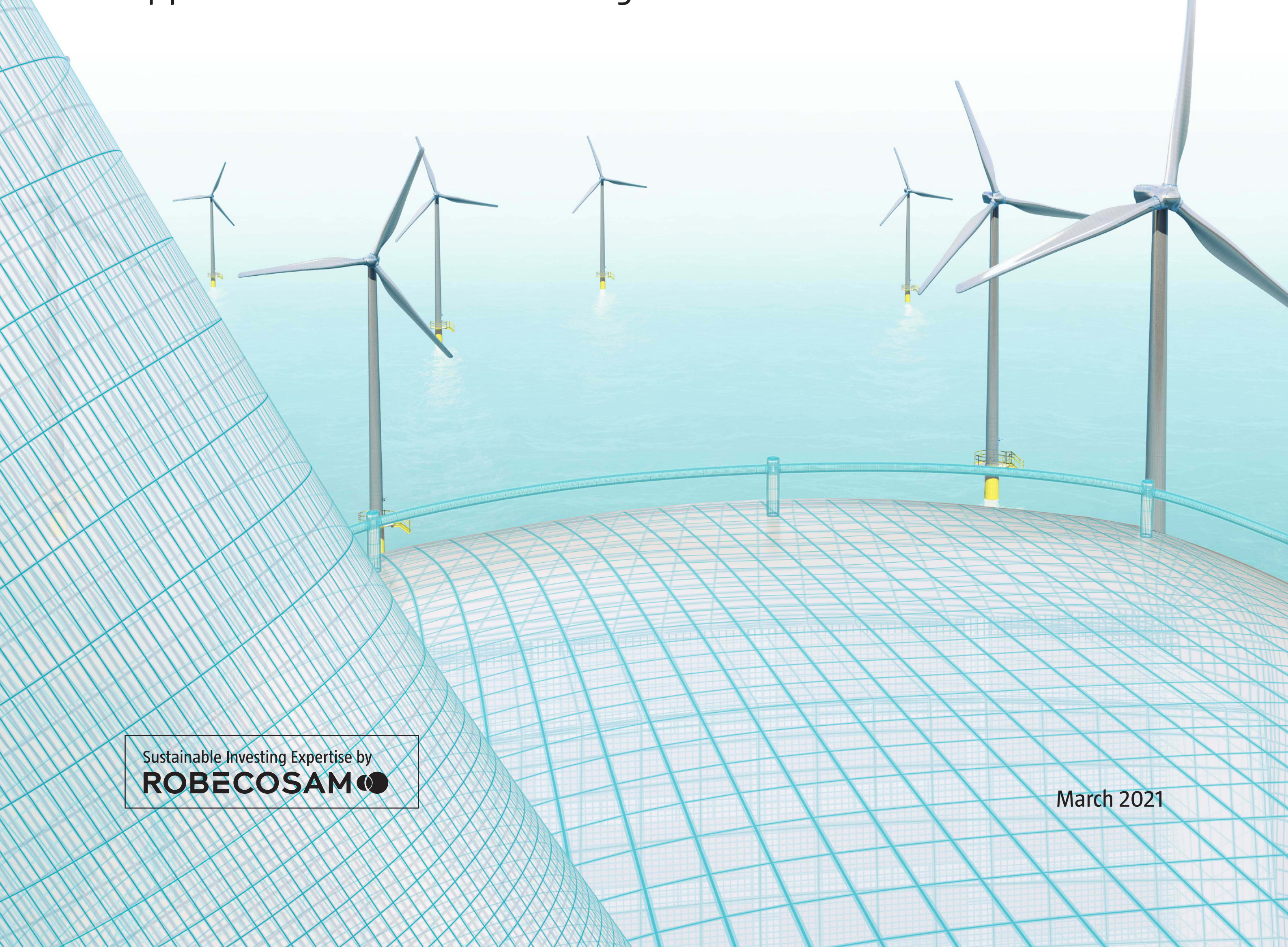
For professional investors

ROBECO
The Investment Engineers

2021 Global Climate Survey

How investors are taking on the risks and opportunities of climate change



Sustainable Investing Expertise by ROBECOSAM

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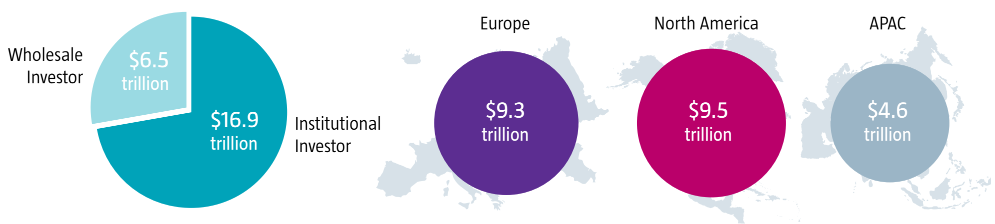
Methodology

This report is based on research commissioned by Robeco for its exclusive use, which was carried out in January 2021 by CoreData Research among 300 institutional and wholesale investors in Europe, North America and Asia Pacific. The investors are based at a range of organizations: insurance companies, pension funds, private banks, fund-of-funds, advisory firms, wirehouse broker/dealers, sovereign wealth funds, endowments and foundations and family offices. They ranged in size from holding less than $1 billion in assets under management (AUM) to over $1 trillion in AUM, with a total AUM for all respondents of approximately $23.4 trillion.



2021 is a year of hope

In 2020, the outbreak of Covid-19 shook the world to its core. It was also the wake-up call the world needs to make vital changes. Biodiversity loss, inequality, climate change. The global pandemic is a stark reminder of the need to care: for ourselves, our loved ones, our fellow humans, the living things we share our planet with. That responsibility lies with us all, as people, as companies, as investors.

With business currently being seen as the most trustworthy institution of all, we at Robeco feel this responsibility all the more acutely. Sustainability and the climate are the topics we discuss most frequently with clients. Indeed, we saw investments in ESG-integrated assets double during the course of last year. And we also saw that performance and doing the right thing are not mutually exclusive – a crucial element to investors. This gives us hope for 2021. A real belief that we can rise to one of the greatest challenges facing humanity: the climate crisis.

