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Sustainable Investment Summit review: A turning point for responsible investment

Francesca Fabrizi looks at the key themes presented and discussed at this year's Sustainability Investment Summit

The Sustainable Investment Summit was launched to offer pension funds, insurance companies, charities and corporates the opportunity to share ideas with their peers and other thought-leaders in the responsible investment (RI) space, at a time when sustainability is well and truly at the top of the investment agenda.

This year's event, despite having to take place virtually, welcomed hundreds of delegates who joined online to hear presentations from some of the leading names in RI, learn more about current and future trends, and ask questions about the best ways to meet their sustainability objectives.

The one-day conference, which was chaired by *Insurance Asset Management* editor, Adam Cadle, covered a range of topics and asset classes, yet one message shone through in each of the presentations – that 2020 had been a turning point for sustainability and, while the concept of RI is well and truly on investors' radars, change is afoot with many exciting developments taking place for the better.

The conference began with a presentation from International Institute for Environment and Development (IIED) director, Laura Kelly, who looked at the opportunities for public and private investment to support a greener Covid-19 recovery.

Covid-19, climate change and biodiversity are having huge impacts on how we all live, explained Kelly, as she set the scene: "What we are experiencing now is really challenging – Covid has wreaked havoc on the world's economies. At the same time, the climate and biodiversity crises are deepening and resources to combat climate change and nature loss are urgently needed.

"In 2019, the UN assessment panel on biodiversity said we were in danger of losing a quarter of the world's species within the next 10 years. That's really serious," stressed Kelly. "Meanwhile, the climate crisis – evidenced by the climate variability we are seeing even here in the UK – is affecting us all. Of course, it is affecting people in the poorest and most vulnerable countries too – people in Bangladesh, for example, are used to seasonal floods, but now the floods are so strong that their land is being washed away."

Kelly went on to look at how the private and business sector can help address these issues. "The governments talk about 'building back better'; in the UK, Europe and the US there are some great commitments being made. Meanwhile there are major companies making commitments to net zero. So how do investors support that while ensuring they are delivering returns for their investors, but also re-delivering impacts for people and the planet?" she asked.

Next to present was Pictet Asset Management client portfolio manager, thematic equities, Jennifer Boscardin-Ching, who talked about investing in the energy transition space.

As momentum builds to tackle climate change, she said, governments worldwide, including the US, UK, EU, China and Japan, are planning huge programmes to tackle both the climate emergency and air pollution, through the transition from fossil fuels to zero-carbon alternatives. This will spur investments into the clean energy industry.

"This is a very exciting time", she explained: "After many years, we have reached an inflection point where it is possible to have a positive impact through your investments, a positive impact on the environment, on the planet, while at the same time having positive financial performance. 2020 will be remembered for the beginning of the Covid-19 crisis, but also for this inflection point."

She went on to highlight how recent government announcements globally coupled with technology innovation will enable profound changes; while wind and solar have actually reached cost parity with fossil fuels in recent years and in fact are expected to be far cheaper in the future. She asked what would need to happen to enable net-zero CO2 emissions by 2050; and talked delegates through the broad types of investment opportunities available within clean energy, as well as the potential for performance.

"The energy landscape has changed. These clean energy solutions are becoming the most cost competitive already today and definitely into the future and the forces that are supporting the clean energy transition, from a political, public and economic perspective, are also growing increasingly stronger. We are at a period where public opinion, political will and technological innovation are now finally coming together to produce a number of inflection points in clean energy and this has resulted in true secular long-term growth for decades to come."

The future and growth of ESG integration was the topic next on the agenda, as BlackRock director and lead product strategist, Sam Tripuraneni, discussed the impact of 2020 and the changes in behaviour towards embedding ESG into portfolios. He identified drivers of long-term return associated with ESG issues, and how by integrating them throughout BlackRock's investment process, they have been creating solutions for their clients to achieve sustainable investment returns.

He also shared a rundown of what happened in 2020 from a global sustainable standpoint, and looked at what we are seeing in terms of adoption in the UK pensions industry.

"The broadened focus on E, S and G issues, its amplification by Covid-19, and the tectonic shift in consumer investor preference has accelerated us down the path to a new normal. While plenty of uncertainty remains, what is increasingly clear is that the 2020 experience will irreversibly transform the way businesses operate and the way individuals invest and plan for years to come.

"With difficult days still upon us, the challenge now is to keep our sights on the positive change that's ahead, to constitute to be a force for good, and to search for innovative ways to better serve members and stakeholders into the long term."

The topic of asset screening was next under the spotlight, with CMS partner Jae Fassam and senior associate, Thibault Jeakings, looking at the use of asset screening as part of the ESG toolkit and its place on the sustainability agenda.

They looked at the role of asset screening in sustainability; what is meant by asset screening and the different types that they see; and the risk of challenges by employers and members. They also considered what the trustee duty looks like and how it has evolved over time, and how trustees can start delivering on the sustainability agenda in a way that fits with trustees' fiduciary duty.

"Screening can give trustees a generally easy route to setting general rules for their investments and imposing sustainability standards," said Jeakings, "without requiring them to spend disproportionate amounts of their limited time considering the issue. However it also holds dangers for trustees due to the fiduciary duties to which they are subject and the risks of complaints from both members and employers if they breach those duties."

