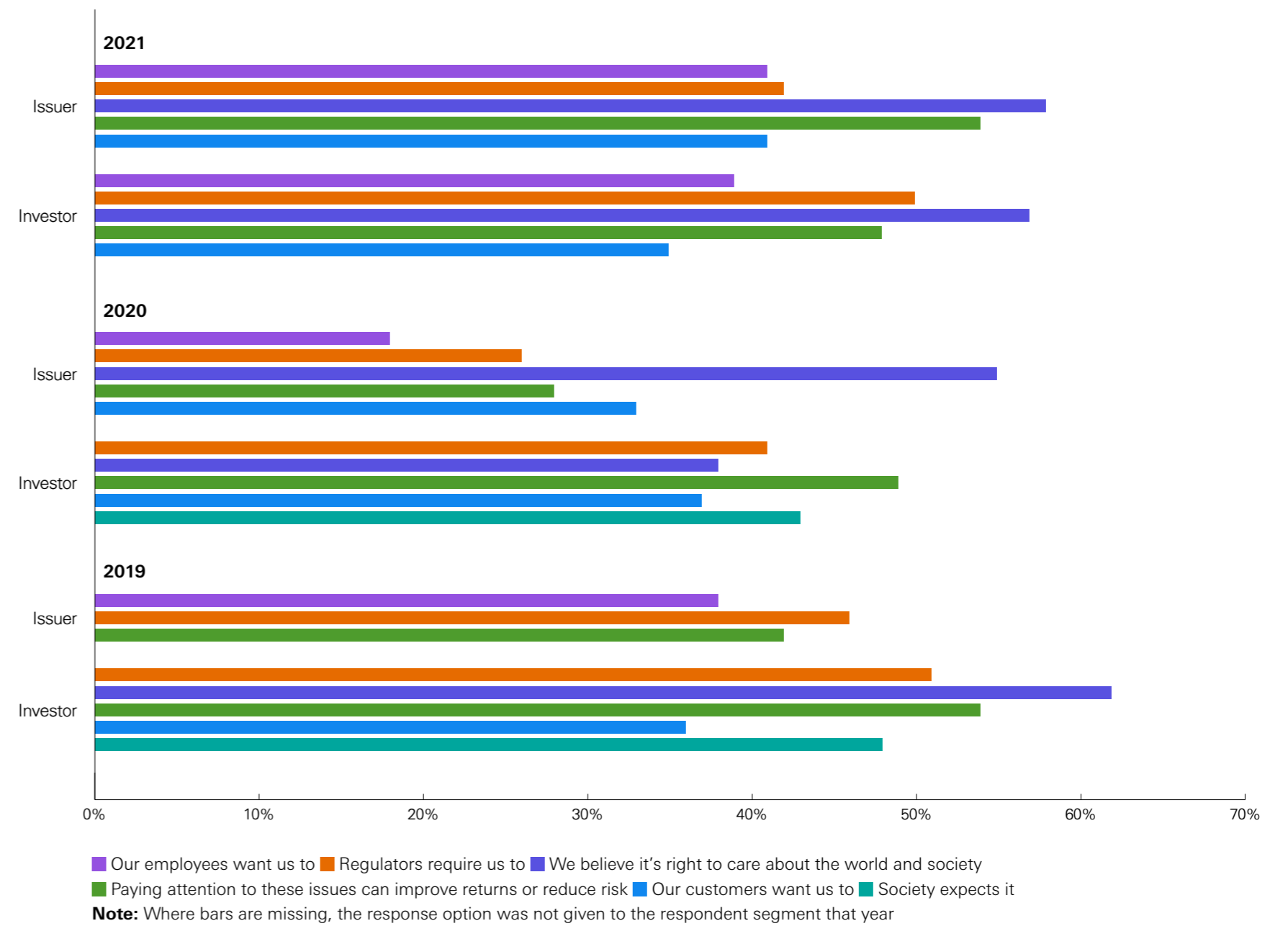
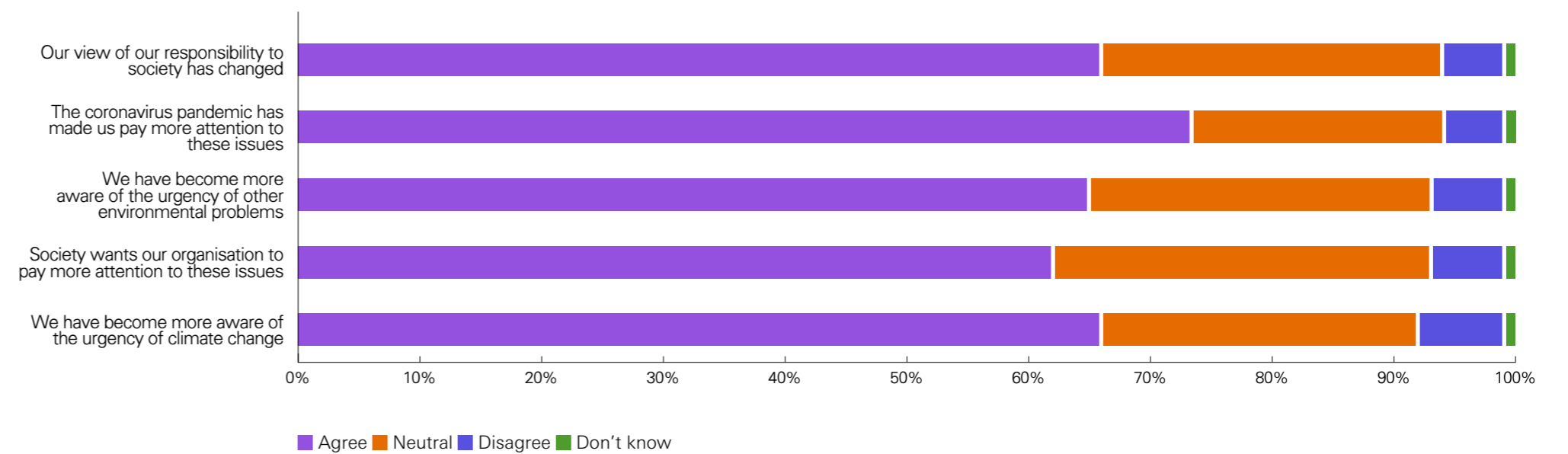


Figure 6b: Multiple forces influencing investors
Do you agree or disagree with the following statements?



Pandemic shifts eyes to social

The relevance of social issues has long lagged environmental issues for both issuers and investors, but over the past few years, the gap has narrowed as #MeToo, Black Lives Matter and other movements have raised the profile of gender and diversity issues.

Around 7 in 10 respondents agree or strongly agree that their investors want them to work harder on areas such as promoting gender and ethnic equality in their workforce, ensuring their suppliers do not commit human rights abuses, and providing fair pay to all staff (Fig 7a).

Regionally, more than half of issuers across most regions similarly agree or strongly agree. However, Americas issuers stand out as less than half of them agree or strongly agree that their investors want them to work harder on good training and career development, providing fair pay to all staff, and ensuring

their suppliers do not commit human rights abuses – the only region where this is the case.

On their part, investors say they monitor companies' performance in these areas and push them to improve, as well as taking these factors into account when making investment decisions. Investors also expect companies to abide by good standards in these areas. Again, larger investors are more focused on such issues. Over 60% of them say they monitor companies' performance and ask them to improve, as well as taking these factors into account when making investment decisions (Fig 7b).

Social issues may not seem as urgent as environmental concerns, but they appear to be becoming similarly important, as companies are increasingly conscious of them and are helping to bring about transformative change.



“Investors say they monitor companies’ performance and push them to improve, as well as taking these factors into account when making investment decisions.”

Figure 7a: Issuers say they recognise investor pressure to improve important areas

Indicate your level of agreement with the following statements: Our investors want us to work harder to...

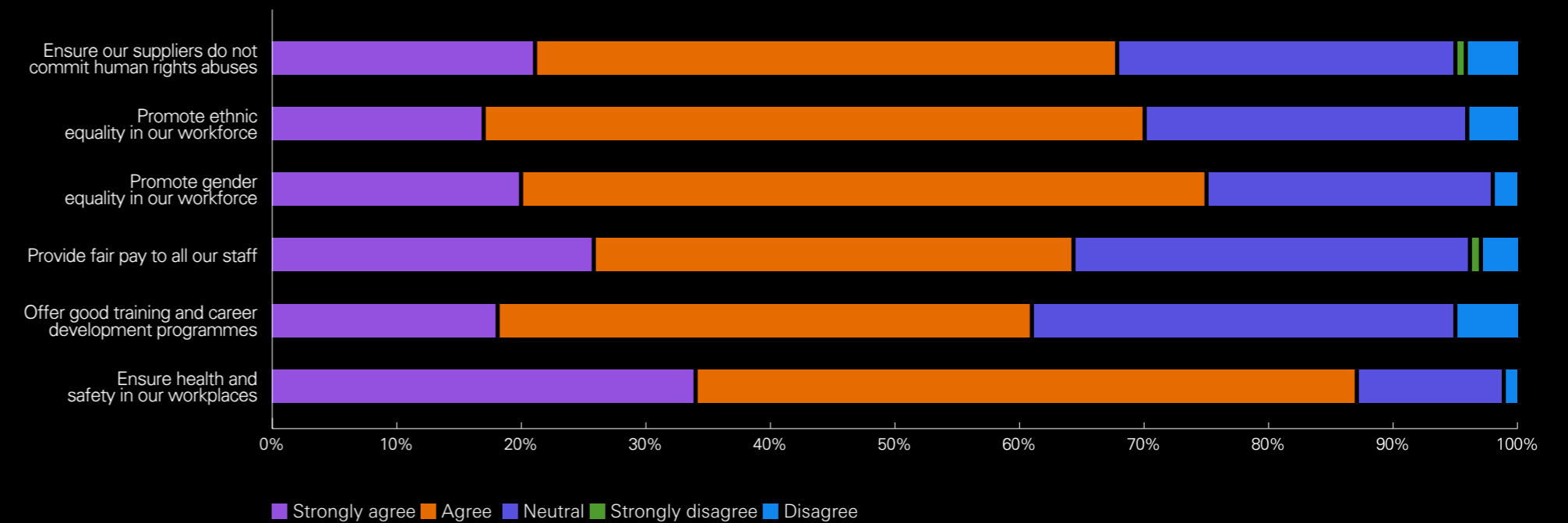
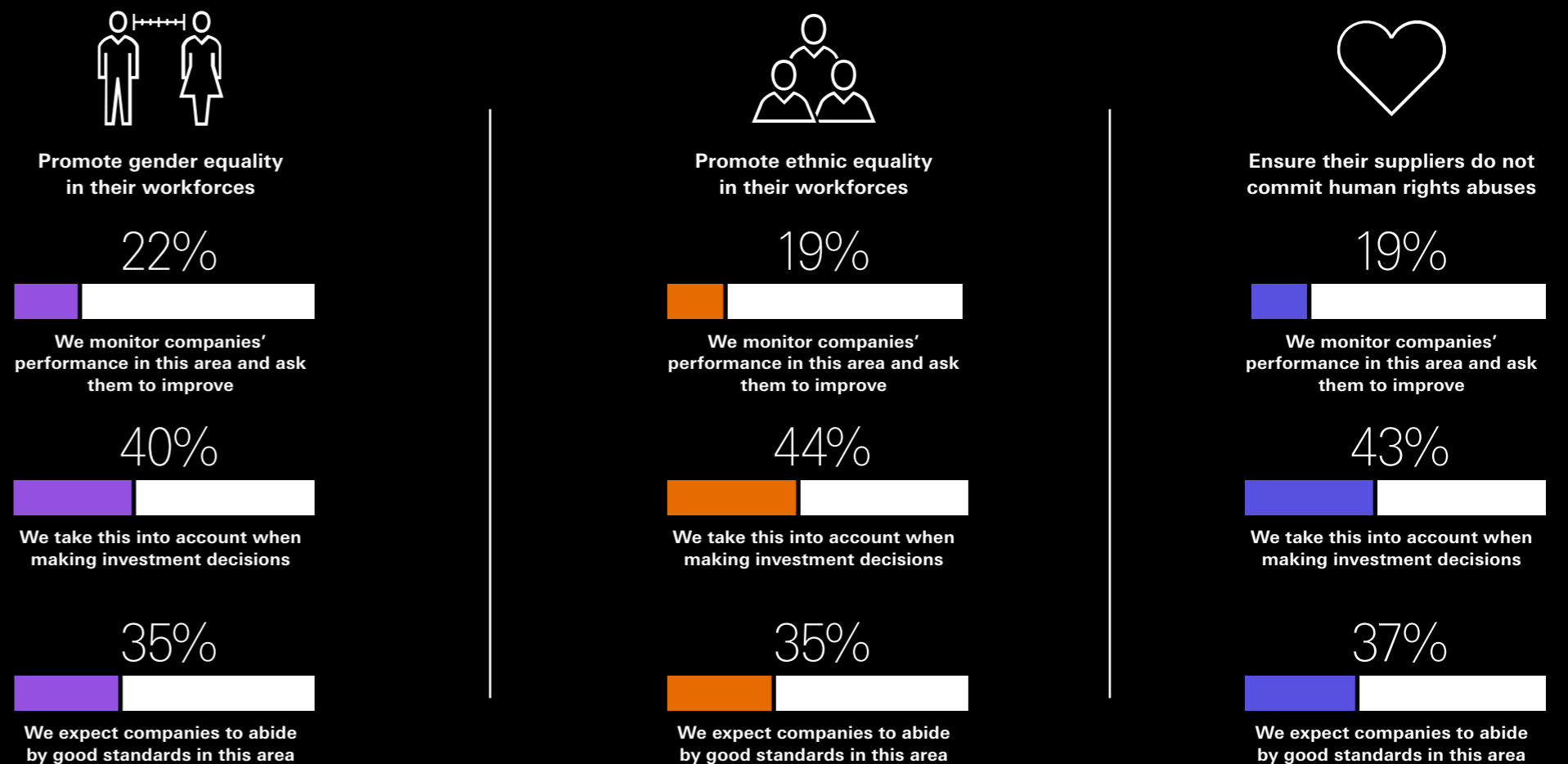


Figure 7b: Investors are looking to invest in progressive companies

How important is it that companies you invest in should run their operations in a progressive way?



Regulation and greenwashing

“More Americas investors (64%) than anywhere else are very worried about greenwashing and consider it a serious problem.”



Developing ESG regulation is a driving force behind the market, and inevitably one of the main reasons why issuers and investors care about environmental and social issues.


