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THE FUTURE OF ESG FOR ASSET AND WEALTH MANAGERS



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There is no doubt that during the global pandemic there have been examples of how sustainable / ESG linked investments have likely outperformed their counterparts. Looking forward, will this performance record be the only driver of ESG and sustainable investing, or are there other factors which will drive this agenda?

To be able to look to the future of ESG for asset and wealth managers (AWM), not only do you need to understand what has happened in the past - you also need to identify the present state.

From a regulatory standpoint

Within Europe, there has been little slow down as the European Commission plans for Europe to become the first climate neutral continent by 2050. In our article [Sustainable Finance, a new era for asset managers](#) we outlined the European regulatory developments to March 2020 and since then, regulatory activity has kept on accelerating with numerous consultations in this area.

Will other parts of the world follow this trend?

Within the US, the Sustainability Accounting Standards Board has developed a framework which is broad-based, crosses 77 industries and recommends topics and metrics which can be used for companies to consider as they make their disclosures. Other industry or trade associations have also developed their own recommendations to assist their members.

The US Department of Labor recently announced a proposed rule that would clarify that ERISA plan fiduciaries may not invest in ESG funds if the investment strategy of such ESG funds is to subordinate return or increase risk for the purpose of non-financial objectives.

In May 2020, the SEC's Investor Advisory Committee encouraged the US to take the lead on developing a principles-based framework focused on disclosure of material ESG items - recognising the importance investor grade ESG data plays in the investment and proxy voting process. The SEC's Office of Compliance Inspections and Examinations has named ESG claims by registered investment advisors as an exam priority for this year.

Within Asia, the heterogeneous nature of different fund markets implies that the adoption of ESG has been quite diverse. However, the common positive thread is the increasing awareness and importance of ESG in asset management over the past few years.

In Hong Kong, the SFC has provided guidance on enhanced disclosures for SFC-authorized green or ESG funds. In Singapore, the Monetary Authority of Singapore (MAS) announced a Green Finance Action Plan and recently released a consultation paper for its Environmental Risk Management Guidelines for the banking, insurance and asset management sectors (June 2020).

India's mutual fund industry adopted a stewardship code, green investment guidelines have been

issued in China and the Korean exchange set up an ESG team to review and report on the ESG practices of firms.

From a regulatory perspective therefore, whilst some territories may be moving at different speeds, ESG and the sustainable finance agenda are high on regulators' priorities.

AWM and Investors - changing perspectives?

It has been well documented that some of the world's largest asset managers have been and are increasingly more focused on embedding ESG and sustainability practices within their own businesses and also the products which are being offered.

In our 2016 survey, only 10% of AWM CEOs identified that they were "extremely" concerned about the impact of climate change on their business. Yet in our [23rd Annual Global CEO Survey](#) (released March 2020), this had increased to 25%.

Investors themselves are becoming increasingly engaged on matters relating to ESG and sustainability. Our [2019 global survey](#) of investors identified that as a group, investors placed ESG ahead of fees, relationships and operational strength.

Investors are looking to the companies and portfolios they are invested in not only from a financial return perspective, but also from a corporate responsibility perspective. This in turn is leading to higher levels of engagement by investors with AWM as they seek to gain a better understanding of how ESG and sustainability risks are being managed, monitored and responded to.

The future

The global pandemic has heightened the already growing focus on ESG and sustainable investing. So, what does this mean for the future?

- **Continuous and increasing regulatory focus:** The focus is not only about increasing the availability of data in this area and the disclosures which AWM and their financial products are making, but also about how AWM themselves do business and conduct their interactions with investors.

- **Transparency is key:** Transparency is fundamental to ESG and the sustainable investing agenda globally. Asset managers who fully embrace transparency into their business and financial products will be the ones who are able to show the market and their investors the true impact of their investment decisions and business.

- **New opportunities for investment:** As economies recover in this new "normal", there is no doubt that opportunities for investment will present themselves. There are still targets which have been set which need to be met and it will be critical that AWM play a key role in this process - not only from a financing perspective.

- **Increasing focus on health, well-being and societal change:** AWM will not only need to look internally to the welfare and work environment of their own staff, but also to those companies in which they are invested. They also need to consider how they can bring about societal change through the course of their own business, and also through the financial products which they offer, transitioning from ESG integration (as a mainstream component of investment and risk management processes) to delivering environmental and social impact.

- **Listen to your investors:** Investors were focused on this area prior to the pandemic, and this will only exacerbate. Investors will seek investments which not only provide a return, but also ones which "do some good". Additionally, investors will focus on the managers themselves - their response to the pandemic, what changes were made

as the road to recovery begins, and how they are embedding ESG and sustainable practices into their business moving forward.

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