SUSTAINABLE INVESTING

GREEN FINANCE

Does Biden signal a green light for green finance?

The new US president has highlighted the climate crisis as a key priority, which it is hoped will spur on sustainable investment both in America and globally

Alasdair Lane

With arresting brevity, US president Joe Biden laid out America's immediate priorities in his inauguration speech: to address "stinging inequity, systemic racism and a climate in crisis".

His mission statement marks a sea-change in the United States' approach to sustainability. For the global environmental, social and governance (ESG) community, the president could scarcely have hit a more hopeful note. After four years of Donald Trump, his message was clear: from now on you have a friend at the top.

That Biden's predecessor was no ally of impact investors, there is little question. Trump flirted with climate denial, encouraged fossil fuel expansion and pulled the US away from global carbon commitments.

And yet, in recent years, socially responsible investment has rocketed, driven by shareholder activism and boardroom resolve. The past 12 months have seen a particular shift towards the application of non-financial factors, with ESG funds outperforming the wider market.

Now, with President Biden squarely behind sustainable business, a further boom in eco-investment seems certain.

Trump had little time for the green economy. Within six months of entering the White House he withdrew America from the Paris Agreement on climate change, a commitment to keep global temperatures "well below" 2C above pre-industrial levels.

Domestically, he relaxed rules on greenhouse gas emissions and offshore drilling, an effort to encourage growth in the oil, gas and coal sectors. Financial regulations were also skewed against sustainable investing, analysts say.

> **With Biden and his team in charge, the profile of how to integrate ESG solutions across borders is being raised**

"We saw a lot of really damaging policy that was finalised in the last couple of months. Policies aimed at making it more difficult for private sector retirement plan fiduciaries to integrate ESG factors into their investment actions," says Heather Slavkin Corzo, head of US policy at the United Nations Principles for Responsible Investment.

Since taking office, Biden has issued a string of executive orders on emissions and conservation, halting construction of the US-Canada Keystone XL pipeline, and suspending new oil and gas permits on public land.

On financial regulation, Biden has been busy too. Trump's ESG-stymying pension fund policy looks set for the scrapheap and plans to require boardroom transparency on environmental risks are in motion.

Globally, the president has been equally quick off the mark. Within hours of his inauguration, America's commitment to the Paris Agreement had been reinstated, consistent with Biden's pledge to achieve carbon neutrality by 2050. His attendance at this year's pivotal COP26 climate change conference in Glasgow is all but certain and there are plans for a US-hosted precursor summit in April.

Yet, domestically, the president has a fight on his hands. "The system is polarised in America. There are people who still don't accept that climate change is real," explains Slavkin Corzo. "I'm afraid there will be people who question the need to move the US economy in a more sustainable direction. But we can't allow those questions to stifle progress."

With surprise majorities in both the House of Representatives and Senate – a result of unexpected Democratic gains in Georgia last month – Biden is confident about driving progress. For ESG businesses worldwide, that's good news.

Environmental services and technology company Water Intelligence is feeling the glow of sustainable investment. Offering technological solutions to water wastage, an issue of acute environmental concern, the group has operations in the UK, America, Canada and Australia.

This cross-border presence has served Water Intelligence well amid ESG's global boom; the company's stock price has almost doubled since March 2020, with revenues increasing three-fold in the past five years.

With plans to expand deeper into the European market, and having invested heavily in water conservation research and development, bosses welcome a new US administration that puts green issues front and centre.

"All parties recognise water is a big issue. And now with Biden and his team in charge, you're raising the profile of how to integrate solutions across borders. That's a positive, no matter which side of the political spectrum you're on," says Water Intelligence chairman Patrick DeSouza.

With the White House under new administration, there's hope of some tangible changes, too. Enhancing the free movement of capital is vital, DeSouza thinks, so money can be allocated to the greatest effect.

"Encouraging cross-border solutions applies for all sorts of regulatory issues, even acquisitions. Environmental problems transcend geographies and one needs to apply capital to grow businesses with that mindset."

On a par with unfettered capital flows, the easy movement of personnel is key to ESG business. While Trump railed against the influx of foreign talent, "America first" being his favoured refrain, Biden recognises the economic value of migration. On this he has the backing of green industry leaders, experts believe.

"National sovereignty is obviously never going to go away but, at the same time, the freer movement of particularly talented people between countries: the corporate pressure for that is just ferocious," says Columbia University's professor of public affairs Steven Cohen.

Having access to the best global talent taps into another Biden priority: social justice. Consistent with ESG principles, the president is determined to address wealth inequality and forge a more even playing field. For sustainable business, this can only be a good thing, says Cohen.

"We're in a global economy, a brain-based economy. And the smartest, most talented people want diversity. They want to be in that kind of environment, they care about those issues," he adds.

It won't all be inflow, though. In the sustainability arena, Biden's America will have one major "soft" export: influence.

This is true of government policy, as there is hope America's recommitment to carbon reduction will spur laggard states, and at a fund level. When, for instance, the White House moves to make pension plans more ESG friendly, asset managers "will likely ask their investments in other countries to fall into line", says Arne Staal, head of product and research at FTSE Russell.

Although this sort of soft power will be less evident in the UK and Europe, where ESG rules are already advanced, there is a belief that, with Biden, a much-needed framework of international standards is coming.

"Standards regulations are fractured globally, which is holding back progress in the sustainability field," says Staal. "We need a common understanding of data, a common understanding of the truth of how corporate firms are, or are not, contributing to the green economy. The new administration will really accelerate that global ambition."

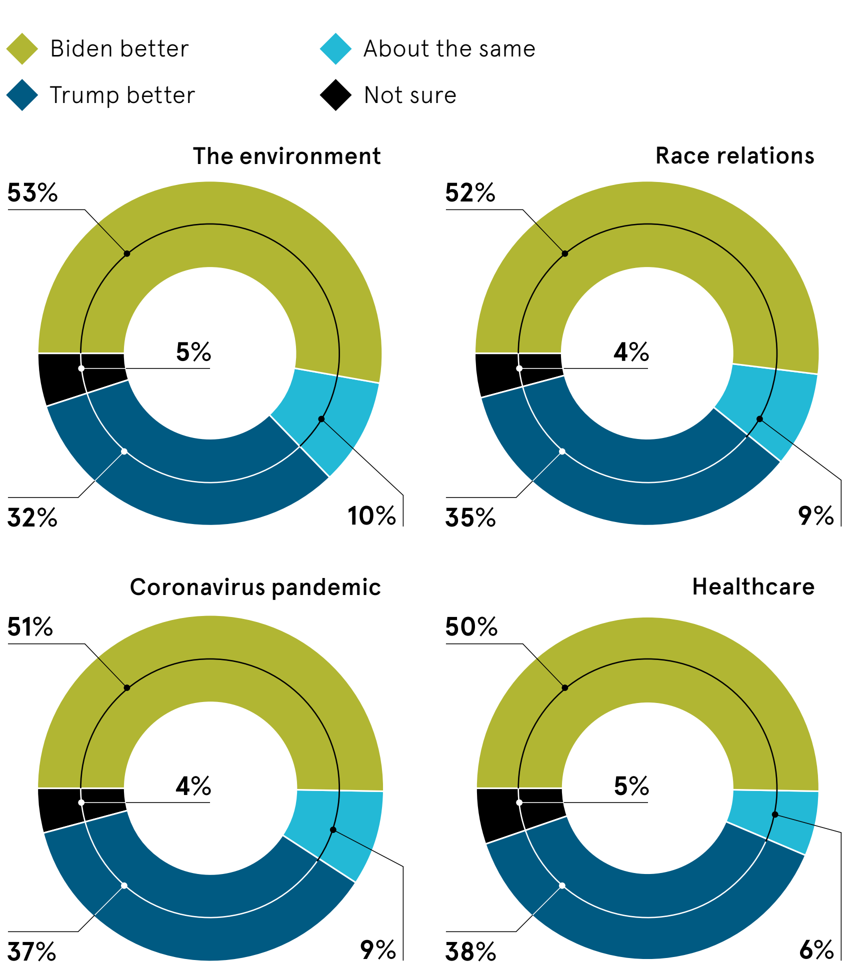
2050

the year by which President Joe Biden has pledged to achieve carbon neutrality

BIDEN SEEN AS BETTER FOR THE ENVIRONMENT

YouGov 2020

When it came to major issues for the 2020 presidential candidates, the share of US adults who trusted Biden was higher on a range of environmental and social issues than it was for Trump



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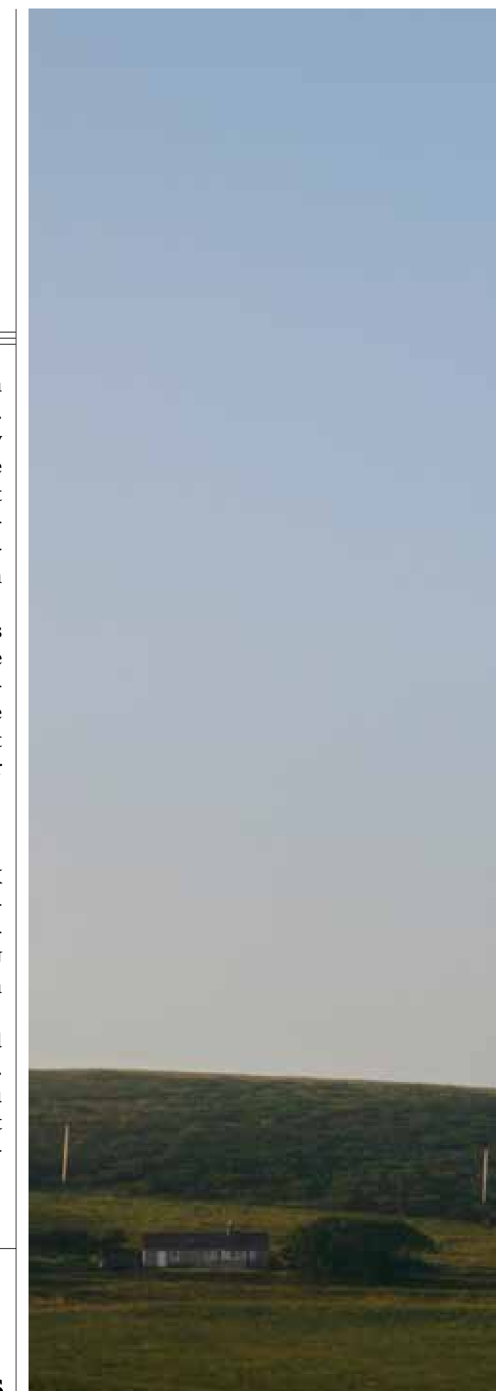
BREXIT

The UK moves to be an

Leaving the European Union offers the UK a chance to become a global green finance leader, but it must be wary of adding more complexity to a field that many already struggle to understand

Tim Cooper



The UK has a chance to draw first blood in the post-Brexit war over sustainable investment reporting. After leaving the European Union, the UK quickly identified this area as a regulatory battleground, announcing its refusal to align with upcoming EU legislation and intention to become a global green finance leader.

But it is a risky move. Many UK fund managers warn that diverging from EU rules could force them to negotiate clashing regulations. This could create uncertainty and weaken their position in the lucrative field of sustainable investing. Divergence could also make the complex field of sustainable investing even harder for consumers to understand.

The stakes are high. European assets invested in environmental, social and governance (ESG) strategies are forecast to overtake those in conventional funds and reach a colossal €7.6 trillion by 2025, according to PwC.

The EU's Sustainable Finance Disclosure Regulation (SFDR), coming into force this March, could grow this even further as it effectively forces managers to disclose ESG issues.

In November, UK ministers made their first powerplay by refusing to align with the SFDR because technical aspects of the rules have been postponed and not yet published. However, they clearly see this delay as a chance to gain competitive advantage.

Instead, the UK revealed plans for its own regime, in which it would become the first country in the world to fully mandate climate disclosures for companies and financial institutions. Many believe this stricter approach will spark a race to the top on ESG reporting regulation.

An ESG race to the top

Sustainable investing has long been plagued by patchy or confusing measurement and reporting. Some asset managers' claims have been overly positive, known as greenwashing, leaving investors disillusioned. But as ESG becomes more mainstream, investors will demand more and better information, and asset managers will have to respond.

Sustainability disclosures from companies and fund managers have improved in recent years through voluntary reporting frameworks such as the G20's Task Force on Climate-Related Financial Disclosures and Global Reporting Initiative.

SFDR is set to strengthen these international frameworks in the EU. But it does not force disclosure. Instead, players can choose not to comply and explain why. Given the huge and growing popularity of ESG investments, they will have little choice in practice. But the UK believes it has an opportunity to boost its green credentials in comparison by forcing all companies to disclose such information, with no comply-or-explain option.

The EU's postponement of the SFDR's technical regulations, possibly until the end of this year, is necessary to ensure rigour in the consultation process. But the delay is causing uncertainty and might have handed the UK government another chance to grab the upper hand.

Improving sustainability disclosures

James Alexander, chief executive of the UK Sustainable Investment and Finance Association (UKSIF), which represents UK fund managers, says most of his members have some EU operations. As such, they already align with SFDR as much as possible, or plan to.

"Some of our members have reported sustainability well, some less so," he says. "SFDR allows for a wide interpretation; you can comply by doing a lot or slightly less. It is also not enough to get us to net-zero carbon emissions.

> The UK government needs to enhance sustainability disclosures to ensure leaders in ESG reporting can differentiate easily

"We want the UK government to enhance sustainability disclosures, with strong taxonomies that drive us in the direction of net zero and that ensure leaders in ESG reporting can differentiate easily from those who are doing less. That will make us the world leader."

Another criticism of SFDR is it focuses on disclosing information about fund managers' intent on ESG issues, rather than outcomes, which are harder to measure but ultimately more important.

Louisiana Salge, senior sustainability specialist at UK advisory firm EQ Investors, says EQ is already meeting SFDR disclosure standards and will continue to do so regardless of Brexit.

"We aim to lift fund managers to apply best practice on ESG integration, processes and reporting," she says. "These new standards are a significant step towards achieving that goal.

"Most investment managers have been lagging on transparent reporting of sustainability outcomes, leaving investors to doubt they are delivering on their intentions. For example, we still see asset managers calculating carbon emissions in ways that paint a wrong picture of climate change contribution and risk."

Salge says the EU taxonomy – a set of definitions that will help managers report ESG issues more consistently within SFDR – will streamline disclosure on funds' intent.

"But that is just the intent," she says. "Reporting on tangible impacts and outcomes is still missing, though it would be highly beneficial."

Will Brexit impede green cohesion?

Brexit manoeuvres must be seen in the context of global sustainable investment reporting initiatives. Regional rules must harmonise with international standards if the industry is to reduce complexity and inefficiency.

Several initiatives are working to increase global cohesion and clarity. These include the United Nations-backed Principles for Responsible Investment, the International Platform of Sustainable Finance and proposed new Sustainability Standards Board.

Furthermore, the Big Four accounting firms have launched international ESG metrics that aim to align existing standards. And finally, five standard setters, which together guide most sustainable investing globally, have agreed to align their frameworks.

In this context, the UK government has pledged to match the level of SFDR and align with global standards, a move welcomed by UKSIF.

Andy Mason, senior ESG analyst at Aberdeen Standard Investments, believes Brexit will not affect these global collaborations. "There's an alphabet soup of initiatives and standards," he says. "Though we are UK listed, we have investments globally, so we need a single global standard. Multiple regional standards lead to reporting fatigue and stifle innovation."

But Julia Dreblow, director at consultancy SRI Services, says Brexit is impeding better international rules. "The EU rules are helpful but complicated and highly prescriptive, and useful parts of a puzzle rather than a magic wand for delivering net-zero carbon," she says.

"To deliver net zero, we will also need higher-level principles that avoid misleading clients and ensure fairness, and internationally agreed standards to steer us towards that target. Both are being worked on. But Brexit has slowed this activity substantially and been a headache for many investors.

"For example, we were expecting to welcome other EU rules that obliged financial advisers to discuss sustainable investment with their clients. But they seem to be on hold. The EU has been a positive force in this area. Thankfully, the UK government has signalled a desire to match their aims and indeed lead in this area. We hope these impediments will be short-term glitches, rather than anything more substantial."

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Reshaping the asset management industry

Experts expect the European Union's Sustainable Finance Disclosure Regulation (SFDR) to trigger an investing revolution by forcing all financial market players to disclose information on environmental, social and governance (ESG) issues.

Unless providers give good reasons for opting out, the SFDR will oblige them to disclose the sustainability risks and adverse impacts in their investments and their overall approach to ESG.

For products defined as ESG or sustainable, SFDR will also require asset managers to report investment goals before a sale and regularly thereafter. These requirements will force many managers to radically change their approach to sustainable investing.

Though the main regulations will come into force in March, the European Commission has delayed publishing technical details. This is because it needs extra time to consider the huge number of responses to its consultation on SFDR, underlining the significance of the changes to the industry and wider society.

This delay is causing uncertainty for managers around how they will apply the new rules in March. But it is unlikely to dilute the commission's determination that SFDR should align the finance industry with the EU's Green Deal targets, especially as 98 per cent of consultation responses urged the commission to uphold this ambition.

Rodolfo Fracassi, co-founder and managing director of consultancy MainStreet Partners, says SFDR will be a "game-changer" for asset managers because it obliges them to communicate on how they integrate sustainability risks, calculate adverse sustainability impacts, and explain how they consider and promote environmental or social characteristics in their investment processes.

For products defined as ESG or sustainable, additional requirements will include reporting on specific and verifiable metrics.

Any managers marketing their funds in the EU will have to comply, says Fracassi. "The alternative is to ignore ESG risks and communicate that decision, with potentially severe business consequences, given the increasing demand for ESG products."

The regulations could also sift out weaker ESG players, due to the heavy investment necessary for compliance.

"Margins are already under pressure from passive rivals, other regulatory burdens and technological developments," says Fracassi. "Committing to this investment will test the mettle of many active investment firms, especially small boutiques that lack the scale for large ESG investments.

"There are rewards; global assets in ESG-driven investments are now over $40 trillion. But investors' requirements of firms that claim to satisfy their ESG needs are significant and will only increase in future."

