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ESG Investing: A trend that will endure

In the collective consciousness, 2020 was a year that highlighted just how interconnected and vulnerable the world is to the potential challenges that climate change will bring. As such, one positive externality of the health crisis is that sustainable investing gained further traction – that is the consideration of environmental, social and governance factors alongside traditional financial analysis frameworks.

The most pressing ESG issue is climate change, which has risen to the top of government and corporate agendas. Taking a random sampling of news articles from any given week demonstrates that environmental sustainability is something that is permeating into decision-making in every sphere of society.

Last week, for example, it was the fashion industry in the lime [green] light. At the onset of London Fashion Week, two of the largest fast-fashion retailers laid out new ESG commitments. Asos, a British e-commerce brand, committed to reaching net zero carbon emissions across its entire value chain by 2030, as well as being operationally carbon neutral by 2025. Primark, a large fashion retailer known for its low prices said it would produce clothing using recycled or more sustainably sourced materials by 2030.

The second most polluting industry in the world (according to the UN), known for extravagance, has acknowledged that it had better adapt to an increasingly environmentally-conscious customer base. Appetites are changing. The pandemic made people question 'fast fashion' (trends cycle through 52 'micro-seasons' a year with some disappearing within as little as a week) and the wear-it-once culture promulgated by social media – both of which can have devastating effects on the planet.

During the digital event, the standout collections gave us a glimpse as to what the future of fashion will look like: Garments will increasingly be created from upcycled materials and fabric with lower environmental impact, with increased focus on durability.

Coco Chanel, the iconic French designer once said "Fashion changes, but style endures". In this sense, ESG investing is not in fashion – it is in style and will be the defining theme of the decade.

Disruptions like those detailed above for the world of fashion, are sweeping through every industry and companies that fail to adapt to quickly find themselves out of favour with customers – or even, at some point, in violation of regulations.

With all the hype around ESG investing as of late and an influx of flows into associated products, some investors may wonder if the ship has already sailed in terms of capitalizing on the trend. We believe not.

196 countries have adopted the Paris Agreement – a legally binding international treaty on climate change. If we are to meet its goal to limit global warming to well below 2°C, a lot of work is still to be done and time is running out. A big policy push could be forthcoming if governments are to deliver on their promises and at the COP26 in Glasgow, beginning Oct. 31, countries will be asked to commit to ambitious 2030 emissions reductions targets that align with reaching "net zero" carbon emissions by 2050. The recently published IPCC report can be considered as a "code red": If we are to achieve the best case scenario of limiting global warming to 1.5°C, thereby avoiding runaway impacts on humans and the planet, we need to reduce GHG emissions by 45% from 2010 levels by 2030. So far and according to the Climate Action Tracker, government commitments are offering an estimated 15% of the cuts needed to

meet the best case scenario as of now. While the window for keeping global warming under control is still open, the same window is getting very small.

The State of Finance for Nature Report this year said that nature-based solutions must triple to $350bn by 2030 and quadruple by 2050, warning of irreversible damage to economies, the planet and humanity if the status quo remains unchanged.

It is clear that sustainable investing is no passing fad. It is here for the long-term and it will bring a proliferation of opportunities for investors as the gaze of policymakers intensifies and as consumer preferences continue shifting. Investors have a lot of choice as to how they wish to play this theme in their portfolios.

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