

# The future of ESG – TAI Sydney roundtable

15 March 2023



# Agenda

## Meeting timings



14:00	Introductions	<b>Meeting goals</b> <ul style="list-style-type: none"><li>■ Learn from expert practitioners</li><li>■ Explore what we can do in practice</li><li>■ Invest in coalitions</li><li>■ A list of practical, actionable takeaways</li></ul>
14:15	Part 1 – future of ESG and impact	
15:15	Break	
15:45	Part 2 – stewardship and universal ownership	
16:45	Wrap and takeaways	

# House culture

1. One topic discussion | for maximum collaboration
2. Chatham House rule | for maximum candour
3. Respect the time of others | as you would wish yours to be respected
4. Respect the access you get | not a time or place for working on sales (or purchases)
5. Contribute your thinking to the collaborative mission | give and get
6. Business casual light | for maximum thinking freedom

Chatham House rule | *When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.*

# Part 1 – Future of ESG and impact

# Key strategic issues for asset owners and asset managers

Big competition for high level attention

01

**The macro is complex and uncertain**

02

**Long horizon investing is maturing**

03

**Stakeholders increasingly demanding**

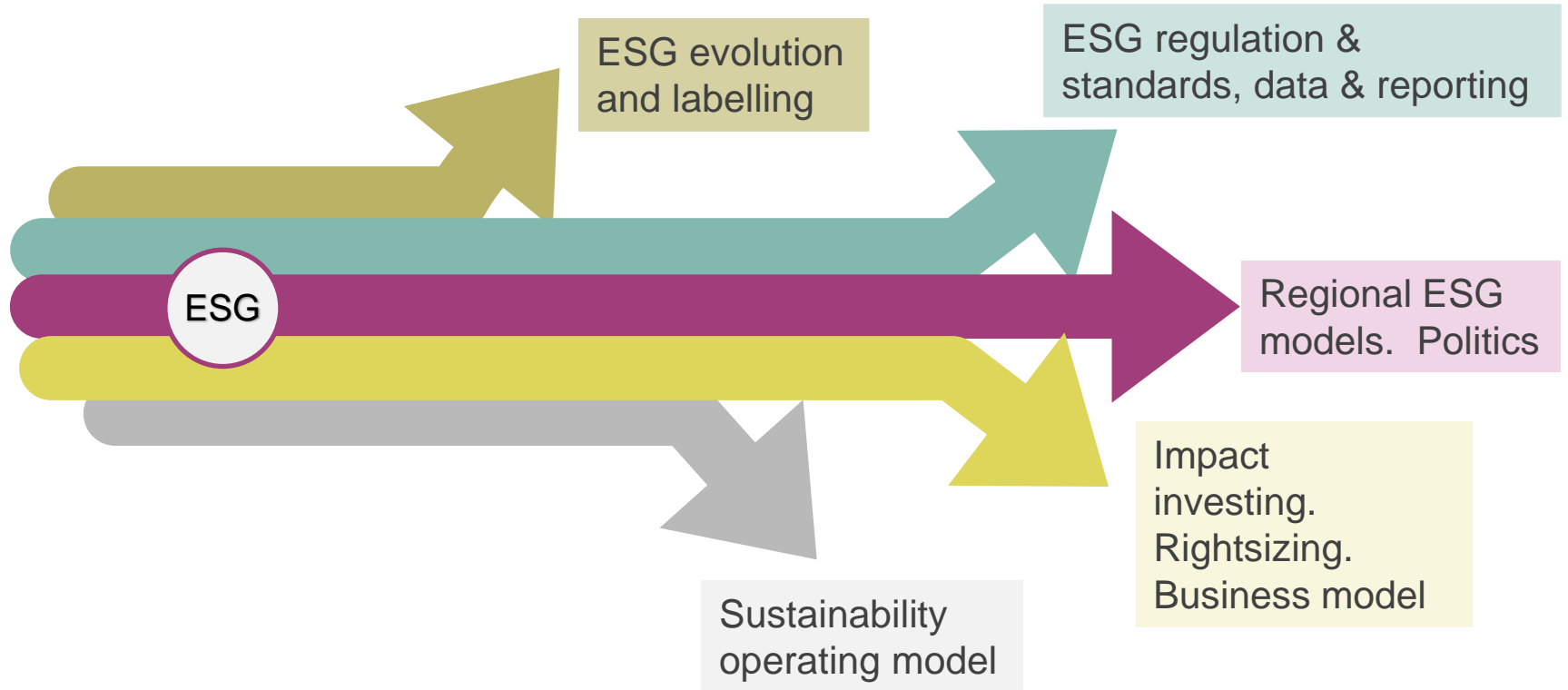
04

**ESG morphs in a contest for its future**

Investment model  
*pivoting*

Business model  
*re-setting*

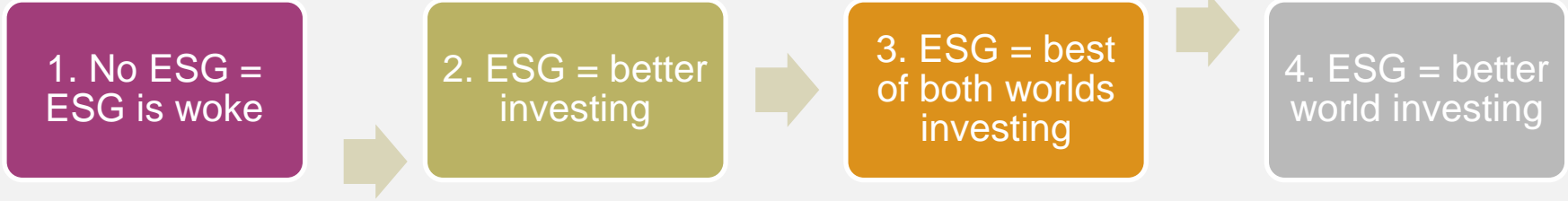
# The future of ESG



# The future of ESG is being contested

Investment organisations need a reset of their mindset and their models

