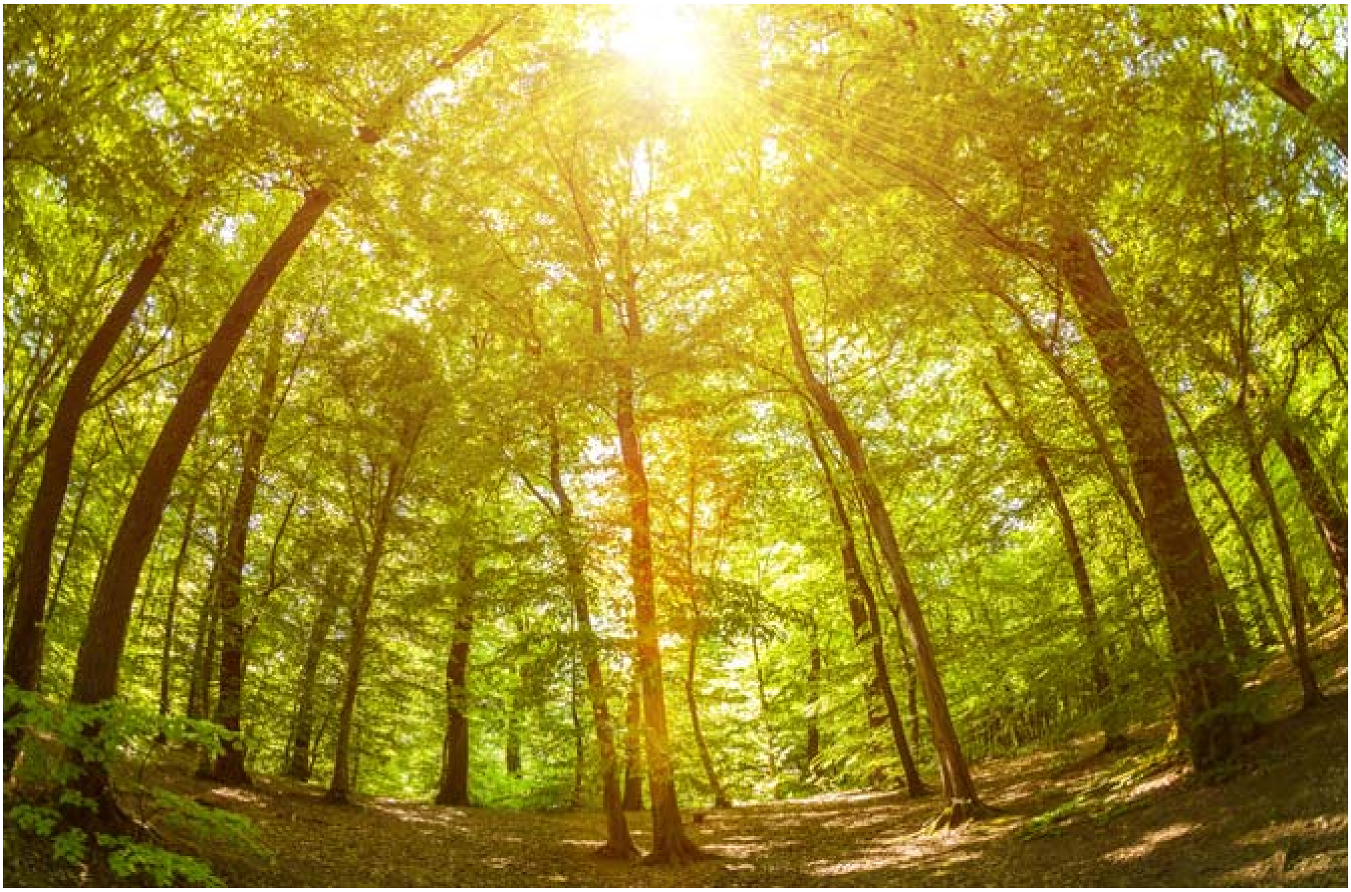

AUTHOR: ALEX STRUC
PUBLISHED: JUN 26, 2017
CATEGORIES: VIEWPOINTS
TAGS: ESG

10 Reasons ESG Investing Is Growing

According to the Global Sustainable Investment Alliance, over $22 trillion of assets were managed under responsible investment strategies globally in 2016, up 25% from two years before. This is one of many statistics showing Environmental, Social and Governance (ESG) investing moving into the mainstream. We see 10 major trends contributing to the rise.

- **Good governance is systemically important.**
  The financial crisis of 2008 was a wake-up call for public and private sectors, demonstrating how issues of culture and conduct could have systemic importance. Improving corporate governance is increasingly a goal for regulators and for fixed income and equity investors through active ownership.
- **Public-private partnerships are expanding.**
  Public-private collaboration has grown from addressing infrastructure and housing needs to tackling broader social and environmental issues. The U.S. municipal market and the European agency market are two examples of how government vision has enabled private capital to drive social investments.
- **Climate change is a reality.**
  Climate change is now universally understood and (almost) universally acknowledged. Mitigation techniques include international agreements such as the COP21 Paris agreement, which aims to keep the rise in world temperatures below two degrees, and private initiatives such as sustainable investment portfolios and more disclosure of climate-related financial risks.
- **Energy sources are shifting.**
  Climate change aside, there is a transformation occurring in energy markets. Well-telegraphed supply and demand drivers are shifting the dynamics of the oil market, natural gas is now cheaper than coal, and renewable energy sources are becoming cheaper and scalable.
- **Technology is changing what we demand and how we consume.**
  Whether it’s driverless cars in autos, smart metering in utilities, renewables in oil and gas, online sales in retail, or robo-advisers in asset management, most sectors of the economy are seeing paradigm shifts in the way business is conducted. Companies with ample resources and willingness to adapt will outperform, but others are likely to put investors at risk.
- **Social media is driving convergence in social norms.**
  Given its borderless nature, social media has the potential to alter the cultural

blueprint of countries, and for investors, its effects vary from changes in individual consumer preferences and traditional election patterns to subsequent demands for new regulations.

- **We are living longer.**
  By 2050, there will be 2.3 billion people in the world over age 65, according to the United Nations. With average life expectancy rising in developed countries, sustainability issues will affect not only our children but also our older, less-capable selves. Climate change, income inequality, healthcare and poor governance are increasingly personal as they directly affect financial security in retirement.

- **Demographics are changing.**
  Millennials and Generation-X are increasingly taking over from Baby Boomers in positions of influence, changing business, financial and political landscapes. The newly formed French government is an example – half of its members are women. Younger generations are driving the fast growth of the "green bond" market and the field of sustainable finance in general.

- **Regulation is providing tailwinds.**
  ESG considerations have driven new regulations in a growing list of countries, which is tangibly affecting credit fundamentals. Examples include the shutdown of nuclear power in Germany, the Supervisory Review and Evaluation Process (SREP) in Europe, which governs subordinated financial debt, and France's mandatory reporting of climate risk, which raises the bar for financial institutions.

- **Value chains are global.**
  Large corporations' value chains are increasingly global – as highlighted in our secular forum in May. These value chains are complex and if poorly managed can prove costly. Investors can be quick to punish companies for child labour practices, human rights issues, environmental impact and poor governance.

Together these ten factors are fuelling the rapid growth of ESG investing. It's a trend we think will continue for some time.

Alex Struc is head of ESG Portfolio Management at PIMCO.

Learn more about ESG investing at PIMCO

LEARN MORE