Mercer

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Advancing transition potential: Global Asset Manager Survey 2022

Overcoming barriers to implementation and increasing capital allocations across emerging and frontier markets

Introduction

In order to better understand the current barriers to increasing capital allocations across emerging and frontier markets, in support of 'one world' investment for global financial stability through climate transition, Mercer surveyed more than 400 global asset managers with an aggregate in excess of US$51trn under management.[1]

At COP27, the global investment community will come together with a singular focus: implementation of the climate transition.

We believe that improving capital flows to economies most vulnerable to the risks – and present realities – of climate change is a core component of implementing climate transition across the global economy and, in turn, investment portfolios.

Through implementation, investors have an opportunity to advance the real-world impacts of climate mitigation and adaptation. In the context of the African continent – a central focus of COP27 – investing for transition has the potential to support critical climate adaptations, from the delivery of renewable energy sources and improvements in energy efficiency, to the enhancement of economies' infrastructure and resilience to the effects of global warming.

In convening the views of the asset management community, Mercer sought to ascertain:
rollover the circles and select to read more

1.

Where we are today

We assessed managers' current climate investment policies, approaches and emerging market exposures

2.

Where we are going

We asked managers about the barriers they face – or perceive – to increasing allocations of capital to emerging markets

3.

How we will move the needle to increase capital flows to emerging markets

We gauged managers' views on potential drivers of increasing capital flows and developing capital markets in emerging and frontier regions

[1] Mercer surveyed managers in September 2022

Key findings

1. Where we are today: *Managers are at different stages in their own climate transition, but many are yet to define and set climate targets*

The majority of global asset managers are yet to set climate transition targets but are committing to net-zero pathways across their strategies by tracking climate metrics.

- 73% of managers surveyed by Mercer are yet to set climate transition targets – such as net-zero – across their strategies; under a fifth (16%) of managers have set science-based net-zero targets
- Absolute emissions of investee companies are tracked by 58% of managers within their strategies; 39% of managers track companies' forward-looking transition metrics e.g. target setting

A 'trust gap' is evident in managers' perceptions of the reliability and robustness of companies' climate data inputs across emerging relative to developed markets.

- 60% of managers do not regard the climate data of companies in emerging and frontier markets as robust/reliable, relative to a quarter of managers in relation to the climate data of companies in developed markets

The proportion of managers investing in private markets and alternatives in emerging and frontier markets remains limited.

- Of the 61% of managers reporting current exposure in emerging markets, less than one in 10 have invested in infrastructure, private debt or real estate across Africa, Latin America, Asia and Eastern Europe

2. Where we are going: *Transparency and disclosure on company reporting and ESG factors are key barriers to increased emerging market allocations*

Transparency and disclosure around company reporting and environmental, social and governance (ESG) factors are the most cited risk factors viewed as barriers to international investors allocating to equities, bonds or real assets in emerging and frontier markets

- Transparency and disclosure on company financial reporting was the most-cited barrier, identified by 91% of managers
- 89% of managers identified transparency and disclosure on company ESG factors as a barrier
- Managers view both a lack of sustainability research and ratings in emerging markets (55%) and a lack of equity and bond research and ratings (47%) as barriers to increasing capital flows to emerging markets.
- However, the outlook for increased allocations is positive. On a 3-5 year view, 45% of managers believe that asset owners' allocations to emerging markets will increase meaningfully.

3. Moving the needle: *Adherence to globally recognized sustainable reporting frameworks is crucial to increasing investment across emerging and frontier markets*

Managers view enhanced regulation around the transparency and disclosure of company reporting and ESG factors as key to supporting increased allocations to emerging markets.

- 82% of managers cite more regulation around transparency and disclosure on company financial reporting as a key support to increased allocations; 69% cite more regulation around transparency and disclosure on company ESG factors.

If COP27 results in firm commitments related to accelerating sustainability across Africa:

- 37% of managers would expect to see adherence by local issuers and operators to a globally recognized sustainable reporting framework.
- 54% say that adoption by local issuers and operators of globally recognized sustainable reporting frameworks, such as TCFD, would be the single biggest factor delivering the highest impact in terms of increasing sustainable investment in Africa.

1. Where we are today: managers are at different stages in their own climate transition, but many are yet to define and set climate targets.

Institutional investors' commitments to transitioning towards a net-zero economy and sustainable investment have accelerated rapidly over recent years, particularly following COP26 in Glasgow last November, which reaffirmed commitments to the goals of the Paris Agreement on climate change, and the importance of taking action to limit the rise in the global temperature to 1.5ºC above pre-industrial levels.

Yet our findings indicate that climate commitments and approaches adopted by asset managers, both at policy level and in investment strategies, continue to vary widely. Managers are at different stages in their climate transition, but many are yet to define and set climate targets. However, many are supporting net-zero pathways through tracking of key metrics across strategies.

As asset owners seek to evolve and implement transition plans, they will seek out the most knowledgeable managers, creating a commercial imperative for managers to raise their climate ambitions.

Our findings indicate that climate commitments and approaches adopted by asset managers, both at policy level and in investment strategies, continue to vary widely

Three target-setting approaches have been endorsed and recognized by The Net Zero Asset Managers' initiative through the Investor Agenda:

1) Paris Aligned Investment Initiative's Net Zero Investment Framework (NZIF)

2) Science Based Targets Initiative for Financial Institutions (SBTi)

3) Net Zero Asset Owner Alliance Target Setting Protocol (TSP).

Given the scope for mixed methodology across frameworks, investors may find it challenging to compare managers' climate commitments on a like-for like basis and determine the scope of assets aligned to specific targets. For example, while managers need to report what emissions are in scope (e.g. Scope 1, 2 and or 32) the percentage of assets committed may differ significantly.

[2] The Greenhouse Gas Protocol Corporate Standard classifies a company's GHG emissions into three 'scopes':

- Scope 1 emissions: direct emissions from owned or controlled sources.
- Scope 2 emissions: indirect emissions from the generation of purchased energy.
- Scope 3 emissions: all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

More information available at: https://www.unglobalcompact.org.uk/scope-3-emissions/

While impact and UN Sustainable Development Goals (UN SDG) frameworks may not be relevant, or applicable, to all strategies, we believe they warrant further attention from global managers. We believe that broader consideration of real-world impacts and UN SDGs can support investors targeting specific climate objectives in emerging markets.