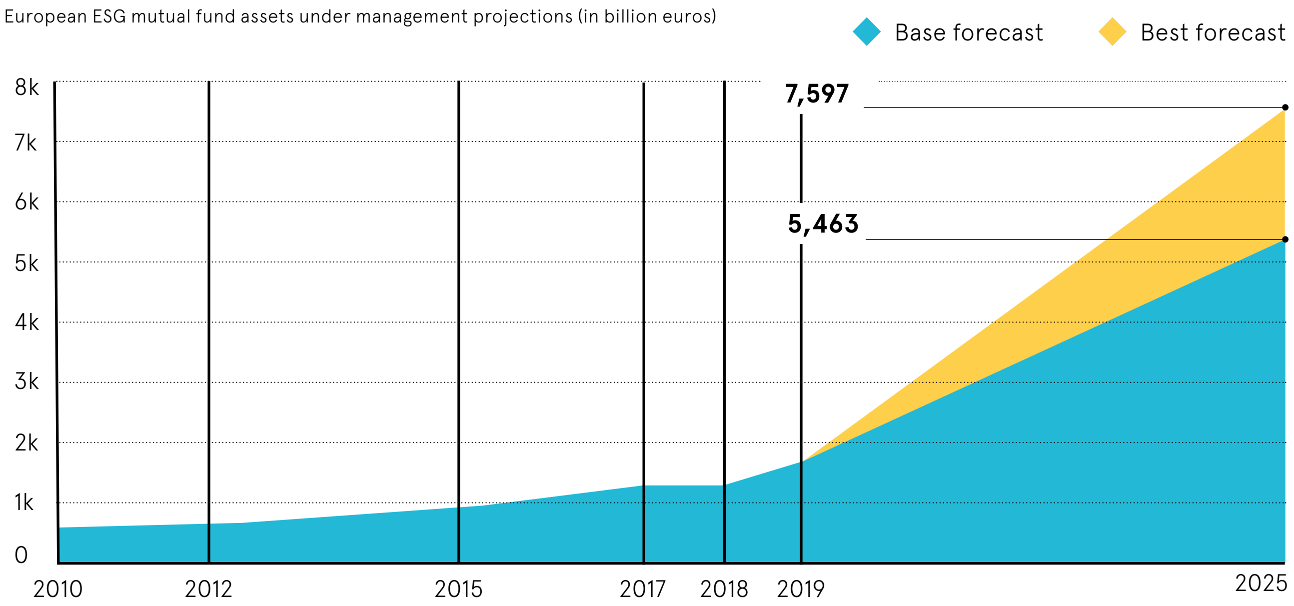
ESG leader post-Brexit


Feifei Cui-Paoluzzo via Getty Images

ESG'S METEORIC RISE LOOKS SET TO CONTINUE

PwC 2020

European ESG mutual fund assets under management projections (in billion euros)



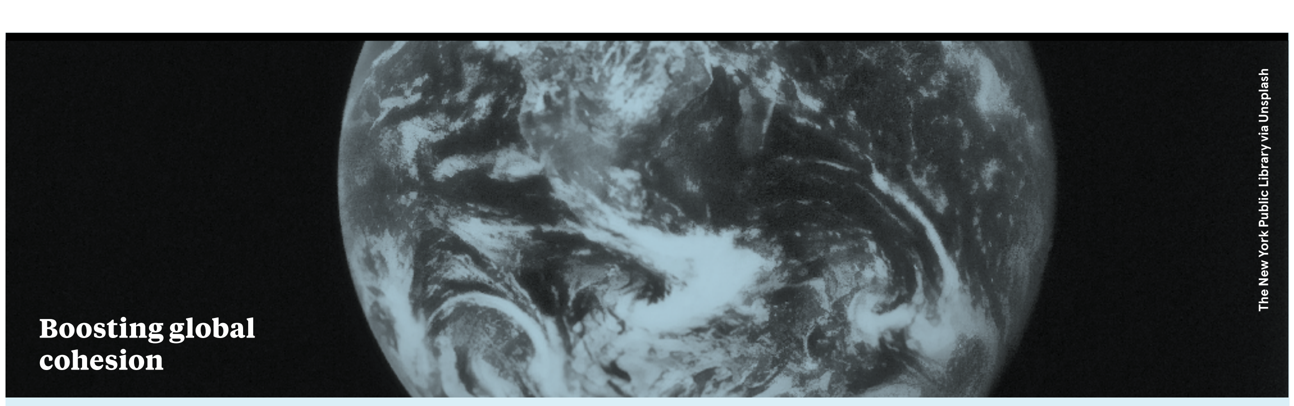
> **There will be a race to the top in practice and disclosure. But the market is moving fast. This moment represents an opportunity to show global leadership**

Sarah Gordon, chief executive at the Impact Investing Institute, says that while SFDR is welcome, the UK can go much further. "The EU taxonomy addresses environmental exposures comprehensively, but only touches on the vast spectrum of social issues superficially, with little more than a do-no-harm requirement," she says.

"There is much more to do. The UK has an opportunity to lead development of European and global thinking on a social or 'just transition' taxonomy, which provides a framework for connecting climate action with an inclusive economy. The UK can build out the societal implications of the green taxonomy well beyond 'do-no-harm'."

Longer term, Gordon expects Brexit to spark a race between the UK, EU and other countries to boost green finance market credentials by providing the most effective regulation.

"It is inefficient to operate two standards, so there will be a race to the top in practice and disclosure," she says. "But the market is moving fast. This moment represents an opportunity to take advantage of the momentum around sustainable investing and show global leadership." ●


The New York Public Library via Unsplash

Boosting global cohesion

New international metrics from the World Economic Forum (WEF) for sustainable value creation have boosted the momentum behind global cohesion in environmental, social and governance (ESG) standards. However, some warn that the success of the metrics will depend on how companies and investors use them.

WEF teamed up with the Big Four accounting firms to develop the metrics, which aim to help companies and investors align reporting on ESG factors. Since their launch last year, more than 60 companies, including Bank of America, Mastercard and Dell, have committed to using the metrics.

Crucially, the standards are based on existing standards and disclosures, and align with the United Nations Sustainable Development Goals' four pillars of governance, planet, people and prosperity. This is helping accelerate convergence between standard setters around the world.

Julia Dreblow, of consultancy SRI Services, says: "The 2008 financial crisis and COVID-19 pandemic have highlighted the need for investors to remove their blinkers and look at the sustainability of company operations. By working with the Big Four, alongside other excellent initiatives, the WEF recognised auditors' role in long-term value creation and holding companies answerable for their impacts.

"But if companies focus on softer issues, such as volunteering and 'engagement' with stakeholders, the metrics will struggle to prove their worth. If they focus on carbon emissions, and difficult issues like diversity and fixing failures in the international tax regime, they will be worth their weight in gold."

James Alexander, at the UK Sustainable Investment and Finance Association, says the association and its members strongly support the WEF's promising initiative.

"The focus on the UN's four pillars is vital in helping forward-thinking investors recognise the interrelation of economic, environmental and social factors in long-term value creation," he says. "We want increased consistency in reporting to help meet the overwhelming demand from investors for sustainability-related disclosures."

Sarah Gordon, at the Impact Investing Institute, says all efforts to improve ESG reporting, transparency and accountability are welcome, and the commitment by major companies demonstrates the progress mainstream businesses and investors are making in this area.

"Ultimately, all businesses and investors will have to disclose their positive and negative impacts, so consistent global standards are the goal," she adds.

More good than harm

A narrow focus on money is unsustainable: investment success now depends on being ahead of the trend to integrate social and environmental costs, says **Henry Boucher**, head of strategy at Sarasin & Partners

When a 16-year-old Greta Thunberg stood before the United Nations general assembly in September 2019 and told them "all you can talk about is money and fairy tales of eternal economic growth", she skewered the heart of the current financial system.

Too often finance has been isolated from sustainability and social and environmental concerns, placing the needs of the present above those of future generations. The focus has solely been on the money, with little consideration of the problems such a single-minded approach might cause.

But mindsets are shifting. Climate change has exposed that some businesses, for example those that depend on burning fossil fuels to make their profits, can do more harm than good. Finance can no longer ignore "externalities", however inconvenient they may be to the business of making money.

Beyond generating greenhouse-gas emissions, businesses are busy creating profits that can cause harm in many other ways too. Big companies have scoured the planet to find cheap resources, cheap energy and cheap labour to deliver cheap goods to us. Measured in financial terms the cost is low, but even if you haven't watched Sir David Attenborough's remarkable wildlife films, you will be increasingly aware of the many hidden costs of business to natural and social capital.

> **Wealth creation at society's expense is likely to be ephemeral and sustainable companies are likely to make better investments**

Population growth and economic progress have created too many activities that, while financially lucrative for their shareholders, are environmentally and socially destructive. And the scale of the natural capital loss is staggering: over the past 50 years, the human population has more than doubled, while the wild animal population has declined by 70 per cent.

And the breadth of financial gain has been remarkably narrow: in 2019, roughly two billion people suffered from moderate or severe levels of food insecurity. Such levels of environmental strain and social inequality are clearly unsustainable.

Not all of the blame can be placed on business; all of us are guilty of focusing on our own activities and not seeing the bigger picture. But if we are to solve these problems, many of us will need to recognise the system must change.

This is particularly true of those in the richer countries, with the most intense consumption, and the largest businesses organising and fostering that consumption. Those businesses and their investors must question whether the patterns of consumption that support their current profits can continue. By ignoring harmful environmental and social impacts they may be taking increasingly large financial risks.

Part of seeing the bigger picture is better measurement as what gets measured gets managed. At the moment, company accounts and investment management reports focus only on the money. But later this year, new sustainable financial disclosure regulations come into force in the European Union, with equivalent regulations expected in the UK. Proposed new accounting standards and more responsible audit practices are also on the cards.

These regulations will require investors and businesses to disclose the adverse impacts their investments have on the climate and the environment, as well as other sustainability issues such as social and employee matters, human rights and anti-corruption, or explain why they don't consider them. That means financial returns will be viewed in a context beyond purely monetary value as the hidden environmental and social harms become increasingly apparent.

To better see the bigger picture, it also helps to stand back and consider the purpose of what you're doing. "The purpose of business is to solve the problems of people and planet profitably, and not profit from causing problems" was the conclusion reached by the British Academy in their 2019 *The Future of the Corporation* programme.

An increasing number of large company management teams are pondering their purpose. They are listening to their employees, who want to work for a responsible and sustainable company, and their customers, who are increasingly favouring more ethical suppliers.

And they should be hearing more from their shareholders too. As the owners, it is incumbent on investors to steward their companies. In other words, to set the purpose of the business by directing the company management. This happens through voting on matters like the appointment of directors, incentive packages and major strategic changes, as well as engaging with the management team.

Too often this shareholder leadership obligation is treated passively and left for others to deal with. Responsibility may lie with the ultimate share owner or their agent, a fund manager. Sadly, too often it is the latter who has responsibility and the voting records of many fund management companies do not look good.

At Sarasin we have placed stewardship at the heart of our investment process for more than a decade. It is one of our core principles and it is how we believe we can secure tomorrow. Simply put, wealth creation at society's expense is likely to be ephemeral and sustainable companies are likely to make better investments.

Investing to achieve a financial reward over the long term takes detailed work to look at the big picture to identify winning and losing investment themes that drive progress over time, to analyse financial value in the context of environmental and social capital costs, and to listen to our clients and reflect their views on sustainability in their investment strategies.

Encouraging corporate purpose and addressing "profits made from causing problems" does not mean the capitalist, profit-maximising "animal spirits" will be weakened. Instead, as costs and problems, which were previously hidden become better recognised, financial markets will begin to discount the long-term risk that the returns for many businesses could shrink, unless the externalities are costed and tackled.

This is already apparent as the move to net-zero carbon emissions gathers pace. The same will happen as actions start to be taken to reverse other big-picture impacts, such as biodiversity loss and inequality. Future investment success now depends on being ahead of the trend to integrate social and environmental costs.

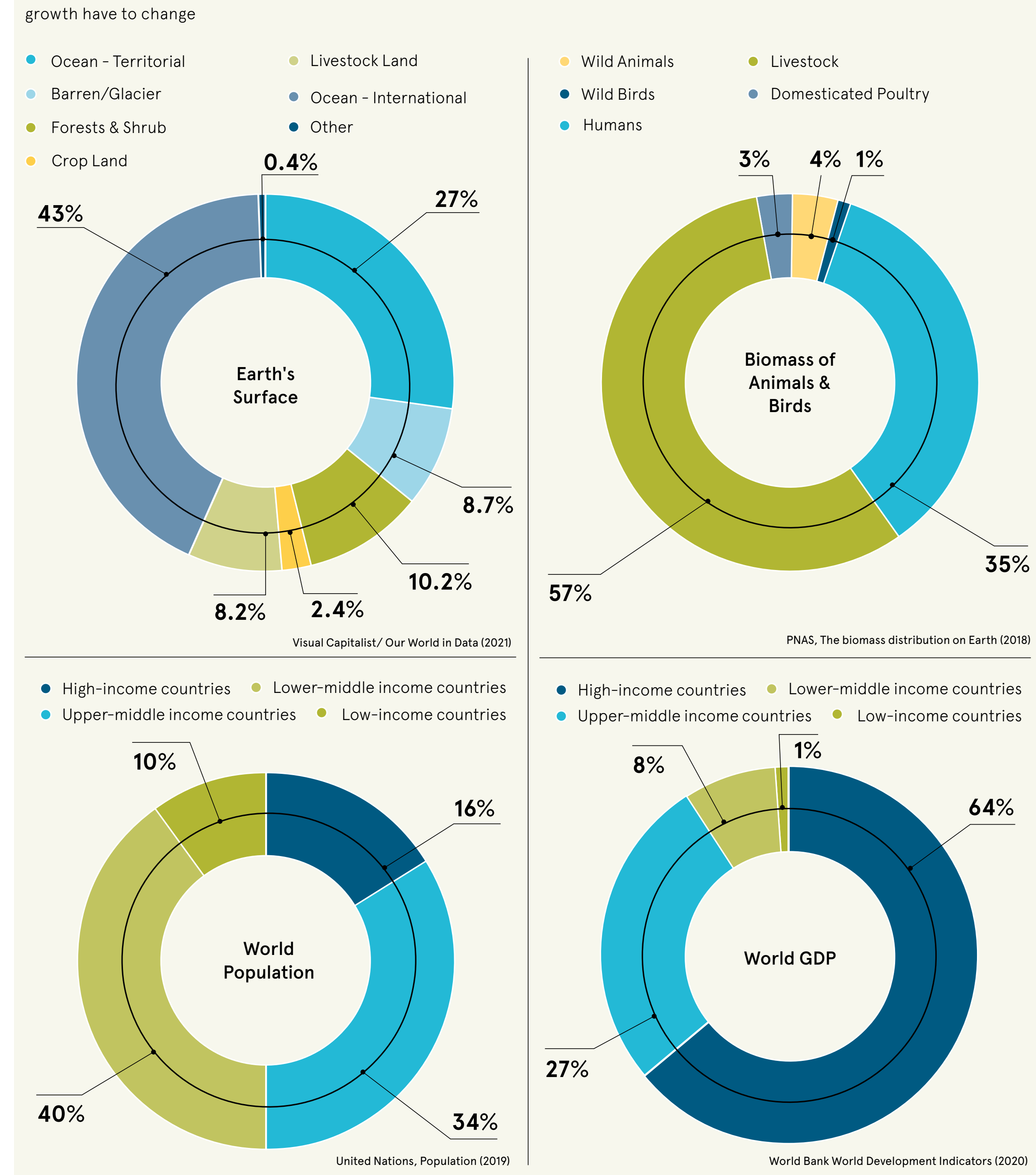
Greta Thunberg is right, a narrow focus on money is unsustainable. By solving problems rather than causing them, and ensuring future generations are not compromised by the pursuit of profits today, investing can be sustainable. If we do that right, business, finance and investment can do more good than harm.

For more information please visit www.sarasinandpartners.com/think

SARASIN & PARTNERS

LOOKING AT THE BIGGER PICTURE – THE WORLD IN FOUR CHARTS

We are not sharing enough land area with nature or enough financial wealth with each other – historic patterns of growth have to change



EXECUTIVE PAY

Should you tie ESG to executive pay?

While creating a link between executive compensation and environmental, social and governance issues is a useful lever to influence behaviour, there are concerns it may not be enough to affect major change

Cath Everett

Although not yet widespread, the idea of tying executive compensation to environmental, social and governance (ESG) goals to help drive business sustainability is gaining traction.

According to the 2020 Edelman Trust Barometer Special Report: Institutional Investors, more than two-thirds (69 per cent) of respondents would like to see this link in place, up 17 percentage points in a year. They now associate adoption of ESG measures with performance and growth, and consider remuneration a useful lever to ensure it happens.

Unsurprisingly then, a study by Willis Towers Watson reveals that 78 per cent of employers intend to change how they use ESG metrics in their incentive schemes over the next three years. Two in five plan to include them in long-term plans, while 37 per cent expect to introduce them into annual schemes.

To demonstrate the seriousness of their intent, pioneers such as Apple are even starting to move beyond more popular discretionary measures to adopt harder metrics. As of this year, the company's annual bonus payments will rise or fall by up to 10 per cent based on how well executives do against key performance indicators (KPIs) linked to its ESG programme.

Why link executive pay to ESG goals?

So what is going on here? Why is enthusiasm growing for this approach, how widespread is it and just how effective is it likely to be? Stephanie Giamporcaro, associate professor in responsible and sustainable finance at Nottingham Business School, says that while so-called corporate social responsibility contracting is currently a marginal trend, it is one that is developing rapidly across industrialised economies.

According to Nottingham Business School research, the number of companies on the UK's FTSE All-Share Index going down this route doubled to nearly 14 per cent between 2011 and 2019. In France, on the CAC All-Share, the figure is currently more like 18 per cent, while it's 9 per cent on the US Russell 3000 Index.

> Pay incentives are not the only way or even the best way for a company to ensure it is focused on its long-term ESG risks and opportunities

This shift is the result of pressures from a range of sources. The investment community started paying attention to ESG issues after the United Nations published its Principles for Responsible Investment Initiative in 2006 and they have been rising up the agenda ever since.

The situation came to a head last January when the world's largest asset manager, Blackrock, indicated it would give clients' ESG performance equal weight with traditional financial measures, such as credit and liquidity risk, and vote against boards that failed to adhere to recognised standards.

In this context, tying executive compensation to ESG performance provides a useful tool not only to demonstrate seriousness of intent, but also to provide a "mechanism that better aligns behaviour today with sustainable outcomes in the future", says Anna Skylakaki, senior manager at global wealth and asset management consultancy Alpha FMC.

Focusing on long-term ESG goals

Amy Wilson, UK engagement lead for responsible investment management firm EOS at Federated Hermes, agrees. In her view, explicit and measurable ESG measures can help "disincentivise decisions that may benefit the short-term, but threaten long-term value".

"We are often concerned about high pay and whether it truly reflects good performance in the long term as schemes may heavily incentivise executives to hit a number of financial goals over a relatively short time frame, but give no consideration to critical issues like low-carbon transition," she says.

On the business side of things, the UN Global Compact, the Global Reporting Initiative and an array of national and international regulations have pushed organisations into taking ESG more seriously. Growing public scrutiny and higher expectations of corporate behaviour from customers have also played their part.

As a result, the perception is that linking executive compensation to well-formulated ESG goals can help to focus minds and mitigate organisational risk. But there are downsides to this approach.

Wilson explains: "There are limitations to any approach that sees pay as a proxy for strategy and performance management. It's not possible to reduce complex jobs like running a business down to a small set of metrics, and no performance indicators override the need for executives and boards to use their judgment and make the right decisions for the long term."

Moving beyond tokenism

Another challenge, says Anna Lungley, chief sustainability officer at advertising firm Dentsu International, is that if KPIs are not well thought out, they may drive the wrong behaviour, which can in turn lead to unintended consequences. In Lungley's view, KPIs should always relate to ESG goals that are important to, and meaningful for, the organisation's long-term strategy and purpose to ensure they make a demonstrable and measurable material difference.

