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your partner for alternative investments

GLOBAL INSIGHTS ON ESG IN ALTERNATIVE INVESTING

MARCH 2015

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ACKNOWLEDGMENTS

This survey was produced by Mercer's Investments business in partnership with LGT Capital Partners.

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Most importantly, we would like to thank the 97 international institutional investors and investment decision-makers who contributed their time and market intelligence by completing our survey.

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www.mercer.com

LGT Capital Partners is a leading alternative investment specialist with US$50 billion in assets under management and more than 400 institutional clients in 32 countries. An international team of over 300 professionals is responsible for managing a wide range of investment programs focusing on private markets, liquid alternatives, specialized long-only, and multi-asset class solutions. Headquartered in Pfaeffikon (SZ), Switzerland, the firm has offices in New York, Dublin, London, Vaduz, Dubai, Beijing, Hong Kong, Tokyo, and Sydney.
www.lgtcp.com

WELCOME MESSAGE

LGT Capital Partners (LGT CP) has a long-held commitment to environmental, social and governance (ESG) topics.
As early as 2003, many of our investment programs have had a responsible investment clause written into their governing documents, authorizing us to exclude investments with significant ESG risks. In 2008, LGT CP became a signatory to the United Nations Principles for Responsible Investment (UN PRI), which has helped us to sharpen our focus on ESG over the last several years. As part of this deepening commitment, in 2012 we introduced a process for assessing the ESG practices of the private equity and hedge fund managers with whom we invest. Toward this end, our investment teams analyze and evaluate the ESG practices of our managers, as well as engage with them to encourage continued progress on ESG integration.

The current ESG survey and report builds on this work by looking at ESG issues from the "other side" — from the point of view of institutional investors. It helps us define expectations for our managers and develop further our process for evaluating and engaging with our managers on ESG. Ultimately, we believe the results of this survey will aid us in making ESG assessment an even more effective part of our overall investment and risk management process.

ESG Committee, LGT Capital Partners

At Mercer, our investment view goes beyond traditional financial analysis and considers a wide range of risks and opportunities — including sustainability factors such as good governance, and environmental and social impacts. We believe that this view is likely to create and preserve long-term investment capital.

We are pleased to partner with LGT Capital Partners to conduct a global survey exploring the beliefs and activities of institutional investors on the topic of ESG integration in alternative asset classes. Our findings demonstrate a growth in interest among institutional investors to incorporate ESG considerations into investment decision-making.

Deb Clarke, Partner and Global Head of Investment Research, Mercer

KEY FINDINGS

Mercer and LGT CP are pleased to present the findings from our survey of institutional investors on incorporating ESG considerations when investing in alternative assets.

PREVALENCE OF ESG CRITERIA IN ALTERNATIVES

- Three-quarters of respondents incorporate ESG criteria when investing in alternative asset classes.
- Interest among stakeholders is high: 69% of respondents believe that their stakeholders are concerned about ESG issues.
- ESG integration is on the rise: More than half of respondents who apply ESG criteria started doing so over the past three years.

MOTIVATIONS FOR INCORPORATING ESG

- Improving risk-adjusted returns: 57% of respondents believe that considering ESG factors in investment decision-making increases risk-adjusted returns. The vast majority — 90% — think that incorporating ESG criteria has a positive or neutral impact on returns.
- Reputational risk management: More than two-thirds believe that incorporating ESG criteria into the investment process is central to reputation management.

ESG EXPECTATIONS IN MANAGER SELECTION AND MONITORING

- The extent to which respondents consider ESG varies by asset class. In private equity, infrastructure and real estate, investors (22%–33% depending on asset class) give significant consideration to ESG factors. For hedge fund manager selection, ESG considerations play a less prominent role, but 66% of investors consider ESG at least to some extent.
- There appears to be an unmet demand among institutional investors for managers who can address their ESG expectations. Most respondents report that the majority of managers they have reviewed do not incorporate ESG into investment decision-making.

THE MOST IMPORTANT ESG ISSUES

- Environmental: Carbon intensity and climate change-related risks stood out as topics with near-universal agreement among investors.
- Social: Human rights abuses, child labor, and controversial weapons garnered the most support.
- Governance: The quality of corporate boards, corruption and accounting practices were the chief governance concerns.
- Ethically-based exclusion criteria, such as tobacco, alcohol, and adult entertainment, found limited support among respondents.

CURRENT ISSUES, CHALLENGES, AND EXPECTED CHANGES

- Focus on ESG is expected to increase: Many respondents in the early stages of embedding responsible investing principles expect a greater focus on ESG in the future.
- Growing interest in reporting on ESG: Among those with established processes for incorporating ESG considerations, a majority state their intent to establish more formal ESG reporting.
- Best practice standards could improve ESG uptake: More than half of respondents believe that their current approach to ESG issues would be significantly improved through greater clarity on techniques and strategies for ESG incorporation. This suggests a role for organizations that have experience in ESG integration to share their insights on how this can be done.

SURVEY PARTICIPATION

This survey focused on institutional investors' views on ESG considerations when investing in alternative assets. For the purposes of the survey, alternative asset classes were chiefly defined as hedge funds, infrastructure, private equity, and real estate.

Global in its reach, the survey covered 97 pension funds, foundations, endowments, and other institutional investors from 22 countries and territories:

Australia	Japan	Sweden
Belgium	South Korea	Switzerland
Canada	Malaysia	Thailand
Denmark	Netherlands	Trinidad and Tobago
Finland	New Zealand	UK
France	Norway	USA
Germany	Saudi Arabia	
Hong Kong	Singapore	

Chart 1: Survey respondents by region

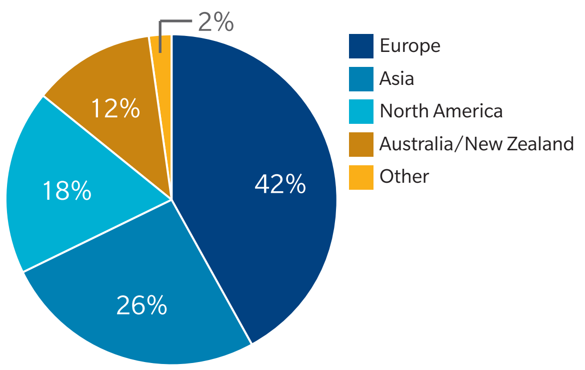
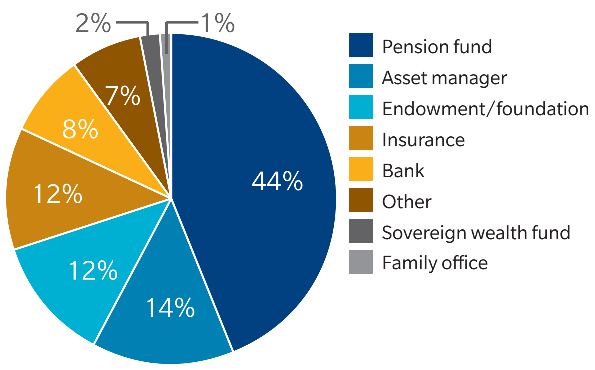


Chart 2: Survey respondents by organization type



With nearly three-quarters of respondents serving in the role of chief investment officer, head of asset class, or portfolio manager, the survey captured the views of decision-makers from funds ranging in size from less than US$100 million to over US$100 billion. Survey participants represent total assets of more than US$1 trillion.