> ***Incorporation of the UN Sustainable Development Goals (features in the policies of less than half (47%) of all managers***

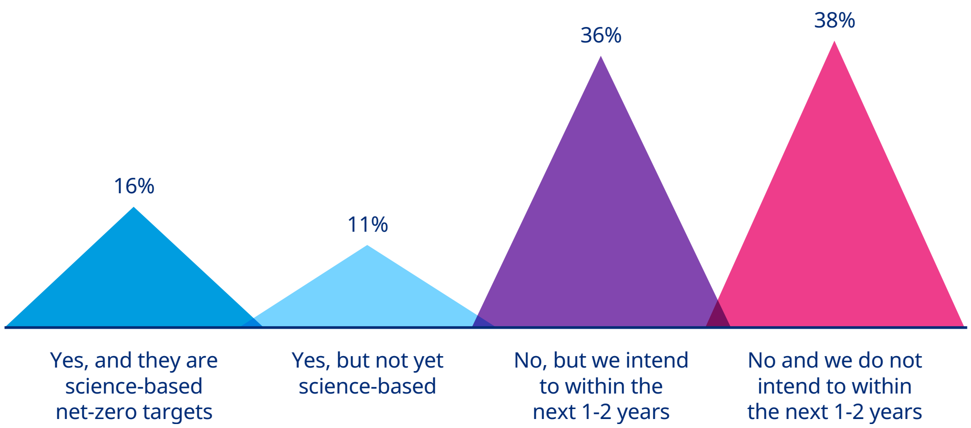
Policy position

- **Net-Zero:** 59% explicitly reference or have separate policies addressing how climate change or net-zero targets are incorporated into the portfolios they manage. The proportion of managers referencing net-zero targets in their organization's policies falls to 48% among managers with AUM of less than US$2bn.
- **UN Sustainable Development Goals:** Incorporation of the UN SDGs features in the policies of less than half (47%) of all managers, rising to 63% of the largest managers with AUM of more than US$250bn.
- ***Impact Investing:*** References to impact investing remain particularly limited, present in just 27% of managers' policies; more than half (55%) do not reference impact investing across policies, while nearly a fifth (18%) state it is not applicable.

We believe that broader consideration of real-world impacts and UN SDGs can support investors targeting specific climate objectives in emerging markets

Three-quarters (73%) of managers are yet to set climate transition targets – such as net-zero – across their strategies.

Figure 1. Have you set climate transition targets for your strategies?



Roll over the buttons below to reveal chart data

- All organizations
- US$2 billion or less
- US$2 billion to US$50 billion
- US$51 billion to US$100 billion
- US$101 billion to US$250 billion
- US$250 billion+

The majority of managers are yet to set their own climate transition targets

- Three-quarters (73%) of managers are yet to set climate transition targets – such as net-zero – across their strategies.
- More than a third (36%) of managers have not established a climate transition target but intend to within the next 1-2 years. This proportion rises to nearly half (47%) of the 43 largest managers, with assets under management in excess of US$250bn.
- 38% have not set climate transition targets and do not intend to within the next 1-2 years.
- Focusing in on net-zero climate targets specifically, only a small minority – less than a fifth – of managers have set science-based net-zero targets.

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Managers' net-zero pledges typically involve committing a proportion of assets to the requirements outlined in, or broadly consistent with, industry-based initiatives such as the Net Zero Asset Owner Alliance (NZAOA) or the Net Zero Asset Managers initiative (NZAM). Both initiatives were launched with the aim of galvanizing the development of products suitable for asset owners committing to net-zero goals.

The structure and timeline for disclosure from initiative signatories may provide some context to managers in our survey which stated an intention to set climate transition targets in the next 1-2 years. Managers signing up to NZAM, for example, will be required to disclose the proportion of assets to be managed in line with net-zero, and to announce emission reduction targets on the proportion of assets that will be aligned to net-zero in 2030, within the first 12 months.

Tracking of net-zero pathways across investee companies and countries

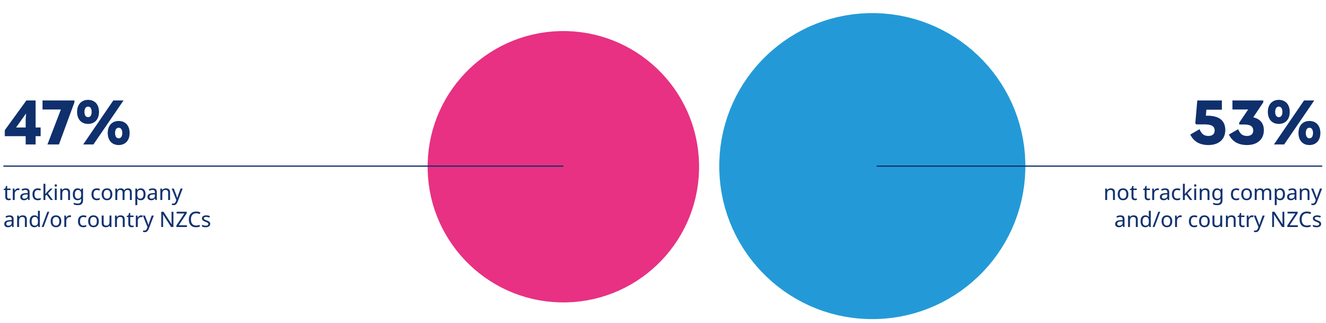
Despite the low proportion of managers reporting to have set science-based net-zero targets, managers are committing to net-zero pathways across strategies in their tracking of Net-Zero Commitments (NZCs) and other climate metrics at company and country level.

- Asset managers are split almost evenly in terms of tracking (47%) and not tracking (53%) company and country NZCs when selecting investments for their strategies. Increased tracking of companies' net-zero targets is correlated with the size of manager; 36% of the smallest managers, with assets under management below US$2bn, track the NZCs of companies and/or countries relative to 70% of the largest managers, with assets under management in excess of US$250bn.

While tracking of climate metrics is more widespread among the largest managers relative to smaller peers, increasing levels of emissions tracking reported across the universe of respondents is an encouraging sign of progress in the development of net-zero pathways.

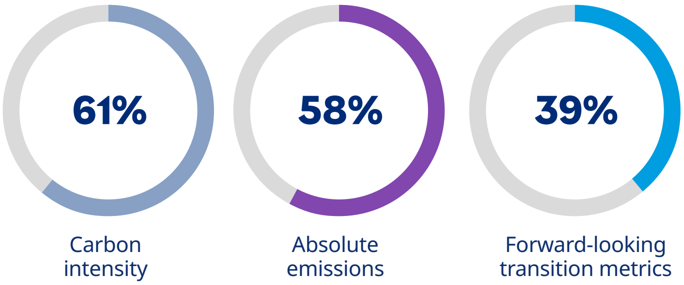
When supporting asset owners in the integration of scenario and transition analysis into portfolios, we seek to define the scope of emissions captured – whether only CO2 emissions or also methane/other GHGs – and prioritize reductions of absolute emissions, rather than just carbon intensity.[3]

Figure 2. Do you track net-zero commitments by companies and/or countries when selecting investments for your strategies?



