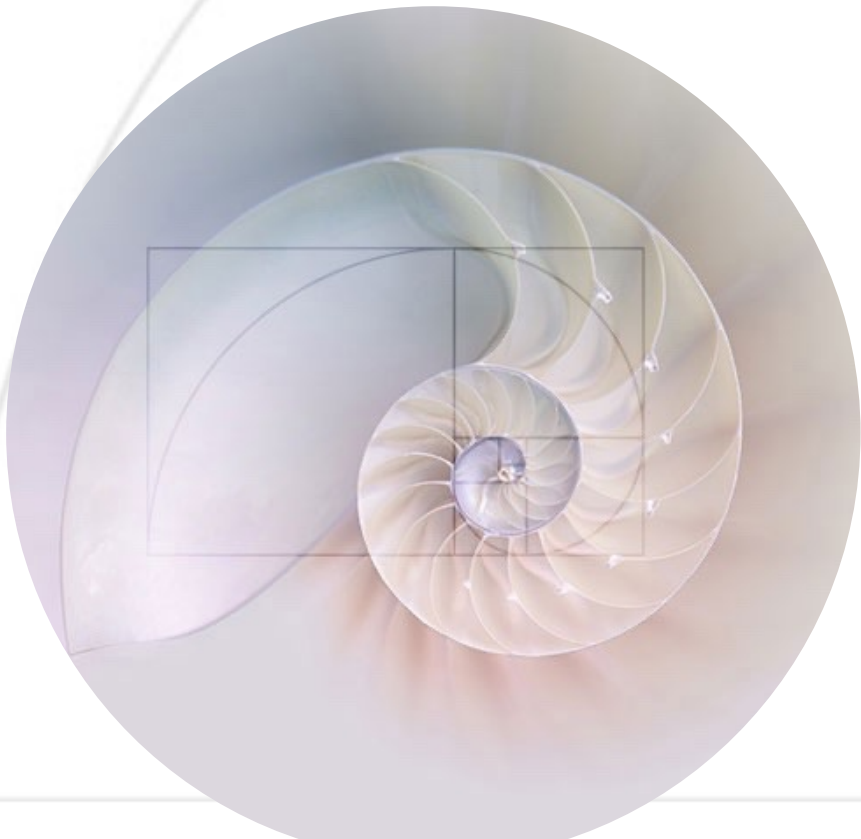


TRENDS IN
SUSTAINABLE
FINANCE
Fiona Frick

St. Gallen
University

Institute
of
economics,
March 28,
2023





What has Evolved in Asset Management?

“Life is a continuous process of adjustment.”

INDIRA GHANDI

THE PURPOSE OF ASSET MANAGEMENT

SAVINGS

CAPITAL MARKETS

INVESTMENTS



THE PURPOSE OF ASSET MANAGEMENT

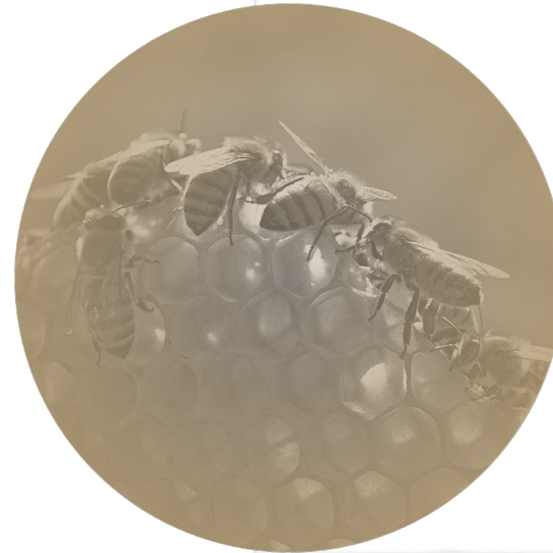
The rise of ESG is extending the fiduciary duty of asset managers



Helping the world's
ageing population
fund its retirement



Financing the
long-term needs
of the real economy
in a sustainable way



Influencing
companies we invest
in through voting
and engagement



Helping to solve
social and
environmental
problems

CAPITALISM NEEDS REWIRING

Shift from a focus on shareholders
to stakeholders

The prevailing paradigm that has underpinned
business for the past 50 years is under review

