Sustainable investing post COVID-19
The COVID-19 pandemic has taken a hit on our societies and financial markets, and many nations participated in an unprecedented large-scale economic, social and psychological experiment – the lockdown.

**SUSTAINABILITY IN A POST-COVID-19 WORLD**

The magnitude of the impact and speed of collapse in economic activity that resulted from this pandemic is something unseen in our lifetime. China’s economy for example saw a historic slump, with industrial output plunging 13.5% in January and February from a year earlier and retail sales falling 20.5% in the first two months of the year.

With less land and air travel and factories coming to a halt, it is estimated that 2020 will be the year with the largest single year carbon emissions reduction. Carbon emissions in India are estimated to have fallen by 30% in April, and in China, carbon emissions are estimated to have been reduced by 18% between early-February and mid-March.

History tells us that when emissions have fallen sharply in the past, as is typically the case after recessions, there is often a sharp rebound that wipes out any short-term reduction achieved. China’s levels of some air pollutants have already risen back to above last year’s levels. This rebound is likely driven by increased industrial activity – Chinese industrial output in May grew at its strongest rate since the virus was detected in December.

As countries begin to emerge from lockdowns and economies are restarting, all eyes are on whether there will be a pivot to a sustainable way forward.

**THE SPOTLIGHT ON SUSTAINABILITY ISSUES**

Countries have demonstrated that it is possible to reduce carbon emissions, and many have acknowledged the corresponding positive impact on the environment. It has, however, also shone the spotlight on issues, such as social inequalities and public health, which are being further exacerbated.

The Sustainable Development Goals (SDGs) are a set of goals set by the United Nations – as a universal call to action to end poverty and protect the planet – to be achieved by 2030. Pre-COVID, it was estimated that there was a USD 2.5tn funding gap per year to be filled in order to achieve the goals by 2030. The world was already falling behind in efforts to achieve the SDGs prior to the pandemic. Now, more so than ever, investments are needed from both the public and private sectors to tackle environmental and societal issues in the post-COVID world.
SIGNS OF A SUSTAINABLE WAY FORWARD

The slogan “Building Back Better” brings together and engages various parties on how we can rebuild our economy by building a resilient one. What does “Building Back Better” look like practically and what should investors look out for as governments and companies build back better?

**Governmental green recovery packages**

As many countries have put forth, and continue to unveil, new massive stimulus packages to cushion the economic impact of this pandemic, governments are discussing “green recovery packages”. An Oxford study conducted in May 2020 compared green stimulus packages with traditional stimulus packages from the 2008 global financial crisis, and evidence suggests that “green projects create more jobs, deliver higher short-term returns per dollar spend and lead to increased long-term cost savings.”

According to Bloomberg, 50 of the world’s largest economies have committed c.USD 18bn of their pandemic measures to stimulate lowering carbon emissions, such as in energy-efficient buildings and sustainable farming. This amount constitutes less than 0.2% of the stimulus packages put forth in total by these large economies.

Included in the discussions of these stimulus packages are government bailouts, and the EU is strongly recommending that governments attach “green strings” to bailouts, especially when it comes to airlines.

In Asia, we also see that, as part of the Hong Kong government’s plan to boost economy, the Green Employment Scheme was launched to create 500 time-limited jobs in electric vehicle popularisation, waste reduction and recycling.

**Pivoting and transformative companies**

After the 2008 global financial crisis, the US put forth a stimulus package supporting a green energy economy, whereby, for instance, industry-leading, innovative companies were born out of this legislation. The COVID-19 pandemic brings hope for a more vigorous “green energy” economic repeat of the post-2008 success stories on a larger and more global scale.

On the one hand, operational transformations within corporations accelerated during the pandemic as companies have been forced to adjust and invest in technological infrastructure. Mass working-from-home has now become a feasible reality, and conversations continue to evolve from “work from home” to “work from anywhere”.

Moreover, some companies have also radically pivoted from their business models, shifting into new market lines (e.g. self-driving cars for food deliveries, fitness companies shifting workouts to online, and many more).

On the other hand, firms are also taking the transformation deep to the core. For example, a large global food producing firm will propose at their upcoming annual general meeting (AGM) to become the first-ever listed company to have “business with a purpose” written in their articles of association. This will oblige the company to focus on long-term objectives in the social, societal and environmental fields.
CONTINUED GROWING INTEREST IN SUSTAINABLE INVESTING

In our recent “Standard Chartered Sustainable Investing Review 2020” survey, we found that despite recent pandemic disruptions, the interest in sustainable investment continues to grow. Over the next three years, 42% of investors globally said they are considering allocating 5-15% of their funds in sustainable investments with 9% looking to place more than 25%.

