



## A new era of investing

Andrew Nicoll, Global Business Lead for Responsible Investment

- The investment landscape has been changing, driven by increasing pressure from governments and regulators to address climate change and a new focus on sustainability, recognising the direct impact companies can have on systems and economies to sustain significant and prolonged positive transition.
- Investment firms across the globe are now grappling with this challenge. To deliver genuine integration of ESG into research and investment processes requires a significant commitment and investment in data and systems infrastructure.
- Asset managers will be required to integrate sustainability factors into their investment decision making, and show evidence of this through clear and consistent disclosures and client reporting.
- Against the global macro environment and industry change, we expect clients' expectations to evolve over time to demand greater ESG integration and to focus more on ESG best-in-class and outcome-focused strategies. This will take time, but it is the inevitable result of the regulatory objectives, net-zero targets and other commitments being set by corporates and evolving retail customer demands.





**2020 saw unprecedented change around the globe – economically, socially and politically. The most significant impacts resulted from the global coronavirus pandemic which has potentially changed many aspects of life for ever. The investment landscape has been changing too, driven by increasing pressure from governments and regulators to address climate change and a new focus on sustainability, recognising the direct impact that companies can have on systems and economies to sustain significant and prolonged positive transition. The pandemic has only accelerated the focus on climate change and continues to shine a light on responsible investment (RI) more broadly.**

The far-reaching regulatory reforms in the EU and beyond have seen fundamental shifts by companies setting 2050 net-zero emissions targets, which in turn have driven an increased focus on all ESG (environmental, social and governance) areas, pushing everyone to raise standards and increase transparency and accountability. This in turn has changed the investment landscape through significant changes in client expectations and demand, and will result in fundamental shifts for investors and asset managers across the globe.

To understand what this means for the investment industry and to the clients we serve it helps to unpick some of the central themes.

### Integration

ESG considerations are not new – such themes have been key inputs (albeit to different extents) to fundamental investment approaches for many years. However, the EU regulation's intention is for ESG to be considered by all investors. So the fundamental shift now taking place is how investors can demonstrate that sustainability risk, as represented by ESG considerations, has been integrated into their investment decision making. Investment firms across the globe are now grappling with this challenge. To deliver genuine integration of ESG into research and investment processes requires a significant commitment and investment

in data and systems infrastructure. However, clients' expectations are evolving rapidly, and increasingly asset managers are required to demonstrate that they have genuinely embedded ESG not just in their investment research, but across all aspects of their company and culture.

### Transparency

In the past decade the investment industry has increasingly been pushed by EU regulators and policymakers to increase transparency to customers, through initiatives within MiFID, the Treating Customers Fairly principle and the recent Asset Management Market Study. Meanwhile, the incoming European Sustainable Finance Disclosure Regulations (SFDR) represent a different aspect of the transparency agenda. Asset managers will be required to integrate sustainability factors into their investment decision making, and show evidence of this through clear and consistent disclosures and client reporting. Historically, funds were being marketed with a confusing lexicon of RI, sustainability and ESG terminology. One of the key objectives of regulators has been to ensure a clear and consistent set of minimum standards which funds are required to meet in order to be marketed as genuine ESG or sustainable outcomes funds.





## Choice

Historically, clients invested in pooled funds have been able to choose between “standard” strategies or dedicated ESG or sustainable funds, while those with segregated mandates have had the flexibility to create customised ESG and exclusion preferences. However, the new investment landscape will see ESG considerations being integrated across the full spectrum of investment strategies offered by asset managers. The level of consideration at security and portfolio level will vary depending on what the strategy is aiming to achieve and whether it aims to be a focused ESG or sustainable outcome fund, meeting the requirements of SFDR articles 8 and 9. Against the global macro environment and change set out earlier, we expect clients’ expectations to evolve over time to demand more ESG integration and to focus more on ESG best-in-class and outcome-focused strategies. This will take time, but it is the inevitable result of the regulatory objectives, net-zero targets and other commitments being set by all corporates and evolving retail customer demands. Therefore we believe it is essential that asset managers can support clients at all points in this journey. In turn, this will increase choice for clients, bring about greater suitability and achieve better outcomes.



