



Integrating ESG into asset management

How KPMG can help

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Focus on ESG brings opportunities and challenges for asset managers

Institutional investors are increasingly recognizing the potential for ESG factors – such as climate risk and poor human rights performance – to affect the valuation and financial performance of the companies they invest in.

At the same time, consumer demand for responsible investments is surging, especially from the Millennial generation.¹ Regulation is emerging, for example in the EU, and the influence of initiatives including the UN Principles for Responsible Investment (PRI) and the Task Force on Climate-related Financial Disclosures (TCFD) continues to escalate.

As a result, capital flows into ESG funds are accelerating and asset managers are under mounting pressure to integrate ESG considerations into their investment approaches.

Yet, as the pressure grows, asset managers face multiple challenges such as:

- a complex landscape of ESG focus areas
- differing expectations from institutional investors
- the likelihood of new regulation and uncertainty over its form
- a confusing array of inconsistent ESG data
- an absence of standard ESG terms, metrics and reporting frameworks
- a lack of consensus on the effects of ESG strategies on financial returns

KPMG member firms have a network of ESG, asset management and IT professionals who can help your organization enhance its approach to ESG, whatever your current level of maturity.

¹<https://www.bloomberg.com/professional/blog/sustainable-investing-grows-pensions-millennials>

Contact us to find out how KPMG member firms can help you.



Tomas Otterström

Global Leader, Sustainable Finance Services, KPMG International.
Partner, KPMG in Finland and KPMG in Sweden.

tomas.otterstrom@kpmg.fi | tomas.otterstrom@kpmg.se

Tomas works with international clients to enable them to build robust ESG strategies and effectively communicate these to investors, analysts and wider stakeholders. With over 20 years of work experience, he has worked with dozens of institutional investors, asset management companies, and large corporates. He is well connected with key organizations in this space such as the UN PRI.



Troy Mortimer

Head of Responsible Investment & Sustainability Services, KPMG in the UK.
Director, KPMG in the UK.

troy.mortimer@kpmg.co.uk



Riikka Sievanen

Leader, Sustainable Finance global network, KPMG International.
Senior Manager, KPMG in Finland.

Riikka.sievanen@kpmg.fi



Bill J. Murphy

Leader, ESG Asset Management Services (Americas), KPMG International.
Partner, KPMG in Canada.

billmurphy@kpmg.ca



Niven Huang

Leader, ESG Asset Management Services (Asia Pacific), KPMG International.

nivenhuang@kpmg.com.tw

How KPMG can help

KPMG member firms provide bespoke ESG services to match the differing needs of asset managers at various levels of ESG maturity. Our support typically covers the following areas:



01 Develop ESG strategy

- **Define the strategic approach and ambition level:** KPMG professionals identify ESG investment approaches that are appropriate for your organization and client base.
- **Analyze market trends and regulatory landscape:** KPMG specialists provide insights and intelligence to shape your ESG strategy.
- **Track and predict the ESG expectations of asset owners:** KPMG member firms offer systematic analysis using proprietary KPMG frameworks and tools.
- **Conduct peer review and benchmarking:** KPMG professionals help you understand how other asset managers are approaching ESG and what they offer to clients.
- **Analyze gaps between your current and desired approaches to ESG:** KPMG specialists conduct a thorough assessment based on interviews and a review of investment portfolios, processes and reporting.

02 Implement ESG strategy

- **Prepare an ESG roadmap:** KPMG member firms help you identify the right priorities, targets and actions to implement the ESG strategy.
- **Design your ESG governance structure:** KPMG professionals recommend the most effective governance structure based on your ESG roadmap, operations and capabilities.
- **Prepare action plans and key performance indicators (KPIs):** KPMG specialists help you develop detailed action plans and KPIs for specific work streams.
- **Implement principles and approaches across asset classes, funds and mandates:** KPMG member firms support you in applying your ESG strategy across differing asset classes, such as passive equity, active equity and bonds, as well as across varying client mandates.
- **Incorporate ESG principles into operational processes:** KPMG professionals help you integrate your ESG strategy into operations including sales and marketing, analysis, investment decisions and outsourcing.
- **Educate and train your people:** KPMG specialists develop and deliver tailored training programs for example for board directors, executives, portfolio managers and analysts.

How KPMG can help (continued)



03 Monitor and report on performance

- **Assess reporting needs and requirements:** KPMG member firms help you identify your key reporting stakeholders and advise on how you should report. This is likely to include disclosure in annual reporting, periodic disclosures to clients and fund investors, and reporting to the UN PRI and other investor communities.
- **Implement effective data collection and reporting systems:** KPMG professionals help you ensure that you have effective reporting processes and systems in place, designing bespoke IT solutions as required. We also help you to embed the reporting systems into your operations.



