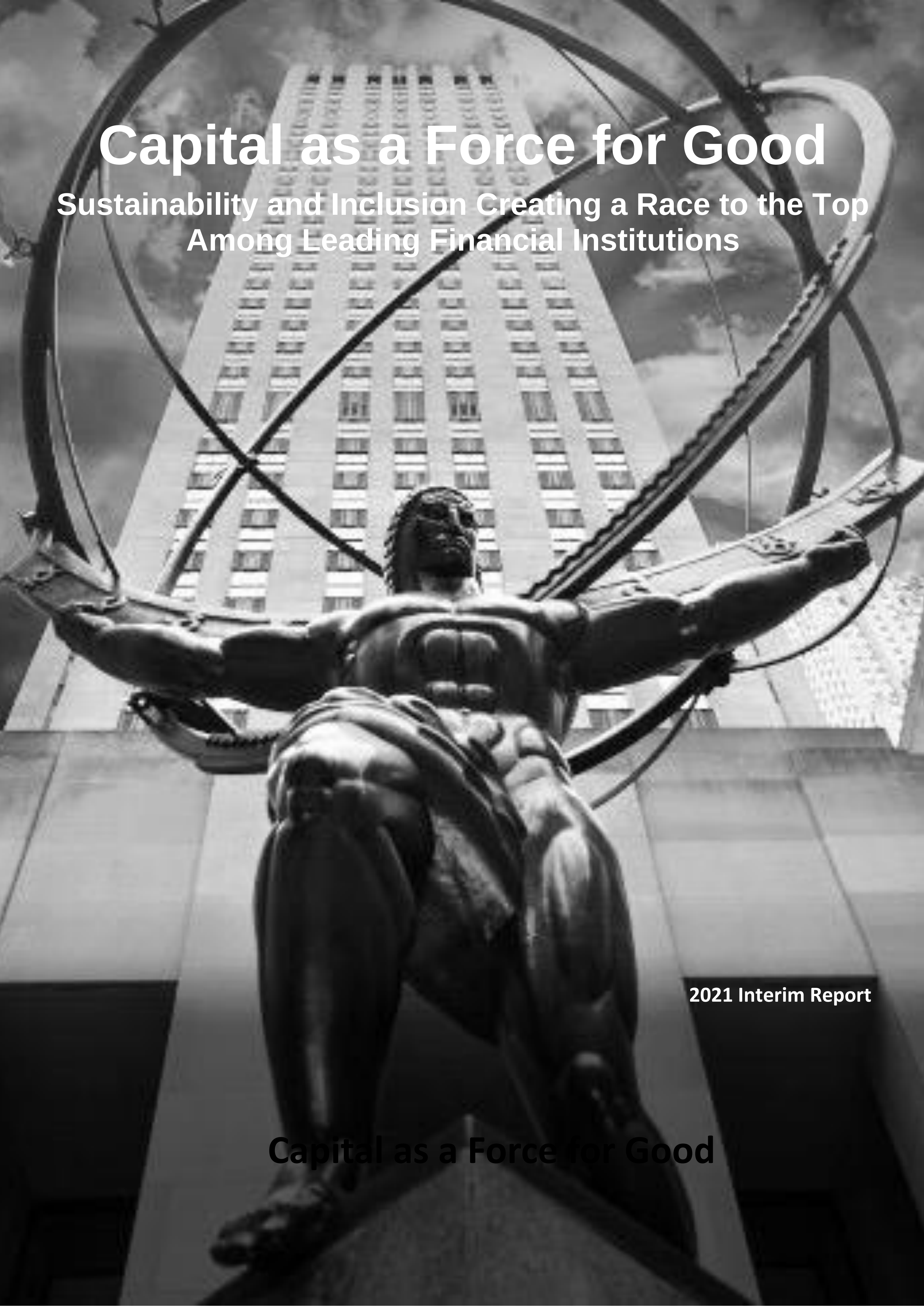

Capital as a Force for Good

Sustainability and Inclusion Creating a Race to the Top Among Leading Financial Institutions

2021 Interim Report

Capital as a Force for Good

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CONTENTS

EXECUTIVE SUMMARY: CAPITAL AS A FORCE FOR GOOD STRENGTHENING 5

1. BACKGROUND TO THE FORCE FOR GOOD INITIATIVE 9
   1. Inaugural Study, Report and Key Findings, December 2020 9
   2. Strong Continued Engagement with Finance Industry Leaders 10

2. GROWING OWNERSHIP OF THE WORLD SHARED CHALLENGE 11

3. RISING PACE OF INITIATIVES TO FINANCE GOOD 14
   1. Key Emerging Developments 14
   2. Key Challenges for 2021 and Beyond 19

4. FUTURE ENGAGEMENT PRIORITIES 22

CONCLUSION: RISING AMBITION, GREATER GOOD 24

ANNEX

I. Background to the Force for Good Initiative 26

II. Important Notices 28

EXECUTIVE SUMMARY: CAPITAL AS A FORCE FOR GOOD STRENGTHENING

The Force for Good initiative was launched in 2020 to establish the idea that capital can be a force for good in the world at a time of profound and multi-dimensional change in the world, engaging the world's leading financial institutions to establish what the bar for the industry emerges organically and to continue to mobilise capital to break new ground in providing finance to address the world's issues and build for a better future.

A Race to the Top Emerging Among Industry Participants

The work leading up to this Interim Report to follow-up with executives in the leading global financial institutions finds a positive cycle of competition to address major global issues.

Headlines

- **The emergence of a race to the top with trillion dollar commitments**
- **The next wave is 'social commitments' where financial institutions are stepping up to fill the gaps in government's agendas**
- **Leading financial institutions are aligning behind the SDGs**
- **The broadening of investments to encompass development as a mutually profitable endeavour is underway (to take advantage of SDG business opportunities)**
- **Leaders are moving beyond ESG as a risk framework, which is already embedded in the most advanced institutions, and are focused on measurable impacts**
- **Some geographies and asset classes are left far behind in this race**

Force for Good Initiative Established the Position of Finance Industry Leaders

The work and report, 'Capital as a Force for Good', issued in December 2020, analysed 63 leading institutions across asset management, banking and insurance representing c.US$100 trillion in assets. The inaugural report identified the substantial "common ground" between these companies in doing good, as well as the new ground that the leaders among them were breaking.

