

INDIA EXIM BANK'S



COMMENCEMENT DAY
ANNUAL LECTURE

SUSTAINABLE INVESTING

Where it came from and where
it is going?

by

Prof. Keiko Honda

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Business School



April 15, 2026 | Mumbai

Sustainable Investing: **Where is it coming from and where it is going?**

April 15, 2026

Keiko Honda

Agenda

1. Definition of Sustainable Investing and History and Background of ESG Investing
2. Reality: How Investors Are Engaging with Sustainable/ESG Investing
3. Does ESG/Sustainable Investing Improve Returns?
4. Major Challenges in Sustainable Investing
5. Where is Sustainable Investing going?

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Proposed Definition of ESG Investing

ESG investing integrates non-financial factors such as Environmental, Social and Governance (ESG) factors that are important for stakeholders, **in investment decisions**, both to mitigate risk and unlock opportunities.

With ESG Investing, investors seek higher returns in the long-term.

Not all ESG Investing intends to solve social issues.

Sources: ESG Research Interviews By Keiko Honda

ESG Factors

		
<ul style="list-style-type: none"> • Environment – prevention • Environment – adaptation • Pollution prevention • Energy management • Water (river, ocean, lake etc.) and waste water <ul style="list-style-type: none"> – Biodiversity conservation • Waste and hazardous waste • Ecological impacts – living natural resource 	<ul style="list-style-type: none"> • Human rights • Community health, safety and security • Customer privacy • Data Security • Product quality and safety • Employee health and safety • Employee engagement, diversification and inclusion – Gender, Race, Nationality • Child labor • Indigenous peoples • Cultural heritage 	<ul style="list-style-type: none"> • Compliance • Business ethics • Competitive behavior • Corruption • Land acquisition and involuntary settlement • Appropriate tax payment • Appropriate accounting • Cyber security

Source: IFC/MIGA (World Bank Group) 2012 Performance Standard, Sustainability Accounting Standard Board (SASB) - Materiality Map

