Sustainable financing and investing survey 2021

Europe report

At the forefront of driving global change

HSBC | Opening up a world of opportunity

Introduction

European investors and issuers embrace new roles and responsibilities

While capital market participants' powerful embrace of sustainability is a global movement, European investors and issuers are at the forefront of it, often demonstrating to their peers in other regions what change can look like.

This year, our European respondents, and particularly investors, are showing their global leadership on green and sustainability matters across several different areas.

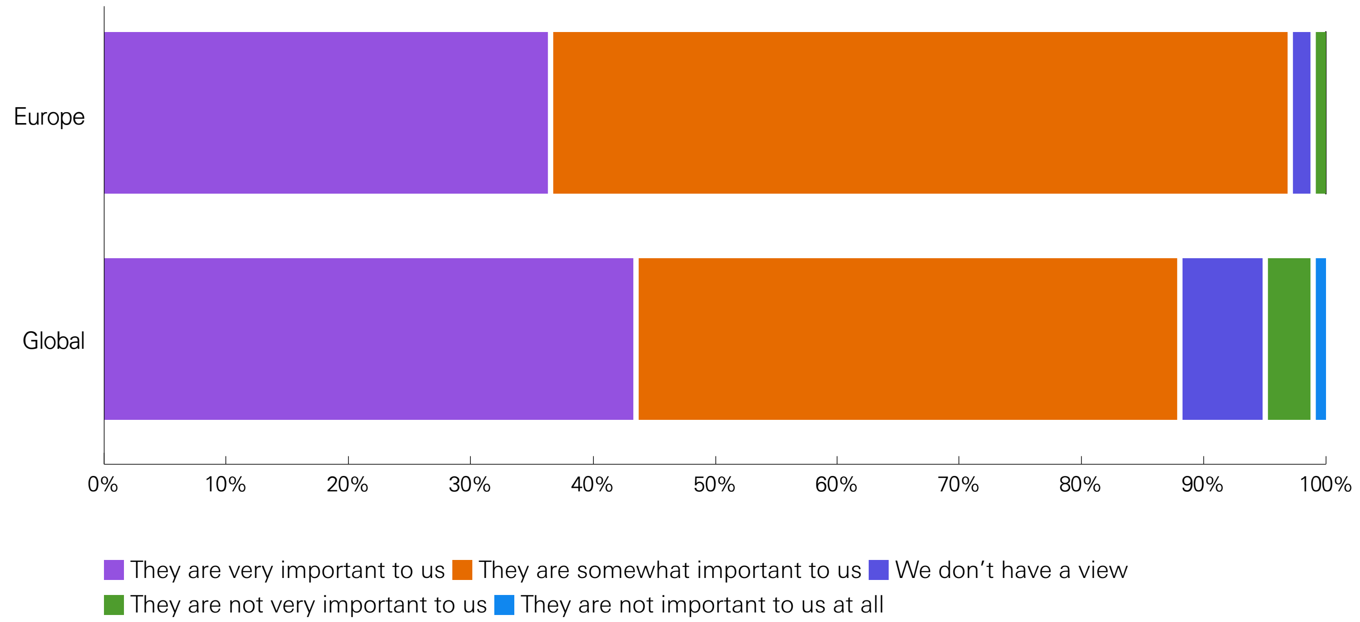
For instance, not only are European issuers and investors leading their peers in the global race to carbon neutrality (24% and 38% of them, respectively, have already made a net zero commitment), the region's asset allocators and owners are also way out in front of their global peers in implementing a firm-wide policy on responsible investing or ESG issues (91% have done so – up from 43% last year – compared to the global average 59%).

At a country level, French issuers (24%) are ahead of their German peers in setting targets (16%), but they trail investors in both countries; about 40% of allocators and owners in France and Germany say they have made a commitment.

Interestingly, some 88% of European investors – the highest percentage of any region – say nothing is holding them back from pursuing ESG investing more fully and broadly (up from 54% last year), which suggests their leadership in this area could extend even further.

In addition to this, there is strong, broad-based engagement and commitment among European respondents to environmental and social concerns – 97% of issuers and investors in the region say they are important to their organisation, which is a regional high (**Fig 1**). And in the past 12 months, half of them say they have also increased their attention to both of these issues, notably more than their peers in all other regions.

Figure 1: European issuers and investors show solid and broad based support for environmental and social issues
What is your organisation's attitude to environmental and social issues?



74%

of European respondants believe it's right for their organisation to care about the world and society

2021 Key Findings:

- **Reasons to care** – Multiple factors are underpinning why European investors care about **environmental and social issues**: Regulatory requirement (65%); Pressure from customers (64%); Belief that its right to care about the world and society (64%); Pressure from employees (62%).
- **Reasons to care** – Two clear factors underpin **why European issuers care** about these issues: Belief that its right to care about the world and society (85%); Recognition that paying attention to these issues can improve returns or reduce risk (78%).
- **Net zero heroes** – **European investors and issuers lead the world** on making progress on setting carbon neutral or 'net zero' commitments; 38% of investors and 24% of issuers have already made a commitment – the highest percentages of any region.
- **ESG investing leaders** – **European investors lead the world** on having a firm-wide policy on responsible investing or ESG issues – 91% of investors say they have such a policy (up notably from 43% last year) the highest percentage of any region.
- **Disclosure drive** – 69% of European issuers say the **level of disclosure** they currently make on environmental and social issues is about right, with 20% saying they expect it to increase and that is a good thing.
- **Investment boost** – European investors rank most highly **consistent ESG ratings, and companies improving their disclosure voluntarily**, as the factors that would be most helpful to them in trying to invest sustainably.
- **Issuers examined** – Most European investors say the information disclosed by companies they invest in on their **environmental performance** is adequate (39%). However, some 38% say it is inadequate, and only 23% say it is excellent.
- **Issuers examined** – Most European investors say the information disclosed by companies they invest in on their **social performance** is adequate (39%). However, some 37% say it is inadequate, and 24% say it is excellent.
- **Green and sustainable finance** – 62% of European issuers say they expect their company to actively seek advice on green, social or sustainability issues in relation to **capital markets transactions** in the next 12 months.
- **Exit strategy** – 71% of European issuers say they are considering **reducing or getting out of some business activities** which could be vulnerable to climate change – the highest percentage of any region globally.

Europe Report
Key drivers

At the core, there are a number of forces influencing how European issuers and investors think about these issues and their role and responsibility in doing something about them.

Strikingly, significantly more European respondents than their peers agree that they have become more aware of the urgency of climate change (84%) and other environmental problems (83%). Also, significantly more European respondents agree that society wants them to pay more attention to these issues (75%), and, importantly, that their view of their responsibility to society has changed (82%).

European investors are especially aware of the need to redefine their purpose; some 92% of them agree – the highest percentage of any region – that their responsibility to society has changed.

Evidently, the values that European respondents have are important in determining why they care about these issues. In fact, a belief that it is right to care about the world and society is seen as the most popular reason (75%) why, which is similarly the case for issuers and investors in the Americas and MENAT, but not their peers in Asia.

On breaking this down between issuers and investors, some interesting differences in opinion do emerge.