Chart 3: Survey respondents by position

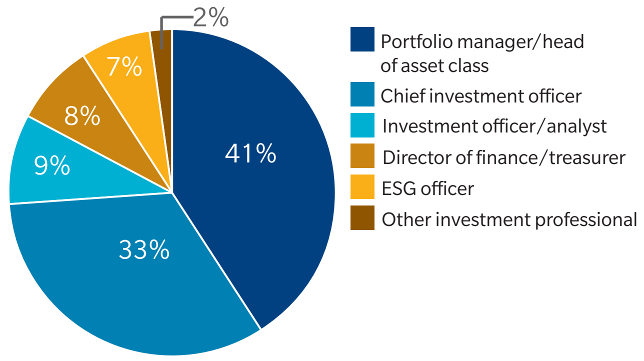
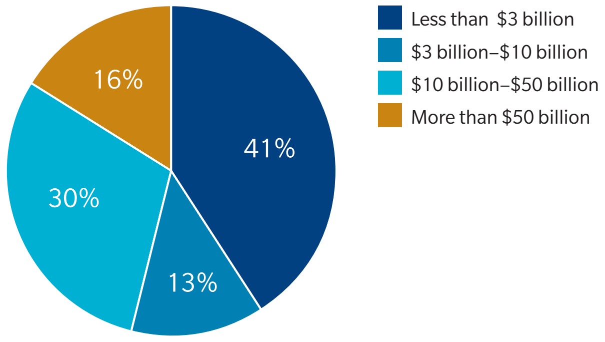
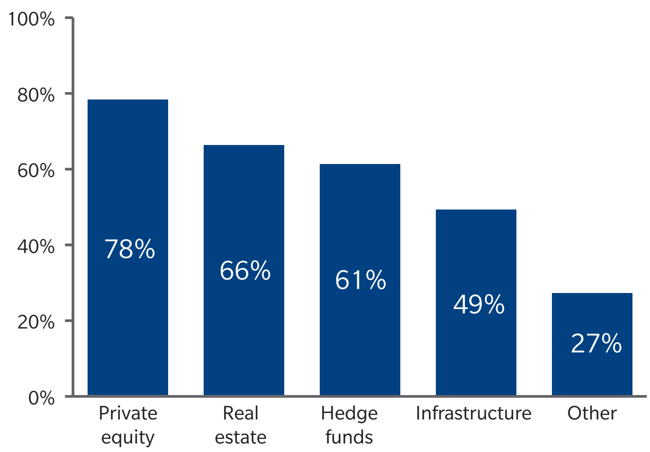


Chart 4: Survey respondents by assets under management



Survey participants represented all of the major alternative asset classes.

Chart 5: Proportion of survey respondents with allocations to the various asset classes



PREVALENCE OF ESG CRITERIA IN ALTERNATIVES

Approximately three-quarters of respondents (76%) incorporate ESG criteria into their investment decisions in alternative asset classes. Of the organizations that do so, more than half (54%) report having incorporated ESG criteria for three years or less, which suggests rising expectations for asset managers over time, as investors further define their ESG frameworks.

Chart 6: Integration of ESG criteria into investments

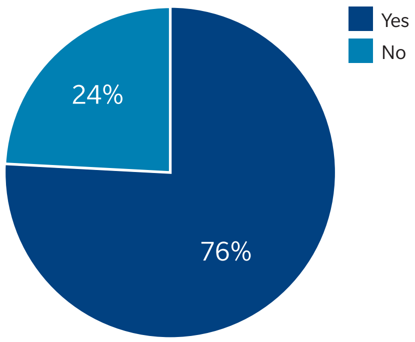
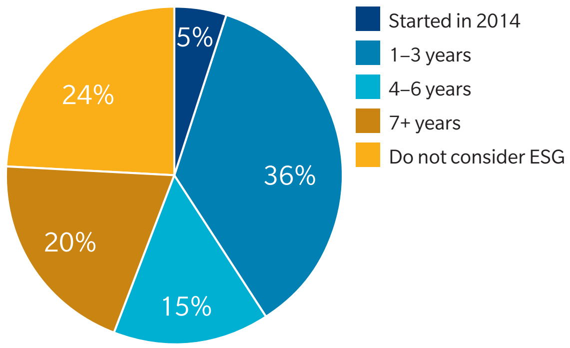
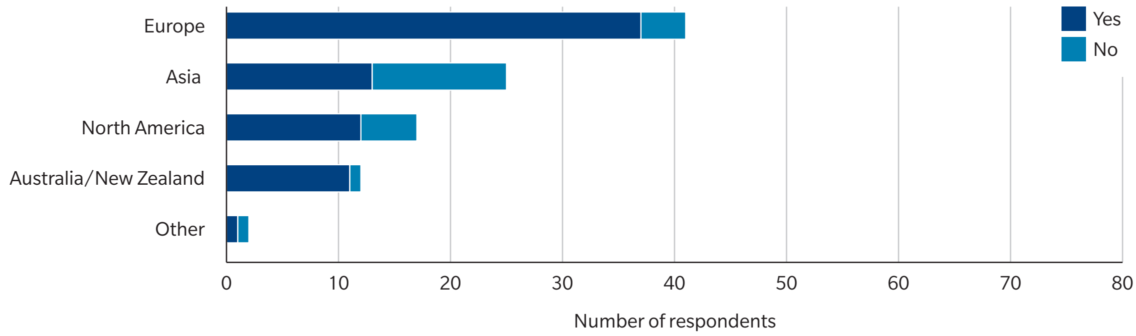


