

# 7 Essentials of ESG Investing

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*J.P. Morgan*

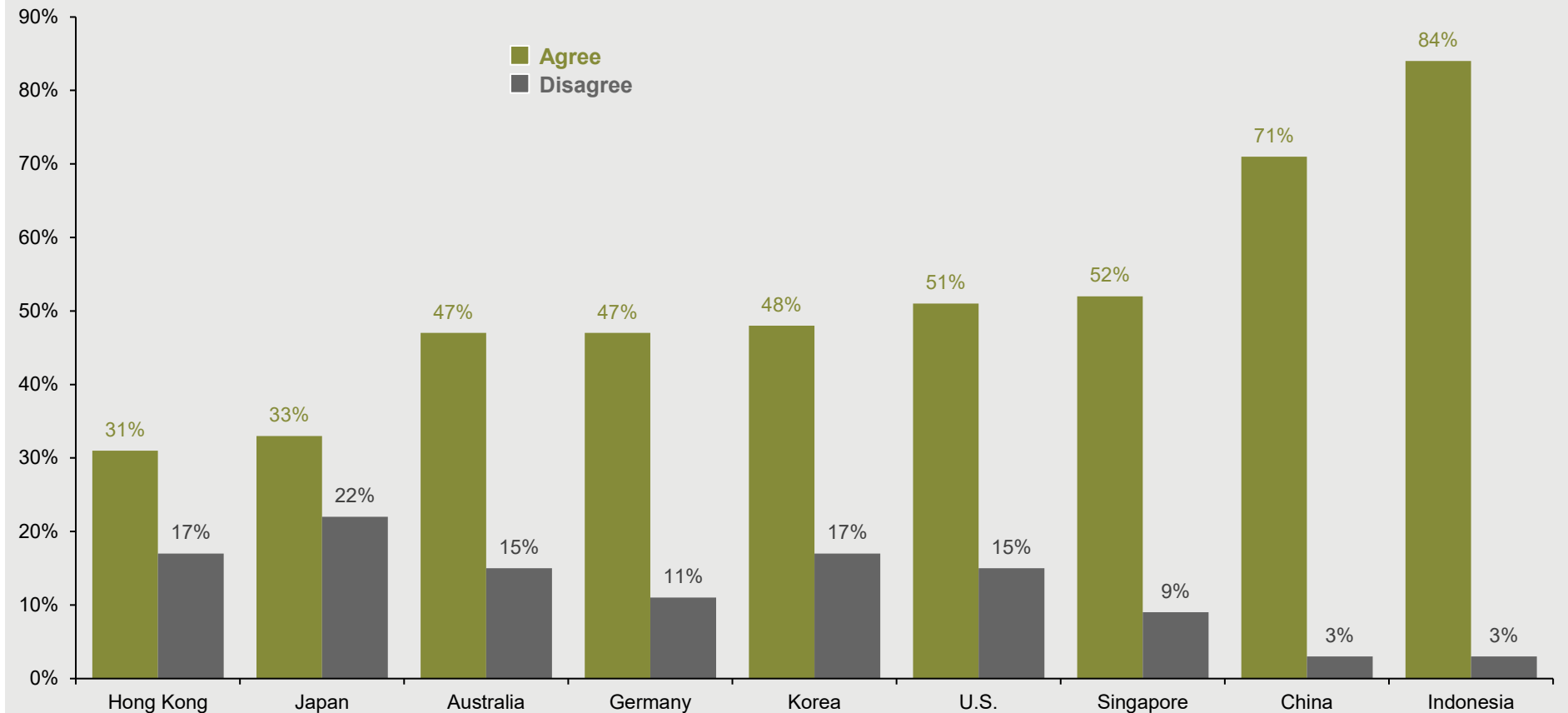
## Seven essentials of ESG investing

- 1. ESG considerations are affecting consumer preferences and public attitudes**
- 2. Policymakers are setting environmental and social goals**
- 3. For some, the shift to sustainability may be a headwind**
- 4. ESG creates significant opportunities for those at the forefront of change**
- 5. ESG covers more than climate—the focus on Social and Governance is growing too**
- 6. ESG is affecting the investment landscape**
- 7. ESG is changing the nature of investment flows**