This year some 45% of respondents (Fig 6a) say the reason they care is because regulators require them to – up from 34% last year.

Interestingly, our US and China deep dive surveys indicate that issuers and investors would welcome greater regulatory involvement in ESG issues, to improve clarity (for issuers) and make it easier to identify sustainable companies (for investors). This nascent appetite for greater regulation is also reflected, to some extent, in concerns about companies’ transparency when it comes to sustainability credentials and performance: 69% of investors say they are worried about greenwashing, a quarter of whom say they are very worried. On a regional basis, more Americas investors than anywhere else are most concerned – some 64% say they are very worried and consider it a serious problem. (Fig 8).

For the largest investors (with AUM over \$25 billion), these concerns are especially pressing: 39% are very worried. By investor segment, some 37% of endowments and foundations are very worried – the highest percentage.

Issuers are seemingly unconcerned about their stakeholders’ worries over standards. Most (61%) also believe their investors understand their efforts towards sustainability, and in particular their ESG plans and performance (Fig 9). This is a significant increase from last year when just 32% of issuers said so. In fact, most issuers in 2020 said that on average their investors understand their efforts only to a reasonable extent.

Issuer satisfaction on this issue is greatest in the insurance sector, where three-quarters of respondents say their investors understand their plans and performance well. Building materials (72%); and oil, gas, coal and chemicals (71%) are also high. In contrast, just 42% of business services sector respondents say the same.



61%

of issuers believe their investors understand their ESG plans and performance

Figure 8: Americas investors sound the alarm on greenwashing

The word ‘greenwashing’ is used to mean claiming activities are green when they are not –for example, companies making unrealistic claims to sustainability. As an investor, how worried are you about greenwashing?

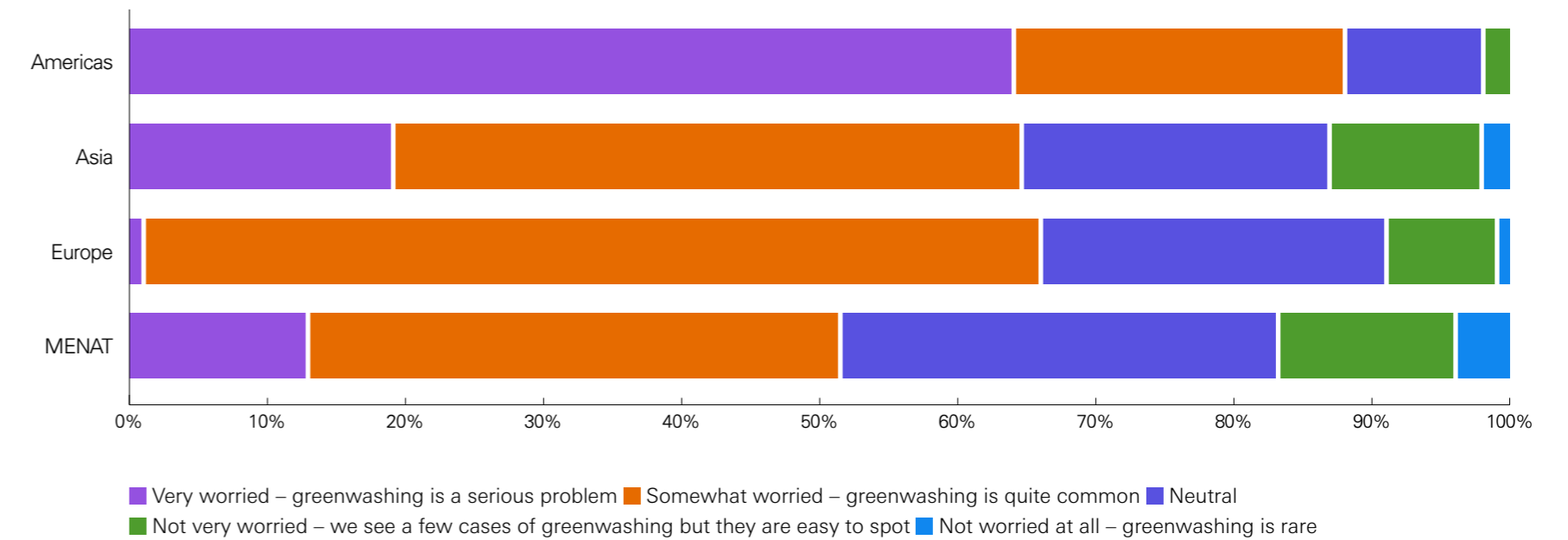
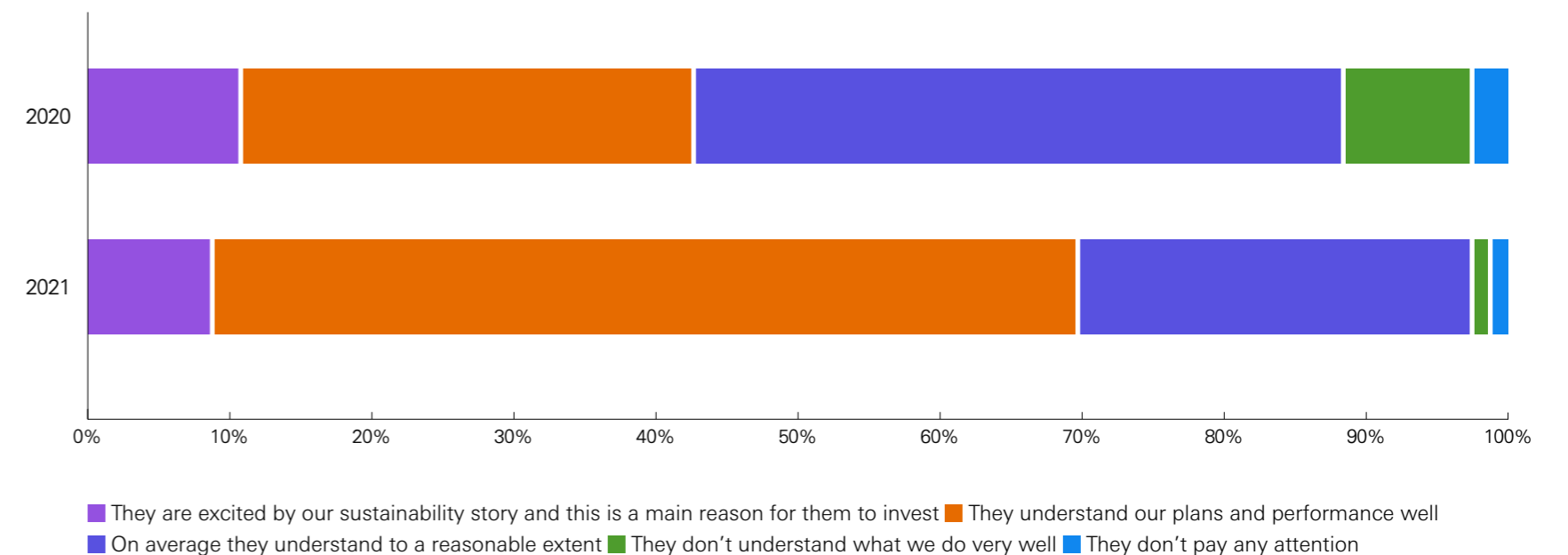


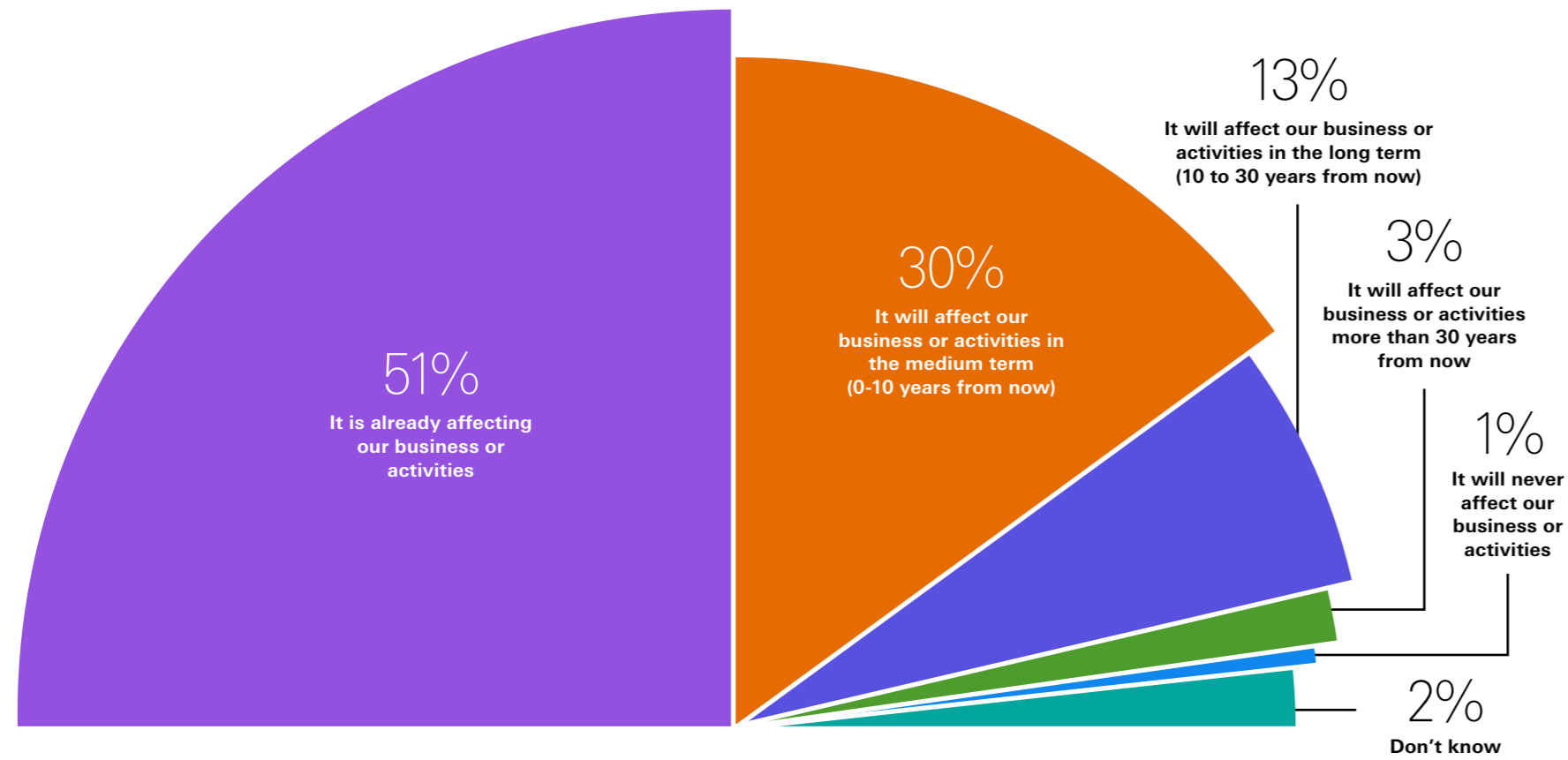
Figure 9: Issuers believe their investors understand their efforts

How well do you feel your organisation’s investors understand your efforts towards sustainability?



Companies feeling the effect of climate change

Figure 10: Climate change already impacting companies
Will climate change begin to affect your business or activities?



A recent survey by the UN Development Programme of 1.2 million people in 50 countries was clear: 64% of people said that climate change was an emergency – presenting a clear and convincing call for decision makers to step-up their ambitions.

Our survey is similarly unequivocal. Half the issuers we surveyed believe climate change is one of the world's most serious problems and a further quarter cite it as the greatest threat to humanity. Moreover, half of issuers say climate change is affecting their business – sharply up from 37% in 2019 and 2020. Another 30% of issuers say it will impact their activities in the next 10 years; almost all the rest think it will affect them by 2050 (Fig 10).

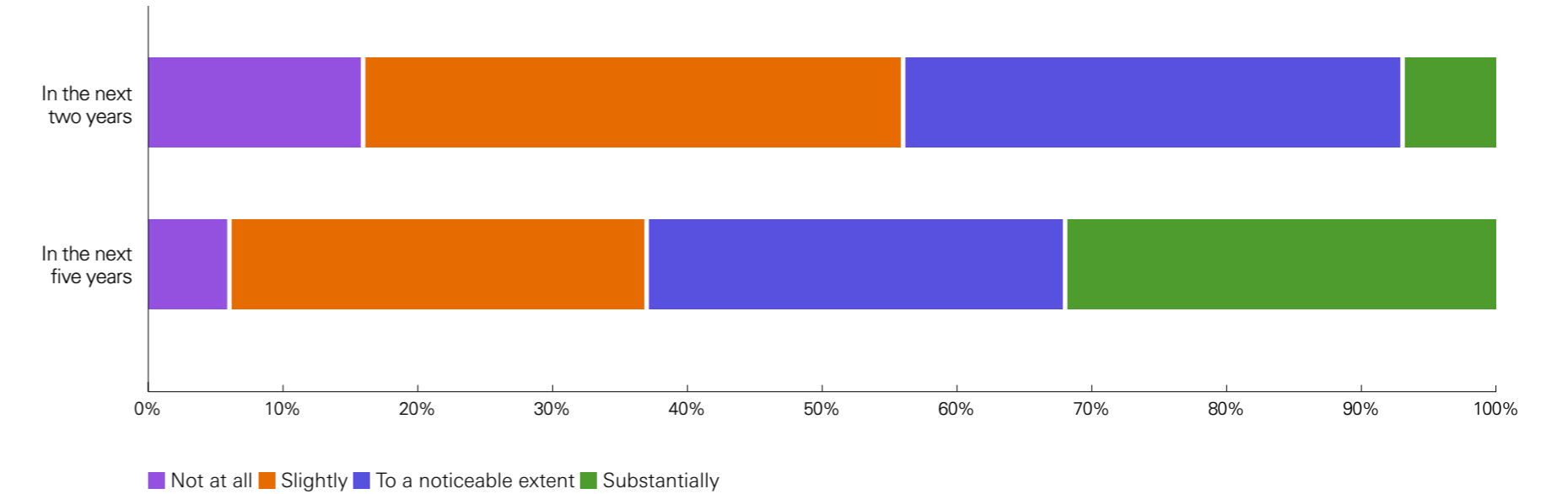
Unsurprisingly, the sectors where respondents say they are affected by climate change the most include oil, gas, coal and chemicals (72%) and metals and mining (68%), although telecoms respondents also poll highly (71%). As such, some 59% of metals and mining sector respondents, for instance, say they are considering reducing or getting out of some business activities.

