Standard Chartered

The $50 Trillion Question:

Are investors using their assets to help meet the UN's Sustainable Development Goals?

Insights from the Standard Chartered $50 Trillion Investor Panel

Foreword

Big challenges inspire big questions. And for the global investment community, one of the biggest questions is the subject of this study: how can investors drive sustainable development and help build a better future for the planet?

We spoke to asset managers with a combined USD50 trillion of assets under management (AUM) – equivalent to more than half of global GDP – in search of the answer.

Climate change, poverty and now COVID-19 remind us that global problems require global solutions that involve the entire financial ecosystem – from fund managers to the banks that facilitate and catalyse sustainable capital.

The scale and speed of investment to tackle international challenges, particularly in emerging markets, will affect the lives of everyone, and this report reveals just how urgent it has become. **Almost three quarters of investors believe that the pandemic has widened the capital gap between emerging and developed markets.** Ambitious initiatives such as the UN Sustainable Development Goals (SDGs) are more vital than ever, and the clock is ticking.

Investors want their funds to have a positive impact as well as providing healthy returns. Sustainable emerging market investment is the key to both.

As the economies furthest from reaching the SDG targets, emerging markets are where investment can have the greatest impact. Yet, with the UN's 2030 deadline less than a decade away, investment in the SDGs in these economies is still short by trillions of dollars. For example, looking at our $50 Trillion Investor Panel's investment in SDG 7 (affordable, reliable and sustainable energy for all), there's a gap of USD3.5 trillion to reach the private-sector investment required over the next decade. This means that – unless we act now – this important goal will not be achieved by 2030.

Our research shows that **global investors are generally underinvested in emerging markets, with at least two-thirds of their AUM currently invested in developed markets.** Risks in emerging-market investment is cited by the majority as a barrier. On the other hand, our research reveals that **almost nine out of 10 global investors have seen their emerging-market investments match or outperform those in developed markets.**

Much progress has been made in recent years to realise the SDGs, but this study makes clear the need to move faster. A seismic, unprecedented surge in private-sector investment – alongside public investment and commitments – will be required to bridge the gap and hit the 2030 SDG targets.

There is no single answer to The $50 Trillion Question, but it is evident that investors need to expand their focus beyond developed markets. Emerging economies offer investors a unique opportunity: strong returns combined with the chance to have a significant, positive impact. Now is the time to seize it.

Simon Cooper
CEO, Corporate, Commercial and Institutional Banking

Executive summary

The $50 Trillion Question

The UN Sustainable Development Goals (SDGs) are a global call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030, but the targets are at risk of not being met. For the world to achieve the UN's SDGs by the deadline, more funding must flow into emerging markets, where it is needed most.

To uncover where investment is going currently – and how we can make sure more of it is channelled into emerging markets and the SDGs – we spoke to a panel of asset managers responsible for a combined USD50 trillion of assets under management (AUM).

Who are the panel?

How do we close the emerging market sustainable investment gap?

This is the $50 Trillion Question.

The answers:

- **Emerging markets are seeing a shortfall in investment:** Almost two-thirds (64 per cent) of the $50 Trillion Investor Panel's AUM is currently invested in Europe and North America. Asia, which includes a number of developed markets, takes 22 per cent, whereas only 10 per cent is invested in the Middle East, Africa and South America combined

- **Investment isn't going where it is needed to realise the SDGs:** Only 13 per cent of our panel's AUM is currently directed towards SDG-linked investments and one fifth of the asset managers we spoke to are not aware of the SDGs

- **By helping to close the emerging market and sustainable investment gaps, investors can achieve returns and impact simultaneously:** 88 per cent of investors say their emerging market investments have matched or outperformed developed markets over the past three years

- **Sustainable investment is gathering pace:** More than eight in 10 firms (81 per cent) have moved beyond screening to a more focused and integrated approach to environmental, social and governance (ESG) investment

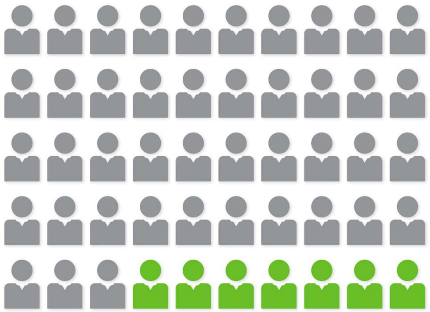
- **However, so far, it isn't nearly enough:** SDG investment is still trillions of dollars short of the capital needed to meet their 2030 target

- **COVID-19 has made the imperative to act even stronger:** 70 per cent of investors believe the pandemic has widened the capital gap between emerging and developed markets

The $50 Trillion Question:

Are emerging markets getting the private-sector investment they need for the SDGs to be achieved by 2030?

14 per cent of investors on the $50 Trillion Investor Panel are currently using the SDGs as a framework



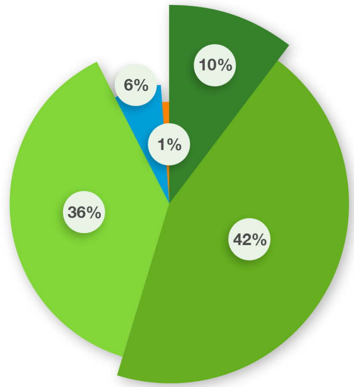
Why is there an emerging market investment shortfall?