# 1. ESG considerations are affecting consumer preferences and public attitudes

**“I buy from companies that are conscious and supportive of protecting the environment.”**

% of adults

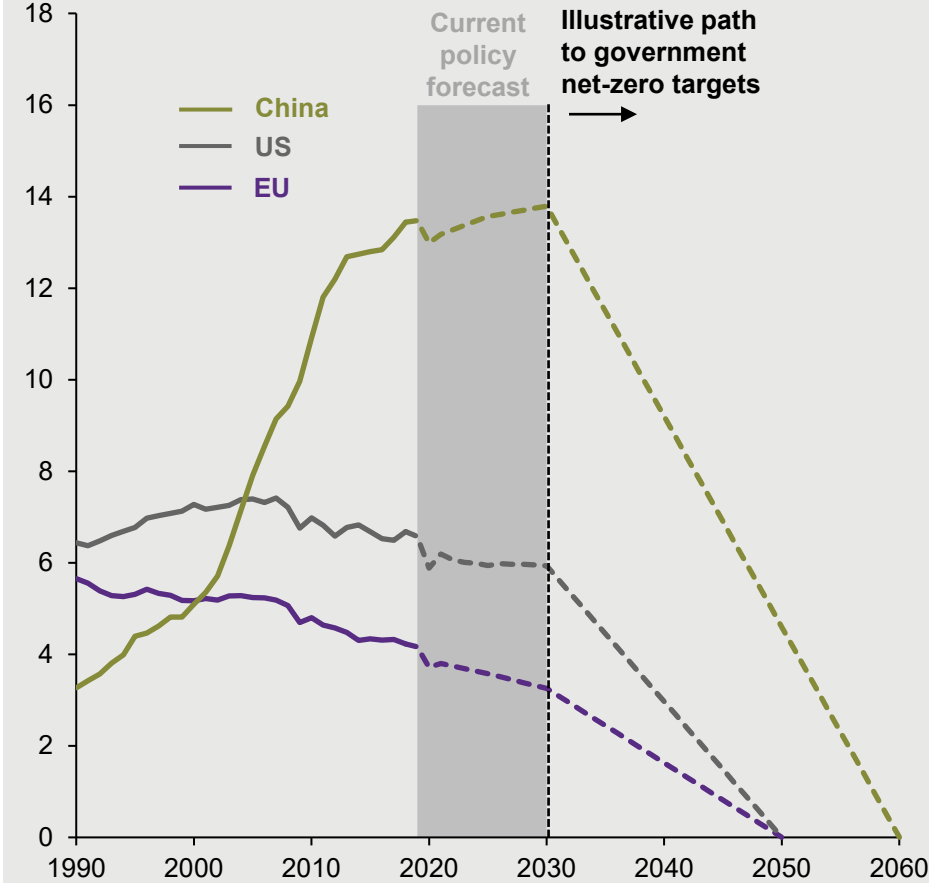


Source: PwC, J.P.Morgan Asset Management. PwC's June 2021 Global consumer insights pulse survey was conducted in March 2021. It polled 8,681 consumers across 22 territories. The respondents were at least 18 years old and were required to have shopped online at least once in the previous year. Data reflect most recently available as of 24/06/21.