Together with learning more about the possible effects of climate change, virtually all companies (94%) now expect to move away from environmentally- and socially-challenged business models in the next five years, and 62% say they will do this to a noticeable extent or substantially (Fig 11). Some 70% of issuers are considering increasing some business activities or starting new ones which could benefit from economic changes brought about by climate change, while just under half are reducing or getting out of business activities that might be negatively impacted.

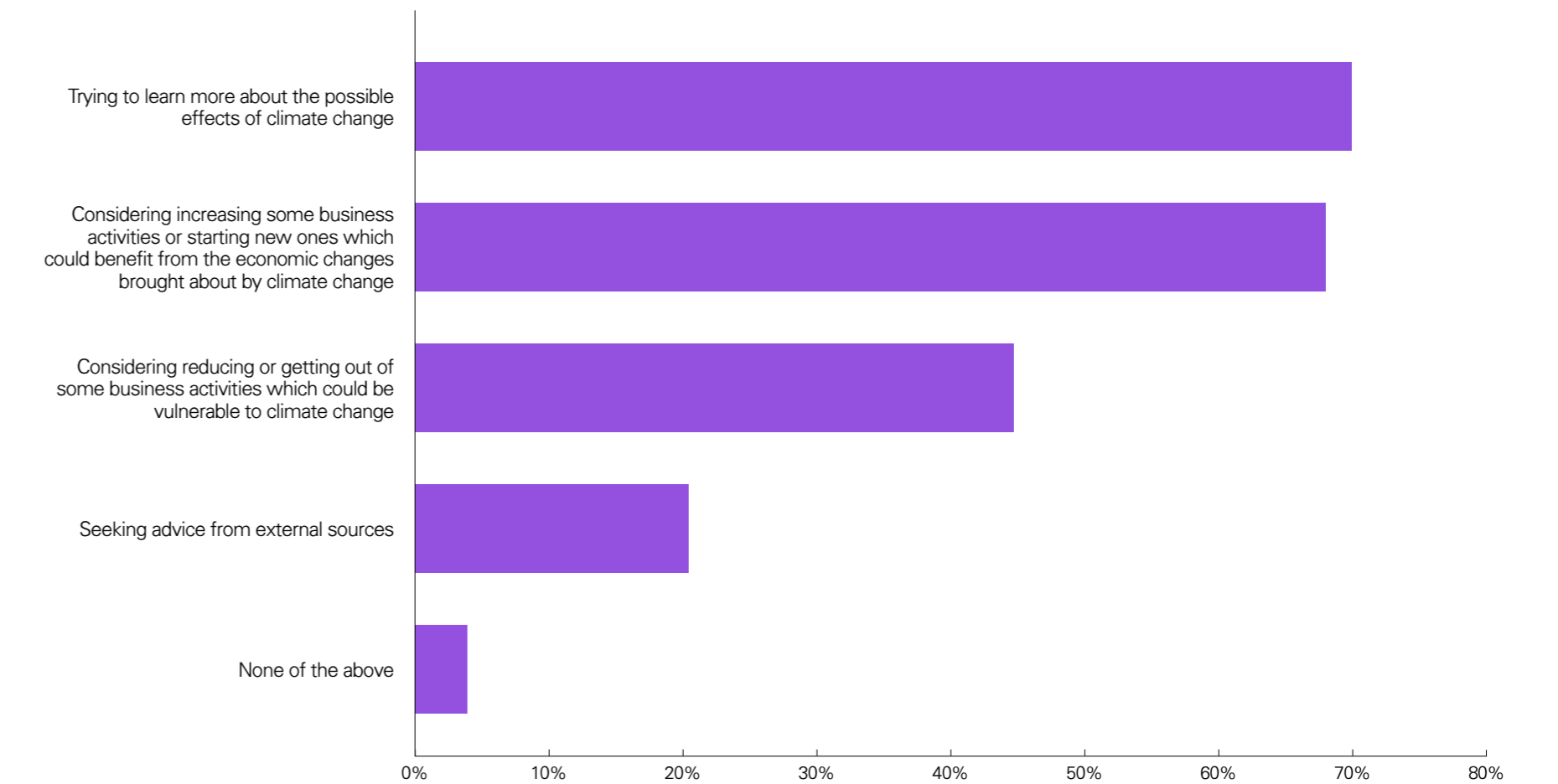
The pace of change is likely to be relatively rapid. Issuers expect to change their business model and capital allocation away from activities challenged by environmental and social issues and toward activities that promote positive environmental or social outcomes in the next two to five years, although more significant change is expected at the end of this timescale.

By sector, change is expected in some industries more than others; 61% of electricity and water sector respondents, for instance, anticipate a shift over the next two years and 79% over the next five years, which are among the highest percentages across sectors.

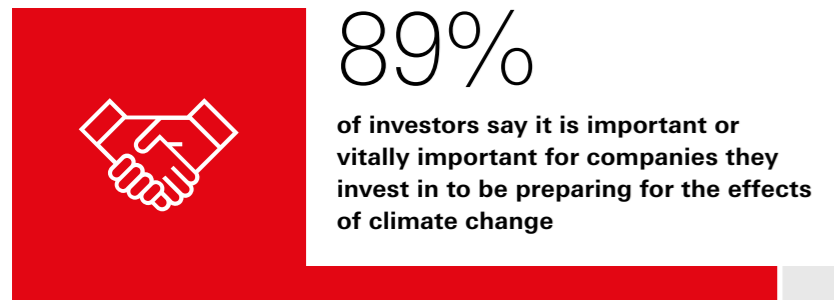
Figure 11: Companies expect a big shift away from activities challenged by environmental and social issues
Do you expect your organisation to change its business model and allocation of capital away from activities challenged by environmental and social issues:



Issuers are preparing to take informed action
What actions is your organisation taking to prepare for or lessen the impact?



Future-proofing portfolios



Around 60% of investors say it is important for companies they invest in to be preparing for the effects of climate change, while 29% believe it is vitally important. Just 12% think it is unimportant (Fig 12).

In addition, of those investors who say it is important that companies they invest in be preparing for the effects of climate change, some 62% of them say it is because they want companies to be thinking about changing their business activities to become less vulnerable to climate change (Fig 13). For their part, issuers are responding – 72% are in the process of studying the effects of climate, while 70% say they are increasing some business activities or starting new ones to lessen the impact, and 46% are reducing or getting out of some business activities.

More specifically, of those investors who say it is important that companies they invest in be preparing for the effects of climate change, some 76% of them say it is because companies must have plans to transition to low carbon (Fig 14). Almost a quarter of these investors say they will divest companies that don't have a credible plan.

The largest investors, with AUM of over \$25 billion, are more emphatic: 68% say it is vitally important – notably higher than 29% overall – that companies they invest in prepare for the effects of climate change. In terms of segments, sovereign wealth funds and hedge funds lead the pack considering climate change preparation vitally important.

“Investors are sending a strong signal to the corporate sector; they expect to see a shift by issuers and will act if it doesn't happen.”

Figure 12: Investors pressuring companies to take action

How important is it that companies you invest in should be preparing for the effects of climate change?

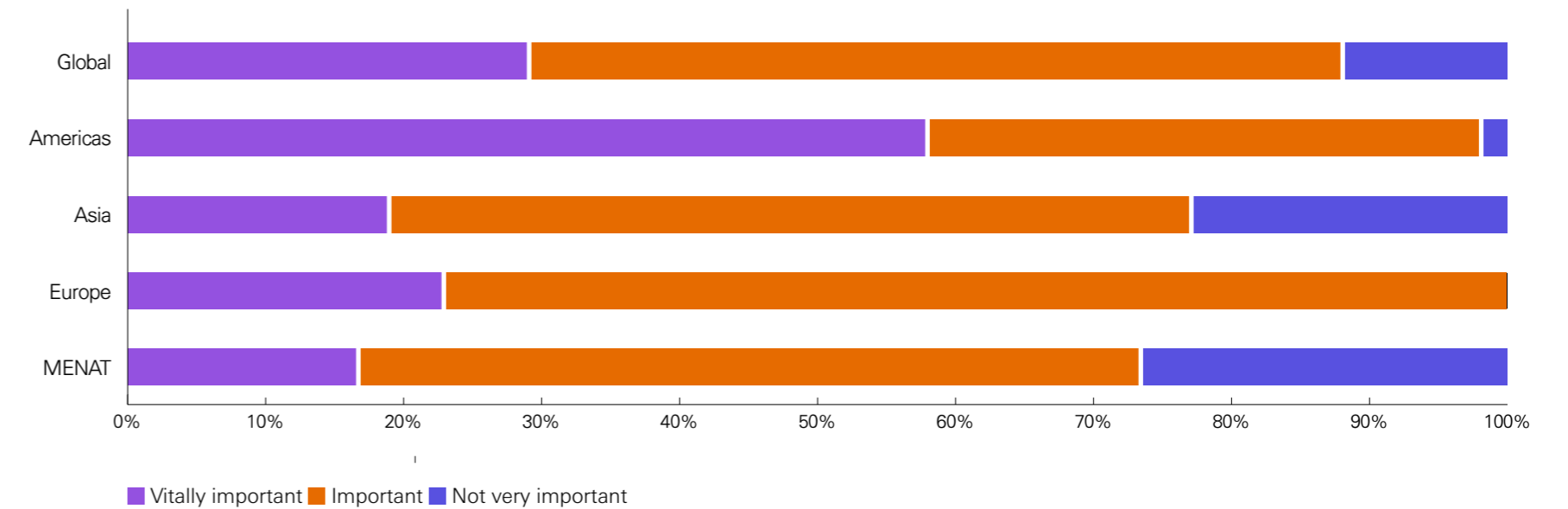


Figure 13: Enhancing protection and reducing vulnerability is key

How important is it that companies you invest in should be preparing for the effects of climate change, and which of the following best represents the reason it is...

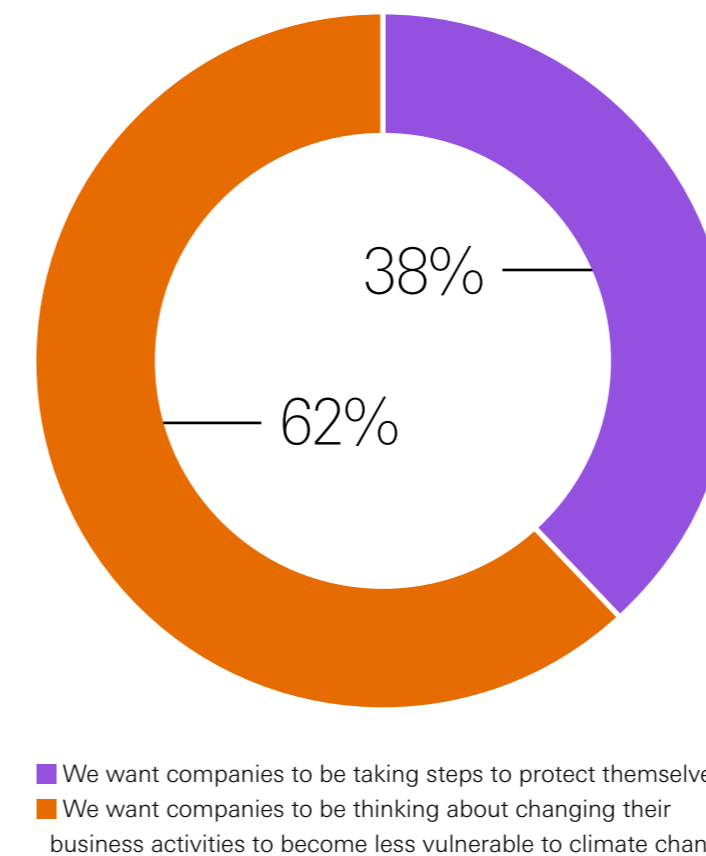
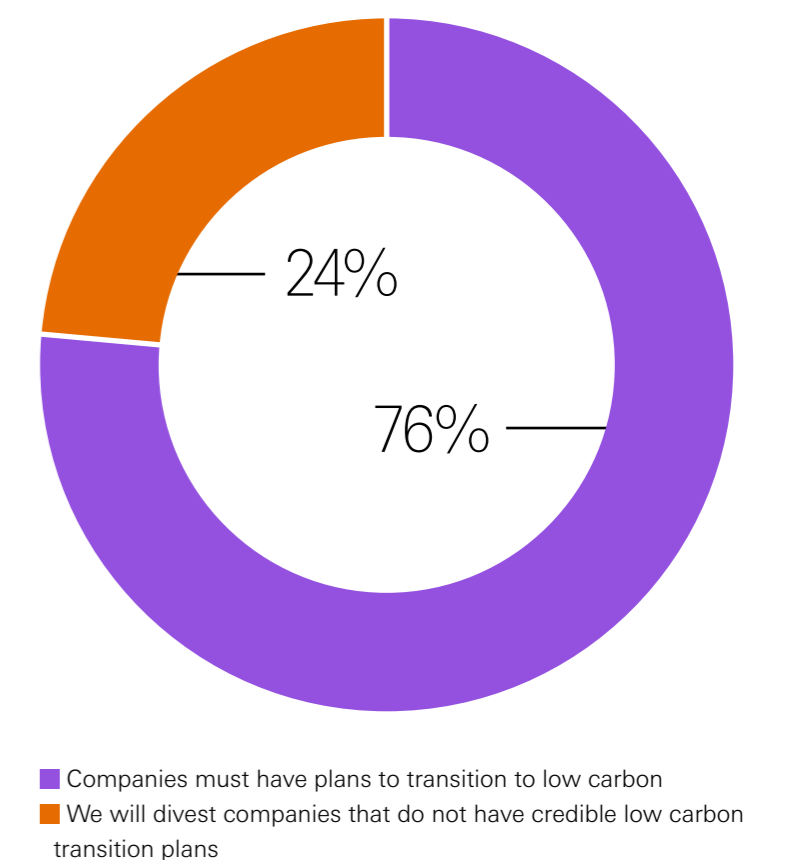


Figure 14: Having credible low carbon transition plans in place is important

How important is it that companies you invest in should be preparing for the effects of climate change, and which of the following best represents the reason it is...



Net zero on the business agenda



Net zero commitments by countries and companies in advance of the UN COP26 meeting have captured the headlines in the past year. Encouragingly, most issuers (63%) are now working towards such a target, with some 16% of them having already made a commitment (Fig 15). By comparison, about a third of investors (31%) say they are working towards making a net zero commitment while one in six has already done so (Fig 16).