The main barriers to emerging-market investment:

- Market volatility 61%
- Bribery and corruption risk 57%
- Government interference in business 52%
- Heightened political risk 45%
- Expected returns do not justify increased risk 42%

This is despite the relative (out)performance of emerging market investments

Over the last three years, emerging market investments have matched or outperformed developed market investments



- Significant outperformance
- Outperformance
- Average market performance
- Underperformance
- Significant underperformance

Why aren't investors focused on the SDGs?

Barriers to benchmarking investments against the SDGs

- The SDGs are not relevant to mainstream investment 55%
- We plan to start measuring investments against the SDGs but haven't achieved that yet 50%
- Investment in the SDGs is too difficult to measure 47%
- The SDGs aren't relevant to how we assess our investments 47%
- We don't make investments that contribute to the SDGs 66%

The $50 Trillion Question:

How do we close the emerging market sustainable investment gap?

Main drivers for SDG investment

- Regulation that encourages SDG-linked products 74%
- Favourable tax treatment of SDG-linked investments 63%
- More evidence that investing in SDGs will not lead to underperformance 63%
- Better data to measure the impact of SDG investments 53%
- Retail investor demand for SDG-themed investments 53%

Are emerging markets getting the private-sector investment they need for the SDGs to be achieved by 2030?

Investors have a critical role to play in achieving the 2030 UN Sustainable Development Goals (SDGs) but, at the current rate, the goals will be missed with progress being hampered by bias in favour of investments in developed markets.

The SDG investment gap

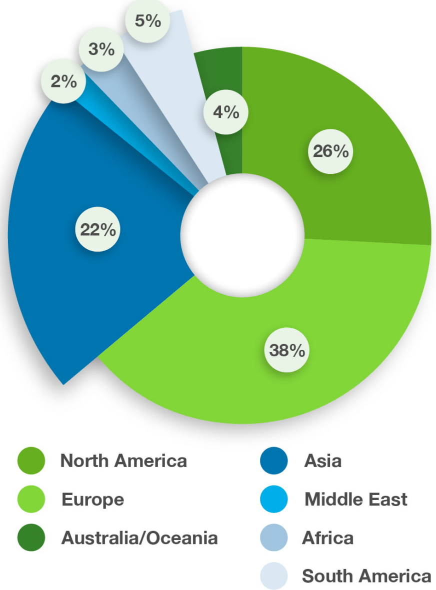
The Sustainable Development Goals (SDGs) address the biggest global challenges faced by humanity, including poverty, inequality and climate change. In addition to public sector commitments, the goals offer an opportunity for the private sector to generate strong investment returns while aiding long-term sustainable development.

Our Opportunity2030 report, published at the start of 2020, revealed a USD10 trillion private sector investment opportunity in contributing to three of the SDGs in 15 emerging markets. It concentrated on the most investable infrastructure-focused SDGs: SDG 6 (Clean Water and Sanitation), SDG 7 (Affordable and Clean Energy) and SDG 9 (Industry, Innovation and Infrastructure).

Now, in asking the $50 Trillion Question, we find that investment isn't flowing into emerging markets at the speed needed to meet the SDGs by 2030. Global investors overwhelmingly focus their assets under management (AUM) on developed markets. A radical shift in favour of emerging markets and SDG-linked investments would be required, if humanity's biggest project is to succeed.

Which markets are getting the most investment?

A focus on developed markets over emerging markets is putting the SDGs at risk



[1] As revealed in Opportunity2030, the private sector opportunity in SDG 6 is relatively minor compared to SDGs 7 and 9, which is why this study will concentrate on the greater opportunities found in the latter two.

The SDGs: a question of commitment

There are less than 10 years to achieve the SDGs, but investors estimate that only 13 per cent of their AUM is directed towards SDG-linked investments.

While almost all investors (97 per cent) plan to increase these investments between now and 2030, just 14 per cent are currently using the SDGs as a framework for their investments. One fifth of the asset managers we spoke to are not even aware of the SDGs.

How do we unlock SDG investment?

"

Increasingly, investors are not willing to settle for returns alone: they also want their investments to have a positive impact – a measurable improvement to the lives of the populations they touch and the planet we share. There is an appetite in the market for sustainable products and emerging market investors are keen to make a difference in their home markets. But how you measure that 'difference' and what impact truly means are often harder than you might think to pin down.

To translate this interest into action, education and perception are important. While interest is high, apprehension is high too. Investors are concerned that emerging market investments are high-risk, and that perception needs to be counterbalanced with reward – both financial returns and measurable impact.

Improving education on SDG-linked investments and how we as financial institutions quantify impact will be key to increasing sustainable investment and unlocking the finance needed to achieve the SDGs.