## 2. Policymakers are setting environmental and social goals

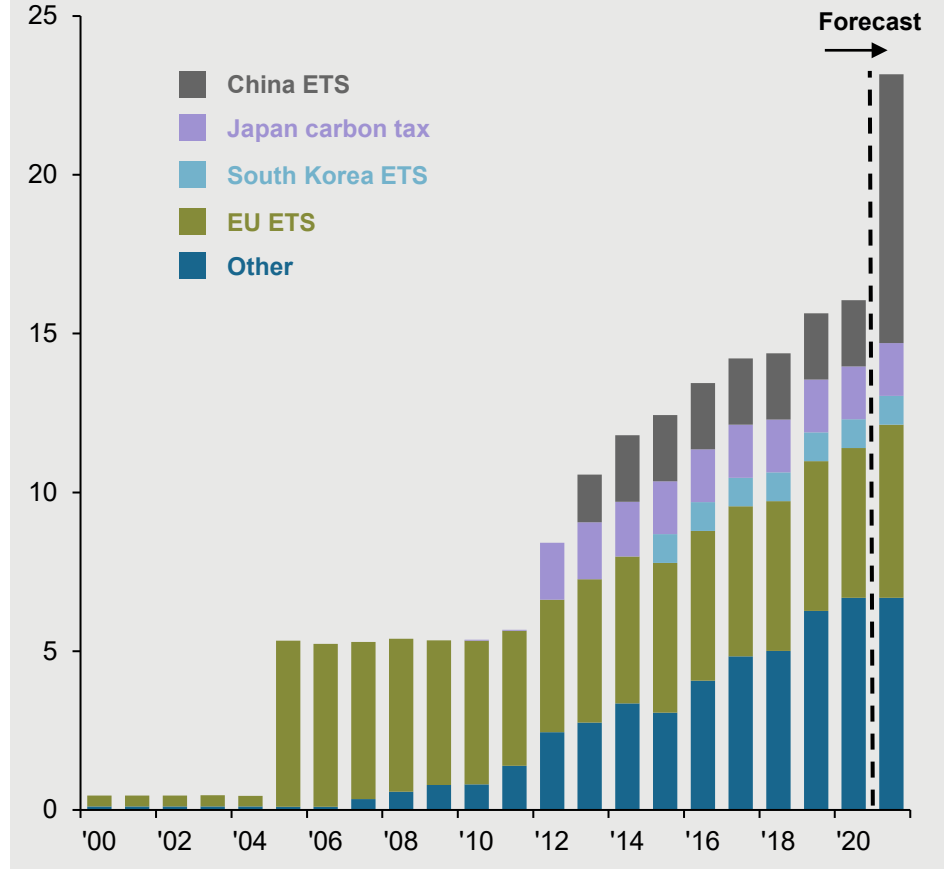
### Greenhouse gas emission targets

Billion tonnes/year, CO2 equivalent



### Global emissions covered by carbon pricing initiatives

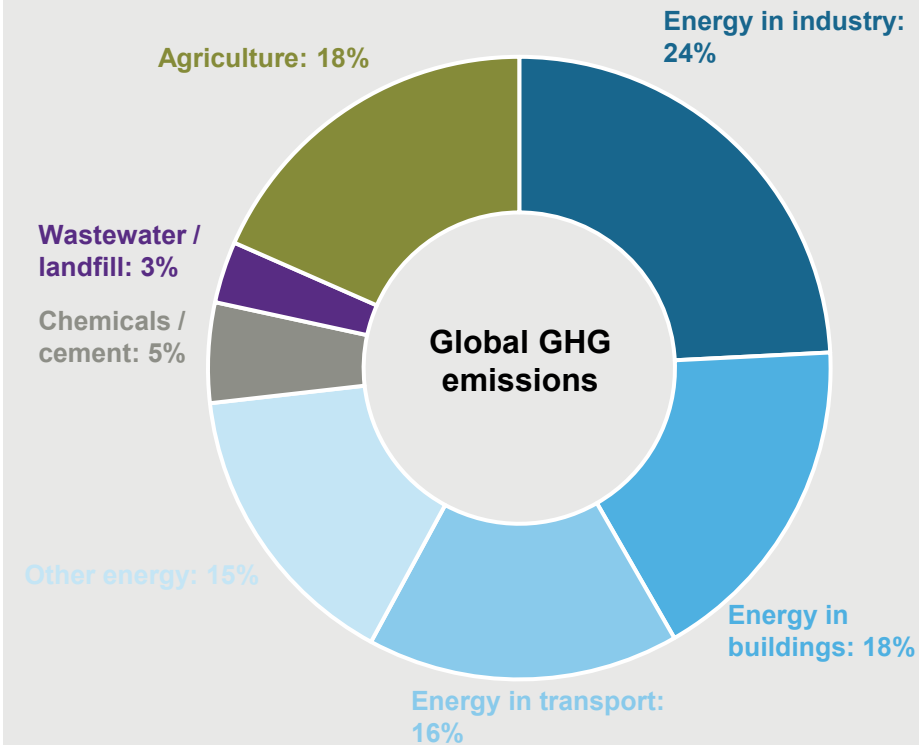
% of global greenhouse gas emissions



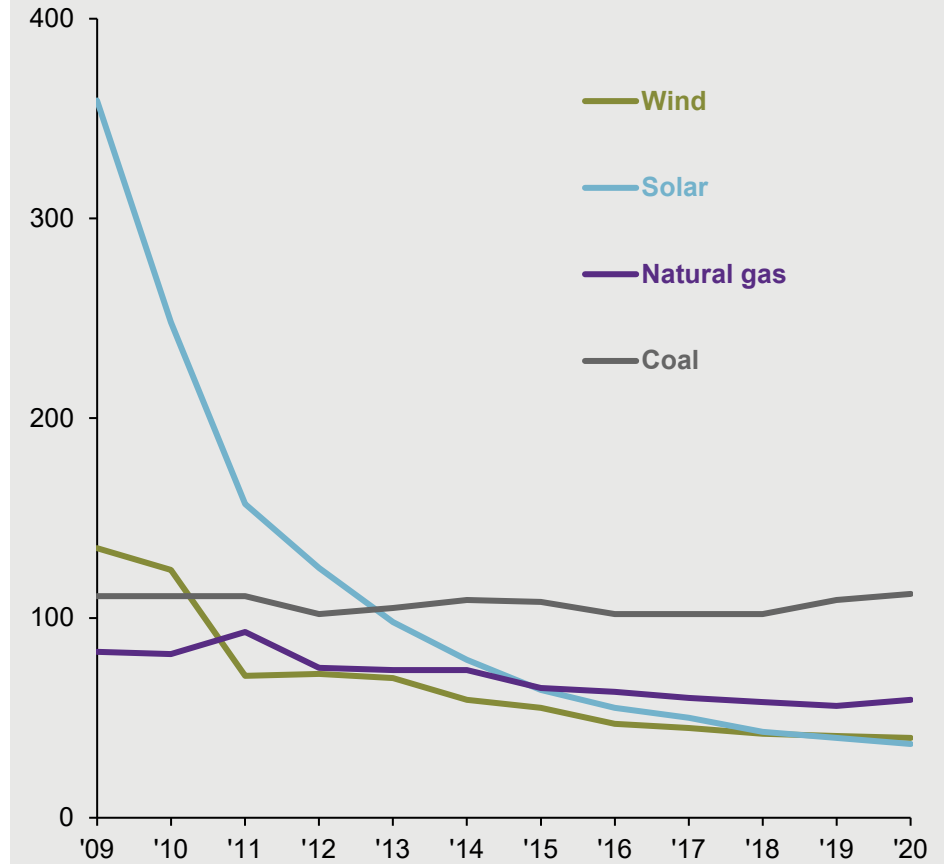
Source: J.P. Morgan Asset Management; (Left) Climate Action Tracker. Current policy forecast is the post-Covid forecast provided by Climate Action Tracker. (Right) World Bank. ETS is emissions trading system. Past performance is not a reliable indicator of current and future results. Data reflect most recently available as of 24/06/21.

### 3. For some, the shift to sustainability may be a headwind

**Share of global greenhouse gas emissions by sector**  
 % of global greenhouse gas emissions (2016), CO<sub>2</sub> equivalent tonnes



