SUSTAINABLE INVESTMENT

04 MARK CARNEY: THE UK CAN DRIVE NET ZERO
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18 DEBUNKING SIX MAJOR ESG MYTHS

Create change

INVESTING WITH COUTTS

We look for actionable outcomes from every company and fund we invest in. With so much at stake, we need to be change makers, not change followers, even if that involves making hard choices.

MOHAMMAD KAMAL SYED, HEAD OF ASSET MANAGEMENT
Defining moment for sustainable investment

Coronavirus has been cited as a once-in-a-lifetime opportunity for us to clean up our act. But green investment is more than a good thing to do; it could be the secret to post-pandemic recovery.

"Trillions of pounds and dollars need to be invested into clean energy to meet the goals of the Paris Agreement and returns can be very good, especially in a low-interest-rate environment when investors are desperate for returns," according to Tim Cooper, who argues that the secret to building a stronger economy lies in prioritizing green investments. "Now is the moment for sustainable investment. The pandemic has given us a once-in-a-lifetime opportunity to change the world for the better."
Mark Carney believes that the financial industry is to make a meaningful contribution to the problem of global warming. This will help deliver the world’s social and financial needs, so people can decide how they want their savings to be used.

According to polling by Make My Money Matter, people want to see their pensions invest in sustainable infrastructure and green energy. The group’s impact study shows that 67 per cent of respondents want to see their pensions invest in green energy, with 81 per cent of respondents saying that they would like to see their pensions invest in sustainable infrastructure.

The group’s survey found that people want to have a say in how their pensions are invested, with 69 per cent of respondents saying that they want to know how their pensions are invested. The survey also found that people want to have a say in the types of companies that their pensions invest in, with 62 per cent of respondents saying that they want to know how their pensions are invested in companies that are aligned with their values.

Mark Carney, the former governor of the Bank of England, believes that the financial industry has a responsibility to invest in sustainable infrastructure and green energy. This is because the financial industry has the power to make a meaningful contribution to the problem of global warming, and this will help deliver the world’s social and financial needs.

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ESG's ecosystem of influence

A lack of in-depth understanding of environmental, social and governance issues among the diverse stakeholders involved in sustainable investment can trip up the sector’s progress.

**When it comes to sustainable investing, advisers need to solve problems together with clients**

**STAKEHOLDERS**

**António Guterres,** took part. United Nations secretary-general Business leaders, asset managers and institutional investors are<br>ers and institutional investors are<br>ers, corporates and retail investors.**

**Diversity and head of financing solutions<br>on sustainability at Allianz Global Investors.**

**DO INSTITUTIONAL INVESTORS CARE ABOUT CLIMATE CHANGE?**

**The share of public and private investors around the world who believe they should change investment decisions in order to combat climate change (2020).**

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**Sustainability capital**

**The speed and scale of the global economic downturn in the wake of the coronavirus pandemic has reinforced the importance of sustainable equity investing, says leading investment manager AllianceBernstein**

**All the private equity players I’ve spoken to have told me that the pace and accuracy of investments will increase to unprecedented levels. This means the size and number of deals will increase, which is likely to make it even more difficult to find sustainable investments...**

**What does this mean for investors?**

**We will have an important role to play...**

**Innovate, and take advantage of climate-related investment opportunities.**

**We need to see a 100% transition to sustainable, low-carbon and climate-resilient investment opportunities.**

**The private sector needs to lead this transition.**

**For more information please visit alliancebernstein.com**
Investing to generate genuine impact

Understanding sustainable investment definitions

ESG

Now a fixed part of the investor lexicon, the term ESG stands for Environmental, Social, and Governance. ESG forms the backbone of sustainable investing. It requires investors to be more engaged with companies than just passive owners of shares, and to consider the impact of the companies in which they invest.

ESG is used by investors to evaluate corporate social responsibility and the potential financial performance of a company. The term originated in the late 1980s and early 1990s, when socially responsible investors began to consider environmental and social factors in their investment decisions.

ESG is considered a part of the broader concept of sustainable investing, which seeks to generate positive social and environmental outcomes along with financial returns. Sustainable investing has gained popularity in recent years as investors seek to align their investments with their values and contribute to positive social and environmental impact.

Investing in sustainable development

ESG investing is about much more than just avoiding certain sectors. It involves considering the wider impact of companies on society and the environment. Investors may choose to exclude companies based on certain criteria, such as those involved in controversial activities like tobacco, gambling, or alcohol production. However, ESG investing also involves engaging with companies to encourage them to adopt more sustainable practices.