Chart 7: Experience with integrating ESG criteria into investments



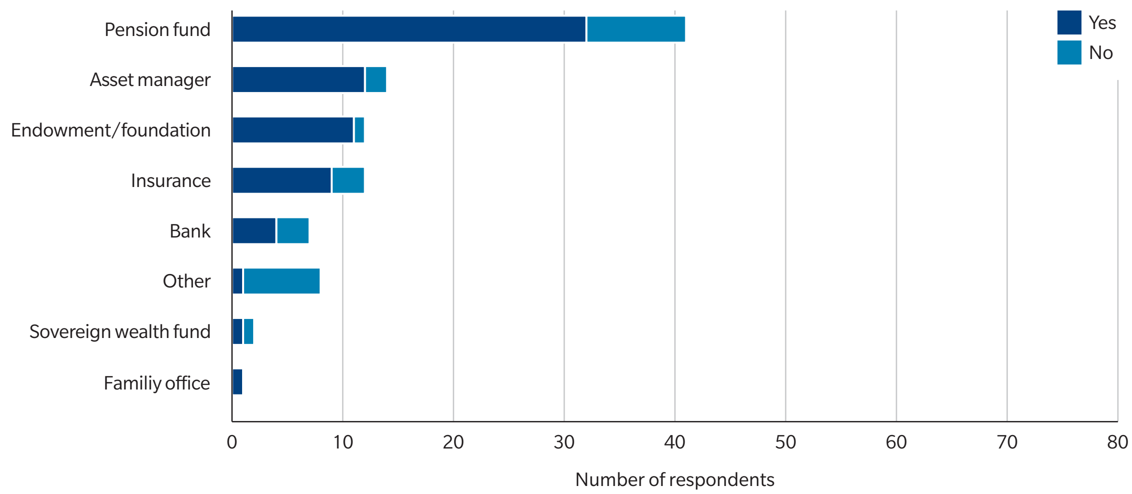
On a regional basis, the highest proportion of respondents who incorporate ESG criteria are in Europe and Australia/New Zealand, followed by North America and Asia. These findings broadly correspond with data reported by the Global Sustainable Investment Alliance (GSIA),which found that the proportion of assets under management subject to ESG scrutiny in Europe is roughly twice that of North America.[1] GSIA also found that ESG criteria are applied to a much smaller proportion of total assets in Asia and Japan.

Chart 8: Integration of ESG criteria into investments by region



There are no meaningful differences between investor types in terms of the prevalence of ESG integration, at least not among the four largest groups of investors represented in our survey. The overwhelming majority of pension funds, asset managers, endowments/foundations, and insurers incorporate ESG into their investment decision-making, with endowments/foundations having near universal agreement on the practice.

Chart 9: Integration of ESG criteria into investments by organization type



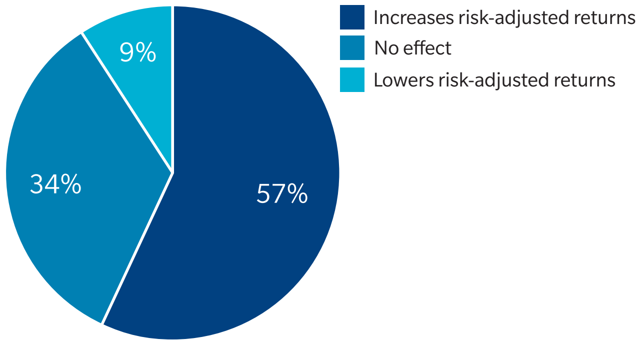
1 For further information, see http://www.gsi-alliance.org/latest-trends-report.

MOTIVATIONS FOR INCORPORATING ESG

IMPROVING RISK-ADJUSTED RETURNS

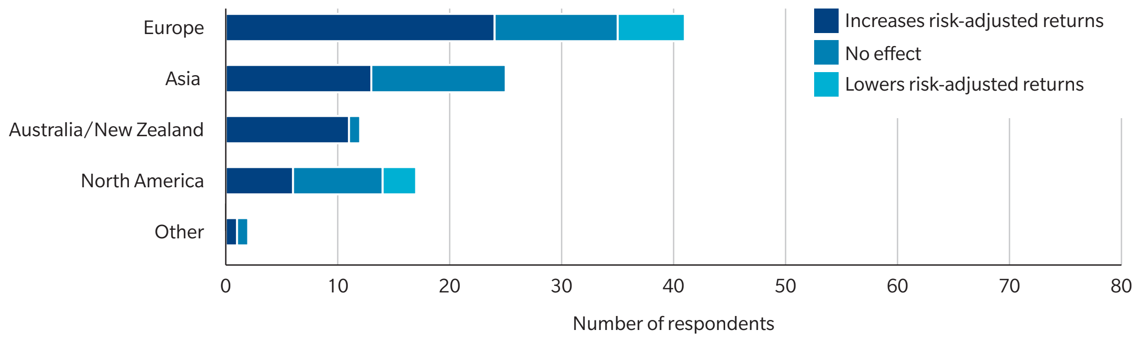
We asked respondents whether they believe incorporating ESG considerations into investment decision-making was likely to impact long-term risk-adjusted returns. A full 57% percent believe that incorporating ESG criteria has a positive impact on risk-adjusted returns, whereas only 9% think that it lowers them.

Chart 10: What impact does incorporating ESG criteria have on risk-adjusted returns?



Looking at survey responses on a regional basis shows that Australian and New Zealand investors share the strongest consensus that risk-adjusted returns are positively impacted by incorporating ESG considerations. There is also widespread agreement among European respondents that risk-adjusted returns are improved through ESG measures, with investors in the Nordics and UK expressing the strongest views in favor of them. Asian respondents are nearly evenly divided over whether ESG factors increase returns or have no effect, whereas there is no consensus on the topic among North American respondents.

Chart 11: What impact does incorporating ESG criteria have on risk-adjusted returns? (by region)

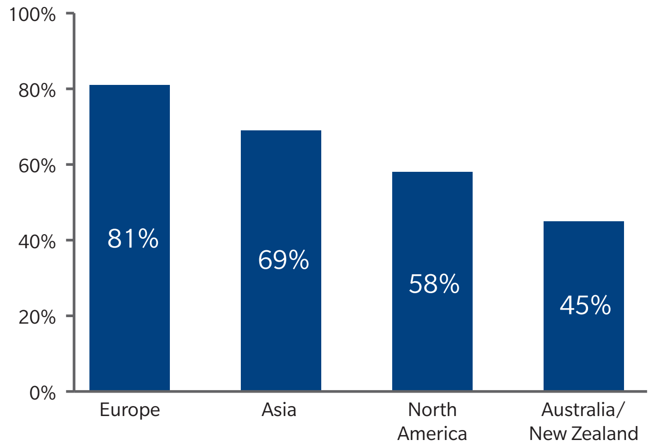


Our interpretation is that investors see ESG factors as a way of reducing risk in their portfolio rather than simply boosting returns. This is supported by the high number of respondents who reported reputational risk as a driver for the inclusion of ESG considerations in investment decision-making.

REDUCING REPUTATIONAL RISK

When asked to name the primary reasons for incorporating ESG into investment decisions, more than two-thirds (70%) of respondents reported reputational risk management. It is an especially important topic among investors in the Nordic region, Switzerland, and the Benelux countries, which likely reflects the pressures for increased transparency and public reporting on investments for many institutional investors in the region. North American and Asian respondents were also likely to emphasize reputational risk management as a key driver.

Chart 12: Respondents selecting reputational risk as a driver of ESG integration (by region)



ESG ISSUES ARE IMPORTANT TO STAKEHOLDERS

We asked respondents whether their stakeholders are concerned about ESG issues in investment decision-making, and approximately 7 out of 10 respondents reported that this is the case.

In fact, stakeholder pressure is considered an important driver for including ESG criteria in investment decision-making. In particular, investors in the UK and Nordic countries reported stakeholder pressure influencing their approach, as did respondents in Australia/New Zealand and Asia.