This analysis also provided foresights into a series of emerging mega-trends and themes with the potential to reshape the finance industry, the wider financial system, and even the shape of the world over the coming decade, aligning the world to fund the UN Sustainable development goals (SDGs), fighting climate change, driving mass inclusion including through funding future breakthroughs in key technologies that enable mass inclusion.

Since issuing the report in December 2020, the Force for Good Initiative engaged with nearly 50 major global financial institutions across the industry, development banks, NGOs and other stakeholders on the key findings of the report, revealing strong support for both the initiative itself as well as its broader objectives, with leading institutions committing to participating in future projects by the Force for Good Initiative.

Continued Engagement of Active Participants and Broader Stakeholders

In early 2021, virtual "roadshow" and in-depth engagements were conducted involving 49 discussions, with 37 organisations, involving 158 individuals, some of which were clients of these organisations, encompassing financial institutions and transnational institutions and groups, government institutions, policy and academic institutions, development institutions and entrepreneurial businesses and professional services.

This recent virtual "roadshow" and in-depth engagements have confirmed the rising confidence, ambition and commitment to be a force for good by the most active participants leading the finance industry, with major institutions creating partnerships to accelerate their efforts to tackle increasingly complex and interrelated challenges like climate change, biodiversity loss and pollution, problems which themselves are continuing to accelerate as well.

Key Emerging Developments

The initiatives and commitments of industry leaders, particularly the most active ones, announced year to date highlight only an acceleration but a number of important near-term themes and trends, including:

1. **Industry Leaders Making Sustainability Core to their Missions.** Global finance industry leaders including the US 'Big Four' banks, are increasingly embracing sustainability as a CEO level strategic imperative.
2. **Collective Industry Action is on the Rise, in Parallel to Positive Competitive Dynamics.** Industry leaders' sustainability and impact priorities are increasingly aligning and industry-wide forums are attracting support exhibiting shared goals, while the innate competitiveness of industry leaders are fuelling a positive cycle of initiatives.
3. **Trillion-dollar Environmental Commitments Accelerating.** 2021 has also seen the rise of trillion-dollar commitments for environmental and sustainable financing by major banks, with US$5.5 trillion committed in Q1 2021 alone.
4. **Increasing Priority of Social Issues and Commitments.** Addressing social challenges is also an increasingly important component of sustainble investing, with Q1 2021 evidencing a 10x rise in social bond issuances year-on-year.

5. **Carbon Neutrality Becoming an Industry Standard.** The transition to net zero carbon emissions has joined the industry's common ground, with US$37 trillion of assets commited, an increase of 300% since Dec 2020.

6. **The SDGs are Becoming a Benchmark for Defining and Measuring Initiatives.** A growing number of finance industry leaders are explicitly using the SDGs to prioritise, communicate and increasingly measure the impact of their sustainability efforts.

7. **ESG/Sustainability Departments Becoming Influential Change Agents, Scaling via Niche Acquisitions too.** The role of ESG and sustainability departments in major organisations is becoming more strategic, organically and through acquisition of boutique impact investment institutions.

8. **Europe and US Continue to Lead, With Very Different Approaches.** European and US financial institutions continue to lead the world in terms of ESG, sustainability and stakeholder engagement, but with differences in appraoch to scale and standards, reflecting their different cultures.

9. **Much of the World is Still Not Prioritising Sustainability, ESG and Stakeholders.** The majority of financial institutions in regions representing nearly 50% of global GDP have yet to embrace ESG, sustainability or statekholder egnagement in any meaningful way, leading to a widening gap between geographies.

10. **Alternative Asset Managers Continue to Lag in Sustainability Engagement.** Sustainability engagement, and basic ESG, across private assets, hedge funds and sovereign wealth funds generally remains substantially behind that of public market investors in terms of commitments and actions.

Importantly, the 'Force for Good' team's outreach and engagement with industry leaders and other stakeholders has also highlighted a number of challenges and issues that companies are grappling with in seeking to be a force for the good in the world.

These issues include reconciling shareholder and broader stakeholder obligations when prioritising initiatives, agreeing a shared set of industry reporting and measurement standards to ensure transparency and comparability, managing the energy transition in investment portfolios in practise, and managing the defunding of activities and companies as ESG criteria become more stringent, among others. These issues will clearly need to be resolved for leaders to maintain their current trajectories and to even meet their existing commitments, providing the templates for the rest of the industry to follow and continuing the race to the top.

Future Engagement Priorities Established

Many of the world's largest financial institutions have demonstrated their continuing appetite to engage and parcipate in ambitious initiatives across sustainability, inclusion and development, with the Force for Good initiative emerging as a forum for them to do so. The key priorities for the year currently underway include the 2021 Capital as a Force for Good Report being prepared for release to coincide with the UN General Assembly, active participants sharing thinking and initiatives in a series of case studies, the first two of which (by Wellington Management and Credit Suisse) have already been published on the platform, and a short high impact meeting to assemble active participants that are working to be a Force for Good ‘General Assembly’ for Capital to showcase support for the SDGs and invest in the future, all being planned in uspport of the UN General Assembly events in September of this year.

The Force for Good initiative has also engaged with other stakeholders to inform them of the findings of the study, encourage them to cross the hurdle of doing good and to determine how best to support the idea of capital as a force in the transition to a new more inclusive and sustainable model for capital.

1. BACKGROUND TO THE FORCE FOR GOOD INITIATIVE

The Force for Good initiative was distinctive in establishing the contours of the agenda of leading financiers from across the globe in allocating material capital to make an impact on the issues facing humanity, in progressing the journey of the world's transition away from a carbon economy and in stepping up as leaders beyond finance as they seek to address issues of inclusion, racial equity, climate change and more as reflected in the SDGs.