This survey shows that investors are committed to tackling climate change. Climate will become mainstream in our industry, with all assets being aligned with the net zero ambition at some point in the coming years. The message is clear: investors have a keen interest in climate and a strong desire to work on decarbonization. However, there is a substantial knowledge gap when it comes to fully understanding these major issues, with many investors not knowing where to start or how to make a difference.

The purpose of this survey is to show you where we are as an industry, to help you understand the urgency and current status of climate investing, as well as the challenges and opportunities climate change presents.

The willingness among investors to help combat climate change is truly inspiring. So, let's make 2021 the year in which we joined hands to link wealth and well-being intrinsically together and help the world heal.

Christoph von Reiche,
Head of Global Distribution & Marketing

Key findings

86%

of investors say that climate change will be at the centre of their investment policy, or it will be a significant factor in it, in the next two years.

This is up from

73%	&	33%
now		two years ago

81%

say that the increased use of renewables, bioenergy and hydrogen for power and fuel is the most relevant decarbonization driver for their organization.

66%

of investors expect to focus decarbonization on global equities in the next one to two years.

18.8%

of institutional investors' overall portfolios will be divested from carbon-intensive assets over the next five years.

For wholesale investors,

27.4%

of sustainability-focused model portfolios will be divested from carbon-intensive assets over the next five years.