04 Review processes and assure disclosures

- **Review ESG processes and KPIs:** KPMG specialists help you implement appropriate internal audit processes and controls.
- **Review ESG policy statements and governance:** KPMG member firms ensure your ESG policies and governance structures are up-to-date and fit-for-purpose in the fast moving ESG industry and regulatory landscape.
- **Stress test investment portfolios:** KPMG professionals conduct stress tests on your investment portfolios, for example in the context of new regulation or climate change scenarios.
- **Review risk assessment processes:** KPMG specialists assess your risk escalation channels as well as developing bespoke risk modelling for specific high risk topics such as water scarcity or climate-driven migration.
- **Assess and advise on reporting:** KPMG member firms review your ESG reporting and provide objective recommendations for improvement, for example on UN PRI or TCFD disclosures.

Client stories

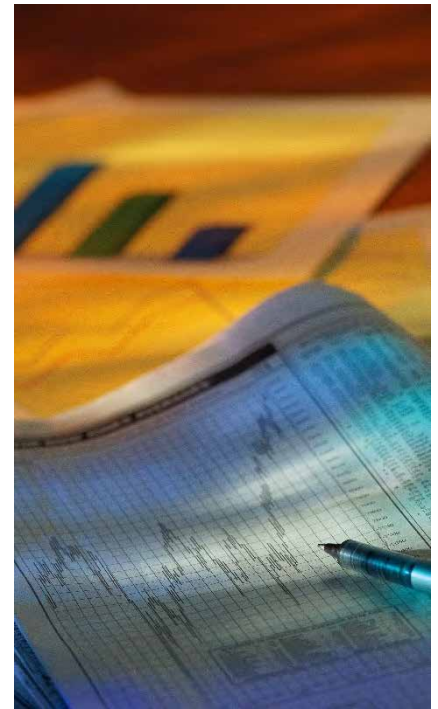
01

Helping a leading asset manager develop its sustainability and ESG strategies

One of the world's largest asset managers, with assets under management of over US\$2 trillion, is convinced that sustainable investing will become the new norm. To support its ambitions to become a market leader in sustainable investment, the company sought to develop a robust strategy that integrated ESG considerations into its investment and management practices.

A team of ESG asset management specialists from KPMG member firms in the Netherlands and Germany worked with the client to conduct a materiality assessment to help the company understand its most significant ESG issues and shape and inform its strategy. This involved a broad-ranging review of the client's investment processes and portfolios, as well as interviews with senior management. The research identified a number of challenges including gaps in the company's ESG governance structures and sub-optimal controls.

KPMG professionals provided recommendations to help the client shape its sustainability and ESG investment strategies, such as changes to organizational structure, the introduction of new ESG policies, and improvements in accountability and traceability of assets. KPMG specialists also helped deliver ESG training for the client's senior staff members. With the support of KPMG, the client improved its approach to sustainability and ESG investment. Today the company is ranked as one of the top asset managers by leading sustainability indexes.



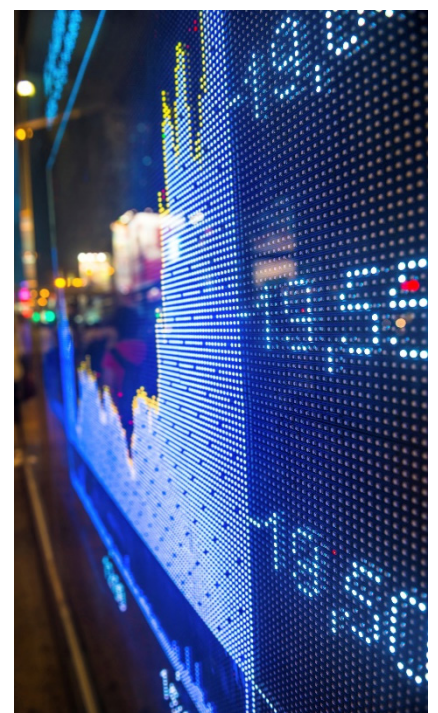
02

Improving an asset manager's ESG processes and reporting

As a signatory of the UN PRI, a Nordic asset manager wanted to make sure it was delivering on its responsible investment promises and commitments. KPMG ESG asset management professionals in Sweden and Finland assessed the client's existing ESG systems, controls and reporting.

This involved reviewing and evaluating the company's ESG documentation and speaking with certain staff members to understand what processes were currently in place, how these were being implemented, and who was accountable.