Whether or not remuneration-based incentives should be applied, there are currently two schools of thought. One says they should be linked to annual bonuses and the other to long-term incentive plans. Skylakaki's preference is for the latter, not least because "the time horizon for ESG metrics is normally measured in years or even decades".

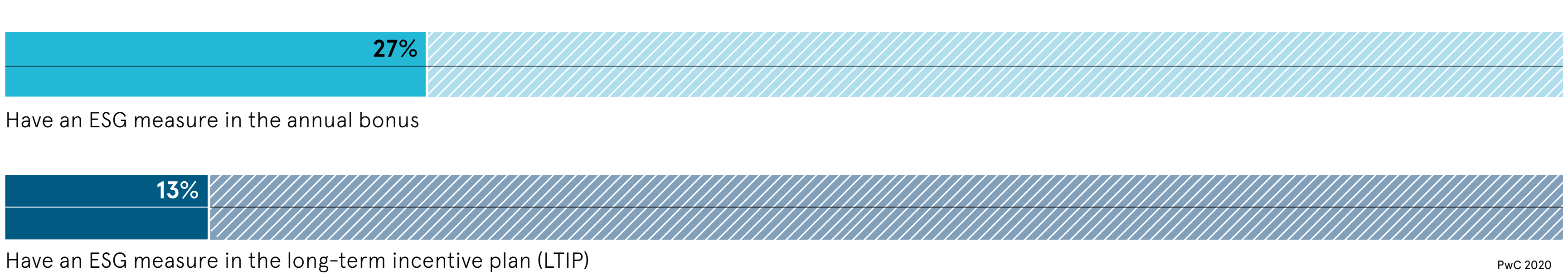
To be truly effective though, simply tying executive compensation to ESG goals alone is not enough, although undoubtedly it has an important role to play. Jason Longhurst, chair of the UK Business Council for Sustainable Development, explains: "If ESG goals are locked onto executive pay, it's about the difference between accountability and responsibility. There has to be a wholesale, systemic commitment or otherwise it can just come across as tokenism."

Wilson agrees. In her opinion, while pay incentives have a role to play, they are not "the only or even the best way for a company to ensure it is focused on its material, long-term ESG risks and opportunities". Instead, they benefit most from being guided by a purpose that not only serves their shareholders, but also wider stakeholders, society and the environment itself.

"The company's strategy, governance structures and culture should all be aligned to achieving this. In other words, addressing material sustainability issues should be built into the core of the business," she concludes.

COMPANIES ARE INCREASINGLY USING ESG TARGETS IN A MORE MATERIAL WAY

The percentage of FTSE100 companies that have an ESG measure as part of executive incentives



Commercial feature

Q&A
Investors ready for sustainability tipping point

Robert Alster, chief investment officer at Close Brothers Asset Management, on why sustainable investing matters to investors

Q What is the biggest theme for sustainable investing in 2021?

A Climate will be the focus of 2021. US President Joe Biden will support financial stimulus that goes into green technology and infrastructure. The United Nations Climate Change Conference in February will be the most significant climate event since the adoption of the Paris Agreement in 2015. Meanwhile, many companies are adopting the global standards developed recently by the Task Force on Climate-Related Financial Disclosures (TCFD). These will promote more informed investment decisions. They are among the many forces pushing climate up the agenda and bringing us to a tipping point.

Q How will this tipping point affect your offerings and investment decisions?

A It is accelerating our development to the extent that all new products will be green or sustainable. We have an existing socially responsible investing service for high-net-worth individuals with a focus on the UN Sustainable Development Goals and we have just launched two sustainable products: one multi-asset fund and one bond fund. On investment decisions, we are thinking about which companies will benefit from a continued shift in global policy towards green agendas. We hold an increasing number of green alternative assets, such as wind farms or solar farms. These often provide a secure long-term income that can make up for the lack of income available through other investments.

Q How is coronavirus affecting sustainable investing?

A The pandemic has brought to the forefront social and environmental issues that are shifting sentiment towards sustainable investing. For example, it has highlighted deep social inequalities, and that climate change and biodiversity loss can be linked to the introduction of new highly infectious communicable diseases. Sustainable investing supports companies that help solve these problems and will help society recover faster.

Q How is research and data for sustainable investing evolving?

A Tools are launching that bring sustainable investing data almost into real time, by using artificial intelligence and natural language processing. Sustainability data from companies has improved by reporting through frameworks such as the TCFD and the Global Reporting Initiative (GRI) Sustainability Disclosure Database. The European regulations on sustainability-related disclosures in financial services, coming into force in March, will strengthen this further. This regulation focuses on providing clients with greater transparency on their investments' sustainability issues, letting them drive investment managers to become more sustainability aware. This effect will ripple throughout the industry.

Q Do reporting standards need to improve further?

A We need more cohesive standards for sustainability reporting. The GRI, CDP global disclosure system, Climate Disclosure Standards Board, International Integrated Reporting Council and Sustainability Accounting Standards Board have made a statement of intent to work together on their frameworks. The International Financial Reporting Standards Foundation is also consulting on a new Sustainability Standards Board, which former governor of the Bank of England Mark Carney has endorsed. These initiatives will help create more cohesion and clarity. Another area for improvement is that we are nowhere near the systematic provision of sustainable investment data yet; if you compare it to corporate financial data, you can see the gap.

Q Why did Close Brothers Asset Management develop a proprietary process for ESG research?

A We have a strong internal research team specialising in fundamental analysis. To build on this, we designed a bottom-up process that embeds environmental, social and governance (ESG) factors into our research and analysis. Our analysts and investment managers engage regularly with companies to gain further insight and encourage sustainable business practices. Our bespoke business enables us to offer portfolios that are highly tailored towards a client's values, which is something many other managers cannot do. Our goal is to start measuring the impact associated with our investments in more specific detail. For example, we could then tell clients "this portfolio is geared towards reducing global warming to 1.5 degrees".

Robert Alster
Chief investment officer
Close Brothers Asset Management

For more information please visit closebrothersam.com

Your capital is at risk. Investments can go down as well as up.

Close Brothers Asset Management

TECHNOLOGY

How machine learning is helping investors find ESG stocks

Using algorithms and natural language processing, investors are trying to take the bias out of evaluating ESG credentials to find the stocks that are really moving the needle

Gareth Platt

In the leafy enclaves of Boston, Mike Chen and his team have taught machines to read Mandarin slang. They know Chinese investors often use homonyms, pairs of words with the same spelling but different meanings, to trick state sensors on public forums. By cracking this code, the machines can find out what investors really think about China's leading companies.

This is just one of several linguistics projects that Chen, director of sustainable investing at PanAgora asset management, has developed using machine-learning algorithms that can identify patterns from the data they receive and learn from their own results. When a company releases an update, these algorithms enable PanAgora to analyse the reaction from its stakeholders and the public.

Similar advances are being made across the investment community. Investors are using machine learning to mine all kinds of information, from the minutiae of earnings disclosures to the content of LinkedIn posts. Using this so-called sentimental data, they can sift through the hype around environmental, social and governance (ESG) issues and get an accurate picture of a company's credentials.

"By understanding what people are saying about these companies, we can get a true picture of their perceived brand value," says Chen. "Not only that, but we may be able to detect whether managers are 'greenwashing' when they talk about their firm's ESG policy."

Across the investment community, researchers and engineers are using machine learning in new ways. They are analysing linguistic information from content, such as earnings disclosures and LinkedIn posts, using sentimental data to see whether a company is truly committed to ESG and what sort of impact this commitment has on its stakeholders.

The value of this intelligence is huge. Around a third of all assets under professional management are now subject to ESG criteria. In the second quarter of 2020, when the world was reeling from the coronavirus crisis, investors poured more than $70 billion into green stocks. As issues such as climate change and social justice gain traction, and US president Joe Biden's progressive regime replaces the ESG-sceptic Donald Trump administration, this popularity looks set to grow still further.

To critics, however, the methods used to evaluate ESG credentials have not kept pace with demand. Until now, the ESG ratings sector has been dominated by a handful of providers, such as MSCI, FTSE Russell and Sustainalytics. Each provider has its own rigorous set of metrics, but with no universal standard for what constitutes "good ESG", their methodology, and thus their ratings, differ markedly.

Some providers score companies on an absolute basis, so everyone is judged by the same criteria. Ohers score relatively, which can reward the least bad companies in less progressive industries. The flaws in this approach were highlighted last summer when fast-fashion retailer Boohoo received an AA rating from MSCI just weeks before reports that some of its workers were allegedly being paid less than the minimum wage.

The data these providers rely on is also heavily influenced by periodic corporate disclosures. This data isn't just prone to bias, as companies omit the factors that paint them in a bad light, it is also backward looking. If a company hired a new female board member 11 months ago, how can anyone know whether this affects the market now?

As these weaknesses have become more obvious, machine learning has become more democratic. The advent of cheaper off-the-shelf algorithms, combined with advances in computational power, mean investment funds and the analysts who serve independent financial advisers can create their own machine-learning models to process huge amounts of data, both financial and non-financial, in real time.

Key to these models is natural language processing (NLP), a subset of machine learning that enables machines to understand human linguistic patterns. Using NLP, researchers can go beyond traditional market reports to analyse both written and verbal communication to understand how ESG commitments are both presented and received.

Analysts mostly use NLP to analyse the language companies themselves use; whether their declarations are concrete or vague, whether they use the first person or take refuge in the third.

The team at HSBC Global Research in London, for example, uses linguistic analysis to sift through corporate earnings calls. Mark McDonald, head of data science and analytics, says: "One of our main focus areas is how the presenters handle impromptu questions from analysts, as the answers are often much less positive than the pre-prepared statement at the start. This can give a truer picture and you can aggregate the sentiment across markets and regions."

Other firms are focusing on how external parties react to these statements. They comb thousands of news stories to get instant reaction and often combine this with comment scraped from social media.

At Act Analytics in Toronto, researchers have trained a machine-learning algorithm to scour a carefully curated list of sources from News API, a compendium of around 30,000 real-time outlets.

> By using machine learning, an investment manager can highlight the exact ESG actions a company is taking

"By its nature, real-time news is meant to provoke some sort of response, whether positive or negative, since that's what sells," says Act Analytics' head of ESG ratings Elgin Chau. "What needs to be determined is the degree to which an event is material and the extent of its impact on asset prices. By applying our algorithm across multiple news sources, we can calculate an aggregate sentiment score for a particular event for a particular company.

"Much of ESG portfolio performance relies on conjecture or anecdotes. Sometimes you get ridiculous reports that say your portfolio has taken 200 cars off the road or planted 1,000 trees. These are essentially soundbites, which can't really be measured accurately and rely on a ratings provider's subjective interpretation of a company's corporate disclosures. In other words, these types of reports are imperfect proxies for a portfolio's actual ESG performance.

"By using machine learning applied to the news, an investment manager can effectively highlight the exact ESG actions a company is taking to promote positive impact."

Data providers need not be worried by this trend. Machine-learning advocates agree that it will not replace traditional data sources, rather the algorithms will work to analyse these sources more effectively and put the data into context. As Chen points out, investors can now gauge not just the numbers that a company puts out, but the "believability" of its sustainability planning.

As consumers and stock-pickers pour evermore money into ethical companies, so the potential for greenwashing will increase. Just this month, research by the UK's Competition and Markets Authority found that four in ten corporate websites were offering misleading environmental information on their websites.

With machine learning, investors can now find the truth behind these claims. Quite literally, they can read between the lines.

1/3
of professionally managed assets are now subject to ESG criteria

That is a more than **30%** increase since 2016

$70bn
was invested in ESG equity funds between April and June 2020

Harvard Business Review 2021

Commercial feature

Navigating the sustainable finance agenda

With a packed sustainability policy agenda in the year ahead, companies and investors need to consider their strategy if they are to thrive

In the years leading up to Brexit, both the UK and the European Union had been busy developing sustainability policy and legislation. Now the UK has left the EU, it remains committed to being at the forefront of the sustainable finance agenda.

When the UK retained EU laws as part of its domestic rulebook at the end of the Brexit transition period, two sustainable finance rulesets were omitted.

The EU's Sustainable Finance Disclosure Regulations (SFDR) and the Taxonomy Regulation were not fully operational at the time of the UK's departure and so were not included in the transitioned rules.

However, the decision not to adopt these measures was certainly not indicative of the UK's future appetite. Instead, the UK has continued to set ambitious policy targets across all areas of sustainable finance.

"Some of the campaigning around Brexit gave a perception that the UK had been bound by environmental rules it didn't like. But in some areas, such as climate change, it was the UK that had been leading," says Travers Smith's head of operational risk and environment Doug Bryden.

In the weeks leading up to the end of the transition period, prime minister Boris Johnson was keen to emphasise the country remained committed to leading on environmental policy.

In December, he outlined plans to cut greenhouse gas emissions by 68 per cent from 1990 levels, aiming to achieve this by the end of 2029. The commitment is part of the UK's broader efforts to reach its target of net-zero emissions by 2050.

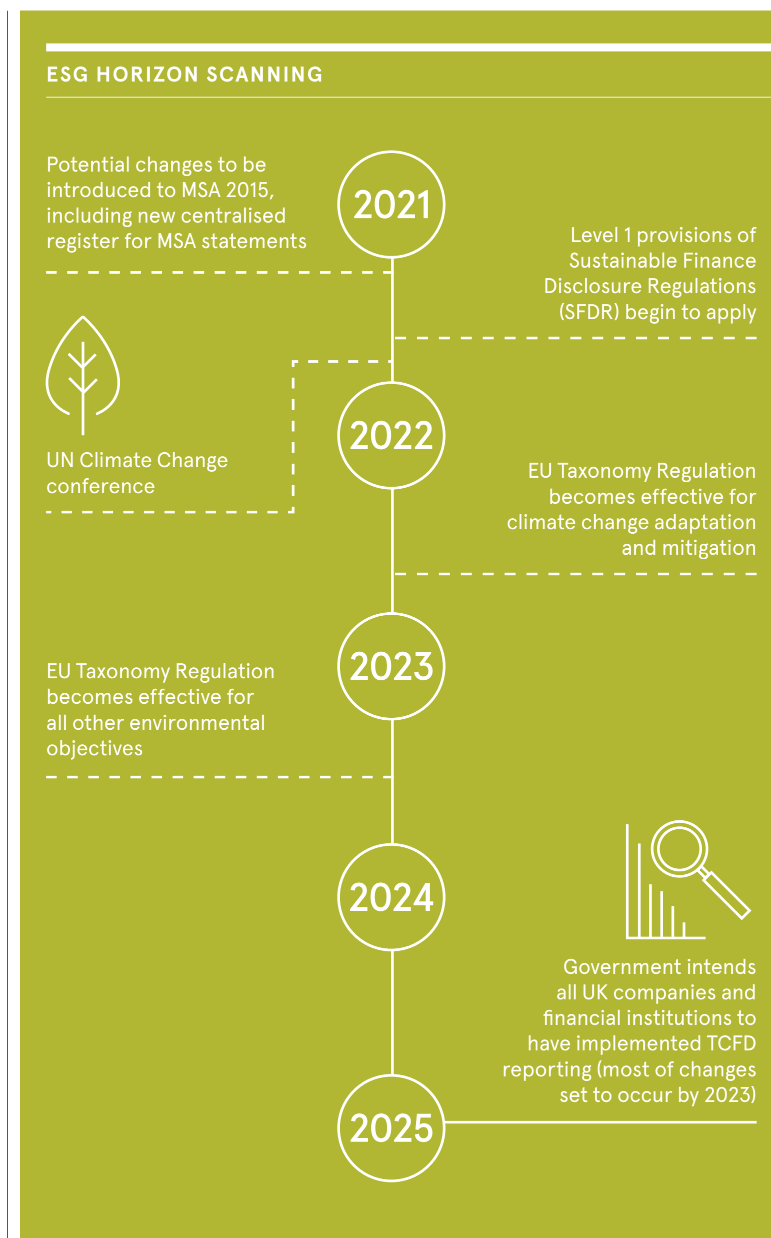
Simon Witney, senior consultant at Travers Smith, explains such targets show the appetite of the government to maintain its reputation as a leader on environmental matters, adding the UK has pledged to at least match the ambition of the EU's sustainable finance action plan.

"It is closely aligned with the EU in terms of outcomes," he says. "It seems likely the UK will implement its own version of the SFDR at some point."

Witney adds that, while the SFDR is scheduled to become effective on March 10, 2021, a UK version of the regulation will take longer, with any domestic implementation likely to be more principles based.

"I would hope the UK version of these regulations will at least be consistent with the EU rules. What our clients don't want is two different rulebooks with different requirements," he says.

With the EU's Taxonomy Regulation, the UK has already agreed to retain the framework of the taxonomy, including the environmental objectives. Despite this, some modifications are being planned amid concerns that some elements are not suited to the UK market.



> The strong message we are hearing from our clients is these issues go to the heart of the business model, and strategy should be the starting point

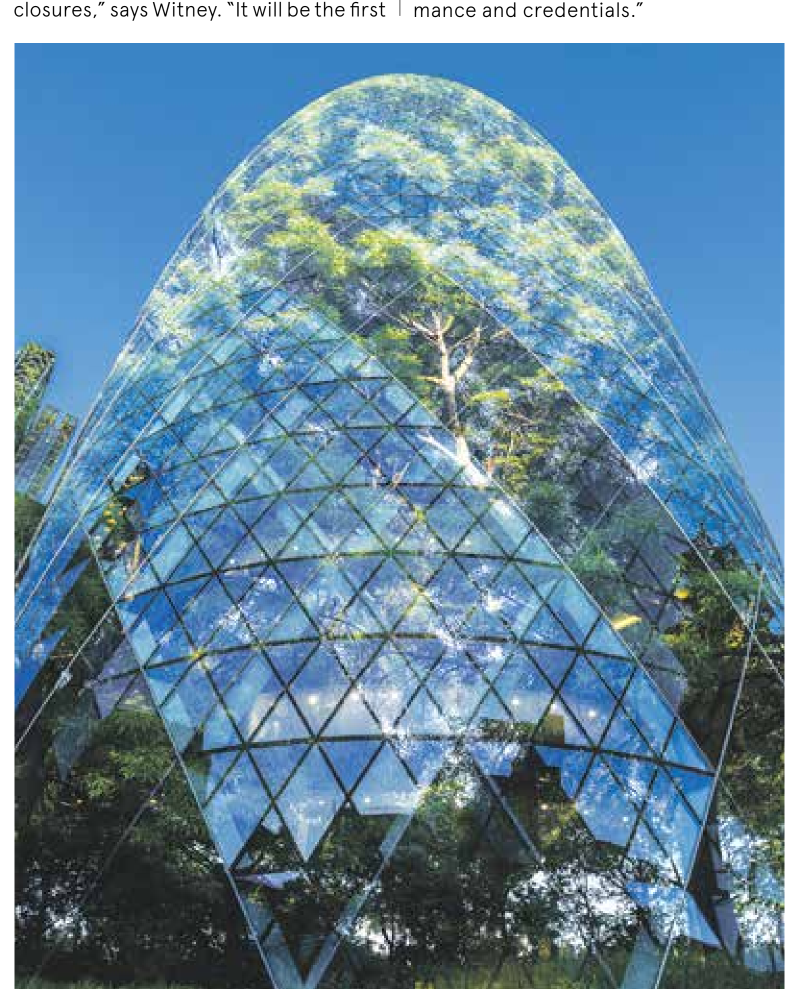
Climate leadership

The UK's reputation as a leader in environmental policy is well established. It was the first major developed economy to legislate towards achieving net-zero emissions by 2050. It has also committed to ensuring companies report on climate risks using guidelines from the Task Force on Climate-Related Financial Disclosures (TCFD), by 2025.