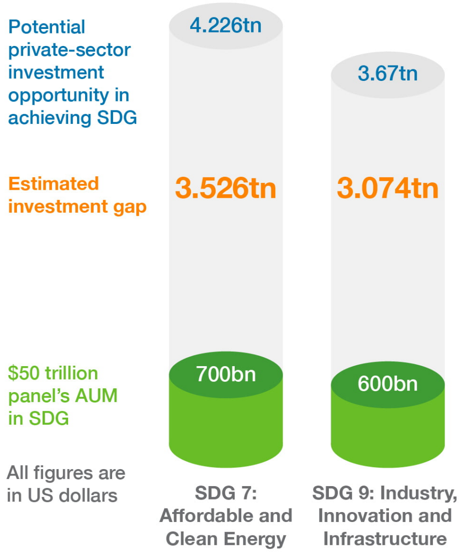
Didier von Daeniken
Global Head, Private Banking

> To make a real difference, we need to catalyse, standardise and democratise sustainable finance.
>
> The UN puts the SDG-funding gap at USD2.5 trillion a year, which means we need to mobilise far more sustainable finance, and really catalyse everyone's efforts in this space. Standardisation is another key priority, as lack of information and transparency on impact is one of the biggest obstacles to raising more sustainable finance. Standardisation can help nascent markets grow and also protect against the risk of 'green or SDG washing'. This is evident in the success of the principles and common definitions that have been agreed for the green and sustainable bond markets.
>
> Finally, we need to democratise the benefits of sustainable finance to ensure capital flows to the markets most in need of it. For example, funding is not currently flowing to the markets that are at greatest risk from climate change, but actually have the biggest opportunity to leapfrog to low-carbon technology. That's why we're proud that 91 per cent of Standard Chartered's USD3.9 billion of verified Sustainable Financing is in emerging markets.

Daniel Hanna
Global Head of Sustainable Finance, Standard Chartered

Will the investment opportunity in the SDGs be realised?

The panel's SDG-linked investments fall short of the capital required to realise the investment opportunity identified in Opportunity2030



POLL
Will the UN SDGs be achieved by 2030?

Yes

No

See results

One in five asset managers is not even aware of the SDGs

Why is there an emerging market investment shortfall?

Emerging markets are outperforming developed markets yet most of the panel's investments are in Europe and North America. So, what's holding back emerging market investment?

The familiarity trap

Investors are largely staying on well-trodden ground, focusing on developed markets. Almost two-thirds (64 per cent) of the $50 Trillion Investor Panel's assets under management (AUM) is invested in Europe and North America. Asia, which includes a number of developed markets, takes 22 per cent, whereas only 10 per cent is invested in the Middle East, Africa and South America combined.

This is despite 88 per cent of investors saying their emerging market investments have matched or outperformed developed markets over the past three years.

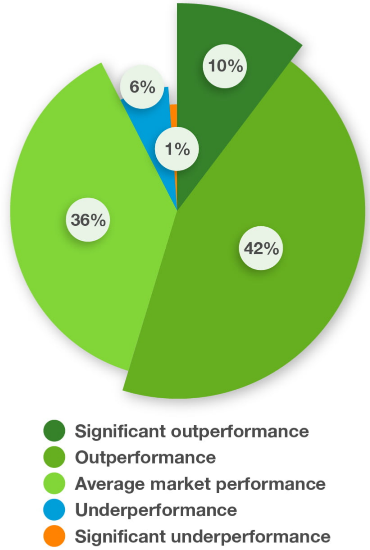
Higher-growth investment houses – those growing their AUM by 5 per cent or more annually in the past three years – are almost three times more likely than lower-growth firms to record significant emerging market outperformance, suggesting that emerging market investments are playing an important role in growth.

Similarly, higher-growth investment firms are benefitting from greater emerging-market exposure: these firms had an average of 37 per cent of AUM allocated to emerging markets (Asia, the Middle East, Africa and South America) in 2019, compared to an average of 27 per cent for lower-growth firms.

The good news is that investors are set to increase their exposure, with a majority of our $50 Trillion Investor Panel expecting to grow their investments more in emerging markets than in developed markets. Similarly, those who predict a reduction in their investment, think this will happen to a lesser extent in emerging markets. The gap may be starting to close.

How are emerging market investments performing compared to developed market investments?

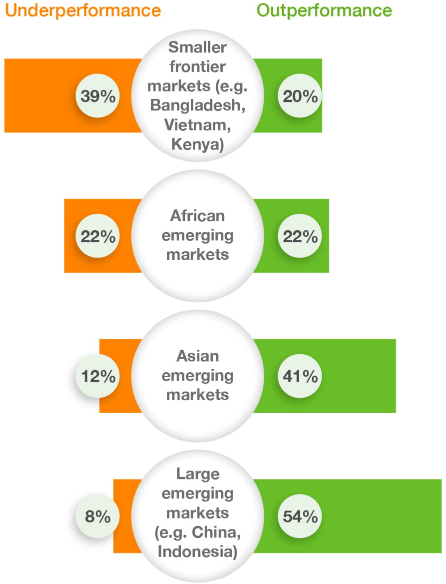
Over the last three years, emerging market investments have matched or outperformed developed market investments



[2] The remaining 5 per cent chose "not applicable"

Which emerging-market investments are performing best?

Investments in larger emerging markets are showing the strongest performance



[3] Percentages show investors who are seeing outperformance or underperformance. Respondents not featured in the graphic either reported neutral market performance or did not invest in a particular category of emerging market.

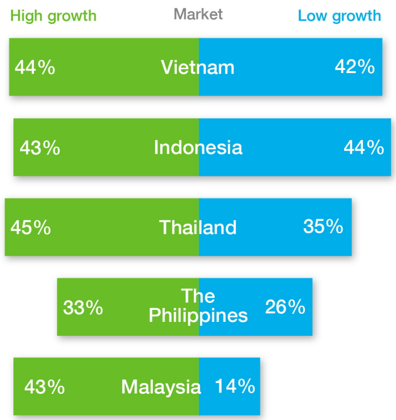
ASEAN: The engine room of growth

ASEAN will be an area of focus over the next three years, with 39 per cent of the panel looking set to increase investment in this region, compared to just 5 per cent who plan to reduce investment. The percentage rises among the 10 largest asset management firms, where 68 per cent said they intend to increase investment in the next three years.

