

# 2021 Sustainable Investment Outlook

March 2021

2020 was an extraordinary year on many fronts – from natural disasters, both in Australia and abroad, to the impacts of the COVID-19 pandemic, the Black Lives Matter movement and the spotlight on the destruction of Indigenous cultural heritage. From an investment perspective, the challenges of 2020 have reinforced the link between social, environmental and financial outcomes.

Major sustainability themes from 2020 are expected to continue through 2021, although hopefully in a more positive market and economic outlook. Unsurprisingly, climate change, COVID-19, human rights, diversity and equality are expected to remain front of mind, but interrelated areas like biodiversity and water are also likely to receive increasing attention from investors, especially in the lead up to the United Nations Biodiversity Conference (COP 15) in May 2021, where global biodiversity goals are expected to be announced.

2021 already has brought positive news for global climate policy with the United States re-joining the Paris Agreement and renewing its leadership on climate action. With the United States now back at the table, and recent net zero announcements from China, Canada, Japan and South Korea, countries responsible for around 63% of global emissions are considering or have adopted net zero emissions targets<sup>1</sup>. Despite this, further momentum is needed to put the world on track to achieve the Paris Agreement commitments and reduce global emissions to net zero by 2050. We can expect increased attention on climate policy, including a focus on nations strengthening 2030 climate targets, in the lead up to the 2021 United Nations Climate Change Conference (COP26) to be held in Glasgow in early November this year.

We can also expect attention on corporate level commitments to continue this year, building on the momentum achieved in 2020. The success of initiatives like Climate Action 100+ in encouraging companies to set net zero emissions targets has demonstrated that effective results can be achieved through collaborative engagement activities undertaken by global investors, such as BT. At the end of 2020, 43% of the 160 global companies, who alone account for 80% of global corporate industrial emissions, had set net zero targets.<sup>2</sup> These announcements are expected to continue throughout 2021 with continued investor attention through engagement and voting at company annual general meetings.

The COVID-19 pandemic has exposed a range of social issues like inequality, labour rights, worker health and safety, and human rights and highlighted their impact on organisations' operations and supply chains. Globally, whilst some companies responded compassionately and supported their workers, customers and stakeholders through the pandemic, others failed to respond in line with community expectations, resulting in financial or reputational damage, or both. A company's response to the pandemic can provide investors with greater insight into the organisation's governance, culture and purpose. This is worth keeping front of mind for investors as social issues like inequality, unemployment, casualisation and labour rights in the gig economy continue to be likely areas of focus for governments, companies and the community.

The Black Lives Matter protests of 2020 captured the world's attention. The protests for racial justice, sparked by the death of George Floyd in police custody on 25 May, are believed to be the largest movement in US history, with 15 to 26 million people participating in protests during June, and similar protests erupted in other

<sup>1</sup> Paris Agreement Turning Point: Wave of net zero targets reduces warming estimate to 2.1oC in 2100. All eyes on 2030 targets. Climate Action Track, December 2020.

<sup>2</sup> 2020 Progress Report, Climate Action 100+, December 2020.

nations. Here in Australia, protests occurred alongside community outrage at the destruction of Aboriginal cultural heritage by Rio Tinto at the Juukan Gorge.

Each of these issues has highlighted the financial impacts and investment risks associated with poor management of social issues, and strengthened their importance within investor ESG frameworks. Companies need to take care of their employees, customers and community stakeholders or face risks to their social license to operate and reputation.

Investors are increasingly holding companies to account, for example by working together to engage with companies on these issues, as well as through proxy voting decisions. At BT, we believe we have a responsibility to engage with companies in which we invest, to ensure they are adequately considering and addressing these types of salient issues, as this is fundamental in driving positive portfolio outcomes.

The market and economic uncertainty of 2020 set up a big test for the sustainable investment thesis, and its focus on long-term outcomes. Research by the Responsible Investment Association of Australasia showed that more sustainable companies performed better, and responsible investment funds largely outperformed the general market, through the market disruption brought on by the global COVID-19 pandemic.<sup>3</sup> Whilst this isn't a surprise to the proponents of sustainable investment, it again highlights that the consideration of ESG factors in the investment process can lead to better risk adjusted returns, especially in times of extreme volatility.

It should be no surprise then that 2020 was also a big year for investment flows into sustainable funds and products. For example, BlackRock reports that in the 11 months to November 2020, \$US 228bn was invested in sustainable products, which represents an increase of 96% compared to the full calendar year, 2019.<sup>4</sup> With this increase in flows comes an increase in customer expectations of sustainable investment, with interest in greater transparency of engagement, voting and holdings increasing.

With 2020 fresh in our collective memories, 2021 has the potential to be a tipping point for sustainable investment, and may well be the year when we see the importance of considering ESG issues in investment processes, no longer in question.

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<sup>3</sup> CoViD-19 and the performance of responsible investments. Responsible Investment Association of Australasia, June 2020.

<sup>4</sup>Net zero: a fiduciary approach, Blackrock, December 2020. Accessed at <https://www.blackrock.com/corporate/investor-relations/blackrock-client-letter>

## For more information

bt.com.au

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GPO Box 2861 Adelaide SA 5001



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