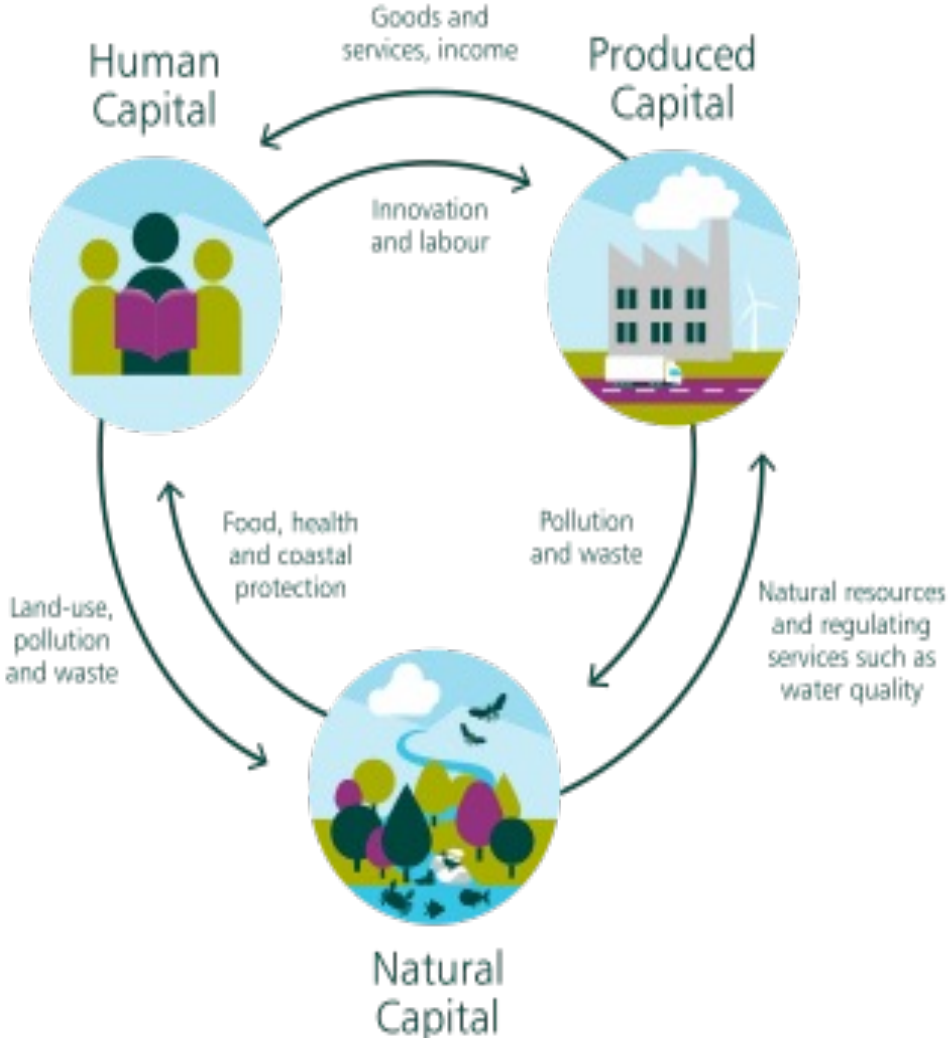
“ There is one and only one social responsibility of
business to use its resources and engage in activities
designed to
increase its profits... so long as it stays within the
rules of the game, which is to say, engages in open
and free competition without deception or fraud. ”

