Realfin-GIIA
Global Infrastructure ESG Report
Q3 2023

REALFIN

GIIA Global Infrastructure Investor Association

Contents

About Realfin

Realfin is the London-based global leader in real assets data, research and intelligence. We support leading infrastructure, real estate and real assets lenders, investors, fund managers, developers and service providers in making decisions through rigorous data. Realfin provides specialist real assets data through its flagship RealfinX Platform and through tailored data consultancy. Realfin analysts are real assets data experts who speak directly to market, leverage thousands of third-party sources and harness data science to arrive at the most comprehensive datasets of their kind available globally. Learn more at realfin.com

About Global Infrastructure Investor Association

GIIA is the membership body for the world's leading investors in infrastructure, and advisors to the sector, who collectively represent US $1.65 trillion of infrastructure assets under management across 70 countries. Our members are investing today to provide the smart, sustainable and innovative infrastructure needed for our communities and economies to thrive. GIIA was established in 2016 to improve engagement between members, politicians, policymakers and regulators with the aim of increasing much needed investment in infrastructure. Learn more at giia.net

Foreword

Foreword by **Jon Phillips**, Chief Executive, Global Infrastructure Investor Association

We are delighted to be launching this collaboration with Realfin to produce the first of what will be a series of regular reports on ESG and its impact on infrastructure investment. These reports will focus on pivotal trends and quarterly market analysis with insightful commentary from both Realfin and the Global Infrastructure Investor Association (GIIA), as well as our members.

In this inaugural edition, we present an overview of fundraising activities during 2023 and delve into some of the prominent challenges that ESG practitioners have faced throughout the year. From tackling the 'anti-ESG backlash' to adapting to new regulatory frameworks, this joint Realfin and GIIA report aims to highlight the key shifts in the landscape and offer a preview of what to expect in 2024.

We very much invite our members and interested parties to actively contribute to and shape future reports. We will welcome your insights and expertise, which will help to drive valuable debate within our industry. Please do get in touch.

Working together to share intelligence and best practice, we can forge a stronger path towards sustainable and responsible investment in infrastructure which will improve the lives of citizens, drive economic growth and tackle environmental challenges.

Jon Phillips
Chief Executive
Global Infrastructure Investor Association

Operationalising sustainability and managing greenwash

The year just gone was not a good one for ESG; with the suggestion of it being "weaponised" as Blackrock CEO Larry Fink described it, and real tensions between profit and purpose bubbling into very public debates about the distinctions between windfall profiteering, purpose-led investing and variations of greenwashing and green-hushing.

What has been encouraging, however, has been the further progression of ESG from being a box-ticking exercise that addresses a management and compliance need. It is now becoming one where thinking operationally about sustainability is addressing what Marc Rowan, CEO of Apollo, has described as the cancer of a slow acquisition and development of poor quality assets that lead to business failure.

Against the backdrop of last year's global rise in interest rates, investors have been intensifying their gaze on cost reduction and value-adding activity, creating new questions around initiatives that were designed to meet sustainability targets. Stoked further by the financial stimulus from the Inflation Reduction Act in the US, this new focus includes greater attention to project time-horizons, capex and opex planning, and what can be done to manage risk, improve resilience and minimise discount factors. All this alongside a real desire, for many, to deliver benefit for society and the planet.

A couple of recent events have illustrated the ESG tensions of project investment and energy transition: the battle over the Cobre Panama copper mine (delivering roughly 5% of the country's GDP) and the deal agreed at the end of the Dubai COP summit (outlining a US$5-7tn opportunity). Together these show that the energy transition requires significant project investment. However, managing society's concerns and maintaining a social licence-to-operate has real investment costs and implications.

Christopher Reeves is an Advisor with Field Intelligence

The need for expert collaboration

Mitigating existential threats and long-term risk is something business has been doing (with varying success) for decades. What is different now with ESG is that greater financial and reputationalcurrency is being placed on how mitigation is done, over what timeframe an asset is delivering value, and to whom.

> "What is different now with ESG is that greater financial and reputational currency is being placed on how mitigation is done, over what timeframe an asset is delivering value, and to whom."

The various capabilities that unlock complex infrastructure projects often risk being siloed among different groups of experts who are brought in at specific points in development or deal cycles. Of increasing importance is the data and insight owned by each of these silos who manage specific risks and improve aspects of performance. Asset management experts are now increasingly realising that bringing a breadth of perspective together with data and insight delivers upside. For example, how a water management technology that is linked to an environmental risk can in turn improve an insurance premium, enhance a community engagement plan, improve workforce productivity and mitigate NGO activism. All of which can hasten project development timelines and impact beneficially on the weighted average cost of capital.

Having been an investor, project developer and advisor, I have recognised when early collaboration on outcomes can significantly improve project progress. Investors relatively well understand the choices of energy systems, alternative construction materials in greenfield projects, trade-offs in types of capital and development partners who can materially change any capital cost and allocation. What investors are now focusing on is the nuance of supply chain, raw material processing, human rights, innovation in project engineering and the variation of biodiversity over a project footprint. It is these real insights from the asset (gained on a regular basis) that can feed multiple management and reporting objectives; and once the operational value drivers are understood, these new topics can equally deliver much greater project effectiveness, efficiency and value enhancement.

For many asset owners and investors, Europe's various Green Deal regulations and the trans-Atlantic discussion on 'Transition Plans' incorporating full value-chain transparency, bring a new dictionary of terms and uncertainties that are unfamiliar, and address principles rather than clear metrics.

This is where the financial, non-financial and the technical and operational teams need to collaborate to help with the alphabet soup of frameworks and regulations and unlock the next pools of value.

> “What investors are now focusing on is the nuance of supply chain, raw material processing, human rights, innovation in project engineering and the variation of biodiversity over a project footprint.”

The need for stewardship

With political claims of 'woke capitalism' on the rise, links between risk adjusted returns and 'stewardship' have had an uneasy relationship this last 12 months. What the debate has also done is show that there is no single 'correct' investment strategy, just as there is no single definition of ESG. The infrastructure market needs those investors with risk appetites to match with an investment strategy, all the way from complex greenfield or ambitious 'core plus' platforms through to stable brownfield and core yield.