"The UK is making good progress in relation to climate change-related disclosures," says Witney. "It will be the first country in the world to make TCFD mandatory across much of the economy."

With the UK hosting the 26th United Nations Climate Change Conference in Glasgow this November, climate is likely to dominate the media agenda in the months ahead. But businesses and investors will need to navigate a much broader set of regulatory and policy changes across the sustainable finance landscape.

"The sustainable finance agenda is incredibly wide ranging, spanning environmental and social issues to business ethics, bribery and corruption," says Bryden. "Over the coming years, I hope to see a convergence of many of the voluntary and mandatory reporting standards. This will be good for the market and promote a more consistent disclosure of, and ability to assess, a business' sustainability risks, performance and credentials."



He explains that the proliferation of standards in recent years has been a headache for organisations to digest, sometimes leading to different teams complying with different rules, albeit with the same objective.

"What you don't want is for everybody to need expensive advice, and for the only people who benefit from these competing standards and frameworks to be the ESG [environmental, social and governance] professionals."

Broad agenda

In the coming three years, organisations will be expected to traverse a congested timetable of changes to regulations, requirements and implementation dates.

Asset managers doing business in the EU, for example, will need to be aware of the SFDR from March 10, 2021, followed by the EU Taxonomy Regulation, which becomes effective on January 1, 2022 for climate change and a year later for all other environmental objectives.

Larger UK companies will need to take steps to implement TCFD reporting by 2023, in accordance with UK government proposals outlined in November, with all companies expected to be compliant by 2025.

At the same time, the government has also introduced new measures to force companies to have greater visibility of their supply chains. In an update to the existing Modern Slavery Act 2015, the government is looking to introduce a new reporting service in 2021, where companies are being urged to publish their modern slavery policies.

There are other updates too. These include the next steps for TCFD reporting for pension funds and on ethnicity pay-gap reporting, following consultations which have now closed.

Rachel Woodburn, head of knowledge and learning at Travers Smith, says organisations shouldn't look at compliance with the regulations as a tick-box exercise.

"We often look at things through a regulatory lens because we are lawyers, but the strong message we are hearing from our clients is these issues go to the heart of the business model, and strategy should be the starting point," she says.

"It is easy to get caught up in all the mandatory regimes, but the most successful businesses will take a step back and define a clear strategy for meeting the expectations of investors and the wider community as well as regulators, and only then make sure they are aligned with regulation."

Register your interest in our sustainability-focused briefings and webinars here: www.traversmith.com/navigatingsustainablefinance/

TRAVERS SMITH

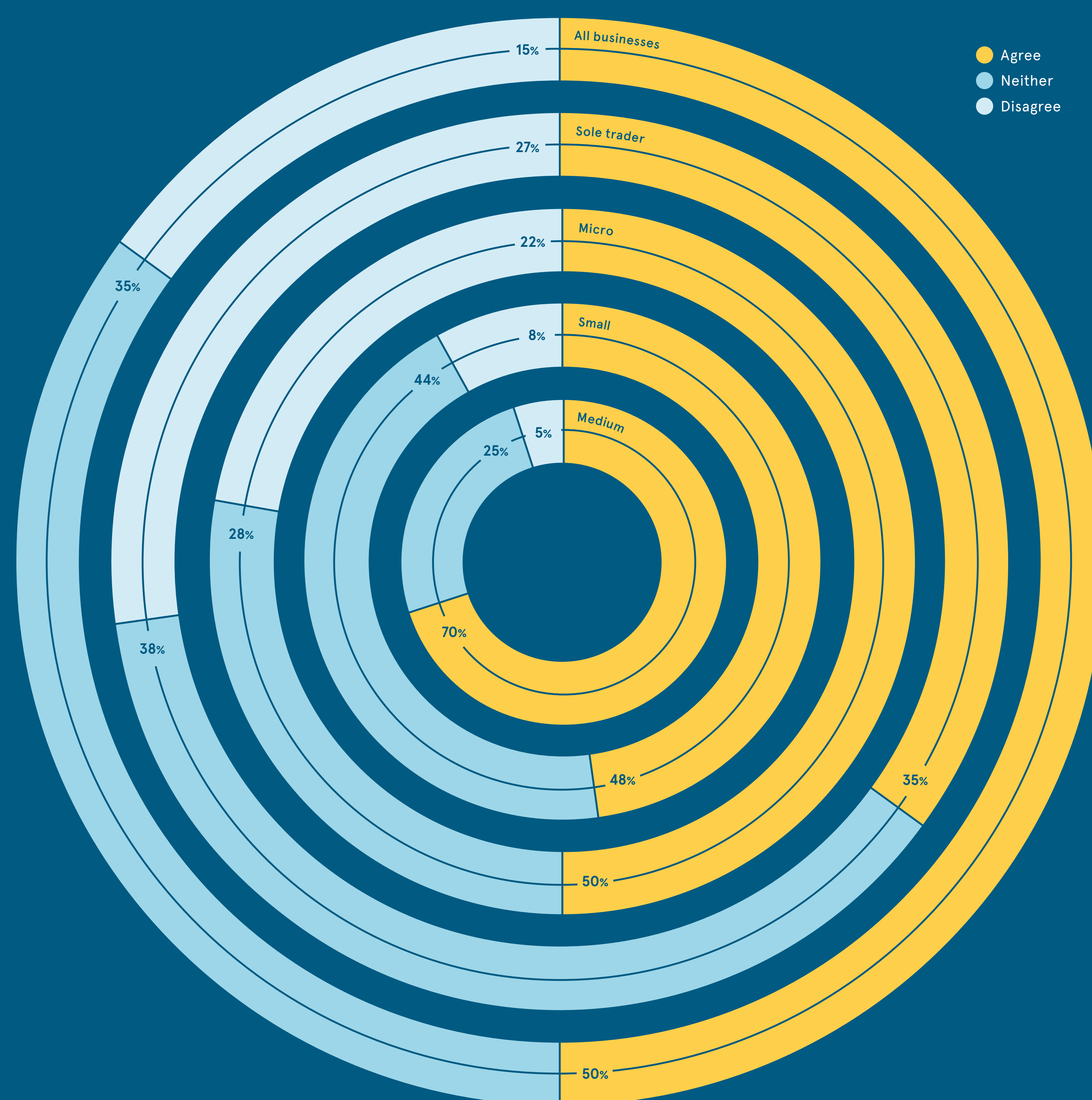
GREAT EXPECTATIONS

The myth that sustainable investing means poor returns has been busted. New regulation and a reinvigorated interest in green finance has meant businesses have no choice but to step up their efforts, with a number of stakeholders looking to hold them accountable

WHAT CUSTOMERS CARE ABOUT

How business leaders at UK SMEs answered: "My customers expect my business to be taking steps to be more environmentally responsible"

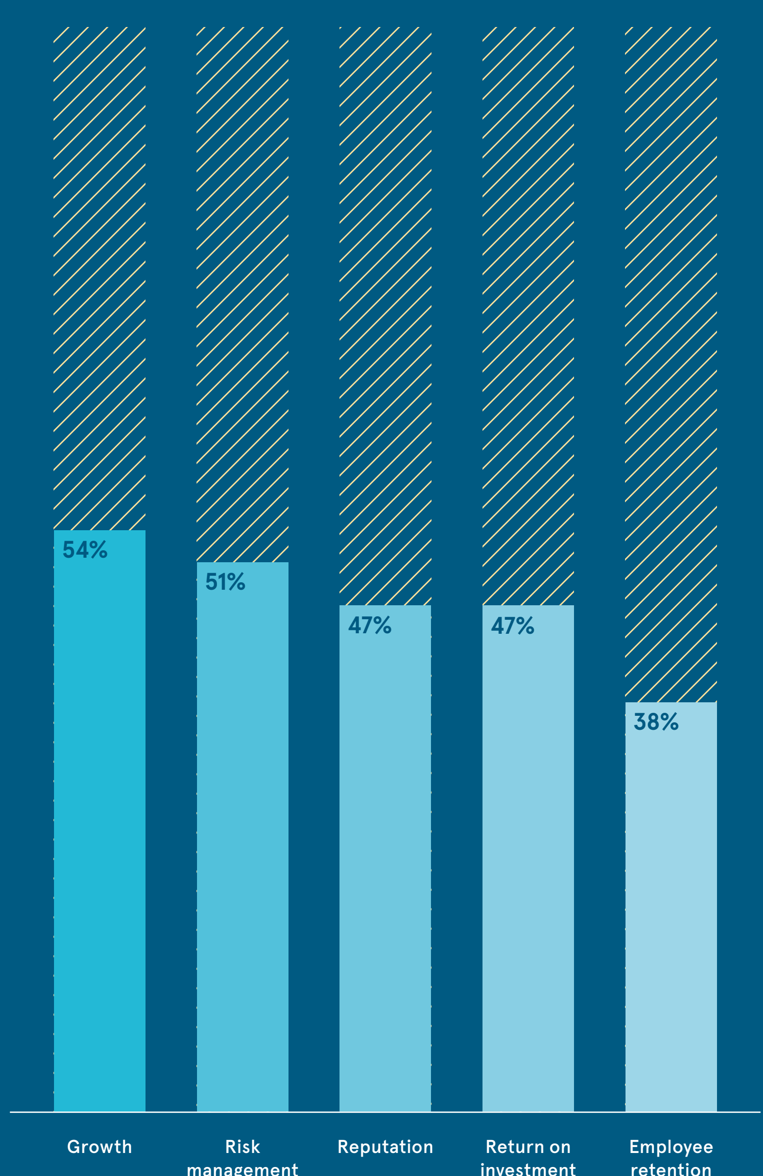
The Entrepreneur's Network 2020



ESG IS A SIGN OF SUCCESS

Percentage of global institutional investors who see ESG initiatives as having a favourable impact on specific success factors

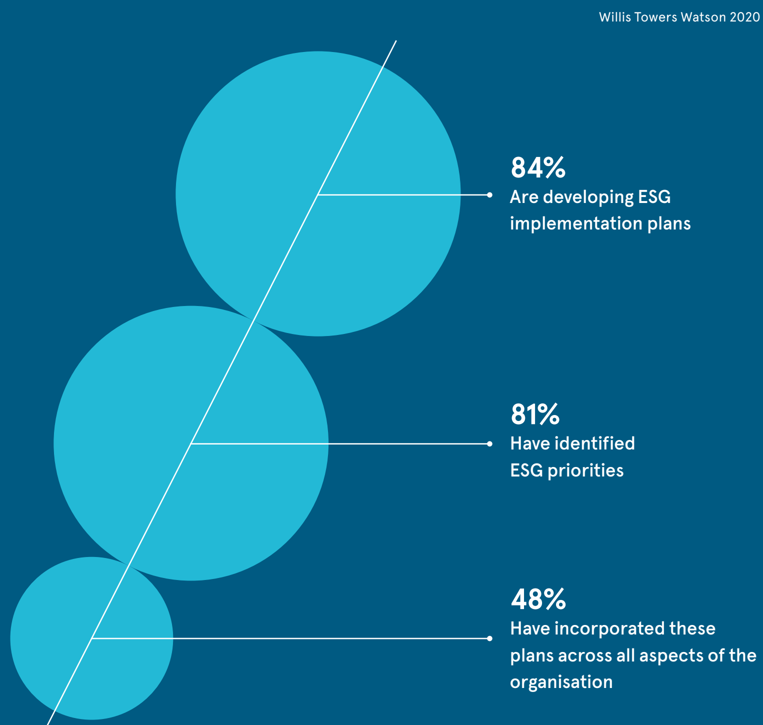
Edelman 2020



BUSINESSES ARE GETTING ON BOARD, BUT SLOWLY

How global board members and senior execs are making ESG a priority

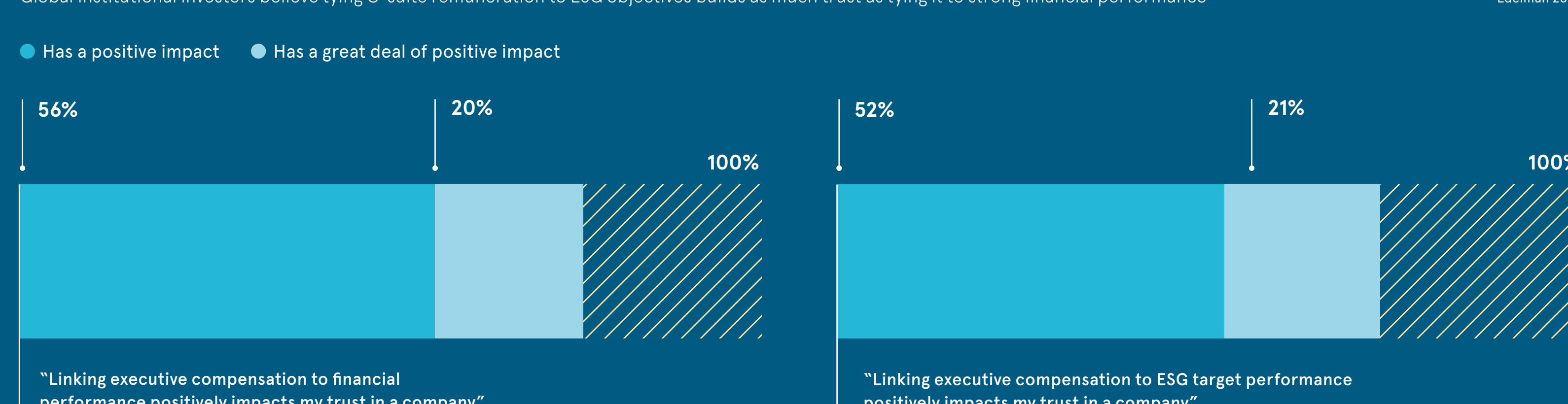
Willis Towers Watson 2020



HOW INVESTORS ARE HOLDING COMPANIES ACCOUNTABLE

Global institutional investors believe tying C-suite remuneration to ESG objectives builds as much trust as tying it to strong financial performance

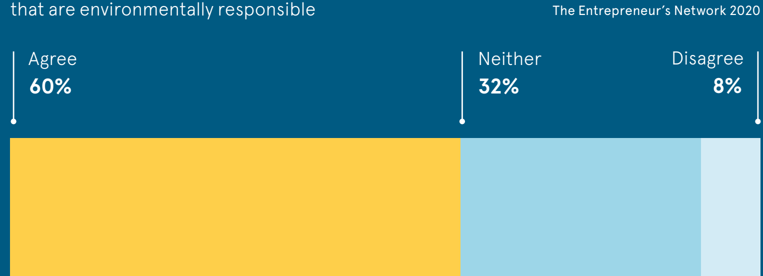
Edelman 2020



WHAT EMPLOYEES ARE LOOKING FOR

Employees at UK SMEs increasingly want to work in businesses that are environmentally responsible

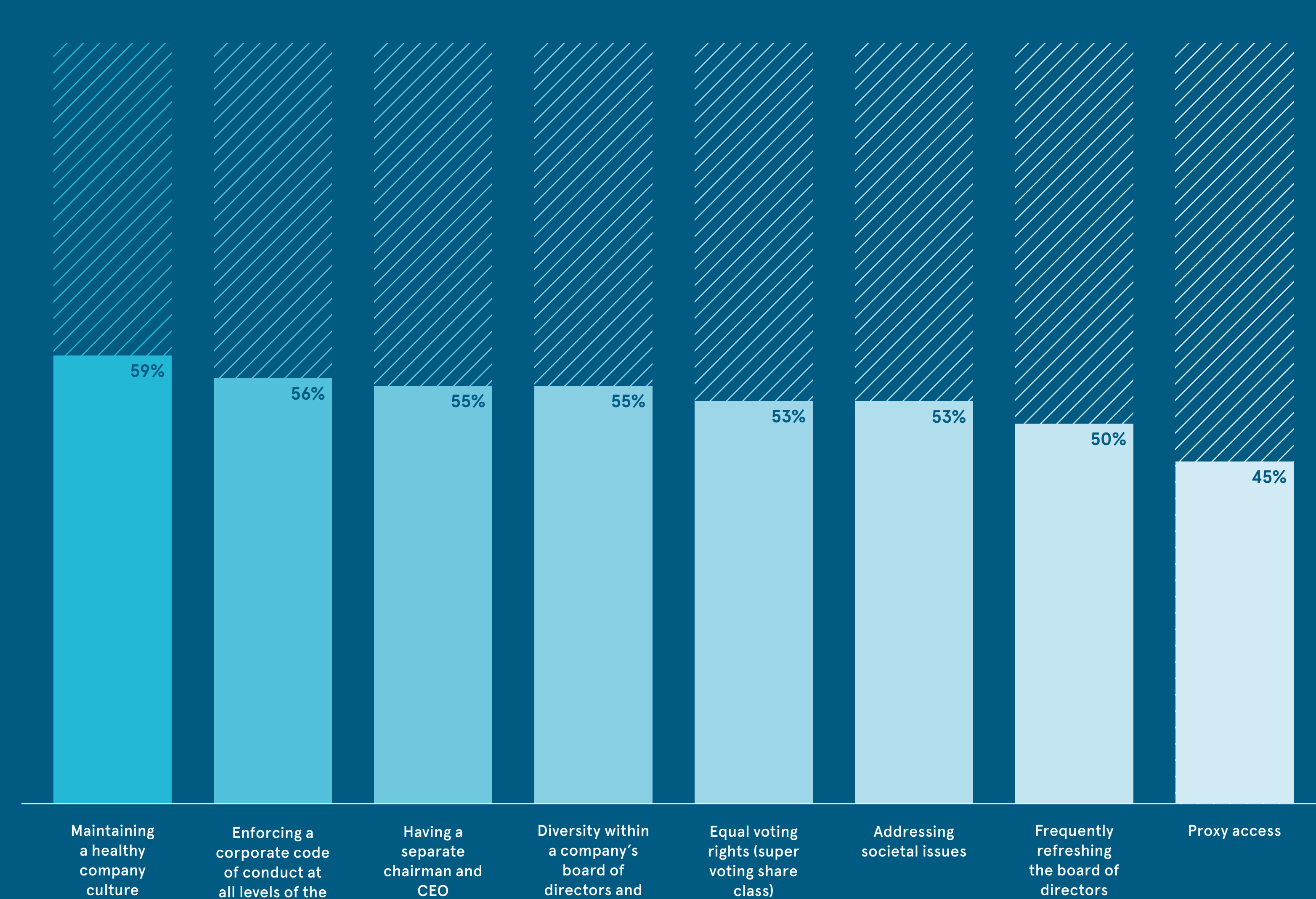
The Entrepreneur's Network 2020



IDENTIFYING TRUSTWORTHY COMPANIES

Percentage of investors who believe that specific ESG practices positively impact trust

Edelman 2020



HOW BUSINESS LEADERS ARE STEPPING IT UP

What global board members and senior executives say are the top factors shaping their ESG priorities

Willis Towers Watson 2020

GREEN BONDS

Where do green billions go?