MILTON FRIEDMAN



THE INTERACTION BETWEEN THE DIFFERENT CAPITALS

Decoupling the definition of development & progress from pure GDP growth

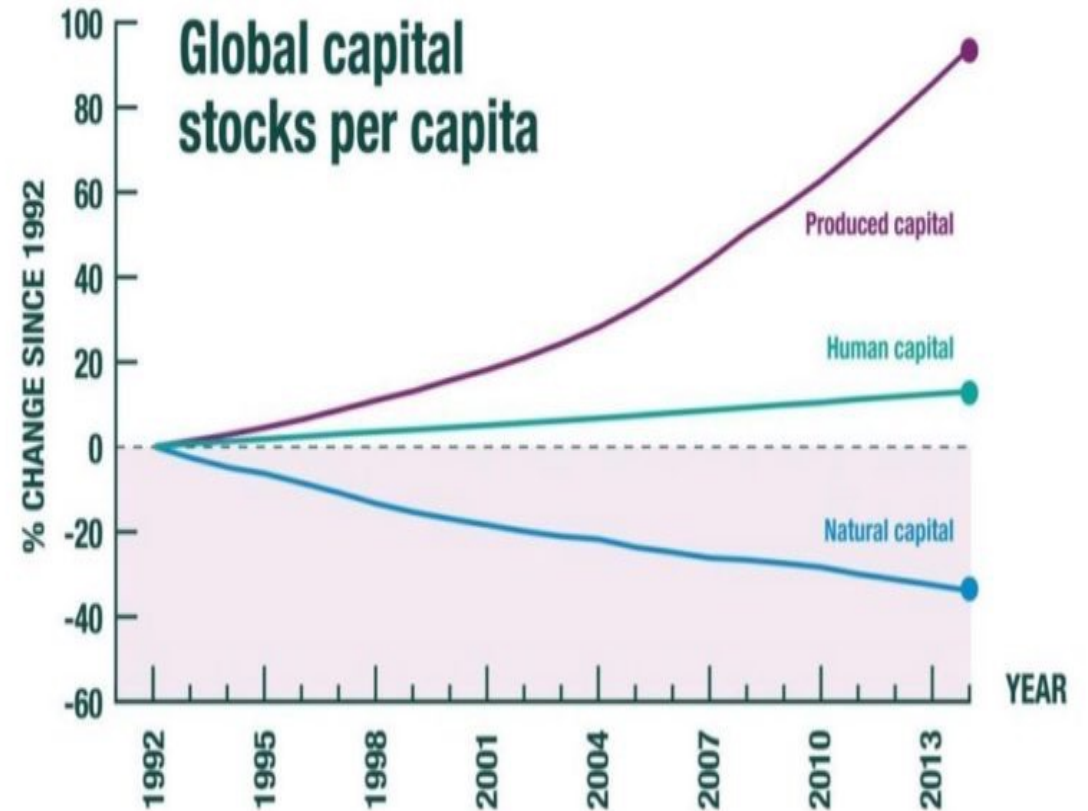


The sum of **produced**, **human** and **natural** capital should be the basis of evaluating economic change.

EVOLUTION OF NATURE CAPITAL

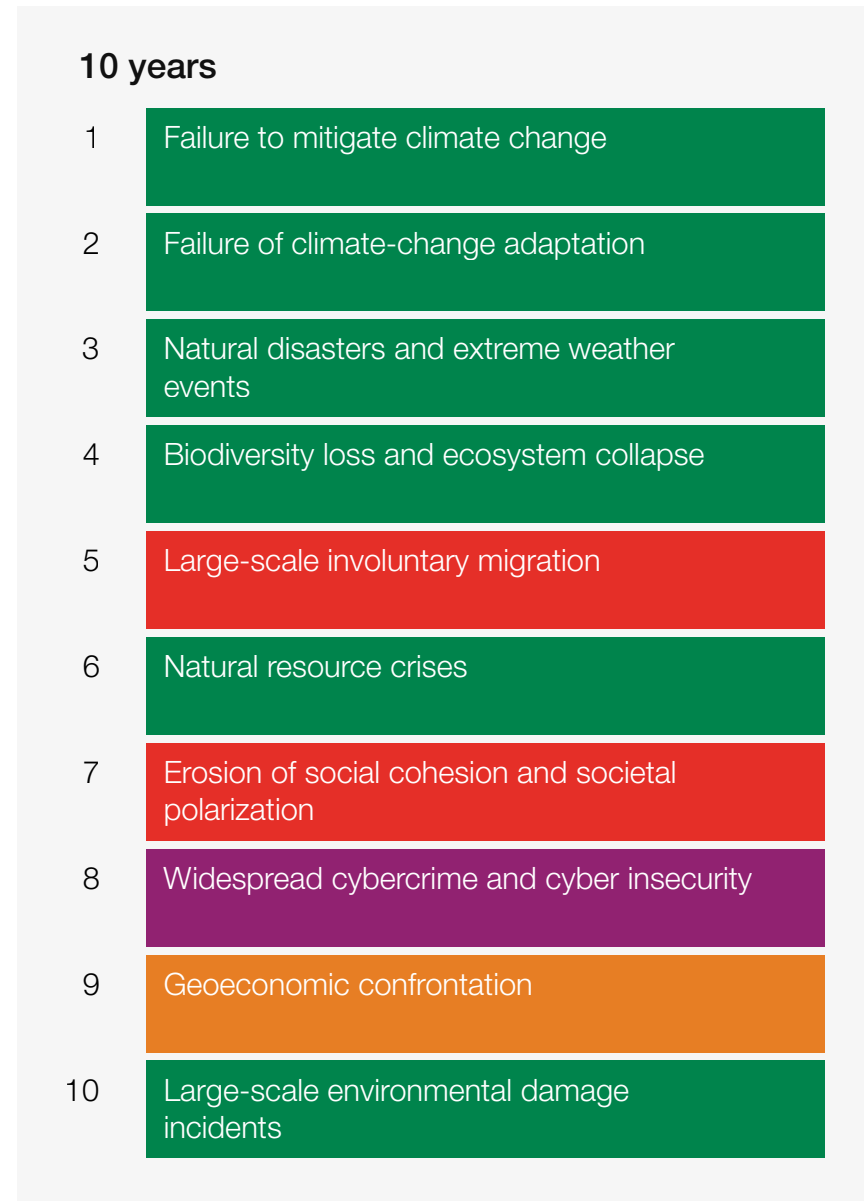
Historically growth in produced and human capital has been at the expense of natural capital

- From 1992 to 2014, produced capital doubled, while human capital increased 13% while natural capital declined 40%
- The decline endangers the biosphere's future potential to supply our descendants.
- The finiteness of Nature places bounds to GDP growth
- If we look with the eye of an asset manager, goal is to maximise the value of their overall portfolios of capitals.



