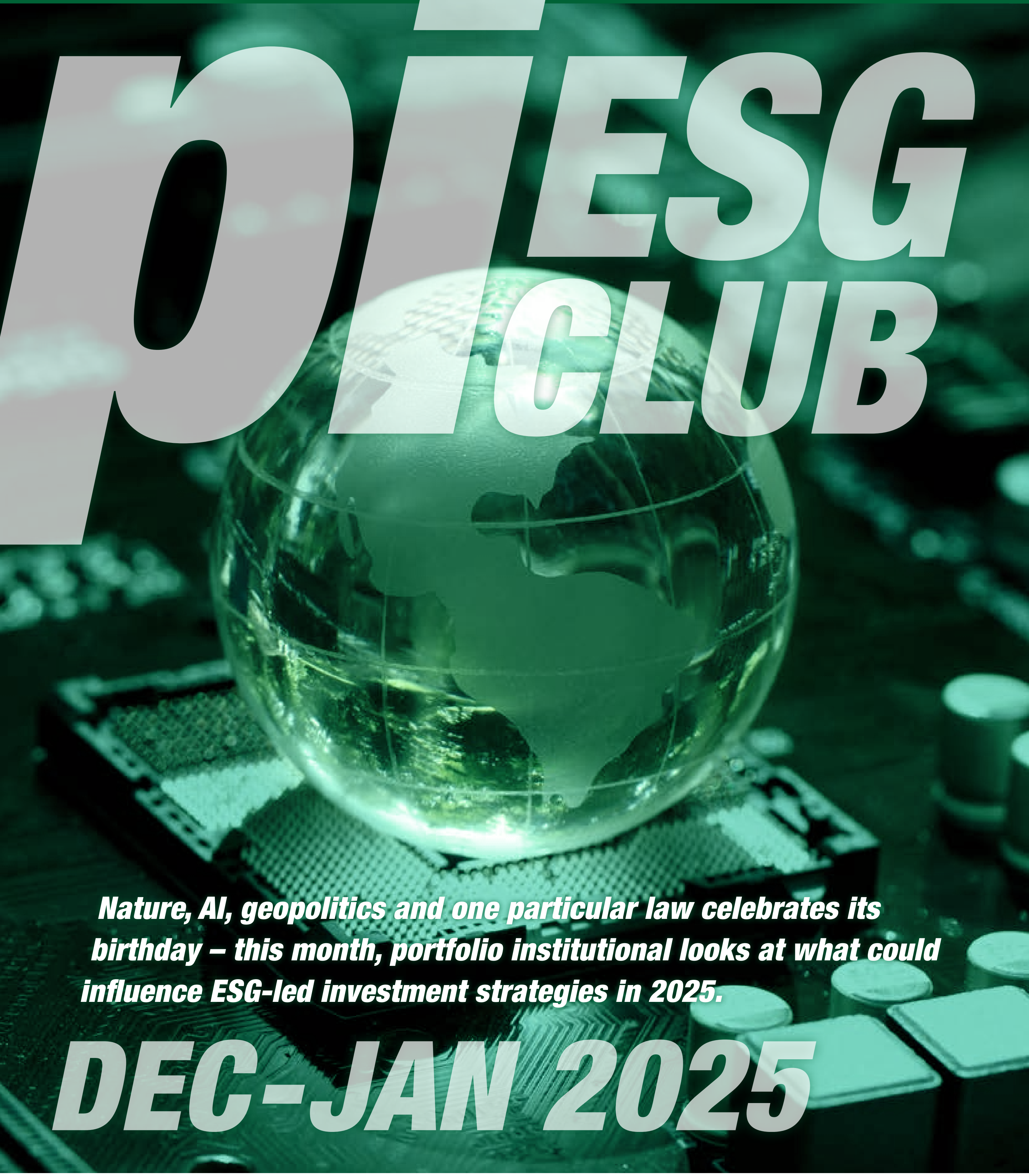
pi ESG CLUB



Nature, AI, geopolitics and one particular law celebrates its birthday – this month, portfolio institutional looks at what could influence ESG-led investment strategies in 2025.

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FRC CREATES HEATED DEBATE AFTER REDEFINING STEWARDSHIP

The amendment to the definition of stewardship splits the investment community, but the regulator is keen to hear from investors through a consultation. *Andrew Holt* reports.

The Financial Reporting Council's (FRC) proposed amendment to the definition of stewardship in the launch of its Stewardship Code consultation has created much division within the investment community.

The amended definition of stewardship is to become "the responsible allocation, management and oversight of capital to create long-term sustainable value for clients and beneficiaries", with the phrase "leading to sustainable benefits for the economy, the environment and society" being deleted on the basis that some interpreted its inclusion as meaning that the primary purpose of stewardship is to pursue environmental and social objective in and of themselves.

The FRC noted in its launch: "Amending the definition of stewardship to support more transparent conversations between actors in the investment chain about their investment beliefs and objectives, while being sufficiently broad to be applicable to signatories across the investment chain and different asset classes."

James Roe, a partner at law firm A&O Shearman, expressed his support for the move. "We believe that the revisions, if adopted, have the clear potential to improve engagement between listed companies and their shareholders resulting in greater longer-term value," he said.

Roe and his colleagues at A&O Shearman noted in a wider response: "In our discussions with clients and other industry participants, it was evident that there are different views as to what stewardship is and what it is intended to achieve."

This often, noted the law firm, stems from an incomplete picture of the stewardship landscape – the "stewardship ecosystem" – and the commercial incentives driving the behaviour of engagement by individual stewards.

Roe added: "The removal of outcomes also recognises that outcomes may occur over longer periods and may be more subtle. Guidance will also ensure that reporting on outcomes is not too narrowly understood and does not drive short term activities to meet a reporting requirement."

Roe also noted that the FRC recognises that some signatories may follow other reporting frameworks or requirements that align with content of the code.