ESG Is Invented in NY in 2004

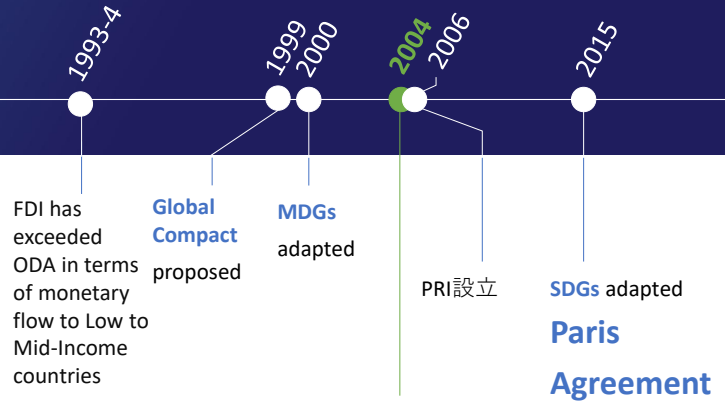
Who Cares Wins - 2004



Source: UN

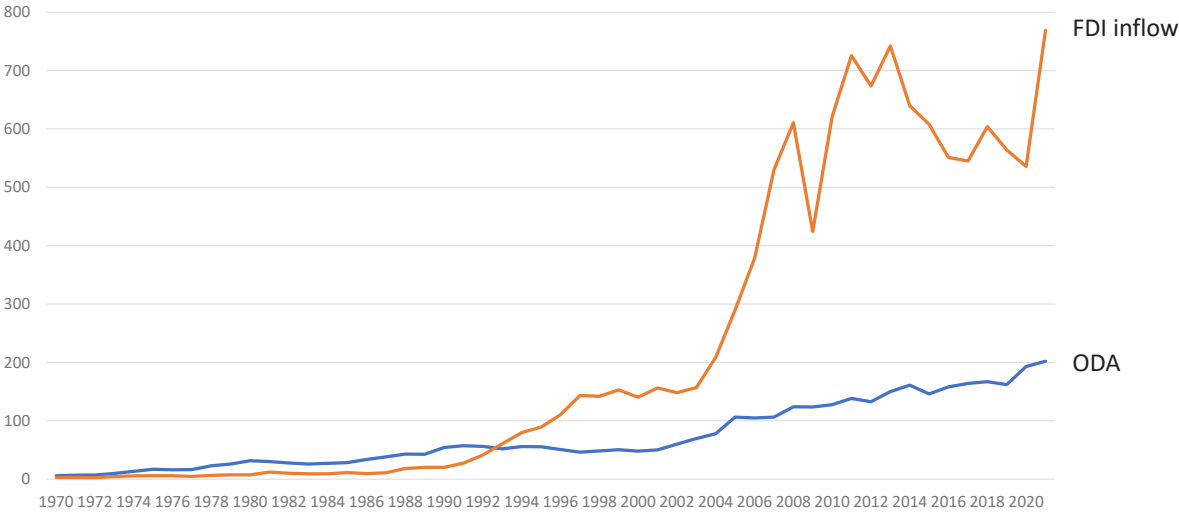


History of ESG Investing



**UN proposed
ESG Investing at
“Who Cares Wins”**

Foreign Direct Investment (FDI) and Official Development Assistance (ODA) Low- and Middle-Income Countries (USD billions)



Source: World Bank

Global Compact

A voluntary initiative based on CEO commitments to implement universal sustainability principles and to ask steps to support UN goals

Sources: UN

UN and MDGs

2000- UN General Assembly adopted **Millennium Development Goals (MDGs)** to reduce extreme poverty by 2015.



Source: UN

SDGs - Sustainable Development Goals



Sources: UN

Impact Investing Definition – 1

GIIN - 2009

Impact Investing is the use of for-profit Investment to address social and environmental problems

* The Global Impact Investing Network

Impact Investing Definition —2

—The World Bank Group/IFC 2019

Impact investing is an approach that aims to contribute to the achievement of **measured positive social and environmental Impacts (ex-ante)**. It has emerged as a significant opportunity to mobilize capital into investments that target measurable positive social, economic, or environmental impact **alongside financial returns**

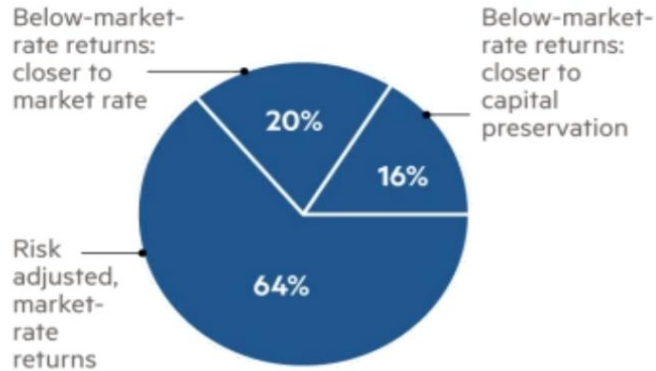
Impact Investing Definition — 3

— GIIN 2022

Impact Investing are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial returns

* The Global Impact Investing Network

Expected Financial Return for Impact Investing



229 organisations that collectively manage \$228 billion in impact investment
Source: Global Impact investing network
© FT

Source: Global Impact Investing Network Survey of 229 Impacting Investors with \$228 billion Aum, Financial Times

ESG Investing • Sustainable Investing • Responsible Investing • Impact Investing • Socially Responsible Investing • Philanthropy

	<u>Primary Objective</u>	<u>Targeted Return</u>	<u>Target in E & S</u>	<u>Invested Assets</u>
ESG Investing	Integrate ESG factors in investment decision to improve risk adjusted return	Above market return	No clear targets	\$30 Trillion +
Sustainable Investing	Unclear (Some considers SI=ESGI, but others do not)	Unclear	Unclear	NA
Impact Investing	Create measurable E&S impact while generating financial returns	Majority seeking market returns	Yes	\$ 1.6 Trillion (2024)
Responsible Investing	Unclear (PRI considers RI=ESGI, but others do not)	Unclear	Unclear	NA
Socially Responsible Investing	Reflect moral/ethical belief in investing	Unclear	Yes	NA
Philanthropy	Promote Social Welfare	No	Yes	NA

Source: IFC, GIIN, US SIF, Cambridge Institute for Sustainable Leadership, PRI, S&P Global, Webster, Global Sustainable Investment Alliance (Eursif, US SIF, Japan Sustainable Investment Forum, Responsible Investment Association Australia, RIA Canada)