GLOBAL RISKS MAP 2022 BY WORLD ECONOMIC FORUM

- climate- and nature-related risks lead the top 10 risks, by severity, that are expected to manifest over the next decade.



MODERN PORTFOLIO NO LONGER SUFFICIENT

The same trend is happening to asset management and the definition of fiduciary duty.

Harry Markowitz

Nobel Prize Winner for Modern Portfolio Theory

In the 1950s, he demonstrated that the performance of an individual stock is not as important as the performance of an entire portfolio. This theory was focused on risk and return.



MOVING FROM TWO DIMENSIONS TO THREE

An investor's desired outcome, regulatory requirements and values-based objectives must be considered

Historical Paradigm



Current Paradigm



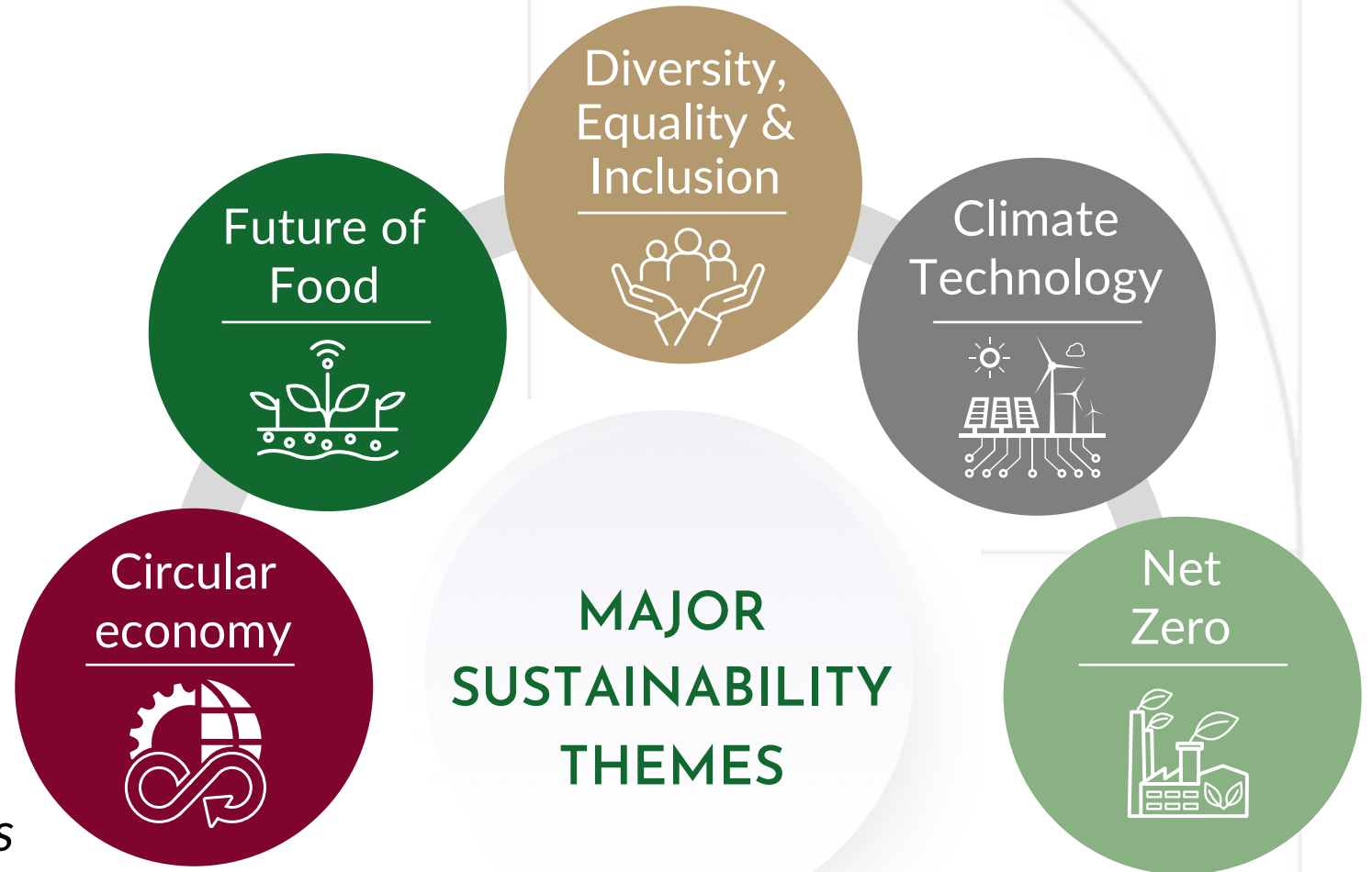
THE NEW VALUE CREATION ECOSYSTEM



- Multiple climate crises over the past 18 months have delivered a stark wake-up call to the world
- The drivers of enterprise value extend beyond financial productivity - businesses must adapt!
- Value creation includes a resilient and sustainable ecosystem.

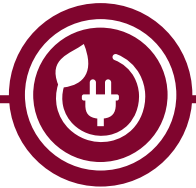
WHY IS SUSTAINABILITY KEY TO VALUE CREATION?