## Financial materiality



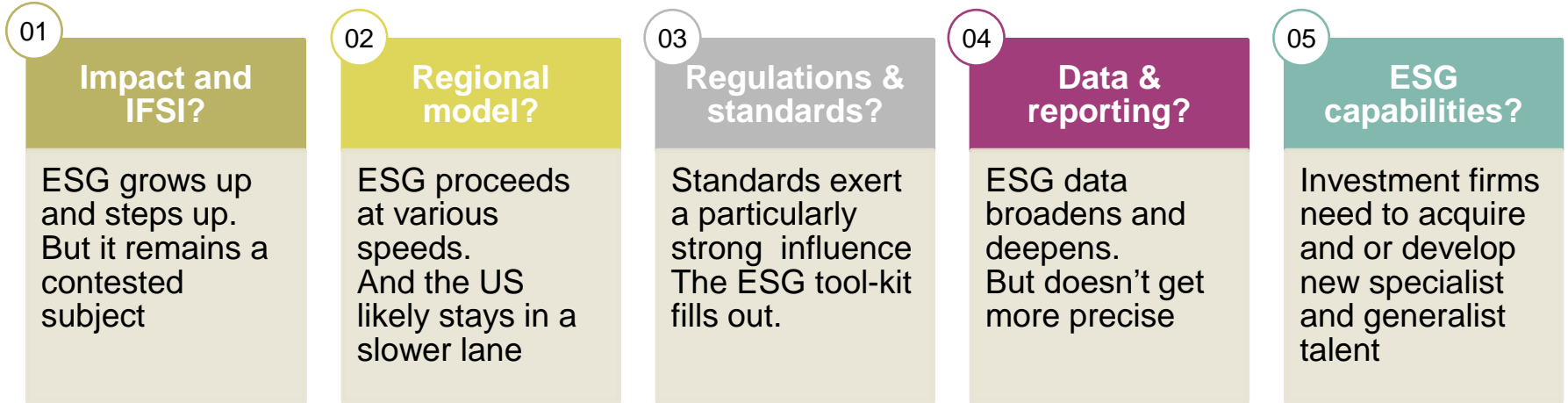
## Impact materiality



1. Shareholder-centric
2. Incorporating first materiality ESG factors
3. Incorporating double materiality
4. Impact investing

# Potential future pathways for ESG/ sustainability

The narrative evolves down a number of overlapping strands





# Rightsizing – combination of mindset, skill-set and opportunity set

Measuring sustainability ambition organisation by organisation

- **What is your organisation's level of ambition in ESG/Sustainable investing?** *Very high to very low, 5-point scale*
- **Given your ambition in question 1, how does your organisation stack up on the following attributes?** *Very good to very poor, 5-point scale*

## Attributes

Resources – well resourced in sustainability people and technology

Strategy – strong thinking and processes in sustainability

Team mind-set –collaboration and coalitions

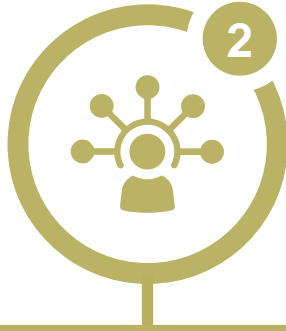
Universal owner – system mindset and long-term holistic approach

Values – multiple stakeholder orientation

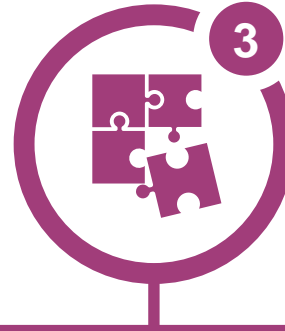
# The gaps that need filling



**Purpose  
gap**



**Skills  
gap**



**Collaboration  
gap**



**Data  
gap**

# Horizon scanning for macro positions – forks in the road

Likely outcomes in the sustainability model in 5-10 years' time

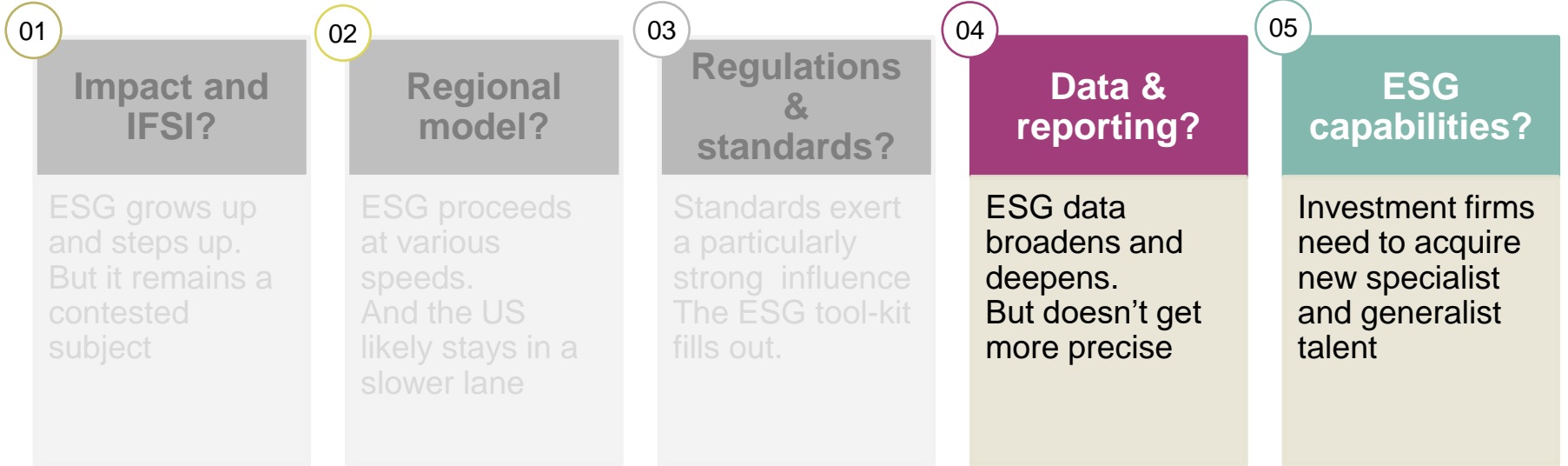
**To what extent do you agree or disagree with these statements?** *Strongly agree to strongly disagree, 5-point scale*