As with other findings, the largest issuers (revenues over \$10 billion) and investors (AUM over \$25 billion) are understandably early adopters with 38% and 54% having already committed to net zero. By sectors and segments, a high percentage of consumer goods companies (29%), and pension funds (34%) have already committed to net zero, perhaps because of their exposure to the general public, which are ahead of many corporates and investors on such issues.

One key requirement is to establish shorter term goals, such as 2030, so that incremental progress is made on an annual basis rather than backloaded towards 2050 (or predicated on technological advances rather than concrete business plans). Uncertainty may explain why 9% of issuers say they are awaiting instructions from government: in many jurisdictions such guidance is likely to emerge in the next few years.

Climate resilience and adaptation are likely to become an increasingly important issue for both issuers and investors in the coming years. To date, most efforts – at both government and corporate level – have tended to focus on reducing emissions; the crucial goal if catastrophic climate change is to be avoided. However, as record temperatures in the Northwest of the US and elsewhere in June and July 2021 demonstrated (resulting in melted power cables and buckled roads and rails), many governments and companies are ill-prepared for extreme weather (both hot and cold).

To take just one climate-related risk: nearly 700 million people worldwide live in low coastal zones vulnerable to rising sea levels and coastal storms; that number could reach a billion by 2050. The Australian Institute for Economics and Peace suggests that more than a billion people could be displaced by climate and weather disasters by 2050.

16%
of issuers have already made a net zero commitment

Figure 15: Issuers are making progress on net zero
What is your attitude towards companies and governments setting targets to become carbon-neutral?

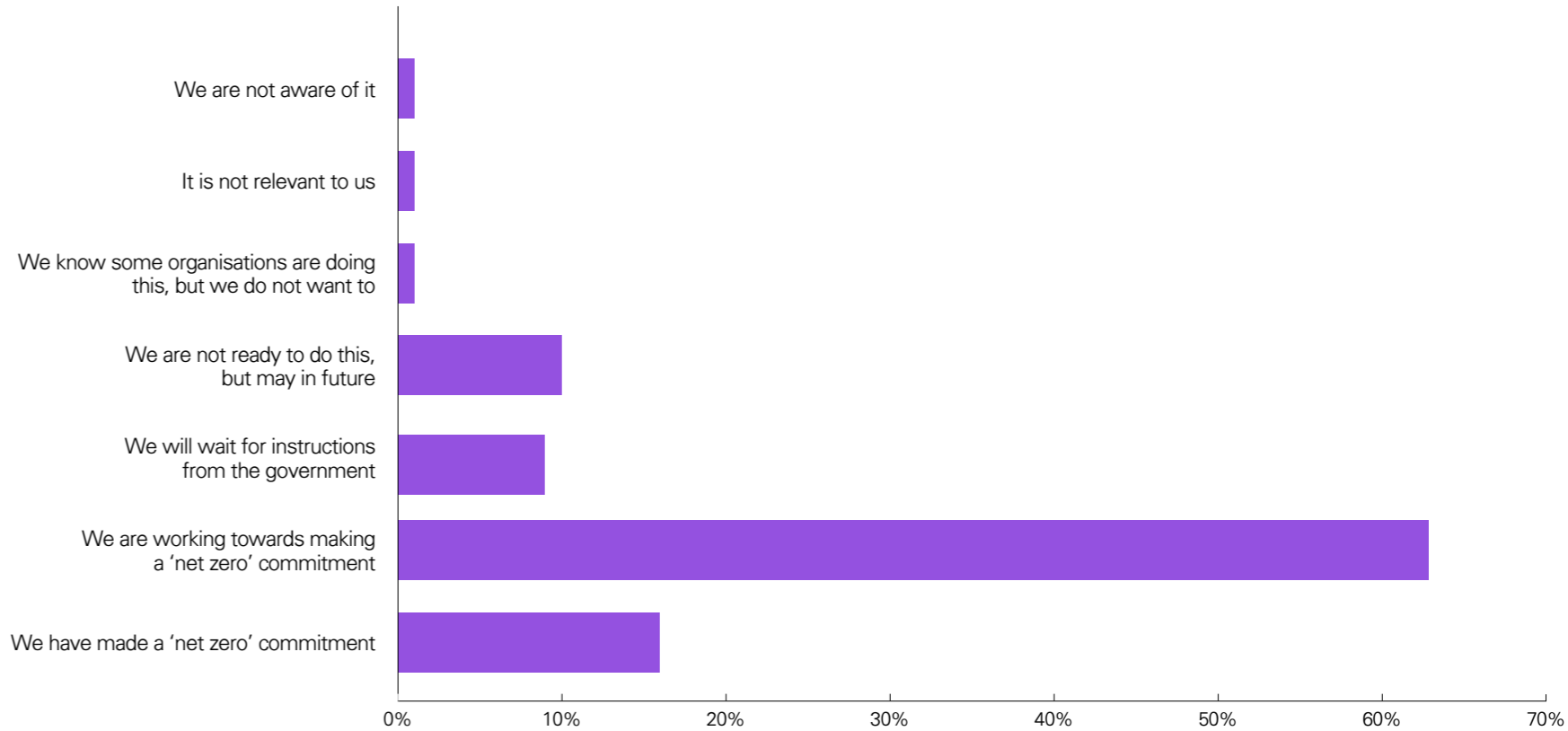
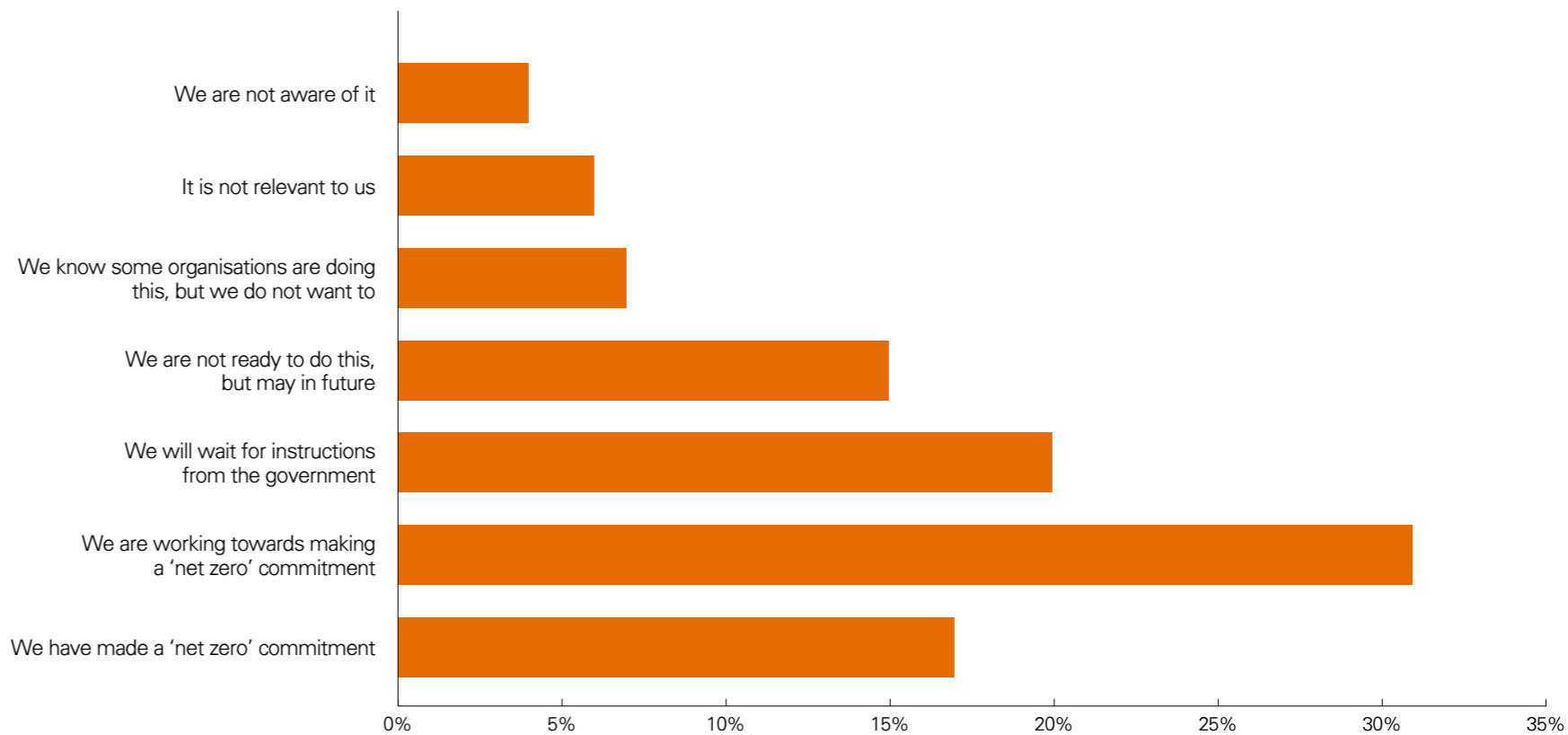


Figure 16: Investors are making progress on net zero
Companies and governments are setting targets to become carbon-neutral or 'net zero' carbon by a certain date in the future, such as 2050. Some investors are also setting net zero targets. What is your attitude to this, as an investor?



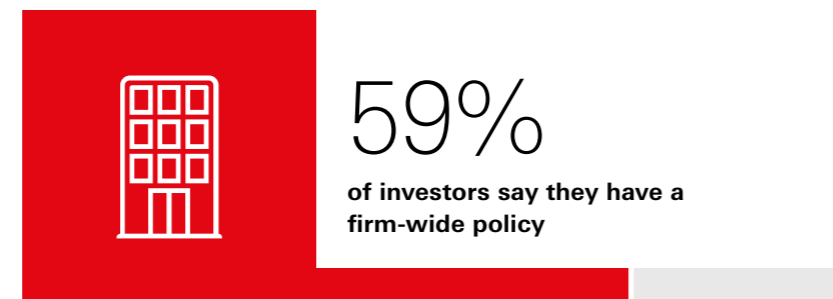
ESG's institutionalisation gathers pace

More investors this year (59%) than last year (52%) say their organisation has a firm-wide policy on responsible investing or ESG issues, highlighting the extent to which ESG is becoming integral to mainstream institutional investment (Fig 17). As expected, the bigger the investor, the greater the likelihood of having a policy; 85% of the largest investors have one compared to only 34% of the smallest. Some 80% of hedge funds and insurers have a policy.

Typically, such policies include an approach for identifying material ESG issues for investments (57% of investors); impact goals or metrics used as part of investment decision making (46%); and disclosure on the ESG characteristics of selected portfolios (45%) (Fig 18).

Investors are actively applying an ESG lens to investing, with a third – roughly in-line with 2020 and 2019 – considering the issuer's ESG credentials and performance when it is financially material. Just over a quarter of investors say they always look at this as a core part of their investment decision making – down from 31% in 2020 and 34% in 2019 – but still significant. Perhaps impacting this is the increase in investors who say they do so only in funds which explicitly have an ESG mandate – some 27% said so this year, up from 23% last year and 18% in 2019.

Interestingly, some 60% of the largest investors say they always look at ESG as a core part of their investment decision making. A higher percentage of hedge funds (37%) than other investor types say they always do this, which perhaps is an indication of just how widespread and increasingly institutionalised ESG investing is becoming.



“Some 60% of the largest investors say they always look at ESG as a core part of their investment decision making.”

Figure 17: ESG investing being embraced more widely

Does your organisation have a firm-wide policy on responsible investing or environmental, social and governance (ESG) issues?