Chart 13: How concerned are your stakeholders about the integration of ESG criteria in investments?

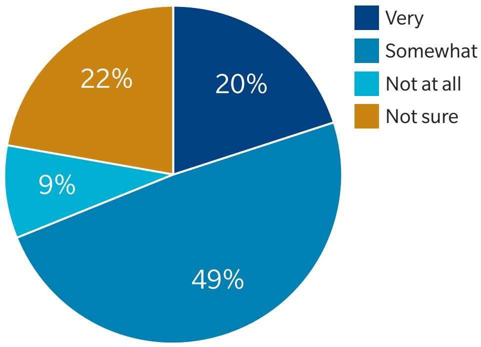
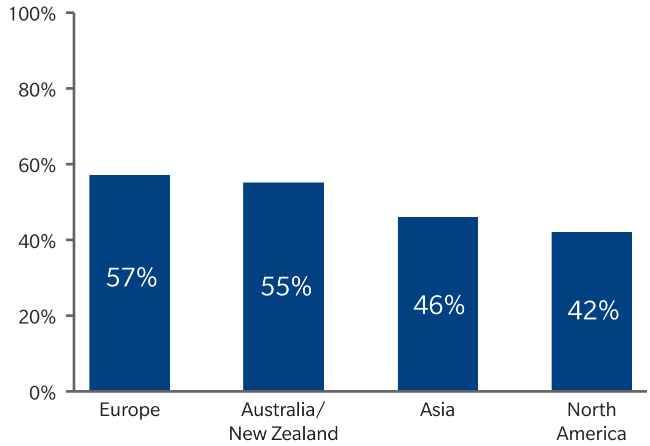


Chart 14: Respondents selecting stakeholder pressure as a driver of ESG integration (by region)



INDUSTRY INITIATIVES, ETHICAL OBJECTIVES, AND REGULATION ARE FURTHER REASONS FOR INCLUDING ESG CRITERIA

Although investors from all regions reported improved risk-adjusted returns, reduced reputational risk, and stakeholder concerns as key drivers for including ESG factors in investment decision-making, other topics also play a role. Investors in certain regions also listed industry initiatives, regulations, and ethical considerations as drivers of ESG integration.

Industry initiatives, such as UN PRI, were identified by a large proportion of German respondents, whereas voluntary stewardship codes and ESG disclosure regulations were important to UK and Dutch respondents. This is not surprising given the strong industry support of the UK and Eumedion Stewardship Codes, introduced in 2010 and 2011, respectively.

Responses from Asian institutional investors reflected the strong representation of Japanese respondents. A large proportion identified regulation and industry initiatives as key to ESG uptake, which is understandable given the widespread adoption of the Japanese Stewardship Code introduced in April 2014. By September 2014, 160 institutional investors had signed up to the code, including the majority of the largest institutional investors in Japan.

Overall, however, regulation was considered the least important motivation for considering ESG.

Chart 15: Respondents selecting industry initiatives as a driver of ESG integration (by region)

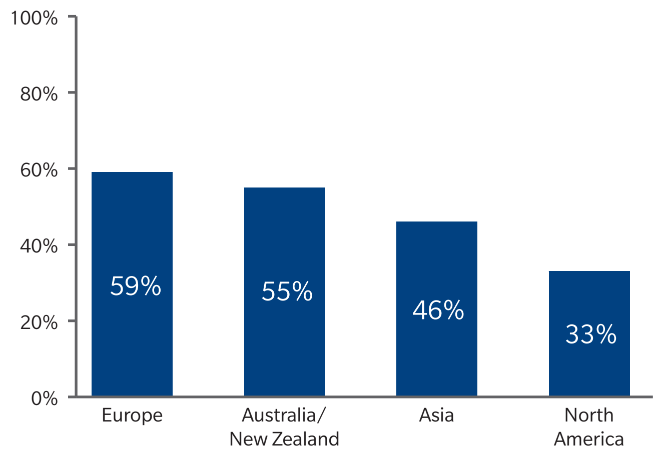
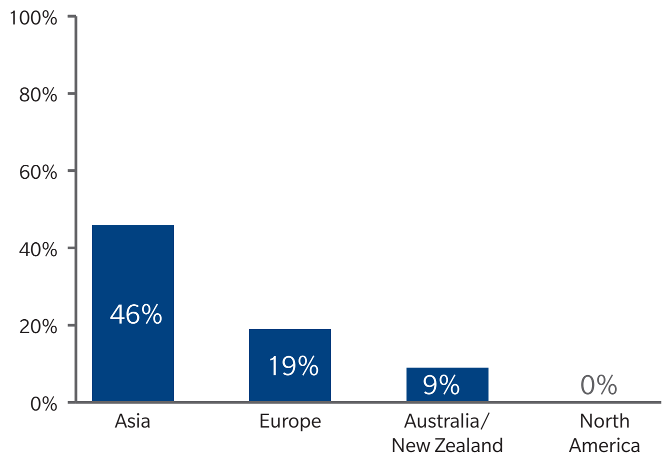
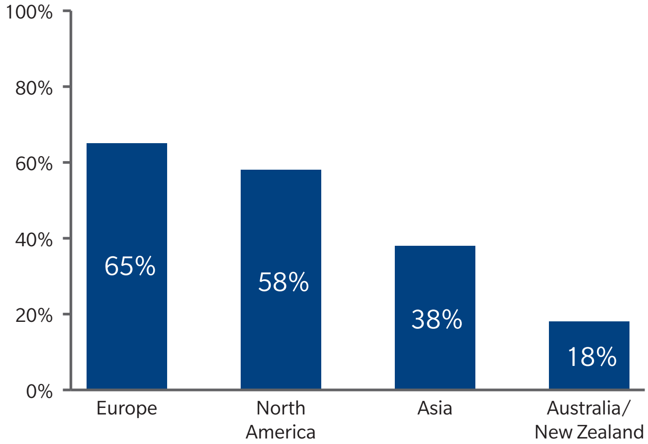


Chart 16: Respondents selecting regulation as a driver of ESG integration (by region)



Ethical objectives were most likely to be listed by European respondents as motivating factors. Within this group, respondents in Germany and the Benelux countries were most concerned by these considerations. Ethical objectives were also relevant to a large proportion of North American respondents, which includes a number of endowments and foundations, the majority of which have an explicit policy to employ positive/negative screening criteria.