Impact and IFSI	<ul style="list-style-type: none"><li>▪ Real world impact becomes a significant factor in institutional investing</li><li>▪ Commitment to net zero grows and organisations progress in their target trajectory</li></ul>
Regional model	<ul style="list-style-type: none"><li>▪ There is increased regional alignment of sustainability – US, Europe, UK, Australia, Asia, etc</li><li>▪ Fiduciary duty becomes more flexible across multiple jurisdictions</li></ul>
Regulations & standards	<ul style="list-style-type: none"><li>▪ Regulations have net favourable industry effect</li><li>▪ Greenwashing diminishes because of regulations and standards</li></ul>

# Part 2 – Stewardship and universal ownership

# Potential future pathways for ESG/ sustainability

The narrative evolves down a number of overlapping strands



# Horizon scanning for macro positions – forks in the road

Likely outcomes in the sustainability model in 5-10 years' time

## To what extent do you agree or disagree with these statements?

*Strongly agree to strongly disagree, 5-point scale*

Data &  
reporting

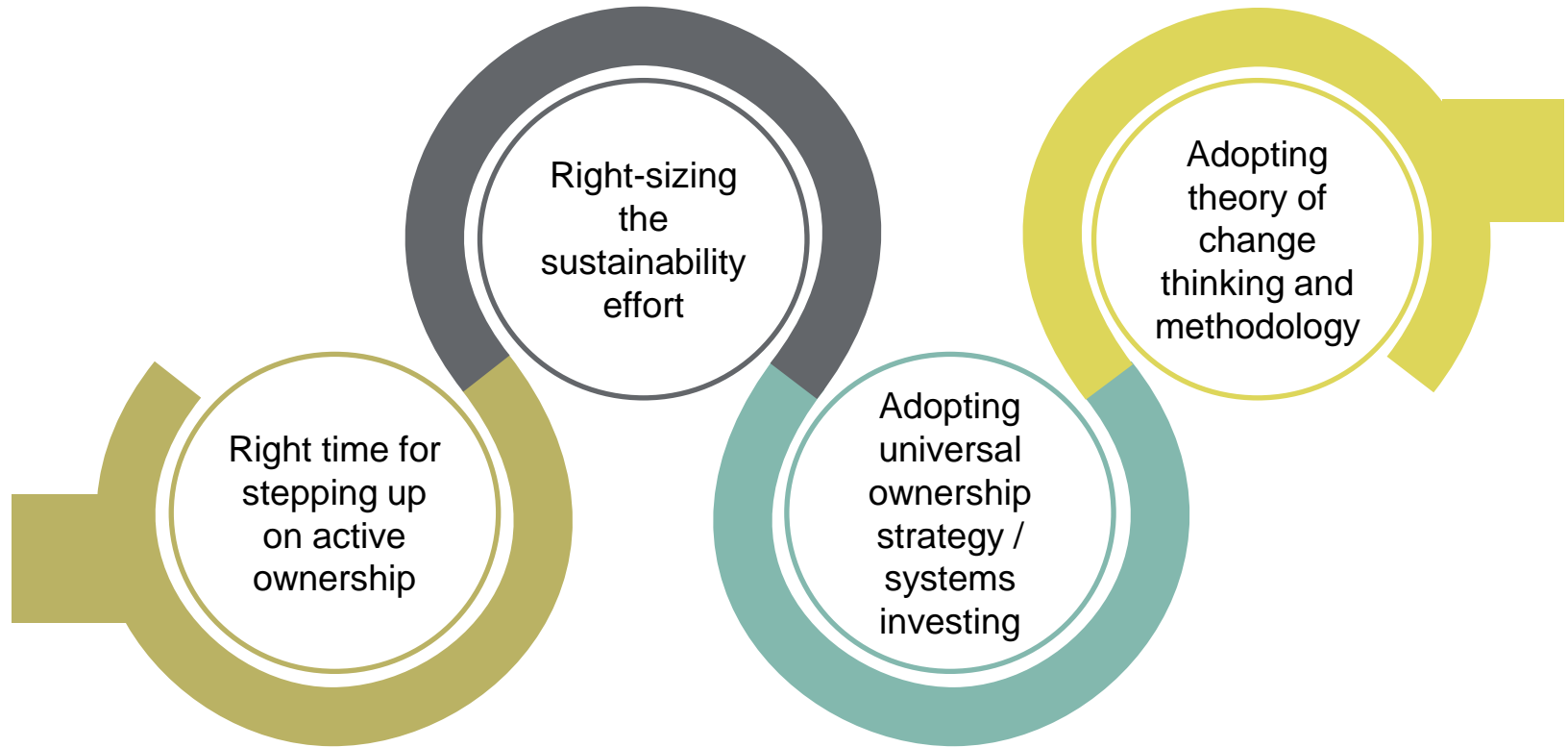
- Data improves and provides decision-useful insights to the industry and its stakeholders
- S-factors in ESG become a bigger element in the sustainability package

ESG  
capabilities

- People skills and capabilities in sustainability grow in strength and depth
- Management fees for sustainability-oriented products reduce

# PRI / TAI stewardship resourcing project

Helping the industry to a more effective resourcing model



# The current stewardship resourcing gap



Active ownership  
is under-  
resourced and  
under-delivering



Stewardship  
challenges  
are collective



Context is  
everything –  
particularly size



Relevance of  
theory of change  
– thinking and  
methods

*‘Less than 1% of the resourcing for investment management is attributable to active ownership activities’: Source TAI*