Significant shift

Highlighting how the changes could impact responsible investment, the Responsible Asset Owners Global Symposia wrote: "The FRC's proposed revisions to the Stewardship Code represent a significant shift in the UK's approach to responsible investment. While the long-term implications remain uncertain, it's crucial for investors to navigate this evolving landscape with a clear understanding of their responsibilities."

But Fergus Moffatt, head of UK policy at Share Action, was scathing about the changes. "It's concerning that one of UK's most important regulators is suggesting amending the definition of stewardship in the Stewardship Code to remove explicit references to social and environmental outcomes," he said.

Moffatt then added: "The Stewardship Code sets high standards for those investing money on behalf of UK savers and pensioners and those who support them. It's designed to make sure investors are safeguarding the interests of these savers and asset owners through the influence they have over the companies they invest in."

Moffatt instead noted: "Responsible stewardship must include consideration of companies' impact driving dangerous levels of global heating, inequality and poor public health on the future savers will retire into."

Cutting through the debate, Frances Deakin, head of responsible investment at Local Pensions Partnership Investments, offered up her own definition: "Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries contributing to sustainable benefits for the economy, the environment and society."

Setting standards

The FRC has also stated that reporting is to be split into two parts, with one: policy and context disclosure, to be updated only as necessary, though still submitted annually, and the other: activities and outcomes report, to be produced annually.

The current code carries some weight within the investment world as it has 273 signatories representing approximately £45trn in assets, setting standards for investors.

The FRC has something of a tough task in making sure that what it puts forward has teeth, but at the same not adding to what some see as an increasing regulatory burden.

But Moffat thinks the FRC should reconsider the whole approach to changing the definition. "Share Action is calling on the Financial Reporting Council to scrap this proposed redefinition of stewardship and stick to its original, which clearly references the key role investors have to play in addressing interrelated social and environmental challenges, by placing climate change and social impacts at the heart of effective stewardship standards."

What happens when the consultation closes will be interesting, and whether the FRC can placate the differing views could present a challenge. Investors wanting a say on the proposed revisions to the code have until mid-February to do so.

INTERVIEW – REBECCA WHELAN

"We are trying to leave the world in a better place than we found it."

The senior investments officer at the £6bn Avon Pension Fund talks to *Andrew Holt* about learning on the job, joining an ESG leader, building on strong foundations and the importance of investing in nature.

You became senior investments officer in January. How has your first year been?

It's been a learning curve. Learning how the local government pension scheme (LGPS) works, how the fund operates and how it works together with other funds in our pool. It's been interesting and a challenge to learn a new way of working.

The people and culture within the LGPS are particularly interesting, coming from a diverse range of backgrounds and the breadth of knowledge they bring.

Could you tell me about the challenges you mentioned?

The biggest challenge has been getting to know how the pension fund works. My previous experience has been in private client investment management, so running model portfolios for financial advisers.

Coming to a pension fund and learning technical elements of how this world works and how the public sector works has, for me, been the biggest challenge.

I still feel like I am learning new things every day. I am now overseeing the investment strategy and the oversight function, so it's a bit of a change on what I did previously.

What attracted you to the role?

The opportunity to develop my skills. I was looking for something that is different from private client investment management but retained a strong element of investment.

When I received the email about this job, I thought it ticks a lot of boxes for me. I get the opportunity to look at, particularly on responsible investing, something that perhaps is more forward thinking than the private client world, where financial returns are the main driver and responsible investing, or any form of ESG criteria, comes secondary.

Coming from the outside, what do you make of the LGPS and pooling?

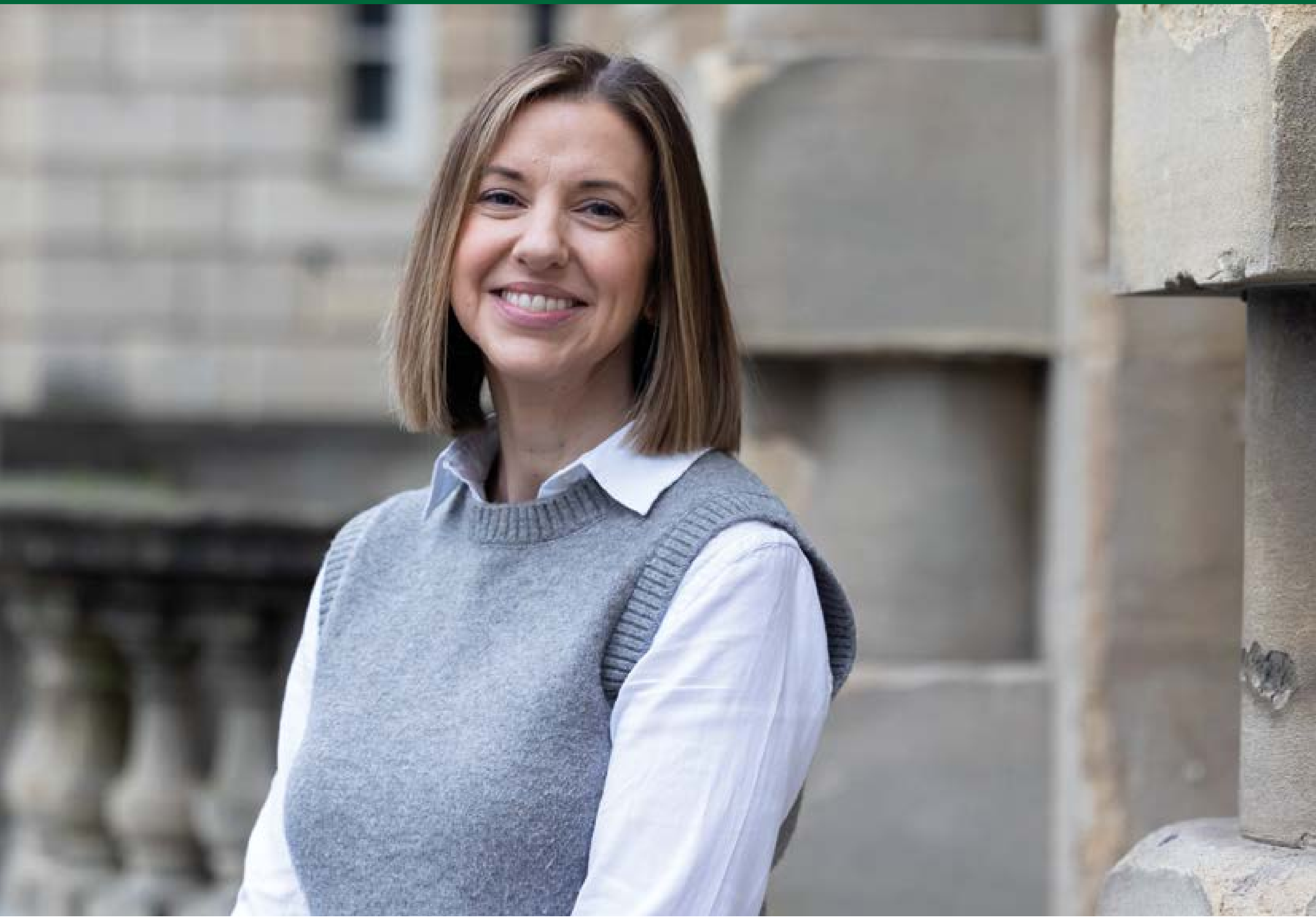
I have been impressed, particularly from a responsible investment point of view, as it is embedded in everything we do. I was perhaps surprised at how much emphasis there is on responsible investment and stewardship.