The case of reinforced autoclaved aerated concrete (RAAC) hit the news in 2023, leading to the closure of many buildings around the UK. Behind the alarming safety headlines, the issue highlighted the challenge of the investment horizon, stewardship and asset life. Here the life of the construction material was significantly less than the expected asset life, but much longer than a regular investment horizon. Whether this would now be seen as an ESG issue or one of project risk management, what is becoming apparent is that whatever risk appetite you have, in integrating sustainability into your operations, you and your investors need clarity of:

- your principles
- clear accountabilities
- long-term perspective, even if investing in a short-term hold period, and
- full understanding of the asset life-cycle

Greenwashing and hushing

Today there are various ways that investors and corporates are being challenged on their claims. Is it action or omission, perception or marketing? Given the fast-evolving sets of regulations and disclosure requirements, there is a familiar discussion to be heard about how infrastructure projects (brownfield and greenfield) can be enhanced, retrofitted or adapted.

At the same time, some investors are avoiding overtly raising their heads into the gaze of perfect hindsight, meaning that some well-intentioned actions may be happening but not getting full attention or attribution.

Infrastructure tends to have both regional and national significance. In 2024, more than four billion people will go to the election polls; investors will be watching for change and society is surely going to be increasingly vocal about the sort of future they wish to see. Social media commentary and public perceptions of real asset investment activity will continue to impact investor reputations.

Realfin market analysis

As the global investment landscape continues to evolve at a rapid pace, ESG considerations have surged to the forefront of strategic planning for investment managers, arguably more so within infrastructure and energy than in any other asset class. The year has marked a pivotal moment, with ESG factors becoming integral components of investment decision-making, driven by a convergence of heightened regulatory scrutiny, investor demand for sustainable and responsible investments, and an overarching societal shift towards environmental stewardship and social responsibility.

Against this backdrop, investment managers in infrastructure and energy are finding themselves at the vanguard of a new era where traditional financial analysis is no longer sufficient. The necessity to integrate ESG considerations into every phase of investment analysis and portfolio management has become paramount. However, this integration presents complex challenges, ranging from the granularity and reliability of ESG data to the dynamic regulatory environment that governs these principles.

USD 15.07 bn

Unlisted infrastructure fundraising in first nine months of 2023

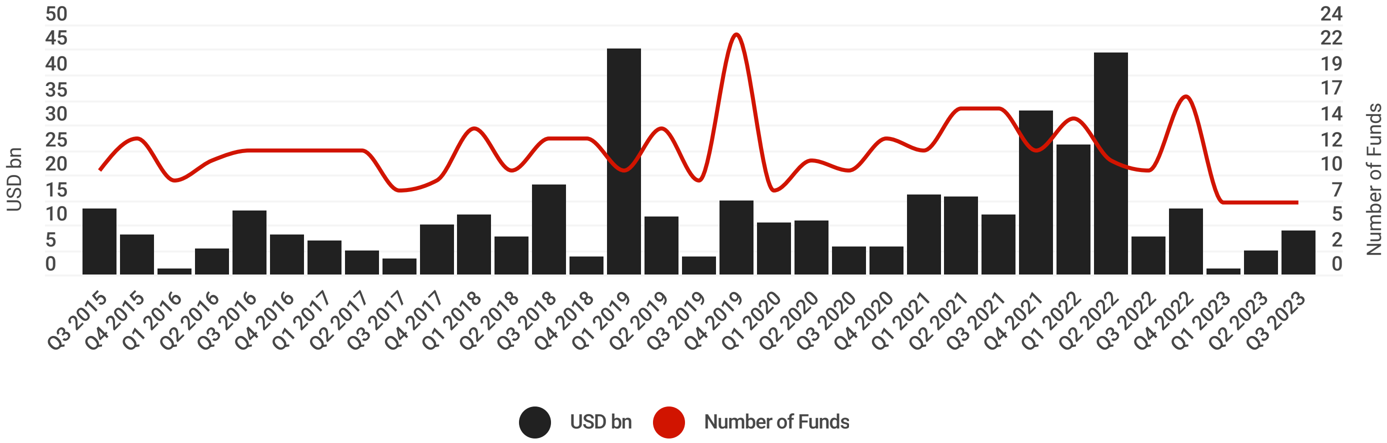
9

Number of funds reaching final close

Although capital raised by unlisted infrastructure funds with ESG characteristics declined by a sharp 80.1% to USD 15.07 billion in the first nine months of 2023, against the same period in the previous year, this is more a function of overall fundraising trends in recent quarters, according to Realfin data.

Indeed, infrastructure ESG fundraising increased by 18.5% year-on-year to USD 9.00 billion in Q3 2023, in line with an overall year-on-year increase in non-ESG infrastructure fundraising.

Global Unlisted Infrastructure ESG Fundraising



Source: *RealfinX Platform*

The burgeoning emphasis on ESG factors is reshaping the asset class, compelling managers to reassess the long-term sustainability and ethical implications of their investment choices. The repercussions of climate change, the imperative of resource conservation, and the societal impacts of energy and infrastructure projects are prompting a reevaluation of risk and return metrics. As a result, investment strategies that fail to account for ESG considerations are increasingly viewed as incomplete and potentially fraught with unseen risks.

The total amount of capital raised by global unlisted infrastructure funds with ESG characteristics now stands at USD 741.73 billion between 2000 and Q3 2023. The standout year in that period by far is 2022, when an unprecedented USD 90.98 billion was raised by infrastructure ESG vehicles in

Methodology Note

Realfin's Financial Data Analysts obtain ESG designations at fund level through various sources including direct communication with and data submissions from fund managers and extensive secondary research. At the fund level, Realfin records ESG attributes including EU SFDR Article 8 & 9, UN SDG, Impact Investing, Climate Impact and general ESG-relevance. New funds coming to market are assessed as they are launched, while funds' designations may also be removed where relevant.

precisely the peak year for the so-called ESG backlash.