On balance, high-growth firms are more likely to favour ASEAN markets than low-growth firms.

Thailand had the biggest percentage of high-growth investors citing it as a key focus for their firm's emerging-market investment strategy (45 per cent).

Which of the larger emerging markets in ASEAN are favoured by high-growth firms?



The risks

While structural issues – such as those pertaining to property rights, legal certainty, institutional strengths, and general market transparency – have been called out as blockers on the flow of capital into some emerging markets, perceived environmental and social (E&S) risk is also a major barrier to investment.

More than two-thirds of investors believe the markets are high-risk, compared to 42 per cent for developed markets. Issues highlighted by investors included market volatility (61 per cent), bribery and corruption risk (57 per cent), government interference in business (52 per cent) and political risk (45 per cent).

Concerns about risk persist despite evidence of strong returns: only 7 per cent of investors say that their emerging market investments have performed worse than their developed market investments over the past three years.

How do we address the perception that emerging markets investments are risky?

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The perception of heightened E&S risk in emerging markets is just that: a perception. The reality on the ground tells a different story and what's fascinating in this research is that investors have clearly articulated that they are seeing huge financial value in emerging market investments. We now need investors to get comfortable with E&S risk in emerging markets. But entrenched perceptions are hard to shake.

In practice, the E&S risks that exist in the emerging world are there in developed markets too, perhaps to an even greater extent. The most memorable failures of – for example – E&S risk management in recent years have almost all been in developed markets. What's more, empirical evidence has shown that emerging markets are not inherently riskier from an E&S perspective.

How then do we quell the persistent misnomer of increased emerging market E&S risk? Through experience. This report shows that there is demand for emerging market investments from a returns perspective; we now need to educate and inform investors from an E&S risk perspective.

Amit Puri
Managing Director, Global Head,
Environmental and Social Risk Management, Standard Chartered

POLL

Do global investors have an emerging market blind spot?

Yes

No

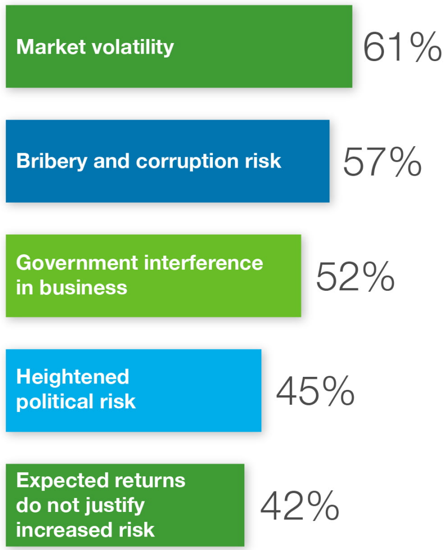
See results

How do investors perceive risk and return in emerging and developed markets?

Percentage of asset managers who view emerging markets as high risk and high return reveals perceptions of emerging market risk abound

What do investors say are the main barriers to emerging-market investment?

Concern about risk – financial, economic and political – is holding back emerging market investment



Africa: high optimism, low investment

Those who invest in Africa are firmly optimistic, with the continent more likely than any other region to see increased investment from those already investing there (93 per cent).

However, with just 3 per cent of the panel's AUM, Africa is the continent with the lowest levels of investment.

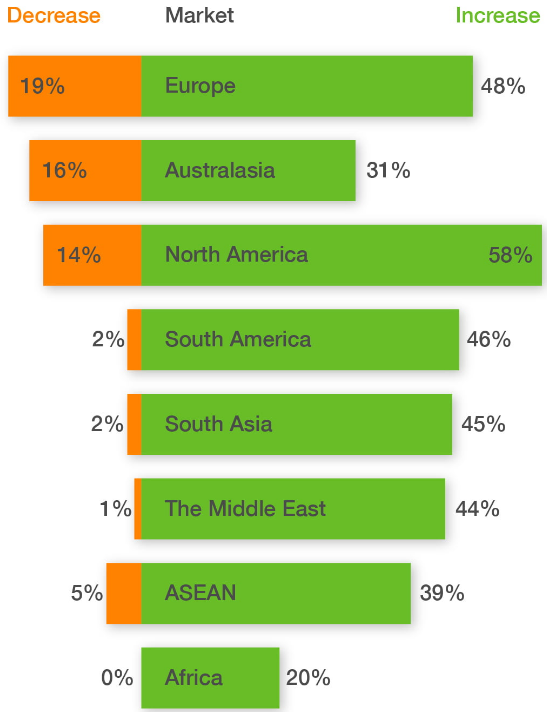
Almost three in five investors (59 per cent) said that they are deterred by a lack of in-house specialist teams, although this was less of a problem for the 10 largest firms (28 per cent).

Concerns about low returns may be another factor. More than half of the panel (53 per cent) view returns from investment in the region as low or extremely low.

However, these perceptions don't always align with reality. Among those who already invest in Africa, 54 per cent say that their African emerging market investments have performed as well as – or better than – their developed market investments over the past three years.