Brunel Pension Partnership [Avon's pool] is leading in this area. There are 10 partner funds within Brunel and I sit in a lot of meetings with those funds. There is a huge amount of collaboration between Brunel's funds.

Are the government's grand plans for the LGPS, which could see them create super-funds, a good idea?

It's a topical issue. We are going through the consultation at the moment.

Investment in the UK is happening already. We have a huge private markets



portfolio that directly invests in the UK. Our local impact portfolio is an example of how we specifically target the UK, and where possible the southwest [of England].

We might be asked to do more in the future, but, as a fund and as a pool we have good foundations already.

Your role is to oversee the fund's responsible investing, particularly on climate, and implement local impact investments. What have you undertaken to fulfil these responsibilities?

I am building on great foundations. As I mentioned, responsible investment is embedded in everything we do and the fund has made huge strides in decarbonising the portfolio.

That's only part of the story. Perhaps decarbonisation and nature solutions go hand in hand. Perhaps removing carbon from the atmosphere is the next stage of how we will meet our targets.

So we have been doing a lot of work this year on nature-based solutions. We have been working with some of the other funds and Brunel on creating a nature-based or natural-capital portfolio.

Directly targeting sustainable agriculture, forestry and emerging technologies that help the energy transition has been a focus this year and that work is ongoing. We hope to make good progress on that.

On the responsible investing front, natural capital is the next step of our evolution.

On local impact, shortly before I joined the fund, we agreed to commit 3%, around £170m, of our assets towards local impact solutions. And we have made good progress in a year.

That kicked off with the appointment of Schroders for the Wessex Gardens investment, which aims to drive renewable energy initiatives and foster local economic growth. We partnered with five other funds on that and we committed £50m.

We also invested in a portfolio of 17 solar farms across the southwest. That has been positive and a good demonstration of working with other firms doing local investment within the Brunel region to create positive impact.

We implemented an affordable housing solution, investing in the Octopus Investments Affordable Housing Fund. In July, we made a £50m commitment to that fund which will generate around 250 affordable homes.

We are working on another element, which is SME funding. We are in the process of appointing a manager who will run an SME fund.

What are your net-zero ambitions?

There was a lot of work done just before I joined looking at our net-zero targets. Basically, the headline is that we have committed to being net zero on financed emissions by 2045 across the whole fund.

There has been good progress on the interim targets that were set around 2019/20. They include from 2025 to 2030 a commitment to divest from high-impact companies if they cannot show evidence that they have, or they will have, a credible alignment strategy before 2030.

So divestment is an option?

There is a point where we will divest because companies are not meeting our requirements. We are working with Brunel, who are helping us with that, as they are managing the portfolios and engaging with the underlying companies.

How effective, in your view, is the investment industry in addressing ESG issues?

As providers of capital, the investment industry has a huge role to play in influencing companies and getting them to respond to ESG considerations.

There has been huge progress made in this area over the past two decades, which has accelerated since the pandemic. Companies have increased the ESG metrics and the disclosures they are making in their annual and suitability reports.

We have seen developments through institutions such as the International Sustainability Standard Board and the Global Reporting Initiative. These are helpful to work towards forming standards to help incorporate these into the investment process.

Increased standards have a big part to play – the more standards there are, the more the industry has to comply with.

Within the LGPS, Brunel continues to demonstrate leadership in the ESG field.

Is the anti-ESG investment backlash in some quarters worrying?

It's something that has been rumbling for a little while. It has been getting a lot of media attention in the US but is not confined to there.

Some oil and gas majors have been quite vocal about their opposition to ESG policies, which they claim are harmful to their business models.

It poses a challenge, and we may see a shift in the way companies talk about ESG. We may see companies talk about sustainability and responsible growth more.

Maybe it won't change the way companies do things, but it might change the way that they communicate and report on things.

The standardisation of reporting will help deal with the greenwashing claims.

And it has all been compounded by the economic climate as well. Perhaps this has prompted some investors to question the validity of ESG strategies.

Larry Fink from Blackrock has said he is not going to use the term ESG anymore. But ultimately, it won't affect Blackock's policies on ESG.

But ESG investment, if you want to call it that, has huge support from a broad spectrum of stakeholders. And it is critical in shaping a sustainable future.

Fundamentally, we still believe that investing in companies that are genuinely sustainable are going to give the greatest shareholder return to our members over the long term.

What for you is the most important part of your work?

