Marketing Communication

Global Asset Management
BlueBay Asset Management

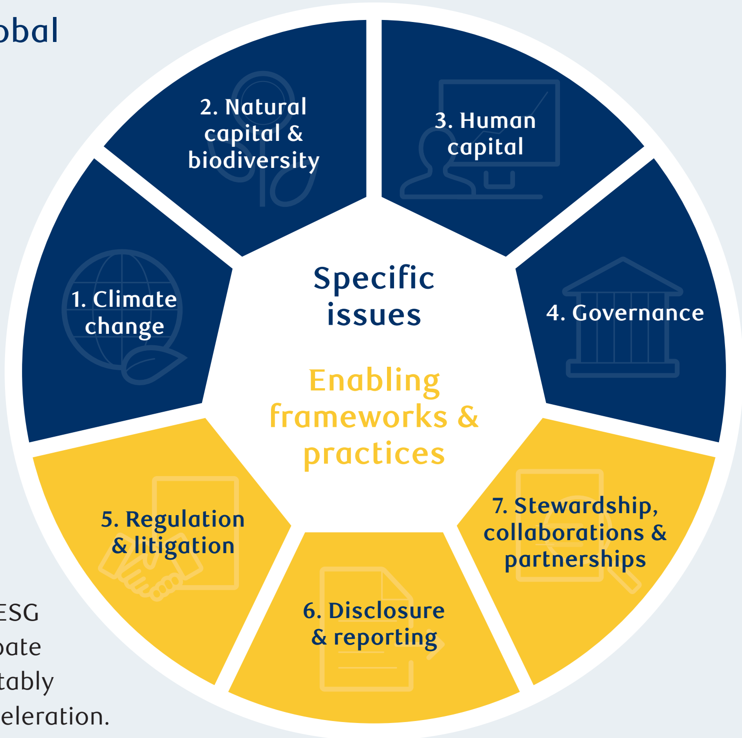
7 ESG trends driving the investment agenda

The pandemic might have slowed global growth, but momentum around ESG investing continues to gather pace – and 2022 is undoubtedly going to be another busy year. Explore the issues and trends that we predict will define ESG investing this year.

Our seven watchpoints for 2022 fall across two overarching categories:

- Specific issues
- Enabling frameworks and practices

Expect to see attention focused on financial companies and products, as well as providers of ESG insights. While the reach will be global, we anticipate seeing meaningful shifts in emerging markets, notably Asia, while Europe is likely to show continued acceleration.



1. Climate change

In addition to the heightened scrutiny of companies, investors and governments to evidence progress in reducing emissions, 2022 will also see increasing attention on the 'race to resilience', which recognises the need to adapt to climate change. All eyes will be on world leaders as they meet again at the Egypt COP27 UN climate conference in November. If advances can be made on specifics such as addressing 'scope 3' emissions, methane emissions and financing for developing countries, these will go a long way in maintaining COP26's 'keep 1.5 degrees alive' pledge.

2. Natural capital & biodiversity

The importance of natural capital and biodiversity will gain greater significance. Expect to see increased attention on marine environments ('the blue economy') and terrestrial ecosystems, particularly forests. Topics such as the change of land use linked to food and agriculture, extractive and infrastructure activities will be key, alongside a greater emphasis on a circular approach to production and consumption. Part two of the biodiversity COP15 is due to take place in April, with the aim of securing government commitment to '30x30' – the pledge to protect 30% of their lands and oceans by 2030.

3. Human capital

Coming under the ESG ‘S’ for ‘social’, continuing workforce themes include wellbeing and resilience, alongside diversity and inclusion. On the latter, we expect to see a broadening from the initial focus on gender and race. The trend towards a more inclusive and adaptive economic model will be maintained in 2022, with the pandemic enabling creative thinking around how companies access talent and keep employees engaged.

More broadly, labour and human rights will remain relevant and receive further attention. Should we start to see more of a human rights-based approach to nature, this could pave the way for the possible global recognition of the right to a healthy environment. This could be a game-changer in terms of participation in land and resource governance and the protection of indigenous peoples.

4. Governance

Expect to see increased demand for ESG being integrated into remuneration practices to drive greater accountability and progress. We predict more equity investors signalling their views via proxy voting activities and demanding more detailed reporting, while bondholders will use ESG labelled issuances as a springboard to frame management discussions on strategic ESG matters. Covid-19 increased scrutiny on management quality; this will continue as investors recognise that change is the new normal and companies must demonstrate agility and resilience.

5. Regulation & litigation

European sustainable finance-related regulations will make a deeper mark on financial market participants and issuers. Alongside the ongoing rollout of the SFDR regulation, green taxonomy and MiFID sustainability preferences will be added to the mix.

Away from environmental sustainability, we expect work on the social taxonomy and the focus on human rights to progress in 2022. Europe is not going to be alone in its efforts as the UK and other jurisdictions look to define their takes on ‘avoiding harm’ and ‘doing good’ in terms of economic activities and entity-level conduct. With ESG data and ratings increasingly emphasised as the basis for firms evidencing their credentials, the quality, reliability and comparability of these mean providers will also come under greater scrutiny this year.

6. Disclosure & reporting

The drive for increased transparency will persist, given reporting provides the lens through which organisations can be held accountable for their efforts to help the world meet the UN’s 17 sustainable development goals. A broader data set will be required to span a greater range of risk issues, policies, process and performance-related indicators.

While climate change is likely to take the highest priority, expect to see more data relating to nature and human rights risks. The relevance of ESG factors and their impact will be further debated, with concepts such as ‘double materiality’ likely to warrant greater discussion. As the volume of data grows, it will be prudent to remember quantity does not guarantee quality – there is still work to be done on agreeing global ESG reporting and accounting standards to promote trust and confidence in what is being disclosed. Watch out for developments from bodies such as the International Sustainability Standards Board (ISSB).

7. Stewardship, collaborations & partnerships

While avoidance and divestment as a strategy may have a place as part of a considered and targeted approach, it is not desirable or practical to divest from the whole economy. That’s why active stewardship will remain at the forefront for most investors. Creative collaboration and partnerships to align stakeholders with shared objectives will be key when it comes to tackling systematic ESG risks.

The investment community faces challenges ahead as ESG issues become more complex with varying approaches emerging from different jurisdictions. Clashes of cultural biases, as well as of political and economic agendas, are not a good recipe for harmonisation and standardisation.

Ultimately, while there is much we can – and should – do to speed up the sustainability transition, there are also limits. Our success is incumbent on the actions of other key players like governments, policymakers and the private sector.

But the opportunities are there for those investors taking a robust and thoughtful approach, who integrate ESG considerations within their investment practices and partner with others to develop solutions.

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