The persistence of the ESG backlash

Some may argue that the sceptical narratives that particularly started to afflict ESG in 2022 were inevitable given the nature and speed of its evolution in the years running up to it. In any case, it is clear that it has persisted into 2023.

Some of that scepticism has been generated by earlier misconceptions around ESG and its implementations as a panacea or end in itself, rather than a means and a set of frameworks to improved outcomes. Related to this is a misconception that ESG compliance is a binary categorisation for a company, project or fund manager, or indeed that there is such a state as 'ESG compliance' (as opposed to a series of ESG characteristics).

The months following Russia's invasion of Ukraine in February 2022 further complicated the perception and appreciation of ESG - with some questioning its relevance and efficacy - particularly as it caused a surge in profits precisely for non-renewable energy.

Arguably, the rise of private-sector ESG methodologies, frameworks and - above all - scores in addition and in parallel to regulatory frameworks have done much to contribute to confusion, scepticism and dissatisfaction around the concept.

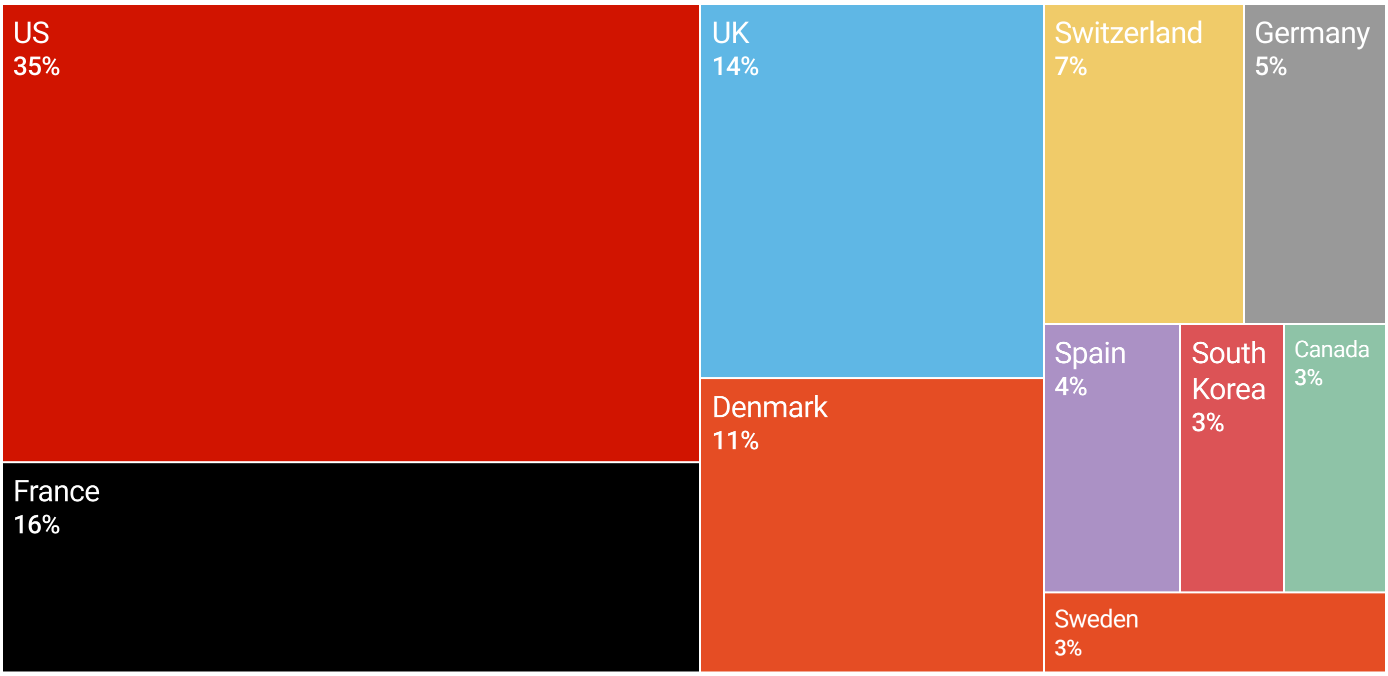
Reports emerged in August 2023 that it was indeed confusion among investors that led to rating agency S&P's indefinite suspension of ESG scores alongside its credit ratings. Though S&P clarified that upon review it had found its descriptive narrative paragraphs most effective in providing detail and transparency on ESG credit factors, various investors and managers have argued that the score's connection with credit ratings and materiality was problematic.

Yet others have argued that a simple alphanumerical score in and of itself was unhelpful, therefore posing implications and questions for other similar scoring frameworks. Despite clarification from S&P, there remained speculation that the rating agency's decision was influenced, at least in part, by objections from Utah's governor regarding state-level ESG indicators, viewing them as unwarranted politicisation.

The US is indeed the most notable jurisdiction for recent ESG controversies, with multiple states having adopted legislation prohibiting pensions from considering ESG factors in their investment plans.

Tussles over ESG are likely to worsen in the US before they get better, particularly ahead of an election year in 2024 that promises to continue to treat ESG as a political matter. With no fewer than 20 states now with some sort of anti-ESG legislation in place, greater efforts are turning to potential litigation. Indeed, cases against and investigations into the use of ESG have been initiated against investment managers and advisers alike, at both state and federal level. The now familiar and formidable argument goes that asset managers (among others) are breaching their fiduciary duties by committing to various ESG outcomes, is compelling portfolio companies to follow

Top Infrastructure ESG Fund Manager Domiciles by Number of Funds - Five Years to Q3 2023



Source: *RealfinX Platform*

suit, and that in any case pursuing what is fundamentally a political commitment is a change to the terms of products offered.

Nor is the dispute related solely to whether or not ESG considerations are a politicisation, as the argument goes, of what should otherwise be considerations of purely financial fundamentals in investment decision-making. Attorneys general and others are proactively investigating potential antitrust arguments that would render affiliations, participation and commitments in relation to frameworks such as Climate Action 100+, Net Zero Asset Managers Initiative and others unlawful.