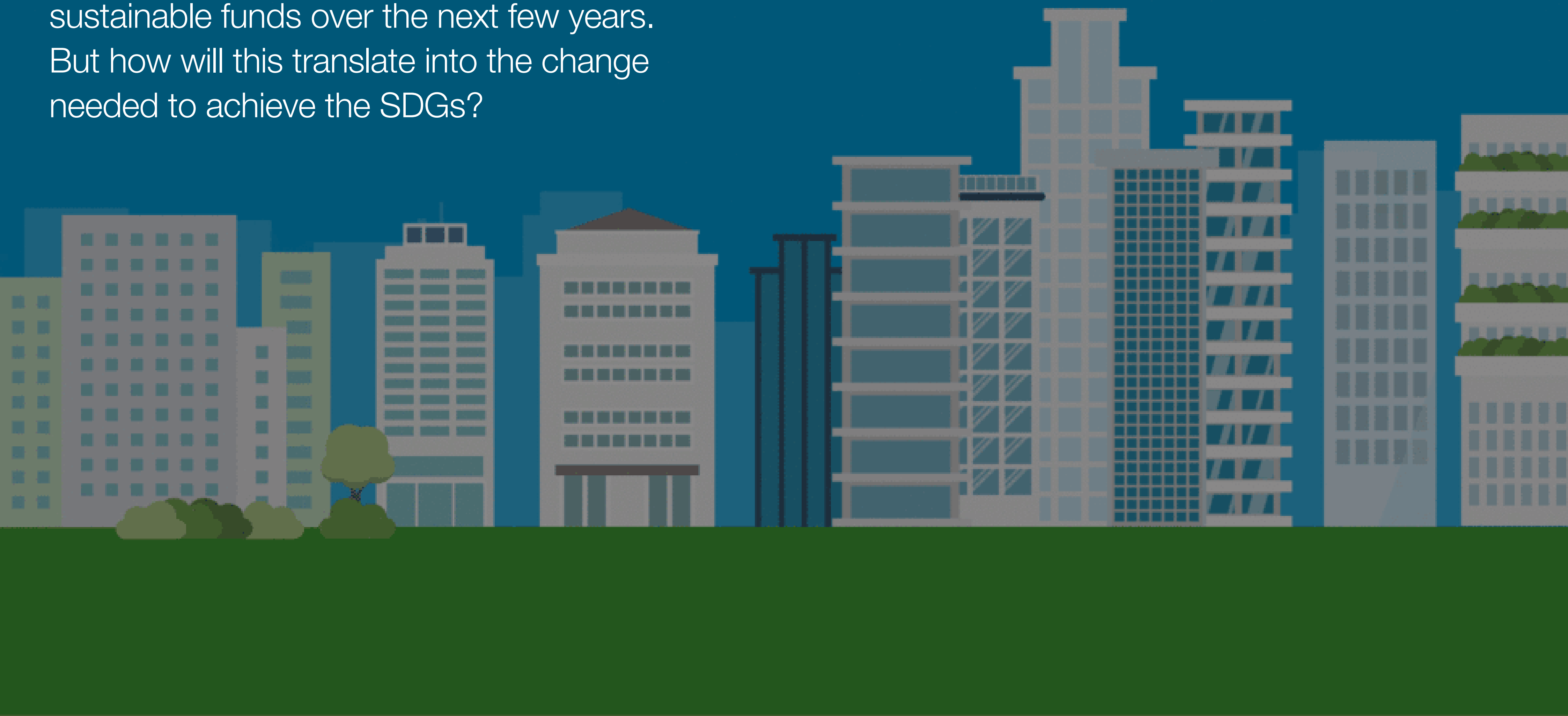
Is the emerging market capital gap closing?

More investors plan to increase – and fewer plan to decrease – investment in emerging markets, compared to developed markets



Why aren't investors focused on the SDGs?

Trillions of dollars are expected to flow into sustainable funds over the next few years. But how will this translate into the change needed to achieve the SDGs?



The rise of ESG investing

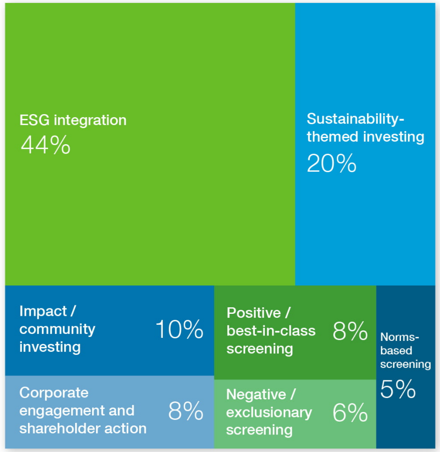
Most investors are taking a proactive and targeted approach to environmental, social and governance (ESG) investing. More than eight in 10 firms (81 per cent) have moved beyond screening to a more focused and integrated ESG approach.

Increasingly, investors are considering ESG issues when making decisions, motivated by risk mitigation and outperformance. Trillions of dollars are expected to flow into ESG funds over the next three years: the panel's assets under management (AUM) in ESG-rated investments is set to rise by four per cent between now and 2023.

However, while ESG investing has grown, this comprises a number of different approaches and the vast proportion of strategies do not relate directly to meeting the Sustainable Development Goals (SDGs). Without conscious consideration of how impact can be delivered to meet the world's greatest needs – as laid out by the SDGs – it's almost impossible that ESG investment will deliver the 2030 target.

What approach are investors taking to ESG investment?

More than 40 per cent of firms are pursuing an integrated approach to ESG – systematically and explicitly including environmental, social and governance factors in their financial analysis.