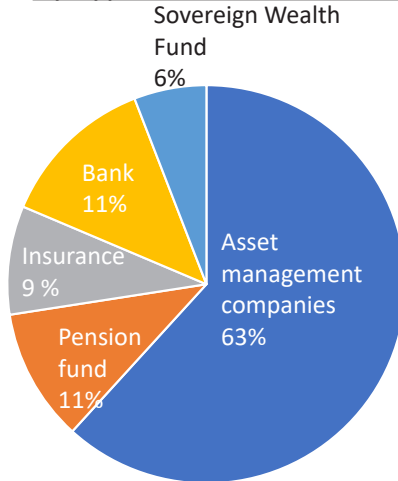
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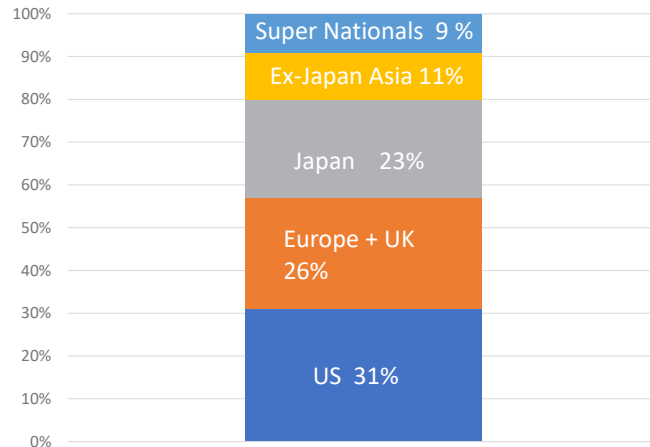
Reality – How are the investors engaging ESG Investing?

Interviewees

By Type - Numbers of Institutions



By Nationality



Sources: Interview, PRI report, Annual Reports

Definition of ESG Investing

12 Companies are still working to define. Definitions differ from institution to institution

“Environmental, Social and Governance (ESG) factors are non-financial considerations that are important for stakeholders to keep in mind when assessing a company’s performance, and can be used both to mitigate risk and unlock opportunities in an investment portfolio

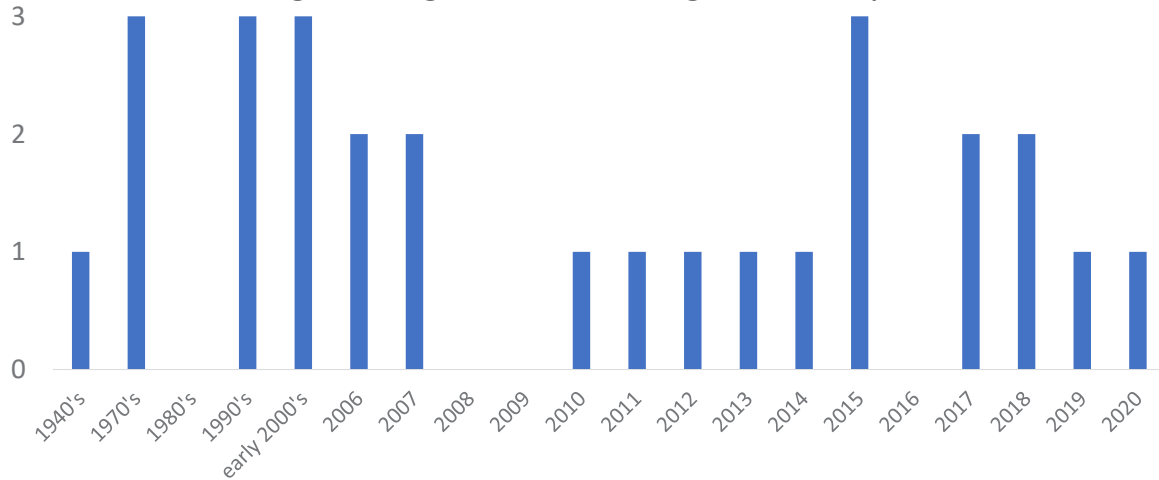
“ESG investment covers the range of investment activities which recognize the relationship between companies and the societies and environments in which they operate, and between companies and the shareholders which control them. “

“ESG factors are extra-financial factors that can influence, and be influenced by, our business activities. If not addressed appropriately they can escalate into substantial risks. Alternatively, ESG factors can also present opportunities to induce positive change, such as increased requirements for renewable energy investments or offering solutions for emerging markets.