69%

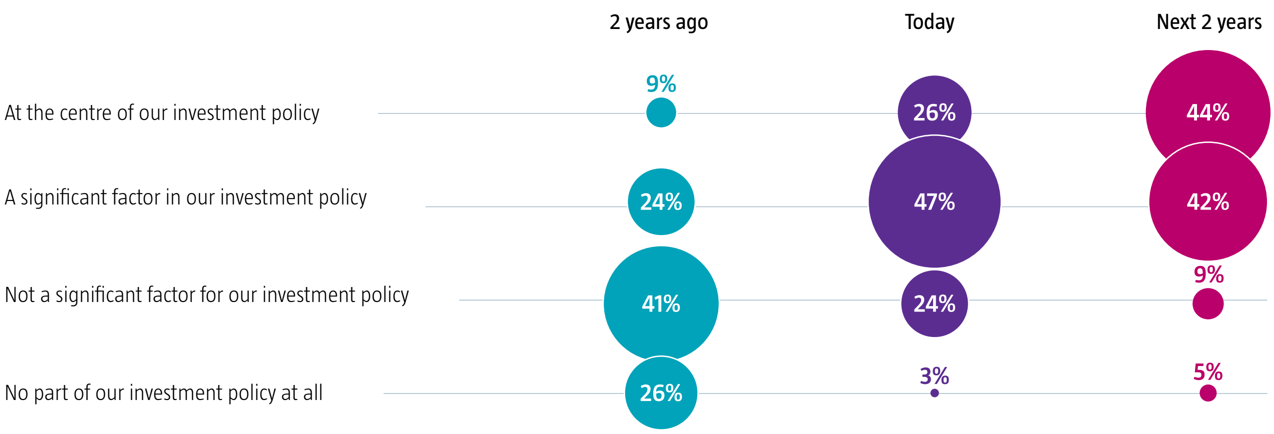
believe that the Paris agreement target on global warming is achievable with major global economic and social changes, but 80% believe governments and others need to do much more to achieve it.

1. The big shift on climate change and decarbonization

It is now widely acknowledged that the use of environmental, social and governance (ESG) investing has passed a tipping point in recent times. Taking account of ESG factors is now seen as an integral part of investing and it is applied through various approaches and across a wide range of asset classes.

We are rapidly approaching similar tipping point on climate change, one of the leading issues in the ESG agenda. Two years ago, less than one-in-ten (9%) of investors put climate change at the centre of their investment policy. Now, it is just over a quarter (26%) and in two years' time, it will be over four-in-ten (44%). The growing importance of climate change is even clearer when investors describing it as a significant factor in their investment policy are added. Almost three-quarters (73%) see climate change as a significant factor in, or at the centre of, their investment policy now, rising to almost nine-in-ten (86%) in the next two years. This trend is seen at both institutional investors and wholesale investors.

Climate change is rapidly increasing in importance for investment policies



How would you describe the importance of climate change to your organisation's investment policy 2 years ago, today, and in the next 2 years?

"Our clients are telling us that investing their wealth sustainably is key to what they want to going forward. Both because they think it will lead to investment returns that are equal to, or better than 'normal investing', but also because they increasingly want to align their values with their investment choices." **Mark Haefele, Chief Investment Officer, UBS Global Wealth Management**

"A year ago our board decided that AP1 will divest from fossil fuels. We were the first of the AP funds to do this and it was by far the largest divestment decision ever made at AP1. We spent 2020 executing this throughout the AP1 portfolio, for both internally and externally managed assets and across asset classes." **Tina Rönnholm, External Partnerships and Innovation, AP1**

"Climate change has been a significant factor in our investment policy for the past seven years, and it is at the centre of our investment policy today. We are formulating our investment policy now for the coming years and it is all about sustainable investing. It is threefold: divesting from carbon, shifting towards assets with a lower carbon intensity accompanied with engagement and investing in climate solutions. We need to have insight into both the physical and transition risks regarding climate change, and mitigate these risks." **Han van Manen, Investment Director, External Management, PGGM**

The adoption of formal climate change policies also highlights some differences between regions and investor types. Nearly seven-in-ten (68%) of European investors have adopted a formal policy on climate change, as have 54% of institutional investors, compared to 41% of wholesale investors. In North America, 43% of investors have a formal policy on climate change, while 26% plan to adopt one in the next 12 to 18 months. For the Asia Pacific region, these figures are 36% and 27% respectively.

Generally, some European institutional investors, such as the Swedish AP funds and the Dutch industrywide pension funds have been among the leaders on ESG investing and also on decarbonization policies. But investors in America and Asia Pacific are now picking up the pace, as they see the necessity of acting to tackle climate change. The green policies of new US president Biden, coupled with China's determination to be seen to set global agenda, and the forthcoming UN climate change conference in November 2021 in Glasgow (COP26), could drive progress at institutional and wholesale investors globally.