I would say the most important part of what we do is our fiduciary duty to pay the pensions of our members. And to do that, we need to generate stable long-term returns.

That's what we are trying to do. But also it's important to do that in a financially responsible way, managing those financially material, environmental, social and governance risks. We are trying to be responsible stewards of capital.

Do you have any other ambition in the responsible investing space?

It is around the natural capital of the earth. There is a lot of work that we need to do around that to ensure that anything we invest in has the utmost highest integrity.

We want to put together a portfolio that is leading edge within natural capital and goes beyond forestry and agriculture and looks at emerging technologies and is net-nature positive. So basically we are trying to leave the world in a better place than we found it.

What has been the biggest lesson of your career?

I would love to say something hugely profound. But it comes down to the fact that change is inevitable: businesses change, your personal life situation changes, companies evolve, grow, get taken over and you just have to adapt.

Change doesn't have to be bad. So as part of that, being open to new ideas and new opportunities is important. The world is evolving and you have to adapt with it. That applies to all facets of life.

The world is evolving and you have to adapt with it.

WHAT COP16 MEANS FOR INVESTORS

Rebecca White is a global ESG integration lead at Newton Investment Management, while Nicholas Harris is a sustainable investment analyst.

Nature and biodiversity, along with climate, are among the most frequently discussed sustainability topics. The 2021 Dasgupta Review on the economics of biodiversity commissioned by the treasury, highlighted the macro-level connection between nature and economics, and brought these issues to the forefront.

Since then, significant events such as the fines imposed on chemical manufacturers for water pollution linked to 'forever chemicals' have emphasised the importance of nature and biodiversity. The introduction of various regulations, including those related to plastic packaging and waste regulation, as well as the European Union's deforestation regulation, have further heightened the materiality of nature and biodiversity.

COP16 – a turning point?

The 16th meeting of the Conference of the Parties (COP) to the Convention on Biological Diversity (CBD) took place recently in Cali, Colombia, a location known for its rich biodiversity. The conference continued the momentum from the previous biodiversity COP in 2022, which underlined the need to preserve biodiversity following the implementation of the Kunming-Montreal Global Biodiversity Framework (GBF), a set of international goals which aim to halt and reverse nature loss.

One of the target headlines set through the GBF was the '30 by 30' initiative, a conservation target calling for 30% of the earth's land and water to be conserved by 2030 through the establishment of area-based conservation measures. A key aim of COP16 was to turn these ambitions into action by outlining the necessary steps for countries and establishing a framework for monitoring progress.

COP16 highlighted several pivotal discussions for investors as biodiversity becomes increasingly integral to sustainable finance and regulatory landscapes:

– Resource mobilisation and financing gap: there is estimated to be a $700bn (£552.5bn) financing gap to restore nature – which underscores a major opportunity and obligation for private sector engagement in biodiversity.[1] While some private pledges have been made, the scale of financing required indicates that current efforts are insufficient.

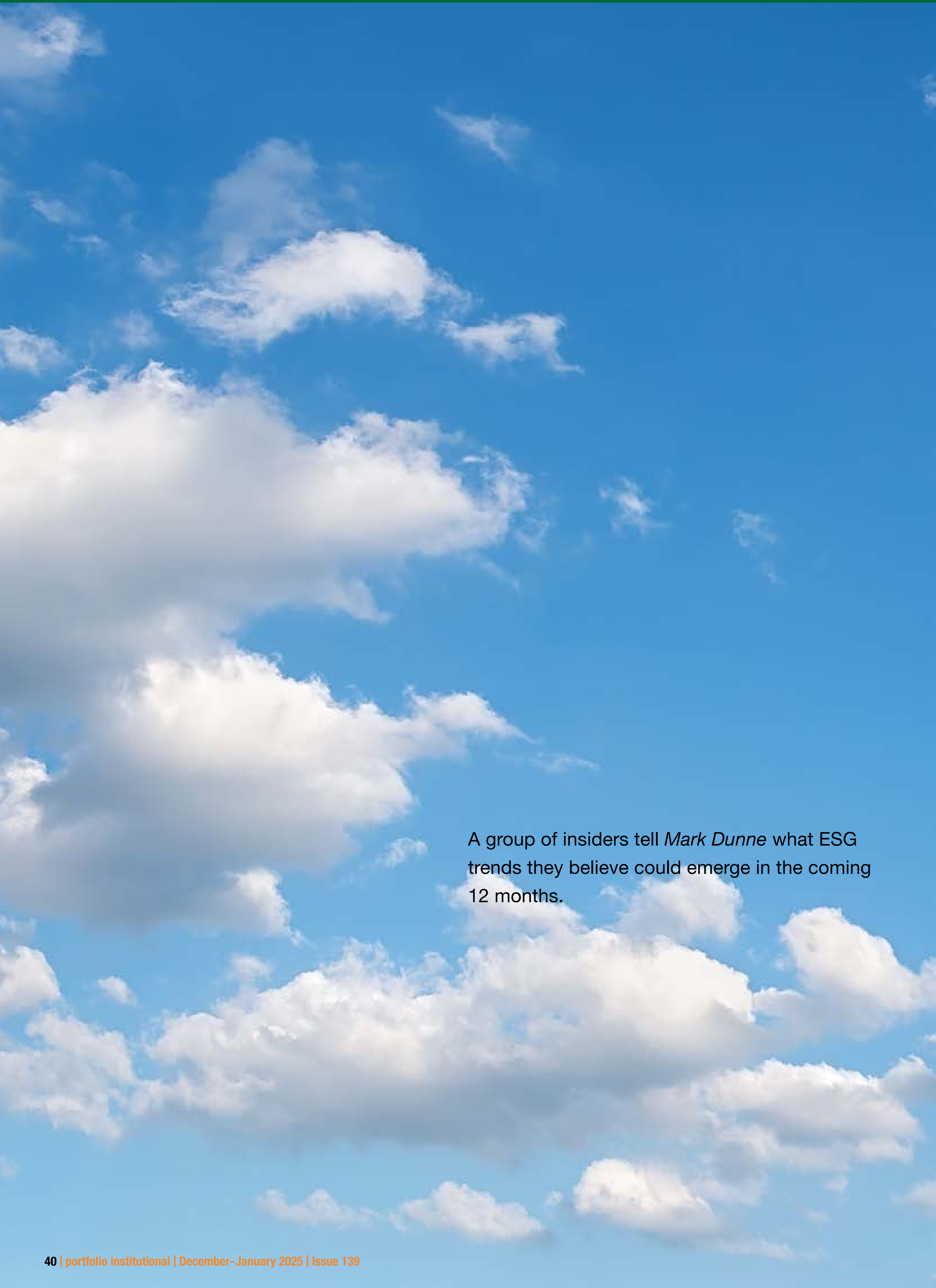
– Leadership and policy stability: the divide between developed and developing countries on financing and governance approaches will affect regulation for biodiversity investments. There is a range of investor standards which evolve in parallel, such as the Science-Based Targets for Nature, the Taskforce on Nature-related Financial Disclosures (TNFD) and the International Sustainability Standards Board consultation, emphasising the connection between nature and climate.

