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The IMpower Net-Zero & the Transition Leadership Project: Where can CEOs be in the driving seat and make a significant difference?

UN scientists warned this year that the world is balanced on a knife-edge of irreversible climate change. Asset management leaders are rising to the challenge, but is it too little, too late?





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IN THIS WHITEPAPER:

Outline of a CEO Boardroom discussion at IMpower FundForum 2022 event in Monaco, the leaders of the asset management sector talked about what action they are taking to move their businesses towards net zero carbon, and discussed the importance of industry coalitions such as the Net Zero Asset Managers Initiative.

1. NET ZERO CARBON

In a CEO Boardroom discussion at IMpower FundForum 2022 event in Monaco, the leaders of the asset management sector talked about what action they are taking to move their businesses towards net zero carbon, and discussed the importance of industry coalitions such as the Net Zero Asset Managers Initiative. This is a collective of 236 signatories who have pledged to make their businesses net zero producers of greenhouse gases by 2050. The aim is to help limit global warming to 1.5 degrees Celsius, in line with the Paris Agreement. The initiative is part of the Glasgow Financial Alliance for Net Zero (GFANZ), chaired by former governor of the Bank of England, Mark Carney, now UN special envoy on climate action and finance. GFANZ brings together 450 firms managing \$130 trillion of assets with the same common aim, to respond effectively to the climate emergency.

In a session chaired by Amin Rajan, Chief Executive Office at thinktank CREATE-Research, asset management leaders talked about what they are doing in their organisations to achieve net zero carbon. The tone from the speakers was urgent: many said they are concerned the industry is paying lip service to climate change, and looking behind the numbers reveals much lower commitments than appearances suggest. Much more must be done, and soon.



George Latham
Managing Partner at
WHEB Asset Management

“We need accountability with a real sense of urgency,” said George Latham, Managing Partner at WHEB Asset Management. “There’s so much low hanging fruit to address, so we set our own interim targets for 2025 and we will hit them this year so now we need to ratchet up our internal pressure. There needs to be a platform to create a race to the top so that we’re all challenging each other to move faster.”

The tone from the speakers was urgent: Many said they are concerned the industry is paying lip service to climate change, and looking behind the numbers reveals much lower commitments than appearances suggest. Much more must be done, and soon.

Jamie Broderick, Board Member at the Impact Investing Institute, said the asset management industry is doing “the best it can” on climate change, but it’s not enough.



Jamie Broderick
Board Member at the Impact
Investing Institute

“It’s an extraordinary achievement what Mark Carney has done, to have gathered \$130 trillion of assets and announced it at COP26. The Net Zero Asset Managers Initiative gathered \$57 trillion. That’s roughly a third of all managed assets globally in the space of nine months. Absolutely extraordinary. But it’s not enough, it doesn’t get the job done, it’s not even close.”

He explained how “when you look at the numbers, they shrink” because only around one-third of that \$57 trillion in assets is subject to decarbonisation, and those who have made a commitment to go to net zero by 2030 only represent about \$4 trillion of assets.

Rajan asked the panellists what three things must happen to bridge the gap between expectation and reality when it comes to climate change action, and prevent the ESG ‘brand’ becoming tarnished in the asset management space.

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Mark Versey
CEO, Aviva Investors

Aviva Investors' Chief Executive Mark Versey suggested the industry “works with regulators to create clear labelling, because there is a huge consumer problem at the moment with understanding all the nuances between exclusion, low carbon, ethical, sustainable and impact investment. We need clear definitions, what are they? And a high bar to get a kitemark or whatever is needed.”

He also called for action from asset managers to try to change policy by joining coalitions such as GFANZ, and for better engagement with clients on ESG issues.

Broderick argued more action is needed from the top down, in the form of regulation. “Where we are lagging behind is on the policy side,” he said. He suggested the introduction of a carbon tax, said asset managers are not demanding enough of energy producers and are currently are “too kind” to the fossil fuel sector.

Latham added that passive asset owners could do more to engage with stock exchanges to raise listing standards. “That could have a real impact,” he said.

Asset managers should also educate their clients on what to expect from ESG and impact investing, and think about portfolio design, benchmarks and performance timeframes. “Too much of the way the investment industry has designed portfolios and relationships between fund managers and investors gets in the way.

“Asset managers need to be brave as much as we need clients to be brave, it’s about how to lead that conversation on what clients should expect and over what time-frame,” he urged.

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2. GFANZ ASSET SERVICERS FOR NET ZERO

In the second part of our CEO Boardroom session, CREATE-Research's Amin Rajan quizzed Omar Ali, EMEIA Financial Services Regional Managing Partner at EY, about what service providers such as EY are doing to assist in the race to net zero.



Omar Ali
EMEIA Financial Services
Regional Managing Partner at EY

“Without financial services there is no net zero - to lend, insure, and invest in green and the transition. We know that financial services is critical to this transition,” said Ali. “A lot of that hinges on trust in the data, and service providers have a role to play.”

Asked what EY itself is doing in response to the climate emergency, Ali explained that the firm has launched an MBA in climate change which is open to all its 300,000 employees, to prepare them to help clients transition towards net zero. “The biggest impact we can make is equipping our people to support clients,” said Ali. “We are helping clients in developing net zero strategies, transition plans, reporting and disclosures, and reassessing strategy. In terms of the transition, how do you take people along with you on this journey? That isn’t just exec teams and boards but the society in which we all operate.”

Opening up the discussion to the CEOs in the room, Rajan asked for their “big ideas”, or what else they would like to see changing in the industry in order to have a real, positive social and environmental impact.

One CEO said “superinnovation” is needed, along with better reporting and stronger regulation, and engaging major polluters India and China. “Greenhouse gas is at record levels, there is a lot to do to achieve what we need to. We need China to follow, it accounts for 27% of emissions. We need policymakers to start putting in real incentives. I am pessimistic to be honest. We have social problems, climate, both of them are linked.”

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He called for simplified reporting, and standardisation to create a common language and framework to talk about and tackle these issues. There must be incentives for money to flow back to the real economy, and asset managers may even have to “make less money”.

Jamie Broderick compared the policy response to the pandemic to the response to the climate emergency, noting that applying the same sense of urgency to the latter could solve the problem.

“Covid cost between \$18 trillion and \$28 trillion – that’s enough to solve climate change, but you need the urgency and the focus and the complete collaboration of everybody. It can be done but what’s missing is the universal sense of urgency which we don’t have here, which is why more convincing needs to happen in the US and everywhere else. But the fact of the matter is, it’s not a money problem, the money is there, but where is the will, where is the urgency, where is the consensus? That’s the question.”



Amin Rajan
CEO at thinktank
CREATE-Research

Summing up, Amin Rajan noted that reversing climate change before it’s too late will be the “biggest human collective endeavour in the history of this planet.” While it won’t be easy, he urged the leaders in the room not to “allow perfection to stand in the way of progress”.

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