The attraction of green bonds lies in their simplicity, but more needs to be done to monitor where funds go so the investment does not leak back into the wider business

Bradley Gerrard


Ricardo Gomez Angel via Unsplash

A record-breaking surge in green bonds is predicted for 2021 as the investment industry seeks to play a leading role in tackling the climate crisis. Some predictions envisage $500 billion in green debt being issued this year, nearly double the amount in 2020.

Companies and governments need funding to support their energy transition, enabling them to help fight rising global temperatures and excess carbon emissions.

Green bonds can help and their relative simplicity compared to other so-called ethical debt has attracted investors. It is often easier to measure the impact of a renewable energy project funded by a green bond than the benefits of a social initiative, for instance.

But are all green bonds used for green purposes or issued by green companies and how do investors know where green bond proceeds have been spent?

The growing demand for green bonds

Investors have a growing appetite for green bonds, which means they offer an attractive, and sometimes cheaper, way for nations or firms to raise money than some other bonds.

This makes it tempting for all types of entities to issue green bonds, even those whose business models contribute greatly to global emissions.

Some investors claim greenwashing, where an issuer overstates its green credentials, remains an issue, partly because there are no laws governing them. A glut of issuance could, therefore, lead to a spectrum of standards.

The International Capital Market Association (ICMA) launched its Green Bond Principles in 2014, a voluntary set of standards to help issuers outline how the proceeds will be used and monitored, and how progress will be communicated.

Even if a green bond abides by ICMA principles, though, investors must ensure any bond they invest in meets their own definition of a green investment.

Assessing the whole investment picture

Bryn Jones, who runs the £2.1-billion Rathbone Ethical Bond Fund, thought to be the world's largest ethical bond fund available to retail investors, looks for adherence to ICMA principles, but also engages specialist consultants to provide what the industry calls a second-party opinion, or SPO.

This assesses the sustainability credentials of the bond and can provide ongoing monitoring. Impact reports produced by issuers, which outline how money has been spent and the impact it has had, are also key. UK-based utility company SSE and Danish energy firm Ørsted are among those hailed for their impact reports.

Beyond this, Jones says ethical investors must consider the wider context of all green bonds issuers.

"We screen assets out based on certain criteria, meaning we avoid companies with links to the likes of tobacco, alcohol, gambling and animal welfare [abuse]," he says. "If a pharmaceutical company that used animal testing launched a green bond to improve the energy efficiency of its buildings, we would not invest.

"This is because while the use of the bond proceeds are going towards improving the environment, investing in the bond allows that business to generate excess profits from something that's unethical."

Focus on outcomes

Spanish oil giant Repsol split opinion when it launched its €500-million green bond in May 2017, the oil and gas sector's first. It stated the proceeds would be used to support investment in projects that would cut its CO_2 emissions by 1.2 million tonnes within three years of issuing the bond.

Vigeo Eiris, a rating and research agency that provides SPOs on green bonds, gave it the thumbs up, citing a "positive contribution to sustainable development, aligned with the Green Bond Principles".

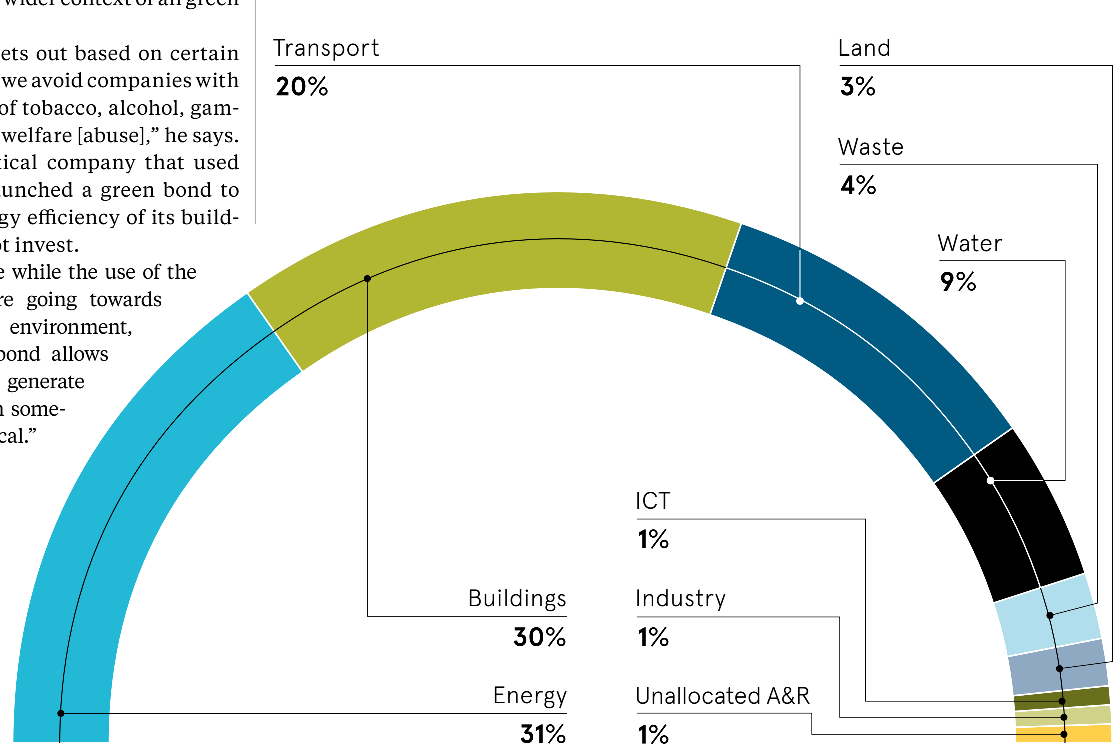
Repsol said the money would not be spent searching for new oil or gas reserves, but would help upgrade existing refineries. However, the pledged reduction in CO_2 emissions was just a fraction of the 35.6 million tonnes it emitted in 2016. And it was to be spent upgrading fossil fuel refineries rather than investing in new forms of energy.

"Thinking about actual outcomes, this apparent 'green' bond simply upgrades fossil-fuel burning assets, extending their lifespan, improving efficiency, increasing company profitability and in absolute terms increases total emissions over the life of these assets," wrote TwentyFour Asset Management in its September 2020 green bond report. "A potential win for shareholders, but not the environment."

WHERE DO GREEN BOND PROCEEDS GO?

Global share of green bond proceed usage by sector

Climate Bonds Initiative 2019



Digging deeper into green bonds

The Repsol example shows research into a green bond is critical, especially as there are no legal requirements for issuers to follow. However, efforts to create a standardised framework for green bond reporting are underway.

> You are relying on the finance department to keep the [green bond] money separate

The Task Force on Climate-Related Financial Disclosures (TCFD), chaired by billionaire Michael Bloomberg, has produced a set of standards to help public companies and organisations improve their climate-related financial reporting.

The UK plans to make TCFD-aligned disclosures mandatory across the economy by 2025. That means investors should have greater clarity around green bond standards, which will also make comparisons easier.

Karim Arslan, programme director at the Green Finance Institute, says this development is very encouraging because it will "force companies to think about their exposure to climate change and how it impacts their value".

He also expects the UK government's plans to launch green government bonds to be a catalyst for the green bond market, as happened when Belgian, Irish and French administrations launched green bonds in their respective countries.

The development of green bonds

Even with more rigid guidelines, there are still rival standards, with the Climate Bond Initiative developing its own criteria and the European Union working on its Green Bond Standard.

Kenny Watson, investment manager in Liontrust's sustainable fixed income team, says the mix of rules means "there are lingering issues with assessing just how 'green' bonds truly are", so investors are "taking it on trust" that issuers keep their word.

"A company doesn't have to put the money in an escrow account," he says. "You are relying on the finance department to keep the money separate from the rest of its capital."

Investors sceptical about green bonds may see merit in sustainability-linked bonds, which encourage organisation-wide shifts towards being more sustainable rather than funding a specific project and can link to global climate initiatives, like the UN's Sustainable Development Goals.

Either way, as Rathbones' Jones says: "It's a really exciting year to be investing in ethical bonds because there's so much out there."

Commercial feature

Plugging the responsible investment knowledge gap

Responsible investment is enabling investors to fulfil their desire to drive positive impact in the world while also bringing them long-term sustainable returns, but many don't yet see the link

Awareness around sustainability is higher than ever, hitting near-parity with the Premier League in UK mentions on social media in October last year, according to research by St. James's Place (SJP), the wealth manager, and The Wisdom Council[1]. And yet while 93 per cent of SJP clients expect companies to act responsibly and 74 per cent feel a sense of personal responsibility when it comes to environmental challenges[2], a knowledge gap means few actually understand the impact their investments could have.

Responsible investment is increasingly important to long-term sustainable returns for investors, but the industry needs to do more to explain it in a way that is more relevant and relatable to people's sustainability values. The knowledge gap is fuelled by the legacy of ethical investing, with its stance of excluding companies that fail to meet their ethical standards. Responsible investment has since pioneered a more progressive philosophy, but many people mistakenly conflate it with its predecessor.

"You don't move the needle by not investing in companies due to poor management of ESG [environmental, social and governance] issues," says Robert Gardner, Director, Investment Management at SJP. "What moves the needle is shareholders engaging and working with companies on sustainability issues.

"For example, Ørsted, which is ranked as one of the most sustainable energy companies in the world and is the global leader in offshore wind power was actually once an oil and gas company. Engagement not only has a positive impact on the planet and society, but it also has the potential to drive better long-term investment returns for our clients."

SJP, which has been on its own ESG journey, started monitoring its external fund managers in 2014 and last year reached its target of getting all of them signed up to the United Nations-backed Principles for Responsible Investment. The wealth manager's commitment to reducing the carbon footprint of its entire investment proposition saw it become one of the first in the UK to report to clients on the carbon footprint in their portfolios. It has joined the UN Net-Zero Asset Owner Alliance and is looking at enhancing one of its largest global equity funds to include a low-carbon objective.

> **Most people want to do the right thing and are starting to realise what an important role their savings have in building a better world, they just don't know how to do it**

"In addition to the work we're doing on all our 39 funds, that's going to help us really drive the transition to a more sustainable world," says Gardner, who points to ESG's firm place in SJP's investment philosophy, recognised as key to long-term return, risk, opportunity and client outcomes.

Responsible for £130 billion of funds from more than 780,000 clients, aged from under one to over 100, SJP is grasping the opportunity to lead the responsible investing charge and plug the knowledge gap which is holding it back.

"Communication and reporting are key and, through our vertical integration, we are able to have a conversation with a financial adviser or fund manager and then speak to a client," says Gardner. "We can echo up the chain what our clients want and, vice versa, get messages back down about what's going on with companies.

"Most people want to do the right thing and are starting to realise what an important role their savings have in building a better world, they just don't know how to do it. We provide the peace of mind that not only are they doing what's right for them and their family, but also the world around them."

For more information please visit SJP.co.uk/ri

The value of an investment with St. James's Place will be directly linked to the performance of the funds selected and may fall as well as rise. You may get back less than the amount invested. An investment in equities does not provide the security of capital associated with a deposit account with a bank.

Members of the St. James's Place Partnership in the UK represent St. James's Place Wealth Management plc, which is authorised and regulated by the Financial Conduct Authority.

[1], [2] The Wisdom Council 2020 Responsible Investment Study into Consumer Attitudes and Behaviours (2,067 UK consumers)

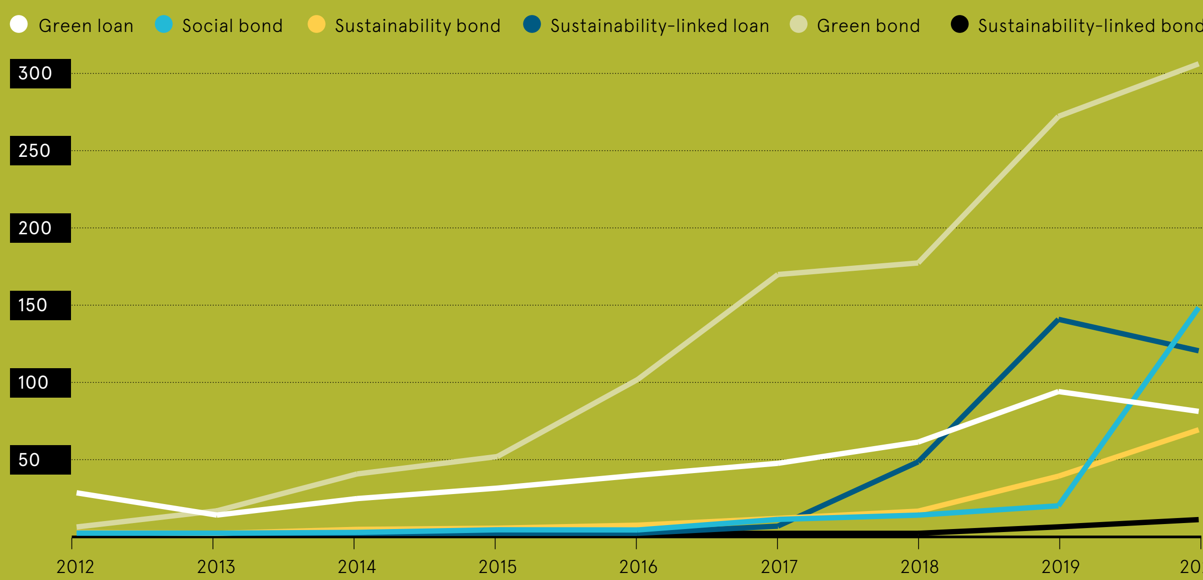
ST. JAMES'S PLACE
WEALTH MANAGEMENT

Commercial feature

THE RATE OF GROWTH IN ESG INVESTING SHOWS THE TREND IS HERE TO STAY

Sustainable debt annual issuance in $bn

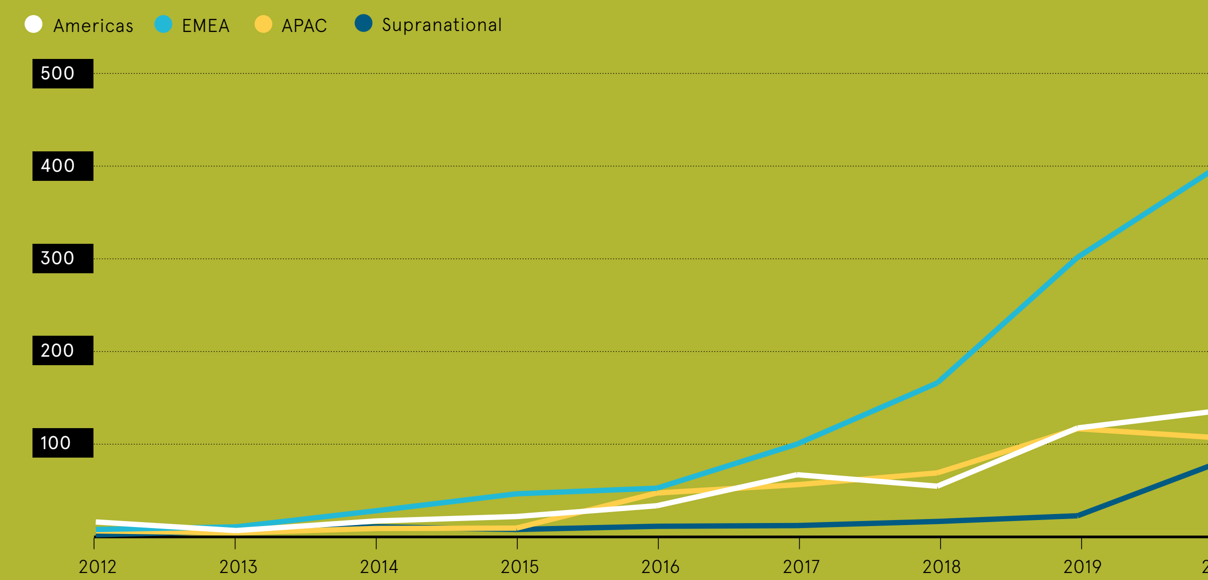
BloombergNEF 2021



WITH ESG INVESTING RISING IN MOST REGIONS GLOBALLY, EMEA IS LEADING THE CHARGE

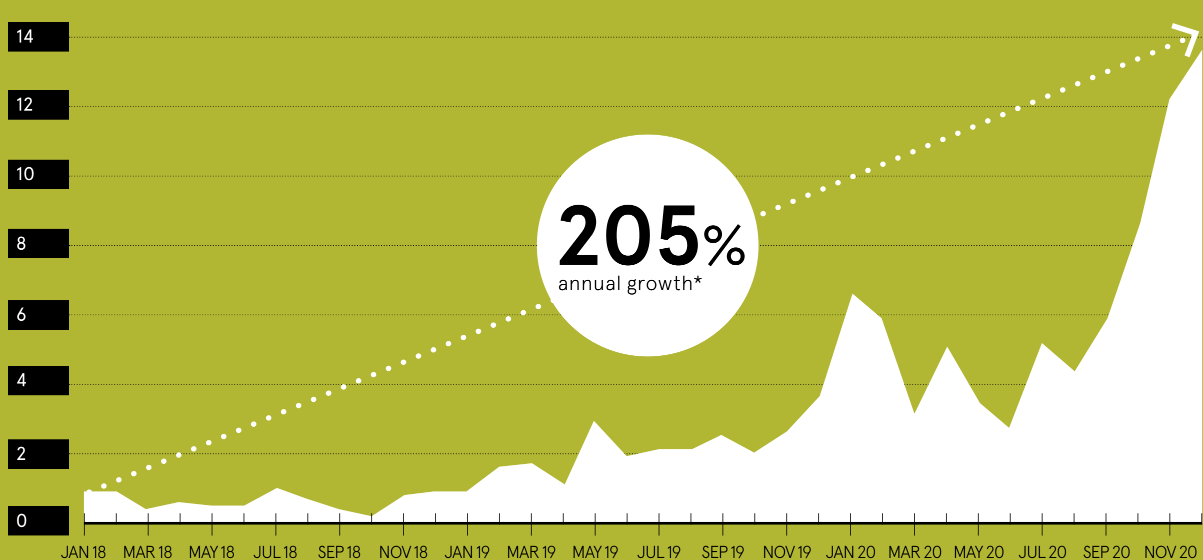
Sustainable debt annual issuance per region in $bn

Bloomberg 2021



ESG ETF net flows in $bn, by month

BloombergNEF 2021



DEVELOPMENTS IN POLICY AND REGULATION WILL DRIVE CONTINUED CHANGE

Timeline of future EU regulatory developments

BloombergNEF 2021

March 2021
Sustainable Finance Disclosure Regulation (SFDR) high-level legislation (level 1) effective date

End of 2021
Publication of the Delegated Acts (detailed legislation) on the 4 other environmental objectives for EU Taxonomy

Jan 2022
First mandatory corporate reporting on share of turnover, capex and opex aligned with climate change mitigation and adaptation objectives

Jan 2022
Mandatory reporting from asset managers and other investors on alignment with climate mitigation and adaptation objectives

Jan 2023
Compulsory reporting on alignment with the four other environmental objectives for all parties: corporations, asset managers and other investors

*Growth figure represents compound growth between 2018 and 2020 annual inflows

Unlocking successful ESG investment with credible data

Investors are placing vast sums of money into products they view as having strong environmental, social and governance credentials, but problems remain around data accessibility and quality. More consistency, reliability and transparency is urgently needed

For more than a decade, environmentally and socially conscious stocks or bonds have been touted as delivering positives for the planet while growing wealth for investors. But only more recently, with $38 trillion of environmental, social and governance (ESG) assets under management in 2020 – estimated by Bloomberg to grow to $53 trillion within five years – has sustainable investing gone genuinely mainstream.