Many may expect that the argument that membership of and commitments to ESG-related groups is in any way anti-competitive or unlawful collusion will be legally tenuous, given that these affiliations are entirely voluntary and these commitments usually largely aspirational. Even so, it appears extremely likely that significant legal action by Republican attorneys general is on the horizon ahead of election. Nonetheless, the threat of future legal liability is alone sufficient to cause impact. Notably this summer, five of the eight founding signatories of the Net-Zero Insurance Alliance (NZIA) left the group amid suggestions by 23 attorneys general that such commitments were anti-competitive.

More positively for US ESG, a number of recent regulatory and legal developments show promise in providing more rigour to ESG practices.

In September 2023, for example, the US Securities and Exchange Commission (SEC) approved amendments to the “Names Rule” to combat greenwashing by ensuring investment funds align their investments with their stated environmental focus.

The rule - previously expected in May 2022 - requires that funds "adopt a policy to invest at least 80 percent of their assets in accordance with the investment focus [that] the fund's name suggests". The SEC also continued ESG-related enforcement when a settled administrative proceeding resulted in a USD 19 million penalty for an investment advisor's failures in integrating ESG factors into research and investment recommendations for certain ESG integrated mutual funds.

In the same month, a Department of Labor rule enabling investment managers to factor ESG considerations, including climate change, into investment decisions, was upheld by a Texas court against a legal challenge. Some 26 Republican state attorneys general had sought to challenge the rule - brought in by President Biden's administration - as a violation of the Administrative Procedures Act.

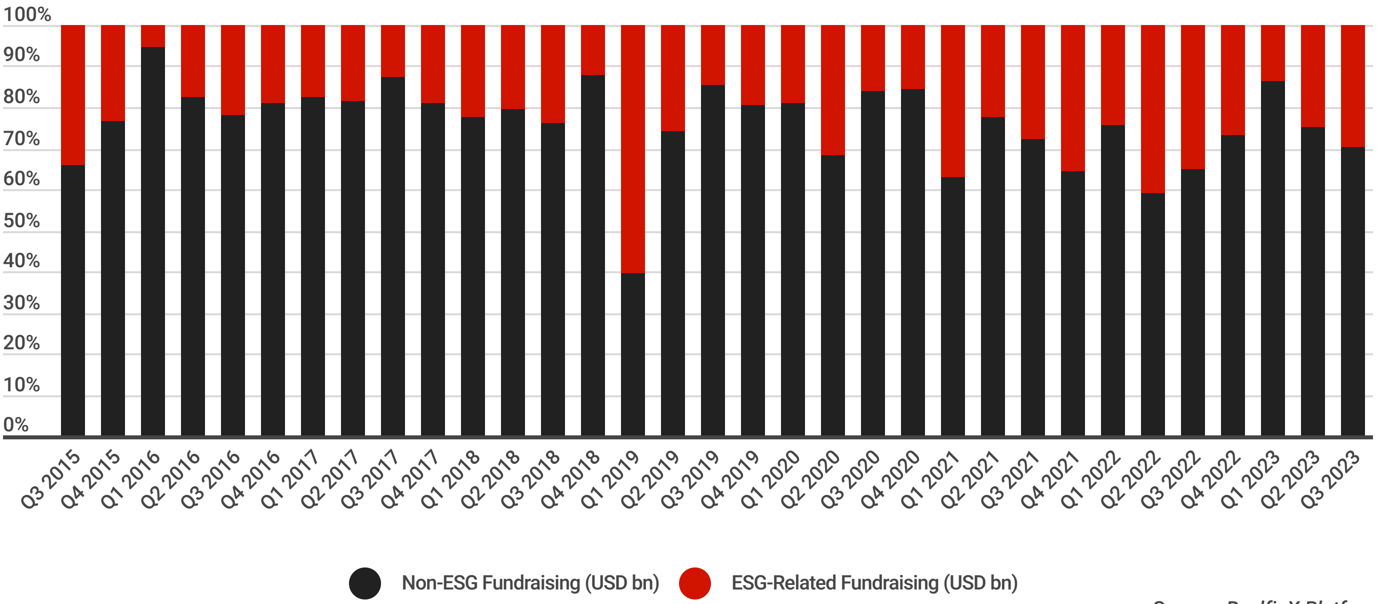
Repo ting demands amp up in Eu ope

Reluctance and resistance are far from unheard of in Europe, with what many have argued as cooling of political commitments to energy transition and renewable energy development notably in the UK, Italy and Germany.

However, within Europe, key recent themes are less around ESG backlash and more concentrated on the arrival of Principal Adverse Impact (PAI) assessments and the demands of both regulatory and bespoke reporting.

PAIs are a key component of SFDR, aimed at increasing transparency and integrating sustainability risks within the financial sector. Infrastructure fund managers must report on a set of mandatory PAI indicators related to environmental and

Global Unlisted Infrastructure Fundraising: ESG vs Non-ESG



Source: *RealfinX Platform*

social topics. The collection and reporting of PAI data is challenging due to the lack of investee-reported data, especially for private companies, SMEs, and those in emerging markets. Firms with more than 500 employees are required to disclose PAI at both the entity and product levels and cannot opt-out. Product-specific disclosures must include 14 mandatory metrics and a choice of two from 46 voluntary indicators.

Within infrastructure investment management, the evolving landscape presents fund managers with the formidable task of satisfying both regulatory reporting requirements and the individualised demands of investors. The latter poses a particularly complex challenge: investors increasingly seek data that adheres to their own specific ESG frameworks, diverging from the standardization that regulatory templates like SFDR provide.

This demand for 'bespoke' data necessitates a robust and nuanced approach to data collection, where the standardization of ESG metrics is often not yet established, particularly in private markets or nascent industries. Such tailored reporting requires substantial investment in data acquisition and analysis, demanding additional resources in terms of technology, expertise, and time.