One of the planned routes to a low carbon economy is to set a target of net zero carbon emissions. While the number of investors who have already set a net zero carbon emissions target is relatively small (17%), it on an upward trajectory and will rise to over half of all investors in the next three to five years. Institutional investors have adopted a net zero carbon emissions target in slightly higher numbers than wholesale investors, but in both cases, more and more investors are planning to adopt a net zero carbon target. By region, investors in Europe and North America are more likely to have already adopted a net zero carbon emissions target, or plan to do so in the next three to five years, compared to investors in the Asia Pacific region.

These findings clearly show that many institutional and wholesale investors around the world are fully engaged in the struggle to limit global warming. The fact that ESG investing has become mainstream has aided this, but investors are becoming increasingly aware of the need for decarbonization or supporting the transition away from a dependence on fossil fuels and towards a low-carbon economy.

Divesting from carbon-intensive assets will rise sharply in the next 5 years

	Past 5 years	During Covid-19	Next year	Next 5 years
Institutional Investors	6.2%	6.2%	9.4%	18.8%
Wholesale Investors Sustainability-focused model portfolio	8.3%	10.6%	16.9%	27.4%
Wholesale Investors Traditional model portfolio	8.6%	8.8%	13.7%	18.2%

Please estimate the percentage of your overall portfolio you divested from carbon-intensive assets (decarbonization) in the past five years and during the recent Covid-19 crisis. And how much do you expect to divest over the next year and five years?

The proportion of investors who have not decarbonized any of their portfolio is also expected to fall significantly. At present, 42% of institutional investors globally have not decarbonized and this is expected to fall to only 19% in the next five years. One noticeable variation here is that wholesale investors are, overall, slightly more likely to be among those investors not decarbonizing, along with institutional investors in the Asia Pacific region.

"We have made a 51% carbon reduction within equities in the last five years, in a sector-neutral way, by getting rid of the most eco-inefficient companies in the sectors of utilities, materials and energy. We plan to reduce our carbon footprint another 30% by the end of 2025. As you show in the survey, the most practical way is to start with the equity portfolio, but the ambition to diminish the carbon footprint is for all assets in the portfolio."
Han van Manen, Investment Director, External Management, PGGM

Investor motives for acting on climate change

So far, we have seen that investors are moving climate change towards the centre of their investment policies, and that this will lead to a higher level of divestment from carbon-intensive assets. What, if anything, has changed to motivate investors to pick up the pace on climate change and decarbonization? There are a number of different motivating factors, such as the need to act in the long-term interests of their stakeholders, particularly external stakeholders. In addition, as the financial costs of global warming have become clearer, so investors increasingly see it as part of the fiduciary duty to consider climate change risks. This is important because it can reduce any conflict between acting on climate change and seeking returns.

Acting in the interests of their stakeholders is a key motivation for investors on climate change

Investment drivers

63%	Part of our fiduciary duty as investors with a longer term perspective
54%	Holding carbon-intensive assets will be increasingly risky in the future
48%	Carbon-intensive assets could become more capital intensive under future regulation
46%	Generating higher risk-adjusted returns

Internal/external drivers

68%	External stakeholders' interest (customers and clients, the public, regulators and others)
68%	We see it as in the long-term interests of our stakeholders
55%	Internal stakeholders' interest (e.g., employees, senior management, members)

Company image and public commitment

58%	Avoiding negative press and campaigns against carbon-intensive activities
57%	A strong social consensus on tackling climate change in my country
54%	It is ethically the right thing to do
43%	It is a regulatory requirement, or becoming (e.g., increasing requirements of climate stress tests)
42%	A commitment to the Paris agreement targets on limiting climate change

What is motivating your organisation to take climate change into your analysis, as part of its investment strategy? (Rate each option on a scale of 0-10)

"We have a conviction at Allianz that taking account of climate change is something we have to do. We also believe that taking account of climate change is part of our fiduciary duty, because it has an impact on risk and returns. Climate change will affect returns, whether it is through a carbon tax or carbon pricing, or from regulatory demands on asset owners, so taking account of it is a good business decision. Moreover, sustainability is part of our business model here at Allianz, as we sell long-term promises to our clients." **Carsten Quitter, Group Chief Investment Officer, Allianz Investment Management**

