

ESG – it's not a compromise

➤ **Jess Pilz explains how the spotlight on ESG is shining as brightly as ever**

It looks as though we're in for another ESG-focused year, with continued pressure placed on investment managers to meet increasing expectations from their investors – a result of their growing regulatory and reporting requirements. Global and political events over the past year have left a wake of uncertainty and concern in the market; and with a recession on the horizon, some may wonder whether ESG will maintain its current status. However, I am not.

Unlike the global financial crisis, when 'the green agenda' made a swift disappearance after markets crashed, we have not seen even a hint of its demise. In fact, if anything, we've seen an even greater level of emphasis being placed on ESG than ever before. This is almost certainly a combination of the action already taken from a policy perspective, including increased regulatory and reporting pressure, as well as the increasingly tangible impact of the climate crisis on the natural environment.

That said, ESG has not replaced a fund manager's fiduciary duty to deliver financial performance, and this is where difficulties begin to arise. Despite the attention being given to ESG, it's clear that investors expect both to be considered alongside one another. In some ways we are at a critical juncture where costs, market uncertainty, geopolitical instability and a looming recession could force many to deprioritise their ESG efforts.

So, as we head into an uncertain year, what can we be certain of from an ESG perspective and what is it that investors will be expecting of their managers?

Undoubtedly, one of the primary focus areas for private market investment

managers in 2023 should be investment-grade ESG data, which supports robust reporting processes. Investors are looking for detailed, verifiable data, the likes of which supports their TCFD and other reporting requirements. In addition, they are seeking regular, consistent and comparable reporting of this data across all asset classes where they hold investments with managers. Anyone working in private markets, especially ESG professionals, are aware of the complexity and magnitude of this request. Unfortunately, the reality is, this level of expectation is only increasing.

Another theme that was starting to emerge at the back end of 2022, perhaps as a result of COP27, is climate change adaptation. For a while now, we have been focused on climate change mitigation – the drive to reduce and avoid carbon emissions. Whilst this is still a key priority, it is also imperative that we build strategies that focus on adapting to the changes we are already seeing due to climate change. Closely linked to this theme is that of a 'just transition', which requires all of us, though investment managers in particular, to address how their investments impact those most affected by the challenges caused by changes in climate, as well as those who may be less economically able to respond to this urgent call to action.

The 'just transition' touches on an important social theme. Other social metrics, including community engagement, will continue to be a priority in 2023, with greater requirements for more meaningful metrics across all asset classes (noting the limitations and nuances in each).

Another theme gaining attention is biodiversity, which investment



managers will need to dedicate more resource to in the future. Biodiversity has been quietly living in the shadow of its twin crisis, climate change, for some time now. However, in the build up to and following the COP15 Biodiversity Summit in Montreal at the end of last year, it has emerged as a key area of focus for many investors. There is an urgent call to reverse the decline of nature, not only because of its contribution to the global economy (think of food systems, where 99 per cent of our food comes from healthy soils), but also because the recovery of the natural world is crucial for fighting climate change. Decarbonisation and the natural world are not separate challenges, they are inextricably linked. We can't resolve one crisis without considering the other.

As with any issue, it is likely we will see more areas of focus emerge as we dig deeper into solving the challenges that lay ahead. I've only scraped the surface of what should be on any investment manager's radar (I've stayed clear of regulation!). But, as we head into a new and uncertain year, my reminder is simply that ESG is not a compromise; there is room for both financial performance and ESG considerations. Indeed, as with biodiversity and climate change, the success of each depends upon the other.



➤ **Written by Fiera Real Estate global head of ESG, Jess Pilz**

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