Sources: ESG Research Interviews

Start of ESG Investing

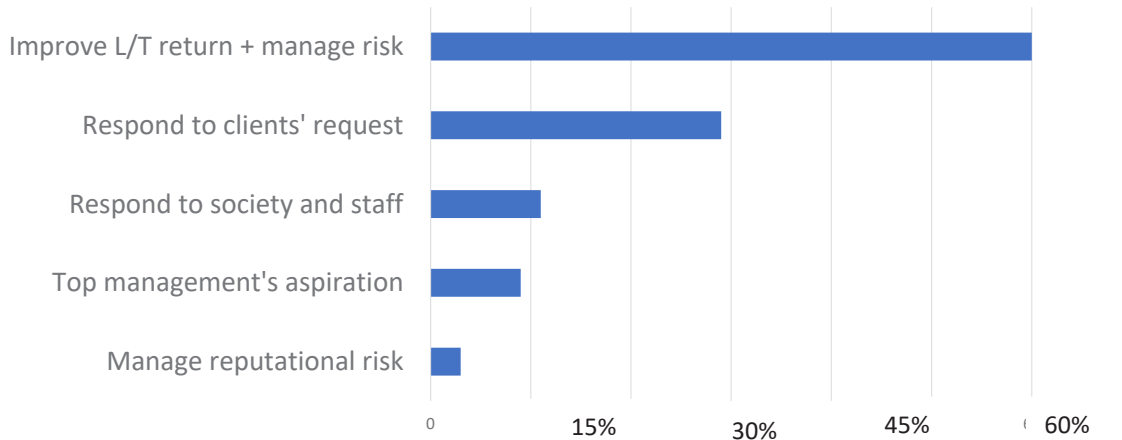
Some started a long time ago and some began recently



Sources: ESG Research Interviews

60% of investors engage ESG investing to manage risk and improve L/T returns

Reasons to Do ESG Investing (multiple answers allowed)



Sources: ESG Research Interviews

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Does Sustainable/ESG Investing Improve Returns?

Recall our definition of ESG investing

ESG investing integrates non-financial factors such as Environmental, Social and Governance (ESG) factors that are important for stakeholders, **in investment decisions**, both to mitigate risk and unlock opportunities.
With ESG Investing, **investors seek higher returns in the long-term.**

Why is it important to emphasize “higher returns”?

To satisfy a fiduciary duty of public pension funds

How to achieve “Higher returns” (than the market return)

Long-term investing

Not exclusion, but integration

Source of possible higher returns – conceptual framework

- > By exclusion, returns will be lower.
- > ESG represents a non-financial risk factors that would indicate significant risk with a low probability (a tail risk) in the long-run – Risk-return will be different in the long-term
- > The change in the long-term risk-return (compared to the short-term risk-return, calculated from a regular financial statements) is correlated with ESG efforts (represented by say ESG score) of companies

Caution

- Short-term vs. Long-term makes a difference in returns
- “Exclusion” will lower returns in the short-term
- The existence of sin investors further upsets the result; investing in “sin stocks” may results in a higher returns, because those equities abandoned by ESG investing can be bought at lower prices
- What kind of ESG efforts of a firm are evaluated matters – ESG score, a single materiality, or else?
- ESG integration can be understood as a way to find out better performance in the long-term