Inaugural Study, Report and Key Findings, December 2020

Launched formally in 2020, during the surge of the pandemic, the Force for Good initiative sought to assess, establish and encourage the holders of capital to be a force for good. The endeavour engaged the world's leading financial institutions to assume leadership in this regard, to set the bar for others in the finance industry to cross, and to demonstrate the financial and other benefits of doing so.

A total of 63 leading institutions in the global finance industry were analysed in depth, representing c.US$100 trillion in assets which is c.30% of the world's financial assets, across asset management, banking and insurance and each region of the world. Of these, 30 became "active participants", providing greater information and insights on their activities.

The engagement included CEOs and Presidents, CIO and Heads of Sustainability or equivalent in these leading financial institutions. The framework for assessing them as a "Force for Good" was based on their activities, in ESG, sustainability and stakeholders.

In recognition of the urgency and the call to action by the UN on the SDGs, the study and report was in support of the UN Secretary General's strategy and roadmap for financing the 2030 Agenda for Sustainable Development and was carried out through 2020. The Force for Good

Capital as a Force for Good, Key Findings

- **US$12.5 trillion of AuM** (12% of total assets) consciously incorporate ESG factors into their investment decisions to promote activities for good
- **100% have adopted ESG** and sustainable investing targets, representing US$102 trillion.
- **98% apply a series of ESG screening metrics** to proactively promote the funding of what they see as sustainable projects and enterprises
- **97% committed to reducing their carbon footprints** through changes to work practices and environments
- **90% affirmed broader stakeholder commitment** publicly in terms of their focus to serve
- **84% have prioritized climate action** as an urgent organizational priority
- **73% offer or invest in ESG or sustainable products**, such as green bonds, sustainable loans
- **c.60%-84% prioritised SDGs** for climate change, affordable and clearn energy, decent work and economic growth, quality education, sustainable cities and communities and good health and well being
- **c.4x higher performance by those doing 'most good'** compared to the MSCI, and c.2x by those doing good

project's inaugural report, 'Capital as a Force for Good, Global Finance Industry Leaders Transforming Capitalism for a Sustainable Future', was launched in December 2020.

The report identified the substantial "common ground" of actions of these finance industry leaders in doing good, and how they are breaking new ground in an ever-increasing innovative and competitive spirit and the returns from doing so. In addition, the initiatives of the leading financial institutions provide foresights into a series of mega-trends, big ideas and themes, with the potential to reshape not just the finance industry, but the wider financial system, and even the shape of the world over the coming decades. They point to aligning the world to fund the UN SDGs, including fighting climate change, driving mass inclusion and funding future breakthroughs in key technologies to achieve the SDGs, potentially using radically different models of finance that will empower individuals and organizations to make conscious, informed, and effective choices that have a positive impact on the world.

Strong Continued Engagement with Finance Industry Leaders

Since the report issuance in December 2020, a series of engagements with active and other leading global financial institutions has been undertaken, across banking, insurance, asset management, pension and sovereign wealth and hedge funds. Given, the report generated strong interest from outside of private sector financial services, the outreach also included development banks and agencies, consultancies, and non-government organisations as well as smaller innovative sustainable investors, technology companies and platforms.

The engagement reveals that the report was well received for many reasons, of which two in particular stand out. Firstly, and perhaps most importantly, the report is unique in defining an iconic and aspirational identity to financiers to spur a race to the top instead of shaming, in using the label 'force for good' in its application to those dealing with capital for good, while pointing out the gaps.

"Force for Good" is iconic and aspirational, and can encourage a "race to the top" among those institutions that hold and manage the largest pools of capital in the world

Secondly, the study is differentiated in taking a detailed, quantitative, and organic approach to measuring the extent to which institutions are doing good (instead of sending a form to be filled).

Discussions with the senior leadership of the institutions engaged have further demonstrated significant appetite for the bar to be raised in the industry in terms of the positive impact for the world from capital, as well as the demand for a continued effort on the part of the 'Force for Good' study and report to measure, report and galvanise these developments.

2. GROWING OWNERSHIP OF SHARED CHALLENGES

The steady stream of initiatives and commitments announced in the first few months of 2021 demonstrate a race to the top and accelerated responses of the finance industry to the world's largest challenges.

They are indicative of rising confidence, ambition and commitment of the most active participants, and include:

Merging Science and Finance to Manage Climate Risk. The physical risks of climate change are both immediate and significant. For Wellington Management, the global investment management firm with over US$1 trillion in assets under management, solving for this challenge is something they believe in and is a key opportunity for their business (Interview).

Capturing Hearts and Minds to Change the Flow of Capital. While the finance industry has increasingly embraced the SDGs as a framework for sustainability initiatives, Goal 14, Life Under Water, has ranked near the bottom of the finance industry's stated development priorities. Credit Suisse talks about how their SDG impact strategy and its focus on both climate change and the sustainability of the world's oceans (Interview).

JPMorgan Chase Commits US$30 Billion to Support Racial Equity. JPMorgan Chase has announced an additional commitment of US$30bn in loans, equity, and direct funding over the next five years, and harnessing the bank's expertise in business, policy and philanthropy to provide economic opportunities to underserved communities, especially the Black and Latino communities (Public).

Goldman Sachs Achieves US$156 Billion in Sustainable-Finance Activity in 2020. A record of US$732 billion in sustainable debt was issued in 2020, and for its part, Goldman Sachs achieved $156 billion in sustainable-finance activity during the year, as reported in a newly issued annual sustainability report. The company had committed to $750 billion in financing, investing, and advisory activity to accelerate climate transition and advance inclusive growth by 2030 (Public).

Credit Suisse Aligns Investment Supertrends to UN SDGs. Credit Suisse has updated its long-term investment trends drawing the connection to the United Nations' SDGs. This will help investors prioritize their investments according to their purpose be it climate action (SDG 13), reduced inequalities (SDG 10), decent work and economic growth (SDG 8) or good health and well-being (SDG 3) among others. (Public).

Goldman Sachs Announces US$10 Billion investment to One Million Black Women initiative. In partnership with black women-led organisations and other partners, Goldman Sachs' new investment initiative is committing US$10bn in direct investment capital and $100m in philanthropic support across healthcare, education, housing and small business support to address the dual gender and racial biases that black women have faced for generations (Public).