– Mandatory reporting and corporate engagement: a key focus of COP16 was the need for governments to provide more clarity on how they will implement their targets, and countries were expected to submit updates to their National Biodiversity Strategies and Action Plans (NBSAPs). These plans may directly affect private and public capital allocation, as governments continue to address the material risks of biodiversity loss. Investors should watch for how these plans evolve, as they may lead to reporting requirements like climate disclosures, such as those of the TNFD. As NBSAPs are implemented, businesses will increasingly be expected to understand their impacts and dependencies on biodiversity and incorporate considerations into their operations.

– Market and product innovation: as discussions about biodiversity credits and other nature finance mechanisms continue, investors can look forward to the development of new financial products and instruments. These innovations could provide alternative returns while supporting environmental objectives, similar to carbon credits, but specifically tailored for biodiversity outcomes.

The discussions at COP16 mark a pivotal moment that could see the shift in biodiversity finance from a niche interest to a mainstream investment priority. However, although billed as the 'implementation COP', COP16 has fallen short of expectations. While notable progress was made on key issues like benefit sharing from genetic resource use, critical agreements on resource mobilisation and monitoring frameworks were not reached. Despite these challenges, the evolving regulatory landscape presents investors with the opportunity to position themselves at the forefront of this growing sector. By recognising and acting on these developments, investors can contribute to and benefit from the transition towards sustainable biodiversity finance.

1) Source: Biodiversity Finance Trends Dashboard 2024, Department for Environment Food & Rural Affairs, GOV.UK: https://www.gov.uk/government/publications/biodiversity-finance-trends-2024/biodiversity-finance-trends-dashboard-2024-accessible-version



A group of insiders tell *Mark Dunne* what ESG trends they believe could emerge in the coming 12 months.

ESG IN 2025: HOPES AND DREAMS

It has been a challenging year for institutional investors who have been working to make the world cleaner and fairer.

For a start, it was the hottest year since temperatures were first recorded in 1880. Then there were floods in Spain, which killed more than 200 people, while the extreme heat in Portugal ignited more than 1,000 wildfires.

Some UK rivers recorded fresh pollution scandals, an oil spill in the Mediterranean harmed marine life within a 25-square kilometer radius and wars continued to rage. To top it off, fewer electric vehicles are now expected to be made as some production lines in the UK and Germany are set to be switched off.

Unfortunately, these were not isolated incidents. So it is not “goodbye, 2024”, but “good riddance”.

You could be forgiven for understanding why the sound of those questioning the effectiveness of ESG-led strategies is growing louder.

And those voices are set to gain influential support in the year ahead. The outcome of more than 50 national elections in 2024 has seen some people take power who are known climate-change sceptics. Indeed, America’s new CEO takes over in January and once labelled climate change a “scam”.

Geopolitics is the elephant in the room given that 2024 was a huge year for elections, says Alex Bernhardt, global head of sustainability research at BNP Paribas Asset Management.

“There are a lot of political shifts globally, and there will be a lot of scrutiny on what policy changes might be implemented in the coming 12 months that could cause shifts in sustainable investment strategies,” he adds. “That is definitely going to be an area of focus.”

But for Bernhardt, sustainable investing is much more of a global and secular trend. “There are factors at play that supersede the latest election cycle, and which have a material effect on how people choose to invest,” he says.

One of those factors is equality. BNP Paribas AM believes that it is one of the biggest macro issues impacting sustainable investing, alongside energy and ecosystems. It carries systemic and idiosyncratic risk, so its influence is felt not just by the overall market, but at the individual company level, too.

For Bernhardt, equality is a huge driver helping investors to achieve their environmental goals. As an example, he pointed to Cop 29, which wrapped up days before we spoke.

An agreement was signed and the deliberations hinged on issues of equity related to climate damage, climate mitigation and adaptation responsibility. "It is all about channeling capital from developed countries to developing countries. That is an issue of equality on a global scale," he says.

"In sustainable finance, there has been a lot of focus over the last 20 years on climate change, which is justified," Bernhardt adds. "But we are not going to resolve issues like that without greater focus on justice or the aspects of climate that implicate social ramifications."

Time to adapt

Another big theme for 2025 is adaptation. Forecasts point to 2024 being the first year on record to hit 1.5-degrees above the pre-industrial average.

"It is becoming clear that we are not transitioning fast enough to meet the temperature rise target, certainly not without a significant overshoot," Bernhardt says.

So more investment needs to be channeled into climate adaptation with "some degree of urgency".

But this is challenging, as monetising such investments can be difficult. For example, an investment in a wind farm produces cashflow from the sale of electricity, but a sea wall just protects people from storms. It does not generate an income.

"There are other challenges, but this is the core one," he adds. "We need to figure out more creative ways of addressing this adaptation finance gap, which is growing and becoming more urgent."