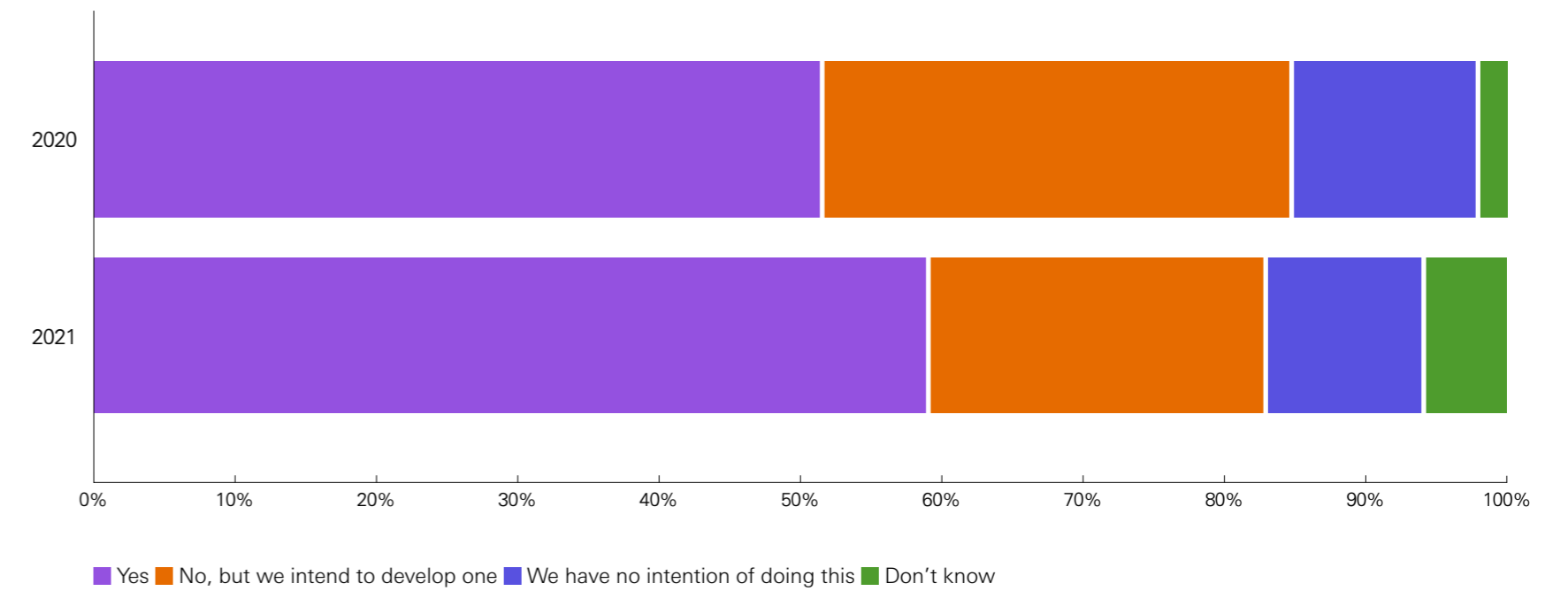
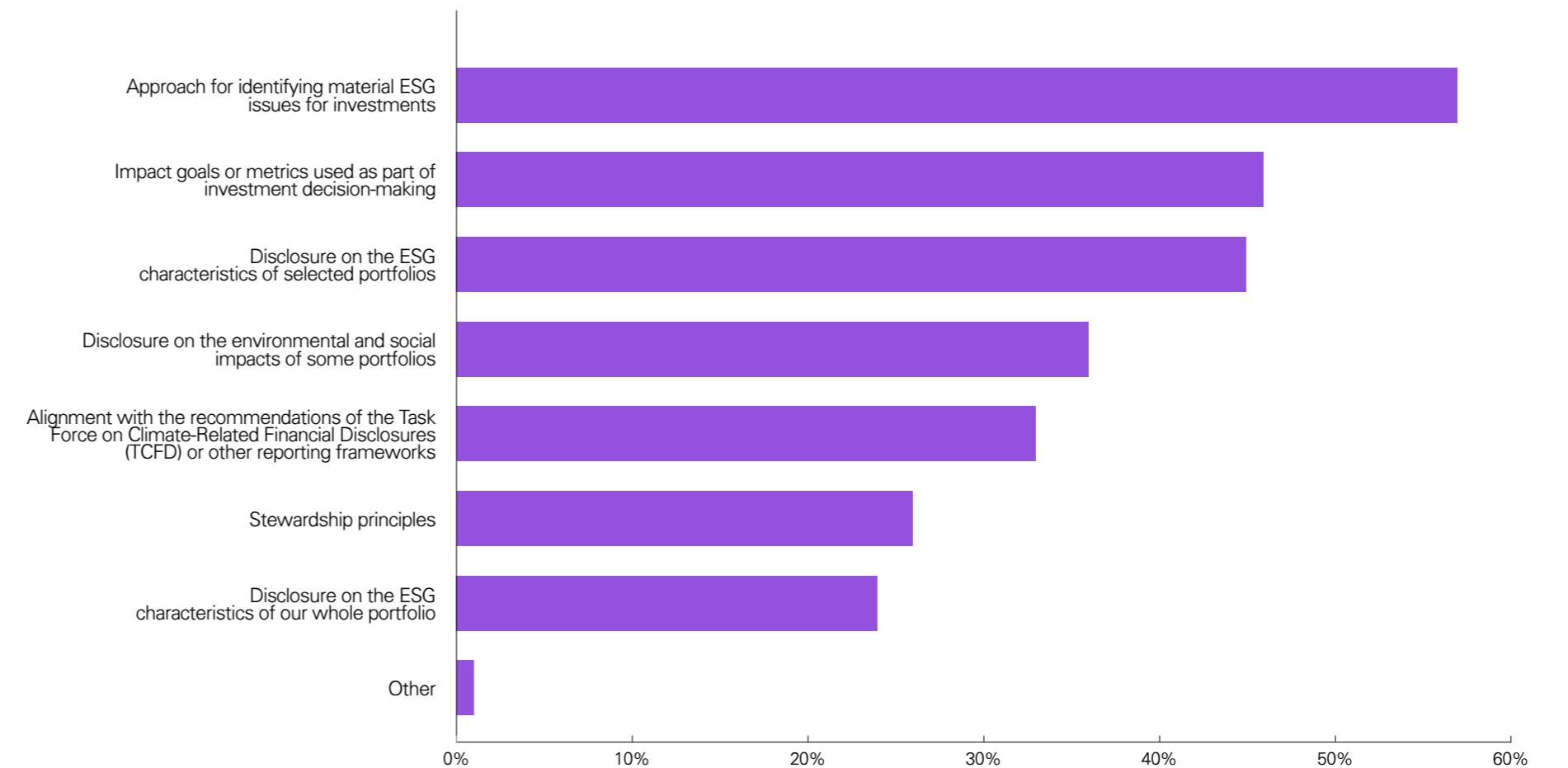


Figure 18: Multiple areas included in policies

Does your organisation's policy include (or is it expected to include) the following?



Hurdles to ESG

This year 64% of investors see nothing holding them back from pursuing ESG investing more fully and broadly, while just 36% perceive obstacles – a notable shift from the previous two years (Fig 19).

Where there are problems, they may well be attributable to the rapid growth of ESG investing: some 37% of investors cite a shortage of expertise or qualified staff as the principal obstacle (Fig 20) – up from 30% last year and a three-year high. Interestingly this issue seems, according to our survey, more pronounced in Asia, ASEAN and the MENAT than in the Americas and Europe.

By size of institution, there are differences there, too; among the smallest investors, most say the shortage of qualified staff is holding them back.

Other challenges include longstanding frustrations such as the lack of comparability of ESG data across issuers (32%) and regulatory or legal constraints (31%). Most of the largest investors say poor quality or unavailable ESG data is their greatest challenge.

Strikingly a lack of comparability of ESG data across issuers and relatively poor financial returns have fallen sharply as reasons holding back investors from ESG investing – dropping from 50% and 39% in 2020, respectively, to 31% and 25% this year.

This change perhaps reflects the increased breadth of the ESG investment universe and the strong performance of companies in the sector over the past year. Not all segments feel this way, however.

While most sovereign wealth and pension funds say their main impediment is the lack of comparability of ESG data across issuers, they also claim there are a lack of attractive investment opportunities – such investors need for sizeable investments may be the stumbling block.

Figure 19: Barriers to ESG investing are falling

Is anything holding your organisation back from pursuing ESG investing more fully and broadly?

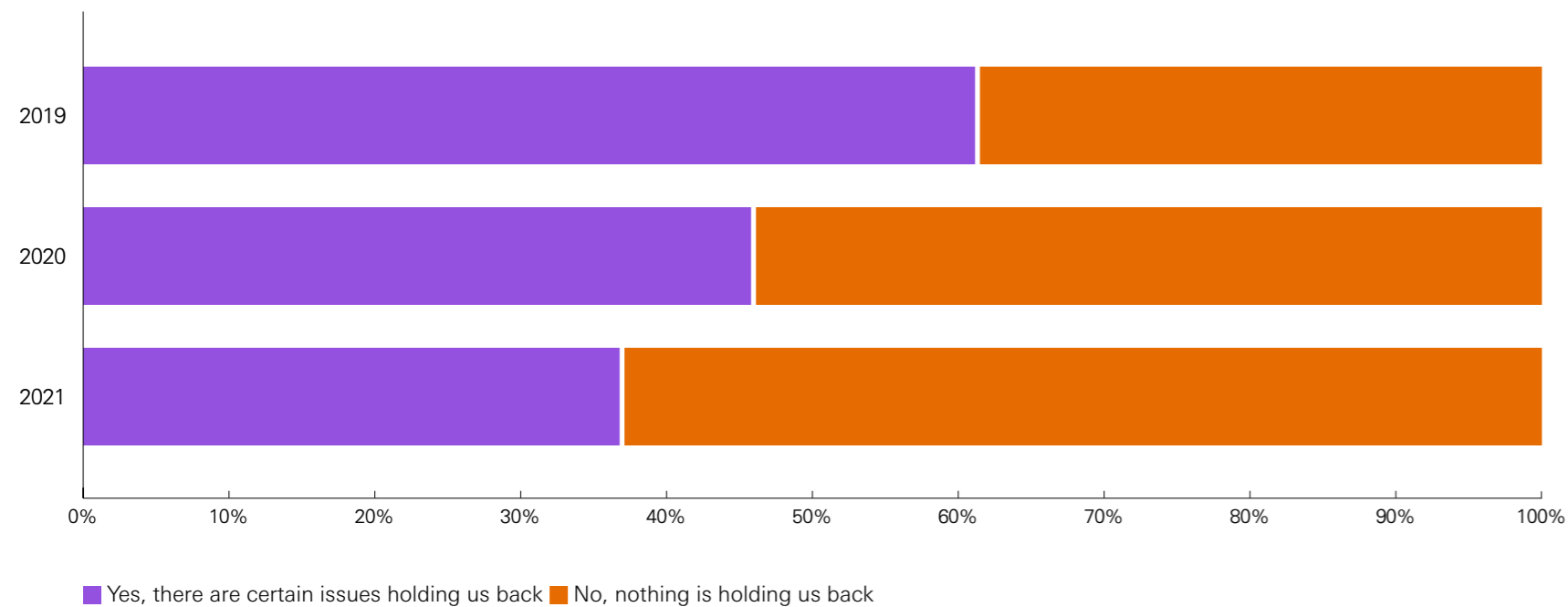


Figure 20: An ESG skills shortage is a growing problem

What is holding back your organisation from pursuing ESG investing more fully and broadly?

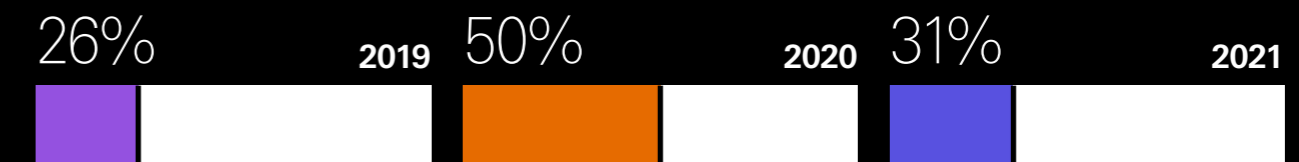
Top 5 trends



Shortage of expertise or qualified staff



Regulatory or legal constraints



Lack of comparability of ESG data across issuers



Lack of attractive investment opportunities



Poor quality or availability of ESG data

“Where there are problems, they may well be attributable to the rapid growth of ESG investing: some 37% of investors cite a shortage of expertise or qualified staff as the principal obstacle.”

Investors call for better disclosure

Alongside standards, companies' environmental and social disclosure has been a perennial problem in the ESG world. In particular, it can be challenging to access accurate, transparent and standardised information for companies within a sector. And it is especially difficult to compare environmental and social performance between sectors.

Yet issuers in our survey believe that progress is being made. Just over half – 51% compared to 38% in 2020 and 29% in 2019 – believe their level of disclosure today is about right and do not feel under pressure to increase it (Fig 21). What's more, a quarter of them expect levels to increase and that, for them, is a good thing. Interestingly, only 5% say they don't disclose anything at all – down from 15% in 2019.

Clearly levels of disclosure have been rising and could continue to rise; 83% of issuers say nothing is holding them back from disclosing more on environmental and social issues (Fig 22). For the minority who say they are being held back, some of the main reasons include their belief that they disclose enough already, that disclosing more could harm their organisation or that their owners do not want them to reveal more.

These last two reasons are particularly pronounced in Asia and the MENAT, whereas in Europe, the difficulty getting the information to disclose more is the main issue.

Having the issuers' perspective on this area is important, but perhaps more important for them is what investors think about

what is being disclosed. This year, for the first time, we asked investors to assess how good the environmental and social performance information is on companies they invest in.

Interestingly, while 24% judged the environmental disclosures to be excellent and 38% said they were adequate, some 38% said they were inadequate (Fig 23). By comparison, some 35% of investors judged companies' social disclosures to be inadequate, with 38% saying they are adequate and 27% excellent. Regionally, disclosures by Asian, ASEAN and MENAT companies are seen as inadequate by more investors than in any other region, although the differences are marginal.

One way to interpret this divergence of opinion is that disclosure standards are changing rapidly – people are still adjusting to them, while at the same time expectations are increasing. More generally, investors may be eager to get access to more information, simply because it seems the right thing to do. That does not necessarily mean that they know how they want to use that information going forward.

The bottom line is that few investors would not want to see improvements to the environmental and social information companies disclose, whether they do this voluntarily or not. Indeed, together with more consistent ESG ratings (Fig 24), investors say companies improving their disclosures voluntarily and being legally obliged to make sustainability disclosures, are the main three areas that would be most helpful to them in trying to invest sustainably.

Figure 21: Most companies are comfortable with what they disclose
How would you describe the level of disclosure you make now on environmental and social issues?

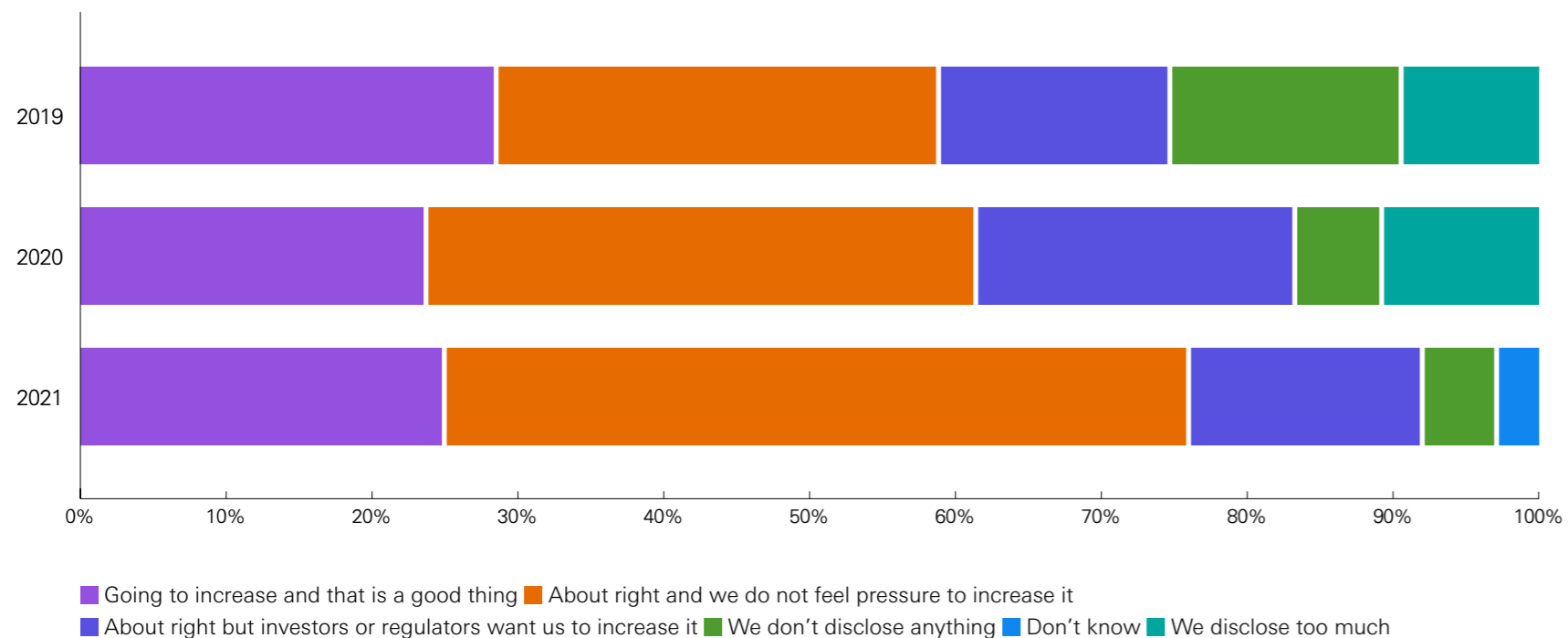


Figure 22: Companies could disclose more if they wanted to
Is anything holding your organisation back from disclosing more on environmental and social issues now?

