Responsible Investing

Perspectives

PRI in Person Conference — Summary Impressions September 25 – 27, 2017

Matthias Beer
Associate Director
Governance and Sustainable Investment

Background

The Principles for Responsible Investment held a well-attended annual PRI in Person conference September 25 – 27 in Berlin, hosting close to a thousand responsible investment professionals from across the globe. The conclusion to the German election, which coincided with the kick-off of the conference, provided a stimulating backdrop to a dense program covering a wide spectrum of sustainability themes.

The number of attendees and quality of discussion was a good reflection of the increasing demand and strong momentum we currently see in the responsible investment space. However, the complexity and systemic nature of many of the issues, ranging from climate change to social inequality to the future of work, were also a sobering reminder of the enormous challenges ahead and the speedy progress required to address them.

Key takeaways from the conference

Systemic challenges require system-level solutions

In line with the PRI's broad strategic aim of supporting a sustainable global financial system, there was a focus on tackling big topics, such as growing inequality, social cohesion and the impact of populism, as well as the ever-present context of climate change. Mervyn King's, former Governor of the Bank of England, famous quote was invoked on more than one occasion, "we are indeed entering a period of radical uncertainty." However, while there was broad agreement that we are focusing on the right questions, there was a more mixed picture as to whether we are developing rapidly enough the concrete tools and guidance that will bring us to the answers.

Representatives from the European Commission's initiative, the High Level Expert Group on Sustainable Finance, provided updates focusing specifically on incorporating ESG considerations into the concept of fiduciary duty. The PRI's recently-released series of reports on **Fiduciary Duty in the 21st Century**[1] offers in this context a helpful overview, highlighting the need for further progress to amend the notion of fiduciary duty in order to promote the integration of long-term investment value drivers in investment practice.

[1] See https://www.unpri.org/page/fiduciary-duty-in-the-21st-century

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SDGs and impact investment are in vogue

Much discussion revolved around the potential of the Sustainable Development Goals (SDGs) to provide a globally consistent framework for investors to capture key sustainability issues. While the comprehensiveness of the SDGs offers the potential of a single overarching framework, significant scepticism still exists as to how the 17 goals underpinned by 169 targets can be operationalized. Since their launch in 2015 many investors, BMO included, have begun to map SDGs against portfolios and started to report on how this could inform the development of investment strategies. A Dutch initiative led by pension managers APG and PGGM has published a taxonomy to provide guidance on what type of investments could qualify as sustainable development investments.[2]

Closely related to the SDG theme is the question of measuring the impact of responsible investment. Arguably this is one of the more fundamental challenges, as without comprehensive and credible methodologies to measure impact, the financial sector will be hard-pressed to demonstrate that it is able to allocate sufficient capital to address the systemic issues reflected in the SDG framework. While the demand for impact investment solutions is steadily increasing, the industry is still some time away from having developed concepts and tools that would help to accelerate a mainstreaming of this approach. On the point of impact and capital allocation, former Executive Secretary to the United Nations Climate Change Convention, Christiana Figueres, threw down a gauntlet to attendees by challenging them to commit to putting 1% of their assets into clean energy or clean tech by 2020.

> "The financial sector has yet to swallow the alarm clock."
>
> **Christiana Figueras**
> former Executive Secretary of the UNFCCC

ESG integration — solid progress but still waiting for real breakthroughs

Likewise, panel discussions on ESG integration indicated a mixed picture. On a positive note, asset managers and owners reported on real step changes in expanding ESG considerations into standard investment processes over the past years. There are also ample examples of ESG-driven capital reallocation — including green bonds, social impact investments as well as the exclusions of carbon-intensive assets like coal. Yet, despite these success stories, at a more fundamental level integration has yet to prove that it is effective in strengthening the resilience and ability of the financial system to shape the key sustainability challenges going forward. Evidence of true scale, speed and impact is still outstanding.

An update on the recommendations from the Financial Stability Board's Task Force for Climate-related Financial Disclosures (TCFD) provided a good case in point of possible approaches to overcome the disconnect between corporate issuers and capital markets when it comes to finding solutions to climate change. The next three years will show to what extent the TCFD guidelines will be established as a de facto reporting standard to enhance climate risk management among investors and companies in carbon-intensive sectors.

Conscious efforts to highlight the "S" in ESG

Given the intense focus in the responsible investment community on climate change, the conference also successfully tackled fundamental social questions, such as labor standards and human rights, as well as emerging themes like cybersecurity risks.

Discussions highlighted important interrelations between climate change and social questions reflected in the concept of a "just energy transition." While mitigating runaway climate change is certainly a priority, investors need to become more aware that any transition to a lower-carbon world is not only about identifying opportunities, but also about mitigating the negative consequences for people affected by the transition, particularly in energy-related sectors.

A fascinating session on technology and responsible labor practices broadened the scope to shine light on the likely transformations that automation will bring to the future of work. The panel involved the participation of a Tesla employee giving a candid assessment of labor-related challenges in a fast growing and disruptive technology company. Important questions were raised in relation to the possible job displacements affecting particularly lower-skilled labor. The responsible investment community is only just beginning to grapple with the question of how to mitigate the negative disruptions associated with automation, and how to close the skill gaps between sectors experiencing job losses and others that are yet to emerge as new technologies take hold.

[2] See https://www.apg.nl/en/publication/SDI%20Taxonomies/918

The clock is ticking...

All in all this year's PRI in Person provided plenty of encouragement, showing many areas of real progress in the responsible investment industry. There is evidence of increased resources, management attention and the momentum of travel has definitely picked up. Yet despite the air of optimism, the conference also offered a stark reminder that the real-world risks of climate change as well as social and political upheaval threaten to outrun this momentum. Christiana Figueres' warning that the financial sector "has yet to swallow the alarm clock" was well-taken during her keynote speech. Time is at a premium. The capital reallocation required to help address the most pressing systemic ESG issues underpinning the global economy needs to happen fast. They need to show real impact in a matter of years, not decades.

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How can BMO help?

BMO has a range of approaches that can help clients address climate change risks and opportunities. For clients in the U.S., please contact your relationship manager for more information.

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