**Cost of wind, solar, natural gas and coal**  
 Mean LCOE\*, 2020, dollar per megawatt hour



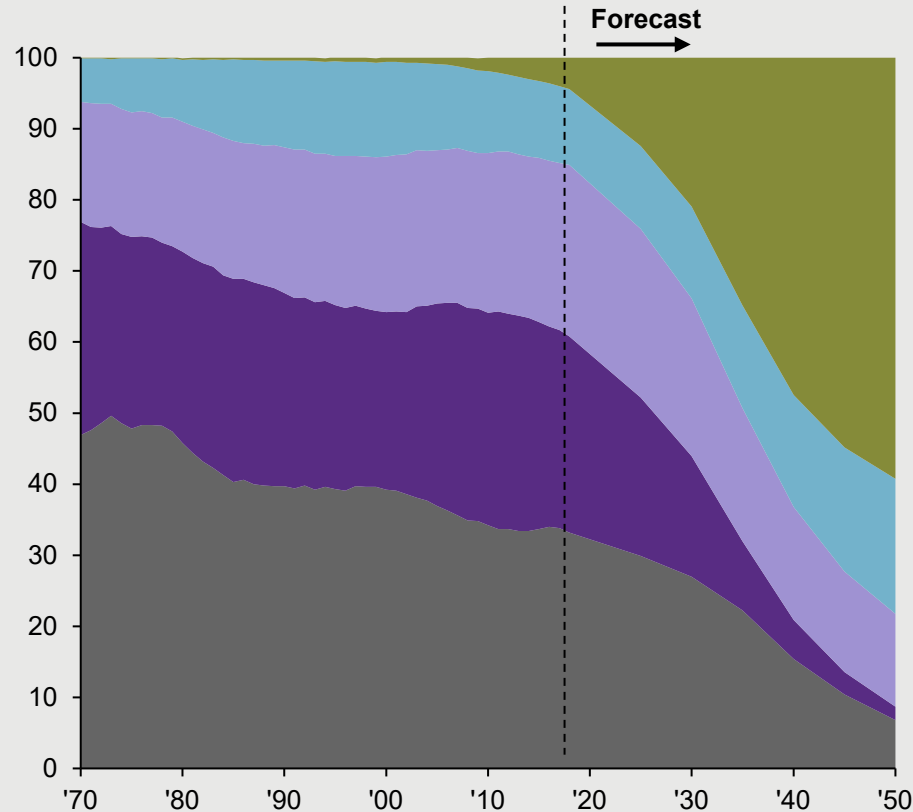
Source: J.P. Morgan Asset Management. (Left) Climate Watch, Our World in Data, World Resource Institute. Greenhouse gas emissions include CO<sub>2</sub>, methane, nitrous oxide and fluorinated greenhouse gases. CO<sub>2</sub> equivalent tonnes standardise emissions to allow for comparison between gases. One equivalent tonne has the same warming effect as one tonne of CO<sub>2</sub> over 100 years. (Right) \*LCOE is levelized cost of energy, the net present value of the unit-cost of electricity over the lifetime of a generating asset. It is often taken as a proxy for the average price that the generating asset must receive in a market to break even over its lifetime. This primarily relates to U.S. alternative energy landscape, but reflects broader/ global cost declines. Data reflect most recently available as of 30/06/21.