This is an issue Bernhardt is discussing with his clients. "There is a ton of energy around it," he says. "There's more smoke than heat at this point, but I believe 2025 will be a landmark year in terms of how much progress is made towards scaling adaptation finance," he adds.

The natural touch

Bernhardt's final ESG theme for the year ahead is natural capital, which sits at the nexus of the transition and adaptation topics.

If the world is not transitioning fast enough, then we are going to need net-negative carbon solutions to mitigate the resulting temperature rise.

"Natural capital investments are the primary way in which to achieve those net-negative emissions," Bernhardt says. For example, planting or repairing coastal forests creates carbon sinks and/or provides a buffer against hurricanes.

"The nexus of these issues is going to be what we talk a lot more about in 2025 and hopefully there will be more action underpinning them," Bernhardt says.

Also seeing nature emerge as a big ESG trend in the coming 12 months is Rebecca White, global ESG integration lead at Newton Investment Management. She is seeing a focus on this issue in the UK, Europe and Japan and feels that it will continue to rise up the agenda.

Therese Niklasson, who is Newton's global head of sustainable investment, says that nature is coming along steadily, but has more momentum behind it than climate.

Nature loss is a theme *portfolio institutional* has been briefed on many times in the past few years, so what will be different in 2025.

For White, the evolution and emergence of standards in the space, such as ISSB, SBTN and TNFD, will start to put some structure around the topic, which has traditionally been separated into components, such as deforestation and water.

"Investors have been focused on risks with companies and have engaged around this for quite a few years," she says. "It is not necessarily new, but that standards piece is crucial.

"The complexity is much greater than with climate, because you don't have that one metric you can refer to. Nature impacts aren't fungible in the way that emissions are.

"So understanding how to get started and having the standards in place to set what good practice looks like will be important," White says.

Indeed, Niklasson thinks there will be greater focus on regulation related to sustainable investments. "In the UK, 2025 will probably be the year of implementing the Sustainability Disclosure Requirements, when we will see what the market looks like and how impactful it is," she says.

Niklasson believes that a big challenge for the industry next year will be to make nature a mainstream investment. "These

For nature to become mainstream, it needs to be kept as simple as possible.

Therese Niklasson, Newton Investment Management

> **There's more smoke than heat at this point, but I believe 2025 will be a landmark year in terms of how much progress is made towards scaling adaptation finance.**
>
> Alex Bernhardt, BNP Paribas Asset Management

are topics that need to be translated into investment themes," she says. "There is no good in these complex ideas sitting in a fund that only scientists and responsible investment experts can understand. For nature to become mainstream, it needs to be kept as simple as possible."

Different outcomes

How investors consider nature in their portfolios is evolving, a trend Amelia Tan has witnessed.

The head of responsible investment strategy at Legal & General Investment Management (LGIM) says that investors have been aware of nature as an investment issue for years, but now they want to understand how the firm identifies, assesses and manages nature-related opportunities, risks and impacts.

And next year LGIM could make an innovative move into a growing part of this market.

Interest in debt-for-nature swaps is gaining momentum, says Tan's colleague Laura Brown, who is head of client and sustainability solutions. "We are looking at launching strategies in this space where not only is there a nature outcome associated with a bond, but there is also a social outcome incorporated," Brown says.

Real estate is an example of how social and nature outcomes are interconnected. It is about the people who live or work in a property and how it impacts their wellbeing.

"This is something we are seeing a lot of demand for from a range of investors, including – and this is perhaps an interesting trend – the defined contribution space," Brown says.

Tan adds that these bonds typically target developing markets with the conservation of nature being a condition of the financing. But there is a need to produce social outcomes, too. Indeed, within emerging countries, nature is a big source of people's livelihood. The impact of nature loss on fishing is an example.

"The efforts being made to restore nature and biodiversity are also helpful for the local livelihoods of the communities that are directly impacted by such loss," Tan says.

"It is interesting that there has been a lot of talk about the nexus between climate and nature, but ultimately nature and people are also extremely connected," she adds. "Achieving all of this through our investments is something we are focused on."

A different view

When discussing trends in ESG in the coming year, the one topic that will not go away is geopolitics.

The result of the US election, in particular, has left some investors wondering what it could mean for sustainability. "In the short term, there is probably going to be more volatility in terms of the interest in ESG across the Atlantic," Tan says.

"It may have a knock-on impact at a national level, but ultimately, we believe that the long-term case for the energy transition is still intact on the basis of it being economically more viable to use renewable energy.

"Solar is more affordable than oil and gas over time. It contributes to energy security as well with less reliance across national divides," Tan says.

Political risk

For Niklasson, the geopolitical agenda and how it connects with sustainability will become more important in the coming year. "We are in a world facing a broad conflicting geopolitical backdrop than has been seen for many years," she says.

"We have also gone through a record-breaking set of democratic elections, so relationships from a geopolitical perspective are changing, which matters for sustainability."

It is not just about trade, but economic policy and international treaties, such as those ratified at Cop, could be influenced by a change in government.

Being analytical about policy and politics might be a more interesting compass to how you invest sustainably. "That is quite a broadbrush way to talk about it, but if your responsible investment team hasn't traditionally had an analytical focus on that then you are going to have to develop it quickly," Niklasson says.

"I would expect that to be identified by quite a few clients this year, because we are going through such a unique point in time," she adds.

There is a difference between thinking about this through the lens of ESG, so risk-adjusted returns from making good investment decisions, versus what it means for a sustainable investment fund trying to achieve a positive outcome for the environment in a space that is becoming more difficult to play in. "It is more resource-intensive than ever, affected and influenced by regulatory regimes in a different way than it ever has before," Niklasson says.

"So that is going to continue being a focus for us," Niklasson says.

Happy anniversary

Moving on to other issues, next year will be 10 years since the Modern Slavery Act was introduced in the UK and White wonders if the market will focus on what has been achieved since 2015.

"There have been calls from some pockets that this hasn't been enforced in a way that will have the desired effect," she says.