Sustainable/ESG Investing Returns at GPIF

Figure 1. Returns of Nine ESG Indexes Selected by GPIF

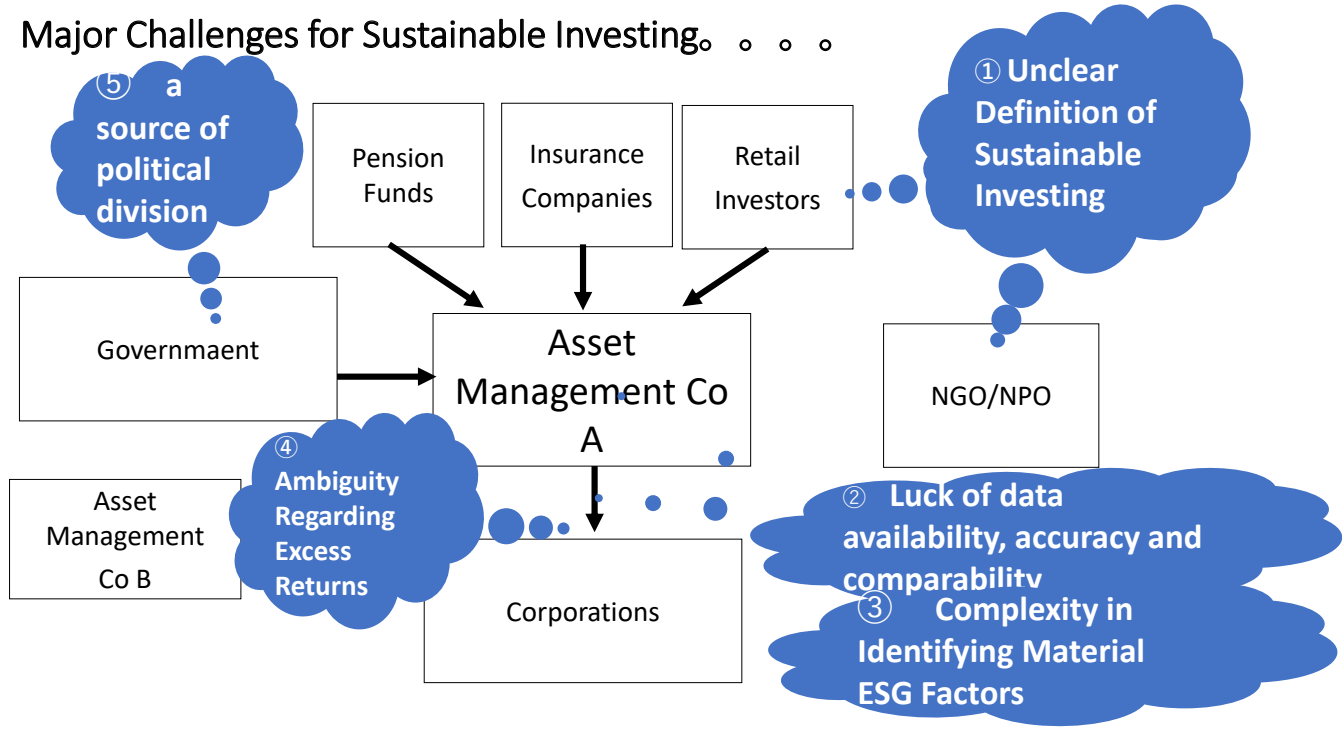
	The launch of each fund	The launch of each fund to March 2025 (annualized)			(Reference) April 2024 to March 2025		
		Rate of Return	Excess Return		Rate of Return	Excess Return	
		ESG Index	Parent Index	TOPIX	ESG Index	Parent Index	TOPIX
(1) FTSE Blossom	June 2017	10.89%	1.25%	1.42%	-1.79%	0.31%	-0.24%
(2) MSCI ESG Select Leaders*	June 2017	10.43%	0.78%	0.96%	-1.10%	0.86%	0.45%
(3) MSCI WIN	June 2017	9.72%	0.03%	0.25%	2.17%	4.06%	3.71%
(4) S&P/JPX Carbon	September 2018	9.25%	-0.04%	-0.04%	-1.60%	-0.06%	-0.06%
(5) FTSE BlossomSR	March 2022	16.86%	1.00%	0.63%	-2.18%	-0.08%	-0.63%
(6) Morningstar GenDIJ	March 2023	21.17%	0.75%	0.91%	-1.05%	0.98%	0.50%
		ESG Index	Parent Index	MSCI ACWI ex Japan	ESG Index	Parent Index	MSCI ACWI ex Japan
(7) S&P Global Carbon	September 2018	14.75%	0.11%	0.15%	7.23%	0.05%	0.35%
(8) MSCI ESG Universal	November 2020	18.49%	0.18%	0.17%	6.18%	-0.58%	-0.70%
(9) Morningstar GenDi	December 2020	18.79%	-0.24%	0.84%	7.01%	0.41%	0.13%

Source: GPIF - Sustainability Investment Report 2024

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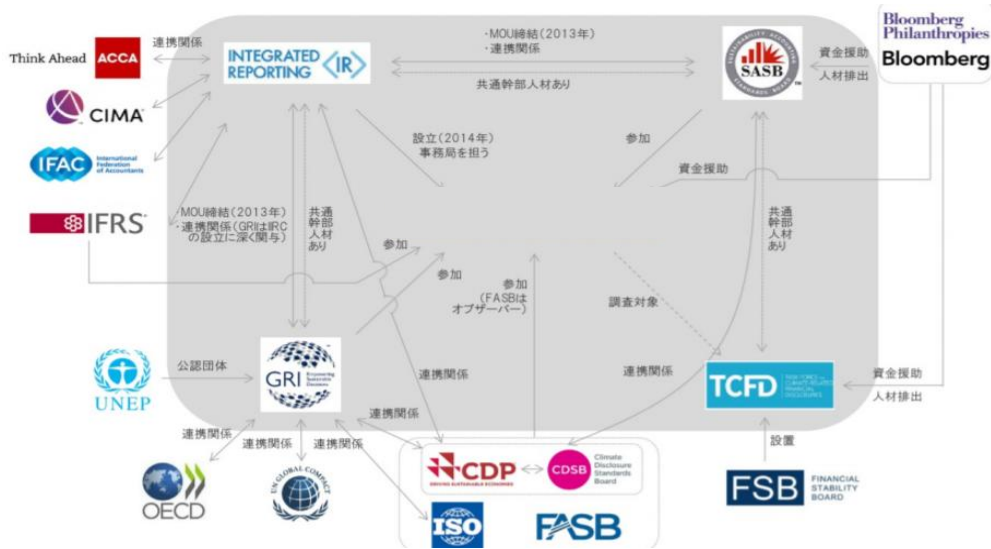
Major Challenges for Sustainable Investing