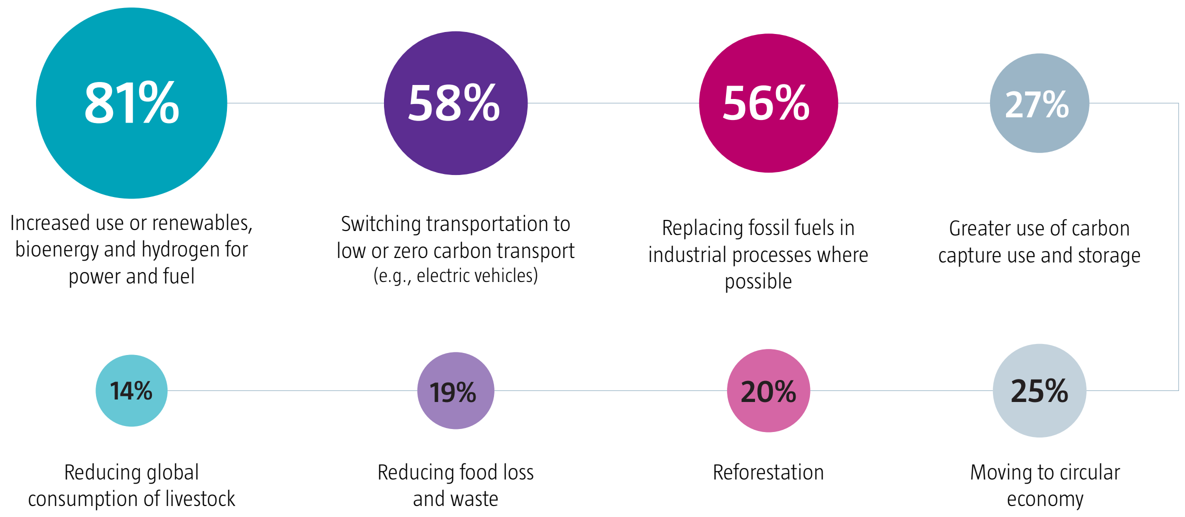
"Our mission is to provide a good pension in a livable world. That is the starting point. We want to do good to the world without compromising financial risk and return. That means that before we implement, there is a lot of research and talking to other asset managers and other institutions, such as universities, to make sure that risk and return characteristics will be similar to regular investing or better." **Han van Manen, Investment Director, External Management, PGGM**

"We have an intergenerational duty, so we cannot favour one generation over another generation. As an asset owner, we have an absolute return target, and it is something we need to achieve for current and future pensioners. To achieve returns, one must take risks, but we want to take controlled risks. The ESG team spent 2018 and 2019 on a heat map analysis of the entire AP1 portfolio, coupled with scenario testing. They concluded that climate change poses a systemic risk, and it is tied to uncertainty which is hard to quantify at this time. The rationale (for our divestment decision) was to minimize the financial risk that AP1 is exposed to because of climate risk." **Tina Rönnholm, External Partnerships and Innovation, AP1**

2. Tackling climate change – approaches and opportunities

If humanity is to avoid the worst effects of global warming in the coming decades, then businesses and individuals must reduce carbon emissions created by a wide range of activities, from manufacturing and industry, through to transport and agriculture, and by individuals reducing their own carbon footprint as consumers. Experts see a range of decarbonization drivers as being needed to limit global warming to well below the 2°C target set by the Paris Agreement (COP21). Some are associated with industry and power generation, such as greater use of renewable energy sources or moving away from the use of fossil fuels in industrial processes, while others are about the more efficient use of resources and moving to more sustainable practices. When asked which of eight decarbonization drivers they see as most relevant to their organisation's investment approach, investors showed a marked preference for three particular drivers.