## 4. ESG creates significant opportunities for those at the forefront of change

### Global energy mix

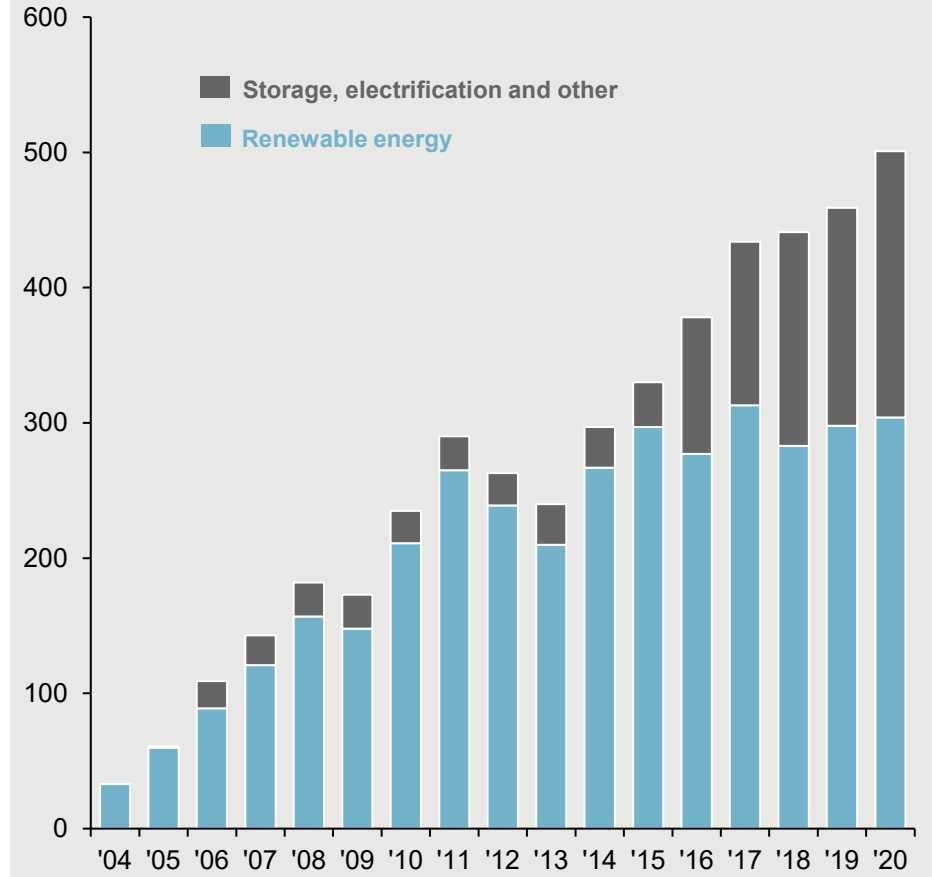
% primary energy consumption

Oil Coal Gas Nuclear and hydro Renewables



### Global investment in energy transition

USD billions, nominal



Source: J.P. Morgan Asset Management; (Left) BP Energy Outlook 2020. Forecast is based on BP's scenario for global net-zero emissions by 2050. (Right)