Bank of America Increases Environmental Business Initiative Target to $1 Trillion by 2030. Bank of America announced a goal of deploying and mobilizing $1 trillion by 2030 to accelerate the transition to a low-carbon, sustainable economy, anchoring a broader $1.5 trillion sustainable finance goal by both environmental transition and social inclusive development purposes, spanning business activities across the globe in support of the UN SDGs (Public).

Morgan Stanley Commits US$1 Trillion in Sustainability Solutions by 2030 to Support the UN SDGs. Morgan Stanley announced an enhanced commitment to mobilize an additional $750 billion, on top of its existing commitment of US$250bn, to support low-carbon solutions by 2030, to be deployed across the firm's sustainable investing capacity and product offerings (Public).

Citi Commits US$1 trillion in Sustainable Finance Activity. Citi has committed to mobilize US$1 trillion to sustainable finance by 2030, aligning with the ambitious agenda of the United Nations' Sustainable Development Goals (SDGs), and building on the work outlined in the firm's 2025 Sustainable Progress Strategy. Crucially, this US$1 trillion includes US$500bn in environmental finance, with the balance committed to the remaining SDGs (Public).

JPMorgan Chase Targets More Than $2.5 Trillion over 10 Years to Advance Climate Action and Sustainable Development. JPMorgan Chase aims to finance and facilitate more than $2.5 trillion over 10 years – beginning this year through the end of 2030 - to advance long-term solutions that address climate change and contribute to sustainable development, bringing together its capital and expertise to help clients, customers and communities address these vital issues (Public).

Net Zero Asset Managers Initiative Grows to US$37 trillion. Launched in December 2020 with 30 signatories, the Net Zero Asset Managers Initiative has now grown to include 87 signatories with nearly US$37 trillion in assets under management, representing nearly 40% of the total assets under management across the globe. The number of signatories has nearly tripled and the total assets under management have quadrupled since the launch (Public).

US$70 Trillion Glasgow Financial Alliance for Net Zero Established. Glasgow Financial Alliance for Net Zero brings together over 160 firms (together responsible for assets in excess of US$70 trillion) to accelerate the transition to net zero emissions by 2050 at the latest, including 43 banks from 23 countries managing US$28.5 trillion from the Net Zero Banking Alliance (Public).

Citi launched US$1 Billion 'Action for Racial Equity'. Citi and the Citi Foundation have announced more than $1 billion in strategic initiatives to help close the racial wealth gap and increase economic mobility in the United States, providing greater access to banking in communities of color, increasing investment in black-owned businesses, expanding homeownership among black Americans, and advancing anti-racist practices in the financial services industry (Public).

3. RISING PACE OF INITIATIVES TO FINANCE GOOD

A number of major themes are emerging from the speed and magnitude of the commitments that financial institutions are making to advance broader stakeholders intererests evidencing a positive competition to make a bigger impact than each other which cumulatively amounts to a significant shift in the allocation of capital.

Key Emerging Developments

The 2020 'Capital as A Force for Good' report highlighted the emerging common ground within the finance industry's engagement to be a force for good in the world, as well as the increasing ambition of many of the largest institutions to be leaders in this regard by breaking new ground and raising the bar for the industry to follow.

In early 2021, roadshows and in-depth engagements were conducted involving 47 discussions, with 37 organisations, of which 23 were active participants, engaged in detailed presentations and discussions, involving 158 individuals, some of which were clients of these organisations. Of the 37, 25 were financial institutions and the remainder included transnational institutions and groups, government institutions, policy and academic institutions, development institutions and entrepreneurial businesses and professional services.

"Leading institutions in the finance industry have engaged in a highly positive dynamic which has the potential to make a deep impact on both financing the SDGs and building for the future – they are both competing with each other to lead in sustainability engagement as well as working together to coordinate the industry's repsonse to the biggest challenges."

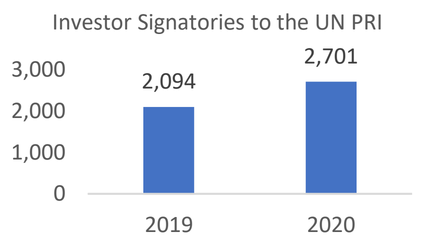
Following this extensive engagement with industry leaders and other industry stakeholders in the early part of this year, as well as studing broader industry developments, it is clear that a demonstratable shift is underway. Importantly, a highly positive dynamic seems to be emerging whereby the finance industry's leading institutions are engaged in both competing with each other to lead in sustainability engagement as well as working together to coordinate the industry's repsonse to the biggest chllenges like climate change. Taken together, a number of near-term themes are shaping the industry's overall trajectory in what is expected to be a critical decade for the world in driving long term sustainability.

Ten key emerging developments

1. **Industry Leaders Making Sustainability Core to their Missions.** Global finance industry leaders, like the US big four banks, are playing increasingly pivotal roles in sustainable finance and sustainability related issues. While the first phase of sustainable finance has been driven by smaller organisations in Europe and Scandinavia in particular, with large US institutions engaging only slowly, and often in response to external stakeholder pressures, the next phase is set to be driven by finance industry leaders themselves, who are increasingly embracing CEO-led mission-driven sustainability as a critical aspect of their continued industry leadership as they embrace the business opportunities.

   *"We don't do these things because they might make us look good. They are embedded in our day-to-day business and they are **central to our mission** of enabling growth and driving economic progress. Case in point is Citi's leadership in sustainability."* *Jane Fraser, CEO, Citi 2021 AGM*

2. **Collective Industry Action is on the Rise, in Parallel to Positive Competitive Dynamics.** The agendas and priorities of finance industry leaders in sustainability and impact are increasingly aligning, as indicated by strong growth of industry associations promoting shared goals and or other joint initiatives. For example, UN PRI signatories have risen by 29%. These associations are increasingly focused on developing standards to govern the implementation of responsible investing, its measurement, and its reporting, and their growth is building industry support for these standards.