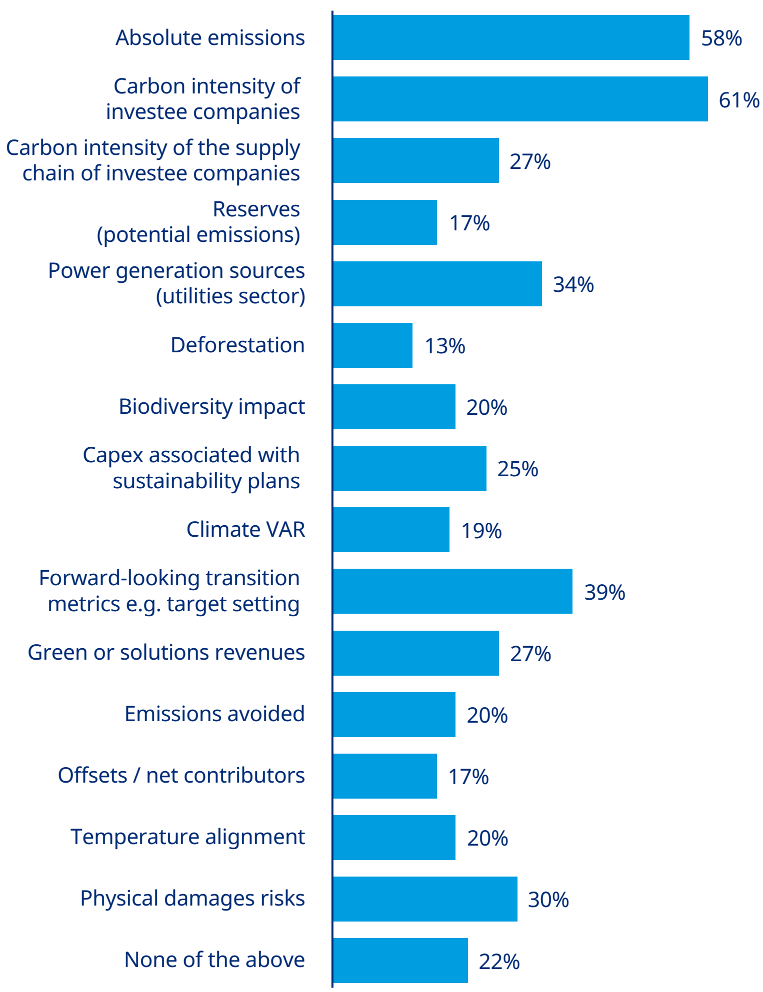
[3] https://www.mercer.com/our-thinking/wealth/zero-places-to-hide.html

Figure 3. Top three climate-related metrics tracked by managers across strategies



- Absolute emissions are tracked by 58% of managers, dipping to 38% of the smallest managers and rising to 79% of the largest managers.
- A slightly higher proportion of managers (61%) track the carbon intensity of investee companies. Even among the smallest managers, 42% track carbon intensity, while 91% of the largest managers track this metric.
- 39% of managers track forward-looking transition metrics, e.g. target setting, rising to two-thirds of the largest managers (65%).

Figure 4. What climate-related metrics are you tracking within your strategies?



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Global

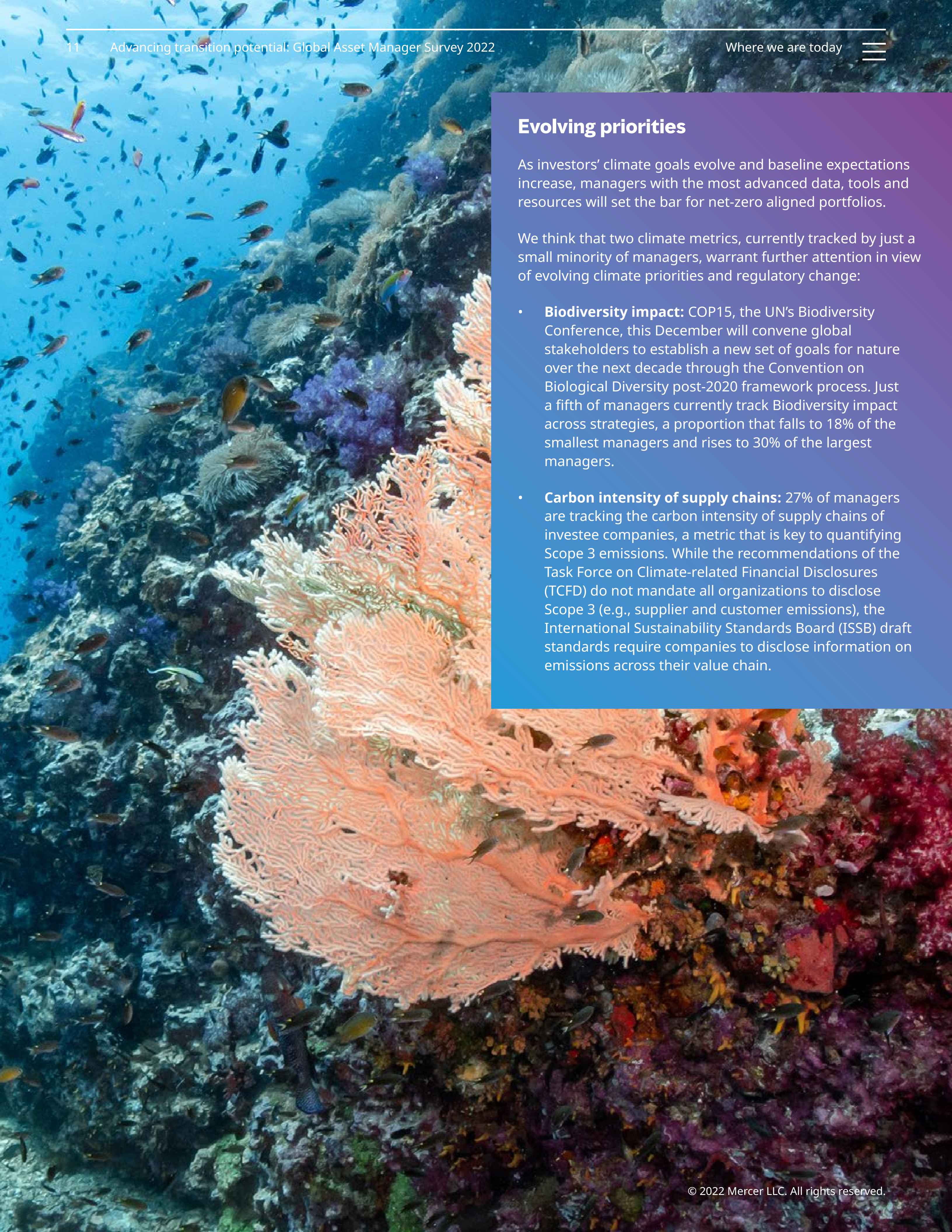
US$2 billion or less

US$2 billion to US$50 billion

US$51 billion to US$100 billion

US$101 billion to US$250 billion

US$250 billion+



Evolving priorities

As investors' climate goals evolve and baseline expectations increase, managers with the most advanced data, tools and resources will set the bar for net-zero aligned portfolios.

We think that two climate metrics, currently tracked by just a small minority of managers, warrant further attention in view of evolving climate priorities and regulatory change:

- **Biodiversity impact:** COP15, the UN's Biodiversity Conference, this December will convene global stakeholders to establish a new set of goals for nature over the next decade through the Convention on Biological Diversity post-2020 framework process. Just a fifth of managers currently track Biodiversity impact across strategies, a proportion that falls to 18% of the smallest managers and rises to 30% of the largest managers.