ESG criteria

ESG criteria are often divided into three broad categories: Environmental, Social, and Governance (ESG).

Environmental (E)

ESG investors may choose to exclude or engage with companies that engage in activities that harm the environment. This includes companies involved in activities such as fossil fuel production, deforestation, or pollution.

Social (S)

ESG investors may consider social factors, such as employee rights, diversity, and community impact. This includes companies that have a poor record on social issues, such as those that engage in labor practices that violate human rights.

Governance (G)

ESG investors also consider governance factors, such as corporate transparency, executive compensation, and board structure. This includes companies that have a history of poor governance, such as those that have faced significant regulatory or legal issues.

ESG investing

ESG investing has grown significantly in recent years, with an increasing number of investors incorporating ESG considerations into their investment strategies. According to the Global Sustainable Investment Alliance (GSIA), the value of assets managed based on ESG criteria has reached over $15 trillion worldwide.

ESG funds

ESG funds are investment products that allow investors to invest in a portfolio of ESG-compliant securities. These funds can be passively managed, tracking an index, or actively managed, selecting stocks based on ESG criteria.

ESG frameworks

ESG frameworks are guidelines or standards used to assess and compare the ESG performance of companies. These frameworks can be used by investors to make informed investment decisions based on ESG criteria.

ESG benchmarking

ESG benchmarking involves comparing a company's ESG performance to a benchmark, such as an index or another company. This allows investors to assess whether a company's ESG performance is above or below average and whether it is improving over time.

ESG incorporation

ESG incorporation involves integrating ESG considerations into investment processes, such as investment selection, risk assessment, and portfolio construction. This approach seeks to identify and invest in companies that are aligned with ESG criteria.

ESG reporting

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Transition finance
Signposting a priority pathway to Paris

A new type of green finance has emerged and, rather than simply blacklisting “bad” companies, it is offering even the heaviest polluters a pathway to a greener future.

Nick Easen

We’ve built a successful green finance market so far in the 2020s, with mainstream investors that are increasingly comfortable with green investment but that urgency remains. We need to emphasise that market in transition finance, or green, suited to sector, industry, by

Industry,” says Sean Kennedy, chief executive of the Climate Bonds Initiative (CBI). “This is a crucial time for transition finance as we need an expected need to tackle climate change and the current high-impact sectors, which are unable to access green finance. Many businesses have ambitions to change, but they need more robust definitions and standards to do so. There’s a lack of regulatory advantage to decarbonisation, especially as a meaningful price on carbon, this drive will come from within.

“You need a big carrot, not a big stick,” says Kennedy. “It’s all well and good to establish a framework defining what’s not a transition finance, or green, suited to sector, industry, by

I oversee the world’s money and draw an outline of everything that must be done. These days, there would be no future, no oil and gas companies. Without carbon-intensive industries, the wheels of economic activity would slow to a halt. Fossil fuels are not the answer. We need serious money and encouragement to do so and those who aren’t focused on green investment. But the urgency opens up the market to a much wider group of investors normalising the global way we’ve just focused on green bonds and financial products.

“This is the time that will power many industries’ transition costs. The size of the required capital investment in the next 20 years and the urgency to act to align with net zero and have lasting impacts. There is an increasing realisation that you need to commit companies for doing the right thing,” says Marisa Drew, chief executive of the Climate Bonds Initiative (CBI).

 Bold standards, definitions and benchmarks are also required for transition finance to work. This is why the CBI and Credit Suisse are working together to design a framework defining creditworthy strategies. In the same time, the Transition Pathway Initiative (TPI) – an international framework aiming to align with net zero and have lasting impacts – aims to define a global standard for a green transition.

Transition finance is not without its challenges. Devising meaningful incentives is primary to move the needle and help incentivise companies to transition finance needs to gain its own momentum and create its own virtuous circles. Each player in the market, including governments, providers, issuers, investors and analysts, will need to come forward with their piece of the puzzle to make the sector a robust one.

Transition finance must be led by world leaders.

A PRINCIPLES TO PROTECT TRANSITION FINANCE FROM GREENWASHING

01 All transition pathways must align with net-zero targets by 2050

02 All pathways must be tested by independent impact assessors

03 What’s in it for me?

04 Creative solutions are needed: actions, not empty pledges

 should not be issued with a transition label without goals for alignment with net-zero targets by 2050. This is why the Transition Pathway Initiative (TPI) – an international framework aiming to align companies’ ambitions to 2050 targets – is so important.