There could be a renewed interest in this, potentially with influence on more industries than just construction and agriculture. "There's definitely a question on my mind as to whether the market focuses on this to some extent, particularly with it being a milestone year," White says.

Artificial interest

Another main topic of conversation next year could be artificial intelligence (AI). "It could be the solution to so many issues from a sustainability perspective," Niklasson says. "I see a lot of impact funds leaning into it from that angle, but at the same time, there is this an unknown about it."

There has been a focus on the social implications of AI, but White is seeing an increasing move towards approaching it from an environmental perspective. Data centres are an area of particular interest here.

Giving them the capacity they need is hugely energy and water intensive, so can AI offer an alternative. "We are having a lot more conversations now around how this can be powered in a clean, green and speedy way," she adds.

According to White, Newton's clients have taken some interest in AI, how firms can approach it and what impacts it could have.

"Similar to nature in many regards, we are still in that understanding phase of AI, rather than necessarily setting out specific expectations, because it continues to evolve so rapidly," White says.

Making an impact

Regulation has been mentioned many times while researching this article, and it could be the catalyst that entices more ESG-led investors into the impact space next year.

Even geopolitical conflicts and political change in Europe and the US are unlikely to deter interest, believes Anna Väänänen, head of listed impact equity at AXA Investment Managers.

> **We are seeing a faltering of ambition, greenwashing and finger pointing.**
>
> Louise Marfany, Share Action

"Despite the uncertainty, the increasing number of investors seeking to do good with their capital, as well as generate a financial return, means impact investing will continue to grow in importance," she adds.

Väänänen puts this down to the UK taking the "bold step" of starting to regulate funds that claim to make a positive impact in the listed-equity space.

"Together with GIIN's framework for impact in listed equities, this has led to increased transparency on how listed-equity funds can achieve real-world measurable positive impact," Väänänen says. "We expect this journey to continue in 2025."

And the journey could take a different turn when it comes to making a real-world impact in biotechnology.

"We expect the Taskforce on Nature-related Financial Disclosures to continue its work helping companies understand their nature-related dependencies, opportunities and risks. We expect the work to move to sector specific recommendations during 2025.

"This will be an important catalyst for more companies adopting nature-related accounting," Väänänen says.

What we want

In a change of tone, instead of looking at what trends could emerge in ESG next year, we wanted to know what those promoting such strategies would like to see during 2025.

And two regulatory issues sit at the top of responsible investment campaigner Share Action's wish-list.

The first is fiduciary duty reform. Current guidance emphases financial return over the impact an investment may have on people's lives. "That does a disservice to pension savers," says Louise Marfany, Share Action's director of financial sector standards.

"To be truly acting in the best interests of their beneficiaries, pension funds need to take account of whether the investments they make are enabling people to retire with a reasonable degree of security and health on a livable planet.

"We are calling for the law to be clarified to make it clear that people's best interest goes beyond narrow financial return over the short term," she adds.

This is an issue Share Action intends to campaign on "pretty hard" in the year ahead alongside its opposition to the proposed changes to the Stewardship Code.

The Financial Reporting Council (FRC) wants to remove references within the definition of stewardship that cover social and environmental outcomes. But the code exists to protect the interests of savers and pensioners by making sure that those managing their money are stewarding the companies they invest in.

"The social and environmental impacts are important," Marfany says. "Therefore, the FRC needs to keep them at the heart of what it means to do effective stewardship."

Still climate change

Climate change remains front and centre for the campaigner next year. This is due to 2024 looking set to be a record-breaking year for all the wrong reasons.

"We are running out of time and so the critical ask we have of investors is to raise their ambition and urgency on climate," Marfany says. "Despite all of the talk, we are still seeing them pouring money into damaging, high-carbon companies.

"We are not seeing asset managers do enough, frankly, to steward companies to transition at pace," Marfany says. "In fact, we are seeing a faltering of ambition, greenwashing and finger pointing. So we are pressing investors to raise their game. That is our number one ask."

But it's not all bad news. Share Action is encouraged by the momentum on some social issues. One of which is obesity, which it estimates could cost the global economy more than £3.3trn a year by 2035.

Nature impacts aren't fungible in the way that emissions are.

Rebecca White, Newton Investment Management

"We are seeing increasing investor awareness of the role the food industry is playing in that," Marfany says. "It is driving diabetes, heart disease and certain forms of cancer. That is not just affecting people's lives, it is having a huge economic impact."

Investors in Nestlé, for example, filed a resolution to encourage management to make their products healthier, while a group of investors in global food companies like PepsiCo, Coca-Cola and Mondelez called on the sector to be more transparent about how harmful their products are. "That is a positive trend," Marfany says.

Another social issue where Share Action does not want investors to lose momentum is low pay. Marfany claims that some retailers are not paying a living wage to millions of workers.

"It leaves people unable to keep the lights on, heat their homes, pay the rent and struggle to feed themselves," she adds, pointing to research that shows two in five low paid workers regularly skip meals.

Marfany is pleased that investors are taking "a responsible attitude" to the issue and recognise the systemic implications for their portfolios.

"It hinders productivity, drives inequality and places additional resource burdens on the state, which is highly constrained as things stand."

Share Action wants investors to drive higher standards in the UK's retail sector to pay a real living wage, whether that's delivery drivers, cleaners, people on the shop floor or in the warehouse.

These are the issues the campaigner would like regulators and investors to work on next year with Marfany starting to see a "growing body of evidence" about their long-term financial impacts.