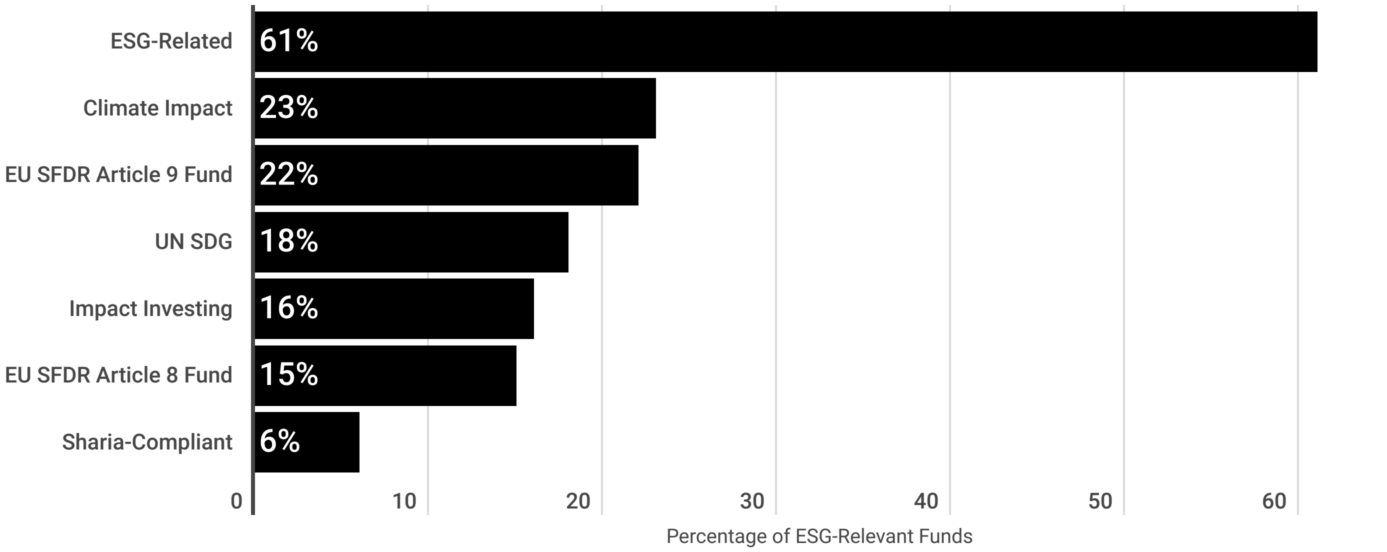
The scalability of these efforts is another concern. While standardized reporting allows for efficiency and cost-effectiveness through uniform processes, customized reporting is inherently less scalable, leading to increased operational complexity and associated costs.

Fund managers are thus required to strike a delicate balance, ensuring rigorous adherence to a growing array of investor-specific ESG reporting demands while maintaining operational efficiency and compliance with universal regulatory standards. This intricate balance is critical in preserving investor trust and meeting the broader objectives of transparency and accountability in ESG investing.

By mandating the disclosure of PAI, SFDR compels fund managers to scrutinize and report on the sustainability footprint of their investments, fostering a culture where ESG considerations are not merely ancillary but integral to investment strategies.

This regulatory push has propelled infrastructure funds towards greater ESG integration, aligning long-term asset management with sustainable development goals. Fund managers are now more adept at identifying and managing ESG risks, enhancing the resilience and appeal of infrastructure assets. Moreover, SFDR's influence extends to the market at large, setting a benchmark that encourages uniformity in ESG reporting, thus facilitating informed decisions by investors.

Unlisted Infrastructure Fund ESG Designations - End-Q3 2023



Source: *RealfinX Platform*

The regulation also indirectly spurs innovation, as the need to meet SFDR requirements drives the development of sophisticated tools for ESG data analysis and reporting. This innovation translates into a competitive advantage for those who embrace it, positioning them as leaders in a market increasingly guided by sustainable investment principles.

Furthermore, SFDR has catalyzed a dialogue between investors and fund managers on what constitutes meaningful ESG action, fostering a collaborative approach to sustainable investing. This enhanced engagement is shaping a market ecosystem where financial performance is evaluated in tandem with social and environmental impact, forging a path towards a more sustainable and equitable future.

In essence, SFDR has been a catalyst for change, not only refining the lens through which fund managers view investments but also elevating the standards of the market as a whole. Its impact is significant, crafting a new narrative where success is measured not just by financial returns but also by the positive imprint left on society and the environment.

That is not to say that SFDR is not placing significant burden on managers in its goal of harmonising reporting. Managers are also sharply aware that more revisions are yet to come in 2024 upon conclusion of the current consultation taking place; and that these may or may not be conducive to greater scalability, standardisation and reporting efficiency. Some investment managers are instead wary that the market may see abrupt changes in direction and even a fresh approach to product labeling.