Chart 17: Respondents selecting ethical objectives as a driver of ESG integration (by region)



ESG EXPECTATIONS IN MANAGER SELECTION AND MONITORING

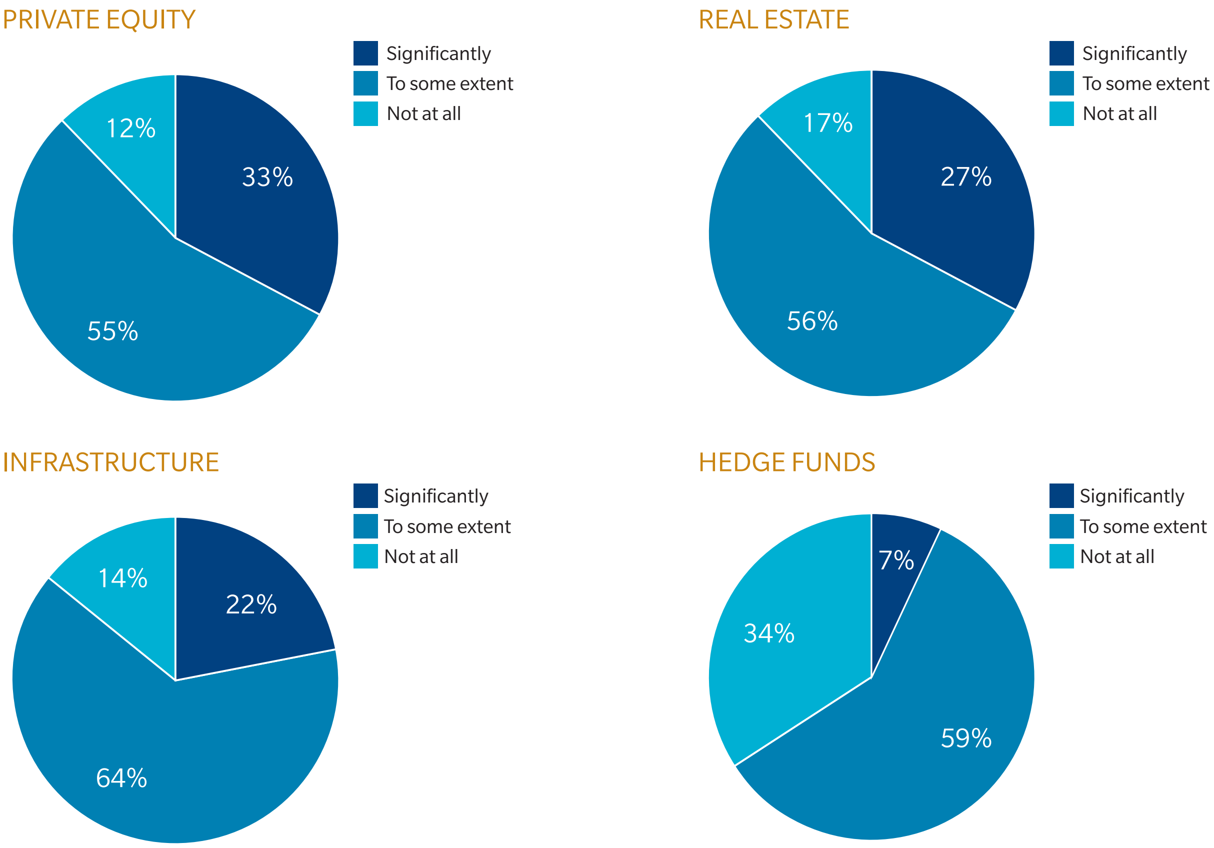
We asked respondents about the extent to which they consider ESG factors when selecting, appointing, and monitoring investment managers.

ESG EXPECTATIONS ACROSS ALTERNATIVE ASSET CLASSES

There is a surprising degree of agreement between investors in private equity, infrastructure and real estate over the importance of ESG considerations in manager selection and monitoring. Across the three illiquid asset classes, roughly one-third of respondents (22%–33% depending on asset class) give significant consideration to ESG factors, with private equity in the clear lead at 33% of all respondents. Less than 20% of investors in each category said they do not consider ESG factors at all, which shows that ESG considerations have firmly taken root in illiquid asset classes.

For hedge funds, the picture is more mixed, as 66% of respondents said they consider ESG factors at least to some extent, while 34% said they do not consider these criteria at all. This is in large part attributable to the additional complexity of managing ESG risks in hedge funds, as they often pursue strategies that do not readily lend themselves to ESG assessment.

Chart 18: To what extent does a manager's ESG approach factor into manager selection?

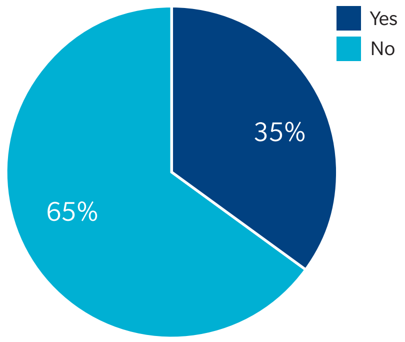


INSTITUTIONAL INVESTORS SEEK GREATER ESG UPTAKE FROM MANAGERS

A large majority (65%) of institutional investors who consider ESG criteria in manager selection report that most of the managers they have reviewed do not incorporate ESG factors into their investment decision-making. This suggests an unmet demand for managers who can address their ESG expectations.

Increasing interest in the topic is also reflected in the rapid uptake of ESG initiatives, such as the Montreal Carbon Pledge, the Japanese Stewardship code, and UN PRI. The challenges of ESG implementation lie primarily with investment managers, but perhaps better collaboration between investors and managers would help the effort. The opportunities for investment managers embracing ESG criteria are obvious.

Chart 19: Do most investment managers reviewed by respondents incorporate ESG into investment decision-making?



HOW MERCER INTEGRATES ESG FACTORS INTO MANAGER RESEARCH

Mercer draws a distinction between the financial risks associated with ESG factors and the growth opportunities in industries that are most directly affected by sustainability challenges.

- ESG integration focuses on risk mitigation at the portfolio level — for example, how managers capture these intangibles within their current investment framework.
- Allocation to sustainability themes focuses on identifying growth opportunities in sectors and markets that seek to address sustainable development challenges — for example, how managers capture additional alpha and beta opportunities.

Mercer has been assigning ESG ratings at the investment-strategy level since 2008. ESG ratings assess the extent to which asset managers integrate ESG factors and active ownership activities into their investment decision-making framework. An ESG 1 rating reflects an investment strategy that incorporates ESG factors into the decision-making process. An ESG 4 rating suggests little to no action by the portfolio manager to integrate such factors.

The table below summarizes our view on the current state of ESG integration as reflected by Mercer's ESG ratings across mainstream alternative investment strategies, and the range of investment strategies available from a sustainability-themed perspective.

There are now more than 6,000 strategies with a Mercer ESG rating, and they are increasingly being used by clients as an additional tool for differentiation in the manager selection and review process. Different approaches exist for clients to incorporate ESG factors. It could mean simply applying a minimum standard for ESG ratings (for example, an ESG 3 standard, applied either at the individual strategy level or as the average across a whole portfolio) or could include more structured due diligence and engagement.

Asset class	Current state of ESG integration (distribution of Mercer ESG ratings)	Availability of sustainability-themed strategies
Hedge funds	Low	Low
Infrastructure	High	Medium
Private equity	Medium/high	Low/medium
Property	Medium/high	Low

Note: Low: <5%; Low/medium: 5%–10%; Medium: 10%–20%; Medium/high: 20%–40%; High: >40%

THE MOST IMPORTANT ESG ISSUES

In this section, respondents were asked what they considered to be the most essential ESG issues. Respondents were asked to rank their top-three issues in investment decision-making.