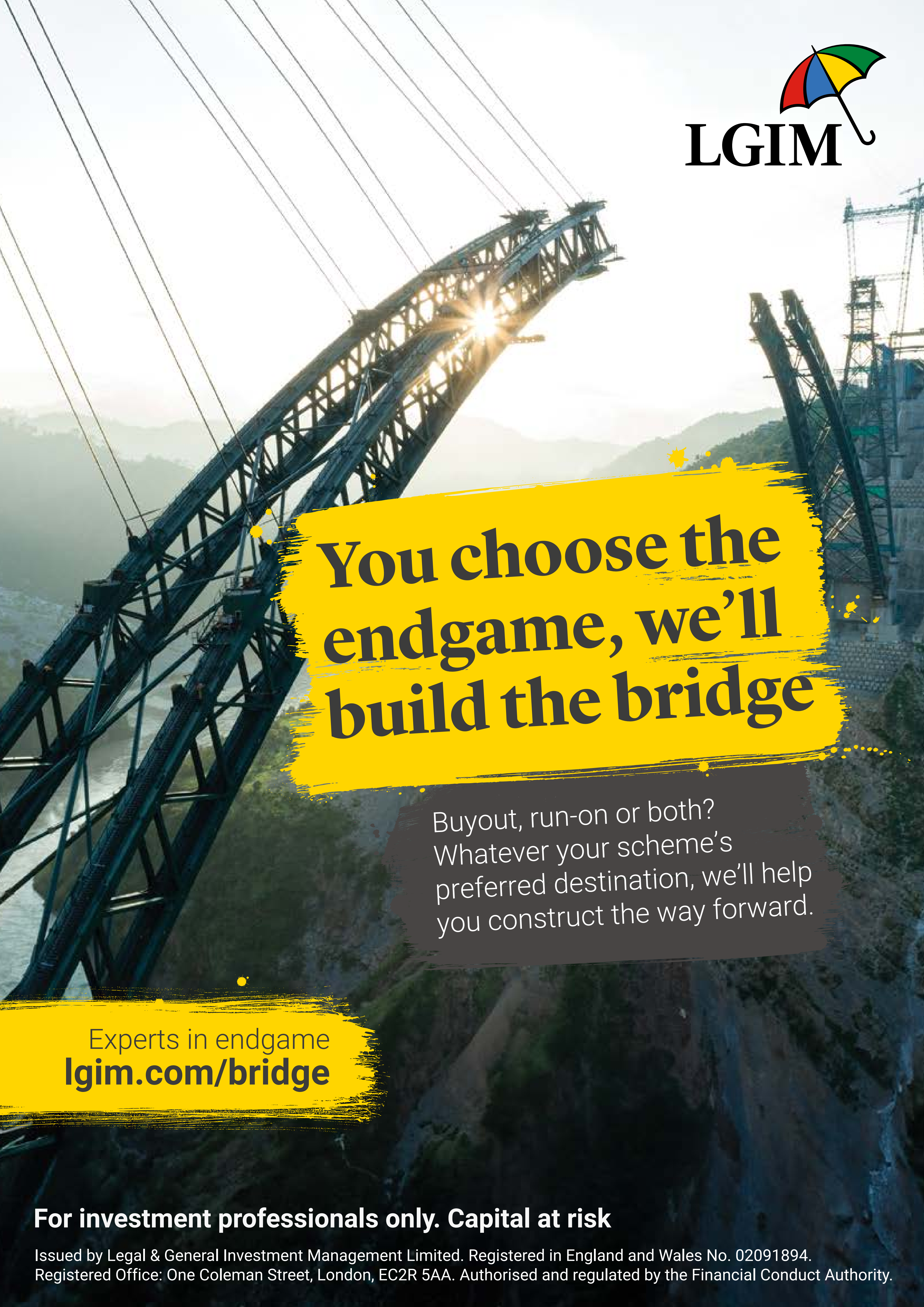
A fresh start

Those working to build a more sustainable future suffered a series of setbacks in 2024 as the world appeared to be full of ecological disasters and corporate scandals. The outcome of certain elections only adds to the pressure on sustainable-led investors and those working to create fairer societies where people can be treated with dignity and respect.

Yet have the events of last year only served to harden investors' belief in what they are working to achieve while paying pensions?

Environment, social and governance-led strategies may be maturing and no longer considered niche, but they still have a fight on their hands.

Nature, climate and regulation appear to be the main battlefields in making sure that the coming year is not a repeat of 2024.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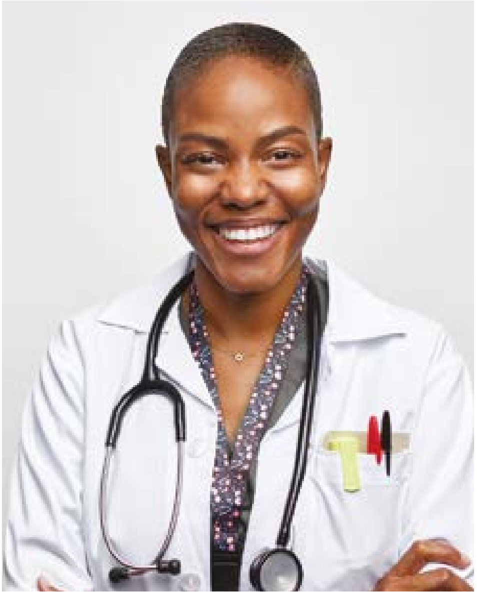

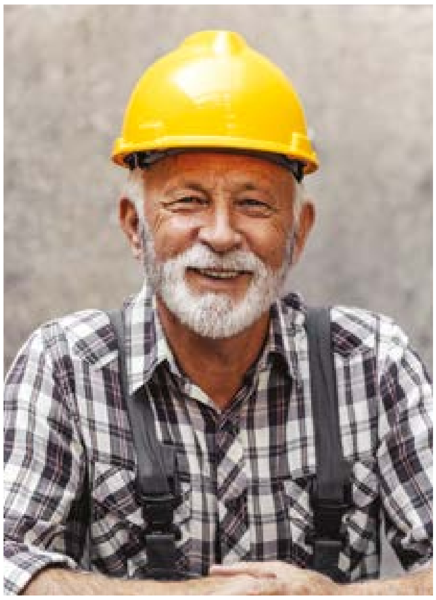

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1 Source: BlackRock as at 31 December 2023.