*In 2021, we are entering a new era of investment – one where ESG elements are considered integral to all risk and opportunity factors. An era where RI consideration and integration is the baseline.*

## Conclusion – looking to the future

In 2021, we are entering a new era of investment – one where ESG elements are considered integral to all risk and opportunity factors. An era where RI consideration and integration is the baseline. We see this driving improved choice and product innovation. As an industry we will take greater ownership for promoting the benefits of good governance, social responsibility and environmental awareness for long-term sustainability and better outcomes for our clients. As fiduciaries and responsible allocators and stewards of our clients’ capital, we have a responsibility to not only them, but our employees, future generations and the economies we support. Never has there been a more pivotal moment for the industry to respond.



To find out more visit  
**columbiathreadneedle.com**



**Important Information:**

**For use by Professional and/or Qualified Investors only (not to be used with or passed on to retail clients).**

This document is intended for informational purposes only and should not be considered representative of any particular investment. This should not be considered an offer or solicitation to buy or sell any securities or other financial instruments, or to provide investment advice or services. **Investing involves risk including the risk of loss of principal. Your capital is at risk.** Market risk may affect a single issuer, sector of the economy, industry or the market as a whole. The value of investments is not guaranteed, and therefore an investor may not get back the amount invested. **International investing** involves certain risks and volatility due to potential political, economic or currency fluctuations and different financial and accounting standards. **The securities included herein are for illustrative purposes only, subject to change and should not be construed as a recommendation to buy or sell. Securities discussed may or may not prove profitable.** The views expressed are as of the date given, may change as market or other conditions change and may differ from views expressed by other Columbia Threadneedle Investments (Columbia Threadneedle) associates or affiliates. Actual investments or investment decisions made by Columbia Threadneedle and its affiliates, whether for its own account or on behalf of clients, may not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not take into consideration individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon and risk tolerance. Asset classes described may not be suitable for all investors. **Past performance does not guarantee future results, and no forecast should be considered a guarantee either.** Information and opinions provided by third parties have been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. This document and its contents have not been reviewed by any regulatory authority.

**In Australia:** Issued by Threadneedle Investments Singapore (Pte.) Limited ["TIS"], ARBN 600 027 414. TIS is exempt from the requirement to hold an Australian financial services licence under the Corporations Act and relies on Class Order 03/1102 in marketing and providing financial services to Australian wholesale clients as defined in Section 761G of the Corporations Act 2001. TIS is regulated in Singapore (Registration number: 201101559W) by the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289), which differ from Australian laws.

**In Singapore:** Issued by Threadneedle Investments Singapore (Pte.) Limited, 3 Killiney Road, #07-07, Winsland House 1, Singapore 239519, which is regulated in Singapore by the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289). Registration number: 201101559W. This document has not been reviewed by the Monetary Authority of Singapore.

**In Hong Kong:** Issued by Threadneedle Portfolio Services Hong Kong Limited 天利投資管理香港有限公司. Unit 3004, Two Exchange Square, 8 Connaught Place, Hong Kong, which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 regulated activities (CE:AQ4779). Registered in Hong Kong under the ce (Chapter 622), No. 1173058.

**In EMEA:** Issued by Threadneedle Asset Management Limited. Registered in England and Wales, Registered No. 573204, Cannon Place, 78 Cannon Street, London EC4N 6AG, United Kingdom. Authorised and regulated in the UK by the Financial Conduct Authority. This document is distributed by Columbia Threadneedle Investments (ME) Limited, which is regulated by the Dubai Financial Services Authority (DFSA). For Distributors: This document is intended to provide distributors' with information about Group products and services and is not for further distribution. For Institutional Clients: The information in this document is not intended as financial advice and is only intended for persons with appropriate investment knowledge and who meet the regulatory criteria to be classified as a Professional Client or Market Counterparties and no other Person should act upon it.

**Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies. columbiathreadneedle.com**

Issued 01.21 | Valid to 07.21 | J31065 | 3354693