Risk trumps returns when it comes to driving ESG investment

What investors say are the key drivers of ESG investment

The SDGs: Beyond ESG

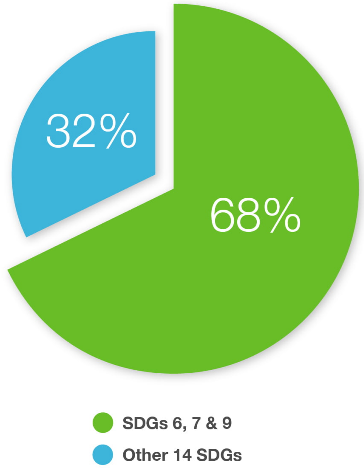
Eight in 10 investors believe the asset management sector has a critical role to play in SDG investment, suggesting those who know the SDGs understand their value and relevance.

There is a risk, however, that good intentions will not translate into action. Broadly, investors don't navigate using the SDGs, but investment strategists are twice as likely to view the SDGs as an investment framework compared to the fund managers making the investment decisions. Currently, firms are directing an average of just 8 per cent of their total AUM in emerging markets towards SDG-linked investments.

Almost all (98 per cent) of the firms investing in the SDGs plan on increasing their investments over the next decade. While this is encouraging, broader focus on the SDGs among investment firms is needed, if the 2030 deadline is to be met.

Which SDGs are the focus for investors?

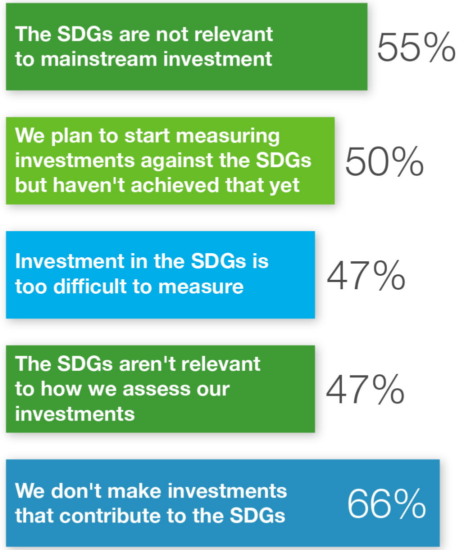
The majority of the panel's investments are in SDG 6, 7 and 9



[1] These are the most investable infrastructure-focussed SDGs (Clean Water and Sanitation), SDG 7 (Affordable and Clean Energy) and SDG 9 (Industry, Innovation and Infrastructure).

What are the main barriers to benchmarking investments against the SDGs?

Many investors believe the goals are not relevant to mainstream investment and are difficult to measure



How do we overcome the barriers to SDG investment?

"Investors are being held back by a lack of quality measurement. Portfolio managers are struggling to provide evidence for the performance of SDG-related funds, both in emerging and developed markets. Many of the measurement challenges are the same in Africa as they are in Europe.

Measuring and quantifying impact isn't impossible but it's an area that the finance sector needs to develop urgently. We at Standard Chartered have worked hard to improve access to information and it is something that we can help others with too. But it takes time. Investors can start by measuring the 'E' in ESG, which already offers more direct and standardised measurement than the 'S'.

Improved data and disclosure is an important factor in encouraging investment in the SDGs.

Amit Puri

Managing Director, Global Head, Environmental and Social Risk Management, Standard Chartered

How do we close the emerging market sustainable investment gap?

With the world dealing with the impact of COVID-19, progress towards the SDGs is at risk. However, now is the time for investors to seize the emerging market opportunity.

Despite representing huge opportunities for private-sector investment, the SDGs might not be met

As economies around the world deal with the impact of COVID-19, achieving the Sustainable Development Goals (SDGs) hangs in the balance.

Without action from private investors, and resolution of some of the structural issues that are acting as a blocker on the flow of capital to emerging markets (including lack of transparency and legal certainty), it is unlikely that enough progress will be made. However, a fifth of investors are not even aware of the SDGs, rising to 44 per cent for small investment firms (those with assets under management of USD20 billion to USD90 billion).

But in an investment environment where impact has become as important as returns, and SDGs aren't just a noble ambition, they can become a strategic framework.

How do we encourage greater investor engagement with the SDGs?

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Some of the SDGs can provide a compelling investment opportunity, and investors are starting to recognise this. Asset managers are beginning to use SDGs as a framework, and SDG-based language and metrics to quantify both performance and social impact.

But to an individual investor, the SDGs can feel abstract and the goals can just seem too big. Having structured conversations with investors on their areas of passion and how this links to the broader goals can help; we use our Impact Philosophy Framework to have conversations with clients about making an impact that aligns with the causes they are passionate about.

Eugenia Koh
Head, Sustainable Investment and Engagement Strategy, Private Bank and Wealth Management, Standard Chartered

What is the role of banks in helping realise the potential of the SDGs?

“There are four key ways in which banks can help accelerate sustainable finance. First, by advising clients and supporting the development of their transition to more sustainable business models. Second, by coming up with innovative products that provide a vehicle for sustainable finance whether that is sustainable deposits, green, transition, blue or gender bonds, or SDG aligned private equity financing. Third, by acting as a catalyst for sustainable financing, by deploying our own balance sheets and acting as a bridge for investors to move capital to where it is needed the most. And fourth by ‘walking the talk’ and demonstrating how we will make both our own operations and the activities we finance more sustainable.