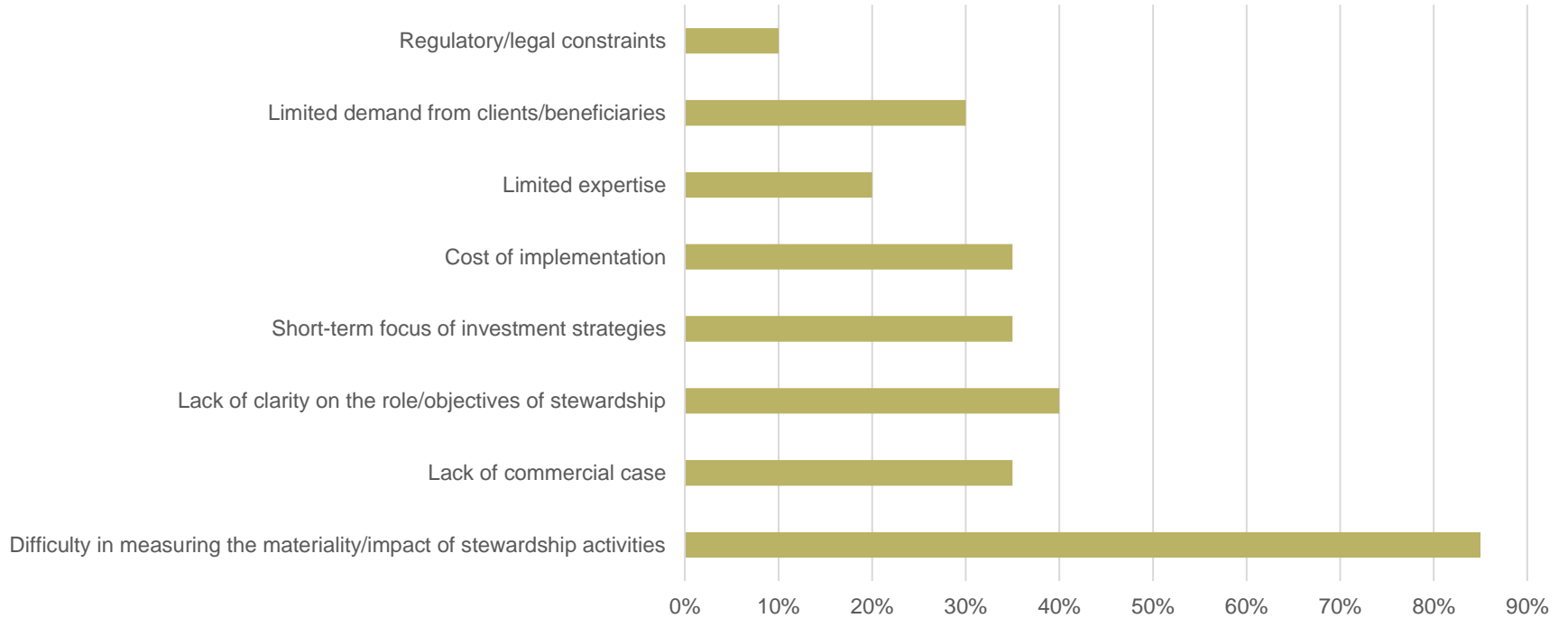
*‘The industry is not joined-up and is too siloed’: Source: TAI*

*‘Measurement gives a subject respect.’  
Source: TAI Insights*

*It is critical to help the industry with a clearer transition pathway by adding quality data and benchmarking*

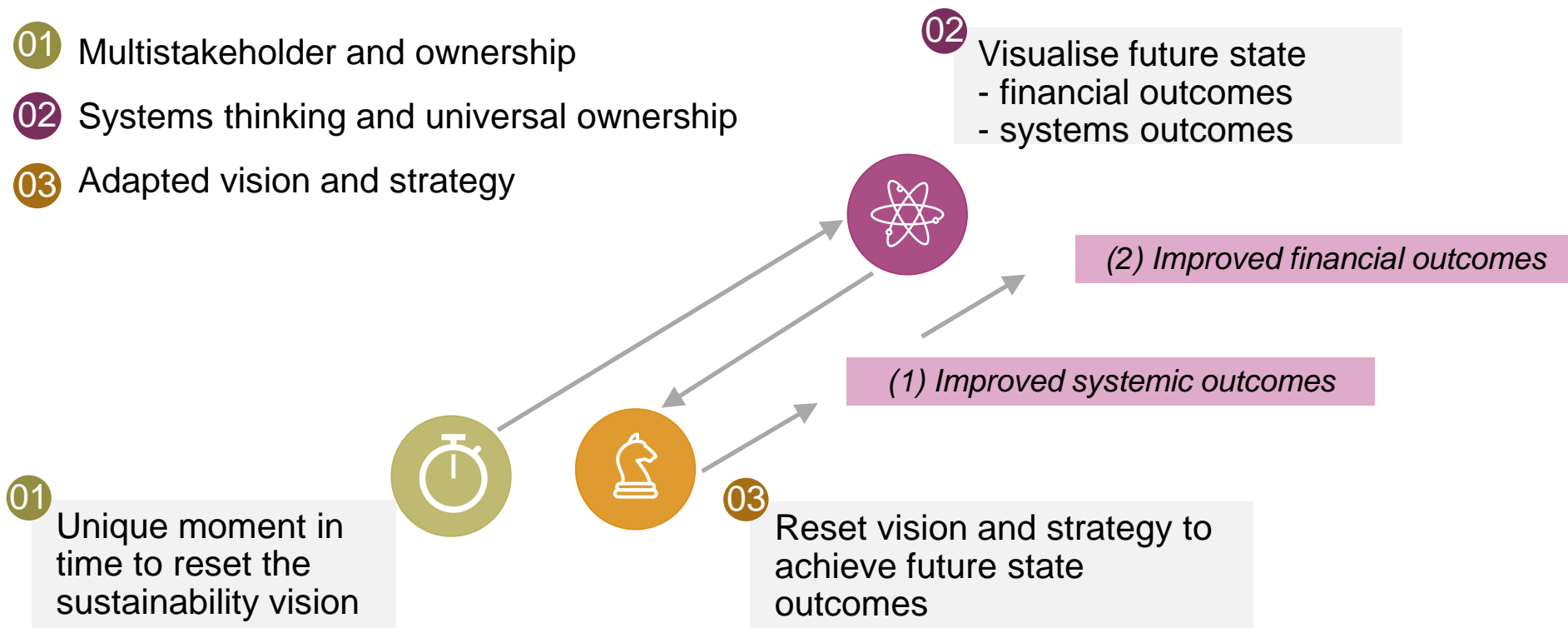


# What are the barriers that prevent the investment industry to allocate more resources to stewardship activities (results)