Although the materiality of ESG issues can differ substantially between industries, there was a significant degree of consensus among respondents when prompted to select which ESG issues were significant.

Issues that were identified as having the potential to materially impact a company's risk profile as well as financial performance were viewed as significant, whereas those more commonly associated with ethical investing (for example, exclusions of tobacco, gambling, alcohol, and adult entertainment) found limited support.

ENVIRONMENTAL ISSUES

Carbon intensity and climate change-related risks stood out among all topics, with near-universal agreement between respondents. Related in part to climate change, water scarcity was also identified as a significant environmental issue. Increasingly, institutional investors are publicly identifying climate change as a key long-term issue that represents risks and opportunities. With initiatives like the Montreal Carbon Pledge, which calls on investors to measure and set targets for reducing their portfolios' carbon footprints, institutional investors are signaling greater interest in managing climate-change risks. We believe that a further factor that contributes to the wide acceptance of carbon intensity and greenhouse gas emissions is that they are quantifiable and clearly defined, making tracking and implementing policies easier than for other ESG criteria.

While answers were largely consistent across regions, there were differences on certain issues, such as environmental degradation and pollution, which found consensus among respondents in Europe and Australia/ New Zealand. Furthermore, Japanese and German investors identified nuclear power as area of concern to them.

The 2011 accident at the Fukushima Daiichi nuclear power plant in Japan has undoubtedly led to a greater focus on the environmental and social impacts of nuclear power generation among Japanese institutional investors, as more than three-quarters of Japanese respondents listed nuclear power generation in their top-three ESG issues. Nuclear power generation was also identified by a majority of German and Swiss respondents, which has historically been a much debated topic in the German-speaking countries.

Genetically modified organisms were prioritized as a key environmental issue by roughly half of Asian respondents and the North American endowments and foundations in the sample. Animal welfare did not feature prominently and was not considered a top priority by respondents.

Chart 20: What environmental issues are most important?

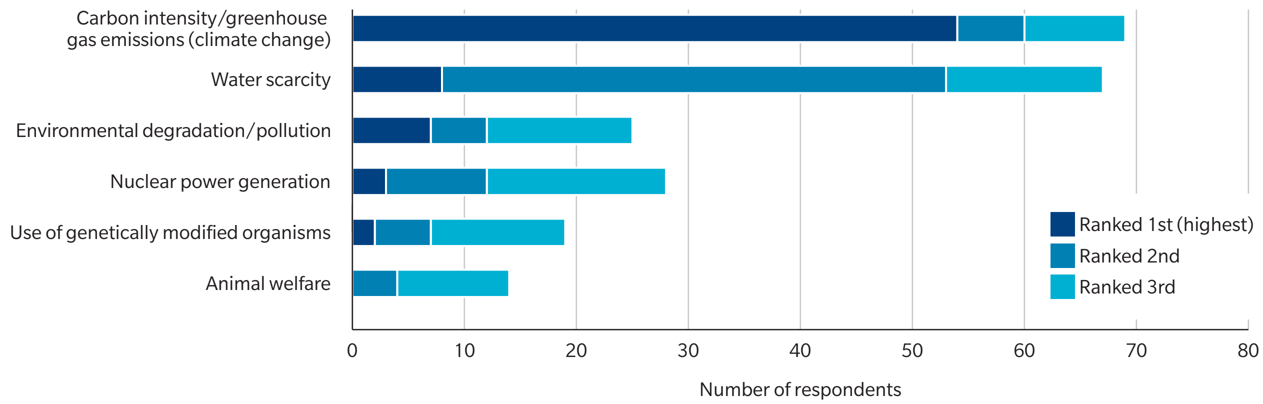
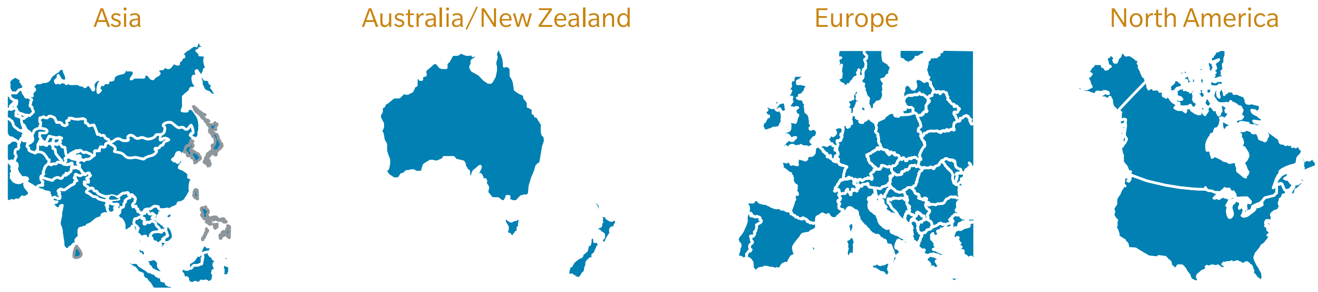


Chart 21: Top environmental issues by region



Asia
- Climate change.
- Water scarcity.
- Nuclear power (Japan).

Australia/New Zealand
- Water scarcity.
- Climate change.
- Environmental degradation.

Europe
- Climate change.
- Water scarcity.
- Environmental degradation.
- Nuclear power (Germany).

North America
- Climate change.
- Water scarcity.

Note: Responses that received >50% consensus within each region are shown.

SOCIAL ISSUES

Human rights, child labor, and the exclusion of companies that produce cluster munitions, anti-personnel landmines, and other controversial weapons garnered the most support.

Human rights and child labor were consistently identified across regions as key ESG concerns. These issues are commonly included in norms-based strategies that evaluate companies according to specific standards, such as the United Nations Global Compact or OECD Guidelines for Multinational Corporations.

Exclusions of controversial weapons are increasingly common among European investors and a growing number of Australian/New Zealand investors. Such prohibitions may be driven by a range of factors, such as legal requirements or voluntary codes of practice based on risk management considerations or ethical criteria.

Chart 22: What social issues are most important?