Source: UN PRI

3. **Trillion-dollar Commitments Accelerating.** US$5.5 trillon has been committed in Q1 2021 alone. 2021 has also seen the rise of trillion-dollar commitments for environmental and sustainable financing, with leading institutions seeking to scale their ambitions and commitment to the energy transition. At the time of the issuance of the Force for Good report last December, only one active participant had announced a trillion-dollar commitment to sustainable and green financing (being a 30-year commitment). Since January of this year, a further four active participants have increased existing environmental financing commitments to exceed US$1 trillion (all of them to be deployed by 2030 too), pointing to a positive dynamic of competition among leading financial institutions to lead or stay in the leadership pack on key issues.

Trillion Dollar Sustainability Commitments 2021 YTD

April 2021: Bank of America Increases Environmental Business Initiative Target to $1 Trillion by 2030

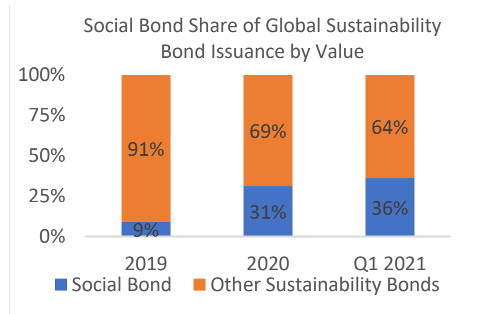
April 2021: Citi Commits $1 Trillion to Sustainable Finance by 2030

April 2021: JPMorgan Chase Targets More Than $2.5 Trillion to Advance Climate Action and Sustainable Development

April 2021: Morgan Stanley Announces Commitment to Mobilize $1Trillion to Support Sustainability Solutions by 2030

Source: Company press releases

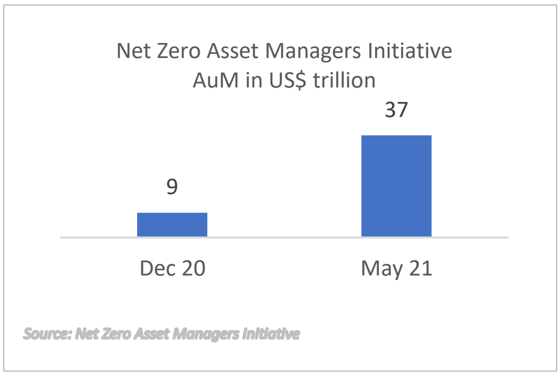
4. **Increasing Priority of Social Issues and Commitments.** Alongside the continued growth of environmental commitments, finance industry leaders, particularly in North America, are increasingly prioritising social commitments and initiatives as an important part of their broader sustainable investing strategies, driven by the extraordinary events of 2020 surrounding the coronavirus pandemic, which exacerbated and put in evidence inequalities, the Black Lives Matter protests and other urgent social themes. Internationally, social bonds have continued to grow their share of the global sustainability bond supply (green, social, sustainable, and sustainability-linked) during 2021, representing 36% of issuances by value in Q1 vs 31% in 2020, and with Q1 2021 volumes of US$92bn representing a 10x increase year on year.



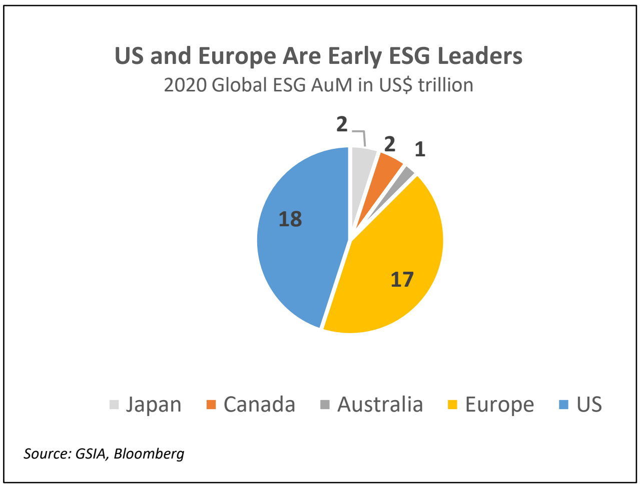
Source: Refinitiv

In North America, finance industry leaders have also recently announced a cascade of multi-billion-dollar commitments to racial equity, inclusion and diversity across their businesses, pointing further to the increased importance of social development issues and cohesion on their strategic agendas.

5. **Carbon Neutrality Becoming an Industry Standard.** The transition to net zero carbon emissions has joined the industry's common ground with US$37 trillion of assets commited, an increase of 300% since Dec 2020. The number of asset managers committing to rebalancing their portfolios in support of the energy transition has grown fourfold since the issuance of the Force for Good report, with over 40% of global AuM now committed to net zero emissions targets, with the majority seeking net-zero greenhouse gas emissions by 2050 or sooner, and setting interim targets for 2030. These commitments mirror those made by private sector corporations and national governments across the world as promoted by the UN's Race to Zero Campaign.



6. **The SDGs Becoming a Benchmark for Defining and Measuring Initiatives.** Five years have elapsed since their introduction, and it seems that the last year has seen the UN SDGs gaining significant momentum as a framework for leading institution's sustainability efforts, including in the financial sector. The number of finance industry leaders explicitly using the SDGs to prioritise, communicate and increasingly measure the impact of their sustainability efforts is reaching a critical point that can galvanise the rest of the industry and other sectors. Moreover, individual finance industry leaders are selecting specific SDGs to explicitly champion, seeking to develop new business cases that will allow the private sector to contribute to individual SDGs that have previously been considered the remit of public spending, while taking advantage of the trillion in business opportunities.