The rise of natural capital

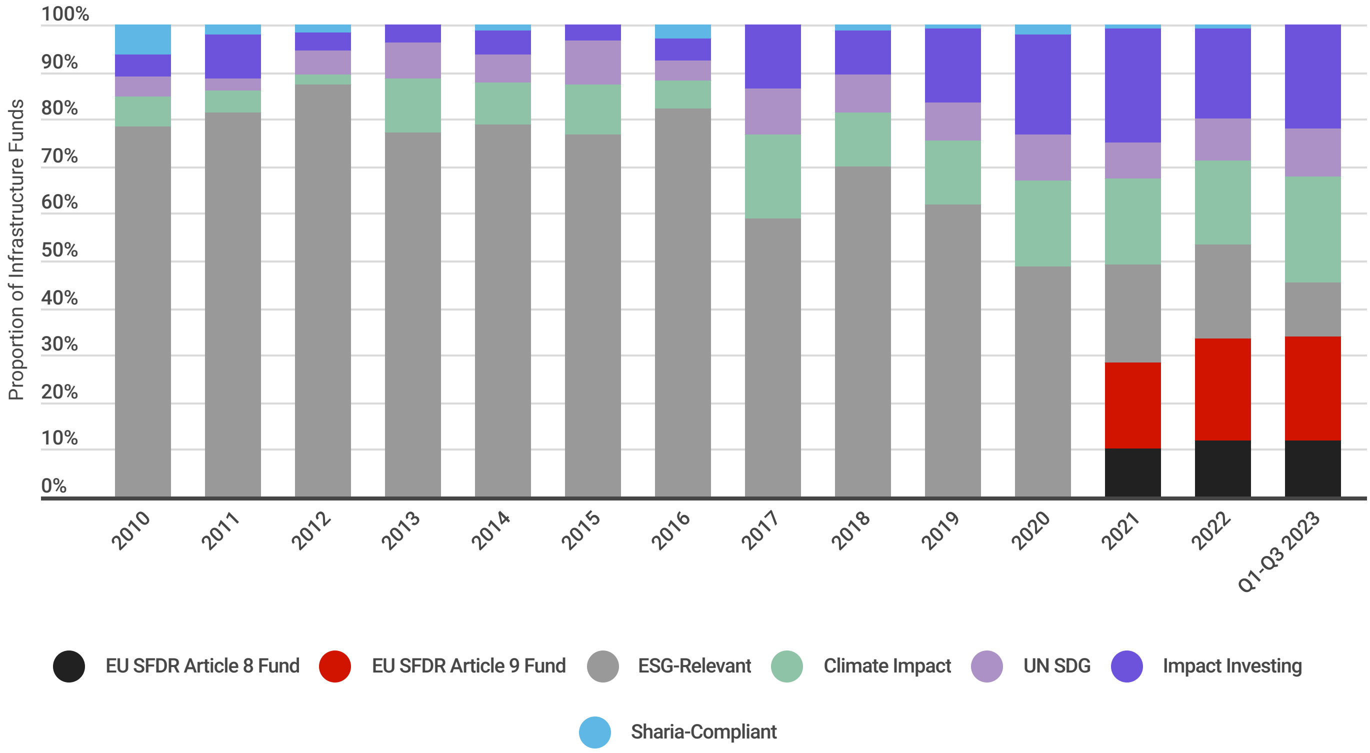
Elsewhere, the release of the Taskforce on Nature-related Financial Disclosures (TNFD) framework in September 2023 marked a critical point in the integration of biodiversity considerations into financial decision-making. This framework, which resonates with the objectives of the Kunming-Montreal Global Biodiversity Framework (GBF), sets forth guidelines for companies and financial institutions to assess and manage nature-related risks and opportunities. Its alignment with existing and emerging International Financial Reporting Standards (IFRS) and the Global Reporting Initiative (GRI) standards facilitates a harmonized approach to sustainability disclosures across different jurisdictions.

The TNFD framework is a voluntary yet pivotal scheme designed to bring nature risk to the forefront of business and financial capital considerations, equating it with financial, operational, and climate risks. It underscores the significant role that natural inputs play in present and future cash flows and highlights how accelerating nature loss is increasingly posing risks to businesses and capital providers.

Following a two-year consultative process, which included pilot testing by over 200 entities, the TNFD's final recommendations provide a comprehensive set of 14 disclosures complemented by additional implementation guidance. The initiative's development drew on broad global engagement, with input from over 1,200 institutions and feedback from more than 3,000 market participants; a consultative approach that has been critical for SFDR.

For institutional investors and investment managers, especially those active in infrastructure, the TNFD framework represents a shift towards recognizing and accounting for nature-related dependencies and their impact on long-term financial stability. The framework's guidelines allow these entities to make informed decisions that contribute to nature-positive financial flows. This is critical as nature-related risks, such as the loss of biodiversity and ecosystem services, can have significant financial implications for infrastructure investments, which are often dependent on natural capital.

Global Unlisted Infrastructure ESG Fund Designations



Source: *RealfinX Platform*

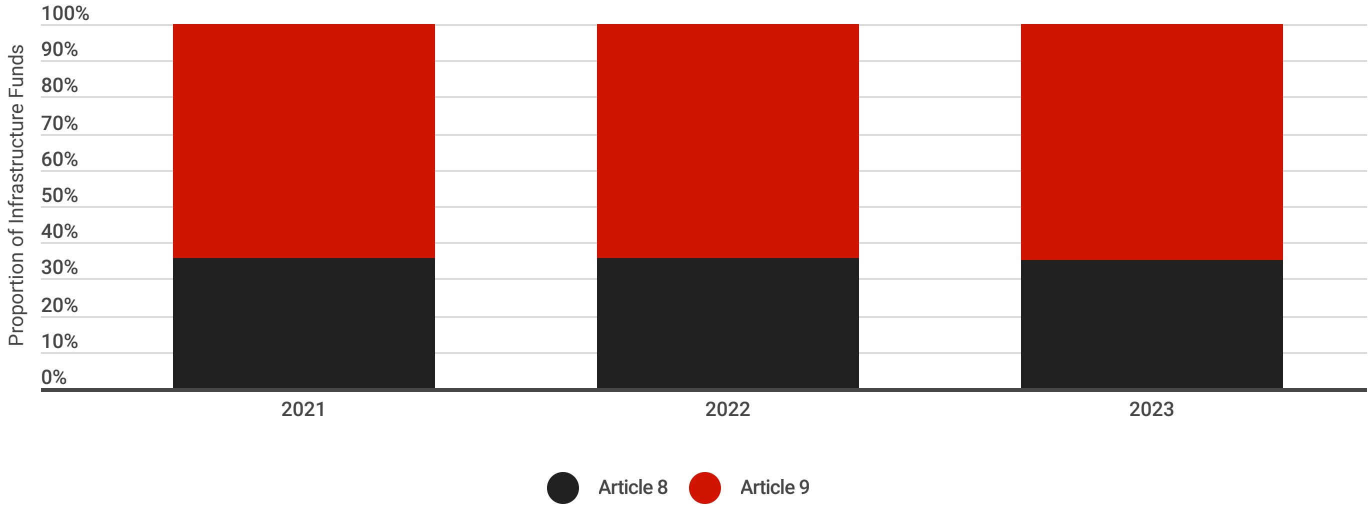
The TNFD recommendations build upon the foundation established by the Taskforce on Climate-related Financial Disclosures (TCFD). The recommendations are designed to align with the goal of Target 15 of the Global Biodiversity Framework, which calls for the assessment and disclosure of nature-related risks, impacts, and dependencies. The intent is to embed these considerations into corporate reporting, mirroring the approach taken for climate-related issues.

