Active is: Investing for real-world change

An inflection point for sustainable investing

by Matt Christensen | 30/04/2021

Summary

Recent growth in ESG fund assets under management shows that people are convinced of the necessity and value of investing sustainably. This commitment will come with significantly higher expectations on the part of investors.

Key takeaways

- Massive flows into ESG funds show that investors are convinced of the case for sustainable investing – and want their money to have an impact
- Rather than distracting attention from sustainability, the Covid-19 pandemic has highlighted real-world issues that investors can help to solve
- The challenge for the asset management industry is to help clients seize the opportunities of the new era of sustainable investing
- The world is also experiencing a transformational moment – as evidenced by the meaningful, coordinated action being taken on climate change

The past year has been an inflection point for sustainable investing. In previous years, the focus for asset managers was often on proving the performance of sustainable strategies. With the passing of 2020, the massive flows into these strategies speak for themselves: people have been convinced of the necessity and value of investing sustainably.

This represents a fundamental shift in mindset. Even as the Covid-19 pandemic roiled the markets and upended ways of working and living, investors allocated more to sustainable investing strategies.

This growth is set to continue. In its best-case scenario, PwC predicts that environmental, social and governance (ESG) fund assets under management could account for over 50% of total European mutual fund assets by 2025, representing a compound annual growth rate of 28.8% from 2019 to 2025.[1]

Indeed, rather than distracting attention from sustainability, the pandemic has highlighted real-world issues that only sustainable investments can help solve. In addition, many sustainable finance products have exhibited resilient performance during this period of volatility – further underscoring the case for sustainable investing.

But increased investor commitment comes with significantly higher expectations. The next challenge for the asset management industry is to help our clients position themselves for the opportunities of the new era of sustainable investing – and to help clients target the outcomes they seek.

This is a challenge embraced by all of us at Allianz Global Investors. The last financial crisis still casts a long shadow on the industry, and we must use this opportunity to build our clients' trust and show our purpose. That means allocating capital to areas with the most transformative opportunities – for investors and for society at large.

The world is also experiencing a transformational moment – as evidenced by the meaningful, coordinated action being taken on climate change. The Paris Agreement sets legally binding targets for countries to combat climate change, and US President Joe Biden took an early decision to have the US rejoin this key global initiative. The UN Sustainable Development Goals, now six years old, provide another clear blueprint for government action – and they also show investors how to have a measurable impact on real-world issues.

Moreover, the European Green Deal means the EU will push to become climate-neutral by 2050, and China has pledged to reach "peak carbon" by 2030 on the way to its goal of carbon-neutrality by 2060. Clearly, meaningful improvements will be achieved over the coming decades.

Governments will do their part to encourage the change they want to see. The European Union has committed to making ESG concerns a central part of financial services regulation – including with the important new mandate for sustainability-related disclosures in the financial services sector (SFDR). Moreover, the EU Taxonomy to be implemented by the end of 2021 will show investors what funds labelled "environmentally sustainable" should entail. These actions set a template for other countries around the world.

Furthermore, the pandemic showed that governments are unafraid to take action to address crises. There is no escaping the critical role that governments play – from setting policy on climate change to sponsoring the research and development required to develop zero-carbon solutions. Many have heard the global rallying cry to "build back better" following the pandemic – and that requires thinking sustainably.

While much of the focus has rightly been on climate change, as asset managers we must be ready to help our clients address other areas of growing priority – including providing better healthcare, improving food security, conquering the digital divide and addressing inequality in all its guises – that are rising up the agenda for investors.

Yet even with so much work to be done, the world is moving in the right direction. Asset managers can continue to do their part by working with partners and clients – across both the public and private sectors – to create opportunities, not just identify them. Investors want to see real-world change, and it is incumbent on the industry to help make this happen.

To discover more about our sustainability journey, read our Sustainability Report 2020.

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[1] *"2022: The growth opportunity of the century", PwC, 2020*

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Preparing for the reference rate change

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Summary

After the Financial Crisis, InterBank Offered Rates (IBORs) have been declared unreliable by Regulators and new Alternative Reference Rates transactions-based have been developed to substitute these indices. Consequently, most of the IBORs will cease to be published from December 2021. As IBORs are used in a broad range of financial products and contracts, market participants need to be prepared and work on a plan to move away from them.

Key takeaways

- Most of InterBank Offered Rates (IBORs) are going be discontinued from December 2021
- New Alternative Reference Rates (ARR) have been identified and developed to substitute IBORs
- Regulators are publishing guidelines to encourage and support the private market participant in the change.

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