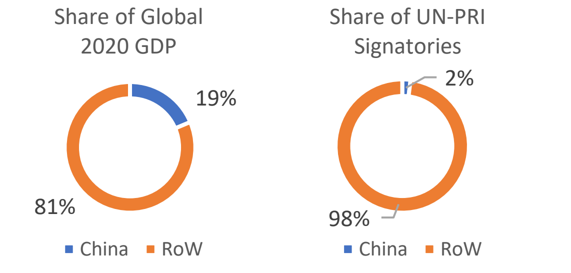
7. **ESG/Sustainability Departments Becoming Influential Change Agents, Scaling via Niche Acquisitions too.** The role of ESG and sustainability departments in major organisations is becoming more strategic as ESG actions and processes are increasingly embedded within the business. Among the most advanced companies, ESG is becoming an operational matter which is well integrated, while sustainability and social impact engagement is becoming increasingly strategic. Sustainability departments are therefore transforming from being the people that 'do' ESG and advocate good practices (in a similar fashion to a company's legal department being responsible for all legal matters) to being thought leaders, advocates, internally and externally, and sustainable product design experts for the business. Acquisitions of smaller boutique impact investors in the industry, has contributed to this trend as these ESG/SDG managers are now in a position to channel trillions instead of millions or billions.

The Sustainability department is becoming a critical aspect of learning, innovation and communicating the intent and values of the organisation to the world … coupled with acquisitions of small innovators and talent, big companies are poised to scale small innovators

8. **Europe and US Continue to Lead, With Very Different Approaches.** European and US financial institutions continue to lead the world in terms of ESG, sustainability and stakeholder engagement. European sustainability efforts are generally highly systematic, both within organisations and across the industry, focusing on the development and adoption of standards and practises, as witnessed by the various taxonomy and disclosure regulations in the European Commission's Sustainable Finance Action Plan, most recently the Sustainable Finance Disclosure Regulation which came into force in March 2021, which seeks to drive capital flows to sustainable investing by standardising how funds define, measure and report on sustainability.

   The US approach to sustainability on the other hand is a bottom up, initiative-driven one, led by individual institutions seeking to carve out leadership positions in the sustainability space by pursuing a series of increasingly ambitious projects to address issues they prioritise. While Europeans may feel they are winning, the score is much too early to call, especially given the scale of American commitments.

9. **Much of the World is Still Not Prioritising Sustainability, ESG and Stakeholders** While the overall level of engagement on ESG and sustainability by the finance industry globally is increasing, The majority of financial institutions in regions representing nearly 50% of global GDP have yet to embrace ESG, sustainability or statekholder engagement in any meaningful way, leading to a widening gap between geographies.

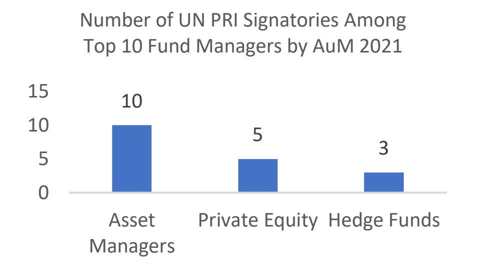


Source: UN PRI – Note Chinese companies also represent c.3% of GISD members

For example, Latin American companies represent only 2% of the signatories of the UN Principles of Responsible Investing, which is the world's largest initiative of its type, while Africa and the Middle East represent 3% and Chinese signatories less than 1.5% of the total. While in some cases, the proportion of economic value is the explanation, for China, with nearly 20% of global GDP, it is a bigger question of adoption. Galvanising action across regions is a key area of future opportunity for multi-lateral organisations working in partnership with the private sector.

10. Alternative Asset Managers Continue to Lag in Sustainability Engagement.

ESG and sustainability engagement across asset classes also remains highly variable, with private and alternative investment managers generally far behind public market investors or the banking sector in terms of engagement and commitments, boutique impact investors aside. Most private equity, hedge funds, but also sovereign wealth funds are still in nascent stage of adopting ESG, possibly driven by less pressure from their shareholders to engage than other sectors of the finance industry. While these three sections represent only c.10% of global assets under management, they remain influential industry participants.



Source: UN PRI

The engagement with the industry and other key interested parties reveals that institutional focus on the world's major challenges is accelerating, and the willingness to go further yet is evident. Given the interrelated nature of the world's sustainability and deveopment challenges, the Force for Good initiative's definition of 'good' being greater than climate change or ESG or sustainability provides a useful "whole impact" perspective for institution's engagement efforts.

As one would expect in an industry generating annual revenues of US$22.5 trillion, there are significant differences in terms of the activities of the leadership group and others, between sectors in the industry and between geographies too. However, a bar is being set and the activities and initiative that create a more inclusive and sustainable world have become mainstream in parts of the world that have the largest flows of capital. The challenge is that the parts of the world that do not have the largest capital flows have the biggest issues and remain unfunded.

That the progress is nascent is not lost on the group. At current growth rates, ESG assets under management are expected to cross one third of all assets by 2025, showing progress is robust but also indicating that the finance industry's transformation is still in its early days. We are in the midst of a transition, and while vigilant monitoring is helpful, it is too soon to take the score.

Key Challenges for 2021 and Beyond

Importantly, the engagement with industry leaders and other stakeholders has also highlighted a number of challenges and issues that companies seeking to be a force for good in the world are currently grappling with, issues that they will need to resolve in order to maintain their current trajectories or even meet their existing commitments. These include:

1. **Managing the Energy Transition.** While an increasing number of asset managers and allocators are committing to supporting the energy transition, few companies have to date developed and communicated roadmaps as to how to make this happen in practice.
2. **Defunding Companies vs. Activities.** Companies integrating ESG into their investment decision making are facing fundamental decisions around implementation, specifically when screening for activities considered harmful should investors exclude the companies that practice these activities or exclude the funding to these activities only? An example would be a green bond issued by mining companies where the company might be screened out by investors' ESG filters.
3. **Defunding vs Engagement.** A related issue concerns the implications of defunding companies that fail to pass ESG screening criteria: defunded companies will need to tap alternative sources of capital that do not apply ESG filters to their business selection. While defunding such companies from the portfolio improves the ESG rating of their own portfolio (while saving a lot of public relations time) it forefeits the opportunity to engage constructively with and aply pressure on companies that need to improve their ESG performance. With the G7 nations having recently pledged to end fossil fuel subsidies by 2025 this quandry may soon resolve itself, but many asset managers continue to use this argument not to go further in implementing ESG.
4. **Competing Stakeholder and Shareholder Obligations.** Finance industry companies are also in a position where their obligations to shareholders are clearly defined in law and regulation and their stakeholder commitments are not. While most managers agree that stakeholder engagement and a focus on sustainability will drive long term value, many feel that they lack the shareholder mandate to make significant investments of capital, time and manpower on initiatives outside of their fiduciary areas of responsibility, therefore limiting the scope and scale of their ambition and ability to be a force for good in the world. There are however a number of legislative initiatives underway in major western countries aiming to broaden the definition of fiduciary duties to help address this challenge.