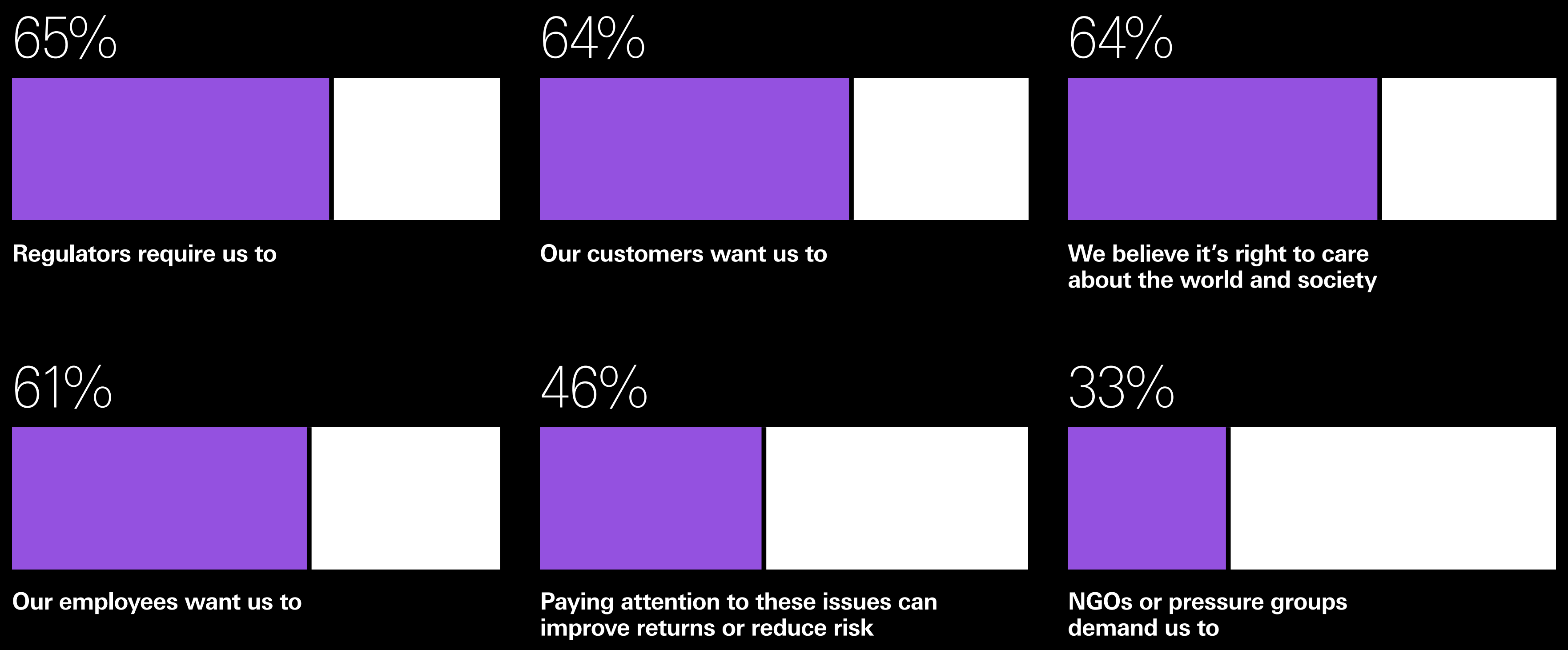
For European issuers, caring about the world and society (85% - the highest percentage of any region), the financial benefits in terms of improving returns and reducing risk (78%), and pressure from customers (63%), are the three top reasons why they care. For investors, however, regulatory requirements (65%), and the pressure from customers (64%) and employees (61%), are almost as popular as caring about the world and society (64%). (**Fig 2**).

Perhaps most interestingly, some 46% of European investors believe that the financial benefits of caring about these issues is important, which is significantly lower than the 78% of issuers who say the same. This divergence between investors and issuers on this issue is evident in the overall results and among Americas respondents, but the opposite is true in Asia, and MENAT.

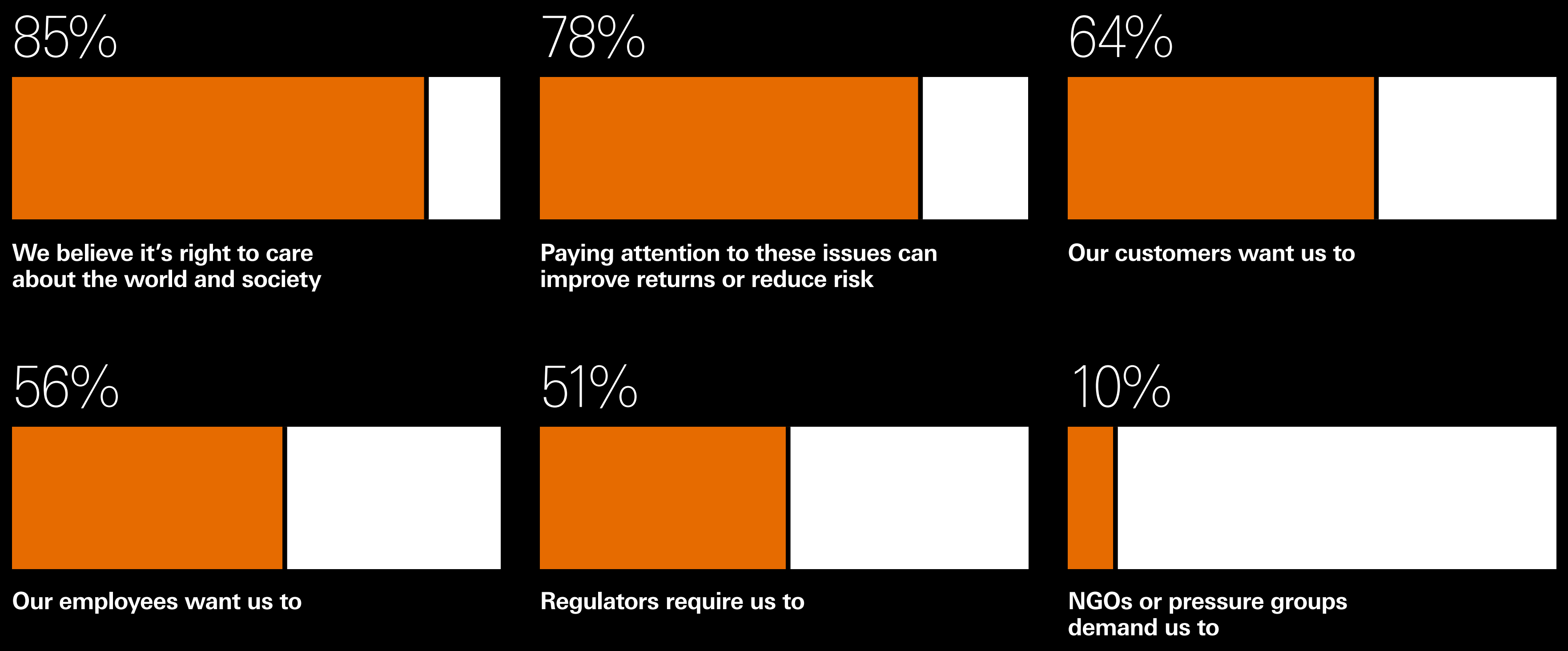
This may reflect an earlier acceptance of the financial benefits of paying attention to these issues by European and Americas investors compared to their issuer peers, and, indeed, investors elsewhere. It may also reflect that the message of higher returns and lower risk is really hitting home for European issuers, as well as their counterparts in the Americas.

"European investors are especially aware of the need to redefine their purpose; some 92% of them agree – the highest percentage of any region – that their responsibility to society has changed."

Figure 2: Multiple reasons underpin why investors care
Why does your organisation care about social and environmental issues?



Values and financial benefits underpin why issuers care
Why does your organisation care about social and environmental issues?



ESG investment
Leadership prevails on net zero

The widespread adoption of policies on responsible investing or ESG issues among European investors (Fig 3) clearly shows the extent the investment industry in the region is committed to and engaged in environmental and social issues.

Their values are helping to drive this. Some 77% of European investors, for instance, believe it is their responsibility to avoid investments that have negative impact on the environment and society – the highest percentage of any region and notably above the global average of 61%.

In addition, values are also helping to drive investors' commitment to net zero; some 38% of them say they have already set a target - a regional high - and 47% are planning to. (**Fig 4**).

What's interesting to see, and tied to this desire to have a more positive and measurable impact, is that in their policies more than half of European investors (55%) this year include impact goals or metrics as part of their investment decision-making – a regional high and an increase on 43% who said the same last year. At a country level, some 60% of French investors say they are incorporating impact goals or metrics compared to just under half of their German peers.

Together with this, investors in the region also include an approach for identifying material ESG issues for investments (73% - up from 59% last year), and disclosure on the ESG characteristics of selected portfolios (65% - up from 35%).

Interestingly, some 26% – down from 39% last year – say they always take into account the issuer's ESG credentials and performance when investing, with 62% – up from 26% – saying they do so when it is likely to be financially material.

That's quite a change year-on-year, and different to the responses from investors in other regions. For instance, some 44% of Americas investors – the highest of all regions and an increase from 35% last year – say they always take this into account. In addition, about a third of Americas investors say they do so only in funds that explicitly have an ESG mandate, which is roughly similar Asia, and MENAT. However, only 11% of European investors say the same.