Three decarbonization drivers stand out as most relevant to investors



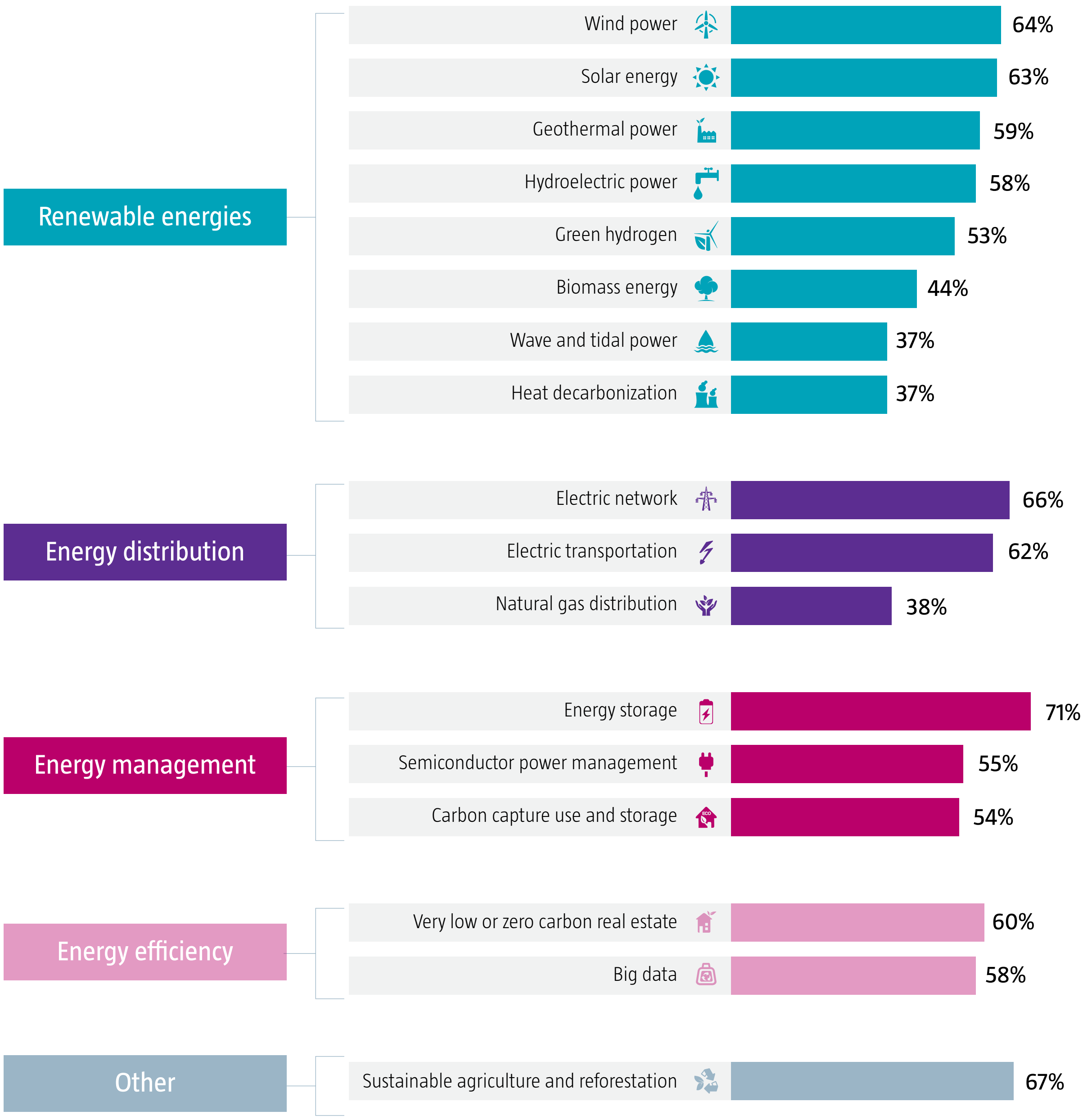
As an investor, which of the following decarbonization drivers are currently most relevant to your organisation's investment approach?

"The Covid-19 crisis highlighted the importance of sustainability for portfolios and governments around the world. In any given year, different strategies can perform better or worse, but this is a very strong long-term trend. We think there are compelling reasons why strategies based on sustainability, and focused on themes like greener energy, can be strategies that outperform going forward." **Mark Haefele, Chief Investment Officer, UBS Global Wealth Management**

"We are committed to our net zero target, so we will increase what we call dedicated investments to drive the change needed. Every part of the economy needs to transition; everything from transportation to manufacturing. We must pursue both [active ownership and impact investing] to make things happen." **Tina Rönnholm, External Partnerships and Innovation, AP1**

"When you look at various industries and their carbon intensities, there is a certain Pareto distribution to it. Clean energy production is one of the biggest levers that investors can use to decarbonize, with a direct impact, so I can follow the logic here. But we must think holistically and decarbonize across all sectors to get every industry on its pathway. The pathways for cement or steel will be different to the pathway for transportation." **Carsten Quitter, Group Chief Investment Officer, Allianz Investment Management**