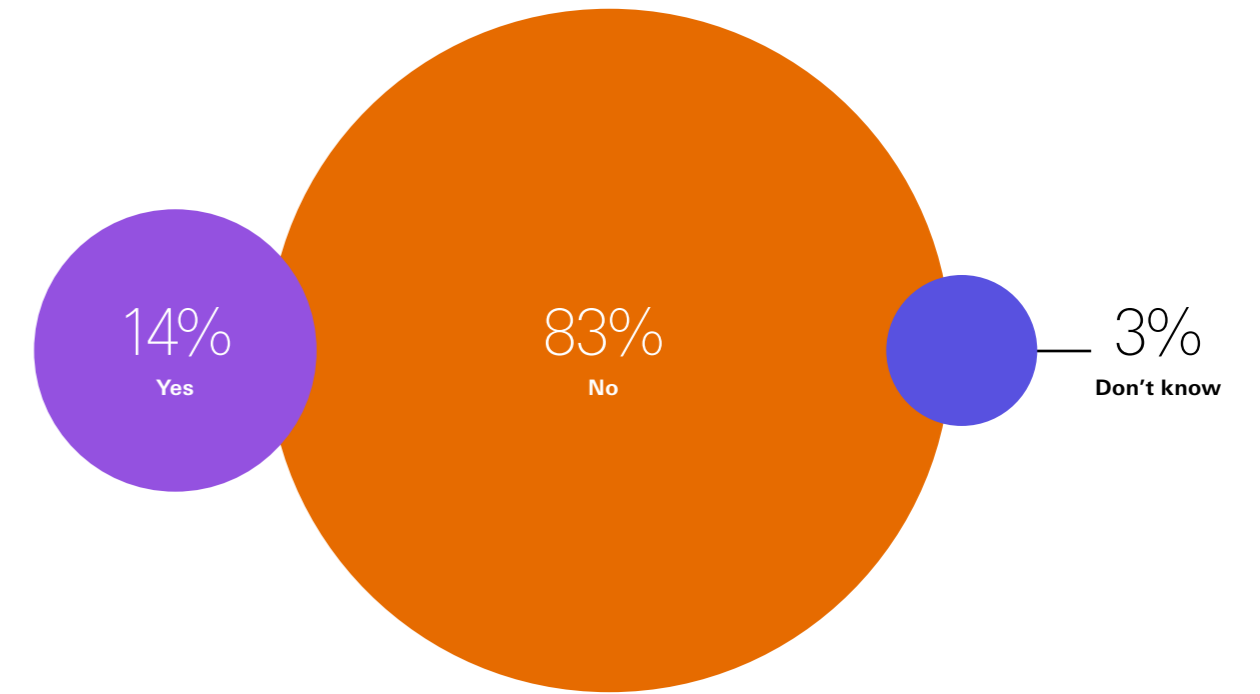


Figure 23: Investors make judgment call on issuers' environmental and social disclosures
How good is the information companies you invest in disclose about their environmental and social performance?

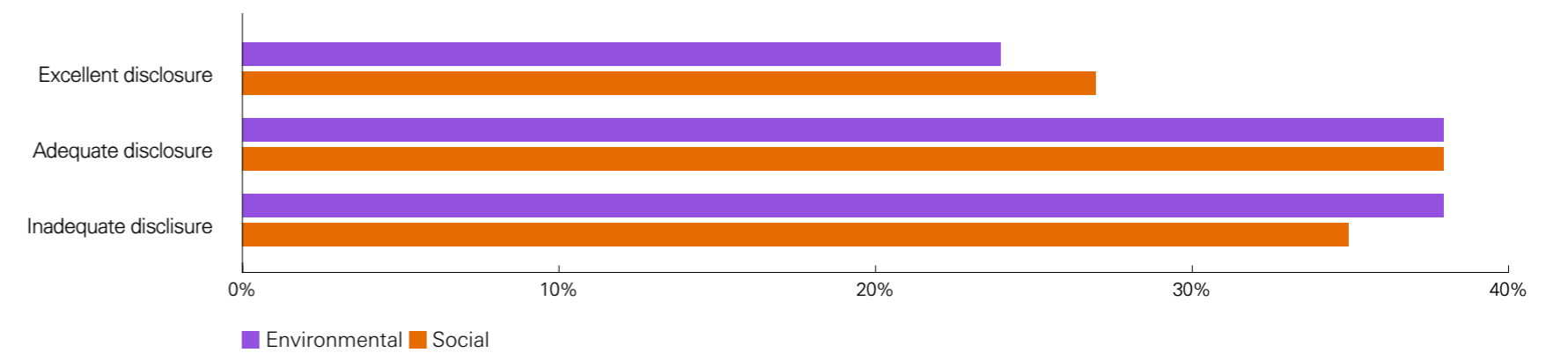
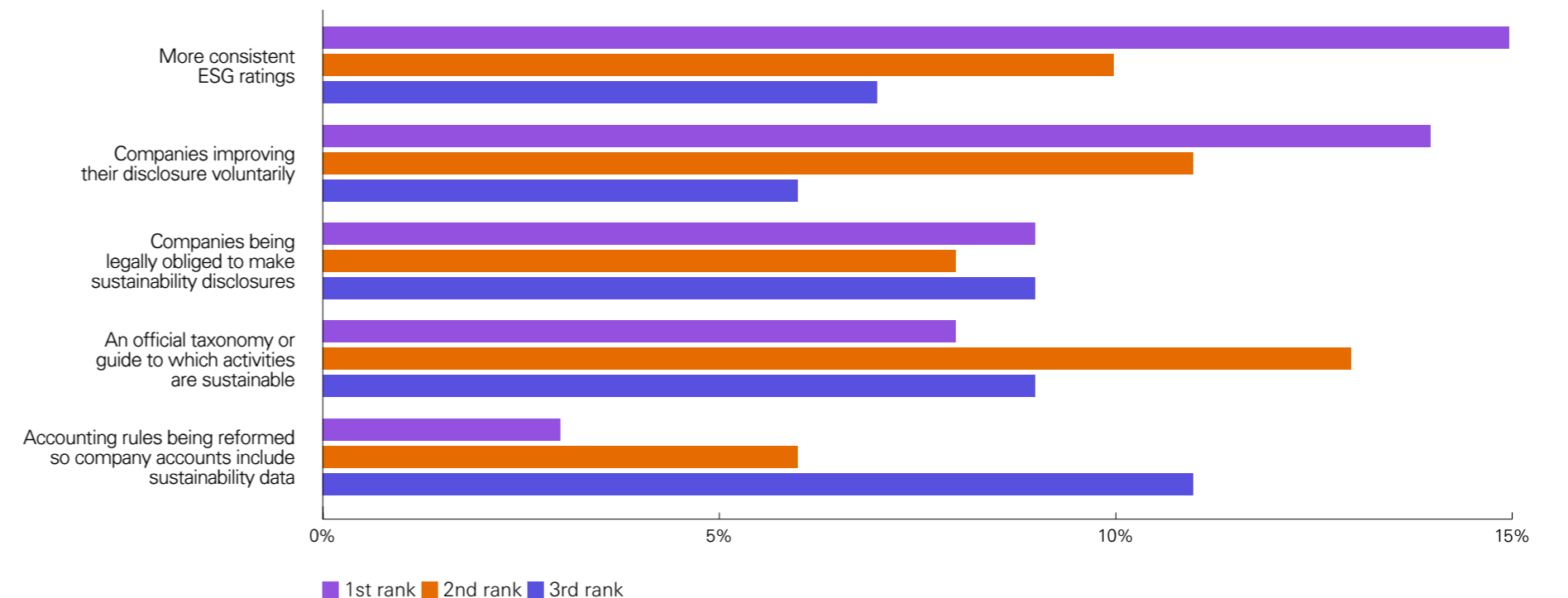
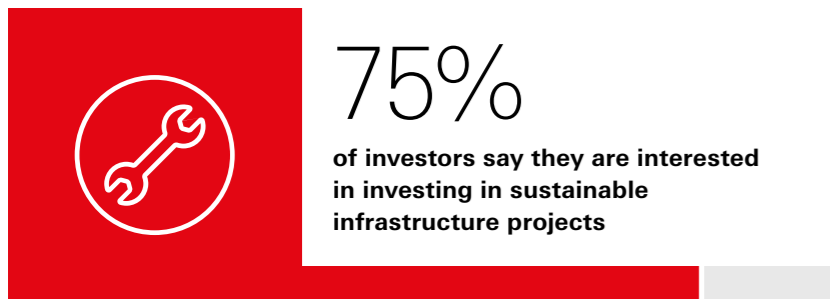


Figure 24: More consistent ESG ratings and greater disclosure would aid investors
What would be most helpful to your organisation in trying to invest sustainably?



Sustainable finance gains momentum



“In the next 12 months, most issuers (64%) say they expect their company will actively seek advice on green, social or sustainability issues in relation to capital markets transactions.”

Momentum in green and sustainable finance continues to grow and develop as sustainability issues increasingly become core to issuers and investors.

Most issuers (62% – up from 40% in 2020), for instance, say their organisation has borrowed using green, social or sustainable bonds or sustainability-linked bonds. And some 56% (up from 30% in 2020) say they have borrowed using green loans or loans with pricing linked to sustainability metrics.

For those issuers that have not yet borrowed in bond format, some of the main reasons are that they do not have large borrowing needs, deal structures are too complex, costs are too high, and they worry about the risk to their reputation. Some of the reasons for not using sustainable loans are the same, but issuers also believe that the financial advantage is too small to justify the work involved.

Interest is rising, however. In the next 12 months, most issuers (64%) say they expect their company will actively seek advice on green, social or sustainability issues in relation to capital markets transactions (**Fig 25**). It appears that there is pent-up demand, which will boost activity further.

On the investor side, this interest extends to sustainable infrastructure projects, in which an emphatic 75% of our asset allocators and owners say they are interested in investing in, and of them 23% are already doing so (**Fig 26**).

Figure 25: Demand for sustainable finance is strong across the world

In the next 12 months, do you expect that your company will actively seek advice on green, social or sustainability issues in relation to capital markets transactions?

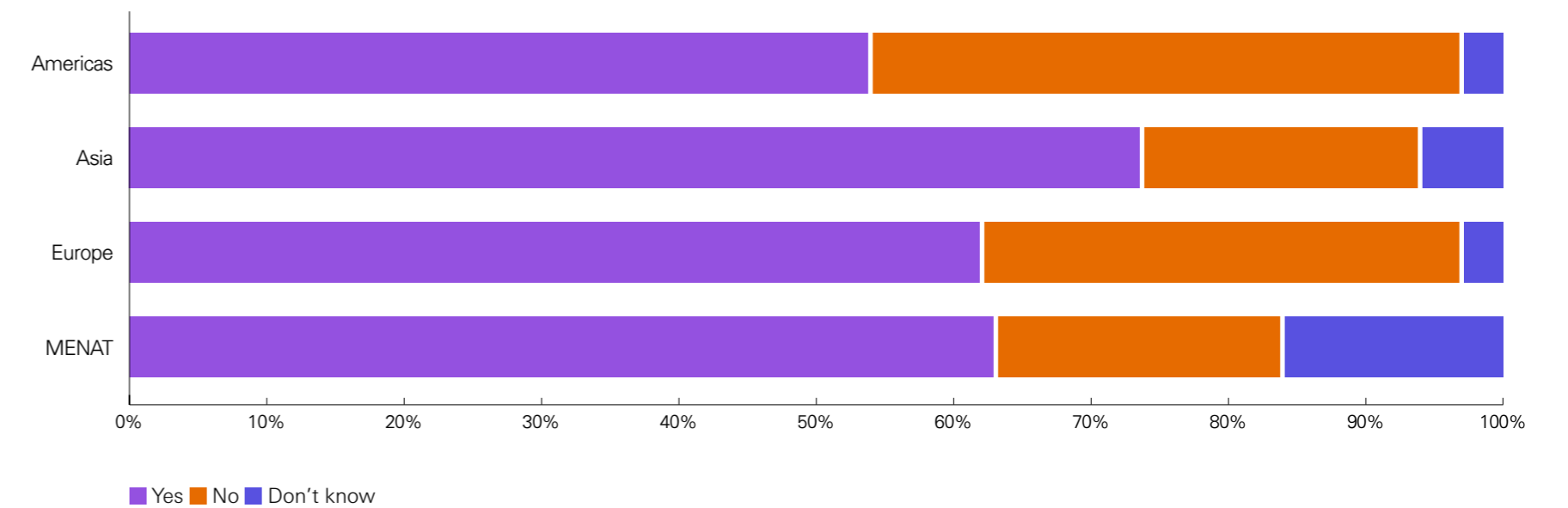
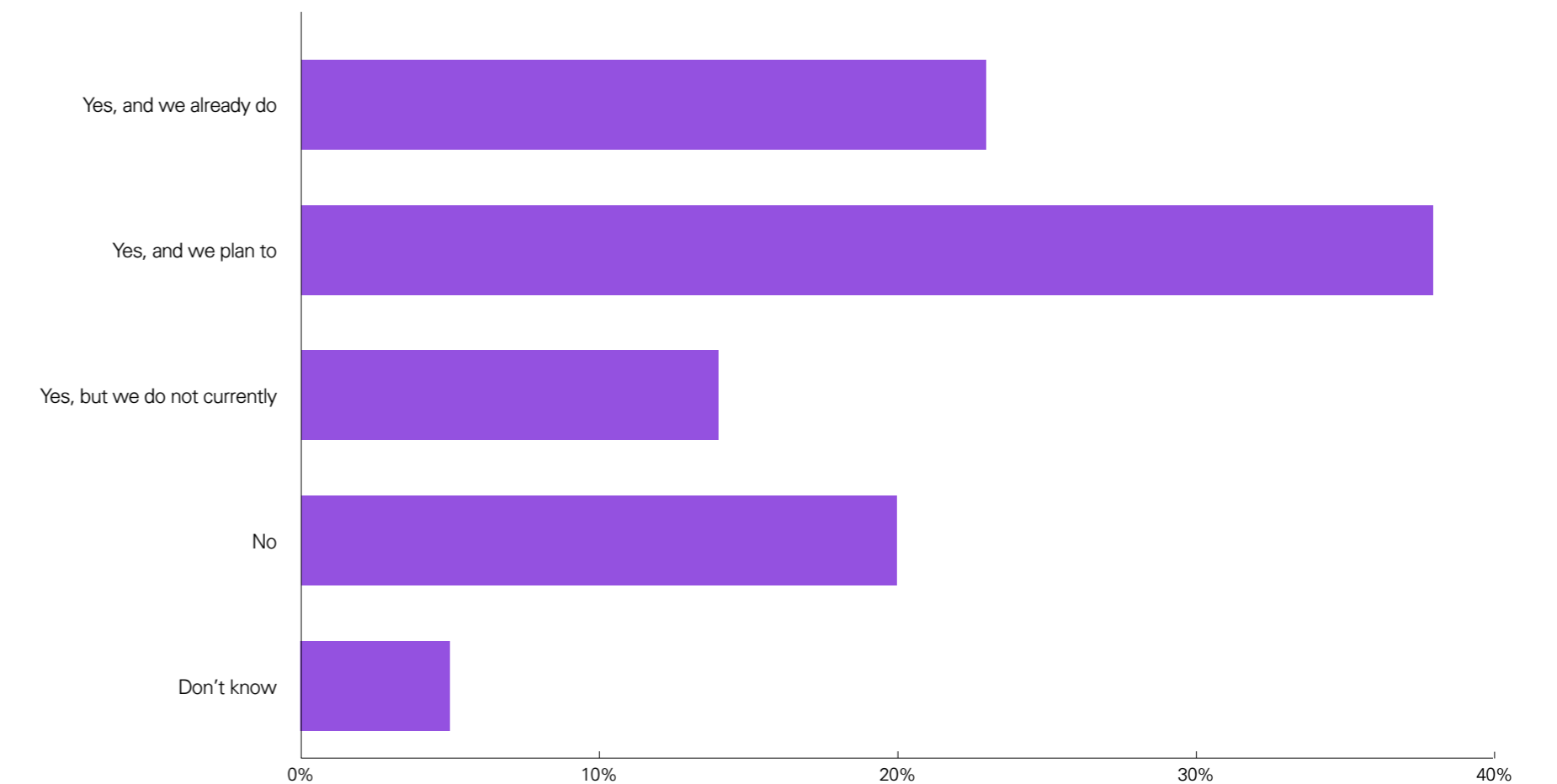