While investments have soared, serious concerns have hampered trust in the market. Perhaps the most obvious problem is greenwashing, through sometimes highly misleading corporate environmental claims. Another concern is the relative lack of pertinent, comparable information. Investors have been beset by disparate corporate reporting practices, as well as by market research reports based on estimates and industry averages.

"Investors are increasingly demanding the financial industry focuses on sustainability initiatives that support better long-term, risk-adjusted portfolios," says Patricia Torres, global head of sustainable finance solutions at Bloomberg, the financial information and news provider. "The lack of good data makes it hard for fund managers to explain why they have taken certain decisions from an ESG perspective and it leads to investor criticism."

The rate of growth of ESG markets presents its own challenges too and can result in marketing department promises outpacing impact realities. While investors initially simply blocked their money going to companies deriving too much of their profits from fossil fuels, for example, they soon moved on to demand much more specific ESG ratings as a basis for investment choices.

"At this point in ESG's evolution, the rush for data often uncovered massive inconsistencies, inaccuracies and even misleading claims," says Torres. "Investment managers suddenly faced questions about whether their ESG strategies were really as positive as promised."

The gap between investor expectations and the promises made by corporations and institutional investment funds is in the sights of market regulators. Several rule-makers are now seeking to establish clear standards around definitions, metrics and disclosure.

Leading the way is the European Union, which has incorporated recommendations from the Task Force on Climate-Related Financial Disclosures (TCFD), proposing clear taxonomy for classifying sustainable operations, regular disclosure by investment firms on how ESG fits their strategies, consistent metrics and governance, and benchmarks to help investors track their portfolios.

> We have entire teams completely focused on accessing, curating and presenting accurate ESG data for a given company

"The first focus has been on directing capital to more sustainable outcomes that meet countries' climate pledges, rather than simply comparing companies against each other," says Nadia Humphreys, business manager for sustainable finance at Bloomberg. "Equally, regulators want to ensure institutional investors appropriately assess the systemic risk from climate change."

To succeed consistently on ESG reporting and monitoring, European funds need to work towards a complete understanding of activities within their portfolios, a change that can be driven by regulators in combination with corporations and the investment industry, Humphreys argues. "A core aim of the European regime has been to introduce a holistic understanding of all issues, rather than a narrow focus that might assess carbon but ignore waste management or biodiversity," she explains. "This is the only way to truly measure impact."

Bloomberg is at the forefront of these changes, taking its established methodologies for extracting and displaying transparent market information, and applying them to metrics, indices and analysis on ESG factors. The result is a range of reliable information available on its widely used terminals, presented in actionable formats tied to investment fundamentals.

The company provides more than 1,200 ESG datapoints of current, verified information and third-party scores on almost 12,000 businesses, as well as extensive research and news, fixed-income and equity indices, and a Gender Equality Index that tracks policy development, representation and transparency. All the content can be integrated into regular risk and modelling systems. Meanwhile, Bloomberg analytics correlate ESG and investment data, and deliver robust, clear insights that inform smart strategies.

"We have entire teams completely focused on accessing, curating and presenting accurate ESG data for a given company," says Torres. In a field largely reliant on industry averages and algorithms, and on digesting obscure text in company reports, Bloomberg differentiates by combining cutting-edge machine learning with the expertise of hundreds of data-quality staff.

As ESG investments continue to scale, Torres expects particularly notable growth in sustainable bonds and loans. Indeed, Bloomberg calculates that last year saw a record $732 billion of sustainable debt issuance, boosted as governments sought to raise money for economic stimulus during the coronavirus pandemic. Companies too are tapping the markets to fund initiatives such as greenhouse-gas emission reductions or biodiversity conservation, with a notable number linking funding to clear ESG targets.

With the more than 40 per cent growth in ESG investment expected in the next five years, asset managers, pension funds and others will face ever-stronger expectations from both investors and regulators. Fund success depends on rapidly securing access to accurate information that is highly comparable, fully consistent and quickly actionable.

For trustworthy and accurate, actionable ESG data and analytics please visit bloomberg.com/professional/solution/sustainable-finance/

Bloomberg®

Q&A

ESG is in Bloomberg's DNA

Patricia Torres, global head of sustainable finance solutions at Bloomberg, explains why the company is driving so many resources into environmental, social and governance (ESG) data, the impact for funds and the opportunities for the future

Q How would you characterise the last decade's changes to ESG measurement and the experience for investors?

A It's been a real journey for the industry. Many funds have moved from simply not buying company stocks based on their involvement in controversial products or services, such as weapons, to demanding proper integration of ESG risks and opportunities into their investment process. In parallel, the regulators are insisting on consistent methodology and more corporations are feeling the pressure to improve reporting. Funds are starting to hold their investment targets to account in shareholder meetings and at all other opportunities. It's a long road, however, and there remains a need for global ESG reporting standards.

Q From your observations, what are the main challenges funds have faced?

A The big problem for many is accessing good, reliable and detailed information around ESG that is industry specific and has direct financial relevance. Investors are making a leap of faith until they and their funds consider truly accurate and clear data, based on the same common global standards, when assessing financial risk and performance through an ESG lens. Only when this is in place can they really know the credentials of investments, and achieve positive and impactful growth.

Q Why is Bloomberg so active in ESG data?

A At Bloomberg, we bring transparency to the markets. We want to build upon existing expertise in data collection and normalisation, providing comprehensive, accurate and reliable ESG data to enable our clients to make a more holistic investment analysis. ESG is also part of our corporate DNA. We have a number of initiatives dedicated to promoting sustainability throughout the firm and our founder, Michael Bloomberg, supports programmes designed to tackle ESG issues. He chairs the Task Force on Climate-Related Financial Disclosures, the Climate Finance Leadership Initiative and previously served as chair of the the Sustainability Accounting Standards Board. He was also just reappointed as the UN Special Envoy on Climate Ambition and Solutions.

Q Why must data providers help drive a fair ESG investment landscape?

A It's imperative that we play a central and collaborative role. Financial data providers are trusted by funds, which in turn need the confidence of wealth investors and pension holders. We provide the information and analysis to help manage their money. Investors are highly tuned in to how their capital impacts the climate and people around the world. Financial data providers like Bloomberg must always be active in working with corporations, investment funds and regulators to ensure ESG investment is transparent and accessible.

Q Why is it so important for funds to act quickly on their data quality?

A Investor expectations around ESG are heightened with every report they read around environmental impact and social injustice. In 2021, a year into the coronavirus pandemic, they are acutely aware of how quickly lives and economies can change. It is crucial they can place their money in funds that are able to confidently explain their investment strategy, and why their company and industry choices are well positioned in a low-carbon and more equitable economy.

Q What excites you about the future of ESG investments?

A To create a more resilient world economy, market participants and regulators must accelerate the rate of progress. Today's dialogue around standard-setting is a critical and urgent step in the right direction. The combined push from investors and funds, the regulators, the data industry and trade associations is creating a more effective world of ESG investment that not only grows individuals' wealth, but delivers economic growth, jobs and substantial progress towards a sustainable planet. For us at Bloomberg, being able to give clients powerful tools, such as our carbon estimates that deliver more precise measures of a company's emissions, is what we hope will continue to drive the needed progress.

TCFD: Five facts

1 The Task Force on Climate-Related Financial Disclosures (TCFD), chaired by Michael Bloomberg, was created in 2015 at the request of the Financial Stability Board.

2 The TCFD recommendations propose clear reporting about how climate change financially impacts companies across four pillars: governance, strategy, risk management, and metrics and targets.

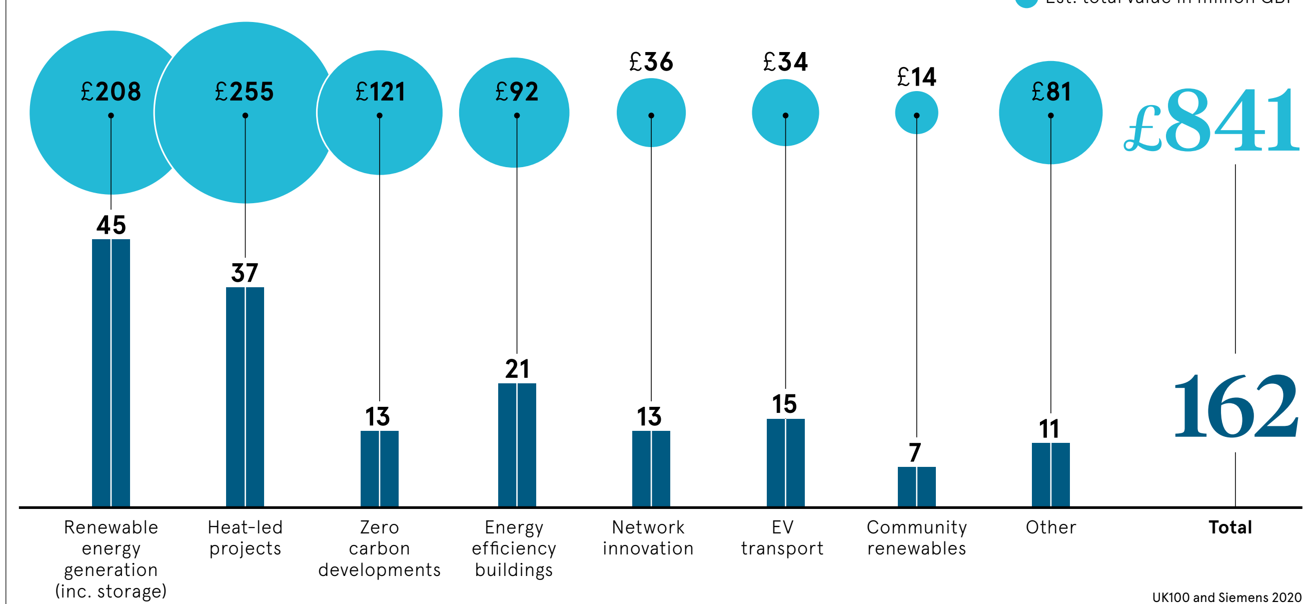
3 Over 1,800 organisations across 78 countries support the TCFD, including more than 800 financial firms responsible for managing $160 trillion of assets.

4 More than 110 regulators and government bodies support the TCFD, including the UK, Hong Kong, Switzerland and New Zealand, which are making its recommendations mandatory.

5 The TCFD's goal is better understanding of climate risks and opportunities, and clear and consistent disclosure on climate-related financial exposure. This will create more transparent markets, helping build a more resilient global economy.

THE SCALE OF THE LOCAL ENERGY OPPORTUNITY

The projected value that local clean energy schemes could generate



UK100 and Siemens 2020

INFRASTRUCTURE

Can a National Infrastructure Bank transform the UK?

A National Infrastructure Bank has the potential to drive economic and societal change, but it must be broad enough in scope and ambition, and look long term to have an impact

Jonathan Weinberg

As part of his last Spending Review, chancellor Rishi Sunak announced details of a National Infrastructure Bank (NIB), seen by many as vital if the UK is to meet its climate change ambitions and 2050 net-zero carbon target.

Firmer details are expected in the Budget on March 3, but in the interim, the National Infrastructure Strategy (NIS) suggests part of the bank's role will be to replace some activities of the European Investment Bank (EIB) now Britain has left the European Union, offering targeted support "better aligned with the UK government's objectives".

In a foreword to the NIS, prime minister Boris Johnson says: "About half of all infrastructure spending is private, especially in energy, water and telecoms. We will reduce policy uncertainty that holds back investment and create a new National Infrastructure Bank to co-invest with private sector partners."

So can the NIB succeed in harnessing the future of sustainable investment across the UK, especially when an earlier UK Green Investment Bank is seen to have failed?

Just last year, UK100, a network of local and regional council and authority leaders, called for a similar scheme to the NIB. It wanted to see a specific net-zero development bank "to kickstart the journey to 2050".

A report, released with Siemens, showed how a £5-billion investment could unlock £100 billion in sustainable energy projects and help "level up" across the UK.

UK100 director Polly Billington says: "The NIB could achieve exactly this, mobilising private investment to rebuild our economy while meeting our climate goals and building resilience into our communities."

She welcomes the UK government's "commitment and rhetoric about the importance of meeting its climate targets" and that it intends the NIB to have a net-zero mandate.

But Billington warns: "To succeed it will need a strong development focus, a regional structure and a place-based approach that builds on the expertise in local government."

Some now view the NIB as a chance for the UK to become a global leader in infrastructure development, believing it should define a new model for green investment by becoming a positive disruptor.

Jason Longhurst, chair of the UK Business Council for Sustainable Development, is one of those. But he says it would need clear outcome-based metrics, measured against new environmental contribution baselines via the United Nations Sustainable Development Goals.

He explains: "At national scale, the bank has the potential to unlock and define a 'clean growth economy'. To succeed, it must help to mainstream sustainability and channel the UK's response to climate change, moving the agenda from 'emergency' to 'transition' and showing the tangible and viable economic benefits at every level."

However, Longhurst cautions it cannot repeat the mistakes of the Green Investment Bank and only offer one method of financing, through loans.

"It must reward those who transition to net zero, it must enhance opportunities to go beyond tax incentives, reduced corporation tax and innovator benefits," he says. "The UK needs a mixed-investment approach of grants to address market viability and funding gaps, investment loans to stimulate high growth and to significantly reduce the interest rate for green investment.

"It also must address social wellbeing, health improvement, youth employment, social mobility; successfully tackling all these challenges will uplift earnings and reduce state reliance if delivered."

Matthew Jellicoe, co-founder of OnePlanetCapital, an investment house focused on businesses tackling climate change, is another who welcomes the NIB as he believes it could "take on large and long-term projects where private finance may often be reluctant".

Jellicoe references a carbon capture PhD scientist who told him the technology was falling behind due to a lack of investment in infrastructure to prove it is viable.

"The transition to net zero requires a paradigm shift across most aspects of society, from energy production through to transport and the way we live in general. Large upgrades to rail infrastructure, reintroduction of trams in city centres, tidal power plants; all of these types of long-term projects will benefit," he says.

> **To succeed, it must help to mainstream sustainability and channel the UK's response to climate change**

"With a crisis as pressing as climate change, I do not think the government has any choice regarding setting up the NIB. EU banking facilities have to be replaced rapidly and if the government wants to drive the 'green industrial revolution', it will have to walk the walk."

One of the biggest risks of any long-term project is a change in government. It is for this reason that cross-party support and a non-political focus could also be a crucial part of the challenge.

Adam Savitz, managing director at Xynteo, whose *Choose Growth* report sets out ways in which chief executives can collaborate between the government and private sector to solve carbon challenges, believes so. He says: "To see this agenda through, this partnership needs to hold, outliving electoral cycles and terms of service. Only then will we be able to catapult the UK ahead in the race for new growth.

"There's never been more capital available for net-zero infrastructure development. But before the monitoring frameworks are designed to capture the return on investment essential to decarbonise, the greatest challenge is to ensure we look systematically across all investment strategies.

"The NIB's success hinges on a deep and fast reset of the interface between government and business, combining respective strengths. They must take the democratic legitimacy, public policy expertise and early-stage investment muscle of governments and weld it with the technological capacity, business modelling knowhow and scaling expertise of companies."

According to the UK Green Party, the NIB could look abroad for inspiration. Its finance spokeswoman Molly Scott Cato pointed to Germany's state-owned public development bank KfW as a useful model to follow as it has "funded their successful shift towards a low-carbon future".

Scott Cato, a former Green MEP, believes a publicly-funded national retrofitting scheme should be the NIB's top priority, adding: "As Greens, we are clear that COVID recovery investment should prioritise the need to respond to the climate emergency.

"Genuinely building back better means there is clear criteria so funding only goes to companies that will be part of our net-zero carbon future and favours those demonstrating they are making rapid progress on reducing their CO_2 emissions.

"All investment by the bank should pass stringent carbon stress tests as well as offering mandatory disclosure on environmental, social and governance risks."

OPINION

‘As we seek to build back better in 2021, the global investment community can play a key role’

Responsible investment, or the strategy and practice of incorporating environmental, social and governance (ESG) factors into investment decisions and active ownership, is nothing new. Over the past five years, however, it has gained momentum, transforming from a niche activity to a critical component of the global financial system.

The coronavirus pandemic has accelerated this trend, acting as a kind of proof point for ESG investing and wider sustainability practices. A deluge of data clearly backs this up.

HSBC's *2020 Sustainable Finance and Investing Survey*, for example, found that more than 90 per cent of respondents consider environmental and social issues to be important and 30 per cent of investors say the pandemic has strengthened their commitment to ESG issues.

Blackrock's *2020 Global Sustainable Investing Survey*, meanwhile, found 54 per cent of respondents consider sustainable investing as fundamental to their investment processes and outcomes.

That means the question for the industry in 2021 must be what is next on the ESG agenda?

Climate change has remained the number-one issue for global investors for several years now and the pandemic has not altered this priority. It is clear that 2021 will be a critical, make-or-break year for the climate agenda.

At the end of 2020, we celebrated the fifth anniversary of the United Nations Paris Agreement, a significant turning point in global collective action by nations, as well as for much of the private sector. Unfortunately, this important milestone also served as a stark reminder that we are dangerously off track in our mission to tackle climate change and are hurtling towards a temperature rise of more than 3C.

With the rescheduled UN climate change conference COP26 taking place in the UK in November, many investors are stepping up to lead on the climate agenda. They are using their leverage to influence change through engagement with corporations, investment allocation, disclosure, policy and advocacy.

In January, all eyes turned to America as the Biden-Harris administration moved into the White House, signalling a new direction for the world's largest economy. Biden's day-one achievement of rejoining the Paris Agreement was a bright spot in climate action. With the need for urgent climate policy no longer contested in the United States, investors must take up the baton and channel this optimism into clear and decisive action.

There are already signs that President Biden's support for wider ESG finance policy, beyond climate, is likely to create a more enabling environment for responsible investment in the country.

The pandemic and subsequent economic crisis have had substantial negative impacts on a broad range of social or human rights issues. These disruptions have underscored the utter vulnerability and precarious employment status of many workers and have exposed a widespread lack of adequate safeguards to protect workers and their rights during crises.

However, in exacerbating these issues, it has also put them on the radar of investors in ways not seen before. As we seek to build back better in 2021, the global investment community can play a key role by engaging with companies to ensure they are improving labour management practices and addressing human rights risks.