Daniel Hanna
Global Head of Sustainable Finance, Standard Chartered

POLL

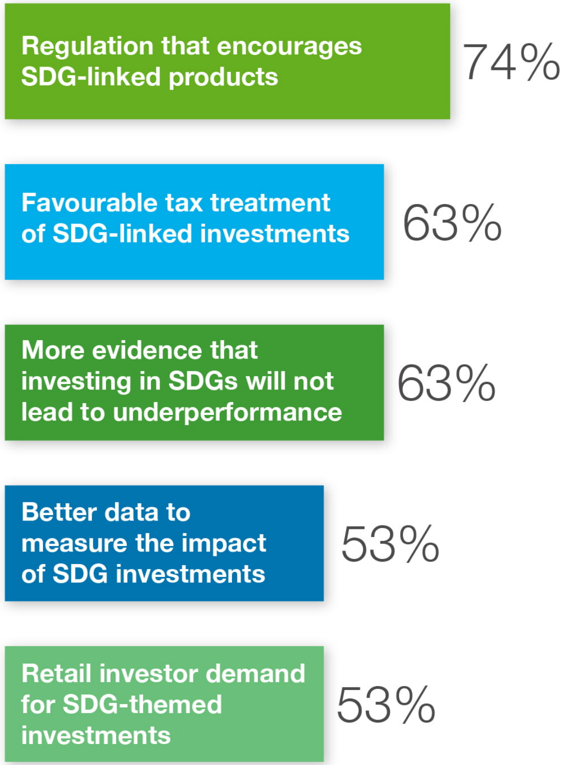
Which of the following best describes your awareness of the SDGs?

- I am familiar with the SDGs
- I am somewhat familiar with the SDGs
- I am not aware of the SDGs

See results

What are the tools and incentives to encourage SDG investment?

Regulation and favourable tax treatment could help more investment firms to make the leap



COVID-19 and the green recovery

Will COVID-19 accelerate sustainable investment and bring us closer to achieving the SDGs as far as climate and the environment is concerned?

The answer is unclear. Almost three-quarters of investors (74 per cent) say that a green recovery – cutting CO2 emissions as part of a 'build back better' approach – is now a global priority. And 61 per cent say that the crisis has encouraged their own firm to direct investment towards a green recovery.

Yet 70 per cent believe the crisis has widened the capital gap between emerging and developed markets. This is concerning, if the crisis is causing emerging market investment to fall, progress towards the SDGs will be hampered despite investors' aims to drive positive change.

How has COVID-19 impacted sustainable investment?

“

ESG and sustainability-themed investments have outperformed during this period. As a result, we are seeing even more interest in sustainable products, including from older investors who have previously been less engaged.

Now is the time to focus on putting the SDGs at the heart of investment strategies and making them relevant to mainstream investors.

Eugenia Koh

Head, Sustainable Investment and Engagement Strategy, Standard Chartered

Standard Chartered

How is Standard Chartered helping to close the SDG capital gap?

Standard Chartered is a leader in mobilising capital for sustainable development in emerging markets.

Find out how we are helping close the capital gap by getting finance to where it is needed most.

Standard Chartered and the SDGs

The world must act now if it is to deliver the UN Sustainable Development Goals (SDGs) by 2030.

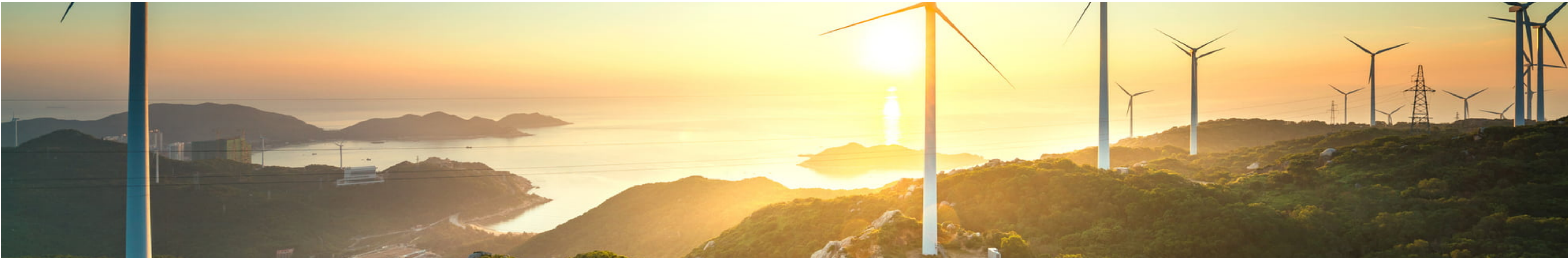
Yet according to a UN report, just 60 per cent of the financing needed to achieve the 17 goals in low and middle-income countries is being met. In Africa, this is as low as 10 per cent.