There will be multiple factors influencing the year-on-year changes in Europe and the differences to other regions, but the bottom line is that it appears that issuers' ESG credentials and performance is increasingly being taken into account by the region's investors; in fact only 1% say they rarely or never do so.

ESG issues are therefore top-of-mind and increasingly core to investment decision making in Europe.

For their part, issuers in the region increasingly recognise this, and are responding, making changes that demonstrate they are running their businesses and operations in progressive and responsible ways. About three quarters of issuers, for instance, say they agree or strongly agree that their investors want them to work harder on issues such as gender and ethnic equality, fair pay, ensuring human rights in the supply chain, health and safety, and staff training and development.

On their side, investors are increasingly holding companies to account on many of these issues, by monitoring their performance and factoring them in when making investment decisions. Some 52% of investors, for instance, say they monitor fair pay, while 57% say health and safety features in their investment decision making – the highest percentages across regions.

However, as much as European investors are leading change in some areas, in this area they do seem to lag their peers, who are generally less content to trust companies to do what's right, and more inclined to lean in and demand change.

For example, some 60% of European investors say they expect companies to abide by good standards on managing human rights abuses in their supply chains, and promoting ethnic equality in the workforce. In contrast, investors in other regions are more actively monitoring these areas, asking companies to improve, and including such considerations into investment decisions.

91%

of European investors have a firm-wide policy on responsible investing or environmental, social and governance (ESG) issues

Figure 3: European investors show global leadership on ESG investing
Does your organisation have a firm-wide policy on responsible investing or environmental, social and governance (ESG) issues?

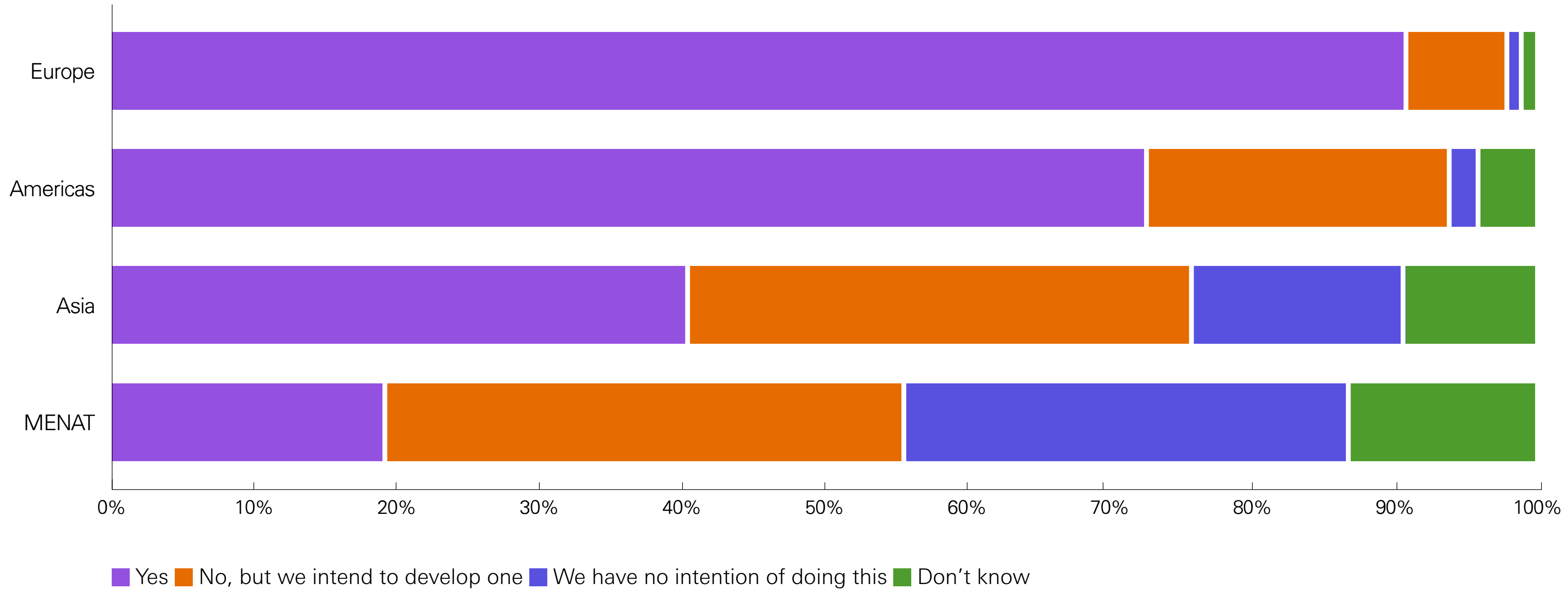
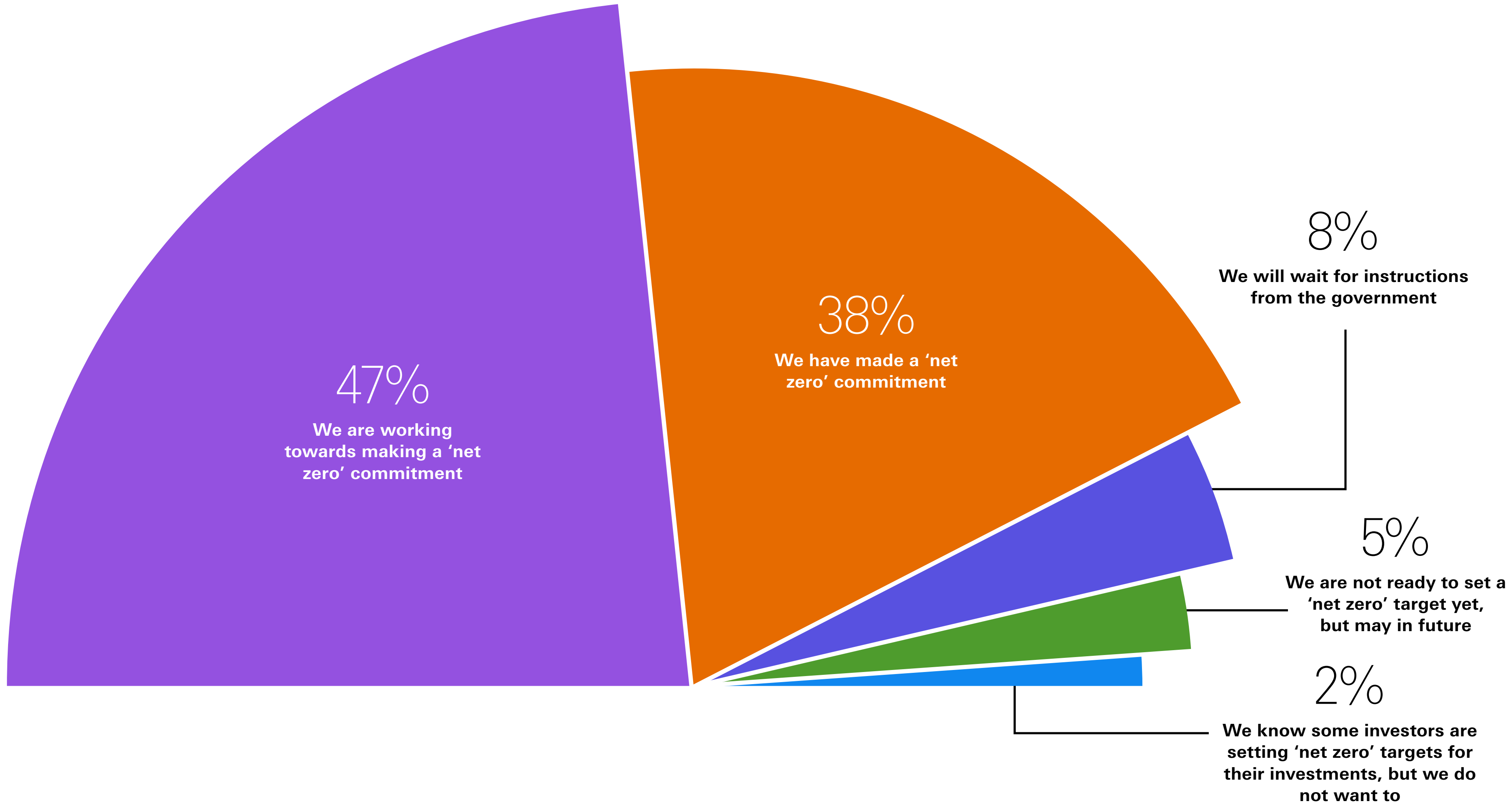


Figure 4: European investors lead on net zero
As an investor, what is your attitude to setting a net zero target?