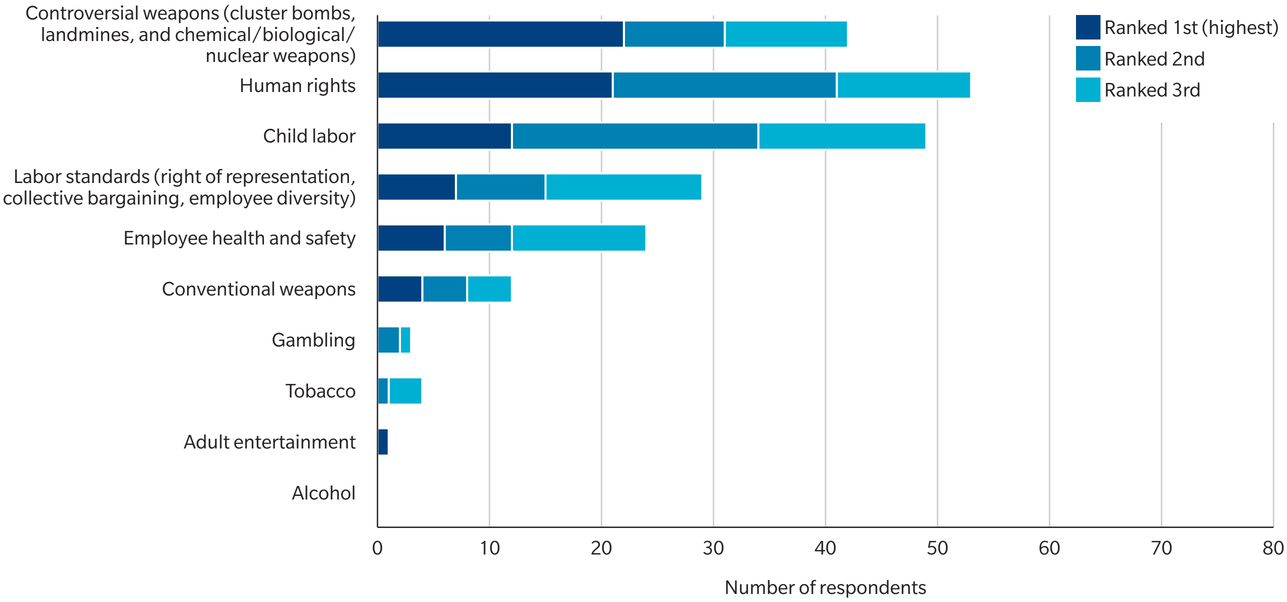


Chart 23: Top social issues by region

Asia

- Human rights.
- Child labor.

Australia/New Zealand

- Controversial weapons.
- Child labor.
- Human rights.

Europe

- Child labor.
- Controversial weapons.
- Human rights.
- Labor standards (Nordics).

North America

- Human rights.
- Child labor.

Note: Responses that received >50% consensus within each region are shown.

CORPORATE GOVERNANCE ISSUES

Answers were consistent across regions, with respondents identifying bribery and corruption, board quality, and transparent accounting practices as their top-three concerns. In addition, political contributions are a topic on the minds of German investors, in the wake of publications on political funding scandals dating back to the late 1990s, but less of a concern elsewhere.

Chart 24: What governance issues are most important?

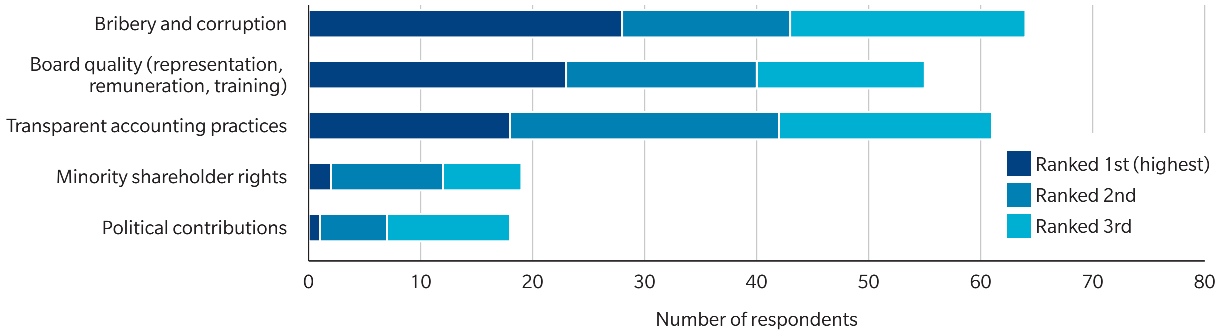


Chart 25: Top governance issues by region

Asia

- Bribery and corruption.
- Accounting practices.
- Board quality.

Australia/New Zealand

- Board quality.
- Accounting practices.
- Bribery and corruption.

Europe

- Bribery and corruption.
- Accounting practices.
- Board quality.
- Political contributions (Germany).

North America

- Board quality.
- Accounting practices.
- Bribery and corruption.

Note: Responses that received >50% consensus within each region are shown.

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CURRENT ISSUES AND OPPORTUNITIES

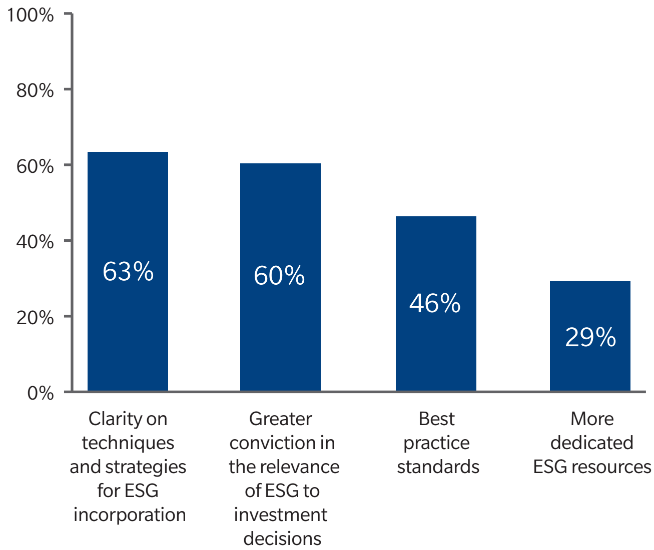
In this section, respondents were asked for their opinions on the challenges they face in incorporating ESG factors into investment decision-making and what steps they have taken, or plan to take, to tackle them.

CURRENT ISSUES AND CHALLENGES

Many investors indicated that their current approach to incorporating ESG criteria into manager selection and monitoring would be significantly improved through greater clarity on techniques and strategies for ESG incorporation (63%) and best practice standards (46%). Many (60%) also indicated that the further development and standardization of ESG criteria in manager selection and monitoring would be contingent on greater conviction of the relevance of ESG issues to investment decision-making.

This suggests a role for organizations that have experience in ESG integration to share their insights on how this can be done.

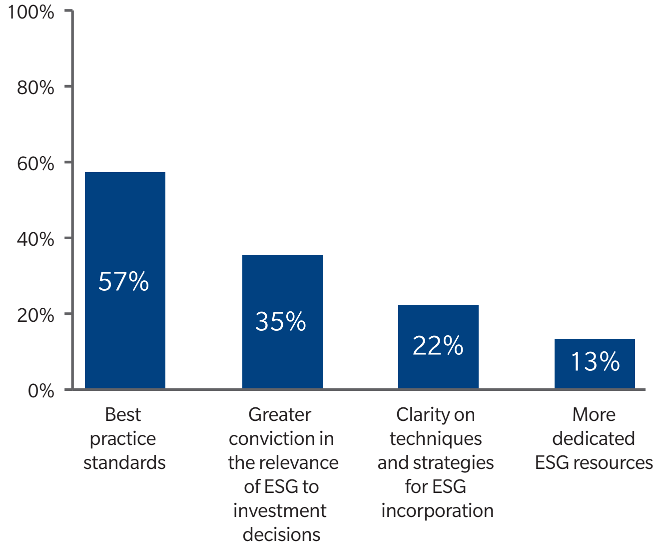
Chart 26: For organizations currently incorporating ESG criteria, what would support further integration?



