

Rapid pace of ESG adoption gives 2021 momentum



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Looking back over 2020 it was clearly an unusual year. The coronavirus pandemic and lockdowns have required considerable adaptation. The resilience and determination people have shown is remarkable.

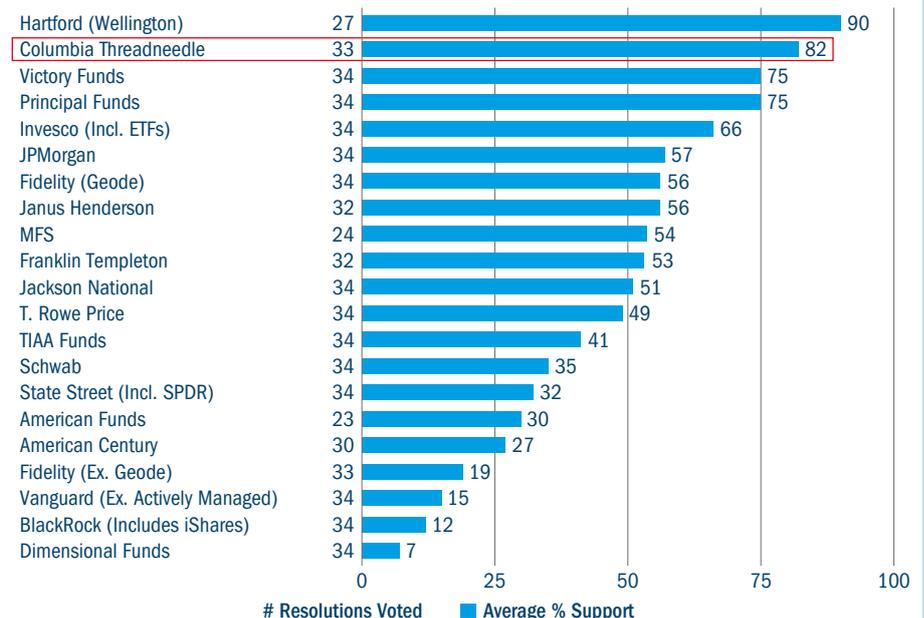
In addition, the continued scrutiny of asset manager voting as an indicator of whether they “walk the talk” has continued, most commonly in relation to voting on climate resolutions. Although we have not always been included in reports published on climate voting, Figure 1 provides a good insight into our ongoing focus on climate voting in a US shareholder resolution during 2020.¹

Climate issues will continue to be a major area of focus that is touched upon in more depth later in this report. For example, Chris Wagstaff, our Head of Pensions and Investment Education, looks at considerations and obstacles to climate change risk management. In addition, Andrea Carzana, one of our European equities portfolio managers, touches on the relevance of net-zero transitions for investors in his portfolio manager’s viewpoint. The topic also features in this quarter’s country focus (Austria) as well as in the insights into infrastructure investing in a post-Covid world.

The scope of our voting activities is of course broad, and another aspect of it continues to be the issue of boardroom gender diversity. We have had an active voting strategy on this issue that has been developing since 2016. During 2020 we took voting action at more than 200 companies where concerns existed, including a number where diversity among the senior executive leadership, a developing area of focus throughout the year, gave us cause for concern.