# The step-up pitch – applying theory of change

Linking the desired future outcome with the current strategies and evolving pathways



# The pitch – universal ownership mind-set

Investment organisation of tomorrow working group



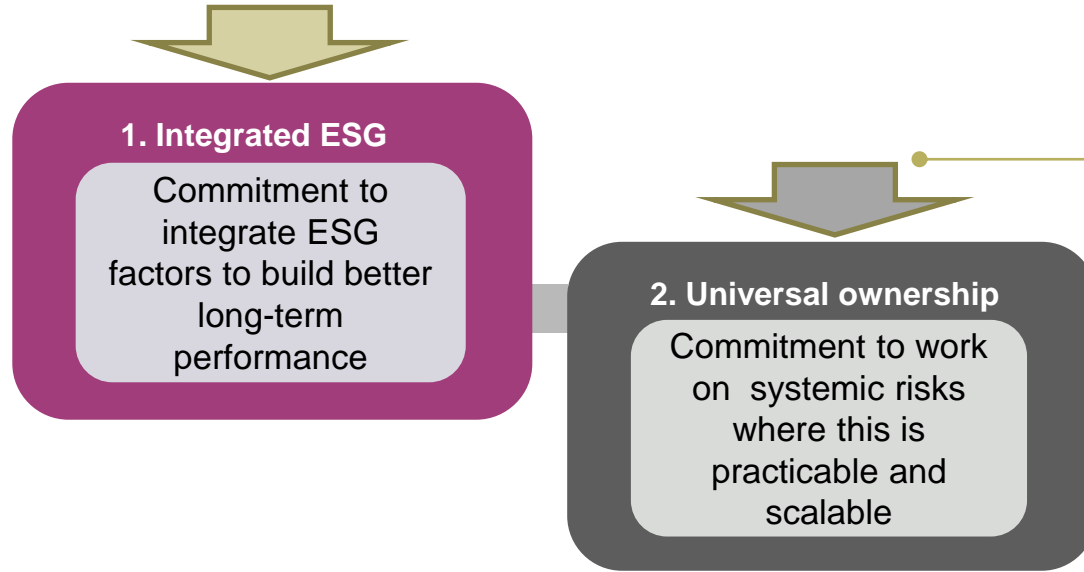
## 1. Integrated ESG

Commitment to  
integrate ESG  
factors to build better  
long-term  
performance

- Moving from integrated ESG starting position

# The pitch – universal ownership mind-set

Investment organisation of tomorrow working group



- Moving from integrated ESG starting position

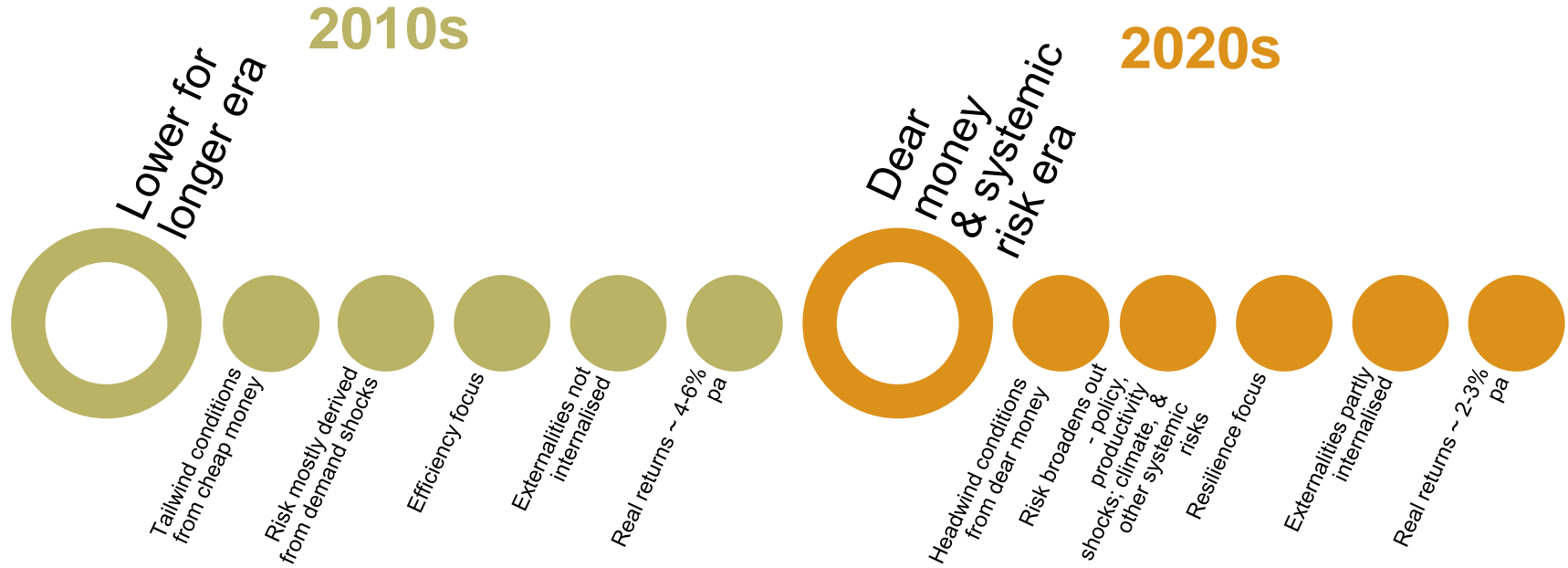
- To universal ownership starting position, mindset and strategy