- **Carbon intensity of supply chains:** 27% of managers are tracking the carbon intensity of supply chains of investee companies, a metric that is key to quantifying Scope 3 emissions. While the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) do not mandate all organizations to disclose Scope 3 (e.g., supplier and customer emissions), the International Sustainability Standards Board (ISSB) draft standards require companies to disclose information on emissions across their value chain.

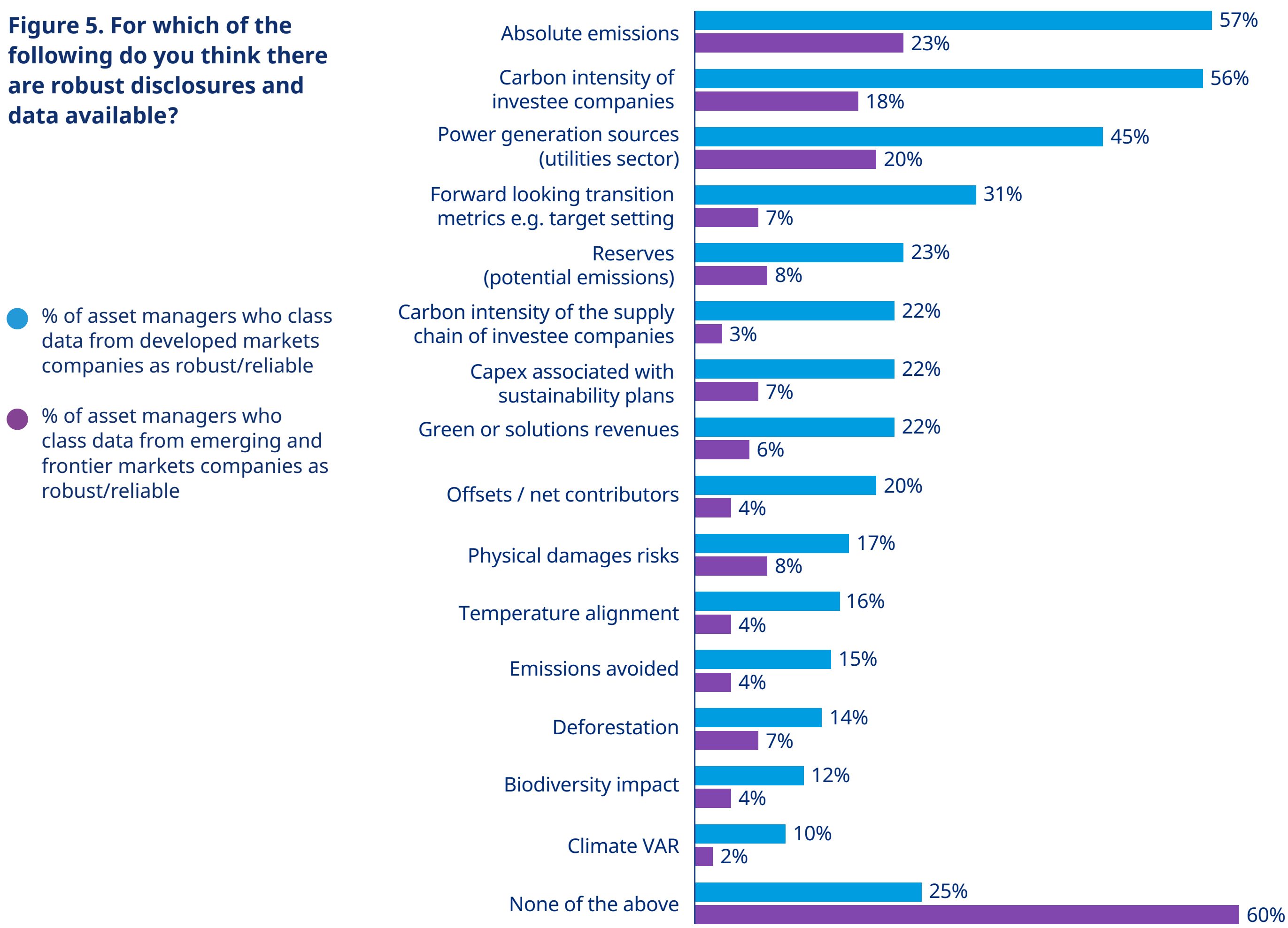
Trust gap evident in the perceived robustness of climate metrics

Despite encouraging evidence of commitment to the tracking of key climate metrics across strategies, a 'trust gap' is evident in managers' perceptions of the reliability and robustness of the climate data metrics of companies in emerging relative to developed markets.

Managers are clearly concerned about the robustness of data and disclosures across key climate metrics in emerging and frontier markets, evidenced by the nearly two-thirds of managers (60%) who opted to select 'none of the above'.

23% of managers consider data on absolute emissions in emerging markets to be robust, a proportion that rises to a third among the very largest managers. By comparison, 57% of managers view data on absolute emissions in developed markets as robust.

Figure 5. For which of the following do you think there are robust disclosures and data available?



Emerging market allocations: proportion of managers investing in private markets and alternatives remains limited

It is important to highlight that our survey findings on emerging market allocations reflect the views of global asset managers. By virtue of their asset class, region, sector or specific mandate focus, many managers will be unable to invest in emerging markets.

However, of the 73% of respondents able to invest in emerging markets, 48% report that exposure to emerging and/or frontier regions constitutes less than 5% of their firm's total assets under management. Moreover, 17% report that while they are able to invest in emerging regions, they do not currently have any exposure. These managers are concentrated among firms with less than US$50m in assets under management.

Notable in our findings among those with exposure to emerging markets is the low proportion of managers reporting investing in infrastructure, private debt, private equity or real estate across emerging and frontier regions.

Given that access to listed companies across emerging markets remains more limited (many markets do not yet have deep capital markets and exchanges, with others that do still in the very early stages of development) we believe that private markets and real assets are a key route into accessing the opportunity set in emerging economies.

However, in regions that already require specialist, localized market knowledge to scale investment effectively, the additional complexities of executing and managing investments in areas like private equity and infrastructure raise the bar further still.

Figure 6. The proportion of managers reporting investment in infrastructure, private debt, private equity or real estate across emerging and frontier regions remains limited.

Roll over the buttons below to reveal chart data

- Africa
- Latin America
- Asia
- Eastern Europe

Africa

28%	**8%**	**72%**	**22%**	**41%**	**14%**
Balanced/ Multi-Asset	Cash/Money Market	Equity	Sustainable themed equity	Fixed Income	Green/ impact bonds
11%	**6%**	**5%**	**8%**	**4%**	
Hedge Funds/ Absolute Return	Infrastructure	Private Debt	Private Equity	Real Estate	

Infrastructure focus

> *Of the 61% of managers reporting exposure to emerging markets, just 6% have invested in African infrastructure, while 5% report infrastructure investments across Latin America, Asia, or Eastern Europe.*

A similar picture emerges across private debt and real estate: of the 61% of managers able to invest in emerging markets, less than one in 10 have invested in these asset classes across the four regions.