Full disclosure
European issuers pass investor scrutiny

The volume, frequency and quality of information companies and investors disclose on environmental and social issues is one of the most important issues affecting the growth and development of green and sustainable finance.

For years the EU, European regulators and capital markets participants have played a central role in developing this area and pushing for greater transparency.

As a result, European companies disclose an unprecedented amount of information on their environmental and social performance, and for 69% of the issuers we surveyed, they feel the current levels of disclosure are about right – up notably from 57% last year. Interestingly, a fifth of issuers in the region expect the level of disclosure they make on these issues to increase and consider that a force for good (**Fig 5**). Breaking that down between countries, some 20% of French issuers and 10% of German issuers say the same.

By comparison, the percentage of issuers who say the same in other regions such as Asia (32%) and MENAT (32%), is notably higher, perhaps reflecting the more advanced extent of disclosure regulations in Europe.

Importantly, some 77% of European issuers say nothing is holding them back from disclosing more on environmental and social issues. And of the remaining 22% who said there were being held back, about half said the main reason is that it is difficult for them to get the information to disclose more.

Such a positive assessment by issuers will be welcomed by investors. But what do they think about the quality of information companies disclose on their environmental and social performance?

European investors – and broadly similar to their peers in the other regions – mostly think the quality passes their scrutiny.

Some 39% judge the environmental information as adequate, and 23% as excellent. However, some 38% say it is inadequate. On the social side, the results are similar – some 39% judge the information as adequate, 24% say excellent and 37% say it is inadequate. French and German investors' responses are in-line with all these percentages. (**Fig 6**).

Undoubtedly, issuers can do more to improve their disclosures, and without being made to. This is something investors want to see.

Asked what would be most helpful in trying to invest sustainably, most European investors ranked more consistent ESG ratings as their top factor. Their peers in MENAT said the same, while investors in the Asia said an official taxonomy or guide to which activities are sustainable. Most Americas investors said companies improving their disclosure voluntarily, which was also the second highest ranked factor for European investors.

More and better information is good for any market, helping to reduce opacity and to some extent the activity of disreputable actors.

Anecdotally, greenwashing – claiming activities are green or sustainable when they are not — is rising with the green and sustainable economy, and investors are worried.

But some are more worried than others; two thirds of European investors say, for instance, they are 'somewhat worried' about greenwashing, while 64% of their Americas peers say they are 'very worried' and that the activity is a serious problem.

It is difficult to be certain whether the incidence of greenwashing, levels of investor scrutiny for it, or both, are higher in one region than another. Few, however, would disagree that the activity is now more widespread and sophisticated than ever before.

Figure 5: European issuers feel disclosure pressure from investors and regulators
How would you describe the level of disclosure you make now on environmental and social issues?

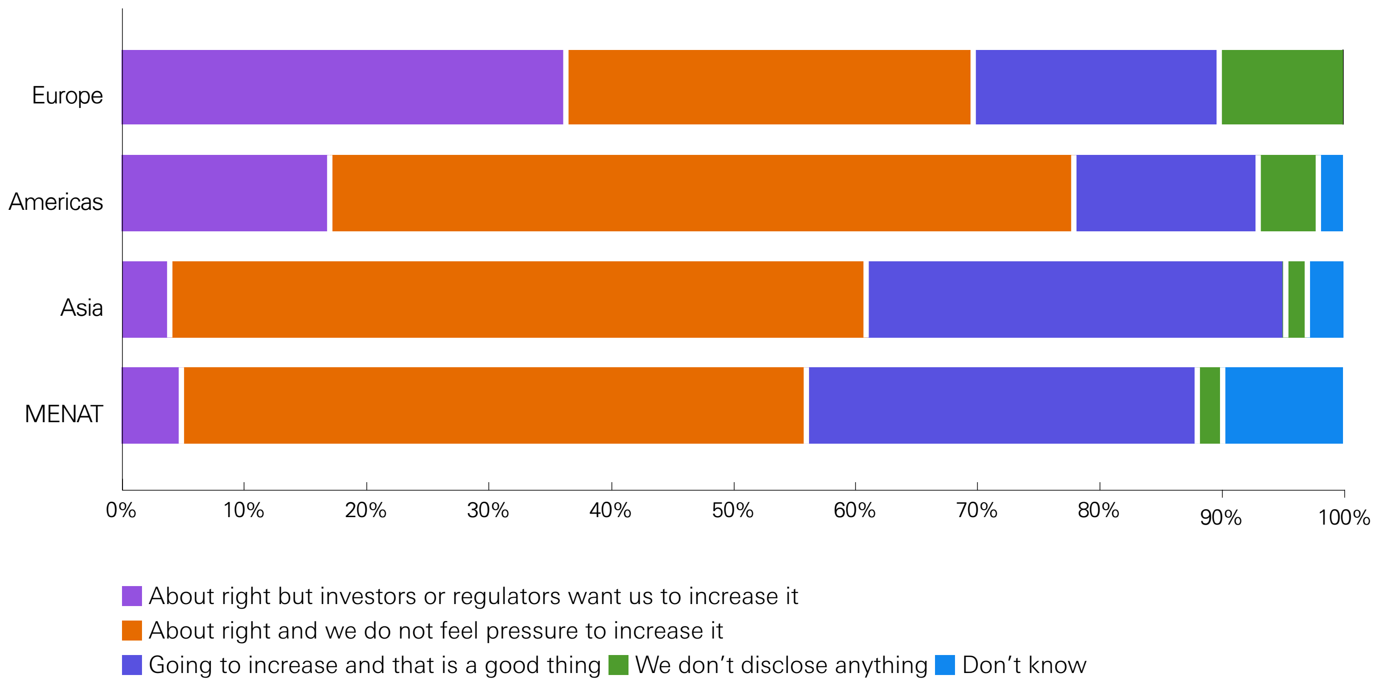
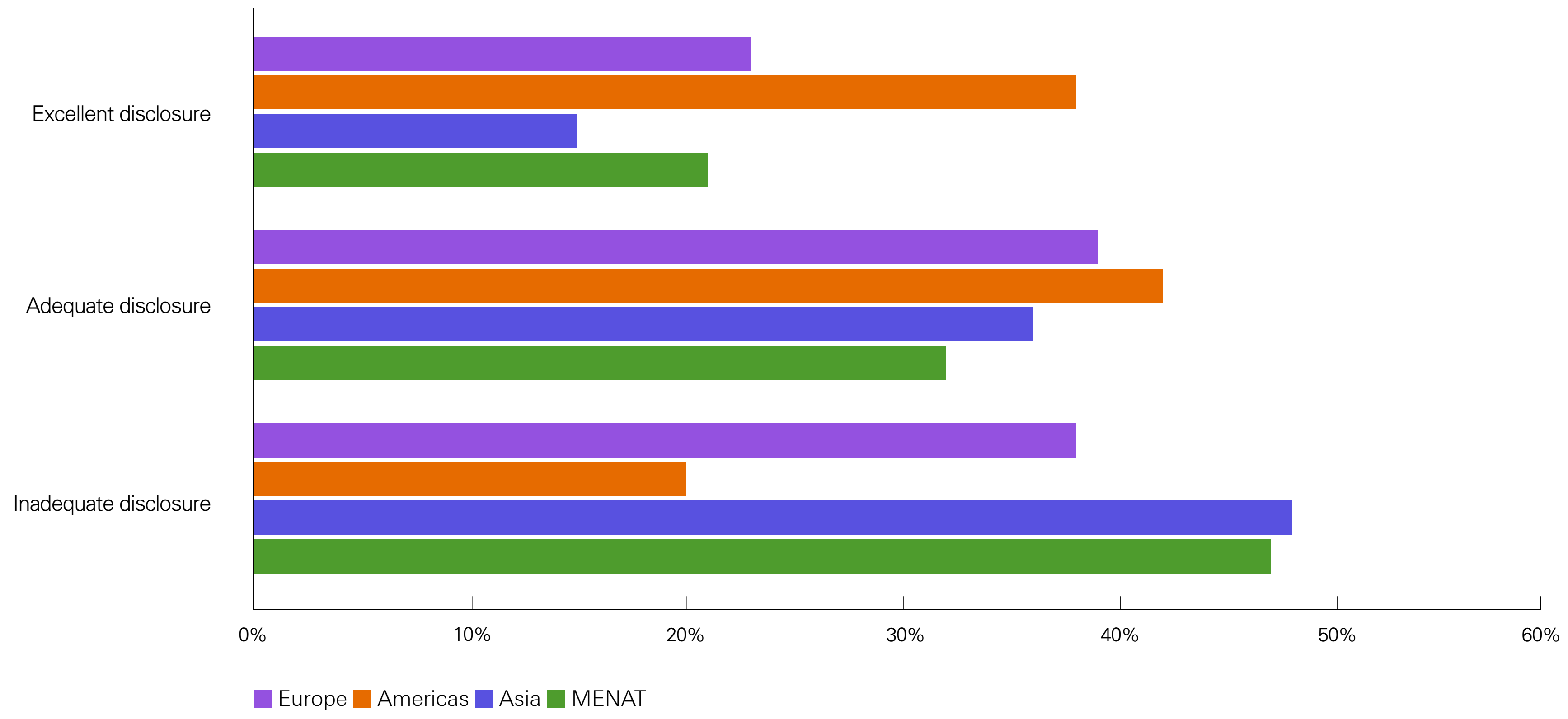
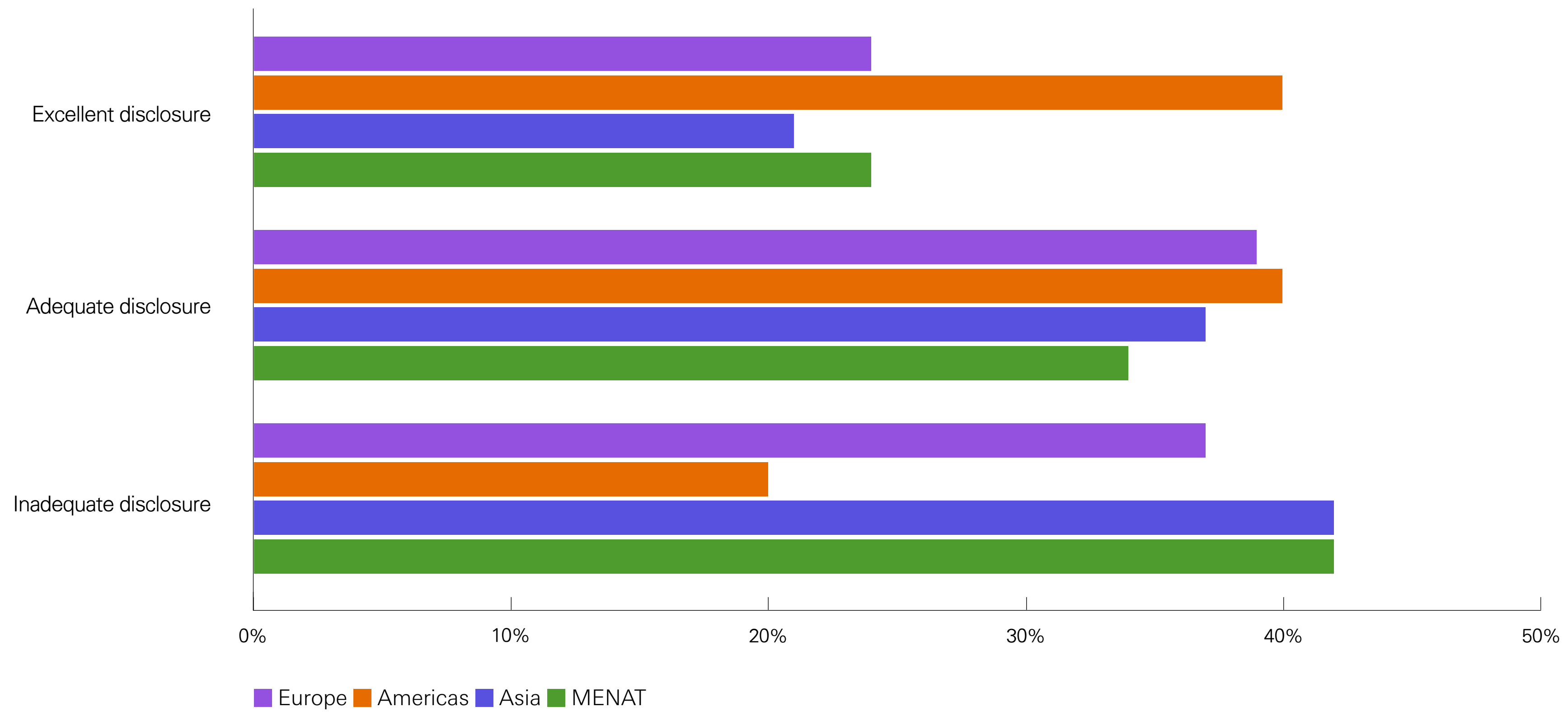


