



USC Lusk Perspectives

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Bonnie M. Wongtrakool, CFA



What is ESG?

Sample ESG Factors



- Greenhouse gas emissions
- Materials and procurement
- Pollution and land contamination
- Deforestation
- Water stress
- Resiliency to natural disasters
- Climate change adaptation and mitigation



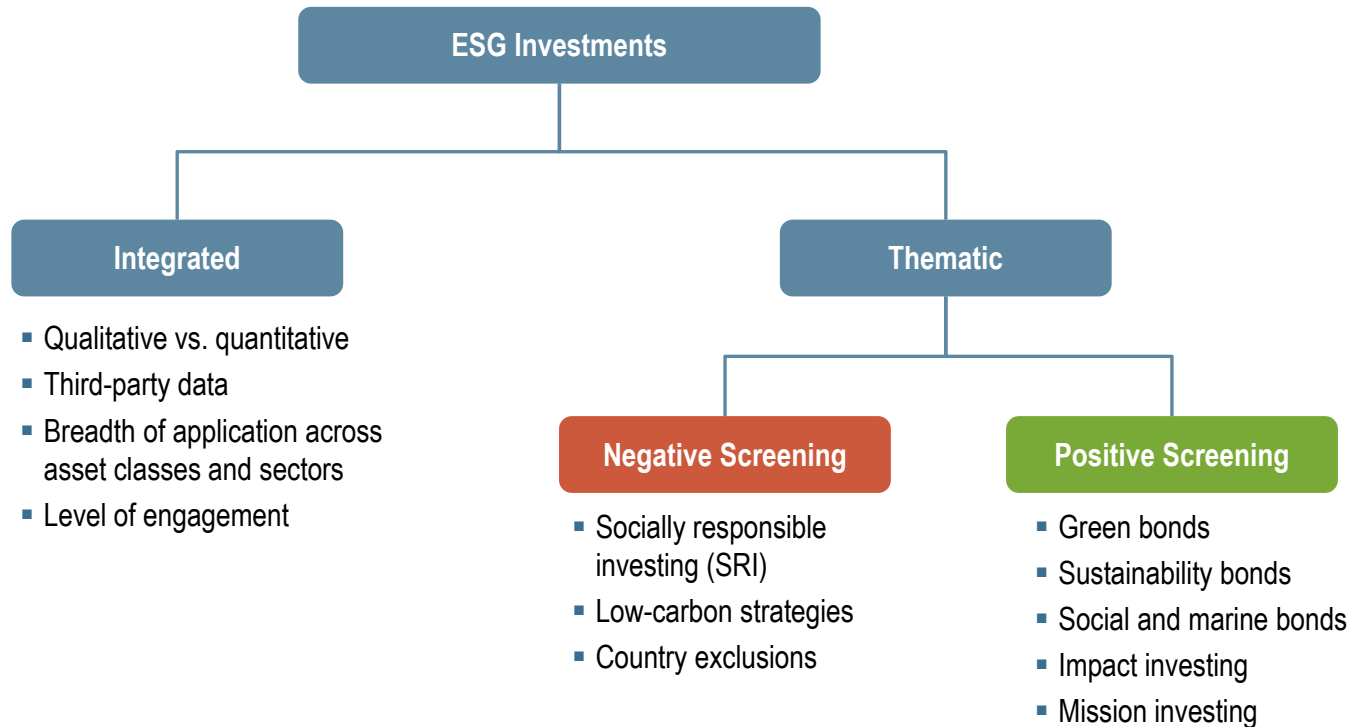
- Employee development and retention
- Modern slavery and child labor
- Working conditions
- Diversity and inclusion
- Health and safety
- Community relations and development
- Human rights



- Executive compensation and incentives
- Board quality, diversity and structure
- Ownership and control
- Tax and accounting transparency
- Bribery and corruption
- Political lobbying
- Risk management

