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Des Fullam, Global Head of Product at Carne, describes how the global asset management industry can contribute to the implementation of the UN's Sustainable Development Goals (SDG), the added value of the finance industry in reaching SDG targets and the increase in popularity of impact investing through a decrease in barriers.

DRIVER OF A BETTER SOCIETY

A Crossroads has been reached

"The world cannot go on growing as it has been. While global imbalances like uneven growth, wealth inequality, and environmental degradation have generally raised living standards, unsustainable growth now puts future living standards at risk, and can imperil the welfare of the generations to come." Not the words of a populist politician but the introduction to UBS's White Paper on Mobilising Private Wealth for Public Good. Since the UN published its 17 Sustainable Development Goals ("SDG") in 2015 these have provided an additional focus for those wishing to put SDG investing at the heart of their investment decision making. We can see from the table in Figure 1 overleaf that approximately 30% of the global $71 Trillion in assets under management is invested in what might be characterised as SDG investing but the vast majority of this $23.1 Trillion is invested in less impactful responsible and sustainable investments with only $112 Billion invested in "impact" investing. While this represents significant progress more is required.

Mind the gap

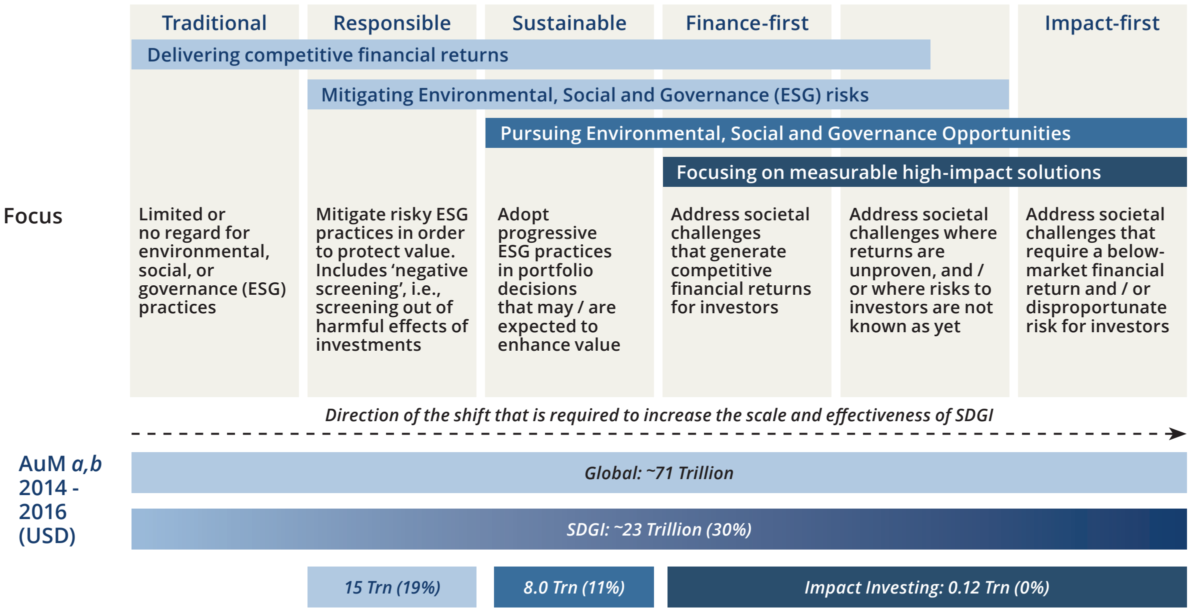
The Business and Sustainable Commission estimates that the annual funding gap to reach the UN SDG goals by 2030 is $2.4 Trillion per annum. When one considers that the public aid funding provided by developed governments to developing countries is $140 Billion this is quite a gap. While not all goals lend themselves easily to support from the financial sector it is clear that there is an opportunity for finance to be a significant part of the solution. In a time of low interest rates, opportunities to finance infrastructure projects would clearly address one of the big societal challenges while delivering competitive long term returns for investors.[1]

Money is a great servant but a poor master - Beyond finance first investing

While one can make a very solid investment case for infrastructure investing, should long term investors not also be interested in impact first investing? If one accepts that continued inequality puts all of our futures at risk, is it not in our collective long-term interest to invest a portion of our long-term investments in high impact solutions which address societal challenges, even if they may deliver a below market financial return? We want to retire in financial comfort but we also want to enjoy the fruits of our investments in a stable and sustainable world.

1. The UN has estimated that the annual infrastructure gap is $1-1.5Trillion.

Figure 1 Global SDG Investing by Strategy (AuM in USD billion, 2014/2016)



Source: (a) Boston Consulting Group (2015); (b) Multiple Sources, see Annex 3. C-Change Analysis.

Progress is at hand

A number of industry-led initiatives have focused on impact investing and the UK has led the impact investing market through initiatives like the creation of Big Society Capital from dormant bank accounts. More recently a group of 18 leading investment managers signed a letter asking the signatories to commit to goals aimed at expanding the impact investing market and making it more accessible for investors. Leading activist investors such as Sir Chris Hohn have called for mandatory requirements for banks to compel corporate borrowers to disclose the risks they face from climate change. Barriers to impact investing are coming down. A common lexicon and agreed metrics are emerging. Most investment managers now agree that sustainable investment does not conflict with their fiduciary duties to shareholders. The European Union is also looking at ESG investing and has published a proposal for the investment management industry as part of its Action Plan for Financing Sustainable Growth.

Perhaps the question is not "Can the financial industry contribute to a better society?" but "Why wouldn't the financial industry contribute to a better society?"

Conclusion

There is an imperative on the financial sector to provide solutions, otherwise its customers living standards, and one assumes those of financial sector employees, will be put at risk. To quote Larry Fink, CEO of BlackRock, "To prosper over time, every company must not only deliver financial performance but also show how it makes a positive contribution to society." Perhaps the question is not "Can the financial industry contribute to a better society?" but "Why wouldn't the financial industry contribute to a better society?"

More information
www.carnegroup.com

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