Figure 6: European investors judge environmental disclosures
How good is the information companies you invest in disclose about their environmental performance?



European investors judge social disclosures
How good is the information companies you invest in disclose about their social performance?



Climate change activity
Issuers prepare for climate change

For most issuers and investors globally the pandemic has been the primary driver of their increased focus and attention on environmental and social issues. But also important for European issuers has been a greater awareness and sense of urgency on climate change and other environmental problems, according to almost 80% of those we surveyed.

The frequency of extreme weather events and devastation they can cause, has no doubt helped enhance awareness and the desire among European issuers to take mitigating action. Strikingly, some 71% of them say they are considering reducing or getting out of some business activities which could be vulnerable to climate change – the highest percentage of any region globally (**Fig 7**). A similar percentage of French issuers (72%) and slightly fewer German issuers (68%) say the same.

This regional percentage is particularly striking when compared to those issuers in Asia (29%) and MENAT (15%) who say the same. For 59% of Americas issuers this is a consideration for them as well.

Yet, asset sales are just one-side of the equation. European issuers are also seeing investment opportunities – some 68% of them say they are considering increasing some business activities or starting new ones which could benefit from the economic impact of climate change.

Whether assets or businesses are being bought or sold, European investors are clear on what they want to see – almost all of them say it is vitally important (23%) or important (77%) that companies they invest in be preparing for the effects of climate change (**Fig 8**).

There are several reasons why they say this. Not only do investors want companies to be taking steps to protect themselves and reduce their vulnerability to climate change, they also want, as part of this, for companies to have plans to transition to low carbon.

In fact, for some investors who said it was vitally important companies prepare, they warned they would divest companies that do not have credible low carbon transition plans.

As a result of climate change and companies' greater focus on environmental and social issues, business models and operations are likely to undergo significant change over the next five years. Indeed, business models and capital allocation could be transformed by these forces.

For European issuers, they expect to see greatest change in the next five years. Some 58% of them, for instance, say they expect to move away – to a noticeable or substantial extent – from activities challenged by environmental and social issues during this period.

At the same time, some 78% of them say they expect to move towards activities – to a noticeable or substantial extent – that promote positive environmental or social outcomes.

On both fronts, most Americas issuers also expect greatest change in the next five years. Interestingly, Asian and MENAT issuers expect greater change in the next two and five years than their Americas and European peers.

71%

of European issuers are considering reducing or getting out of some business activities which could be vulnerable to climate change

Figure 7: European issuers seek to minimise exposure
What actions is your organisation taking to prepare for or lessen the impact?