- Companies must reinvent themselves *across sectors*
- *Major innovation* will create *huge investment opportunities*



THE RIPPLE EFFECT OF THESE NEW SUSTAINABILITY TRENDS

The climate transition will influence multiple segments and sectors of our economy which will be in need of capital. This is where asset management can deliver purpose by investing efficiently in this transition.



ENERGY TRANSITION

\$3.4trn needed to reach 55% share of renewables by 2030¹



LOW-CARBON INDUSTRY

\$9trn annually to decarbonise heavy industry⁴



GREEN CONSTRUCTION

€177bn a year by 2030³ for EU building efficiency³



GREEN MOBILITY

€3trn annually for the 36% annual growth of the electric vehicle industry²



CIRCULAR MATERIAL

€4.5trn by 2030 to unlock full circular economy potential⁶



FORESTRY

\$1-1.5trn annually for forestry investments for carbon compensation⁵



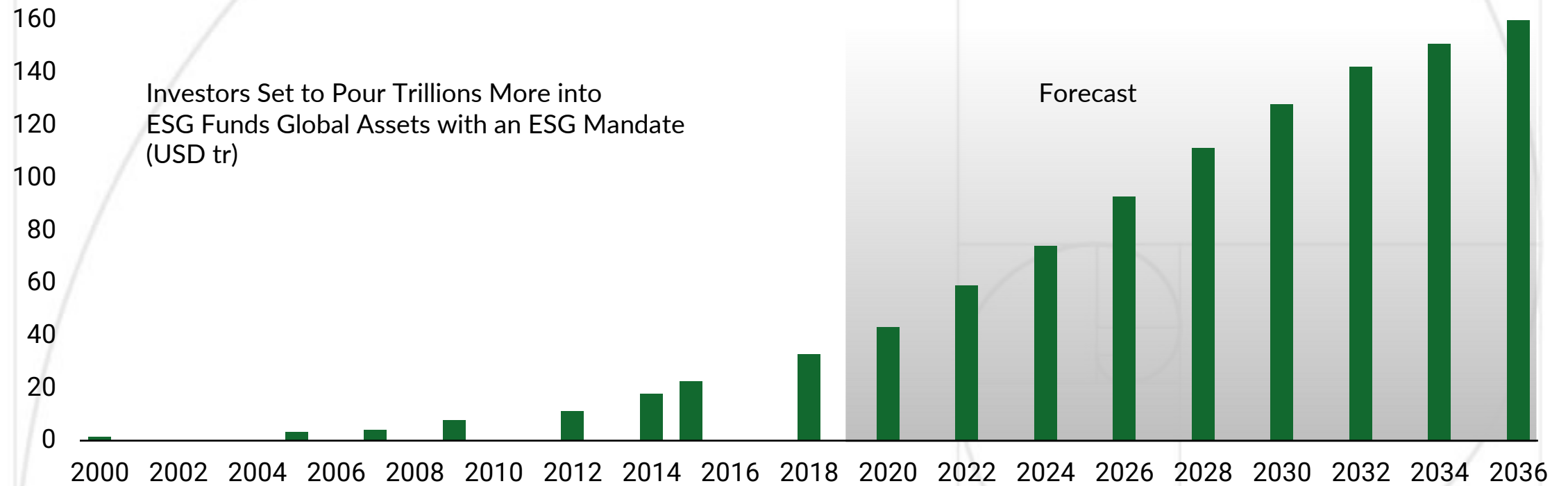
LAND MANAGEMENT

\$29.2bn by 2027 for sustainable agriculture industry with a CAGR of 10%⁷

GROWING DEMAND FOR SUSTAINABLE INVESTMENTS

“There is nothing more powerful than an idea whose time has come.”

