



## Snapshot Survey: Global Investor Sentiment on the Gulf Region

North American, European and Home Market Investor Perceptions of ESG Practices of Gulf Region Issuers

A major trend in investment management over the last decade is the growing importance that Environmental, Social and Governance ("ESG") factors play in portfolio selection.

This trend is apparent in the surge of investment managers and asset owners professing to incorporate ESG considerations into their investment process and the growth in assets tied to responsible investing.

### The Pearl Initiative launched a survey to identify:

The perception of investors around ESG practices of Gulf issuers

How important ESG considerations are in the investment process

What Gulf issuers can do to improve their ESG practices and attract global investment

### RESEARCH DEMOGRAPHIC



25 global institutional investors



Management of 0.5 trillion USD in equity – with 25 billion USD equity in the Gulf



Gulf Region focus

### OVERVIEW

Investors were surveyed to gauge their interest in ESG factors when investing in the Gulf Region. They reported that:

ESG was a core factor in planning how they invested across the Gulf Region

Where investors had concerns about ESG practices, they refrained from making investments altogether

Investors were concerned about a lack of transparency when investing in the Gulf Region

*"It happens fairly often that we look at an opportunity in the Gulf, but we cannot invest because of some kind of governance concern."*

– North America-based Investor

### E, S, OR G? RANKING THE PILLARS

Investors rate the ESG performance of companies as a fairly important factor in their investment decisions, and, in particular, rate governance as most important among the three segments, according to survey respondents.

The hierarchy of importance across ESG factors for investors was noted as being:



#1

Corporate Governance



#2

Social



#3

Environmental

90%

of investors surveyed selected governance as the most important pillar of ESG when it came to taking decisions surrounding investments.

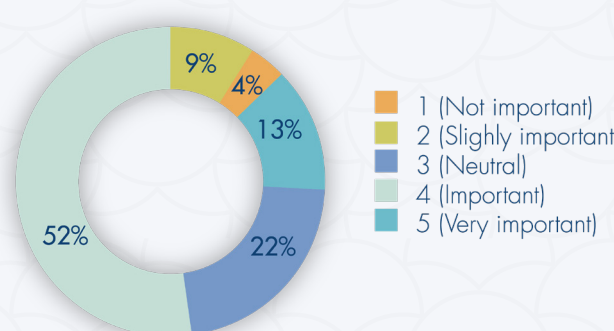
*"G is the most important of the three letters, for this region in particular. When you have good governance, with a reasonable management Board, the other two come as a consequence."*

– Europe-based Investor

### ESG CONSIDERATIONS FOR INVESTMENTS IN EMERGING MARKETS

As consideration for ESG factors grows and such considerations are given greater attention when making investments, it is no surprise that investors indicated that any investments they made in emerging markets were highly contingent on ESG factors:

#### ESG IMPORTANCE WHEN INVESTING IN EMERGING MARKETS\*



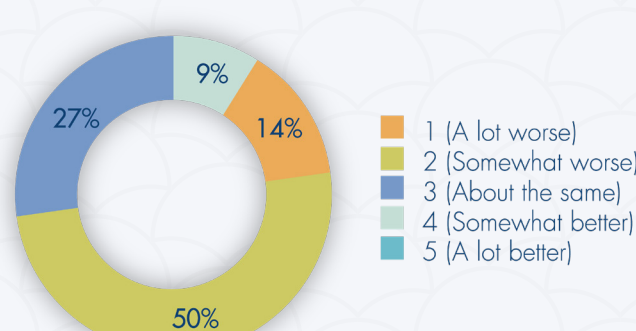
\* 1=Not Important, 5=Very important

The average rating for ESG importance in emerging market investments was 3.61 out of a total possible rating of 5.

### RATING ESG IN THE GULF REGION

When surveyed, investors rated ESG practices across the Gulf Region as below average comparatively to other emerging markets.

#### RATING ESG PRACTICES IN THE GULF REGION (RELATIVE TO OTHER EMERGING MARKETS)



The average rating for Gulf ESG practices was 2.32 out of a total possible rating of 5.

