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INSIGHT

The ESG Trends on IFM Investors' Radar in 2019

The ESG trends on IFM Investors' radar in 2019 fall into the key thematic areas of Planet, People and Policy & Process, reflecting what is important to IFM Investors and our investors.

by **Chris Newton**

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CORPORATE

Investments managed under a 'sustainable', 'ethical' or 'responsible' investment umbrella have moved into the mainstream investment arena and enjoyed significant attention over the past decade. Consumers, working people, communities and governments increasingly expect investors to allocate capital in a socially and environmentally responsible and ethical way. It is our view that these expectations, together with those of investors themselves, will continue to fuel growth in the socially responsible investment sector, estimated to be worth in excess of US\$22 trillion globally.¹

At IFM Investors, we define responsible investing as the integration of environmental, social and governance (ESG) factors into investment decisions and stewardship. Alongside over two thousand signatories of the United Nations supported Principles for Responsible Investment (PRI), we believe

sound management of these non-financial factors is essential to generating sustainable returns and value over the long term.² We believe these principles are fast becoming the bedrock of culture and performance for investors globally, we also recognise that demonstrating tangible ESG action is crucial to building stakeholder trust at a time of increasing mistrust in financial institutions.

The ESG trends on our radar for 2019 are not only important to us, but also to investors more broadly. Notwithstanding the interconnections between ESG themes, we have grouped them into three thematic areas: Planet, People, and Policy & Process. These themes align closely with the IFM Investors Responsible Investment Charter and reflect key elements of our organisational purpose statement including our commitment to investing for the long term, respecting labour rights, and environmental and social responsibility.

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¹ Global Sustainable Investment Review 2016 http://www.gsi-alliance.org/wp-content/uploads/2017/03/GSIR_Review2016.F.pdf

² UN Principles of Responsible Investment <https://www.unpri.org/signatories>

2019 ESG Themes



PLANET

How is the investment market interacting with the environment?



PEOPLE

How are investors impacting people and community?



POLICY & PROCESS

What are regulators and peak institutions instigating?

PLANET



Climate change

Climate change and making the shift to “greener” portfolios continues to be at the forefront of investors’ concerns. However, while some investors may deploy an “avoid” or “exclude” strategy, others will look to build a rationale for certain investments based on strategies to improve or exit the investment in a reasonable time period, with the aim of mitigating long term exposures to climate transitions.

Expectations of investors in relation to climate change will likely include:

- Physical risk analysis of portfolios and assets;
- Scenario impact analysis of portfolios and assets; and
- Public transparency and reporting.

Water Management

In our view, assessing and managing water-related risk in investment portfolios is increasingly working its way into the psyche of investors.

As much as 40 per cent of the world’s population is affected by water scarcity, and 2.4 billion people still lack basic water sanitation services.³ The growing global population and associated increases in consumption and pollution, combined with the effects of climate change, mean there is growing pressure on this finite and shared resource.

The World Economic Forum (WEF) lists ‘water crises’ as one of the top 10 risks by likelihood and impact in its annual Global Risks Report 2019.⁴ Although the WEF categorises ‘water crises’ as a societal risk in its report, we include the management of this vital natural resource in our “Planet” category, illustrating the interrelatedness between E, S and G factors.

Whether viewed as an environmental or societal issue, water use and management poses both risks and opportunities that are important for investors to consider.

PEOPLE



Income & wealth inequality

The World Economic Forum reports that while global inequality is down, within-country inequality is becoming increasingly problematic in many places.⁴ The PRI describes the issue of economic inequality as the financial equivalent of high blood pressure, affecting the whole body and indicating problems elsewhere.⁵ We know that the growing inequality in income and wealth in developed markets is contributing to uncertainty and political instability, which in turn can impact economic performance and growth. Investors not only need to understand and actively manage this risk at the investment level, but also contribute to narrowing the gap more broadly. As such, the PRI and initiatives such as the Living Wage Foundation in the United Kingdom are building a strong case for investors to support a living wage campaign.

Impact of climate change on community and working people

The global union movement is leading the charge on the “Just Transition”. Their call to investors and governments is to focus on the societal impact of climate change: ensuring that the communities and workers are not left behind as the economy and businesses adapt in response to climate change.

Protecting Vulnerable Workers

Responsible labour practices in the supply chain will likely include to be a priority for

³ <https://www.un.org/sustainabledevelopment/water-and-sanitation/>

⁴ World Economic Forum Global Risks Report http://www3.weforum.org/docs/WEF_GRR18_Report.pdf

⁵ UN PRI <https://www.unpri.org/academic-research/economic-inequality-putting-the-s-into-esg/547.article>

investors with a renewed focus on modern slavery and protecting vulnerable workers. Investors, regulators and activists are not only expecting corporations to have their own backyards in order, but to also make sure their business partners and suppliers are taking the necessary steps to protect vulnerable workers in their operations and supply chains.

Gender Imbalance

Correcting gender imbalances in the workplace, as a component of the broader diversity theme, will likely continue to be a focus for investors aiming to create stronger and more sustainable businesses. To date, the bulk of activity relating to this theme has focused on the structure of boards, management teams, and gender pay gap analysis. This activity will likely continue and investors will expand their focus to embrace the broader theme of making workplaces more inclusive. This will include activities such as reviewing recruitment and retention strategies with the goal of cultivating a more balanced workforce.

Corporate Culture & Ethics

Corporate culture and ethics is a theme Australian investors are expected to vigorously pursue in 2019 via organisations such as the Australian Council of Superannuation Investors (ACSI). This is largely off the back of the Banking Royal Commission. We expect there will be interest in this theme in the United States in the context of banking and the role of technology firms, such as Facebook and Google, in relation to consumer privacy and data breach concerns.⁶

POLICY & PROCESS



Reporting and transparency

The push for better reporting and transparency is also likely to continue, in our view. Investors will increasingly demand greater depth and breadth of ESG reporting from fund managers and companies themselves, and there is a strong preference for public disclosure.

Two primary focus areas for reporting and transparency have emerged for investors and regulators, which are consistent with the “Planet” and “People” themes already noted.

- 1 Climate change – reporting on how fund managers and companies are managing

climate change, ideally consistent with the Taskforce on Climate related Financial Disclosures (TCFD); and

- 2 Human capital – how fund managers and companies are managing their human capital.

The Sustainable Development Goals

The influence of the Sustainable Development Goals (SDGs) will continue and, in our view, potentially divide the responsible investment community. The SDGs represent a call to action for a series of social, environmental and economic sustainability and development areas, which, if collaboratively worked on, would benefit the global community. Although they were not designed as an investment tool, many investors are developing SDG-linked products to capture the growing interest in sustainable investing and deliver a reputational benefit.

We expect the SDGs to play an increasingly valuable role in providing a framework for the finance community to measure and communicate tangible outcomes to investors, governments and the wider community. ||

Awareness + Action = Sustainable Returns

IFM Investors believes that understanding the direction of and, importantly, taking action on ongoing and emerging ESG trends will support sustainable returns over the long term and help us maximise the opportunities these trends present in the investment market. As an active participant in ESG conversations and collaborations, globally and locally, we also aim to use our voice to advocate for what is important to our investors and their working beneficiaries.



⁶<https://www.pewresearch.org/fact-tank/2018/03/27/americans-complicated-feelings-about-social-media-in-an-era-of-privacy-concerns/>

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