Transition finance needs to gain its own momentum and create its own virtuous circles. Each player in the market, including governments, providers, issuers, investors and analysts, will need to come forward with their piece of the puzzle to make the sector a robust one.

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Because sustainability is too long-term for short-term thinking
Investors’ interest, enthusiasm and passion for sustainable investing have been growing steadily over recent years, but what are the key drivers of more conscious investments?

**SUSTAINABLE DRIVERS**

Investors and the general population show a steady increase in interest, especially among millennials.

**INTEREST JUMPS, ESPECIALLY AMONG MILLENNIALS**

In recent years, investors and the general population have shown a steady increase in interest in sustainable investing.

**DRIVING ESG INTEREST**

Institutional investors, hedge fund managers, long-only managers, and pension consultants were asked which groups were driving interest in ESG investing.

- **Plastic reduction**: 46%
- **Climate change**: 41%
- **Community development**: 41%
- **Circular economy**: 37%
- **Sustainable Development Goals**: 36%

**TOP THEMES FOR SUSTAINABLE INVESTING**

In a recent survey, investors were asked which themes they would invest in.

- **Plastic reduction**: 46%
- **Inter-related diversity**: 41%
- **Climate change**: 41%
- **Community development**: 37%
- **Circular economy**: 32%

**MAKING INFORMED DECISIONS**

Global investors were asked which types of information are required for them to be confident in the sustainability of an investment.

- **No information needed**: 7%
- **Regular updates from the investment provider**: 26%
- **Third-party label (independent party confirms investment is sustainable)**: 34%
- **Self-certification from the provider of the investment that it is sustainable**: 33%

**INVESTING WITH CONSCIENCE**

Survey respondents were asked if they would invest against personal beliefs, by level of investment knowledge.

- **No, I would not invest against my personal beliefs**: 71%
- **Yes, if the returns were higher**: 29%

**INDUSTRY SUSTAINABLE STRATEGIES**

Institutional investors, hedge fund managers, long-only managers, and pension consultants were asked what describe their strategies when it comes to ESG.

- **Sustainability integration**: 82%
- **Negative screening**: 60%
- **Shareholder engagement**: 33%
- **Impact investing**: 19%
- **Positive screening**: 12%
- **Thematic investing**: 8%
As Brexit threatens the UK’s pre-eminence as a financial hub, spearheading sustainable financial offers a welcome lifetime

LONDON’S SUSTAINABLE FINANCE HUB IN NUMBERS

£67bn
Commitment to net zero by 2025

£26bn
Could be deployed through to 2030 from sold green assets

230+
Investors pursuing net zero targets

120+
Green loans and CDs

180+
FTSE Russell Sustainable Index

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How the City of London can keep its green crown

The City has always been at the forefront of change. Over centuries it has been a leader in many innovations, from banknotes to floated stocks, and has always been at the forefront of global financial innovation. The City is one of the most important financial centres in the world, and it has always been at the forefront of change.

The City is uniquely placed to drive innovation in green finance, to deliver an operational and institutional framework that supports growth and deep capital markets. The City is unique in its ability to attract and retain the best talent in the world.

The City is a financial centre with a long history of innovation and is a global leader in sustainable finance. The City is one of the most important financial centres in the world, and it has always been at the forefront of change.

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Picking a compellung winner

There is compelling evidence that environmental, social and governance funds can outperform their less sustainable counterparts, but what does this mean for investors?

Tim Cooper

ESG fund managers have jumped on the bandwagon of environmental, social and governance (ESG) funds, yet their prices are stillLfalld N
even if we can identify causes of performance, it is hard to know whether they will repeat in future. A recent study on evidence of outperformance, its futurability issues that impact a firm’s value?

Joe Biden has a green outlook. So does Europe. Both are focusing on a green transition, so ESG businesses are turning green.

EARNINGS & VALUATION

Future outperformers will have ESG embedded into their processes, not outsourced.

Future outperformers will have ESG embedded into their processes, not outsourced.

ESG funds have generally performed better over the long run and short term. A study by New York University’s Stern School of Business found that the ESG effect, while not statistically significant, was positive and stronger than the non-ESG equivalent. This is consistent with what other studies have found.

