Is the future bright for sustainable assets?

Recent years have provided fertile ground for sustainable assets to perform. Even more recently, consumer activity and investor priorities have actively supported sustainable assets during the COVID-19 pandemic, as a glance at the share-price performance of sustainable businesses demonstrates. But, as customers no doubt tire of hearing, past returns are no guide to future performance. Where will sustainable assets go from here?

Happily for sustainable investors, a number of factors are set to bolster sustainable assets, and many of these are relatively new influences. While the road ahead will not always be easy, overall we see a very supportive landscape emerging.

The political environment is right

Governments often exhibit herd behaviour, and right now the herd is on the move. Following the UK's commitment to reaching net zero emissions by 2050, France, Denmark, New Zealand and Japan have made matching pledges. Even China – currently the world's biggest polluter – has committed to net zero emissions by 2060. Importantly, the incoming US president – Joe Biden – has also pledged to take his country back into the Paris Agreement (abandoned during President Trump's time in office) and is aiming for net zero by 2050 too.

What's more, this is an issue with reach across much of the political spectrum: political parties traditionally unconcerned by such 'green' externalities are now also talking earnestly about sustainability. Notably, a Conservative government committed the UK to a net zero emissions target.

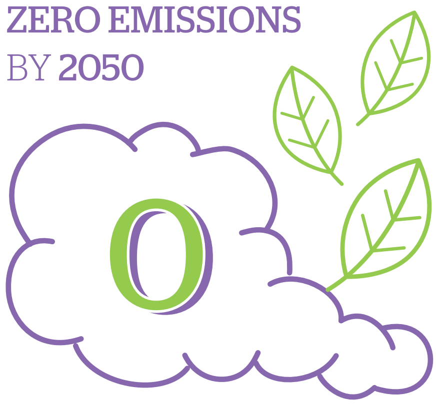
Policies are starting to catch up

In the UK, the government intends to double the amount of renewable energy it subsidises in 2021, including onshore wind and solar power. A surge in wind power helped to break records for green energy generation in the UK in 2020. Chancellor Sunak has also announced that the UK government will issue its first green bonds in 2021 in an effort to meet growing investor demand for sustainable assets.

Meanwhile, the European Commission is committed to an action plan for financing sustainable growth. Its action plan seeks to reorient the flow of capital towards sustainable investment, better integrate sustainability factors into the way investments are rated and researched, and foster a transparent and long-term approach to financial and economic activity. The EU is also considering a tax on imported goods which reflects the level of carbon dioxide emissions created via their production. There has been widespread international interest in this notion, including from President-elect Joe Biden.

At present, the US is the world's second largest polluter, and significant US policy change will be needed in order to meet the net zero 2050 target. Encouragingly, Biden's election manifesto included an outline for a 'Green New Deal'. While promises in the build up to an election cannot always be relied upon, this was a prominent part of Biden's campaign, and a cornerstone of his proposed policy approach. Stating that the US urgently needed to 'embrace greater ambition' on climate change, Biden drew a link between the health of the US economy and that of the environment.

THE **UK'S** COMMITMENT TO REACHING **NET ZERO EMISSIONS** BY **2050**



The private sector is ready for change

In 2019, Business Roundtable (a not-for-profit association of private sector CEOs) issued a statement redefining the purpose of a corporation. They stated that businesses should work for the benefit of all their stakeholders, including not only shareholders but also customers, employees, suppliers, and local communities. This latter point included a specific commitment to respecting both people and environment, and embracing more sustainable business practices.

This is a growing trend in evidence among business leadership. In 2020, BlackRock CEO Larry Fink wrote a letter to CEOs outlining how the investment risks posed by climate change will accelerate a significant reallocation of investor capital. He noted that this will have profound repercussions for risk assessments and asset pricing globally.

This private sector change is broadly being driven by two factors. First, it is increasingly understood that sustainability is 'the right thing to do'. In one high profile example, Microsoft has committed to being 'carbon-negative' by 2030, and will include the carbon impact of not only its own direct emissions but also those of its supply chains within its assessments.

Second, businesses need a social licence to operate, meaning that a sustainable approach now makes good business sense. Even corporate giants with relatively poor past reputations for sustainability and ethics are publicly moving towards more responsible conduct. In the beverage industry, Coca-Cola is using recycled material in its plastic bottles, and is calling for reforms to increase recovery and recycling rates for reusable plastic. In the mining sector, when Rio Tinto presided over the destruction of Aboriginal caves dating back 46,000 years in order to extract the iron ore beneath them, it cost the CEO his job and many directors their bonuses.