VICTOR HUGO

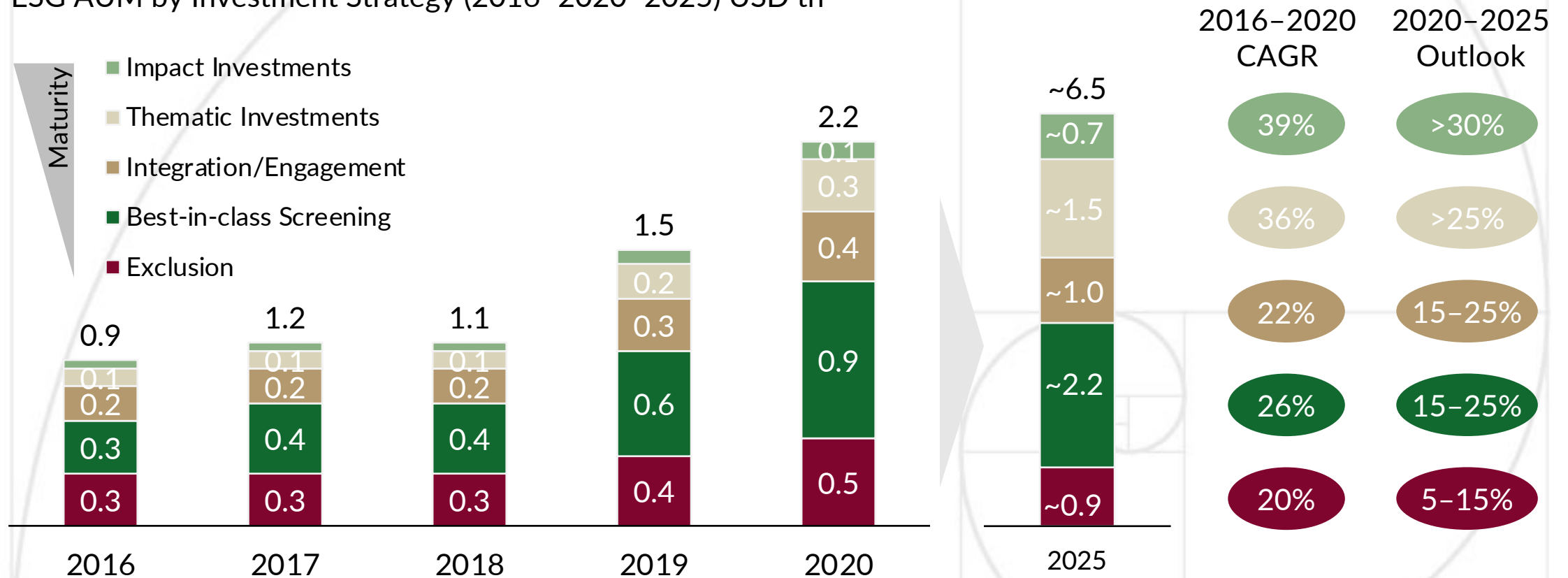


MARKET TRENDS

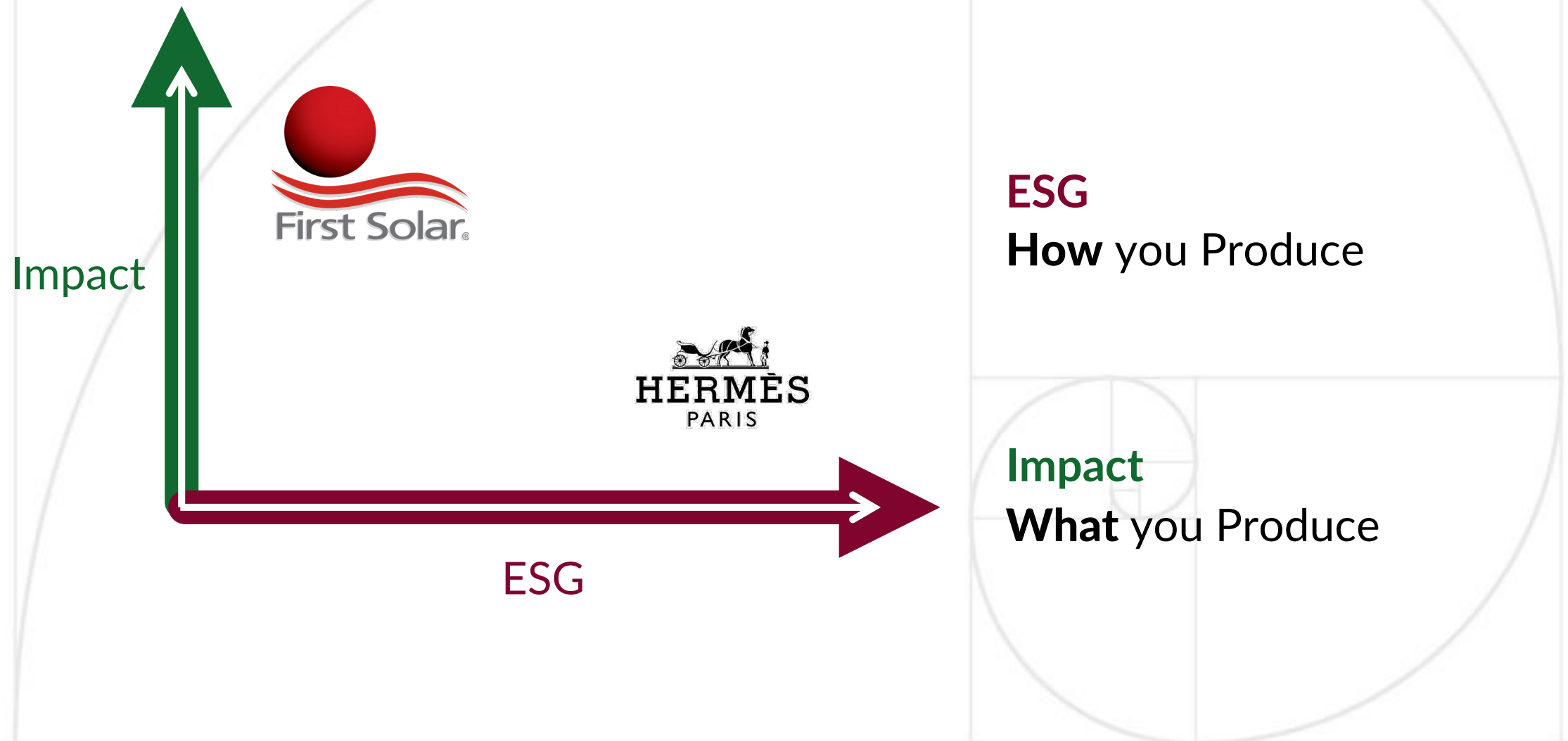
ESG INTEGRATION & NEGATIVE SCREENING WIDESPREAD

Impact to see the strongest growth; greenwashing risks increase