# Concluding commentary and key takeaways



# Regime shift

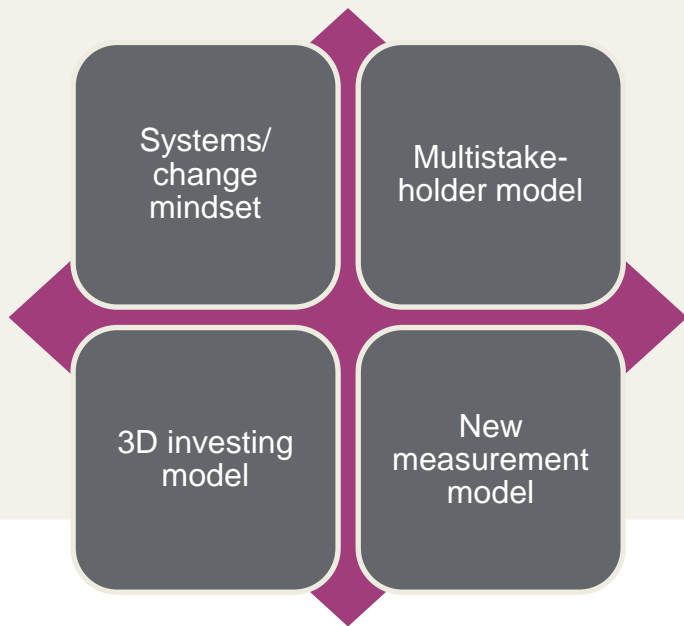
History doesn't repeat but it does rhyme



***The pace of change is speeding up. So is systemic risk***

# Successful sustainable investment organisations

1. Truly sustainable = sustainable in organisational longevity and investment focus



2. Success model

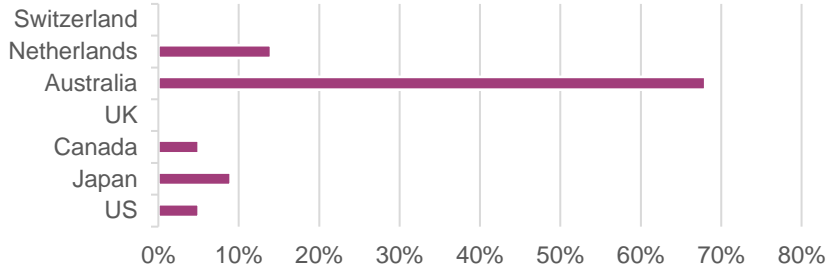
- To be truly sustainable requires a combination of exceptional capabilities and culture

3. Scale advantages

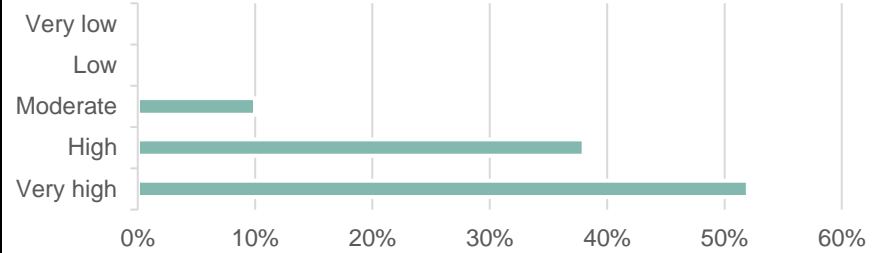
- With more beta emphasis over alpha, a more select set of organisations emerge that can benefit from economies of scale

# Polling results

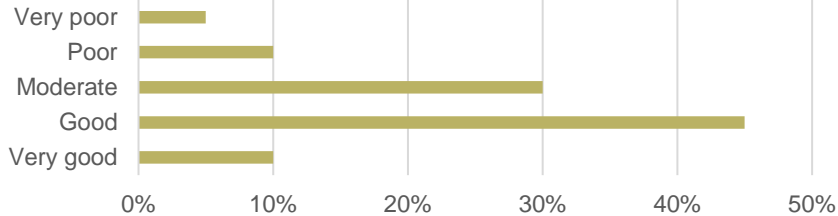
## 1. Which P7 country had the fastest AuM growth in the last 10 years?



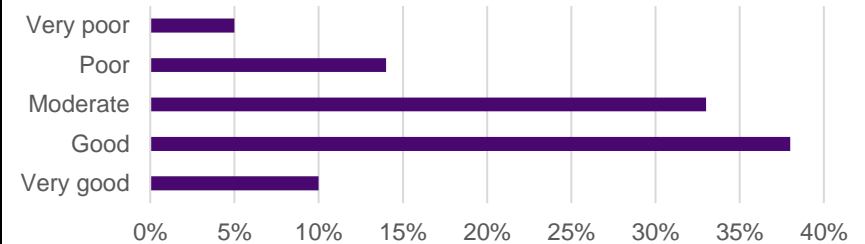
## 2. What is your organisation's level of ambition/appetite in ESG/Sustainable investing?



## 3. Given your ambition in question 2, how does your organisation stack up on resources (well resourced in sustainability people and technology)?



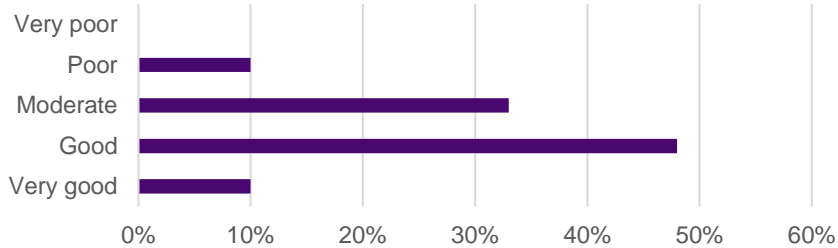
## 4. Given your ambition, how does your organisation stack up on strategy (strong thinking and processes in sustainability)?