The proportion of investors venturing into private equity (PE) is slightly higher, with 14% reporting investing in PE in Asia; 11% in Eastern Europe; 8% in Africa; and 9% in Latin America. Importantly, the proportion of managers reporting investment in alternatives and real assets remains low across managers of all sizes.

Our findings emphasize the reality that just a handful of specialist managers are operating in these asset classes across emerging regions.

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Many managers with global exposure, particularly smaller, non-specialists, will not have the resources and/or teams on the ground in local markets to facilitate investment in sustainable infrastructure and/or private equity/debt.

By contrast, three-quarters of managers with emerging market exposure have invested in listed equity across Africa (72%), Latin America (78%), Asia (76%) and Eastern Europe (76%), and broadly four in 10 in fixed income across regions.

Among managers surveyed, there are forerunners charting pathways into private equity, infrastructure or real estate across emerging and frontier regions, but the need for rapid scaling of private market and real asset solutions, supporting the development of capital markets and addressing structural under-allocation across emerging economies, is clear.

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Evidence of intentionality in allocations to sustainable equity and green bonds in emerging markets

The proportion of managers with emerging market exposure investing in sustainable equity and green bonds provides encouraging evidence of the intentionality behind these allocations.

Nearly a quarter of the 61% of managers with emerging markets exposure have invested in sustainable-themed equity across Africa (22%), Latin America (25%), Asia (25%) and/or Eastern Europe (22%).

The proportion of managers investing in green and impact bonds, while lower than sustainable equity, also indicates intentional allocation. This is particularly in the case of impact bonds, outcomes-based contracts which target specific, measurable impacts. The structure of these investments differs vastly from the emerging market or sustainable exposures that investors might achieve via a global fixed income fund.

2. Where we are going: transparency and disclosure on company reporting and ESG factors are key barriers to increased emerging market allocations

In their assessment of barriers to increasing allocations to emerging markets, global asset managers focus on transparency and disclosure around company reporting and ESG factors. Managers do not anticipate an imminent influx of capital to emerging economies, indicative perhaps of the wider barriers to investment they face – or perceive – in these markets, but are more positive over the next five years

Transparency and disclosures on company reporting and ESG factors are the most significant barriers to emerging markets for managers

Transparency and disclosure on company financial reporting and ESG factors were the most cited risk factors to increasing allocations in emerging markets, when managers were asked to consider barriers to international investors allocating to equities, bonds or real assets across emerging and frontier markets.

The well-documented challenges of emerging market investing also bring the risk of modern slavery, child labour, health and safety and related issues, and broader regulatory inhibitors front of mind for asset managers. Structural hurdles to the implementation of climate finance, for example, also feature prominently among managers' concerns, with gaps in financing, inadequate first-loss mechanisms and trusted sponsors and contractors viewed as a barrier by three quarters of managers.

Figure 7. To what extent do the following risk factors present barriers to international investors allocating to equities, bonds or real assets in emerging and frontier markets?

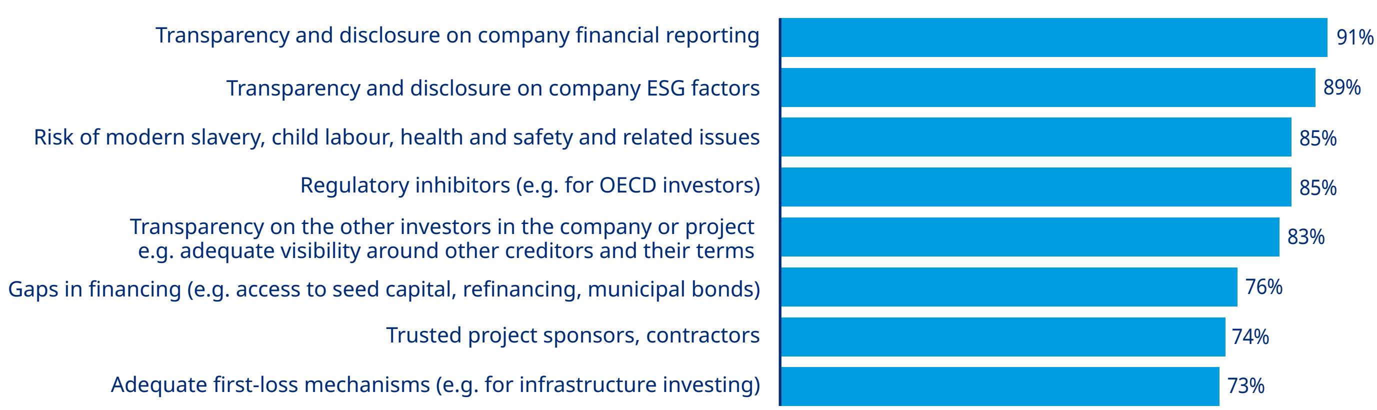
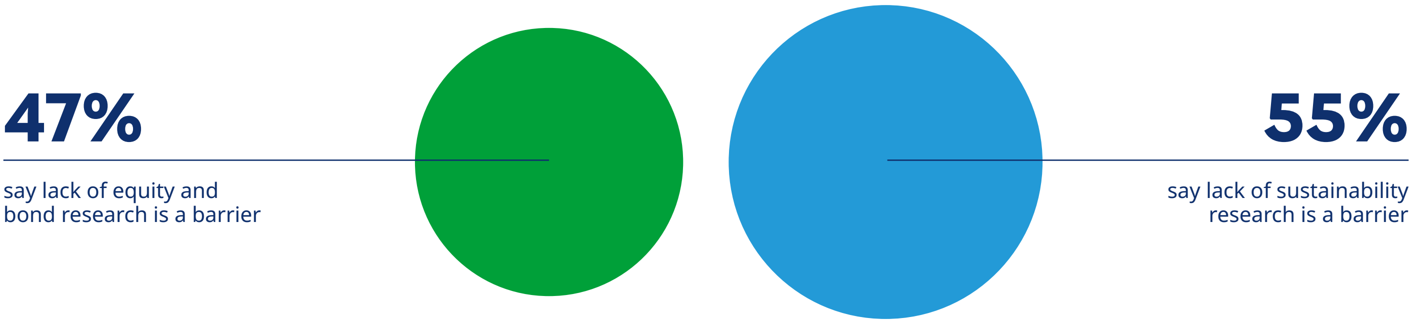


Figure 8. Is a lack of sustainability research and ratings a key barrier to investing in emerging markets?



Managers view a lack of sustainability research and ratings, and a lack of equity and bond research as impediments to increasing capital flows in emerging markets.