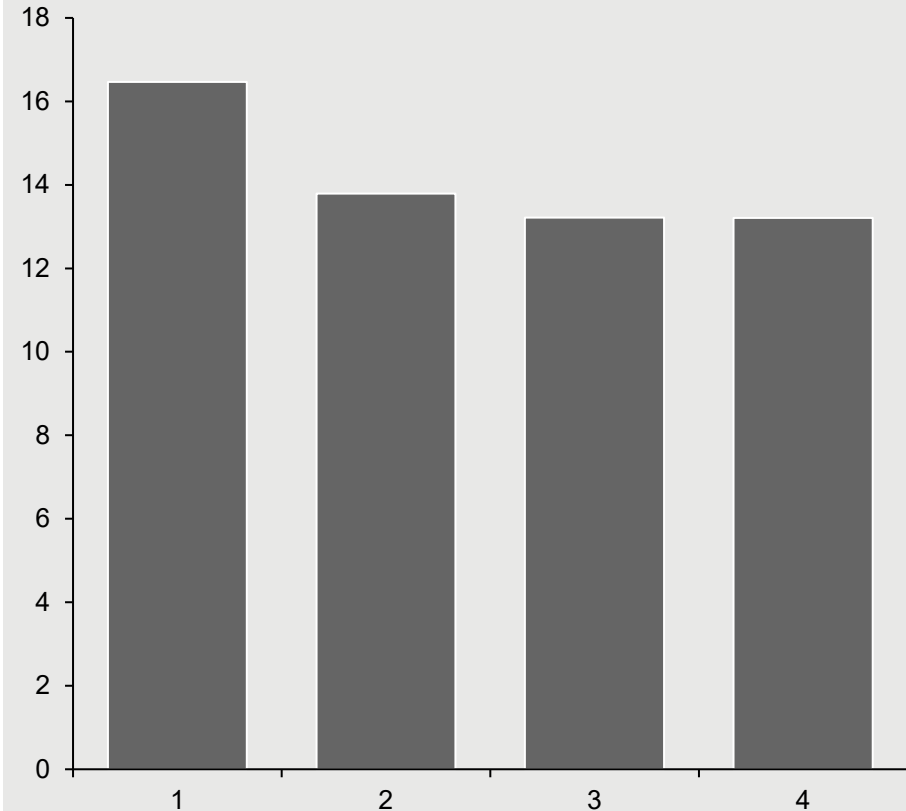
Bloomberg NEF, IEA. Storage, electrification and other includes hydrogen, carbon capture and storage, energy storage, electrified transport and electrified heat.

Data reflect most recently available as of 30/06/21.

## 5. ESG covers more than climate—the focus on Social and Governance is growing too

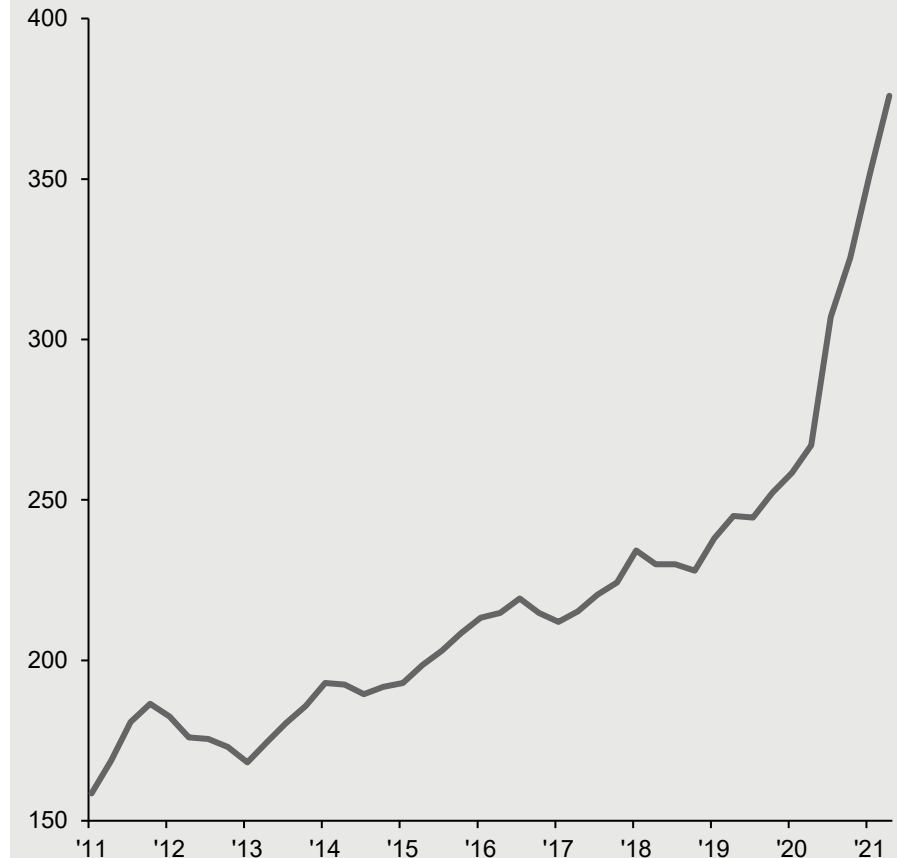
### Average return on equity of global stocks by governance score