The implications for institutional investors are various. Firstly, they will need to develop mechanisms to incorporate nature-related risks into their investment analysis and decision-making processes. Secondly, they must engage with investee companies on nature-related disclosures, encouraging them to adopt the TNFD framework. Thirdly, they should be prepared to report on how nature-related risks and opportunities are factored into their investment portfolios, potentially influencing capital allocation decisions towards more sustainable and nature-positive outcomes.

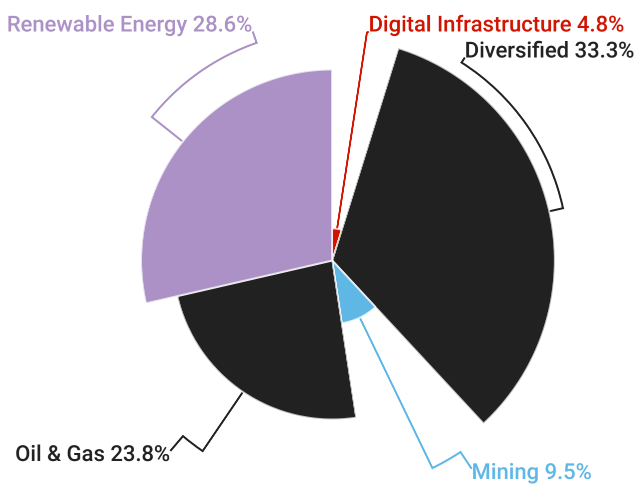
Moreover, the TNFD framework is expected to influence the behavior of institutional investors by encouraging them to consider the long-term viability of their investments in light of ecological constraints. As businesses increasingly recognize nature as a critical and finite resource, the financial sector is poised to play a vital role in fostering a transition to a more sustainable economy that respects planetary boundaries.

TNFD therefore represents a new era in financial disclosures, where biodiversity and nature-related financial risks are granted the same level of scrutiny as traditional financial and operational risks. Institutional investors and investment managers are now equipped with a structured and standardized method to integrate nature-related considerations into their investment strategies, ultimately aiming to shift capital towards more resilient and nature-conscious infrastructure projects.

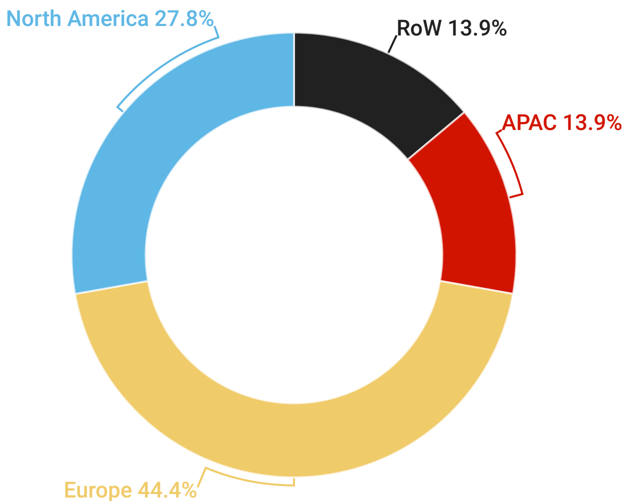
Global Unlisted Infrastructure Funds with EU SFDR Article 8 & 9 Designations



Infrastructure ESG Funds by Target Sector - Q1-Q3 2023 (Number of Funds)



Infrastructure ESG Funds by Target Geography - Q1-Q3 2023 (Number of Funds)



Source: *RealfinX Platform*

Realfin ESG Rankings

Selection of Unlisted Infrastructure ESG Final Closes - Q1-Q3 2023

	Fund	Manager	ESG Characteristics	Geographic Targets	Final Size (USD m)
	Q-Energy V	Qualitas Energy	EU SFDR Article 9; UN SDG; Impact Investing	Europe	2515
	Dalmore Capital Fund IV	Dalmore Capital	EU SFDR Article 8	Europe	1525
	Just Climate Fund I	Just Climate	Climate Impact	Europe	1500
	Cube Infrastructure Fund III	Cube Infrastructure Managers	EU SFDR Article 8	Europe	1455
	Copenhagen Infrastructure Green Credit Fund I	Copenhagen Infrastructure Partners	EU SFDR Article 9; UN SDG; Climate Impact	Europe	1260
	Copenhagen Infrastructure Advanced Bioenergy Fund I	Copenhagen Infrastructure Partners	EU SFDR Article 9; UN SDG; Climate Impact	Europe	790
	Quinbrook Renewables Impact Fund	Quinbrook Infrastructure Partners	Impact Investing	Europe	760
	Pearl Energy Investments III	Pearl Energy Investments	ESG-Related	North America	705
	SWEN Impact Fund for Transition II	SWEN Capital Partners	EU SFDR Article 9; Impact Investing	Europe	620
	Gresham House British Sustainable Infrastructure Fund II	Gresham House	UN SDG; Climate Impact	Europe	550

Source: *RealfinX Platform*

Top 20 Global Infrastructure ESG Fund Managers, Five Years to Q3 2023

Rank	Domicile	Fund Manager	Capital Raised (USD m)
1		EQT	28,300
2		Blackstone	16,480
3		I Squared Capital	15,310
4		Copenhagen Infrastructure Partners	15,210
5		Brookfield Asset Management	15,000
6		Partners Group	8,500
7		BlackRock	5,475
8		InfraVia Capital Partners	5,459
9		NGP	5,156
10		Actis	4,700
11		EIG Global Energy Partners	4,669
12		AIP Management	4,545
13		KKR	4,339
14		Macquarie	4,200
15		ArcLight Capital Partners	3,375
16		Energy Capital Partners	3,320
17		Mirova	3,198
18		Vauban Infrastructure Partners	2,964
19		Stonepeak	2,750
20		Kayne Anderson Capital Advisors	2,700

Source: *RealfinX Platform*

The world needs to align ESG standards

Vlad Benn is the Policy & Research Manager at Global Infrastructure Investor Association

Infrastructure stands as the cornerstone in preparing our world for the challenges of the 21st century. As we face up to climate change, navigate seismic shifts in energy production and consumption, urbanisation, transportation and digitalisation - and as society expects ever more, the integration of ESG considerations into investment decisions becomes pivotal to ensure that modern infrastructure is not only sustainable but also future proof.

