

Active is: Investing for real-world change

# A shared vision is vital for a sustainable recovery

2020/08/27



## Summary

新型コロナウイルスのパンデミックによる人的および経済的な被害により、サステナビリティの追求などの世界的な課題に再び注目が集まっています。多様な株主や投資家を巻き込んだブレンド・ファイナンスが持続可能な社会を創造するために重要な役割を担うでしょう。

### 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.

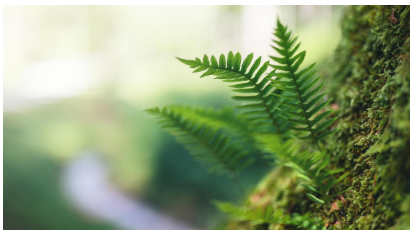
If the debt burden of climate action falls on future generations, they should also share in the benefits. Public stimulus programmes need to be conditional on financing the climate transition of the economy and addressing the many other societal challenges facing the world today, as reflected in the 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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# An inflection point for sustainable investing

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## 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

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スチュワードシップ・議決権行使	A new investment era	リサーチ	
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