Good behaviour is being rewarded

Once relatively niche and low on the political agenda, political commitment to sustainability is increasingly being rewarded in the voting booth. Climate change does still remain a divisive issue in those areas negatively affected by progress (e.g. US states where employment relies heavily on the traditional energy sector), but sustainability is increasingly a political vote winner elsewhere.

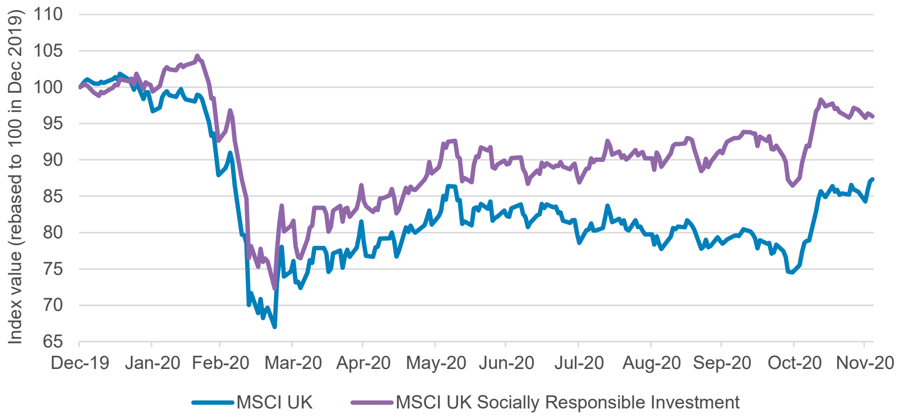
Meanwhile in the private sector, action is also being rewarded. With its range of electric vehicles, Tesla has shifted the automotive landscape and been rewarded handsomely for it, becoming the highest valued car maker in history. In the food industry, fast-growing plant-based business Beyond Meat is aiming to accelerate the shift towards sustainable eating habits and new meat substitutes. Closer to home, Danish power company Ørsted has transitioned its entire business model within the space of just a few years, shifting to a focus on renewable solutions, and is now a leader in the field.

In the past, living sustainably was a personal choice rather than a broader societal issue, but this is no longer the case. It is likely that none of these companies would merit their share-price performances based on traditional growth metrics, but investors are rewarding sustainable credentials and voting for change with their wallets.

> “Even corporate giants with relatively poor past reputations for sustainability and ethics are publically moving towards more responsible conduct.”
>
> Matt Toms, Investment Manager

A supportive landscape for sustainable share prices

Performance of broader UK shares (MSCI UK) versus socially responsible UK shares (MSCI UK Socially Responsible Investment)



Past performance is not a reliable indicator of future results.
Source MSCI / FactSet

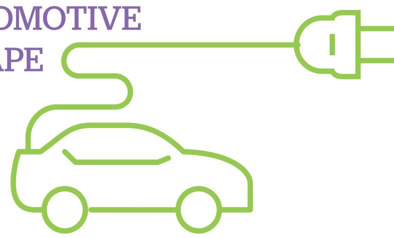
COCA-COLA HAS BEGUN USING **RECYCLED MATERIAL** IN ITS **PLASTIC BOTTLES**

What next for sustainable assets?

Quite simply, there is no turning back from here. Politicians and businesses are committed irrevocably to improving their sustainability, and while we are still at a relatively early stage in the journey, the road only leads forwards.

It is important to remember that corporate and political scandals/errors are never 100% avoidable, even when sustainability and responsibility hold the spotlight. However, taken altogether, shifting priorities spell good news for sustainable approaches to politics, business and investment, and should support the performance of sustainable assets over the long term.

WITH ITS RANGE OF **ELECTRIC VEHICLES, TESLA** HAS SHIFTED THE **AUTOMOTIVE LANDSCAPE**



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Wealth Briefing European Awards 2019

Winner: Best Fund Manager

Winner: Change Management Process/Best Implementation of a Technology Solution

Shortlisted: Most Promising New Entrant (Sustainable)

Financial Services Forum Innovation Awards 2019

Winner: Customer Loyalty

Highly Commended: Customer Interaction and User Experience

Investment Week Sustainable and ESG Investment Awards 2018

Shortlisted: Best New Entrant - Services

Citywire Investment Performance Awards 2018

Shortlisted: Best Medium Firm

Investment Week Fund Services Awards 2018

Shortlisted: Best Technology Solution (small to medium firm)

FE Trustnet Alpha Manager Ratings 2018

Winners: David Absolon, Scott Ingham, Michael Stanes

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