The research identified significant opportunities for improvement in the company's ESG accountability structure and processes, and its ESG reporting. Based on these findings, KPMG professionals made recommendations including how to increase the quality and credibility of the client's ESG reports. With KPMG's support, the client was better able to take corrective action to improve its ESG processes and reporting.



Local KPMG contacts

Argentina

Martin Mendivelzua
mmendivelzua@kpmg.com.ar

Australia

Adrian V. King
avking@kpmg.com.au

Austria

Peter Ertl
pertl@kpmg.at

Azerbaijan

Vugar Aliyev
valiyev@kpmg.az

Belgium

Mike Boonen
mboonen@kpmg.com

Brazil

Ricardo Zibas
rzibas@kpmg.com.br

Canada

Bill J. Murphy
billmurphy@kpmg.ca

Cyprus

Iacovos Ghalanos
iacovos.ghalanos@kpmg.com.cy

Chile

Luis Felipe Encina
lencina@kpmg.com

China

Patrick Chu
patrick.chu@kpmg.com

Colombia

Fabian Echeverria
fecheverria@kpmg.com

Czech Republic

Miroslava Prokesova
mprokesova@kpmg.cz

Costa Rica

Florely Quesada
fquesada@kpmg.com

Denmark

Frances Iris Lu
franceslu@kpmg.com

Finland

Tomas Otterström
tomas.otterstrom@kpmg.fi

France

Philippe Arnaud
parnaud@kpmg.fr

Germany

Christian Hell
chell@kpmg.com

Greece

George Raounas
graounas@kpmg.gr

Hungary

István Szabó
istvan.szabo@kpmg.hu

India

Santhosh Jayaram
santhoshj@kpmg.com

Indonesia

Ian Hong
ihong@kpmg.com.sg

Ireland

Michael Hayes
michael.hayes@kpmg.ie

Israel

Oren Grupi
ogrupi@kpmg.com

Italy

PierMario Barzaghi
pbarzaghi@kpmg.it

Japan

Kazuhiko Saito
kazuhiko.saito@jp.kpmg.com

Yoshitake Funakoshi

yoshitake.funakoshi@jp.kpmg.com

Kazakhstan

Saken Zhumashev
szhumashev@kpmg.kz

Luxembourg

Gilles Poncin
gilles.poncin@kpmg.lu

Peru

Rosario Calderon
rccalderon@kpmg.com

Poland

Krzysztof Radziwon
kradziwon@kpmg.pl

Portugal

Martim Santos
martimsantos@kpmg.com

Malaysia

Kasturi Nathan
kasturi@kpmg.com.my

Mexico

Jesus Luna
jjluna@kpmg.com.mx

Romania

Gheorghita Diaconu
gdiaconu@kpmg.com

Netherlands

Arjan de Draaijer
deDraaijer.Arjan@kpmg.nl

New Zealand

Erica Miles
emiles@kpmg.co.nz

Nigeria

Tomi Adepoju
tomi.adepoju@ng.kpmg.com

Norway

Anette Rønnov
anette.ronnov@kpmg.no

Russia, Ukraine, Georgia and Armenia

Igor Korotetskiy
ikorotetskiy@kpmg.ru

Singapore

Ian Hong
ihong@kpmg.com.sg

Slovakia

Quentin Crossley
qcrossley@kpmg.sk

South Africa

Shireen Naidoo
shireen.naidoo@kpmg.co.za

South Korea

Hyoung-Chan Kim
hyoungchankim@kr.kpmg.com

Jung-Nam Kim

jungnamkim@kr.kpmg.com

Spain

José Luis Blasco Vazquez
Global Head, KPMG Sustainability Services
jblasco@kpmg.es

Sweden

Tomas Otterström
tomas.otterstrom@kpmg.se

Switzerland

Anne Van Heerden
annevanheerden@kpmg.com

Taiwan

Niven Huang
Regional Leader, KPMG Sustainability Services in Asia Pacific
nivenhuang@kpmg.com.tw

Thailand

Paul Flipse
pflipse@kpmg.co.th

Turkey

Sirin Soysal
ssoyasal@kpmg.com

UAE and Oman (Lower Gulf)

Hanife Ymer
hymmer1@kpmg.com

UK

Troy Mortimer
troy.mortimer@kpmg.co.uk

US

Katherine Blue
kblue@kpmg.com

Uruguay

Martin Clerino
martinclerino@kpmg.com

Venezuela

Jose O. Rodrigues
jrodrigues@kpmg.com

kpmg.com/sustainability



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