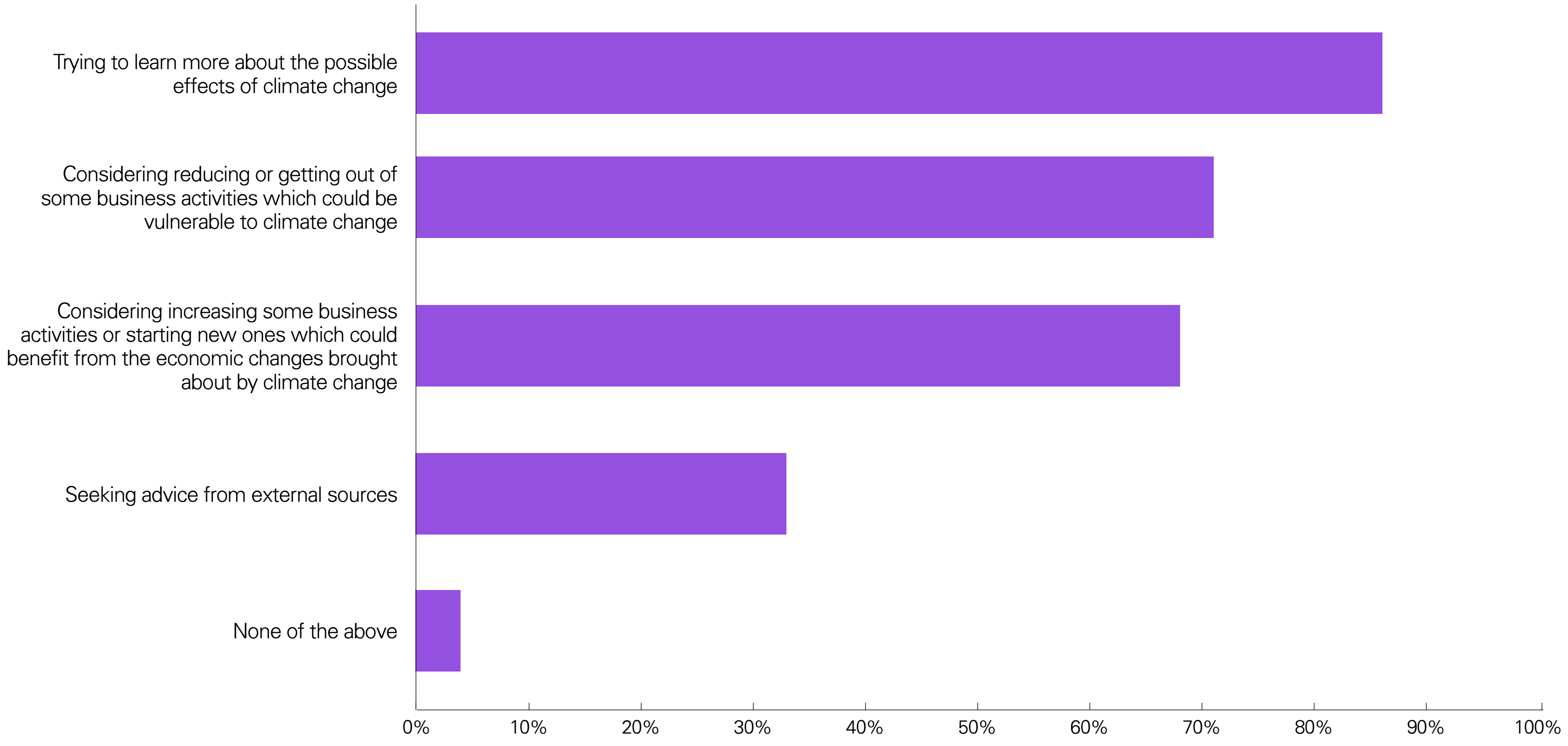
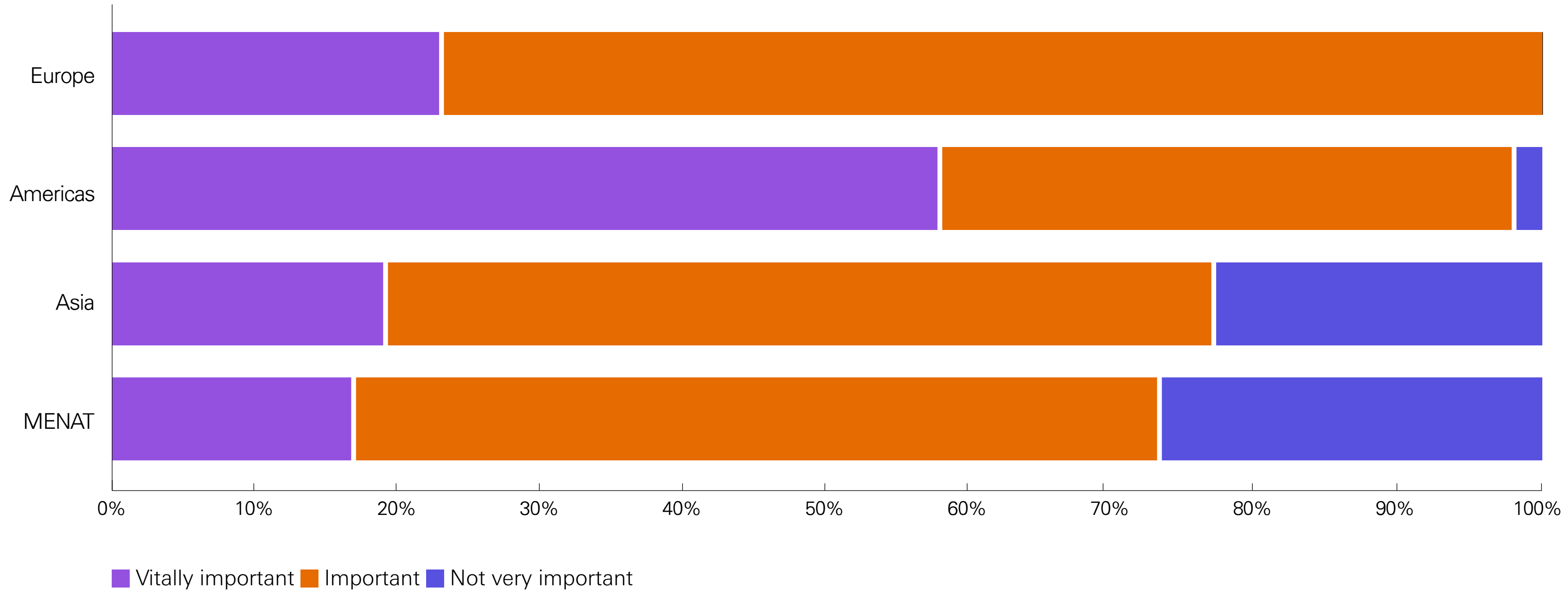
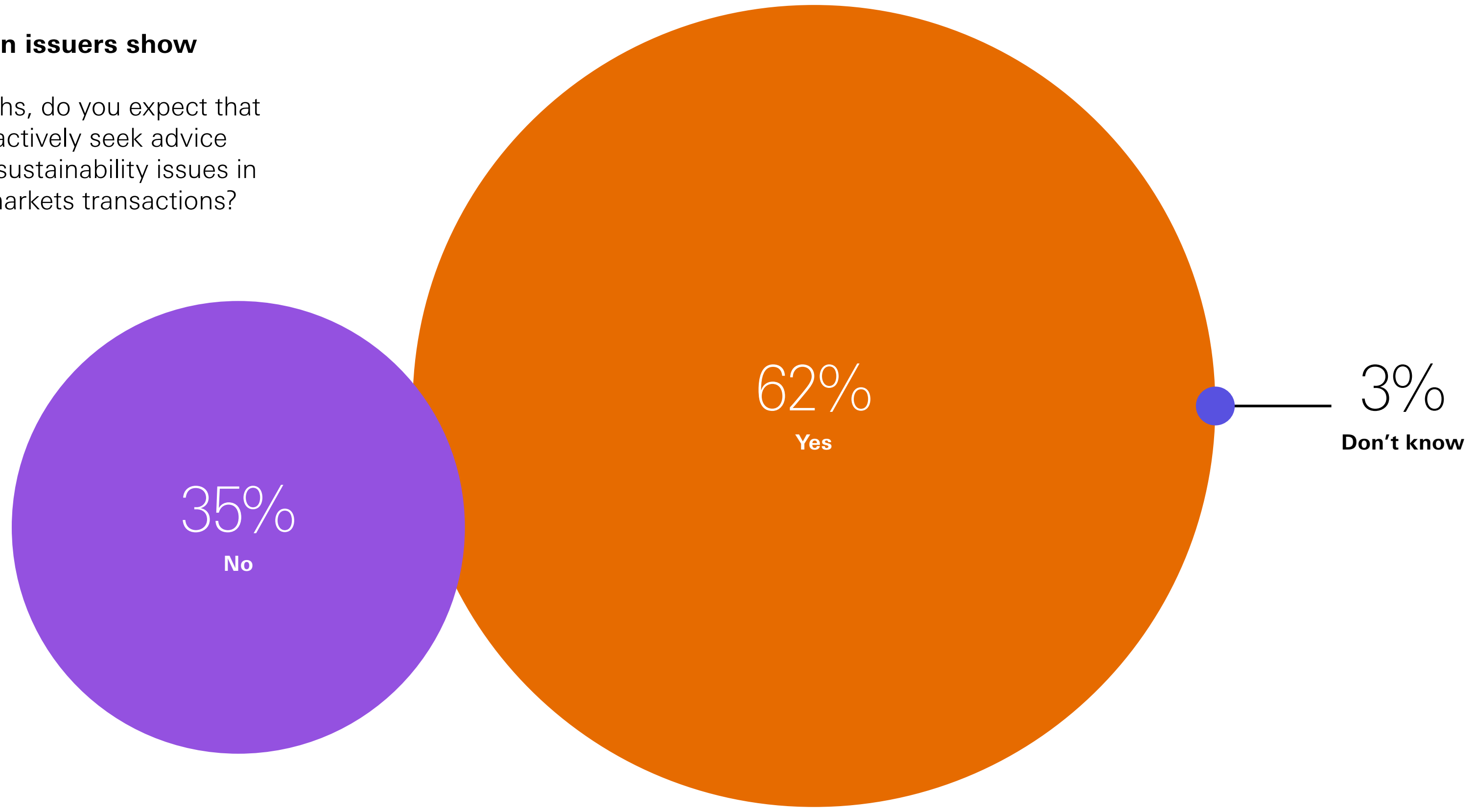