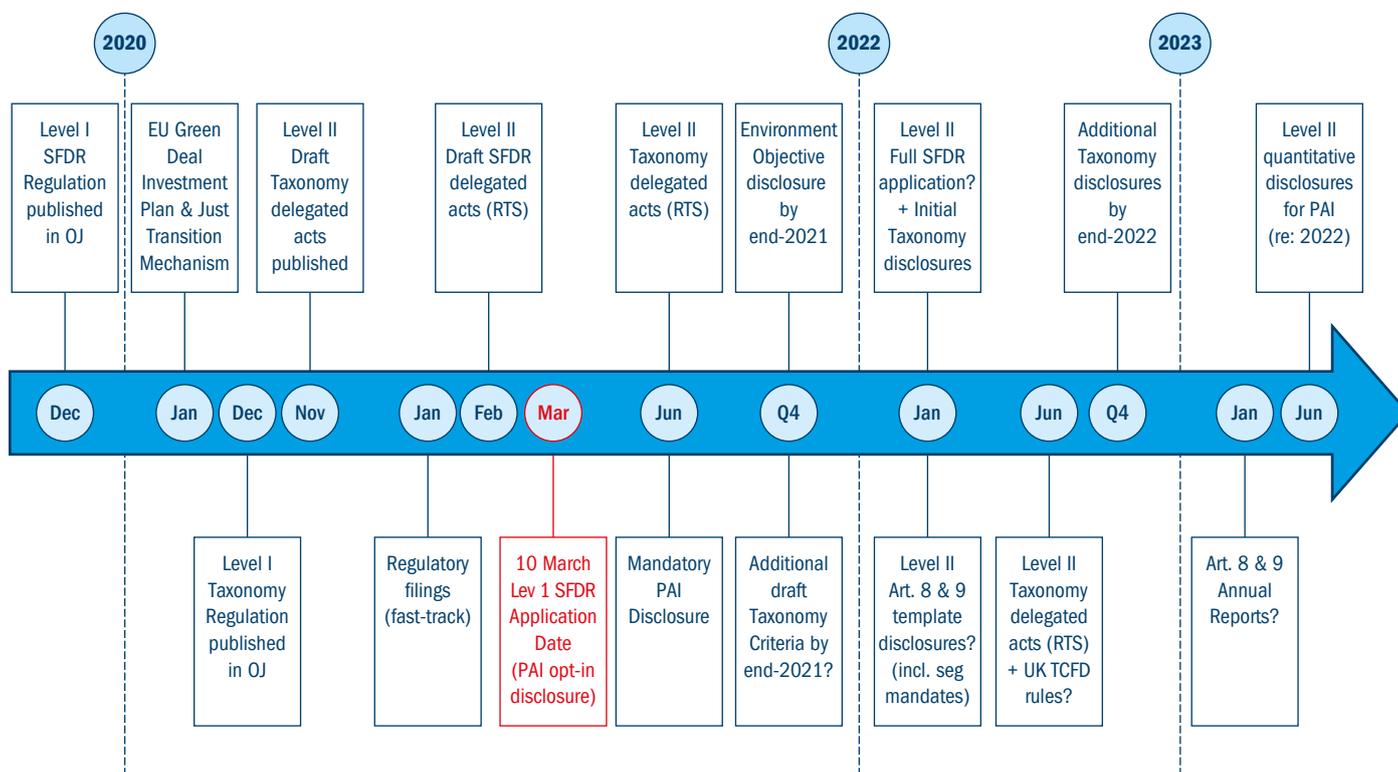
Looking ahead to 2021, this facet of our voting activity will continue with an

Figure 1: Proxy Votes on 2020 Key Climate Resolutions



Source: Morningstar. “Which Fund Companies Supported Climate Via Proxy Votes?”. 2nd December 2020.

Figure 2: EU sustainable finance reform timeline



Source: Columbia Threadneedle Investments, February 2021.

These trends have important implications for both asset managers and asset owners, particularly those in Europe. The initial March 2021 deadline for sustainability-related disclosure in the financial services sector under the Sustainable Finance Disclosure Regulations (SFDR) has everyone's attention and focus. As both groups respond to these requirements, the approach taken will have potentially significant implications for investment strategies.

Given the scale of change involved, the importance of practical approaches to integration, rather than formulaic ones, will be important. A notable example of why this is the case was seen in JPMorgan's perspectives report towards the end of Q4 2020, "Build Back Better to Boost ESG"

(16 December 2020). Increased market volatility and risk of significant draw-downs following the "Covid" crash has propelled ESG investing to the forefront of many investors' decision-making criteria. The Global Sustainable Investment Alliance (GSIA) suggests there are seven commonly used socially responsible investing strategies; in practice, investors use more than one at a time. However, it is worth mentioning that overall their performance has been positive – although there are deviations across these strategies.

The first quarter of 2021 and beyond will see a procession of milestones and deadlines arrive. Although some dates and details of reforms remain to be finalised and confirmed, the EU is already working on the next phase of

reforms. For now though I will conclude with the above chart to offer a quick snapshot of some key aspects of the timeline around the current EU sustainable finance reforms and the all-important disclosure regulation with its focus on sustainability risk as well as principal adverse impacts (Figure 2).

Source:

- <https://www.morningstar.com/articles/1013254/which-fund-companies-supported-climate-via-proxy-votes>
- JPMorgan, ESG Investing: Momentum Moves Mainstream - 2021 brings collective demand for change around the globe, 20 January 2021.

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