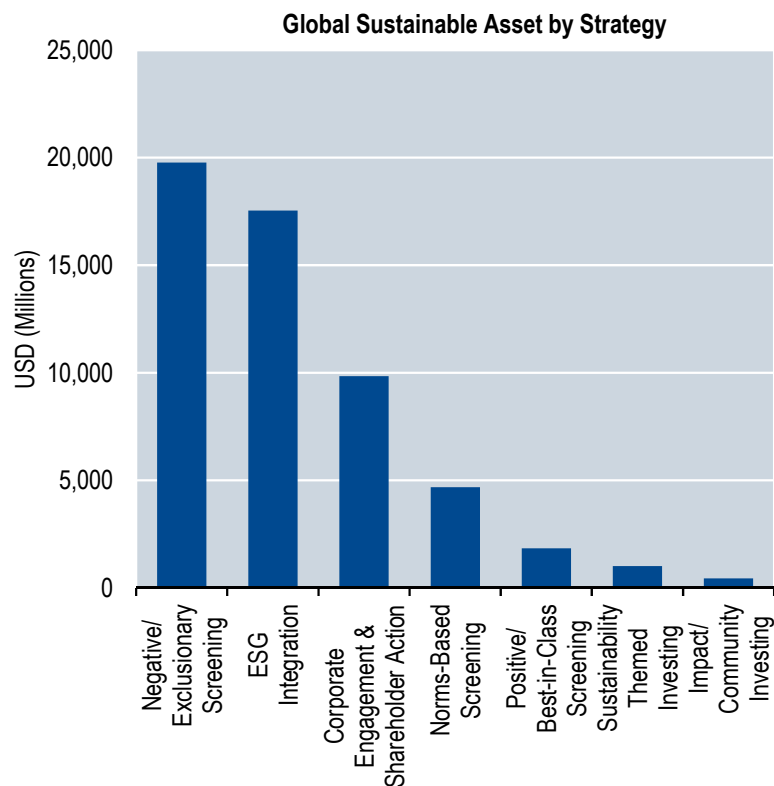
ESG Investment Universe

No “one-size-fits-all” solution



Sustainable Investment Growth by Region

Global sustainable investments now exceed \$30 trillion.



2016-2018 CAGR

	Europe	North America	Japan+ AUS+NZ	Global	Total Global Assets (USD millions)
Negative/Exclusionary Screening	2%	48%	196%	15%	19,771
ESG Integration	33%	27%	68%	29%	17,544
Corporate Engagement and Shareholder Action	12%	-7%	107%	8%	9,835
Norms-Based Screening	-17%	15%	124%	-13%	4,679
Positive/Best-in-Class Screening	15%	109%	51%	50%	1,842
Sustainability Themed Investing	6%	198%	17%	92%	1,018
Impact/Community Investing	10%	54%	13%	34%	444
All Sustainable Investing	11%	18%	70%	16%	
Total Assets by Region (USD millions)	14,773	13,691	2,865	30,683	

Source: Global Sustainable Investment Alliance. Assets for 2016 were reported as of 31 Dec 15 for all regions except Japan, which reported as of 31 Mar 16. Assets for 2018 were reported as of 31 Dec 17 for all regions except Japan, which reported as of 31 Mar 18. Conversations from local currencies to US dollar were at the exchange rates prevailing at the date of reporting. The total shown are net values after adjustments to remove double-counting, since managers may apply more than one strategy to a given pool of assets. Growth is not annualized.

Investment styles defined as follows:

Negative/Exclusionary Screening: The exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria.

ESG Integration: The systematic and explicit consideration by investment managers of environmental, social and governance factors into financial analysis.

Corporate Engagement and Shareholder Action: Employing shareholder power to influence corporate behavior through direct corporate engagement (i.e. communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines.

Norms-based Screening: Screening of investments based on compliance with international norms and standards such as those issued by the OECD, ILO, UN and UNICEF; may include exclusions of investments that are not in compliance with norms or standards or over and underweighting.

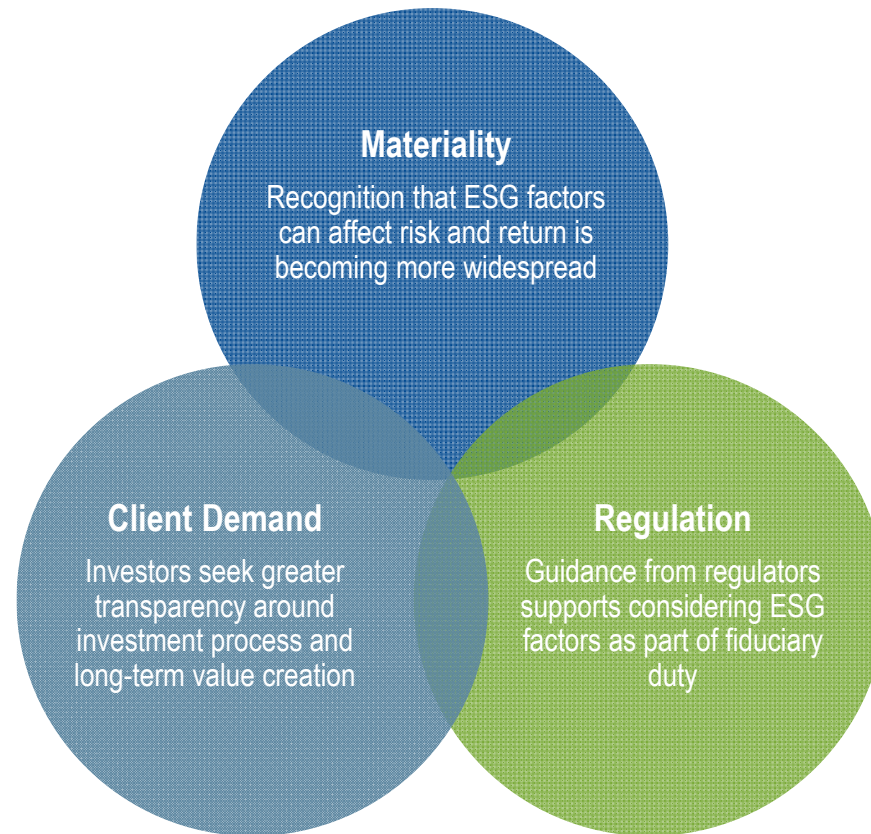
Positive/Best-in-Class-Screening: Defined as Investment in sectors, companies or projects selected from a defined universe for positive ESG performance relative to industry peers.

