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RESEARCH

RUSSIA'S INVASION OF UKRAINE REFRAMES ESG

**How can differentiated ESG
data help asset managers
navigate the crisis?**





By 2025,
ESG assets
are expected to reach

\$50 TRILLION

Source: Bloomberg



THE ESG INDUSTRY

is growing exponentially year by year. ESG assets exceeded the \$35 trillion mark in 2020 and are expected to reach \$50 trillion by 2025. However, asset managers were already dealing with constant regulatory pressure and greenwashing concerns even before Russia invaded Ukraine and completely changed the economic and investment climate globally. Bloomberg estimates that ESG-aligned fund managers held at least \$8.3 billion in Russian assets before the war, and now stakeholders are rethinking their ESG investment strategies as Russia's invasion of Ukraine poses more questions on effective risk mitigation and true ESG alignment in the industry.

As the great Russia divestment continues, asset managers cannot rely on ESG ratings alone to guide their response, and niche ESG data providers can become a core tool to navigate a challenging 2022. Substantive Research has developed an industry-first TripAdvisor-like screener for ESG data providers that covers data, research, ratings, and impact valuation as well as comparing software solution providers who help aggregate multi-level data and sustainability reporting. In our research, 39% of the ESG space is made up of new entrants - start-ups who have developed their own unique datasets and methodologies.

ESG PROVIDERS FIRM TYPE



39%

START UP (1-5 Y)

23%

MID LEVEL (6-10 Y)

38%

ESTABLISHED (10+ Y)

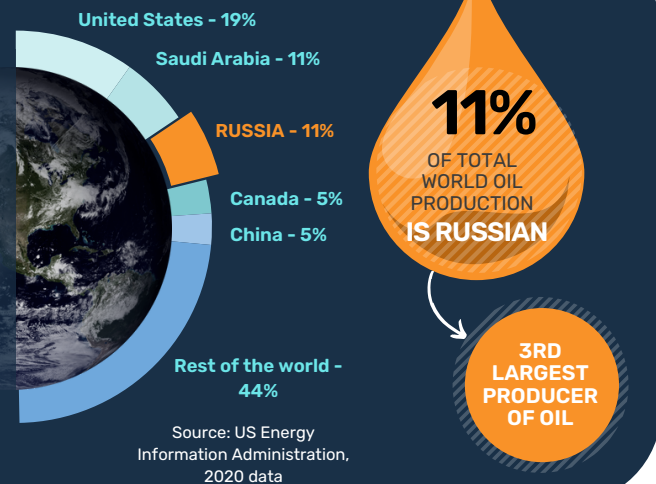
Majority of the
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entrants

Below, we highlight three providers that may help right now.

TOUGH CHOICES AHEAD

In the past few years, ESG investors have focussed on climate change and as a result firms divested their portfolios from coal and fossil fuels. This led to slower R&D investments for the sector. Now, as energy becomes a key priority for nations and the West quickly tries to remove its commercial ties with Russia (currently producing 11% of the total world oil production), difficult choices will have to be made about the level of commitment to sustainability.

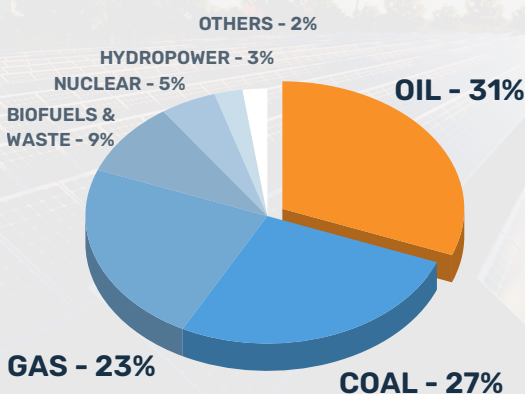
Defense and war stocks have also been typically avoided by ESG-focussed investors but the war has now prompted investors to think that this sector could play an important role in 'Social'. The EU has released its final report on Social Taxonomy last February, and notably absent is the "socially harmful" label of the defense sector. For funds that aren't specifically categorised as ESG, more research and data will be required as fund managers explain their policy and investments in defense to their client bases.



In addition, Russia and Ukraine export 12% of all the food calories traded in the world. Russia is also among the world's largest traders of commodities. The current European conflict will undoubtedly affect food security and the overall cost of living for individuals - Social factors that are supposed to be safeguarded by ESG investments.

A MORE OPTIMISTIC OUTLOOK

As the world navigates through overhauling Russian fossil fuel supply systems, many believe that these challenges can jumpstart the **green energy revolution**.



WORLD ENERGY SUPPLY BY SOURCE

Source: International Energy Agency, 2019 data

While demand for coal imports may increase to satisfy short term demand, countries and businesses will be motivated in the long run to invest in the more cost effective, green solution available as import prices for oil, gas and coal continue to increase. There is surely room for improvement with 81% of the world's overall energy supply still sourced from fossil fuels. Now that energy efficiency is viewed as "national security", organisations looking to lower energy dependence in Russian gas and other fossil fuel sources will spur a green spending boom to speed up decarbonisation and the transition to renewable energy.