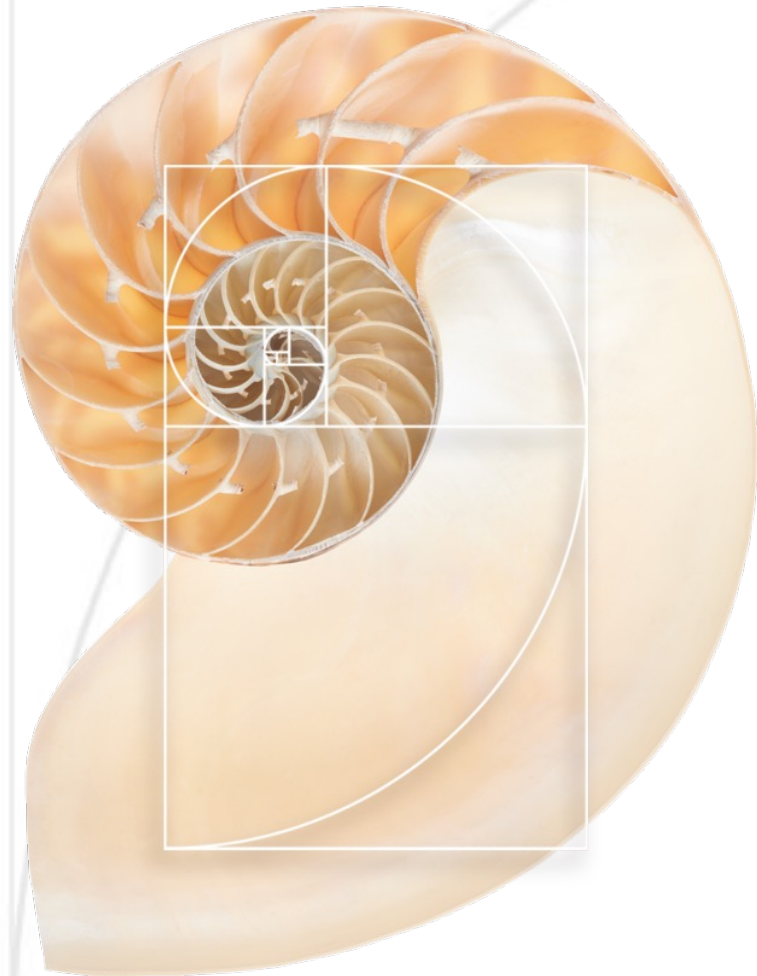
ESG AUM by Investment Strategy (2016-2020-2025) USD tn



THE DIFFERENCE BETWEEN ESG AND IMPACT



WHAT ARE INSTITUTIONAL INVESTORS DOING?