Figure 26: Investor interest in sustainable infrastructure projects is growing

Is your organisation interested in investing in sustainable infrastructure projects?



Investors target sustainable infrastructure

In the main, their top investment targets are: solar power; water and wastewater infrastructure; carbon capture and storage; electric vehicles and transport; smart cities and grids; and energy storage (Fig 27). While solar is one of the longest established sustainable infrastructure sectors, its continued strength perhaps reflects steadily falling costs, which are improving its attractiveness even as many governments around the world reduce or eliminate subsidies.

Interestingly, a third of investors are considering investments that support natural capital biodiversity (though they have yet to research them) while 31% are already investing in or researching these areas in depth.

Only a fifth of investors say they are not interested in sustainable infrastructure investment, and for them there are multiple reasons why, ranging from regulatory barriers and the long term nature of these projects, to the complexity and higher perceived risk. About a quarter of these investors say they find it difficult to assess whether these projects are truly sustainable.

Determining this is one of the main problems for investors, whether in infrastructure or other asset-classes. The finance industry is working together to solve some of these issues, and in the infrastructure sector specifically, there is an initiative underway to create a global labelling system for investments in sustainable infrastructure assets.

Powerfully, some 50% of investors – and particularly the asset-owners of insurers, pension and sovereign wealth funds – say they would be much more confident about investing in sustainable infrastructure should this system be implemented (Fig 28).



“While solar is one of the longest established sustainable infrastructure sectors, its continued strength perhaps reflects steadily falling costs, which are improving its attractiveness even as many governments around the world reduce or eliminate subsidies.”

Figure 27: Investor interest in solar power generation shines through
Which of the following types of sustainable infrastructure projects would you be most interested in investing in?

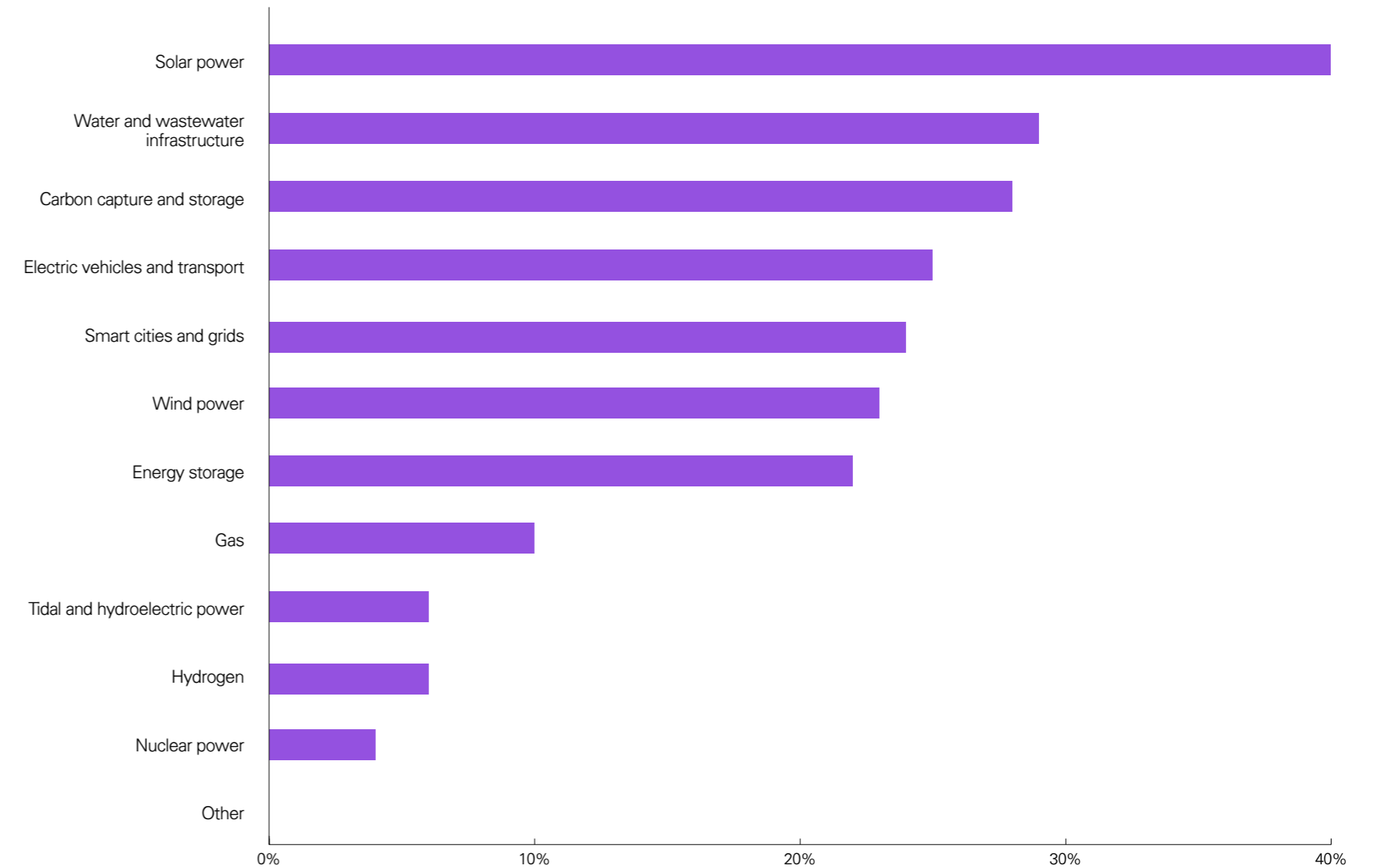
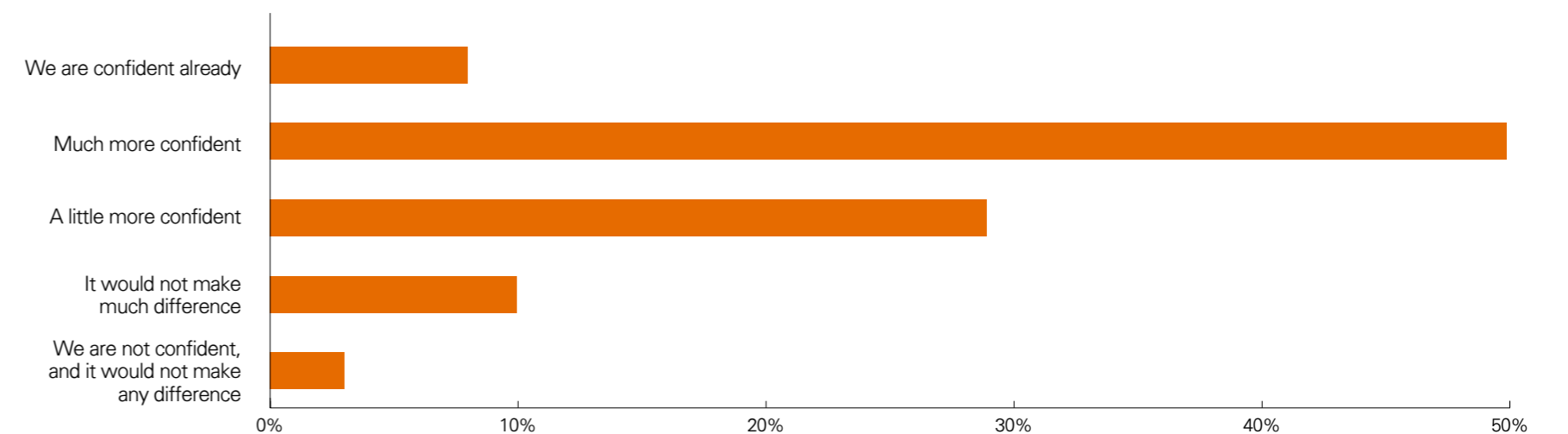


Figure 28: Investors back global labelling system
Would a global labelling system make you more confident about investing in sustainable infrastructure?



Unlocking capital for growth

The banking, investment and finance industry more broadly have an important role to fulfil in supporting the transition to a greener and more sustainable global economy.

More specifically, these industries are needed to help companies across industries form and execute a plan of attack, according to our survey.

In fact, over three-quarters of issuers believe they need advice and information from others on how to formulate and carry out their climate change and sustainability strategy, with 36% of them saying they need a lot of help – up from 26% in 2020 (Fig 29).

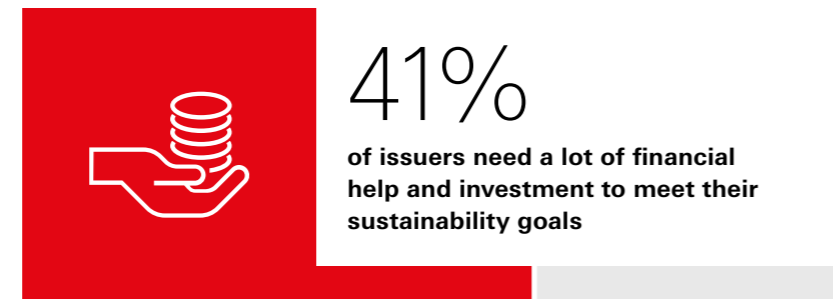
By size, some 56% of the largest issuers say they do not need any advice and information – presumably because they have the resources internally – while only 21% of the smallest issuers say the same. Real estate and insurance sector respondents are most in need of a lot of advice and information.

In the main, issuers are looking for advice from investment banks, commercial banks, governments, international bodies, and professional consultants and advisers. One particularly

interesting finding is that 64% of issuers see it as very or critically important that their professional advisers should be committed to sustainability (Fig 30). This influences which advisers they choose. In addition to a plan, some 41% of issuers say they need a lot of financial help and investment to meet their sustainability goals – up from 23% in 2020 (Fig 31).

Again, the largest issuers are most likely to say they don't need help (57%) in contrast to the smallest issuers (23%); resourcing is the likely explanation. Some 67% of electricity and water sector respondents say they need a lot of help – the highest percentage across sectors – possibly because of the significant regulatory imperative in their sectors.

In the main, issuers are also looking to investment and commercial banks to help, as well as governments and international development banks. Interestingly, issuers are increasingly looking to bond investors for help – 44% chose this option, up from 38% in 2020.



“Issuers see it as very or critically important that their professional advisers should be committed to sustainability. This influences which advisers they choose.”

Figure 29: Companies are in need of help on their strategy

Does your organisation need advice and information from others on how to formulate your strategy for climate change and sustainability, and how to carry it out?

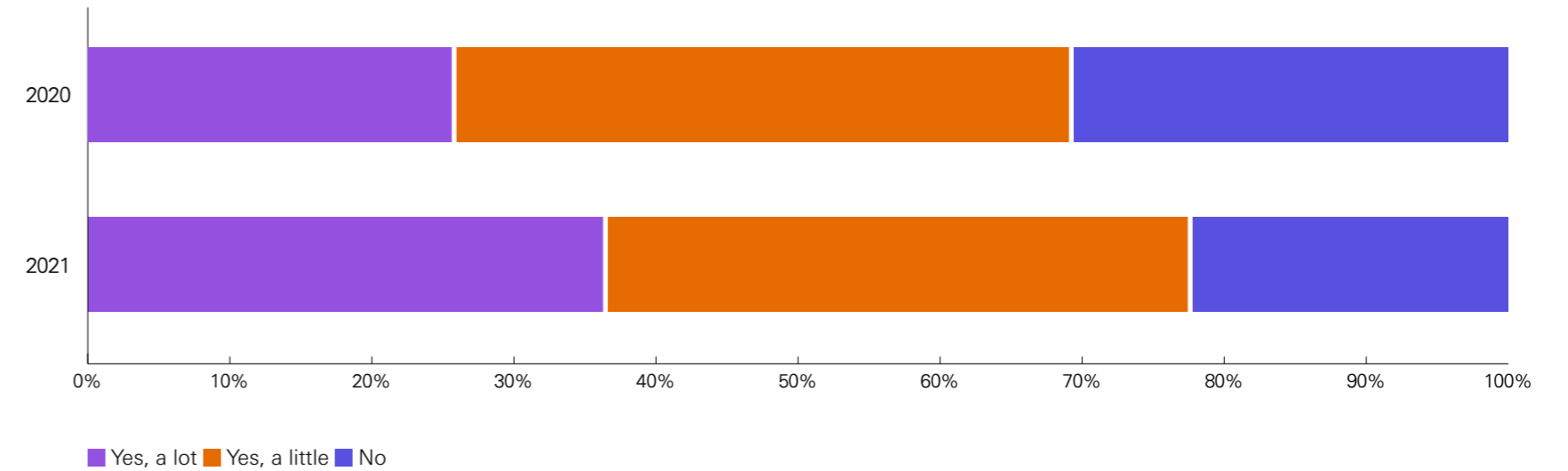


Figure 30: Advisers need to demonstrate their sustainability credentials to win business

How important is it that your financial, legal, or other professional advisers show commitment to sustainability?