### ESG CONCERNS: BARRIERS TO GULF INVESTMENTS

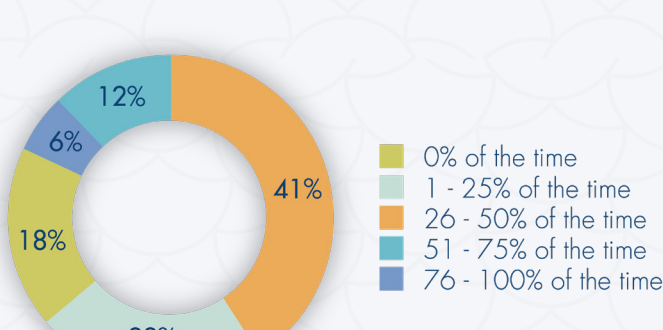
Investors surveyed indicated that ESG performance as demonstrated by Gulf-based issuers is below that of issuers in other emerging markets, and it appears that this is negatively affecting investment in the region.

41%

of investors surveyed noted that ESG concerns were a barrier for their investments between 26% and 50% of the time.

18%

of investors surveyed said that ESG concerns were a barrier for their investments between 51% and 100% of the time.



\* 0%=No impact, 50%=Sometimes a barrier, 100%=Avoid region completely

These rates appear to represent a missed opportunity for many Gulf-based issuers to acquire capital and achieve desirable valuations.

*"ESG is a 5 out of 5 in importance. It dictates whether we invest or do not invest. If the ESG score that we assign to a particular country or corporate is very low, it prevents us from investing completely, whereas if ESG is something that we think is present or we think there are going to be some changes and the valuation is attractive, then we can invest."*

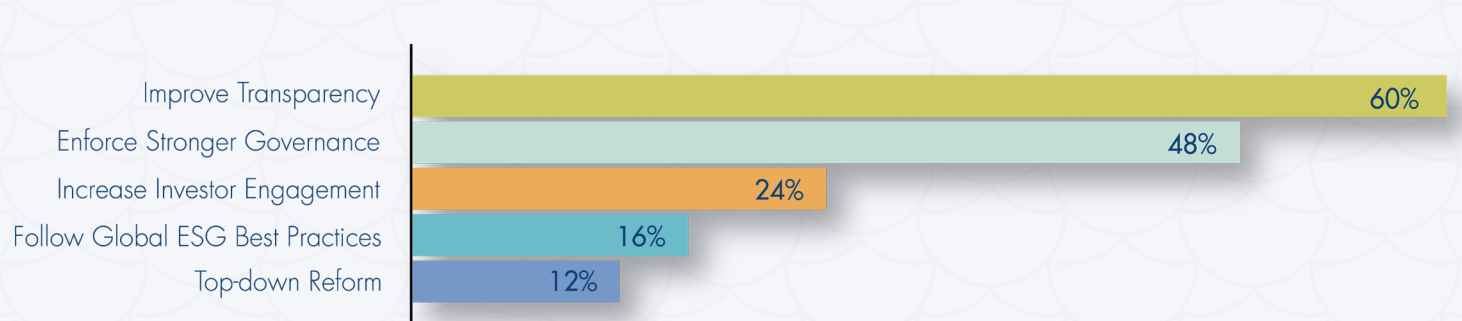
– Europe-based Investor

### IMPROVING THE ESG PERCEPTION ACROSS THE GULF REGION

As ESG underperformance seems to have resulted in underinvestment in Gulf companies according to survey respondents, improvements related to ESG performance may make the region a more attractive investment proposition.

Investors want to see certain changes – including improved transparency, stronger enforcement of governance policies, and increased investor engagement – before they invest in Gulf Region companies:

#### ESG ISSUES FOR GULF COMPANIES TO ADDRESS



Investors are also looking for changes in other factors before they invest. These include:

Increased diversity and representation in board composition

Transparency of the tender-offer process

Increased engagements with company management

*"Gulf companies need to adopt global standards. They should disclose all the conflicts and corporate governance information, such as the interests in various entities. This includes business interests and indirect interests and an explanation of how it impacts the company of which the person is an employee or on the Board of. It is important to disclose all the interests, so that nothing is hidden."*

– Gulf-based Investor

Survey conducted by IHS Markit's Research Perception Group