And in the long term it is difficult to deny that the 'S' in ESG is once again in the forefront of everyone's minds. ESG investors will now look at autocratic regimes, democracy, human rights and political stands for fund investments. These questions will be monumental for those who are investing in China and other autocratic regimes. Focusing on 'S' may be the key to unlocking missing parts of ESG investing moving forward.

ASSESSING RISKS THROUGH ESG DATA

There's no denying that the Russia-Ukraine conflict has materially affected the financial industry and that this war will be a turning point in sustainable and ethical investing. All three factors of ESG are under scrutiny, from the green energy transition, to corporate governance, to human rights and national defense.

At Substantive, we have assessed and categorised ESG data providers to allow clients to filter through a number of key criteria including theme, asset class, framework/standard, geography etc. whilst also updating the screener with latest developments and launches.

In the weeks that followed Russia's invasion of Ukraine, several data providers have been quick to leverage their AI technologies to offer fund managers datasets to monitor direct and indirect exposures to Russian oligarchs, Russian entities and other risks associated with the war. Additionally, more data vendors are providing access to their sources and raw data so clients need not rely on rating agencies alone.



**PLEASE CONTACT OUR TEAM
FOR A DEMO**

If you're interested in our ESG dashboard and finding more ESG providers



Below, we highlight three providers that keep watch on the Russia-Ukraine conflict within their datasets. These are highlighted as useful examples, but it is clear that a number of differentiated ESG providers are adding real value at a time when clients need all the insight they can get.

NEW YORK-BASED SIGMA RATINGS

is the world's first non-credit rating agency focusing on financial crime and governance risk. They provide an AI-driven risk intelligence and monitoring platform to detect events in screened datasets like sanctions and regulatory filings as well as bills of lading and corporate registries.

The risk-related events that Sigma detect are based on recommendations made by international governing bodies such as the Financial Action Task Force (FATF) and the Wolfsberg Group, as well as guidance from regulators at the national level.

Over the years, Sigma has organised over 100 billion data points on over 900 million companies and people globally. It uses a point-in-time risk analysis and ongoing monitoring technology to actively screen global data sources in its Sigma Terminal.

Sigma Ratings has partnered up with FiveBy - a specialised risk intelligence consultancy that determines risks related to fraud, abuse or compliance risks that affect brand reputation, company customers and its profits. This provides clients with an easy integration between Sigma's datasets and FiveBy's in-depth analysis and assessments.

Why is it interesting?

Fitch Ratings has chosen Sigma Ratings for their risk monitoring platform in its analysis of banks. Global organisations use them to detect financial crime and mis-governance for decision making.

Sigma Ratings has offered its support to financial institutions in assessing their exposure in Russia by releasing Russian-focussed datasets last 3rd March 2022 for a free trial period. These datasets determine the increased risk of over 100,000 companies and people connected to the Oligarchs in the Russian Federation and Russian Parastatal Entities identified by the US Treasury Department, Putin's connections listed in the media as tracked by NLP proprietary methodologies and companies identified as high-risk based on location.

FRANKFURT-BASED RATING-AGENTUR EXPERT RA GMBH (RAEX-EUROPE)

is an independent credit rating agency registered by the European Securities and Markets Authority with an External Credit Assessment Institution (ECAI) status and rating mapping equivalent to leading EU CRAs. The firm provides credit ratings and ESG analysis in Russia, CIS and CEE markets.

RAEX-Europe assigns credit ratings in accordance with regulatory regimes and codes of ethics. It also provides sustainable finance services.

They have partnered with China Chengxin International Credit Rating Co. Ltd (CCXI), the Islamic International Rating Agency (IIRA) and the VIS group to widen their scope and coverage.

RAEX-Europe provides Solicited and Unsolicited ESG Ratings to measure ESG exposure for credit providers, trading partners, investors and stakeholders. They also provide second opinions on green, social and sustainable bonds which includes analysis on performance, alignment with green loan principles and the SDGs.

Why is it interesting?

Well suited to CIS and CEE investors given their specialism in these regions, both public and private space.

RAEX-Europe recently released a research report on Russia and downgraded the sovereign government credit ratings of Russia from BBB- to CC in national currency as well as creditworthiness of the government as a result of wide sanctions imposed by several countries after the invasion of Ukraine. They keep on top of this situation in Russia and are consistently updating their ratings on strong players in the Russian market such as JSC Rusnarbank (which was downgraded to BB-).

SPAIN-BASED RAVENPACK'S ESG

offering revolves around sentiment analytics that extract value from unstructured text data from 51,000+ premium news, web and social media content. With the launch of RavenPack Edge last September, clients can now collect, read and analyse billions of documents within their AI platform. The company's clients include hedge funds, banks, and asset managers.