   In an interesting "no one left behind" mentality, leading asset managers are reluctant to abandon polluting clients and industries in recognition of the need to find a bridge for them to the future, part of which requires applying pressure to change and funding their transition too

5. **Transparency, Standards and Reporting.** The most advanced industry participants welcome transparency and recognise the need for harmonized standards to be established and that these will need to be reported against. They value the legitimacy for actions that will come with that. However, there is an exhaustion with the volume of reporting, overlapping requests for information and lack of coordination from those asking for reporting. There is also a concern that rules and regulations could stifle innovation in a new field that needs innovation and risk taking.

6. **Funding So-Called "Intractable" Problems.** A number of the SDGs have failed to attract priority from deep pools of capital, including No Poverty, Zero Hunger, Life Below Water, Life on Land, Peace Justice and Strong Institutions, and Partnership for the Goals. This is not because financial institutions do not understand their importance and the interdependencies between parts of the world that face these issues and the rest. However, physical presence, the nature of their customer bases and mandates do not extend to make these a financing target, and for some issues the role of private capital remains poorly defined or developed, obstacles that leading organisations are increasingly challenging themselves to overcome in partnership with those that have that deep expertise.

These are some of the challenges that the finance industry will need to make breakthroughs for as they navigate being seen to be a force for good. The 2021 Capital as a Force for Good report will seek to further explore these and other challenges as well as the potential solutions being pioneered by others.

4. FUTURE ENGAGEMENT PRIORITIES ESTABLISHED

The engagement with finance industry leaders has highlighted the continuing appetite by existing participants and others to engage and collaborate on ambitious initiatives across sustainability, inclusion and development, with the Force for Good initiative providing a positive forum to do so.

The key current and next steps of the engagement in planning, are as follows:

I. **Active Participants Sharing and Showcasing Ideas, Thinking and Initiatives, in progress.** Active participants are sharing insights on their force for good initiatives which the initiative is showcasing. The first two in the series have been Wellington Management and Credit Suisse, demonstrating the innovation, approach and determination needed to make an impact with the hope of further accelerate learning and impact.

II. **The 2021 'Capital as a Force for Good', in planning.** The 2021 study will be undertaken to be ready for launch to coincide with the UN General Assembly, September 2021, and also be in support of the UN Secretary General's Roadmap for Sustainable Development. The approach to updating the database of information will continue to deploy a light touch with an ultra-efficient approach as evidenced last year, demonstrating how proactively and competitively leading financial institutions are pursuing good.

Force for Good is set to continue its work to provide a constructive, connected and a powerful platform for leading institutions to demonstrate how they will apply capital at scale to address the world's issues and finance the future

III. **The Force for Good General Assembly for Capital, in planning.** The global finance industry allocates the equivalent of 90% of the world's total net liquid assets, yet they do not convene to discuss how that capital is being deployed in the world. This year, to coincide with the UN General Assembly, we are preparing to provide a forum for the leading financial institutions and other holders of capital in support of the SDGs and investing in the future. The event will provide all active participants with the opportunity to broadcast their initiatives as they impact the SDGs, pre-recorded or live. The forum will provide a concentrated one day for a small set of leaders to describe how they are using capital to make a scaled difference for good, with catalytic and potentially disruptive initiatives and release the report to the press.

The Force for Good initiative will continue to engage with other stakeholders to encourage them to cross the hurdle of doing good activity and to determine how best to support the idea of capital as a force in the transition to a new more inclusive and sustainable model for capital.

CONCLUSION: RISING AMBITIONS, GREATER GOOD

The engagement with industry leaders undertaken during the year-to-date points to their rising ambitions for capital, and their aim to make their organisations a force for good in the world. Their initiatives and advocacy are aimed at establishing them as leaders in inclusion, sustainability, and stakeholder engagement alongside the traditional metrics of leadership in finance and raising the bar for rest of the industry to follow.

The increasing need for broader sustainability engagement by the finance industry is a crucial one and the current year provides a number of entry points for institutitons seeking to participate. Several high level global and country specific events, including COP26 are taking place this year that will seek to chart roadmaps for the achievement the SDGs, providing opportunities for private sector participation (see sidebar). 2021 is also the initial year of the UN Decade for ecosystem restoration (led by UNEP and FAO) focused on preventing, halting and reversing the degradation of forests, land and other ecosystems worldwide, and the UN Decade Ocean Science for Sustainable Development (led by UNESCO) to harness, stimulate and coordinate interdisciplinary research efforts at all levels, in order to generate and use knowledge for the transformational action needed to achieve a healthy, safe, and resilient ocean for sustainable development by 2030 and beyond.

2021 Sustainability Agenda

- UNESCO World Conference on Education for Sustainable Development: Education for achieving the SDGs, 17-19, May, Berlin
- Fifth International Conference on Chemicals Management (ICCM5; TBC)
- Sustainable Transport Conference, Beijing, October-TBC
- Food Systems Summit, New York, September
- High-level Dialogues on Energy, NYC, September
- Biodiversity COP15, China, October - TBC
- UNFCCC COP26, November, UK
- UNCCD COP15, December, Bonn – TBC

As the same time, billions of dollars committed to initiatives aimed at increasing inclusion are critical for a systematic economic recovery from a pandemic which has disproportionately impacted the weakest and most marginalised members of society, much like further development finance is critical to supporting lower income countries to deliver sustainable and inclusive growth for its citizens. The increasing attention being given to the UN SDGs by the finance industry is indicative of these shifts.

