Active is: Investing for real-world change

A shared vision is vital for a sustainable recovery

by Deborah Zurkow | 27/08/2020

Summary

The human and economic costs of the Covid-19 pandemic have refocused minds on the challenges facing societies globally. Solutions will likely involve multiple stakeholders and investors, and blended finance could be critical in unlocking shared value.

Key takeaways

- The Covid-19 pandemic has inspired market participants to think even more creatively about how to achieve meaningful real-life change through finance
- Investors recognise that generating financial alpha is possible while meeting societal targets, and post-crisis we expect greater emphasis on the social element of environmental, social and governance (ESG) investing
- Blended finance, where development capital spurs private sector investment, allows investors to invest towards a societal objective within their risk appetite
- We believe active managers will play a vital role in structuring deals to maximise the impact of every dollar invested – from a financial and societal perspective

The overwhelming humanitarian crisis of the Covid-19 pandemic has forced everyone to recalibrate their priorities. Before the pandemic, there was a question mark over the future of sustainable finance. Now, the crisis has inspired participants in capital markets to think even more creatively about how to achieve meaningful real-life change through finance.

As an asset manager, the topics we are discussing with policymakers, regulators and investors increasingly echo the agenda for wider society. It is through such a shared vision – where benefits accrue not just to the stakeholders directly involved but to broader society – that sustainable finance will secure its long-term success.

Post-crisis, we expect the "S" factors of ESG (environmental, social and governance) – in other words, the social effects of economic activity – to grow in importance. These will sometimes be addressed explicitly within the framework of the UN Sustainable Development Goals (SDGs).

An increasing number of market participants recognise that generating financial alpha is possible while also meeting societal targets – for example, by investing in urban regeneration, enhanced digital infrastructure, social housing, or improved education and health services. Furthermore, by influencing corporate leadership through engagement, asset managers can promote environmental and social priorities.

Dividing up the risk-return benefits in new ways

However, even where different parties share similar goals, they will likely have different responsibilities and distinct long- and short-term objectives. Transformative ventures also tend to be higher risk. We need to rethink how we can divide up the different risk-return benefits and costs to encourage investment into such ventures.

Blended finance – where development capital spurs private sector investment in projects that address societal challenges – can play a crucial role in unlocking shared value in this context. Allianz Global Investors works closely with development banks who take a subordinate risk that helps protect other investors. This enables those investors to invest towards a societal objective within their risk appetite – for example, using investment-grade assets only.

As an active asset manager, we see our role as a vital one in structuring these deals in a way that multiplies the impact of every dollar – from both a financial and societal perspective. There is a clear need for even more new and innovative partnerships to deliver these results.

In addition, we know there must be an educated debate about how to approach the most pressing issues – from the importance of considering ESG factors in risk management and mitigation to the power of ownership through active stewardship. For example, when it comes to decarbonisation, should investors exclude "dirty" industries, engage with them, or invest instead in solutions providers? What if the company with the highest carbon emissions in a listed equity carbon transition portfolio is, in fact, a solar panel company? These examples underscore the challenges faced by investors.

Using today's sense of urgency to build a new paradigm

The targeted and often thoughtful global responses to the Covid-19 pandemic are an encouraging sign that accelerated change is possible. But we need to press for a new paradigm to shape the future recovery in the right way. Sustainable finance will play a key role in myriad ways.

If the debt burden of climate action falls on future generations, they should also share in the benefits. Public stimulus programmes need to be conditional on financing the climate transition of the economy and addressing the many other societal challenges facing the world today, as reflected in the UN SDGs. Carbon-pricing mechanisms must better reflect the externalities of fossil fuels – the hidden costs that are still not always reflected in the market price.

At the same time, asset managers and investors need to be vigilant that we do not distort asset pricing, creating bubbles and accusations of "greenwashing".

Now is also the moment to rejuvenate existing infrastructure – such as electricity networks – while building the social, environmental and energy projects that will support the well-being and prosperity of future generations. Blended finance is likely to become a very powerful tool for ensuring a resilient recovery and a more sustainable world, based on innovative public-private partnerships and a new paradigm of competition, collaboration and international cooperation.

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About the author

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Deborah Zurkow is Global Head of Investments at Allianz Global Investors, and a member of the Executive Committee.

In January 2020, Deborah took on responsibility for leading AllianzGI's investment platform, which comprises Alternatives, Equities, Fixed Income and Multi-Asset strategies. As Global Head of Alternatives since 2016, she has developed AllianzGI's offering in the asset class, which includes a diverse mix of both liquid and illiquid alternative investment solutions for clients, into a market leader in a number of categories.

Deborah joined AllianzGI in 2012 as CIO and Head of Infrastructure Debt, leading a team that pioneered infrastructure debt as an asset class for institutional investors. Since its inception, the team has made over EUR 10bn of debt investments in a variety of infrastructure sectors across the globe.

Before joining AllianzGI, Deborah was CEO of Trifinium Advisors Limited and head of Public Finance EMEA for MBIA UK Insurance Limited.

Deborah holds an MBA from Yale School of Management and a BA from Wellesley College. She is on the board of the ACC (Alternatives Credit Council) and the LTIIA (Long-term Infrastructure Investors Association). She has been included in Financial News' list of '100 Most Influential Women in European Finance' on multiple occasions.

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