Rise of Sustainable Data, Index and Rating Companies

ESG Data Disclosure Standard Setting “Alphabet Soup”

-2017



Source: Nissay Asset Management” Research about ESG Data Disclosure for GPIF”

ESG Standard Setting - IFRS led solution

2022 -



Source: Nissay Asset Management” Research about ESG Data Disclosure for GPIF”

ESG Data Disclosure Standard Setting at Corporations – Public Sector -Europe

Europe

- EU Societas Europaeae Law is the basis for disclosure of companies.
- 2003 – Directive required large corporations to disclose non-financial Key Performance Indicators (KPI) (Climate change and employee related matters) (E, S)
- 2006 – Corporate Governance Code required companies to disclose the degree of compliance (G)
- 2013 – Large companies (with more than 500 employees or material influence to society) were asked include E&S issues in management report and diversity policy in Corporate Governance Report. (E,S,G)
- 2014 - Markets in Financial Investment Directive II (MiFID II)
- 2017 - Guidelines on non-financial information laid out what to disclose including policy and KPI. –
- 2018 – EC announced action plan on financing sustainable growth (3 objectives and 10 plan)
- 2019 – EU announced SFDR (Sustainable Finance Disclosure Regulation) –
- 2020 – European Central Bank “Guide on Climate-related and Environmental Risk” (E) - European Union Sustainable Finance Action Plan 2020 - Euro Taxonomy Legislation
- 2021 - Amendment of Corporate Sustainability Reporting Directive I

ESG Data Disclosure Standard Setting at Corporations – Public Sector

-US, Japan, G20

US

- 1933/34 - Regulation S-K (Securities Act 1933, Securities Exchange Act 1934) requires information disclosure from companies to investors (E, G)
- 2010 – SEC issued Commission Guidance Regarding Disclosure related to climate change (E)
- 2010 – Dodd-Frank Wall Street Reform and Act required to report compensation gap and disputed mining business (S)
- 2019 – Stewardship Code was introduced.
- 2021 – Corporate Governance Improvement and Investor Protection Act was passed at the House of Representatives.
- 2022 – SEC announced the new climate disclosure draft

G20

Financial Stability Board (FSB) formed TCFD (Task Force on Climate related Financial Disclose) and TCFD's mission is to “develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders”. TCFD made several recommendations.

Japan

- 2020 Stewardship code – revised by J - FSA
- 2021 Corporate Governance Code – revised by Tokyo Stock Exchange

US SEC – Draft to Enhance and Standardize Climate-Related Disclosures....similar to TCDF – But too many comments were sent.....

SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors
FOR IMMEDIATE RELEASE 2022-46 Washington D.C., March 21, 2022

— The Securities and Exchange Commission today proposed rule changes that would require registrants to include certain climate-related disclosures in their registration statements and periodic reports, including information about climate-related risks that are reasonably likely to have a material impact on their business, results of operations, or financial condition, and certain climate-related financial statement metrics in a note to their audited financial statements. The required information about climate-related risks also would include disclosure of a registrant's greenhouse gas emissions, which have become a commonly used metric to assess a registrant's exposure to such risks.