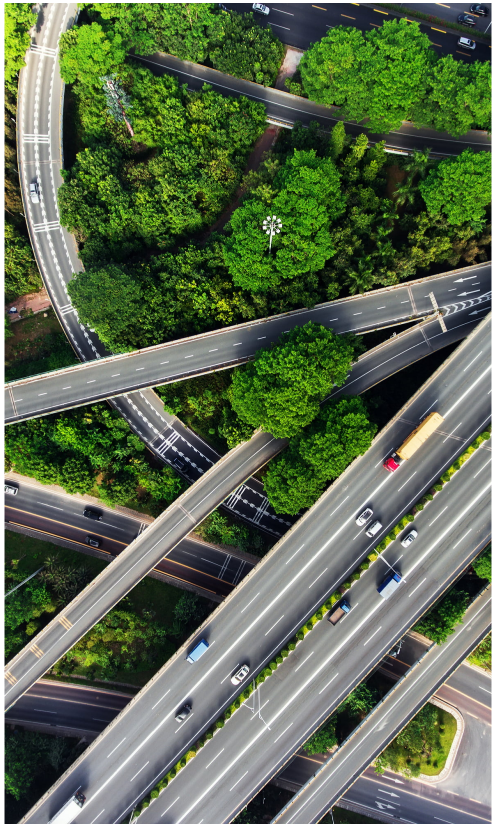
We are determined to use our expertise to direct capital to the markets that need it. Our footprint in Asia, Africa and the Middle East includes some of the markets worst hit by environmental and social challenges. We want to make the world a better, cleaner and safer place and minimise the negative impact of our financing.

Case study: Delivering finance where it matters most

In 2019, we launched the world's first Sustainable Deposit. Every dollar deposited is referenced against sustainable assets that support the delivery of the UN's 17 SDGs, which form a global blueprint for a more sustainable world. Corporate and institutional clients in London, Singapore, Hong Kong, New York and Dubai along with Private Banking clients in Singapore, can now put their money to work in addressing some of the world's biggest threats, including climate change, financial exclusion, and lack of access to health and education.

The Bank's Green and Sustainable Product Framework sets out qualifying themes and activities aligned to the SDGs and is the governing document for our Sustainable Deposit product. Liquidity raised from the deposits will provide financing for microfinance institutions, small and medium-sized enterprises, and the development of sustainable infrastructure and services including clean energy, water improvements and health and education services in middle- and low-income countries. The deposit is just one of the ways we are mobilising private capital to where it is needed most.





Supporting sustainable growth

We provide financial products and services to people and businesses to help drive sustainable development, economic growth and job creation. Our sustainability aspirations set out how we aim to promote social and economic development through our core business of banking.

Find out more about our sustainability aspirations.

Our product frameworks

We are creating sustainable finance products to support sustainable development. Our frameworks, developed in collaboration with Sustainalytics, the leading provider of ESG and corporate governance research, set out what qualifies as 'sustainable' and 'green' products.

Learn more about our green and sustainable product framework.

Sustainable finance impact

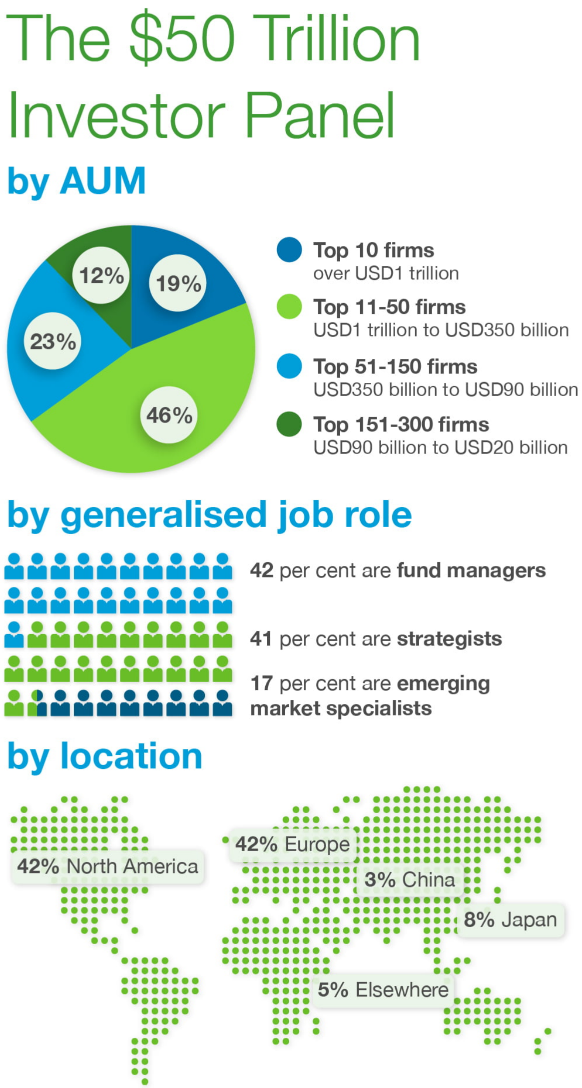
While we are a leading international bank, 91% of our sustainable finance assets are located in emerging markets where the need for finance to be a positive catalyst is greatest. Our sustainable finance impact report highlights Standard Chartered's unique contribution to tackling climate change and the financing of the UN's Sustainable Development Goals.

Read our latest Sustainable Finance Impact Report.

Who are the Standard Chartered $50 Trillion Investor Panel?

The panel is made up of asset managers from the world's top 300 asset management companies. With combined assets under management (AUM) of more than USD50 trillion (the equivalent to half of global GDP), how the asset managers in our survey choose to invest will have a huge impact on humanity's ability to solve some of the world's biggest problems. This study is based on in-depth interviews with the panel, conducted between July and August 2020.

The following graphic shows the panel broken down by AUM, role and location, all of which ensure it is representative of the global top 300 asset managers.



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Credits

The $50 Trillion Question is based on in-depth research commissioned by Standard Chartered, designed by Standard Chartered and Man Bites Dog.

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