%, return on equity



### Corporate mentions of “diversity” or “inclusion”

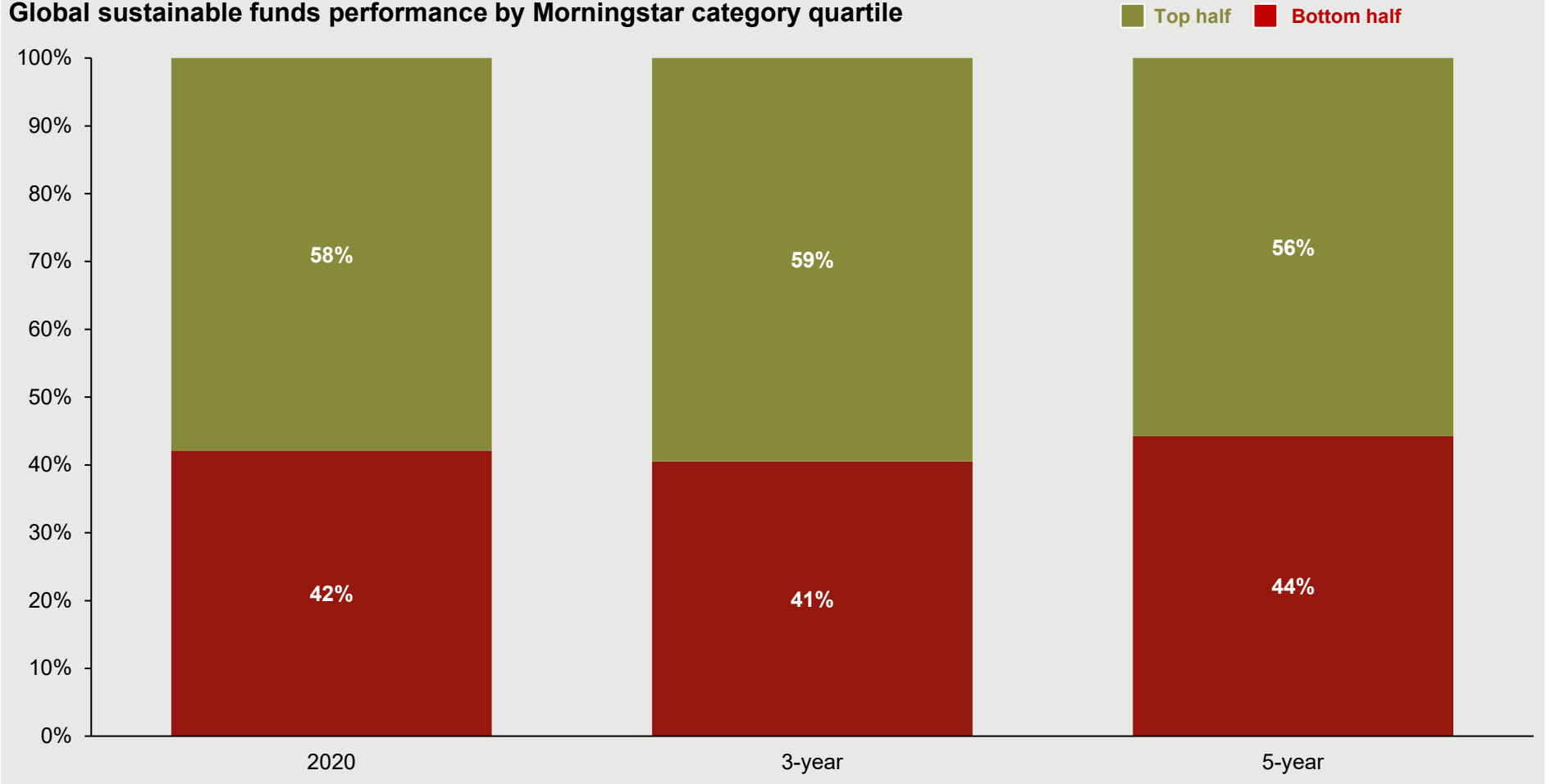
Earnings calls for MSCI AC World companies, 4 quarter moving average



Source: J.P. Morgan Asset Management. (Left) Bloomberg, MSCI. Global stocks are represented by MSCI All-Country World Index constituents based on data availability. We group constituents into quartiles based on proprietary analysis of governance arrangements by J.P. Morgan Asset Management, and then calculate an equally-weighted average return on equity for each group. Past performance is not a reliable indicator of current and future results. Data reflect most recently available as of 30/06/21.

## 6. ESG is affecting the investment landscape

Global sustainable funds performance by Morningstar category quartile



Source: Morningstar Direct, J.P. Morgan Asset Management. To identify sustainable funds, we searched Morningstar Direct, as follows: 1. Open-End Funds and ETFs universe 2. Domicile = Global. 3. Sustainable Investment Overall = Yes. 4. Oldest share class = Yes. 3-year and 5-year trailing performances reflect the periods 01/07/18 – 30/06/21 and 01/07/16- 30/06/21 respectively. Money market funds, fund of funds and feeder funds are excluded.