We asked the 23 respondents who do not currently consider ESG factors in investment decision-making what could influence them to introduce ESG criteria. Interestingly, a majority cited a need for best practice standards, whereas only one-third cited the need for greater conviction in the relevance of ESG issues to investment decision-making.

These findings suggest that a perceived lack of standardized ESG criteria and a lack of understanding about ESG-related expectations remain the central barrier to integrating ESG into investment decision-making.

Chart 27: For organizations not currently considering ESG criteria, what would drive a change in their approach?



LGT CP CASE STUDY

LGT CP has a well-established process for assessing the ESG practices of the private equity and hedge fund managers with whom it invests. As part of this, its investment teams focus on understanding and documenting the ESG practices of managers, ensuring that they share LGT CP's philosophy and commitment to ESG principles. The assessment results in a score of 1 to 4 (where 1 = excellent) on a number of ESG measures, culminating in an overall rating for each manager, which is then documented in the firm's monitoring system.

ESG due diligence process for managers

1. ESG questionnaire	Send LGT CP's own questionnaire to manager
2. Initial assessment of answers	Perform an initial assessment based on questionnaire answers and supporting documentation
3. Discuss ESG with manager	Clarify manager's responses to ESG questionnaire and initial assessment (if required)
4. Finalize ESG assessment and rating	Complete ESG assessment and rate manager (scale of 1–4)
5. Include in investment recommendation	Use ESG assessment as part of investment recommendation
6. Monitor and report on ESG	Monitor ESG risk in portfolios and provide reports to investors
7. Engage with manager	Identify ESG leaders and offer encouragement and advice to those who are still developing ESG practices

The work LGT CP has done on the ESG topic over the last several years in private equity and hedge funds has enabled it to measure managers' progress on ESG and engage with them accordingly. For example, the 2014 survey of LGT CP's private equity managers showed that 25% of European managers improved on ESG in the last 12 months, which suggests a deepening commitment to ESG practices in Europe.

The firm's annual ESG survey of managers enables LGT CP to identify teams that currently rate highly on ESG and serve as a source of ideas on best practice. At the same time, it has helped to flag managers who need encouragement and advice on how to start integrating ESG practices in their firms or how to take it to the next level. On the back of this, the firm has held numerous conversations with managers over the past two years about their ESG ratings, which has helped to push the bar for ESG higher.

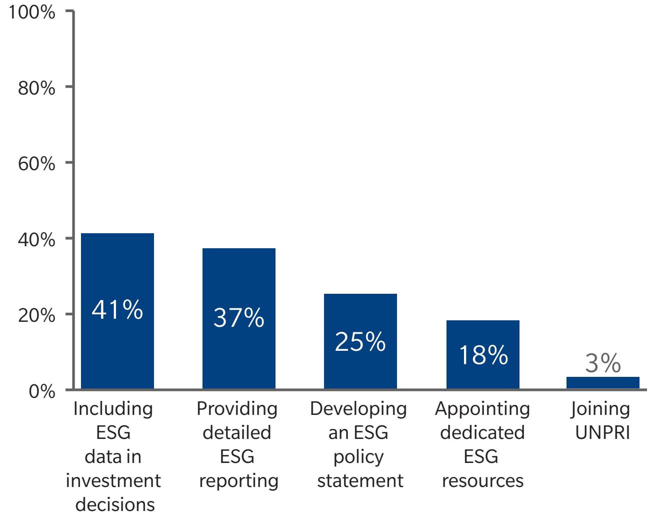
For their part, LGT CP's investors are able to integrate the findings of our annual ESG survey of managers into their own risk management processes to gain a better understanding of the long-term ESG risks in their portfolios. They can also use these results in their own ESG reporting to stakeholders, such as pension fund trustees, UN PRI, and others who may require it.

EXPECTED CHANGES

We asked respondents who currently consider ESG issues in their investment decision-making about plans they may have for further enhancing their approach. Many respondents in the early stages of adopting responsible investment principles expect to have a greater focus on ESG criteria in investment decision-making in the future, and they anticipate greater engagement with managers on the topic. Among those with established processes for incorporating ESG considerations, a majority state their intent to establish more formal ESG reporting expectations for their managers.

Despite the relatively low number of signatories to the UN PRI in the sample (25%), only a few view becoming a UN PRI signatory as a priority over the near term. We believe this shows that ESG has become more hands-on, with institutional investors prioritizing concrete applications of ESG principles in the context of their core activities, over a pledge, or publication of their intentions.

Chart 28: For organizations currently incorporating ESG criteria into investments, what are priorities over the near-term?



CONCLUSIONS

This survey of institutional investors in alternatives was designed to find out how ESG factors are integrated into investment decision-making and what investors' priorities are for further development. The 97 survey respondents in 22 countries are mainly senior investment decision-makers from all types of institutions. When considering the full range of views on many different aspects of ESG integration, four key conclusions are apparent:

1. ESG factors are actively considered by a large majority of institutions investing in alternative assets. Three-quarters of respondents incorporate ESG criteria when investing in alternative asset classes. Although approaches to integration may vary between institutions, such widespread uptake shows that ESG has taken root among investors in alternative asset classes.

2. Most institutional investors believe that ESG improves risk-adjusted returns. A full 57% of respondents believe that incorporating ESG criteria has a positive impact on risk-adjusted returns, whereas only 9% think that it lowers them. The strength of opinion on a positive effect shows there is no longer a serious debate about whether ESG considerations are likely to help or hinder risk-adjusted returns.

3. Institutional investors generally express interest in ESG from a risk management and reputation perspective. Issues that have the potential to impact a company's long-term risk, reputation, or overall performance — such as carbon intensity, controversial weapons, and bribery and corruption — are viewed as significant to investors. Meanwhile, issues more commonly associated with traditional ethical investing — such as exclusions for tobacco, gambling, and alcohol — have limited support among respondents. It shows that ESG analysis has moved beyond ethical concerns and has firmly found its place as a risk and investment management topic.

4. ESG has seen a rapid expansion in the last few years and is set to gain more ground. More than half of institutional investors who incorporate ESG criteria into investment decision-making have done so for three years or less, which suggests rising expectations for investment managers over time. The future trends point toward more detailed ESG reporting and disclosures from managers. Greater clarity on techniques and strategies for ESG incorporation would help alternative investors progress more quickly.

Taken together, these insights indicate an even stronger role for ESG considerations in the coming years, as investors further embed them in their investment decision-making. It also suggests an opportunity for investment managers who already have ESG processes in place, as institutional investors will likely favor managers who can accommodate their rising ESG expectations.

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