- Adjusting to new regulation especially European SFDR
- Adjusting to new stringent definition of what is sustainability
- Buying the tools or asking their asset manager to report on social and environmental externalities
- Defining internal sustainability roadmap with KPIs
- Increasing numbers of asset owners joining **“Net Zero Asset Owners Alliance”**.

WHAT DO INVESTORS WANT FROM SUSTAINABLE INVESTING?



Benefit from the
World Ecosystem
Shift Opportunity



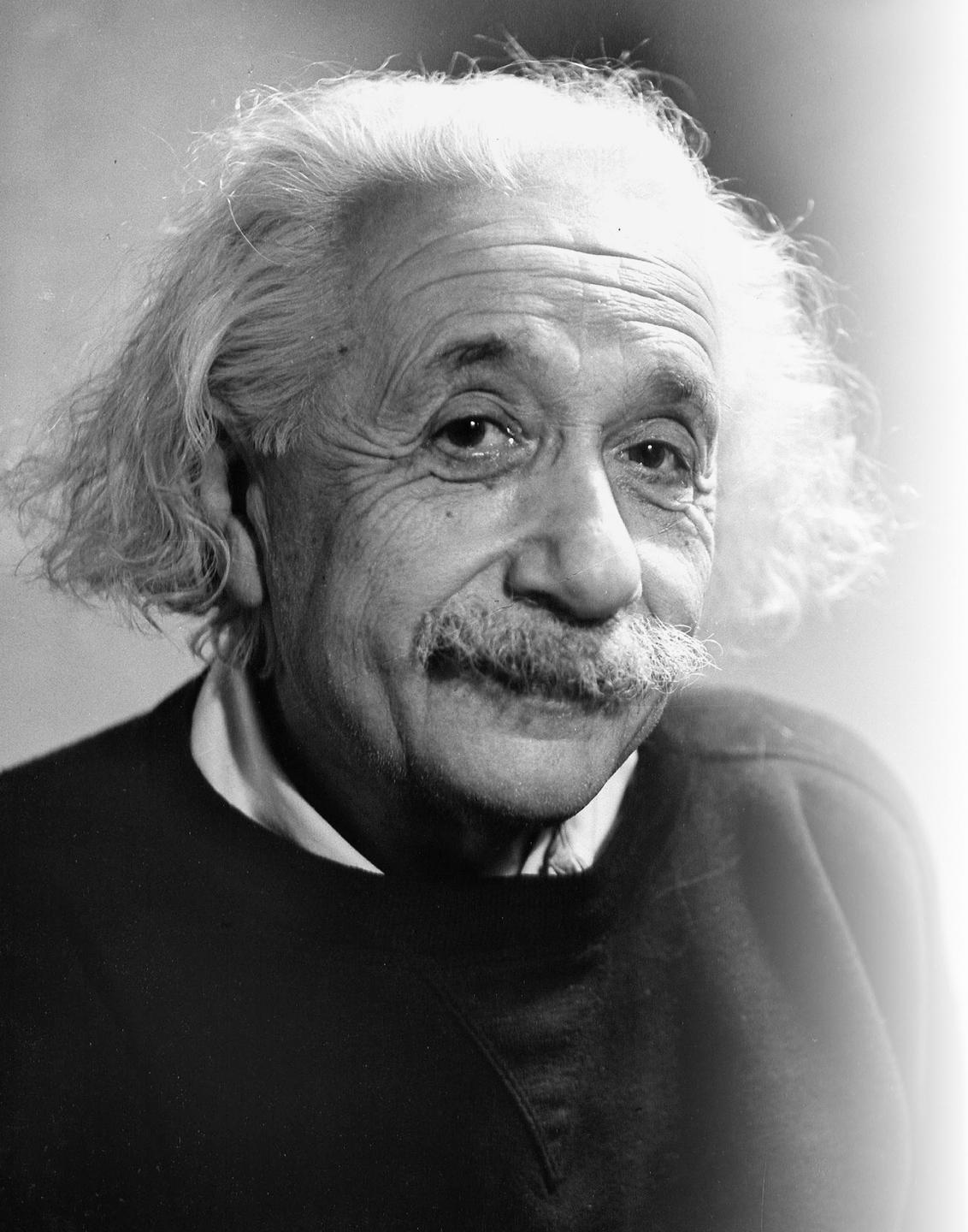
Both Impact
and Returns



Demonstrable
Impact



Exchange of
Knowledge



INTELLIGENCE
15 7H3
ABILITY
70 ADAP7 70
CHANGE3