<https://www.sec.gov/news/press-release/2022-46>

<https://www.sec.gov/rules/proposed/2022/33-11042.pdf> (490 pages) U

ESG Data Disclosure Standard Setting at Corporations

Single Materiality

Ask to disclose ESG factors to influence enterprise value

- US SEC
- IFRS – ISSB
- J-FSA

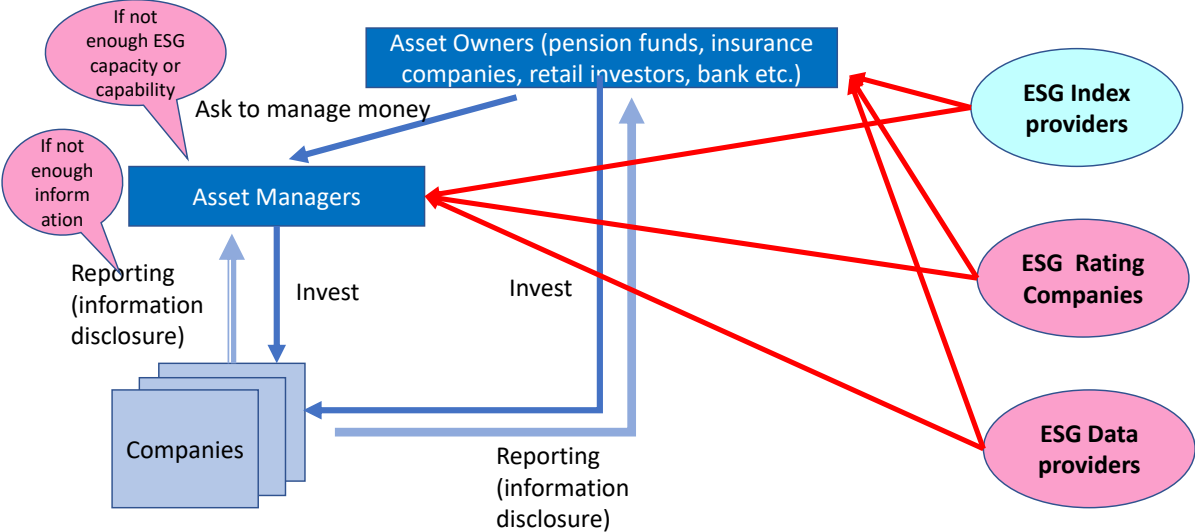
Double/multiple Materiality

Ask to disclose ESG factors to influence enterprise value and impact society

- EU?
- GRI

Source: Interviews

ESG Data, Rating and Index Companies



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US - Backlash Against ESG Investing in the Red States

Growing criticism of ESG investing in several Republican-led (“red”) states
Exclusion of ESG-focused asset managers from managing public funds

Texas

Senate Bill 13 (2022 → implemented in 2023)

Blacklists firms “discriminating” against oil & gas

ESG-driven divestment → exclusion from state funds

Impact: BlackRock, major banks; removal from muni bond underwriting in some cases

Florida

2023: Governor DeSantis bans ESG in state pension management

Emphasis on financial returns over “ideology”

Review of firms using ESG scores

West Virginia

Excludes BlackRock, JPMorgan, Goldman Sachs, etc.

Reason: policies seen as anti-fossil fuel

US - Asset Managers and Banks: Shifts in ESG Positioning

Asset Managers

•BlackRock

- Balancing ESG commitments with state relationships
- Withdrawn from net-zero initiatives (e.g., Climate Action 100+) in 2024

•State Street / Vanguard

- Increasing “greenhushing” (less explicit ESG messaging)
- More cautious public stance on ESG

Major U.S. Banks

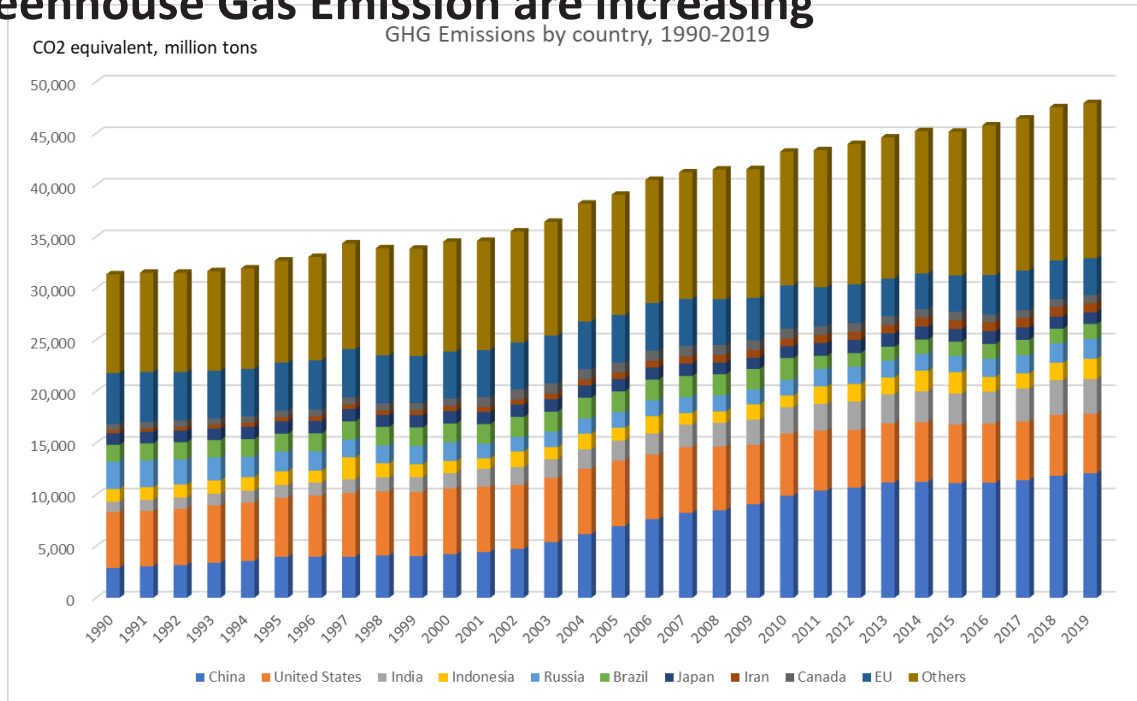
- By 2025, most large U.S. banks expected to withdraw from the Net-Zero Banking Alliance
- Reflects rising political and regulatory pressure