Sustainability Themed Investing: Investment in themes or assets that address specific sustainability issues such as climate change, food, water, renewable energy, clean technology and agriculture.

Impact Investing: Targeted investments aimed at solving social or environmental problems. Impact investing includes community investing, where capital is specifically directed to traditionally underserved individuals or communities, or financing that is provided to businesses with a clear social or environmental purpose.

What's Driving ESG Growth?

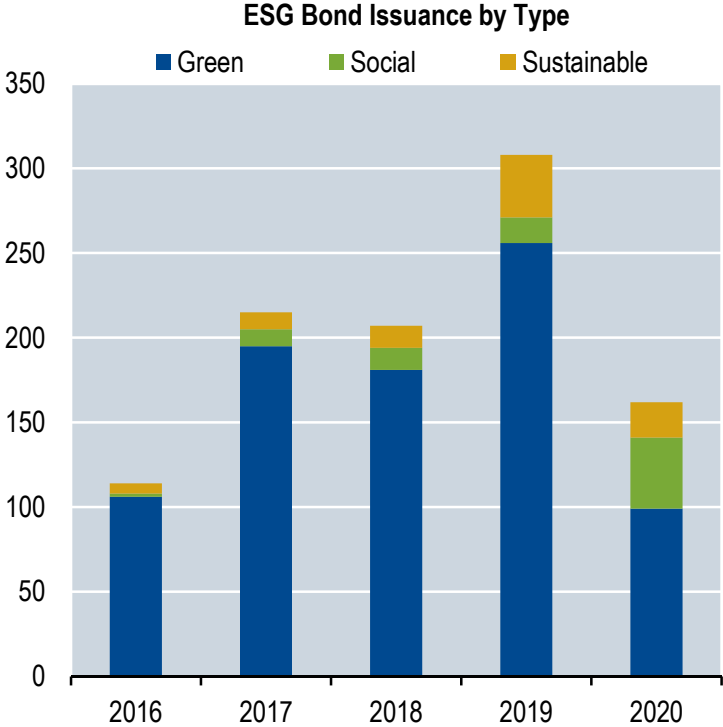
Interest in sustainable investing has been driven by a confluence of trends.



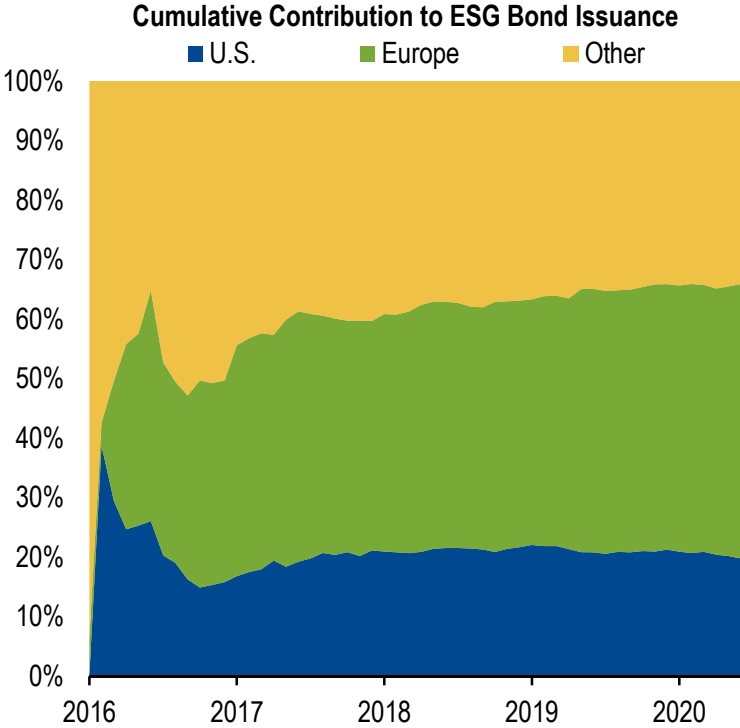
Source: UMPRI, Western Asset.