It is clear to all that more needs to be done. Both private sector capital and governments will need to play their roles, whether that will be a true partnership or just complementary, is still unclear.

The coming decade is projected to be the decisive one in terms of limiting greenhouse gas emissions and the global rise in average temperatures to under 2°C vs pre-industrial levels if t we are to achieve a climate neutral world by mid-century. Further the 17 UN Sustainable Development Goals targets have also been set for the end of the current decade, 2030, and are currently facing a US$4.5 trillion annual financing gap. The good news is that industry leaders have embraced the challenge of stepping up their focus on these challenges, and their initiatives can set the stage and the standards for the rest of the industry to follow in an efficient and potentially coordinated manner.

As the global economy emerges into a post-pandemic world that has brought many global challenges into sharp relief, unprecedented liquidity and a near zero interest rate environment, over the near to medium term, create new opportunities to deploy capital at scale to solve these challenges. In doing so, the finance industry is not only positioning as a force for good in the world, its leaders seem set to transform their organisations to be fit for purpose in readiness for a sustainable world that they can help to bring about.

ANNEX

I. BACKGROUND TO THE FORCE FOR GOOD INITIATIVE

The Force for Good project's inaugural report 'Capital as a Force for Good, Global Finance Industry Leaders Transforming Capitalism for a Sustainable Future' was launched in December 2020. The report examines the extent to which leading institutions in the finance industry, across geographies and asset classes, are a proactive 'force for good' in the world. This examination is based on a specific definition of 'good' that takes into account their implementation of ESG, sustainability and stakeholder policies and practices and the implied shift in values, and also the 'force' or strength of the impact of their initiatives and how the multi-dimension and scale of these initiatives result in actual and positive changes in the world, and the extent to which this is evident in terms of the more traditional metrics of financial performance.

Report Objectives

The report's objective has been to increase awareness of the finance's industry's engagement as a 'force for good' and to galvanize change in the broader financial sector and beyond for a sustainable future, providing a roadmap for others to follow.

The hypothesis was that public perception and media coverage of the finance industry's efforts has lagged behind its activity, with industry leaders playing an increasingly active role in driving potentially systemic change. And that their actions could potentially mobilize leaders from other major global stakeholder groups including consumer interest groups, producers and distributors, governments and scientists to proactively drive change too.

The report further identified the 'common ground' of actions of finance industry leaders, and how they are breaking new ground. If the common ground between the most successful organizations in the industry is high, and it translates into superior performance, it further reinforces the bar for others who are seeking that status.

Participants and Total Number of Financial Institutions

The report examined the initiatives of a representative group of 63 leaders of the finance industry utilizing multiple frameworks to determine the extent to which they are emerging as a potential 'force for good'. Of this group, 30 institutions, including many of the world's biggest financial institutions, were active participants that provided data and insights to the project. The 63 companies together represent US$102 trillion of global assets (both owned and managed), or 29% of the world's total, split across banks, asset managers (include various types of investment funds such as government pension funds, sovereign wealth funds, and hedge funds) and insurance companies. As part of research for the report the Force for Good project has created a comprehensive database industry leaders' engagement and initiatives which provides a unique insight into the current state of industry as well as to the direction of its travel.

Active Participants

The 30 leading financial institutions contributed actively to the report were: Bank of America, BlackRock, Bridgewater Associates, CDPQ, Citi, Credit Suisse, Fidelity Investments, First Abu Dhabi Bank, GIC Singapore, Goldman Sachs, Great-West Lifeco, HDFC Ltd, HSBC, Investec Bank, Japan Post Holdings, JPMorgan Chase, Liberty Mutual Insurance Group, Lloyds Banking Group, Morgan Stanley, Ninety One, Nomura, Nordea, Northern Trust, OMERS, Putnam Investments, Schroders, SEB, State Street, UBS, and Wellington.

Total Database of Financial Institutions Analysed as a Force for Good

The database of 63 companies comprised:

Allianz SE, Ameriprise Financial (Columbia Threadneedle), Australian Super, Aviva plc, AXA SA, Bank of America, Bank of New York Mellon, Blackrock, BNP Paribas SA, Bridgewater Associates, CDPQ, CALPERS, Capital Group, Citi, Credit Suisse, Danske Bank, Fidelity Investments, First Abu Dhabi Bank (FAB), Future Fund, GIC Singapore, Goldman Sachs Group, Government Pension Fund Japan (GPIF), Great-West Lifeco, HDFC Limited, HSBC, Investec Bank, Japan Post Holdings, JPMorgan Chase, Julius Bär Group AG, Korea Investment Corporation, Liberty Mutual Insurance Group, Lloyds Banking Group, Manulife Financial Corporation, MetLife, Inc., Mitsubishi UFJ Financial Group, Inc, Mizuho Financial Group, Inc., Morgan Stanley, NatWest Group plc, New York Life Insurance Company, Ninety-One Group, Nippon Life, Nomura Holdings, Nordea, Norges Bank Investment Management, Northern Trust Corp., OMERS, PGGM, PIMCO, Prudential Financial, Inc., Prudential Plc, Putnam Investments Schroeders Plc, SEB AB, St James Place Plc, Standard Life Aberdeen, State Street Global Advisors, Swiss Life Holding AG, TIAA (US), UBS, Vontobel, Wellington, Wells Fargo & Company, Zurich Insurance Group AG.

II. IMPORTANT NOTICES

Disclaimer

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Notice

The cumulative impact of good is that an organization becomes what we are calling in this report a 'force for good.' It is important to note that no judgement is implied based on the path chosen. Right conduct at the individual level is not judged as of lesser merit than conducting oneself on the world stage. No trade-off is implied between behaviors and outcomes in this report. Improving the life of millions (or the state of some part of the environment) is not judged in this report as of value greater if achieving that is achieved in a way that undermines the freedoms and rights of millions too (or damages other parts of the environment). Indeed, no hierarchy of values is implied between individual and collective conduct, while recognizing that the quantum of the impact may differ. The work recognizes the interconnectedness and interdependency of the system within the context of a systems based analytic approach, as in the consumer capitalism framework described earlier in the report.