RavenPack leverages its proprietary NLP technology powered by heuristic and ML engines, they also offer proprietary research for alpha generation in equities, fixed income, commodities, FX and cryptocurrencies.

RavenPack tracks 12 million+ entities, 6.7 million global companies, 4.5 million individuals, 60,000 products and services, as well as earnings calls in over 13 different languages. These are categorised into 7,000+ event categories and are then assigned a sentiment score between negative one and positive one.

Delivers Data as a Service where clients can choose from a broad range of content and datasets, create a list of topics and entities that they want to monitor, and choose between a web API or a dataset builder for delivery of data.

Why is it interesting?

RavenPack is one of the pioneers of text mining in financial markets and their data science expertise is well respected. This understanding should translate well into ESG where there are many new entrants coming into this space.

They launched a free coronavirus news monitoring service to help navigate through the pandemic and its impact on global affairs during 2020, and they have now released a free news monitoring service to track the Russia-Ukraine conflict and determine the geopolitical exposure of entities and companies that are co-mentioned together with Russia and Ukraine. Proving that their datasets can be used real-time for monitoring global risks.

RESEARCH DISCOVERY

We provide a service that thematically curates the best ESG research in the market. Here is a selection of notable research pieces on the **Russia-Ukraine conflict and how it relates to ESG:**



Some Reasons to Hope, why the Russia- Ukraine conflict may be positive for energy transition
Sustainable Market Strategies



Who stands to initially win from Europe's push for energy independence?
Vanda Research



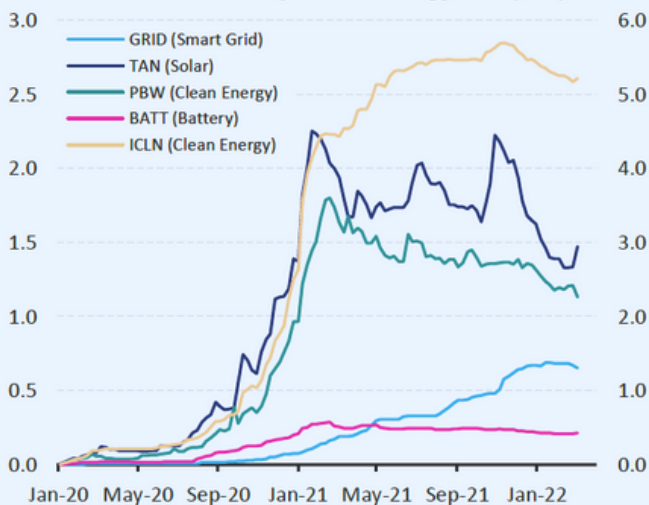
ESG markets and the Russia-Ukraine crisis
Deutsche Bank Research

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FLOW OF FUNDS

Vanda Research releases a monthly publication, Vanda Green, which focuses on the intersection between retail buying, capital flows, and policy catalysts that drive the structural decarbonisation of portfolios. Below is an excerpt from their publication.

Cumulative flows into major clean energy ETFs (\$bn)



*Cumulative flows since start of 2020
Source: Bloomberg, Vanda

IF YOU'RE INTERESTED IN READING THEIR RESEARCH, PLEASE CONTACT VANDA RESEARCH HERE.

UPDATES ON REGULATIONS

- The European Commission has included gas and nuclear in the EU guidebook for "green" investments as bridge technologies to meet EU's target of net zero emissions by 2050.
- The European Union released its Final Report on Social Taxonomy on 28 February 2022. Notably absent is the classification of the defense industry as socially harmful, vis-a-vis previous drafts of the report.
- The Science Based Targets Initiative (SBTi) has updated their fossil fuel policy and will no longer accept commitments or validated targets from fossil fuel companies.
- The Global Reporting Initiative (GRI) has launched a new disclosure standard for the coal sector.
- The Taskforce on Nature-related Financial Disclosures (TNFD) has released the first beta version of its disclosure framework.

UPDATES ON ESG PROVIDERS

- ESG Analytics has now been acquired by RepTrak.
- Arabesque's ESG Book launched on Google Cloud.

WHO ARE WE?

Substantive Research was launched in 2015 and has grown rapidly to become a trusted partner to asset managers globally where we are best known for offering an independent and impartial discovery and comparison service across the entire external investment research and market data universe.

In the past year, we have expanded our coverage into the ESG space as a response to our clients' desire for us to map the ESG data / research marketplace, carry out due diligence and help in market discovery of this rapidly evolving space. We have developed an industry-first ESG Provider dashboard that provides a searchable database of 150+ ESG research and data providers with thematic and coverage filters to match client preferences. We have also incorporated ESG research into our research discovery product to help asset managers navigate through the oversaturated market.



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