“ESG Investing” → “Sustainable Investing”

Broader, less politicized framing

Greenhouse Gas Emission are increasing



5/9/2023

(c) Takatoshi Ito-Columbia University

Europe - Quiet Continuation

Quiet Continuation: From ESG to Sustainable Investing

ESG investing is not disappearing, but **quietly evolving**

Shift in terminology:

“ESG Investing” → “Sustainable Investing”

Disclosure Trends

ESG disclosure → Sustainable data disclosure (terminology shift)

Disclosure has begun among **large corporations**

Delay in implementation for mid-sized companies

Sustainable Investing – recommendation

Clarifying the Purpose of Sustainable Investing

Asset Owners

Clearly articulate the **objective** of ESG engagement , If aimed at **long-term financial returns**, define how this is measured

Asset Managers

Align with asset owners on the **rationale and expected outcomes**
Clarify **return expectations** relative to market benchmarks

Focus on Materiality

Assess **impact on corporate/business value** If material → **continue integration**

Improving ESG Data Disclosure

Enhance **data availability, accuracy, and comparability**

Each company should **identify and disclose material ESG factors**

Avoid ESG/Greenwashing

Misleading claims must be **strictly avoided**

ESG Key issue for corporation - identifying material factor(s)

 E	 S	 G
<ul style="list-style-type: none">• Environment – prevention• Environment – adaptation• Pollution prevention• GHG emission• Air quality• Energy management• Water (river, ocean, lake etc.) and waste water<ul style="list-style-type: none">– Biodiversity conservation• Waste and hazardous waste• Ecological impacts – living natural resource	<ul style="list-style-type: none">• Human rights• Community health, safety and security• Customer privacy• Data Security• Product quality and safety• Employee health and safety• Employee engagement, diversification and inclusion<ul style="list-style-type: none">– Gender– Race– Nationality• Child labor• Indigenous peoples• Cultural heritage	<ul style="list-style-type: none">• Compliance• Business ethics• Competitive behavior• Corruption• Land acquisition and involuntary settlement• Appropriate tax payment• Appropriate accounting• Cyber security

Source: IFC/MIGA (World Bank Group) 2012 Performance Standard, Sustainability Accounting Standard Board (SASB) - Materiality Map

Inspiring Future Leaders in Banking

Initiated in 1986, the Commencement Day Annual Lecture series commemorated the beginning of the Bank's operations in 1982. Each year, an eminent expert, an opinion maker is invited to deliver a lecture on a theme related to contemporary developments in the Indian and global economy. The annual lecture series seeks to inform, promote and also contribute to the ongoing debate on globalisation among discerning intelligentsia. Over the years, with the encouragement and support from the distinguished members of the business community, academia and other sections of the society, Exim Bank's annual lecture series has earned recognition as an important milestone in the public life of Mumbai.

About the Speaker:

Keiko Honda is a Professor at Waseda Business School, where she teaches sustainable investing and corporate governance. She currently serves on the boards of Mitsubishi UFJ Financial Group and Recruit Holdings, where she chairs the Compensation Committee. In addition, she is Chair of the Board of the University of Tokyo and a member of the United Nations Investment Management Committee. Previously, Keiko served as Chief Executive Officer of the Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group, where she led initiatives to promote foreign direct investment in emerging markets. She also served as Chair of the Nomination Committee at AGC (formerly Asahi Glass) until March 2025. From 2020 to 2024, she was an Adjunct Professor at Columbia University's School of International and Public Affairs. Earlier in her career, she spent 24 years at McKinsey & Company, becoming the first woman in Asia to be promoted to Senior Partner.

About the 37th Commencement Day Annual Lecture:

Some may think sustainable investing is fading, but it is evolving rather than disappearing. As environmental, social, and governance (ESG) factors increasingly influence corporate value, investors incorporate them to enhance returns and manage risk. ESG investing focuses on financial performance using these factors, while impact investing seeks both financial returns and measurable social impact. Sustainable investing sits between these approaches. Originating from Kofi Annan's 2004 initiative, ESG gained momentum around 2015, driven by global priorities such as the MDGs and later the SDGs. This lecture examines these drivers, the role of international institutions, regional differences, and evolving disclosure requirements.