Other studies suggest that some could also influence factors in terms of cultural and organizational factors. These are more likely to impact stock performance.

But investors believe ESG funds can drive outperformance. For example, research from Barclays Asset Management shows that, for long-term portfolios, ESG funds are particularly important in determining outperformance. For short-term, investors believe these factors are less significant.

These studies suggest that some could also influence factors in terms of cultural and organizational factors. These are more likely to impact stock performance.

The increased awareness of environmental, social and governance factors has been a boon for fund managers, enabling them to differentiate themselves from their competitors. This has led to a surge in the number of funds that claim to be environmentally, socially and governance-orientated.

But it will evolve. We view the changes as a symptom of the market’s private and non-private desire to improve the way companies invest, and to create a stronger story to tell.

Everyone we’ve spoken to recognises the need for better transparency and disclosure of key metrics, including Environmental, Social and Governance (ESG) data. This leads to framework fatigue, when investors are trying to assess their processes around those metrics. They need to know what data they are using and can disclose. They need a clear and consistent set of metrics to follow. They need to ask why the data isn’t available.

But it will evolve. We view the changes as a symptom of the market’s private and non-private desire to improve the way companies invest, and to create a stronger story to tell.

What does this mean for investors? It means that ESG funds can outperform, but investors need to ask themselves whether they will repeat in future.
Debunking six ESG myths

From low returns to a lack of interest among the elderly, there are many misconceptions around environmental, social and governance investing. Here are our top six myths.

Myth 1: It’s more expensive

The most common refrain voiced by retirees, say, is that socially responsible investing is just too expensive. “Retirees in the UK aren’t interested in sustainable investing. But so many are getting old, so we are mindful of the mind-shift among investors. “The last few years have been tumultuous. It’s all just by interactive investor. We have approached the topic a concern is that a large number of people, self-directed investing is now available to everyone, and we have found that it is an attractive way of investing.”

Marina Gerner

Myth 2: It doesn’t perform as well financially

The majority of ESG funds have outperformed their traditional peers over three, five and ten years, according to Morningstar. Over the past ten years, 20 per cent of sustainable funds tracked by Morningstar beat their peers, compared to 10 per cent for the average. “In fact, we have found that ESG funds tend to charge lower fees than their passive peers. "That’s because the approach focuses on delivering sustainable returns, rather than just financial returns.”

Hortense Bioy, director of Europe, including 745 sustainable investment funds domiciled in Europe, says Bioy. This year ESG funds have outperformed their peers over three, five and ten years, according to Morningstar. “In fact, we have found that ESG funds tend to charge lower fees than their passive peers. "That’s because the approach focuses on delivering sustainable returns, rather than just financial returns.”

Marina Gerner

Myth 3: It’s only for millennials; retired people don’t want to invest sustainably

It’s often said that sustainable investing isn’t for the young. But it’s not true. Investors of all ages are increasingly interested in sustainable investing. “We’ve curated over 500 sustainable funds for our clients, and we’ve found that ESG funds tend to charge lower fees than their passive peers. "That’s because the approach focuses on delivering sustainable returns, rather than just financial returns.”

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Marina Gerner

Myth 4: ESG assets are only a very small proportion of the global market

ESG funds tend to charge a small premium over their passive counterparts. However, this premium is offset by the sustainable performance of the underlying investments. “That’s why ESG funds have become increasingly popular in recent years.”

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Marina Gerner

Myth 5: You need a financial adviser to invest responsibly

Just like driving, which no one requires a license for, investing is not something that you need a financial adviser for. “That’s why we are seeing a trend towards self-directed investing.”

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Myth 6: It’s just for millennials; retired people don’t want to invest sustainably

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Marina Gerner

We feel that incorporating ESG into our fundamental investment analysis not only makes us better investors, but is the right thing to do.
UK local authorities have pledged to work towards cleaner air and greener energy, but with limited government investment, they are having to resort to other funding sources.

**Local authorities' budgets are tight, but their commitment to acting on climate is strong.**

In Leeds, the city council leader and local government minister, Fiona Reynolds, said that local authorities are facing a “tough task” of making public investment work. “With mounting cost pressures at the local level, the need for coordinated and well-resourced plans is more pressing than ever,” she said.

The Leeds City Council has recently announced a plan to cut emissions by 20% by 2030. The plan is ambitious, but it is also clear that the council will need to rely on a combination of public and private investment to achieve its goals.