ESG Bond Issuance

Outstanding sustainable debt now exceeds \$1 trillion.



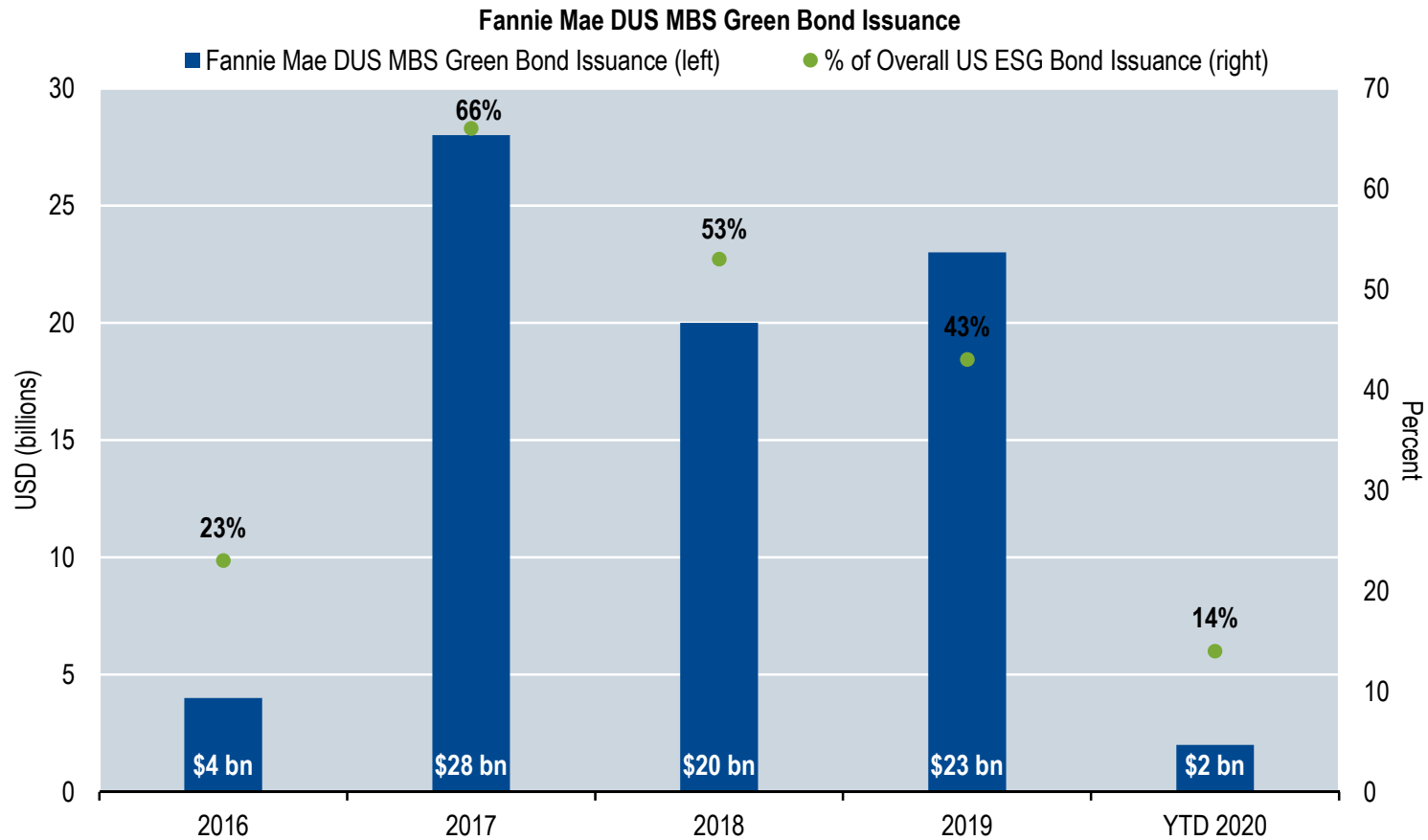
Source: Dealogic, Bloomberg, BBVA Credit Research



Source: Dealogic, Bloomberg, BBVA Credit Research. As of 30 Jun 20

Fannie Mae Green Bond Issuance

Fannie Mae has issued over \$75 billion in green CMBS since 2010.



Source: Fannie Mae, BBVA Credit Research. As of 17 Jul 20