2024 RESPONSIBLE INVESTMENT OUTLOOK

Greater clarity and a focus on financial outcomes

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2023 presented another challenging year for responsible investing, in large part thanks to interest rate hikes and rising oil prices. Meanwhile, the industry faced growing confusion around terminology and a political backlash in the US.

And yet I believe the case for responsible investing remains strong, albeit needing increased clarity and focus. Positive financial outcomes are more likely to be achieved if we fully understand the risks and opportunities surrounding each investment. Now more than ever, Environmental, Social and Governance (ESG) factors are a key component of this understanding. Take climate change as an example: 2023 is expected by scientists to mark the hottest year on record. Extreme heatwaves, deadly wildfires and devastating floods served as a stark reminder of the ever-more obvious necessity of factoring physical climate risks and opportunities into investment decision-making.

Clearing up the confusion

Interest in responsible investment has exploded in recent years. The integration of ESG factors into investment decisions is all but expected these days in the European market, and there are many strategies competing for clients in this space. But with this explosion of interest has come increased confusion in the industry, in part thanks to the misuse of the ESG acronym as a proxy for sustainable investment. It has at times been frustrating to see the labelling mainstream funds as sustainable when in reality they are ESG integrated – and there needs to be more discipline around the language used here. In 2024, I want us to continue to unpack and understand what clients really want, to enable us to cater for them wherever they are on the responsible investment spectrum. We in the asset management industry must provide more transparency on exactly what different strategies do and better align client preferences. This is of course being partly driven by regulation, which brings me on to my next point.

Navigating the regulatory environment

Regulation around responsible investing is a fast-moving area, not least around product disclosure. SFDR is of course already live in Europe, with comparable rules incoming in the UK and US. Such regulation can be commended for its efforts to increase transparency around responsible investing and prevent against greenwashing. But in practice it has sometimes further fuelled

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the industry confusion, with the absence of a consistent definition for sustainable investments allowing more room for interpretation and therefore divergent investor approaches. Within this changing regulatory environment, we at Columbia Threadneedle Investments believe it is important to consider what is our own ‘north star’, focusing on the integrity and quality of our products and ensuring we remain clear and true about what they can offer to clients in this space.

Continuing our active ownership efforts

Proactive engagement and thoughtful voting are integral parts of our responsible investment approach. While we haven’t yet finalised our thematic engagement priorities and objectives for 2024, I can share some broader thoughts.

As alluded to earlier, managing physical climate risk is becoming an increasingly material issue, and is an area we will focus our climate change engagement on going forward. Nature meanwhile underpins the global economy but is quickly deteriorating because of deforestation and pollution. Both companies and investors need to learn more about the dependencies and impacts on nature, and how best to account for nature-related risks and opportunities. So here lies another key focus area for us going forward. We also plan to particularly focus on water. Growing demand, climate change and pollution are increasing pressure on water resources, creating risks for businesses and society, and therefore something we will be considering across different industries and value chains.

Alongside these environmental issues, I would also like to highlight our work on diversity; both our own corporate efforts to recruit, retain, develop, engage, and advance a diverse workforce, as well as our active ownership work with investee companies through engagement, voting and collaborative investor initiatives. On human rights due diligence and supply chain risk management, we will focus on progressing a more systematic approach to identifying and managing material risks. We will also continue to develop the sophistication and consistency of our analysis around human capital management, which we believe to be a key corporate asset.

Lastly, corporate governance will remain fundamental for well-run companies and effective risk oversight. Focusing on board refreshment to ensure an appropriate mix of skills, background, and expertise will be key to managing an increasingly volatile regulatory and geopolitical landscape. This is especially important provided the systemic C-suite turnover we've seen in major markets, such as the US.

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