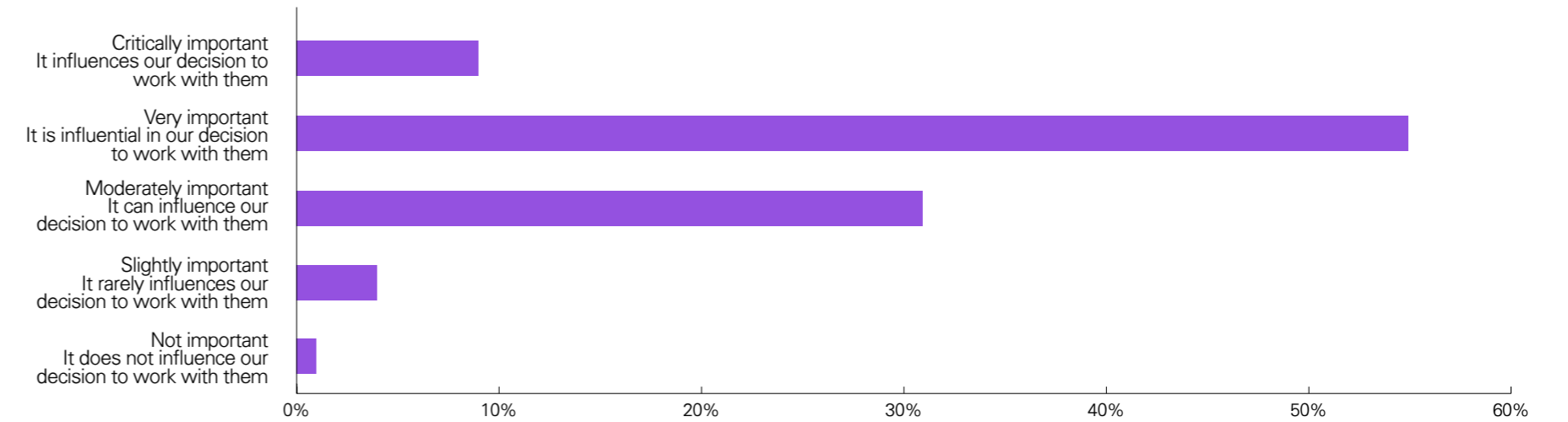
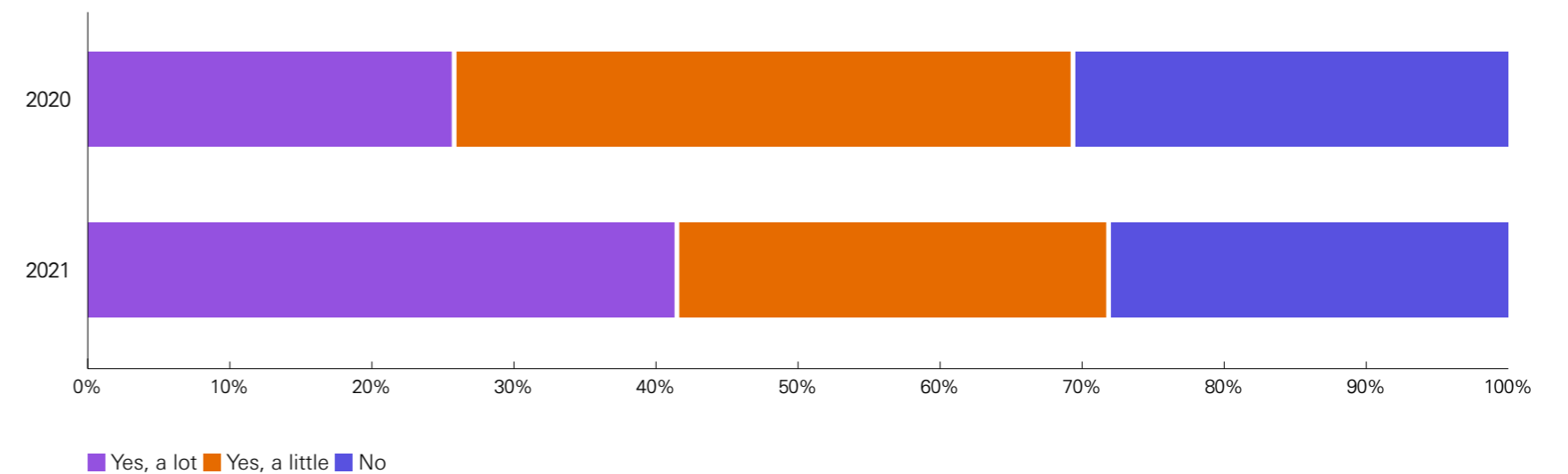


Figure 31: Companies need financial and investment support to hit sustainability goals

Does your organisation need financial help and investment to meet its sustainability goals?

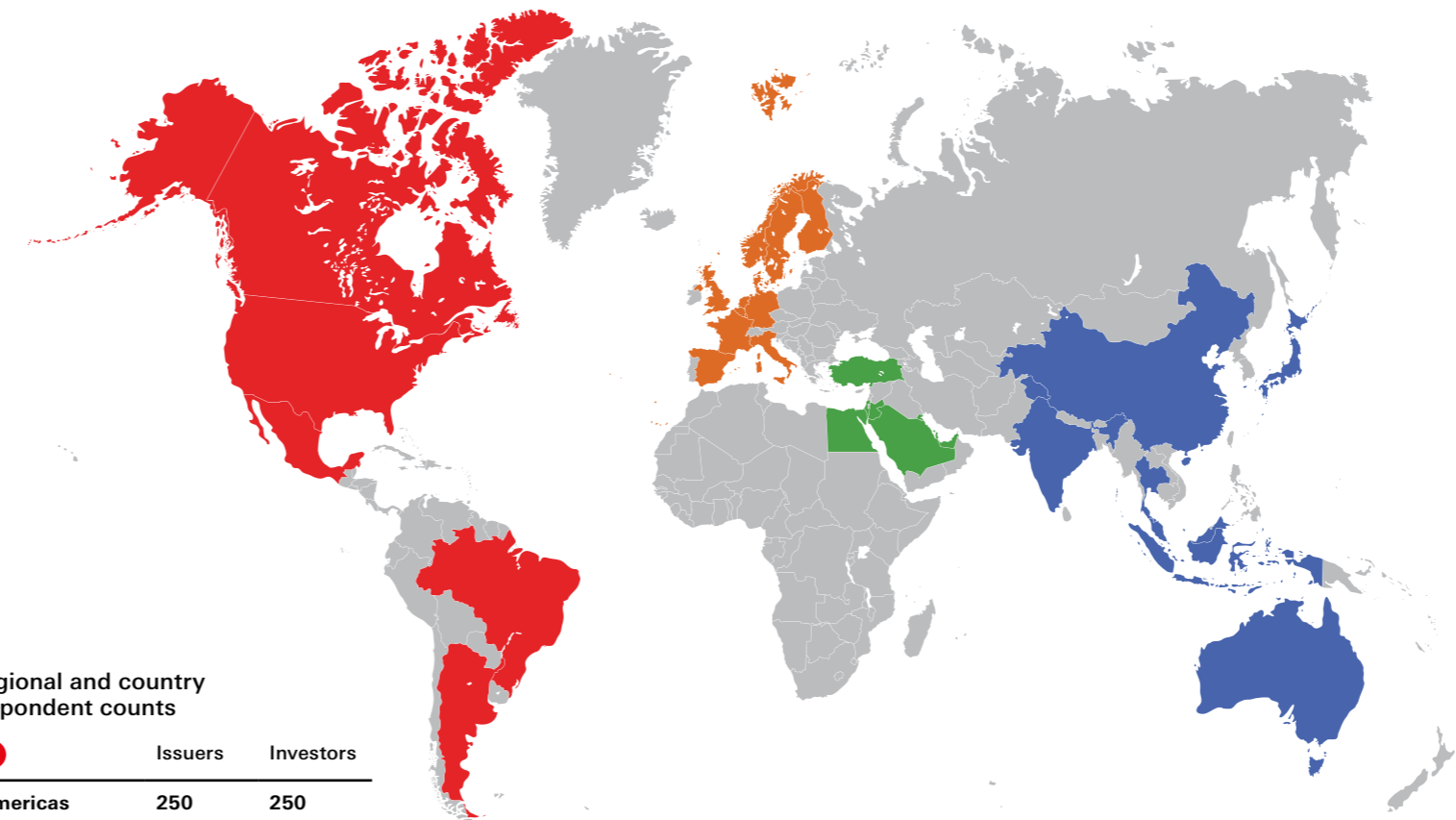


Methodology

The HSBC Sustainable Financing and Investing Survey 2021 is an annual global survey of 2,000 capital market issuers and institutional investors. The survey was run during May and June and was designed and executed by Euromoney Institutional Investor PLC.

Respondents were split evenly between issuers, from across 19 industries, and institutional investors, including asset allocators and asset owners. In total, respondents were based in 34 territories across the regions of Americas, Europe, MENAT, Asia, and ASEAN.

Issuer respondents held senior positions in the CFO office, and in finance, treasury, risk and investments. Investor respondents held senior positions in the CIO and CFO office, in portfolio and fund management and investment.



Regional and country respondent counts

	Issuers	Investors
Americas	250	250
US	126	126
Canada	50	50
Argentina	21	23
Brazil	30	30
Mexico	23	21
MENAT	150	150
Saudi Arabia	50	50
United Arab Emirates	50	50
Bahrain	5	12
Egypt	15	11
Kuwait	12	11
Qatar	10	11
Turkey	8	5

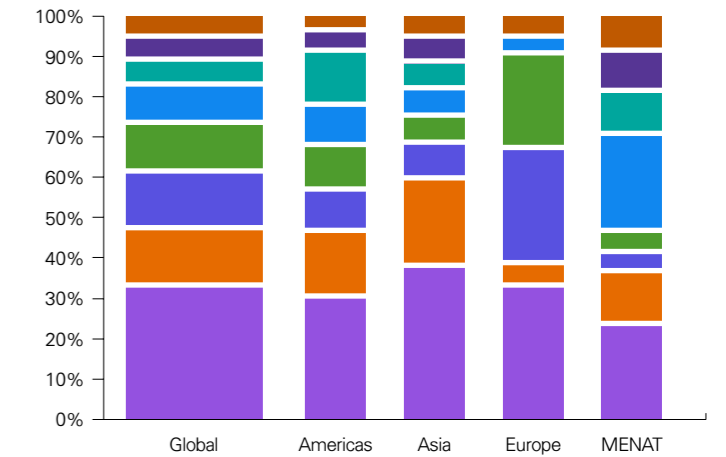
	Issuers	Investors
Europe	276	276
United Kingdom	76	76
France	50	50
Germany	50	50
Italy	20	19
Spain	24	26
Denmark, Sweden, Norway, Finland	27	30
Belgium, Netherlands, Luxembourg	29	25

	Issuers	Investors
Asia	324	324
Mainland China	100	100
Hong Kong SAR	50	50
Singapore	50	50
Malaysia	22	21
India	20	21
Indonesia	20	22
Thailand	21	17
Japan	22	20
Australia	19	23
TOTAL	1,000	1,000

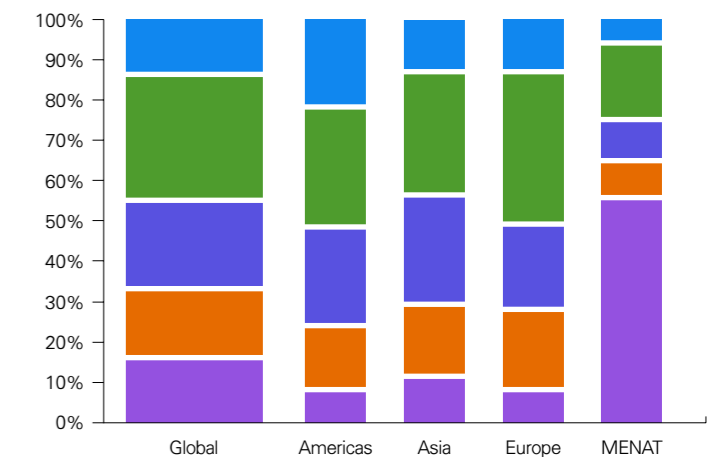
Issuers by industry/sector

Banking	90	Transport	60	Metals and mining	40
Retail and consumer services	90	Consumer goods	60	Building materials	30
Real estate	80	Industrial goods	50	Electricity and water	30
Information technology	80	Agriculture, food, beverages, tobacco	50	Local government	10
Healthcare	70	Insurance	50	Supranational organisation	0
Telecoms	70	Other	40	Central government	0
Oil, gas, coal and chemicals	60	Business services	40		

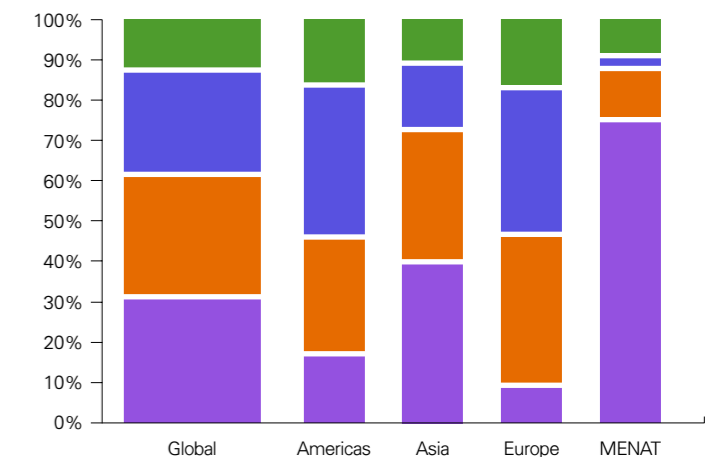
Investors by institution type



Issuers by annual revenue



Investors by AUM





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