Figure 8: European investors unequivocal on the need for issuers to prepare
How important is it that companies you invest in should be preparing for the effects of climate change?



Sustainable finance and infrastructure
Capital market appetite growing

Figure 9: European issuers show healthy demand
In the next 12 months, do you expect that your company will actively seek advice on green, social or sustainability issues in relation to capital markets transactions?



European issuers have for a decade or more driven global issuance of green and sustainable bonds and loans. Appetite among the region's public and private sector borrowers does not look like it's going to soften anytime soon.

Indeed, asked if, in the next 12 months, they expect their organisation to actively seek advice on green, social or sustainability issues in relation to capital markets transactions, and 63% of the issuers we surveyed said they planned to – higher than the percentage from the Americas issuers (54%) but lower than their peers in Asia (78%). (**Fig 9**).

Breaking this down by country, marginally more French (56%) than German issuers (50%), say they expect to do this. Interestingly, there is much more interest among issuers in some of the other European countries we surveyed (Italy, Spain, Nordics and Benelux) – 76% combined say they expect to seek advice on these types of transactions.

Such strong levels of intent are evident among issuers across all regions, indicating the depth of interest in sustainable finance globally. Interestingly, some 34% of European issuers say they have already issued green, social, sustainable sustainability-linked bonds, and 29% say they have borrowed green loans or loans with pricing linked to sustainability metrics. For the majority that have not borrowed in either bond or loan format, one of the main reasons (about half of issuers say this) why is that they do not have large borrowing needs. Less than a third indicate they think this type of bond and loan financing is too complex and expensive. Nevertheless, some 37% of these issuers in each case say that such financing is of interest and that they may pursue it in the future.

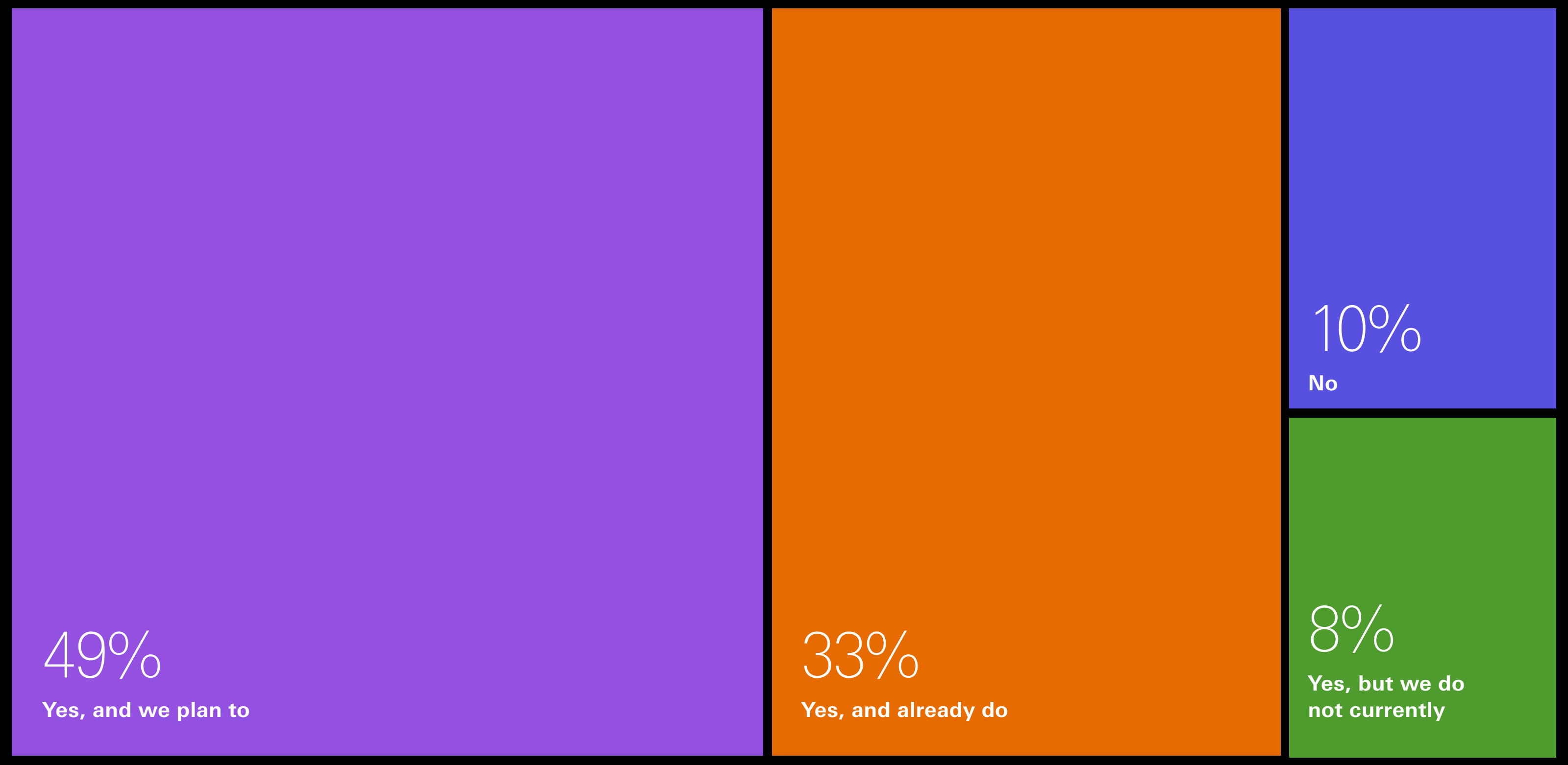
On the investor side, this interest extends to sustainable infrastructure projects, in which 90% of European investors say they are interested in investing, and of them, a third are already doing so (**Fig 10**).

Renewable energy projects may have dominated investments over the past decade – and indeed wind, solar, tidal and hydroelectric power generation were seen as the most attractive sustainable infrastructure investment opportunities by European investors last year – but now they are in the mix with newer, emerging technologies. This year the top three most interesting types of projects for European investors to invest in are: carbon capture and storage (59%); solar power (39%); and electric vehicles and transport (38%).

Clearly, Europe's appetite for sustainable infrastructure investment is strong – an encouraging sign,considering that the continent is embarking on programmes to reduce net greenhouse gas emissions to zero by 2050.

More broadly, appetite among European investors and issuers to access and invest in sustainable finance is also healthy and well-developed, providing the basis for their efforts and leadership globally to position environmental and social issues at the core of their corporate and investment strategies.