- 55% of managers regard a lack of sustainability research and ratings as a key barrier to increasing capital flows to emerging markets
- 47% of managers view a lack of equity and bond research and ratings as a key barrier

In some emerging markets, enhanced levels of transparency and disclosure around company reporting and ESG may take years, even decades, to develop. Unfortunately, the climate transition will not wait for frameworks to be honed and perfected.

In our view, it is important for investors to remember that standardized frameworks for sustainable reporting and disclosure have not yet been achieved across developed markets. Decisions to delay or avoid certain emerging markets until levels of disclosure converge with practices and frameworks prevalent in developed markets – still very much in evolution – risk further hindering emerging markets' development and, in turn, the resources to deliver enhanced data gathering and disclosure.

We believe there is a risk of a two-tier system materializing around expectations of data gathering and disclosure in emerging markets versus developing markets – an expansion of the 'trust gap' that is already evident in managers' views of the reliability of climate metrics in emerging versus developed markets.

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Expectations on the rise over 3-5 years

Managers' low expectations of increases in capital flows to emerging economies may reflect their residual concerns around the barriers to investing in these markets. While expectations do not dictate outcomes, they can support ambition and may guide managers' commercial priorities in product development and innovation.

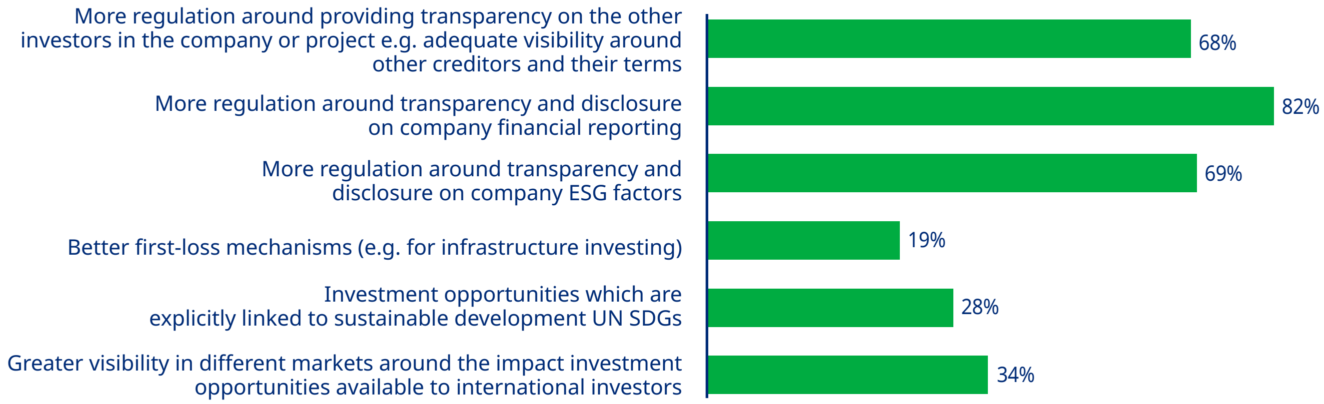
Just a small minority of managers anticipate a meaningful increase in asset owners' exposure to emerging and frontier markets in the near future; just 7% believe that an increase will take place imminently, and 19% believe that such a shift will occur in the next 1-2 years.

However, on a 3-5 year view, nearly half of managers (45%) believe that allocations to emerging markets will increase significantly.

3. Moving the needle: Adherence to globally recognized sustainable reporting frameworks is crucial to increasing investment across emerging and frontier markets

Looking ahead to the future and potential drivers of increased investment in emerging and frontier regions, managers view enhanced regulation – around the transparency and disclosure of company reporting and ESG factors – as a priority for increasing allocations.

Figure 9. What is needed in order to support greater allocation to emerging and frontier markets from international investors?



Given managers' focus on transparency and disclosure in company reporting and ESG as significant barriers to increasing allocations, it is unsurprising that the three factors supporting greater allocations to emerging and frontier markets most cited by managers are:

- More regulation around transparency and disclosure on company financial reporting (82%)
- More regulation around transparency and disclosure on company ESG factors (69%)
- More regulation around providing transparency on the other investors in the company or project e.g. adequate visibility around other creditors and their terms (68%)

Real-world impacts

Beyond advocacy for more regulation:

- More than a third (34%) of managers highlighted the potential of enhanced visibility on impact investment opportunities available in different markets in unlocking increased allocations.
- More than a quarter (28%) of managers think that investment opportunities more explicitly linked to sustainable development goals would support greater EM allocations.

Impact outcomes can only become a more substantive, integrated part of investors' transition plans through the more widespread adoption of standardized impact frameworks. UN SDGs assessment, for example, can provide a mechanism through which investors can assess the real-world impacts of their investments across emerging and frontier markets.

We believe that these approaches are particularly important to the implementation of climate transition in private and real asset investment across emerging markets, given the opportunity to align projects with specific objectives and real-world impacts.

We observe that impact investing remains almost a separate exercise undertaken by a small number of investors in limited parts of portfolios. The expansion of impact frameworks across investors' climate programs can support standardized measurement and enhanced understanding of the SDG-linked social and economic benefits delivered through climate investment solutions.