As responsible investment continues to grow, the sector is maturing and we are starting to see a subtle shift in thinking. Whereas in the past investors generally came purely from a risk-and-return standpoint, today a growing number are understanding and harnessing the impacts their portfolios have on the real world. In doing this, they can help drive the recovery from COVID-19 and play a part in realising a more sustainable and just future for all.

At the Principles for Responsible Investment, we look forward to supporting investors on this mission through 2021 and beyond.

Fiona Reynolds
Chief executive,
Principles for Responsible Investment

SUSTAINABLE FINANCE

Can finance help businesses achieve ESG goals?

Sustainability-linked financing is increasingly being used by companies to prove they are taking the issue seriously, but businesses need to offer ambitious and credible targets to have a real impact

Ben Edwards

Hollie Adams/Stringer via Getty Images

When luxury fashion brand Chanel issued €600 million of bonds last September, there was an unusual catch: if the company fails to meet its sustainability goals, it will have to pay penalties to investors.

The deal is an example of a new type of debt known as a sustainability-linked bond, which is a way for businesses to finance themselves while tying repayments to their sustainability targets. That is different from traditional green or sustainability bonds, where the money raised has to be spent on a specific green or social project.

"Sustainability-linked bonds essentially help companies create an ambitious and accountable pathway to support their overall sustainability strategy," says Delphine Queniart, global head of sustainable finance and solutions at BNP Paribas Global Markets.

Chanel's bond sale consisted of two separate deals for €300 million each. The first commits the company to cutting its greenhouse-gas emissions in half by 2030 and reducing emissions in its supply chain by 10 per cent. The second pledges to transition to 100 per cent renewable electricity across the company's operations by 2025.

If Chanel fails to meet its emissions targets, it will have to pay a cash penalty of 0.75 per cent, almost doubling the 1 per cent interest rate it is paying to borrow the money. Likewise, if it fails to meet its renewable electricity target, it will have to pay an additional 0.5 per cent premium on top of the 0.5 per cent interest rate for that bond.

In addition to emissions targets and renewable energy goals, some issuers have included targets related to diversity. Schneider Electric's deal in November 2020, for instance, included a target to improve gender diversity across its business so that by 2025 women will account for half of all new hires, 40 per cent of front-line managers and 30 per cent of its leadership teams. It has also committed to training one million underprivileged people in energy management by 2025.

"A few years ago it wasn't that easy to hold companies to account and track their ESG [environmental, social and governance] improvements, but sustainability-linked bonds will help you to do that," says Mark Munro, fund manager at Standard Life Investments. "These will help move the conversation forward; it's much better to think about a holistic ESG target for a company rather than just a specific project."

Italian energy company Enel issued the first sustainability-linked bond in 2019, taking a cue from the loan market where interest rates could be ratcheted up or down depending on whether or not certain metrics had been met. That remained the only deal until last year, when the introduction of the International Capital Market Association's Sustainability-Linked Bond Principles, which provide guidelines around how the bonds should be structured, spurred more companies to follow suit.

Chanel, Novartis and Suzano! all issued bonds in September 2020, with more deals following in November after the European Central Bank said it would accept sustainability-linked bonds as collateral.

In total, companies issued roughly $9 billion of sustainability-linked bonds in 2020, according to Ángel Tejada, head of the green bonds group at Spanish bank BBVA. He believes there could be anywhere up to double that amount issued over the coming year.

"We will likely see issuers trying to complement their green bonds with sustainability-linked bonds because they offer more flexibility and less limitations on what they can spend the proceeds on. But we are also likely to see new issuers that aren't able to fund sufficient eligible assets to issue a green bond, but want to engage with ESG investors," says Tejada.

Tesco was one of the first companies to tap the market this year, issuing a €750-million sustainability-linked bond in January that commits the supermarket chain to a 60 per cent cut in its greenhouse-gas emissions by 2025.

> The real game-changer is the way ESG and sustainability criteria are becoming embedded into investment strategies

While bankers predict the volume of sustainability-linked bond issuance could eventually match the green bond market, which according to Dealogic saw $235 billion of deals last year, they also caution against moving too fast.

"It is important for us how these bonds are structured, that the targets are ambitious and credible so there is no greenwashing," says Queniart at BNP Paribas. "We prefer there is a considered pace of shaping the market, rather than people quickly setting non-credible targets, which may erode confidence in the nascent market."

Reputational risk could also dampen potential issuance given that if a company failed to meet its sustainability goals, it could attract negative publicity and discourage others from pursuing deals.

"If you set yourself high targets and miss them, and then get criticised for it, that will ultimately hurt the development of the market," says Clare Burgess, partner at Clifford Chance.

Some companies are also questioning the value of rewarding investors for missing targets. For example, Hong Kong real estate group New World Development issued a sustainability-linked bond at the start of this year, which instead of paying investors a higher interest rate if it fails to meet its target will spend the equivalent amount of money to buy carbon offsets.

While it is too early to gauge how much impact sustainability-linked bonds will have on broader efforts to achieve net-zero emissions by 2050, the development of the market is part of a wider ESG trend that is reshaping how people invest.

"The real game-changer is the way ESG and sustainability criteria are becoming embedded much more deeply and holistically into investment strategies," says Andrew Carey, co-head of Hogan Lovells' impact financing and investing group. "What is potentially far more powerful than the bonds themselves is the more seismic shift in the way investors think about sustainability."

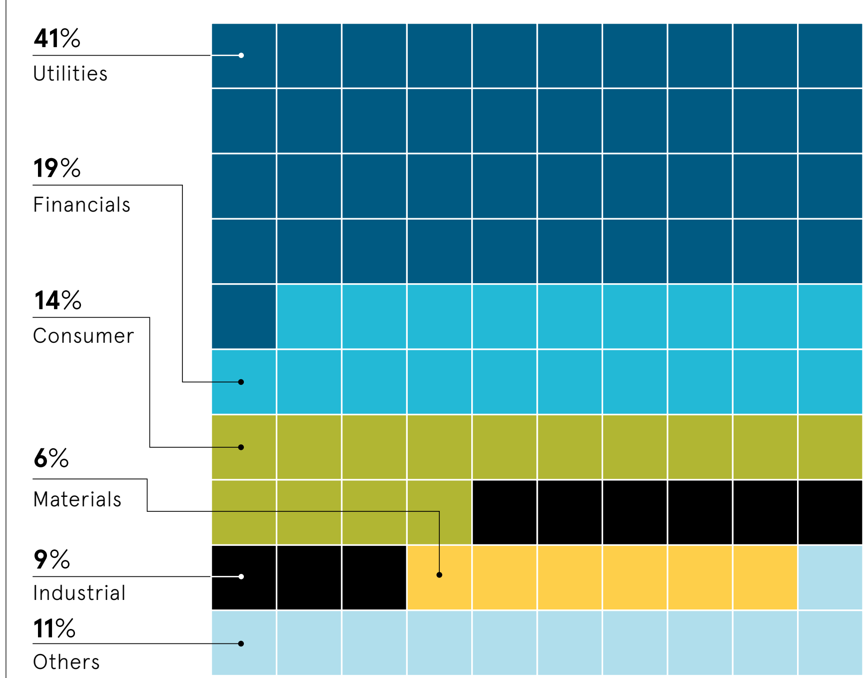
That deeper ESG focus among investors is also likely to change how companies approach sustainability.

"As we've seen with green finance in general, the real benefit is it elevates sustainability issues to the treasury function and board level because it's no longer just the territory of the corporate responsibility group," says Burgess. "It makes people talk to each other and that creates the momentum behind the sustainability changes in the business, which can have a much greater impact."

INDUSTRIES INTERESTED IN SUSTAINABILITY-LINKED LOANS

Bloomberg 2019

Aggregate volumes of sustainability-linked loans by borrower industry, which amounted to nearly $90bn between 2017 and 2019



OPINION

'It is becoming increasingly clear that carbon emissions constitute an investment risk'

Carbon is everywhere. From Turner's paintings to the Battle of Blair Mountain, from the soot-stained buildings captured by the earliest newsreels to the advent of offshore oil rigs, the story of industrialisation has been the story of carbon, our dependence on it and our attempts to end that dependence.

Almost 80 years after the splitting of the atom birthed the first hopes of a post-carbon world, the end of the carbon economy has become a key objective for many developed states.

The effects of this are already being felt in the investment management industry. Investors are increasingly looking at limiting their exposures to carbon or even making their portfolios carbon neutral. Meanwhile, the members of the Net-Zero Asset Managers Initiative, who collectively manage more than $9 trillion, have pledged to make their portfolios carbon neutral by 2050.

A number of alternative investment managers are responding to this growing demand. By using short selling, hedge fund managers can both limit carbon risks and increase the cost of capital for the biggest polluters.

Over the past several years, it has become increasingly clear that carbon emissions constitute an investment risk. Countries around the world are beginning to implement carbon taxes, even countries as dependent on commodities as Canada. Even without taxes, however, many now assume carbon-intensive physical assets, such as coal-fired power plants, may one day become stranded assets. The fate of the Keystone XL Pipeline will be interpreted by some as a sign of things to come.

How to mitigate such risks to portfolios? If you are a long-only investment manager, you don't have many options. You can either divest entirely from companies with high emissions or you can purchase offsets. The former is difficult if you're chasing a benchmark. The bigger problem, however, is fully removing carbon emissions from a portfolio is effectively impossible.

Carbon is pervasive; the company in which you invest may be carbon neutral, but its suppliers, distributors and energy providers may well not be. Purchasing offsets, meanwhile, can cut into the returns passed on to investors.

Short selling offers a different way to limit carbon risks. As with market risk, hedge fund firms can use short selling to protect against carbon risk where they identify this to be a significant driver of future asset values. Short positions on carbon-emitting assets will generate positive returns should carbon risks materialise. Those returns should offset the losses created by holding long positions in carbon-emitting assets.

Hedge fund firms can thus hedge against carbon risks without the need for divestment or offsets. Indeed, given the practical impossibility of fully removing carbon emissions from a portfolio, the argument could be made that hedge fund firms are the only investment managers that can truly minimise carbon risks.

Using short selling, they could even achieve carbon neutrality without sacrificing any returns. They could even increase the cost of capital for heavy emitters. If carbon emissions are indeed a risk, it stands to reason companies which emit relatively large amounts of carbon should compensate investors for that risk.

This dynamic is already at play with divestments. The fewer the investors willing to purchase a company's securities, the lower the demand and thus, all else being equal, the higher the returns that company will need to offer to attract investors. By selling emitters short, hedge fund managers can accelerate this transition.

Finally, short selling gives hedge fund managers a strong incentive to closely investigate companies' stated emissions. As evermore money flows into issuers marketing themselves as "sustainable" or "environmentally friendly", markets will benefit from having sceptics on the hunt for greenwashing. Short selling gives hedge fund managers a good reason to help keep the markets honest.

Moving away from a carbon-based economy will create investment opportunities and drive innovation in risk management practices. Hedge fund firms stand ready to use their flexibility and dynamism to deliver superior risk-adjusted returns as we move towards a new industrial paradigm. ●

Jack Inglis
Chief executive,
Alternative Investment Management Association

OPINION

'Rather than a deregulatory race to the bottom, now is the time for the UK to strengthen its ambitions'

Since the UK signed its Brexit deal in the days before Christmas, thoughts have turned to the type of country the government now wishes to build. So far, messages from the government in this regard have been mixed, with some policy announcements suggesting a drive towards deregulation and diluting environmental standards, while others propose stronger safeguards.

For example, one of the UK's first acts in this new European Union trading relationship was to authorise the emergency use of neonicotinoids, pesticides known to kill bees that are banned by the EU. More recently, the government has refused to intervene to reverse plans to open the UK's first deep coal mine in three decades. These are not the signals of a sustainable post-Brexit landscape many had hoped for.

On financial regulation, the UK also faces a stark choice. The government could choose to deregulate, undercutting Europe on financial regulations and reducing transaction costs in the UK. While this may seem a tempting option to some, members of the UK Sustainable Investment and Finance Association (UKSIF), which represents £10 trillion pounds of assets from across the financial services industry, believe it would be a road to disaster.

Any short-term benefits over EU markets would be quickly undermined by the loss of regulatory certainty for firms and a failure to keep pace with rapid advances on issues such as emissions reductions, worker wellbeing and corporate governance taking place in the real economy.

This is a view echoed by Barclays chief executive Jes Staley, who recently commented that the UK must look beyond the EU in its quest to define the future success of UK financial services post-Brexit. He highlighted that the way to achieve this is not by deregulating – "I wouldn't burn one piece of regulation," he said – but by recognising that sensible, well-crafted regulation and an empowered regulator brings positive benefits to the UK, building trust and protecting the market.

Rather than a deregulatory race to the bottom, UKSIF believes now is the time for the UK to strengthen its ambitions with the aim of becoming the world's leading hub for sustainable finance and investment. The timing is important, since the UK is due to announce its proposed regulatory framework to complement the EU's sustainable finance action plan. The UK has pledged to "match the ambition" of the EU's regulations when it publishes its own version of a sustainable finance taxonomy and disclosure regulations in the coming months.

UK regulations should look to closely match their EU versions, allowing the most seamless approach to promoting funds for customers in the UK and Europe. The government should also take this opportunity to enhance the effectiveness of these regulations; for example, to make them compatible with the leading sustainability rules that might emerge from other jurisdictions beyond Europe in future. This would provide an opportunity for the UK's many sustainable finance leaders to highlight their efforts and signal a positive path for others to follow.

In the years ahead, as the world continues its awakening to the urgency of climate change and the coronavirus recovery focuses on driving a path to a better future both environmentally and socially, the UK has a leadership opportunity that it must grasp. We wish to see the UK shining as a clear beacon and driving force for sustainability in financial services.

A clear regulatory signal would be followed by efforts from firms to boost skills and develop more specialised products, all advancing the global position of the UK's industry leaders. It would push UK firms to drive innovation forward and capture this evolving market.

Doing so would set us up for success in what will undoubtedly become a central pillar of the future business landscape. Simultaneously we would put the world on a pathway towards sustainability in its broadest sense, environmentally and socially. ●

James Alexander
Chief executive,
UKSIF

Hollie Adams/Stringer via Getty Images

PROPERTY

The growing need for greener buildings

Sustainable buildings are rising up the environmental, social and governance agenda as tenants want offices that promote wellbeing and sustainability, but investment in commercial real estate is needed to meet demand

Rich McEachran

As you read this, all too likely from your home office, consider that the construction industry is responsible for up to 40 per cent of global emissions. Not only that, 64 per cent of commercial buildings in London alone were built before 2000 and could benefit from being upgraded.

There's a need for energy-efficient and low-carbon buildings that are more than just concrete, glass and steel. Green buildings are a global investment opportunity that could be worth $24.7 trillion by 2030, according to the International Finance Corporation.

Although sustainability was an underlying trend before the coronavirus pandemic struck, the crisis has accelerated the realisation among commercial real-estate stakeholders that the built environment can affect general wellbeing; the carbon footprint of offices has also become an area of focus for more occupiers. Investing in green buildings is being pushed further up the environmental, social and governance (ESG) agenda.

According to a recent survey of 1,500 occupiers, conducted by international law firm CMS, 82 per cent of respondents said the office would continue to be a source of human connection post-pandemic, while 61 per cent said they would be refurbishing offices once people return to the workplace.

Furthermore, 65 per cent said they'd happily take a pay cut to work in a sustainable building and 62 per cent said a corporate social purpose was now more important than it was this time last year.

Adapting to meet demand

For the most part, institutional investors don't need convincing. Research from Warburg-HIH Invest found 51 per cent of 100 respondents were expecting a higher return on real-estate projects that take ESG into account and 70 per cent said ESG is now relevant to their investment criteria.

Despite this, there are investors who are wary about investing in green commercial real estate. And property developers often need help seeing the benefits too. As such, there's a gulf between the demand for sustainable buildings and the supply. Investors and property developers will have to rethink their approach to meet the demand.

"I expect tenants will start negotiating for the office space and quality they actually need. This means developers with lower-quality locations will need to adapt to this new demand," argues Gareth Simm, chief executive of HE Simm Group, a leading mechanical and electrical services provider. The company has worked on a number of commercial projects, including at the Capital Building in Liverpool.

"They will need to upgrade and reconfigure spaces, bringing in touch-free technologies, natural venation and solar-controlled glazing," says Simm.

ESG investment in commercial real estate is more than a few breakout areas and plush furnishings to improve workers' wellbeing. Low-carbon materials, such as timber, will need to be used and energy-efficient infrastructure installed.

It doesn't come cheap though. And it's because of the upfront costs of designing efficiencies into buildings that there's a reluctance to update or plan new developments with sustainability in mind. Looking beyond the upfront cost is critical to encourage more capital investment.

"While it is more expensive to build a sustainable building, better materials and more considered design can often halve maintenance and upgrade costs across that building's life cycle," says Simm. "But if buildings are built cheaply to tick ESG boxes, and without considering long-term maintenance and replacement costs, then a green building can quickly become hugely unsustainable in the long term."

Green premium incentive

When factoring in a building's life cycle, from the materials and construction processes used to how efficiently its infrastructure operates, the cost of going green can justify the initial investment.

The problem is "a higher demand for green office buildings from forward-thinking tenants is yet to translate into measurable uplifts", says Douglas Higgins, project director at First Base. The property developer is overseeing redevelopment of Bristol's historic Soapworks building, which is being turned into a mixture of homes, restaurants and workspaces.

Things are slowly changing. Commercial real estate is poised to benefit from an expansion of ESG lending options available for projects that not only reduce their carbon emissions but meet certain key performance indicators over time. These could include how resilient a building is and whether it offers a healthy, working environment.

"It would have been forgivable if lenders had placed initiatives such as sustainability on hold during this difficult time, but this hasn't been the case. Post-pandemic, lenders will continue to put an increasing amount of time into structuring real-estate loans that specifically support green and ESG initiatives," says Lisa Attenborough, who heads up Knight Frank's debt advisory team. The real-estate consultancy addressed the global rise of sustainable buildings post-pandemic in last year's edition of its annual Active Capital The Report.

Buildings that aren't energy efficient and are more expensive to run are often subject to brown discounts where tenants can rent office space at a cheaper rate. But with tenants inclined to look elsewhere and pay more for offices that promote wellbeing and sustainability, awarding premiums for buildings designed to operate more efficiently should help to incentivise investors and developers who are holding back on going green.