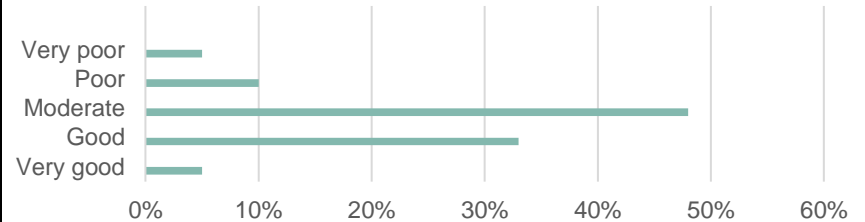


## Polling results

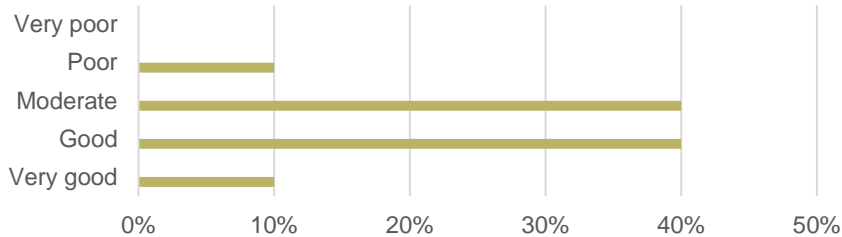
**5. Given your ambition, how does your organisation stack up on team mind-set (collaboration and coalitions)?**



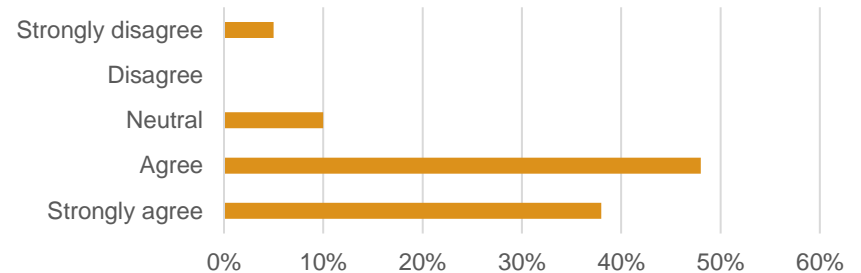
**6. Given your ambition, how does your organisation stack up on universal ownership (system mindset and long-term holistic approach)?**



**7. Given your ambition, how does your organisation stack up on values (multiple stakeholder orientation)?**

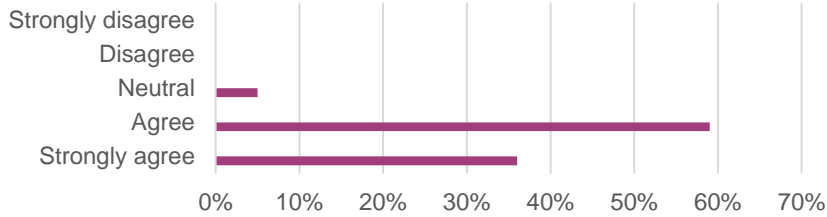


**8. Real world impact becomes a significant factor in institutional investing**

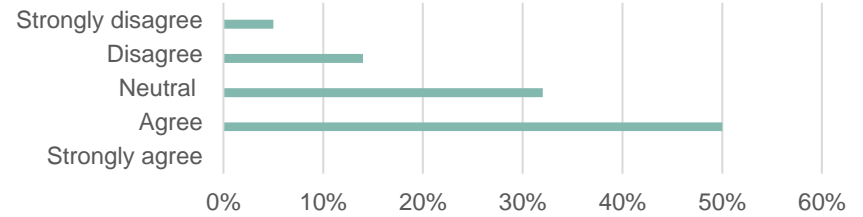


# Polling results

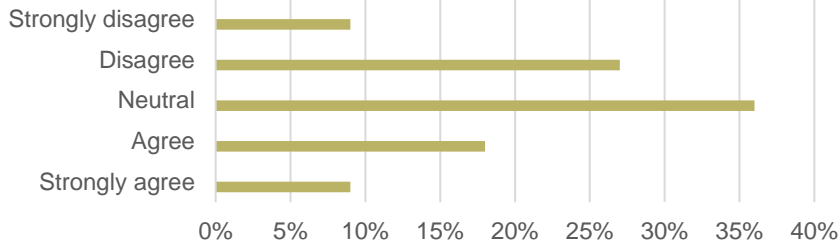
## 9. Commitment to net zero grows and organisations progress in their target trajectory



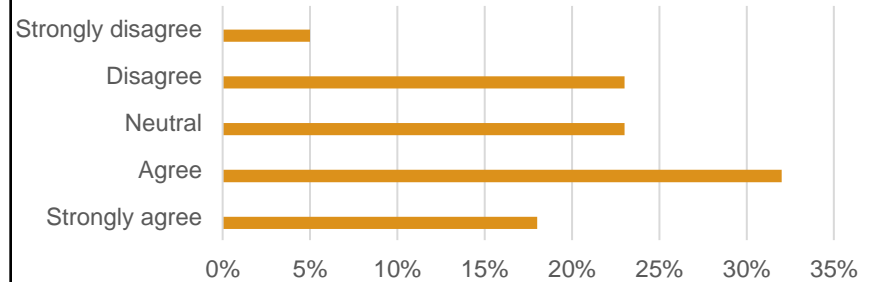
## 10. There is increased regional alignment of sustainability – US, Europe, UK, Australia, Asia, etc