Conducted during the time of COVID-19, we find that the pandemic has raised awareness of sustainable issues in many ways and the top sustainable investment goals that investors are interested in are those that offer hope of building resilience against future crises.

Recent research suggests that the higher correlation between Environmental, Social and Governance (ESG) attributes and traditional attributes, such as quality and low volatility, indicate greater resilience during a downturn.

Driven by both investor interest in sustainability and research indicating the benefit of ESG integration in the investment process, the inflow of assets in sustainable funds in Q1 2020 was USD 45.6bn. This is compared to an outflow of USD 384.7bn in the overall fund universe.

Fig. 1 Key changes in SDGs that sustainable investors find most motivating

HNW and affluent investors in Asia, who have made a sustainable investment, have redirected their priorities – with “no poverty and “climate action” ranking high in 2020.

CONVERTING INTEREST TO INVESTMENT

While investor interest has grown based on our recent survey, there remains more that can be done to mainstream this among affluent investors. While interest is high, so is apprehension. This is driven in part by a lack of knowledge and a lack of clarity in the many different terms associated with sustainable investing. Although the term sustainable investing is widely used and is relatively familiar to investors (with around two thirds of those surveyed understanding its use), other terms such as ESG and socially responsible investing (SRI) are less well understood. This reflects one of the survey’s key findings that a lack of knowledge about the space and the proliferation of jargon continues to impede significant growth.

98% of affluent investors are interested in sustainable investing, although 93% are apprehensive about investing in this area.

Fig. 2 Both interest in and apprehension of sustainable investments is higher among affluent investors

Fig. 3 Familiarity of terms among affluent and HNW investors differs by country

Affluent and high net worth investors

Removing barriers with knowledge is therefore critical. As an investor looking at sustainable investing, understanding your personality type will help you better understand where to start in terms of learning about and investing in the space. Some questions to consider include:

1. Your attitude towards social trade-offs
2. Knowledge about sustainable investing
3. Previous sustainable investment experience

We found that those interested in sustainable investing fall into the below distinct groups based on the 3 questions on page 6:

**OPTIMISERS**

Optimisers have very high interest in and also high apprehension towards sustainable investing. If you are an Optimiser, you want to do good but are also focused on financial returns for your investment. Understanding how sustainable investing can contribute towards better risk management and portfolio outperformance is a good place to start, alongside understanding the role of your capital in driving sustainable development. This includes learning more about the materiality of environment, social and governance factors relating to your specific investments.

**CAUTIOUS**

Cautious investors are moderately interested in sustainable investing but have high apprehension. If you fall in the Cautious category, you will want to see evidence of financial returns first, supported by environmental/social outcomes before you grow that interest. It is natural to be cautious given the hype around sustainable investing and learning more about the space through monitoring simple solutions such as sustainable ETFs or funds may be a good place to start.

**IMPACT BELIEVERS**

Impact Believers have a high interest in sustainable investing and low apprehension. If you are an Impact Believer, you are more likely to have previously invested in sustainable investments and hold strong views on sustainable investing. You may have a greater appetite for impact-first investments and are willing to balance financial returns with strong impact outcomes. Impact measurement is an area to look at, especially understanding the quality of reporting you will get on your investments.

**RESISTANT**

Around 23 per cent of those surveyed are Resistant investors with a high preference for avoiding investments that are unethical or could do harm to the environment or to society, but have a low interest in sustainable investing. These investors can find out more about Socially Responsible Investments, which focus on negative screening. Negative screening is the oldest sustainable strategy used by investors and is typically split into two types – values-based which focuses on sectors that operate in controversial business sectors and norms-based which focuses on companies failing to meet internationally accepted norms.

Focusing on specific achievable outcomes that meet your individual personalities and addressing levels of apprehension is the beginning of the investment journey.

The pandemic has left nobody unscathed. Economic uncertainty and disruptions will be on the rise. The post-COVID-19 world will be shaped by how governments, companies and investors choose to respond, and whether we choose to invest in a better future. The amount of investments needed to address world environmental and social issues is rather large, and investors, now more than ever, have an opportunity to play a meaningful role in using their capital to contribute towards sustainable development.
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