2020 includes funds with full-year records only, and 3,711 funds in total (2,154 equity, 1,557 fixed income/asset allocation/other). 3-year includes 3,021 funds (1,726 equity, 1,295 fixed income/asset allocation/other). 5-year includes 2,379 funds (1,376 equity, 1,003 fixed income/asset allocation/other). Figures may not match with prior reports due to ongoing revisions by data providers after the prior reports have been published.

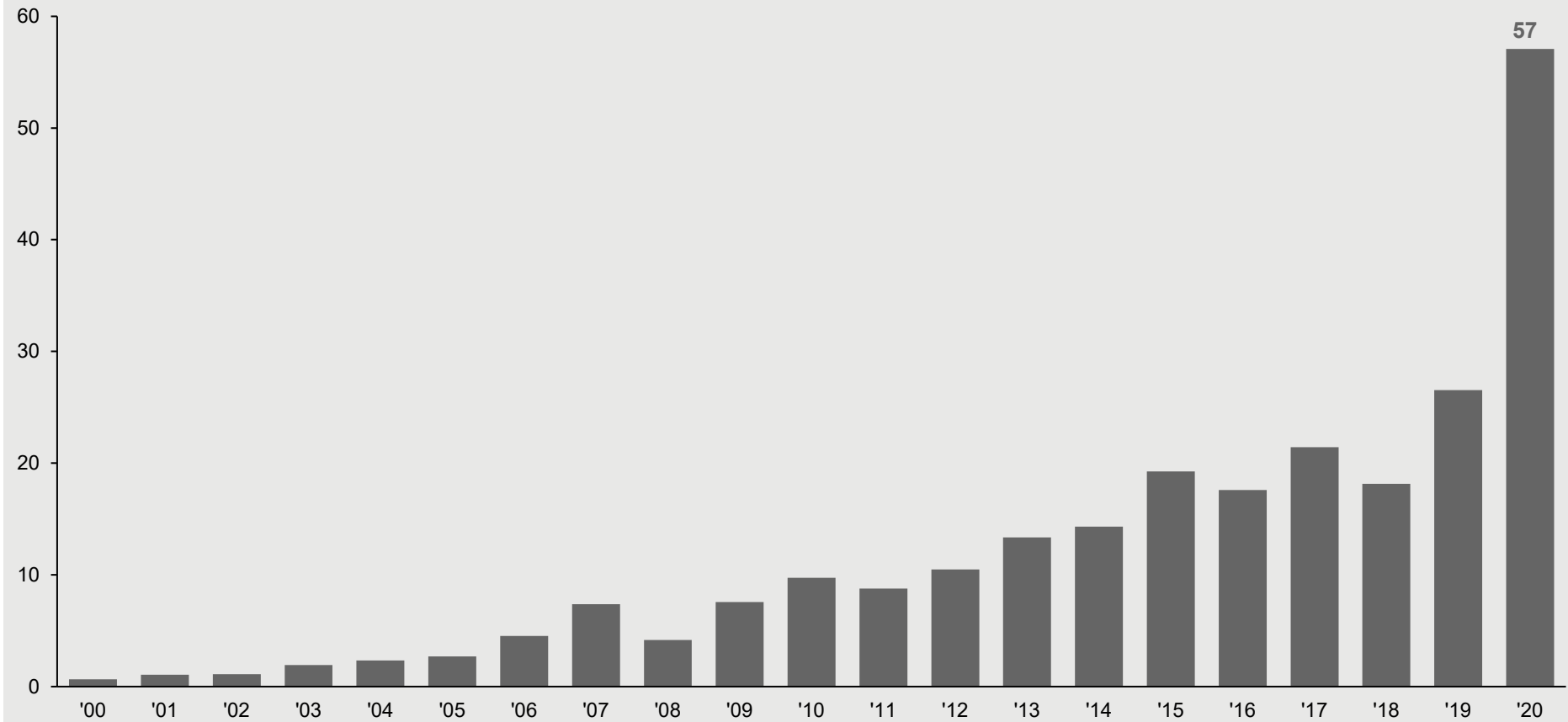
Data reflect most recently available as of 26/07/21.



## 7. ESG is changing the nature of investment flows

### APAC-domiciled sustainable mutual fund and ETF AUM\*

USD billions



Source: Morningstar Direct, J.P.Morgan Asset Management. \*APAC domiciled funds include Australia, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand. Money market funds, fund of funds and feeder funds are excluded. Figures may not match with prior reports due to ongoing revisions by data providers after the prior reports have been published. Data reflect most recently available as of 26/07/21.

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