Fassam added that much of the new law coming in, particularly on measurement and disclosure and the metrics that trustees can use for that, can be helpful for trustees. "It is going to give you a base, and an understanding of your strategy that is going to be specific to your scheme, specific to your investment beliefs and you are going to have to build on that and engage with the sustainability agenda to deliver your benefits in the long term. From that, it is going to be easier to originate your own factors within the framework of your own scheme and therefore the origin of those factors that you are taking into account."

The next keynote speaker of the day was Climate Disclosure Standards Board, managing director, Mardi McBrien, who focused on the reporting aspect of ESG and what to expect in 2021.

She provided insight into the current state of play in sustainability reporting, as the space adapts to meeting the need for a global set of standards, while highlighting the challenges of meeting the data gap in climate-related reporting, as well as what tools companies can use to enhance and adapt how they report.

"In 2021 the sustainability reporting landscape has shifted gears yet again, and is accelerating more quickly than ever – more quickly than any of us even directly involved in reporting could have guessed," she stated.

"To lean on the words of Mark Carney last year, over $170 trillion of private capital is waiting for disclosure. That private capital has the capacity to turn the trajectory to a huge degree and if we can allocate resources efficiently, it can cause a huge effect globally. We aren't there yet and, as exciting as developments in recent years have been, too many companies don't yet consider themselves able to incorporate climate data into mainstream reports. Companies are talking the talk, but action isn't always there and this is a huge challenge yet

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to be overcome. The best ways that companies that prepare for all the developments that are coming is to start using tools, resources and framework standards that already exist."

Wind energy took centre stage next, as WindEurope CEO, Giles Dickson, gave an overview of wind energy projects in Europe today, the benefits wind energy brings to the environment, Europe's economy and local communities, and the role it will play in delivering the EU's Green Deal and climate neutrality by 2050.

"Wind energy is going to dominate our electricity mix, our energy mix in the future. A huge increase in wind capacity is also coming. This is going to create huge investment opportunities," he said.

In terms of the sustainability of wind energy, he explained how the energy amortization time for construction, operations and disposal of wind compare favourably to other options such as Hydro and Solar PV, and is improving. Meanwhile, its impact on wildlife and biodiversity is also low and new measures are being developed all the time to minimise this.

He went on to describe what the wind sector is doing to improve diversity, as well as the positive impact – financially and economically – it has had on local communities to include its provision of jobs. Finally he heralded the positive impact on Europe's GDP.

"We are an industry that is bringing economic benefits to Europe, we are benefitting local communities, we are environmentally sustainable, we are mitigating any environmental impacts that we have and of course we are zero carbon. We are delivering the energy transition and the climate neutral Europe that we all aspire to."

The World Gold Council was next to present, as director, climate change lead and market relations, John Mulligan, took to the virtual podium to summarise the current understanding of gold's climate impacts and potential contribution to the mitigation of climate risks. This included gold's status and prospects on the path to a net-zero carbon economy and its possible role as a risk mitigation asset in the context of various climate scenarios.

Mulligan commented: "Some delegates today might be questioning the relevance of gold to the climate agenda. Does gold have any role to play in a world that is increasingly being shaped by climate change? Can it contribute or respond to the need of investors to better mitigate climate related risks? Such questions led us to examine our own understanding of climate change and its likely impact on gold as an asset, and on the wider gold market, and that led us to a dedicated program of work that has been based on detailed research."

Mulligan went on to look at gold's carbon footprint and how the decarbonising of mining power will lead to the decarbonisation of gold. "This means making net-zero gold is a potential realistic prospect," he added.

Next, HSBC Global Asset Management senior responsible investment specialist, Sandra Carlisle, focused on the future for sustainable investment, looking beyond public markets to emerging opportunities in blended finance and natural capital.

"What blended finance really means is that we stop working in silos. We develop public and private sector partnerships with multinational development banks, national development banks and other development finance institutions to find solutions for investors to enable them to invest with impact in developing and emerging economies and in alignment with their Paris goals, the SDG agenda (where relevant to them); and in a way that enables the investor to achieve a suitable risk adjusted return."

She then went on to look at natural capital – a newly emerging area of the market. She explained: "The opportunity here is to invest in nature and create nature-based investment solutions that both give you an alternative asset class, with attractive long-term returns, decorrelated from other asset classes, that also enable you to invest for impact."

The final keynote speaker of the day was ShareAction chief executive, Catherine Howarth, who looked at achieving impact: the next chapter in the story of responsible investment. Catherine laid out a pathway for the future evolution of responsible investment practice, focusing on stewardship of public and private companies to drive their ESG performance.

"Everyone watching today will be aware just how dynamic the field of sustainable and responsible investment has become in the past couple of years, but we do need to bear in mind that the UN PRI was developed nearly 15 years ago and there is a hunger to evolve practice and to think about responsible investment in a more ambitious direction.

"I think that is going to be about achieving impact through responsible investment. We will move, in the next few years, beyond just seeing ESG as about the management of financially material risk and very much about achieving positive social and environmental impacts, many of which ultimately address systemic risk – so it all ties together very well."

Written by Francesca Fabrizi