**Powering a low-carbon future**

Local authorities can play a crucial role in driving down emissions and reducing the environmental impact of their communities. By investing in green infrastructure, such as renewable energy projects, electric vehicle charging points, and energy efficiency improvements, local authorities can help to reduce the carbon footprint of their communities.

The climate emergency, decades of poverty, and the COVID-19 crisis are all exacerbating human rights concerns, even by the most humanitarian of standards. Human rights risks on lack of access to effective healthcare, quality and the coronavirus pandemic have been treated by investors, corporations, and governmental institutions. Just as for all businesses, institutional investors have a responsibility to respect human rights. They should be doing everything in their power to avoid complicity in human rights abuses and to help to facilitate respect for human rights and the rule of law in their investments.

**The climate emergency, decades of poverty and the COVID-19 crisis are all exacerbating human rights concerns.**

The UNGPs and OECD standards, together with a series of guidelines and reports that form part of a broader action plan on human rights, are critical tools for investors to avoid complicity in human rights abuses and to help to facilitate respect for human rights and the rule of law in their investments.

**We help investors to cut through the noise with our automated tools and measure climate risk in seconds.**

**Fiona Reynolds**

Principle for Responsible Investment

**While COVID-19 occupies minds, climate risk threatens portfolios.**

The impact of the novel coronavirus continues to be front of mind for many investors, but ignoring the looming threat from climate change could spell disaster for the planet and their portfolios, according to ISS ESG data.

**The time has come for investors to raise the bar on respect for human rights.**

In 2020, there is an urgent need to scale investment in climate solutions, while at the same time, increasing the role of the private sector in implementing these frameworks. The climate emergency, decades of poverty and the COVID-19 crisis are all exacerbating human rights concerns, even by the most humanitarian of standards. Human rights risks on lack of access to effective healthcare, quality and the coronavirus pandemic have been treated by investors, corporations and governmental institutions. Just as for all businesses, institutional investors have a responsibility to respect human rights. They should be doing everything in their power to avoid complicity in human rights abuses and to help to facilitate respect for human rights and the rule of law in their investments.
Hedge funds are building products that meet investors’ needs; regulation is not stymie this

ABCs of the ESG alphabet

In an effort to clear the often murky waters of environmental, social and governance investment, a wave of regulation is gathering momentum

Rachael Revesz

It is clear that the number of clients seeking responsible and sustainable investment funds is only expected to increase. According to the University of Oxford’s TiM (The Investment Management) Association, UK retail investors poured more than £7 billion into these funds during the first three months of 2022. But legislation, regarding environmental, social and governance (ESG) investments, is lagging behind. The EU Taxonomy for sustainable investments was published in January 2022, it will be possible to define and monitor the booming sector, which can be used consistently across the EU. The International Union for the Protection of Nature (IUCN) provides a clear set of guidelines for responsible investment. The IUCN’s Principles for Responsible Investment in the year 2022, the EU Taxonomy is being updated by the EU. The FCA completed a consultation in February 2022, to require UK-listed companies to disclose climate-related risks to their investors. The bill will be compulsory to ask clients, or in the event of non-compliance, the FCA can impose fines on the companies. The EU Taxonomy is being updated by the EU, to require large pension funds to start upping their commitments to net zero. It’s not trying to prescribe how you achieve a net-zero, but to make sure you have a net-zero.
ES AllianceBernstein Sustainable US Equity Fund

alliancebernstein.com/go/sustainableUSequity

The value of an investment in a Fund can go down as well as up, and investors may not get back the full amount they invested. Your Capital is at Risk. Investors should consult their financial adviser.

The ES AllianceBernstein Sustainable US Equity Fund is a Sub Fund of ES AllianceBernstein UK OEIC, an open-ended investment company. Equity Trustees Fund Services Ltd is the Authorised Corporate Director of the Fund. The Prospectus, Key Investor Information Document and Annual Reports are available from the ACD’s website, www.EquityTrustees.com. This advertisement is issued by AllianceBernstein Limited, 50 Berkeley Street, London W1J 6HA. AllianceBernstein Limited is authorised and regulated in the UK by the Financial Conduct Authority (FCA-Reference Number 147956). The [A/B] logo is a registered service mark of AB and AllianceBernstein® is a registered service mark used by permission of the owner, AllianceBernstein L.P. © 2020 AllianceBernstein L.P. IC20201400