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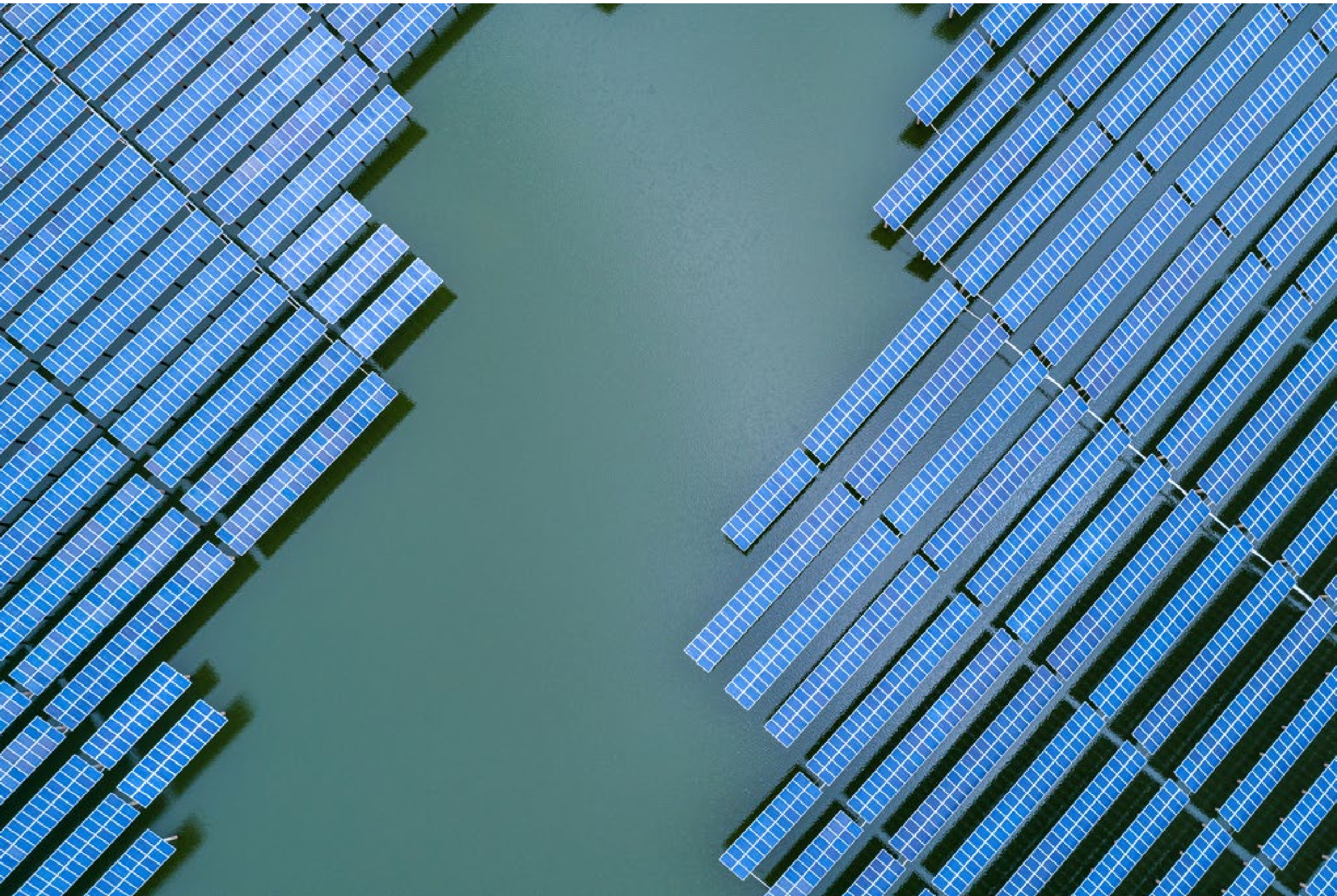
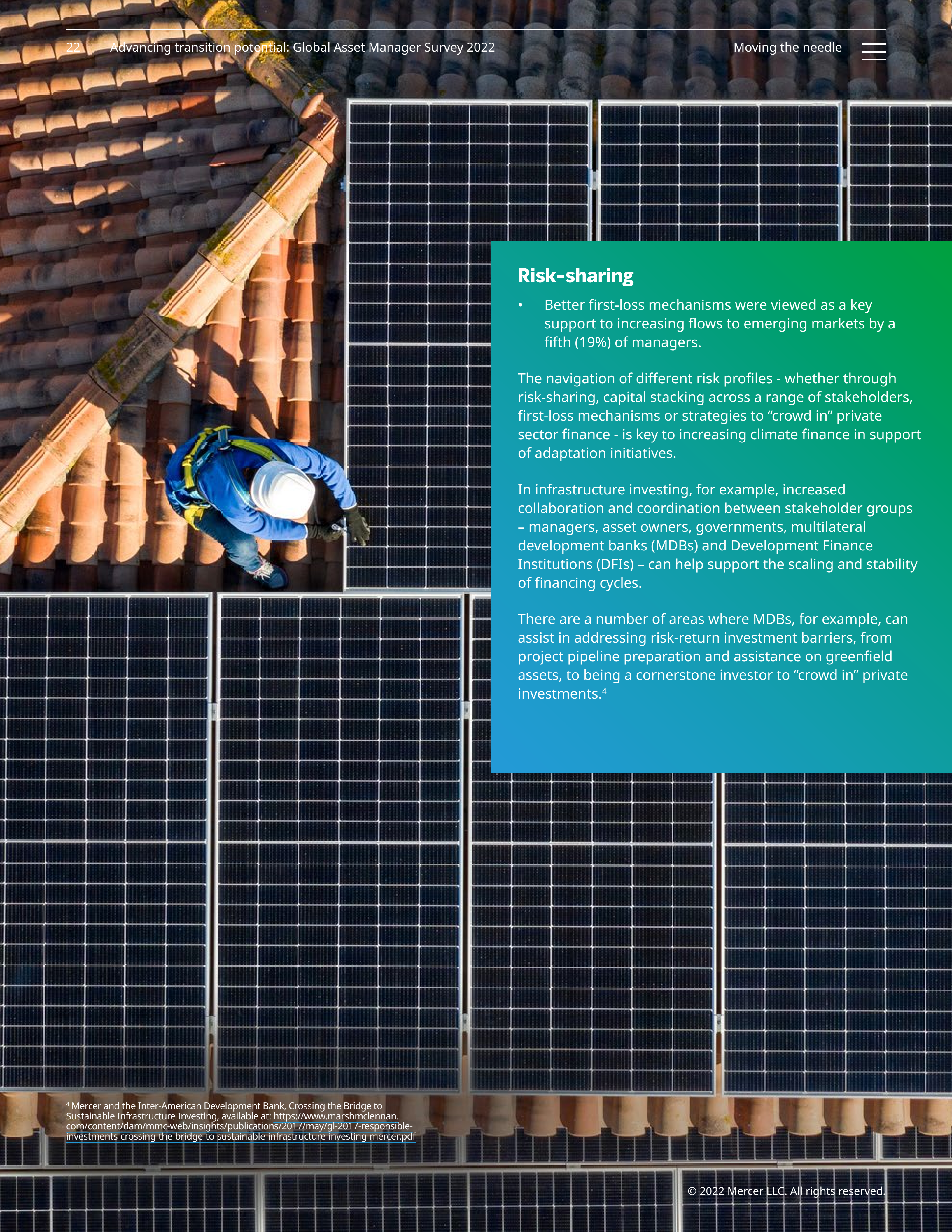




Risk-sharing

- Better first-loss mechanisms were viewed as a key support to increasing flows to emerging markets by a fifth (19%) of managers.

The navigation of different risk profiles - whether through risk-sharing, capital stacking across a range of stakeholders, first-loss mechanisms or strategies to “crowd in” private sector finance - is key to increasing climate finance in support of adaptation initiatives.

In infrastructure investing, for example, increased collaboration and coordination between stakeholder groups – managers, asset owners, governments, multilateral development banks (MDBs) and Development Finance Institutions (DFIs) – can help support the scaling and stability of financing cycles.

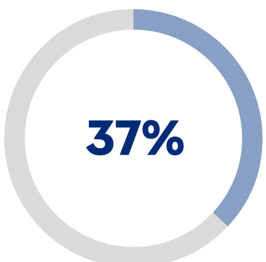
There are a number of areas where MDBs, for example, can assist in addressing risk-return investment barriers, from project pipeline preparation and assistance on greenfield assets, to being a cornerstone investor to “crowd in” private investments.[4]

[4] Mercer and the Inter-American Development Bank, Crossing the Bridge to Sustainable Infrastructure Investing, available at: https://www.marshmclennan.com/content/dam/mmc-web/insights/publications/2017/may/gl-2017-responsible-investments-crossing-the-bridge-to-sustainable-infrastructure-investing-mercer.pdf

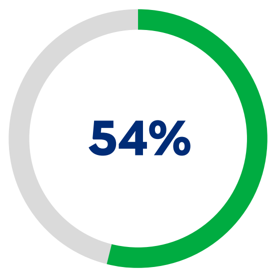
Could developments at COP27 lead to greater investment in Africa from global managers?