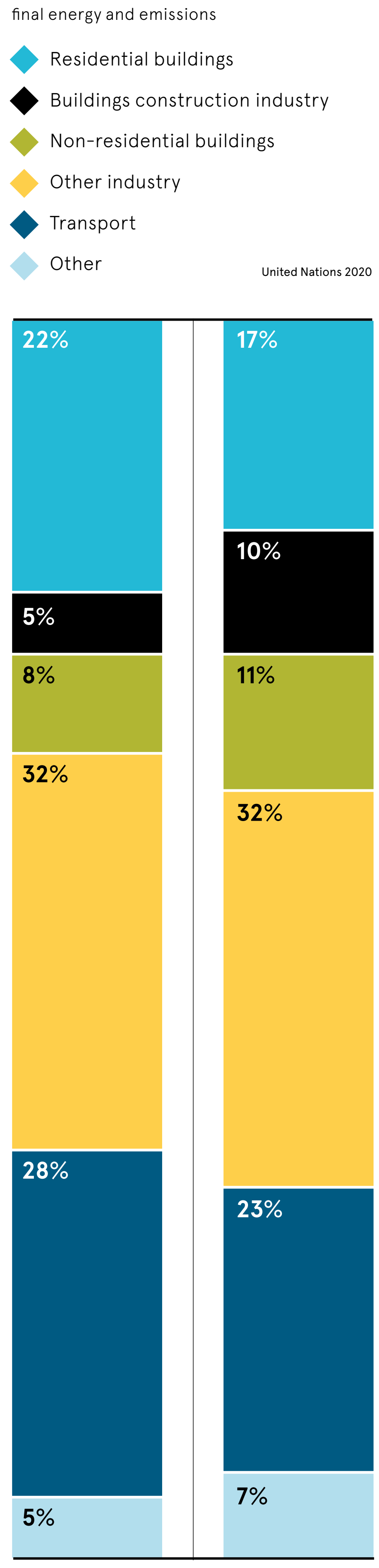
"As older buildings become excluded by these forward-thinking tenants in their office searches, their void periods will extend and values will decline. This will give commercial real estate a clearer justification for making that investment in sustainable buildings," Higgins concludes.

Ultimately, greener buildings will help to attract higher rents, more lucrative tenants and environmentally conscious employees, making sustainability a wise commercial real-estate investment.

> **If buildings are built cheaply to tick ESG boxes, they can quickly become unsustainabile in the long term**

HOW THE CONSTRUCTION INDUSTRY IS CONTRIBUTING TO EMISSIONS

Global share of buildings and construction final energy and emissions



United Nations 2020

Commercial feature

People and communities matter too

Real-estate investment should place social and community needs at its heart to deliver the best outcomes for all stakeholders

When the real-estate sector talks about responsible investment, or RI, it typically means investment that has a positive impact on the environment, but also generates a return.

There is nothing wrong with that *per se*. The UK is legally bound to become a net-zero emitter of greenhouse gases by 2050 and buildings account for 40 per cent of emissions currently. Private capital is vital to help build greener buildings and retrofit existing ones.

However, developers and landlords fall short by excluding other equally important social objectives from their definitions of RI, such as tackling inequality or improving health and education.

Unfortunately, it means that while many real-estate investment projects are environmentally friendly, they do little to support communities.

"The link between delivering social value and financial value has not been as clear as the link between environmental improvement and increased return," explains Angela Goodings, director of research, real estate, Europe, at the global asset manager Nuveen.

"Landlords certainly have focused on delivering social value in the past, but it has been on a piecemeal basis."

Thriving communities

Nuveen Real Estate, a top-five real-estate manager globally with $132 billion of assets under management, believes it is time this changed, and that forward-thinking funds and institutional investors can drive the shift.

By prioritising investments that put social and economic inclusion on a par with decarbonisation, they can have a much bigger impact on communities, while also meeting environmental targets and generating strong returns.

> **Developers and landlords fall short by excluding important social objectives from their definitions of RI**

This will not only mean this investment is truly responsible, says Goodings, but also that it benefits from positive financial gains, which accrue from creating thriving local communities.

"In the past institutional real-estate investment has been somewhat carbon copied across many UK towns and cities with, in the example of high streets, similar occupiers rolled out with less discretion on how catchments can differ," she says.

"But impact investing allows for a full understanding and integration of local needs and provides real-estate solutions to best service these, which in turn means these buildings are more frequently used, more efficient and drive better footfall to the asset and surrounding area."

Impact investing also better addresses evolving societal needs, Goodings says, such as an ageing demographic or the rise of home working, all of which will affect what real estate will be required in the long term.

Pioneers

Nuveen has been a pioneer of RI for more than 50 years, working to improve lives across Europe, the United States and Asia.

In the UK many of its investments have focused on the environment, such as when it installed solar panels at Dalton Park Outlet Centre in Durham to help future-proof the shopping centre against energy price rises and supply shortages.

Every year the installation generates well over 100,000kWh of electricity, enough to power 30 homes, and saves 93 tonnes of CO^2.

Nuveen also invests in socially impactful projects that prioritise local community needs, such as the mixed-use development at St James Quarter in Edinburgh, where phase one is due to complete this year.

As part of the project, Nuveen has created the new FUSE Skills Academy, which offers local people training opportunities and help to find jobs in retail and hospitality.

More than 450 new jobs will be recruited initially at the development, with the capital city destination also planning to sustain a total of 3,000 new roles as it continues to grow.

Net-zero future

The environment will always be key to Nuveen's investment thesis and for good reason, says Abigail Dean, global head of strategic insights for real estate at Nuveen.

"Tackling the climate crisis and managing the risk that climate change presents to asset value has become a huge issue for institutional investors. So, as an asset manager we need to put this issue at the centre of our investment strategy if we are to attract and retain investment," she says.

That said, the pandemic has emphatically shown why the strategy must now be widened. Hundreds of thousands of people have lost their jobs and already-deprived areas have been hit hardest. Real-estate investors must play their part in the recovery.

"The level of focus on this issue from investors has grown and there is a realisation that real estate can be used to address social inequality, housing and health inequality, and underinvestment in deprived areas," says Dean.

Social and financial returns

Nuveen has consistently reduced the carbon emissions of its entire global real-estate investment portfolio over the past decade and has not had to sacrifice return as a result. In 2019 alone, Nuveen reduced the carbon emissions from its portfolio by 26,500 tonnes. In fact, low-carbon buildings are often more attractive to tenants and therefore command higher rents. The company believes its new approach will be no less successful.

As such, it will develop future investment strategies that combine social and environmental impact goals.

These are likely to focus on a wider range of developments, including logistics, office, retail, leisure, healthcare, education and living, with a commitment across the board to meeting local priorities.

At the same time, any buildings Nuveen acquires under this strategy will need to meet net-zero carbon standards by 2030.

> **While most real-estate investment projects are environmentally friendly, they do little to support communities**

Many institutional investors should be drawn to this offer, says Gabi Stein, senior real-estate specialist in Nuveen's Global Client Group. UK local government pension schemes, charities or endowments and private wealth investors will be particularly well suited, as they are more likely to be motivated, not only by financial returns but also by delivering positive impact in the UK.

"Interest in socially responsible investing was already gaining momentum pre-pandemic, but the current crisis has only pushed ethical, social and environmental considerations further up the agenda of institutional and private investors alike," says Stein.

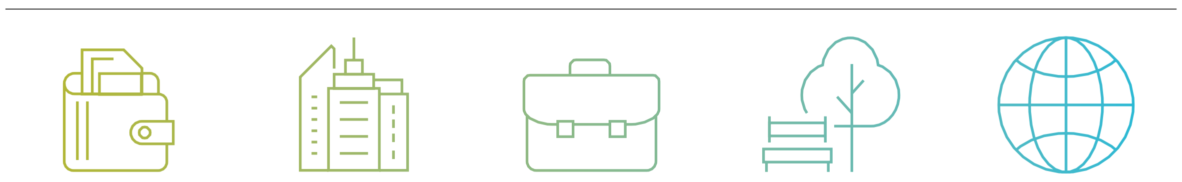
"We are seeing that investors are acutely aware a challenging economic environment only increases the urgency to deploy capital into underserved communities."

In short, she says there is an expectation among investors that the right asset manager can use the knowledge and skills gained from successfully addressing environmental issues to similarly address social issues, while also delivering return.

"Real-estate investment is by its nature an investment in place and in the fabric of a local community," says Stein. "So it is only common sense this should place social and community needs at its heart and that approach will deliver the best outcomes for all stakeholders."

For more information please visit www.nuveen.com/global

THEORY OF CHANGE – A FRAMEWORK FOR MAKING AN IMPACT



INPUTS The resources we provide	ACTIVITIES The ways we add value	OUTPUTS The direct results of our investment	OUTCOMES The intended and unintended effects of our outputs	IMPACT The long-term impact we enable
Long-term financing	Acquire buildings in areas of deprivation	Increased access to services by the underserved	Improved standard of living	Sustainable communities
Deep real estate expertise	Green upgrades to buildings	Net zero carbon (NZC) buildings	Take up of NZC buildings across UK	Mitigate climate change
Existing infrastructure and networks	Improve community infrastructure	Job creation	Economic development in areas of deprivation	Reduced inequalities
	Develop local stakeholder partnerships		Improved health and wellbeing	

Nuveen Real Estate

GOVERNANCE

ESG investors go in search of the boardroom G spot

Governance appears set to dominate the corporate agenda this year as painful decisions around restructuring and headcount reinforce the ongoing debate around the impact of business on communities

Virginia Matthews

With sexy, big-hitter issues such as climate change and the living wage to propel them onto front pages, it's little wonder that environmental and social matters have dominated the ESG agenda to date.

Yet as the clamour for purpose beyond profit continues to build, governance is shrugging off its whiff of worthiness to make 2021 a pivotal year for the business world's all-important G spot.

As fashion retailer Boohoo discovered last summer, being on the wrong side of history over allegations as incendiary as modern day slavery poses a severe and immediate risk to a firm's share price, putting every aspect of its day-to-day governance squarely in the dock.

While boards could once claim immunity to the concerns of society as a whole, sitting on the fence is no longer possible. Yet with ESG asset managers keen to praise those managements willing to wrestle with complex issues such as gender and race inequality, and to call out those that are not, the dream of making money while also doing good has never looked so attainable.

Recent data from S&P indicates that its 500 ESG Index outperformed, suffered fewer losses and recovered faster than the S&P 500 during the pandemic, strongly suggesting what it terms "stakeholder capitalism" is a virtuous circle that rewards businesses and societies alike.

"Although it doesn't always get the attention it deserves, the pivotal role played by stewardship in both environmental governance and social governance underlies all the achievements made by ESG so far," says Peter Swabey, policy and research director at the Chartered Governance Institute.

"When you look at recent governance discussions, which have led to boardroom pay cuts and the suspension of dividends to ensure the financial pain of the pandemic is shared equally across organisations, you may agree with me that 'G' has become an extremely sexy topic."

Reassessing the value in values

Unilever's pledge to cut ties with suppliers that fail to pay the living wage by 2030 is an eye-catching example of how organisations can use their massive buying power to reflect the soul-searching of a nation. But are other managements prepared to follow its lead?

During the 2007-8 financial crash, client spending on ethical projects was swiftly and brutally cut, notes Gareth Thomas, who leads on anti-corruption and ESG at ethics consultancy GoodCorporation.

This time, the budgets allocated to supply chain and human rights risk assessment, for example, have been maintained, if not scaled up.

"I've never seen such enthusiasm for this sort of work before and it suggests that actively managing a complex set of governance-related risks requires a far broader set of capabilities and expertise than those associated simply with profit and loss," says Thomas.

"While 'G' was once routinely relegated to outside organisations, it is now seen as critical by any business leader looking to shape an organisation's thinking on key issues such as bribery, exploitation or human rights. In short, governance is fast becoming a proxy for good management."

If making money and providing employment were once seen as sufficient reasons for a business to exist, employees and investors are now looking for evidence of a far more profound purpose in the boardroom, he believes.

"Although the early days of corporate social responsibility were characterised by paper-thin pledges to do this or that, the demand among a whole range of stakeholders for independently verifiable governance procedures is rising fast, particularly among younger investors who can spot greenwashing a mile away," says Thomas.

What gets measured gets managed

Fund managers have access to a wide range of qualitative and quantitative data with which to assess the success of organisations at managing governance-related risks in their sector.

"There's a huge amount of ESG data out there," says Dominic Rowles, investment analyst at the savings and investment platform Hargreaves Lansdown, some of it providing "leader", "average" or "laggard" ratings, depending on a firm's exposure to a particular risk.

"The way companies manage critical incident risk will be a particular focus when analysing those involved in heavy industry, for example, while other sectors will be more vulnerable to legal and regulatory change," he explains.

With managers now having to make decisions based on still-emerging and unpredictable variables related to the coronavirus crisis, it is "more important than ever there is proper oversight of their decision-making," Rowles adds.

> While 'G' was once routinely relegated to outside organisations, it is now seen as critical by many business leaders

Although the last major overhaul of the UK Corporate Governance Code dates back only to 2018, further regulation around financial disclosure is awaiting clarification. The Task Force on Climate-Related Financial Disclosures, which requires firms to disclose how climate change impacts their governance, strategy and risk management policies and to detail relevant metrics and targets, will be in force by 2025.

Well-governed companies win out

While the pandemic has claimed a number of high-profile corporate scalps on issues as varied as underweight corporate tax liabilities and even-skinnier school meal parcels, Rowles cites current city darling Next as a "well-governed company" that has responded well to the crisis.

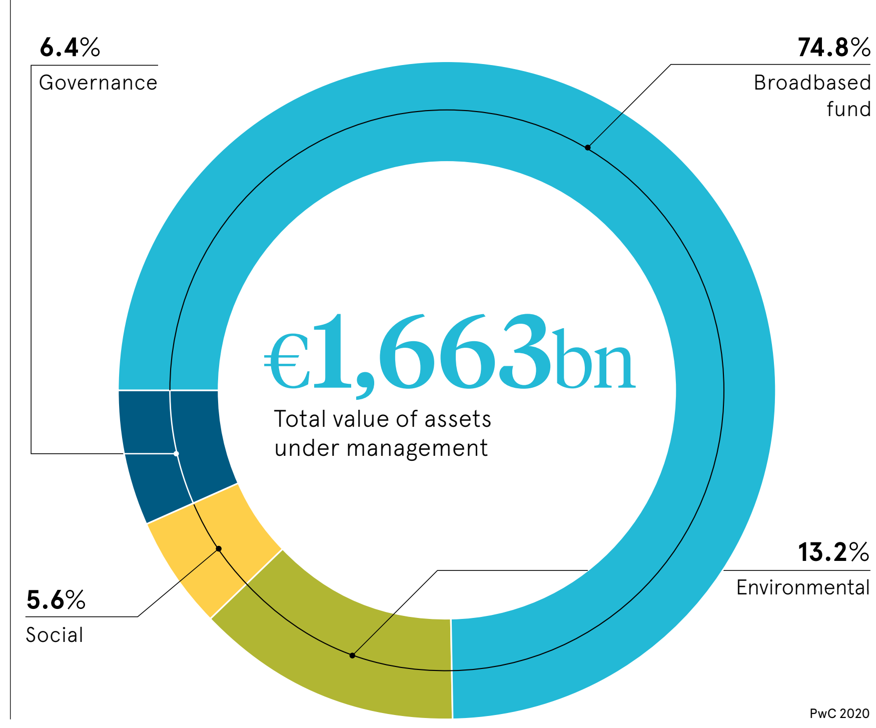
In March 2020, Next closed its UK warehouses and distribution networks to make them COVID-secure, while stores were repurposed to operate within social distancing guidelines. Boosted by brisk demand for online housewares and clothing, its share price climbed, while suspension of dividends and share buybacks helped reduce overall debt at a time when retail as a whole was suffering the biggest slump in its history.

All shares, along with corporate and personal reputations, can rise and fall over time, but for any business looking to sustain both growth and purpose for the long term, active, responsible and sensitive stewardship is the way forward, argues the Chartered Governance Institute's Swabey.

"At the end of the day, companies are run by fallible human beings and bad things can and do happen in boardrooms," he says. "It's the job of good governance, including the independent scrutiny of key decisions, to make it much harder for any individual with rogue intentions to have their way."

EVEN ESG FUNDS DO NOT PRIORITISE GOVERNANCE

Analysis of 9,700 European ESG-labelled funds by theme



PwC 2020

Commercial feature

Mandatory climate and ESG reporting can create new value

Companies that embrace the need for tougher climate and environmental, social and governance regulations will outperform their peers

While some asset managers are just getting to grips with integrating environmental, social and governance (ESG) practices into investment processes, tougher reporting regulations coming into effect mean they are under huge pressure to assess climate impact and business resilience in much greater detail.

However, far from being a big risk, this can be a strong source of value creation, as James Hilburn, director of financial services at Carbon Intelligence, explains.

"ESG factors are no longer just nice-to-have elements of compliance, but fundamental drivers of business value, and companies that understand and have embraced this are outperforming their peers," he says.

"This is a crucial area for asset managers. When allocating capital, they need sight of how companies are responding to ESG pressures, how their practices compare to their peers' and the key performance indicators. Here, ESG reporting disclosures have come to the fore by shining a light on those elements of a business that were previously rather unknown."

The two new mandatory reporting areas coming into effect this year include the Task Force on Climate-related Financial Disclosures (TCFD), with 2021 a reporting year for UK banks, insurers, large pension schemes, and premium listed companies, and the Sustainable Finance Disclosure Regulation (SFDR) for entities operating in the EU.

The TCFD, set up in 2015 as a business response to the Paris Agreement, manages climate risk by focusing on the impact of changing climate on the company.

"An asset manager needs to understand how a company has planned for different climate scenarios and the potential impact on its business," says Hilburn. "Do they have the right governance structures in terms of decision-making? Are they measuring the right metrics and reporting on those?

"With this insight into the stability of the business and its cash flows, asset managers can make better informed decisions, ultimately leading to better pricing of the assets."

> ESG factors are no longer just nice-to-have elements of compliance, but fundamental drivers of business value

The SFDR, also known as the anti-greenwashing regulation, is part of the European Union's sustainable finance package of legislation and is specifically aimed at financial firms and their performance across a broader range of ESG practices; the elements that effectively grant a company a licence to operate with its stakeholders.

"There are a growing number of 'green' or ESG-friendly financial products on offer currently," says Hilburn. "SFDR requires the firms selling these products to prove their green credentials by demonstrating what they do that has a positive impact and doesn't have a negative impact elsewhere.

"Transparent reporting on key metrics can demonstrate what you say you are doing and what you do are aligned. Firms that fail to do this effectively could see a significant customer and regulator backlash."

There are two levels to SFDR. The first is effective from March with the initial investment-manager and fund-level disclosures. From next year it is expected there will be the additional requirement to measure specific ESG performance of the underlying assets. This could be onerous for asset managers and investors as it will require disclosing granular detail, which the asset managers often don't have a great deal of insight into or control over.

Hilburn says: "For investment firms, there are multiple benefits from having companies within your portfolio that perform strongly in ESG. These include the improved ability to attract new capital for a sustainability and ESG focus, and the fact these companies tend to have a stronger brand, more loyal customers, better knowledge of and relationships with their supply chain, and their ability to use resources more efficiently and provide a better cost position. These levers will drive higher valuations and portfolio returns.

"The next decade will see a disruptive wave of climate and ESG scrutiny that will impact the asset management world. As Blackrock CEO Larry Fink recently said, 'We know that climate risk is investment risk, but we also believe the climate transition presents an historic investment opportunity'. The winners will be the ones that embrace that force, make climate-resilient ESG performance a board-level priority and harness it to create lasting value and competitive advantage."

For more information please visit www.carbon.ci

Carbon Intelligence