Figure 10: European investors seeking to put capital to work
Is your organisation interested in investing in sustainable infrastructure projects?



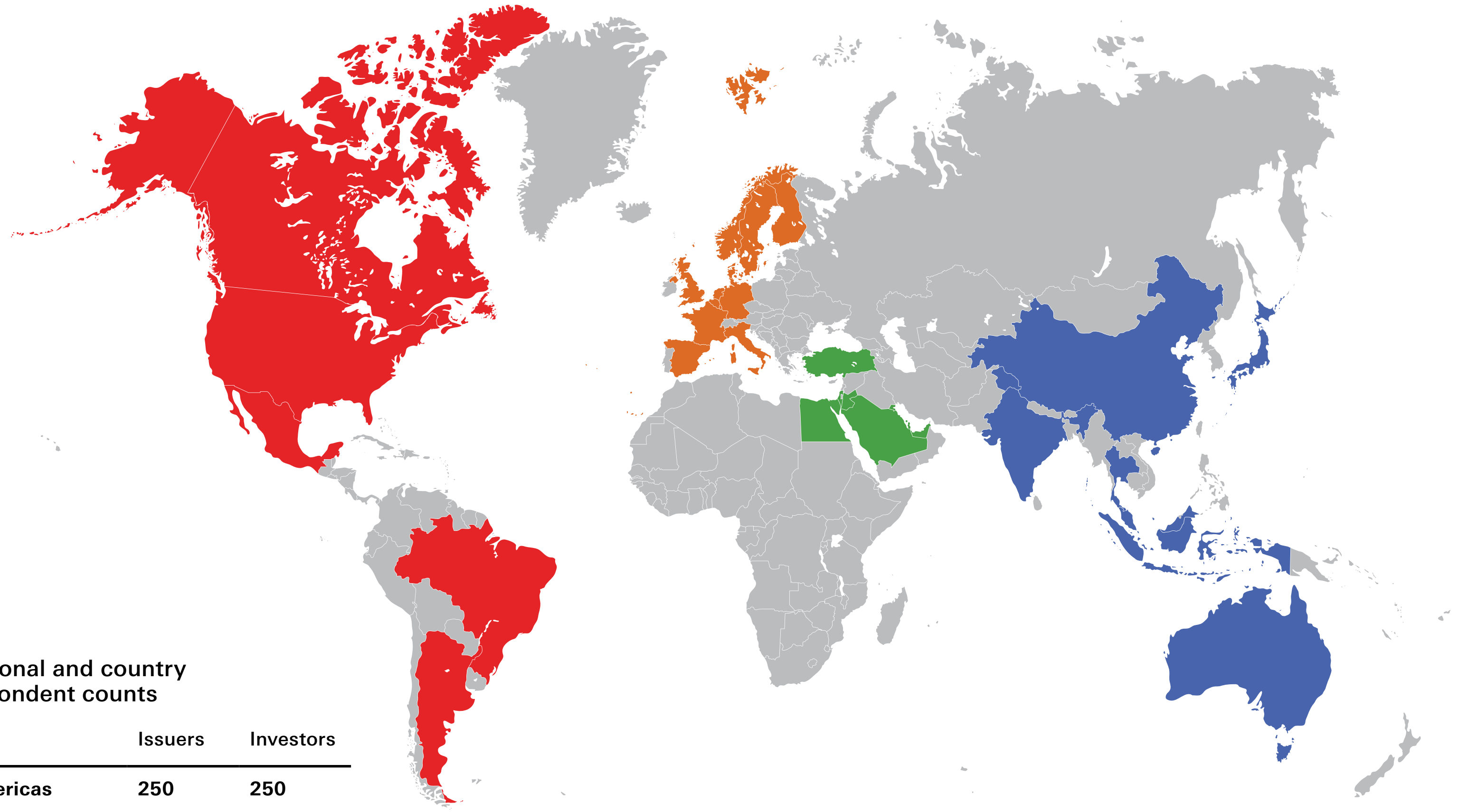
"European issuers have for a decade or more driven global issuance of green and sustainable bonds and loans."

Methodology

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

Respondents were split evenly between 1,000 issuers, from across 19 industries, and 1,000 institutional investors, including asset allocators and asset owners. In total, respondents were based in 34 territories across the regions of Americas, Europe, MENAT and Asia.

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



Regional and country respondent counts

	Issuers	Investors
Americas	**250**	**250**
US	126	126
Canada	50	50
Argentina	21	23
Brazil	30	30
Mexico	23	21

	Issuers	Investors
MENAT	**150**	**150**
Saudi Arabia	50	50
United Arab Emirates	50	50
Bahrain	5	12
Egypt	15	11
Kuwait	12	11
Qatar	10	11
Turkey	8	5

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

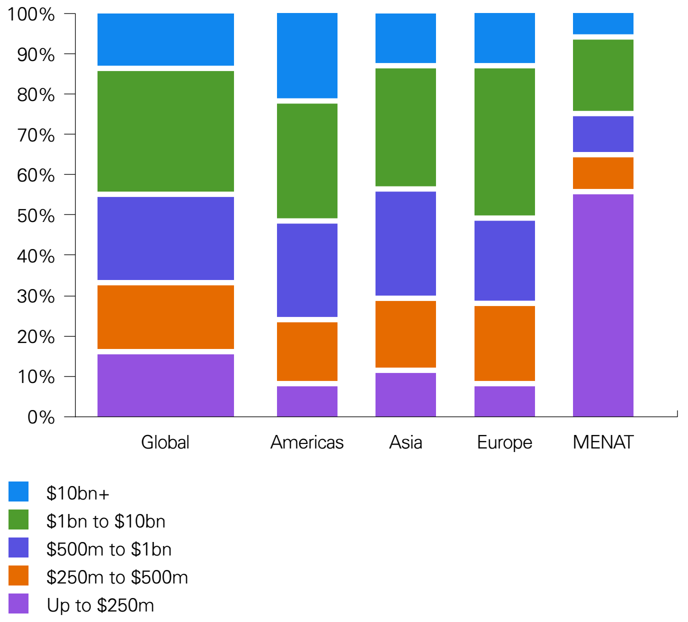
	Issuers	Investors
Asia	**324**	**324**
Mainland China	100	100
Hong Kong SAR	50	50
Singapore	50	50
Malaysia	22	21
India	20	21
Indonesia	20	22
Thailand	21	17
Japan	22	20
Australia	19	23
TOTAL	**1,000**	**1,000**

Issuers by industry/sector

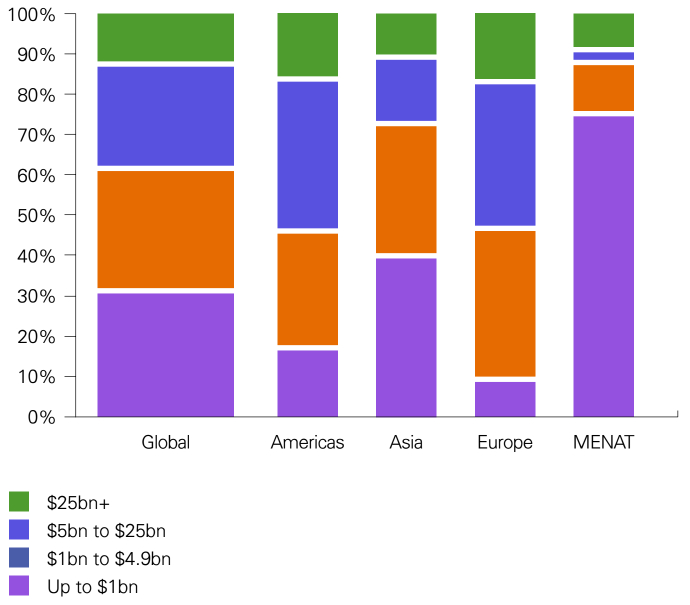
Banking	90	Transport	60	Metals and mining	40
Retail and consumer services	90	Consumer goods	60	Building materials	30
Real estate	80	Industrial goods	50	Electricity and water	30
Information technology	80	Agriculture, food, beverages, tobacco	50	Local government	10
Healthcare	70	Insurance	50	Supranational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

Investors by institution type

Issuers by annual revenue



Investors by AUM



Published: September 2021.