## 11. Fiduciary duty becomes more flexible across multiple jurisdictions

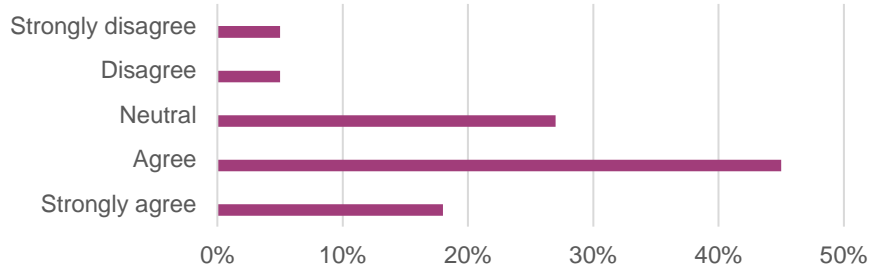


## 12. Regulations have net favourable industry effect

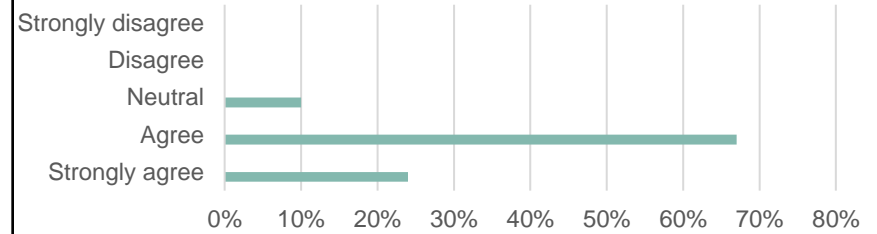


## Polling results

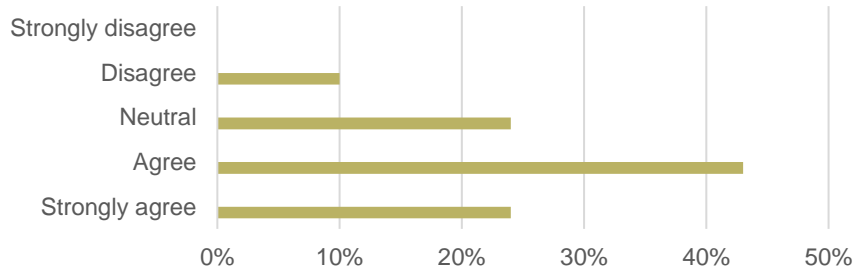
### 13. Greenwashing diminishes because of regulations and standards



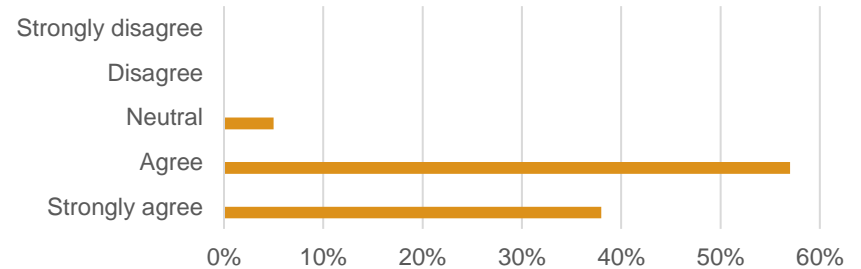
### 14. Data improves and provides decision-useful insights to the industry and its stakeholders



### 15. S-factors in ESG become a bigger element in the sustainability package

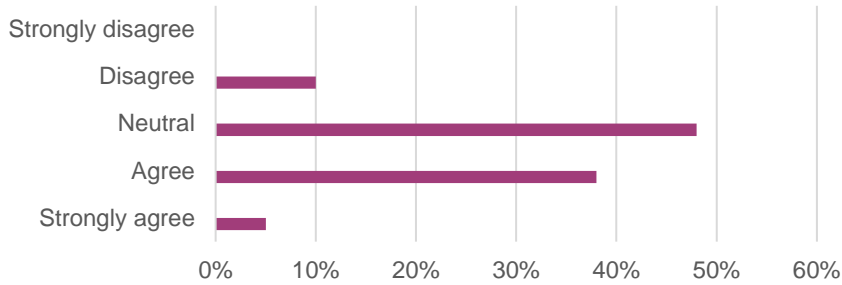


### 16. People skills and capabilities in sustainability grow in strength and depth

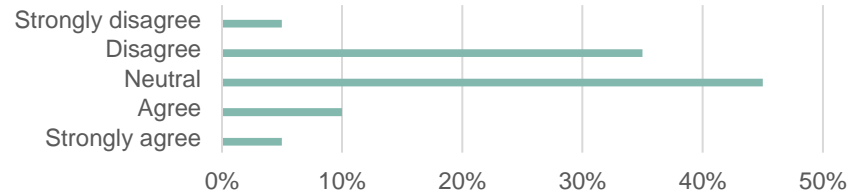


## Polling results

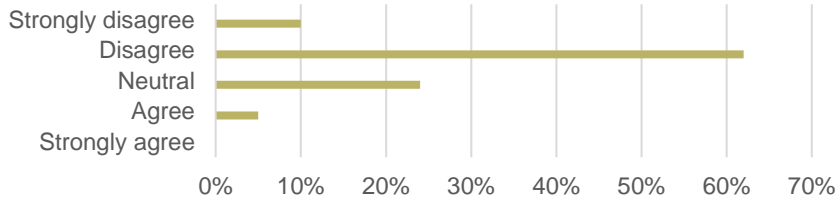
### 17. Management fees for sustainability-oriented products reduce



### 18. The quality of resources (talent, systems, process effectiveness, etc) applied to stewardship in the investment industry is currently adequate



### 19. The quantum of resources (specialists full-time, portfolio managers part-time, etc) applied to stewardship in the investment industry is currently adequate



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## **Contact Details**

Marisa Hall | [marisa.hall@wtwco.com](mailto:marisa.hall@wtwco.com)

Tim Hodgson | [tim.hodgson@wtwco.com](mailto:tim.hodgson@wtwco.com)

Roger Urwin | [roger.urwin@wtwco.com](mailto:roger.urwin@wtwco.com)