We asked managers to look ahead to the future and consider what would be most likely to happen in Africa if COP27 results in firm commitments related to accelerating sustainable investment across the continent.

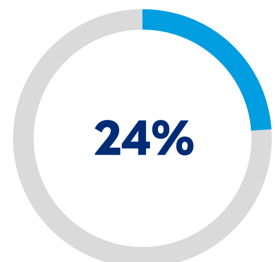
More than a third (37%) of managers would expect to see adherence by local issuers and operators to a globally recognized sustainable reporting framework.



More than a third (37%) of managers would expect to see adherence by local issuers and operators to a globally recognized sustainable reporting framework. If this prediction does, indeed, come to pass at COP27, the evidence suggests it would have a material impact on capital flows into the African continent.



More than half of asset managers (54%) say that adoption by local issuers and operators of globally recognized sustainable reporting frameworks, such as the Taskforce for Climate-related Financial Disclosures, would be the single biggest factor delivering the highest impact in terms of increasing sustainable investment in Africa.



Furthermore, nearly a quarter (24%) of global managers expect additional decarbonization-related investment projects to develop across the continent in the aftermath of firm commitments being achieved at COP27.

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Figure 10. In your view, which of the following would deliver the highest impact in terms of increasing sustainable investment in Africa?

If more sustainable investments in Africa were available:

- 63% of managers would favor investing in public-listed companies with African footprint, with the caveat that companies are listed in OECD markets. This compares to just 14% who would opt to invest in publicly listed companies with an African footprint listed on local exchanges
- 16% would favor privately held companies with specific asset profiles e.g., solar power electricity generation

Managers' views demonstrate their preference for investment in African companies listed in OECD markets. Yet, in order to reach the point of listing – whether in emerging or developed markets, or on OECD or local exchanges – companies require venture capital, growth and private equity, areas of increasing interest for specialist managers.

In related research, case studies indicate that the potential benefits from the involvement of a trusted local partner with strong local networks and an ability to source local ideas with sophisticated private infrastructure investors such as pension funds, can lead to good outcomes. Targeting sectors such as transportation that reduces emissions, energy focussed on renewables and/or low carbon sources, including onshore and offshore wind, solar and waste to energy projects for example, and healthcare and educational facilities provide opportunities for investment by specialist managers.

The role of investor commitment to sustainable investing cannot be underestimated in these markets, through provision of broader, transformative effects and value creation for local investors providing a further benefit for the region.[5]

[5] **Mercer and the Inter-American Development Bank**, *Investing in Sustainable Infrastructure in Latin America: Instruments, Strategies and Partnerships for Institutional Investors Mobilization*, Giovanni Leo Frisari, Max Messervy
Inter-American Development Bank, Climate Change Division May 2021: 72 -92

Conclusion

To support wealth creation across diverse markets, potentially safeguard global financial stability and address the risk of climate change, asset owners can encourage asset managers to commit to net-zero implementation. Both asset owners and managers share a critical role in advancing the transition, working together with policymakers and multi-lateral organizations to mitigate systemic climate risks, both at COP27 and beyond.

Our survey indicates that managers committed to science-based net-zero targets across strategies are still a small minority. Asset owners with commitment to net-zero are in the driver's seat when it comes to selecting managers that apply climate-led investing across portfolios, engage with investee companies and successfully deliver against investment objectives. Accelerated adoption of science-based targets must be a priority for the investment community as we come together and commit to implementing transition across portfolios.

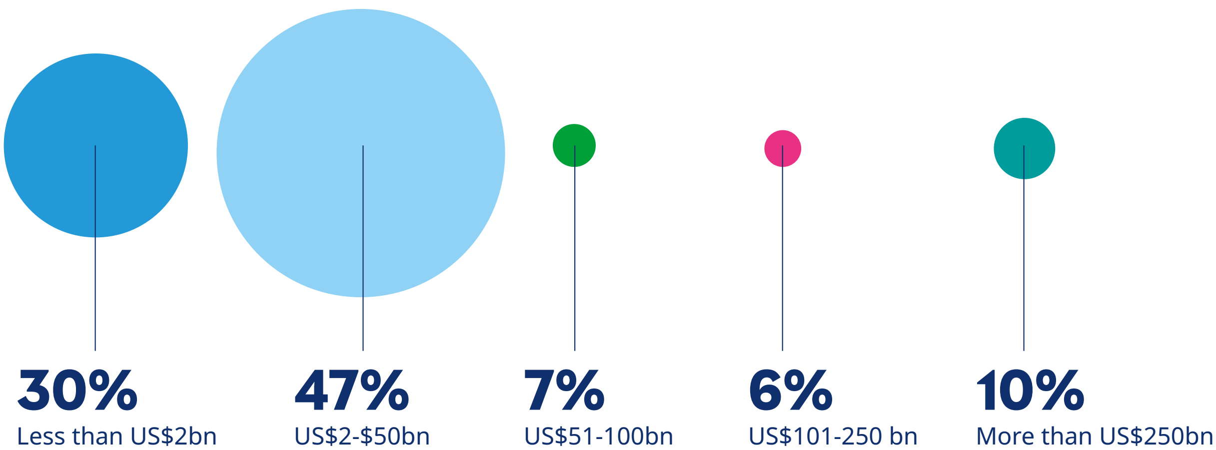
Managers are committing to net-zero pathways across strategies through tracking of climate metrics, but for many the data remains unreliable. A significant step change in the robustness of data, and in transparency and disclosure around company reporting and ESG factors is required for investors to overcome current barriers to investment into emerging and frontier markets.

Commitments made at COP27 may help deliver the policy certainty required to secure this step change. The adoption of globally recognized sustainable reporting frameworks, such as TCFD, which asset managers identify as the single biggest factor behind increasing sustainable investment in Africa, provides a critical focus for collaborative efforts at COP27.

About this survey

The survey, conducted by Mercer during September 2022, received 411 responses in total from more than 400 asset management firms globally, representing a total assets under management of more than US$51trn, as of 2 November 2022 (Source: Mercer, GIMD)

Figure 11. Total funds under management 31 December 2021



Contact us

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For further information, please visit https://www.mercer.com/investing-sustainably,or https://www.marshmclennan.com/about/esg.html

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Under the Employee Retirement Income Security Act in the United States (ERISA), the decision to invest in ESG-themed options for ERISA plans, like all options, must be in the best financial interest of the plan and its participants. ESG thematic investing may be subject to greater scrutiny; for example, its inclusion in an ERISA plan may trigger a heightened level of review of various objective criteria across all investment options. Active ownership efforts should be considered in light of the cost versus benefit to the plan of engaging in such efforts. Clients are encouraged to consult with ERISA counsel regarding responsible investing.