

# IEN Q&A: 2024 ESG and Sustainable Investing Trends -Asset Manager Perspective

*2023 saw major developments surrounding environmental, social, and governance (ESG) investments, including lawsuits, political controversy, and increased regulatory scrutiny. Despite these challenges, ESG investment performance remains strong. As we look ahead to 2024, IEN spoke with Marina Severinovsky, Head of Sustainability, North America, Schroders, and a member of the IEN Sustainable Retirements Expert Council, about the outlook of ESG and sustainable investing in 2024 from an asset manager's perspective.*

## **Interviewee:**



## **Marina Severinovsky**

Head of Sustainability, North America  
Schroders

## **LOOKING AHEAD TO 2024, WHAT DO YOU SEE AS THE TRENDS IN ESG/SUSTAINABLE INVESTING?**

As investors become more comfortable with sustainability as an investment discipline, we are seeing demand mature from seeking more general integration of sustainability characteristics to more specific approaches that directly benefit from long-term global economic themes.

Schroders identifies key themes in our 3D-Reset framework, including decarbonization, deglobalization and demographic change. With decarbonization perceived as an enduring trend, driven by policy and regulation, as well as increased corporate commitments, institutional investors are seeking to tap directly into market tailwinds for companies that are leaders in or enablers of transition. In other words, there is a shift from simply considering ESG as a risk mitigation tool, to identifying and targeting opportunities arising from macroeconomic shifts.

In addition, a subset of mainly non-pension investors has become more focused on achieving true impact alongside financial returns, especially as the ability to measure impact and to access it across asset classes, including via public markets, has continued to improve.

All of this represents nuance and evolution in what investors expect of ESG, and how to use it more efficiently to meet their investment objectives. This pragmatic approach also extends to investors' perspectives on Active Ownership, which are increasingly focused on how engagement can lead to tangible real-world outcomes that could potentially drive better financial performance\*.

**WHAT IMPACT, IF ANY, DO YOU SEE THE POLITICAL ATTACKS AGAINST ESG HAVING ON THESE INVESTMENT CLASSES IN 2024? IS SUSTAINABLE INVESTING HERE TO STAY, OR WILL IT RECEDE?, DO YOU SEE THE POLITICAL ATTACKS AGAINST ESG HAVING ON THESE INVESTMENT CLASSES IN 2024? IS SUSTAINABLE INVESTING HERE TO STAY, OR WILL IT RECEDE?**

The politicization of sustainability messaging is likely to continue through the United States presidential elections next year, as well as at a state level, but its efficacy appears to have peaked. The reality is that no matter what certain politicians or the media say, the sponsors of pension plans across all states are faced with the same issues. Regardless of the politics of their state, they all must consider ESG factors, such as the physical risks of climate change, or stranded asset risk, or human capital or governance best practices, from a strictly financial materiality standpoint, and at the same time, they all need to focus on what is best for their beneficiaries and cannot concede any returns for principles or “values” considerations. So, there isn't much actual distance between the plan sponsors across all states.

We have also started to see some tangible reactions to the municipal and state legislation – from the anti-ESG on one hand to aggressive divestment on the other – with lawsuits focused on the rights of beneficiaries in both cases. This debate is likely to continue to play out in the courts. We believe that sustainability as an investment and engagement discipline will persist, but continue to mature and evolve.

Passive approaches that conflate “ESG” with US large cap growth in a few sectors like technology, communications, and consumer discretionary, which performed well and gathered assets pre-2022, are likely to give way to more targeted thematic and impact approaches anchored to durable trends reflecting environmental and social change, as investors seek to both mitigate risk and, importantly, benefit from opportunities stemming from these trends.

## WITH THE MARKET CONTINUING TO BE VOLATILE, HOW ARE YOU ADVISING YOUR CLIENTS ON THE BENEFITS OF ESG INVESTING?

Investors' understanding of sustainability as an investment discipline has matured, and so we are seeing increased interest in thematic approaches that directly target long-term global economic themes, including decarbonization, with investors seeing these trends as real investment opportunities. In other words, investors appear to be ready to harness the principles of sustainable investing more directly towards building more resilient portfolios.

We are therefore focused on delivering a range of ESG options, including innovative thematic and impact solutions, especially those centered around climate and energy transition, to our clients. We are finding strong demand from clients for education and support around transition planning, net zero implementation, and pragmatic and practical multi-asset portfolio decarbonization, including via customized and tailored solutions. We have also continued our robust active ownership agenda, with the purpose of preserving and enhancing shareholder value in our investee companies.

We believe that regulation in the US will further solidify in the next year, requiring increased ESG disclosure, which will allow for better assessment of companies and more informed investment decisions.

***\*Note:** All investments involve risk including the loss of principal. Past performance is not a guide to future results. The views shared are those of Schroders and are subject to change. Schroders has produced recent research on the efficacy of active ownership in preserving and enhancing shareholder value (Active ownership: how does engagement work and does it impact returns? (schroders.com), Active ownership: three ways to improve investor engagement (schroders.com)) and we continue to believe that it is critical that we engage with our investee companies to ensure they successfully adapt to an ever-escalating pace of policy and regulatory change (Active ownership and policy: how it works and what we ask of policymakers (schroders.com)).*