Infrastructure investors remain dedicated to addressing these challenges as they actively champion investment initiatives and mobilise substantial capital towards these goals. As this report highlights, ESG fundraising has increased 18.5% year-on-year to $9 billion in Q3 2023. This commitment is further underscored by GIIA research which shows the majority of investors plan to deploy between $1-10 billion over the next five years to support net zero objectives in the US and Europe.

“A global alignment of ESG standards - in the style of International Financial Reporting Standards - would enable investors to shift from mere compliance to communication strategies that genuinely engage communities and enable change.”

However, the evolution of ESG standards has seen diverse global approaches. While Europe has led in integrating these principles into investment processes, there has been notable resistance in the US. Anti-ESG legislation passed in some 20 states illustrates a complex political landscape, in which recent polling also highlights the disparity between republican politicians and their voter base who overwhelmingly prefer less intervention in policy making and legislation.

While the US market tackles this challenge, our Q4 2023 pulse survey of GIIA members shows an uptick in large scale, ESG related investment in mainland Europe. This increase in investment can be attributed to clearer regulations and increased cooperation among EU states, boosting confidence in integrating ESG into investment decisions.

However, we wait to see how the investor community will react to proposals that aim to redevelop the EU sustainability regulation away from article 8 and 9, and towards the product categorisation model employed by the UK's Financial Conduct Authority.

The UK has not been immune to ESG challenges. A recent by-election outcome revolved around plans to expand London's ultra low emissions zone, highlighting the vulnerability of climate change measures to political debate and to the willingness of citizens to accept higher charges.

With some in society resisting the costs associated with transition to lower carbon lifestyles, ESG practitioners must bring citizens and politicians on the sustainability journey with them. They need to better communicate the social and environmental benefits of decarbonisation at pace and scale, and explain that delays will only mean even greater costs in future.

But keeping resources focused on communicating the benefits is challenging. That's because ESG practitioners must meet all the regulatory requirements while aiming to deliver long-term, impactful change. Investors are faced with a plethora of other priorities: aligning different national regulations, producing high-quality data in an evolving field, and achieving checkbox compliance, before they can fully integrate ESG principles into their portfolios.

The complexity of divergent regulations and compliance duties mean that too often, the primary focus is on avoiding regulatory penalties and greenwash accusations. A global alignment of ESG standards - in the style of International Financial Reporting Standards - would enable investors to shift from mere compliance to communication strategies that genuinely engage communities and enable change.

Addressing these challenges will not be easy; achieving unified standards requires global cooperation. Though progress has been made with IFRS's new sustainability standards and recent EU proposals seeking alignment with the UK's sustainability offer, the road ahead is long.

Our members point out that it has taken decades to find alignment in accountancy standards and reporting highlighting the need to be more realistic about the timescale required to achieve this. Continuing along the path of regulatory alignment promises a future where investors can consistently offer enduring value to their trustees and the communities they serve.

Realfin outlook

As we begin 2024, there are several key developments in infrastructure ESG that asset managers, fund managers, and investors should be aware of. The ESG landscape is rapidly evolving, driven by regulatory changes, increasing investor demand, and the growing recognition of the financial materiality of ESG issues.

01. Greater clarity on the future of EU Sustainable Finance Disclosure Regulation (SFDR)
The European Commission is expected to publish its response to the latest SFDR consultation that itself started in September 2023 in Q2 2024. The much-anticipated outcome will clarify the position on labeling and categorisation. We will also see further refinement of EU Taxonomy.

02. The efficacy and popularity of the UK's Sustainability Disclosure Requirements (SDR) will be tested
Meanwhile, the new UK FCA SDR rules take effect from May 2024, followed by labeling rules coming into effect in July 2024. Subsequently, from December 2024 under SDR, managers will be required to show that a minimum of 70% of portfolio assets align with one of the four fund labels chosen. While many are already celebrating the approach to labeling and categorisation in SDR, we will see in 2024 how seamlessly this integrates into manager workflows relative to experience with SFDR.

03. Ongoing international broadening of the ESG regulatory environment
While much attention focuses on EU and UK rulemaking, advancements in the US and Asia Pacific will become increasingly important and will demand attention from market participants.

There may also be progress towards the development and adoption of global ESG reporting standards. Initiatives such as the International Sustainability Standards Board (ISSB) are expected to further their work in creating a global baseline of sustainability-related disclosure standards.

04. Greater awareness and influence of natural capital
Enhanced focus on climate risk assessments in investment decision-making processes, influenced by frameworks like the Task Force on Climate-related Financial Disclosures (TCFD). Biodiversity loss and natural capital will become more prominent issues, influencing investment strategies and risk assessments.

05. Integration of ESG into investment analysis
Asset managers will increasingly integrate ESG factors into their core investment analysis, moving beyond mere compliance or thematic investing. The use of technology and data analytics in ESG investing will evolve, with more sophisticated tools for infrastructure ESG data collection, analysis, and integration.

> "The ESG landscape in 2024 will likely be characterized by increased regulation, a deeper integration of ESG factors into investment decision-making, and growing investor demand for sustainable investment options. Asset managers, fund managers, and investors will need to stay informed and adaptable to navigate this evolving landscape effectively. This involves not only compliance with emerging regulations but also leveraging ESG insights for strategic investment decisions, risk management, and capitalizing on new opportunities in the sustainable finance market."

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