Investors see attractive investment opportunities in a range of sectors



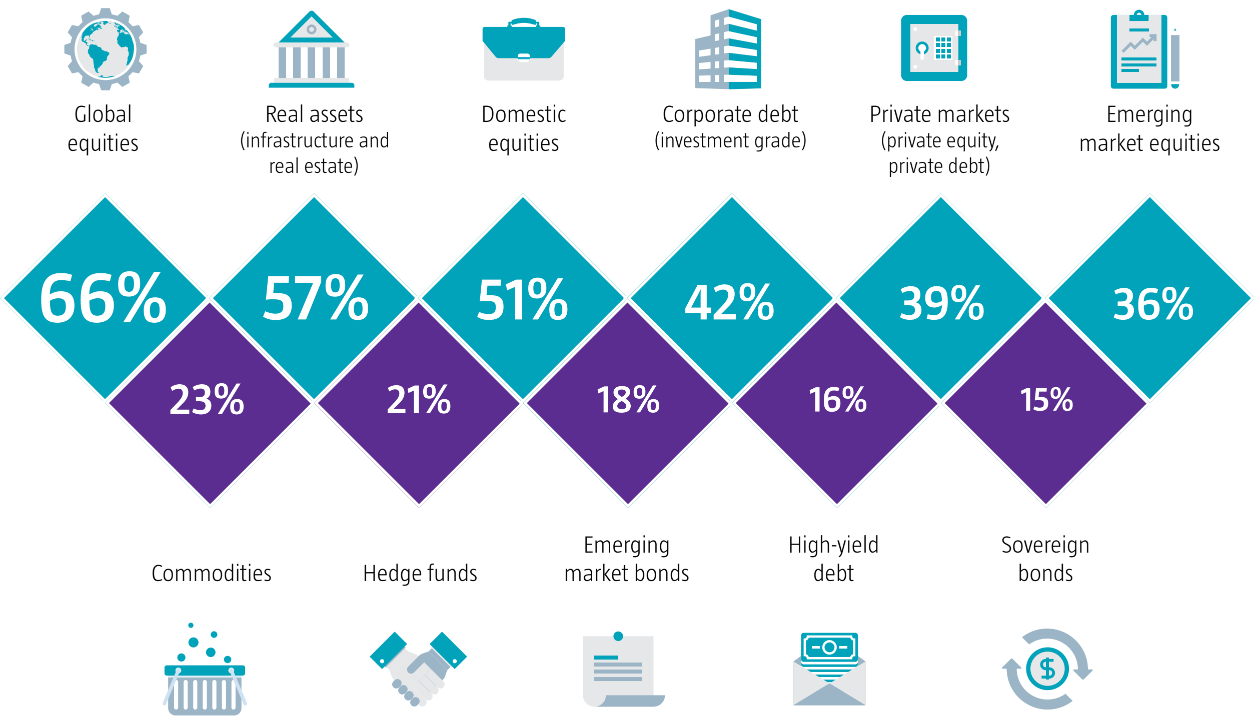
Which of the following decarbonization sectors do you think offer the best investment opportunities?

Looking at the results here for the decarbonization drivers most relevant to investor approaches, and the decarbonization sectors offering the best investment opportunities, there is a not a complete match on the favoured drivers and sectors. For instance, 67% of investors see sustainable agriculture and reforestation as an attractive investment opportunity, but only 20% of investors gave reforestation as one of the decarbonization drivers most relevant to their organization. This anomaly could be because investors see decarbonization drivers as higher level, overarching themes that fit with an investment strategy, while decarbonization sectors are more granular investment opportunities. So sustainable agriculture and reforestation might be seen as an attractive investment opportunity in its own right, but for many investors, reforestation is not part of a higher-level approach to decarbonization. In any event, it is clear that investors are currently focused on three decarbonization drivers, but they also see attractive investment opportunities in a wide range of decarbonization sectors, including electric networks (66%), electric transportation (62%), energy storage (71%) and sustainable agriculture and reforestation (67%).

Decarbonization by asset classes

Investors see equities and real assets, or infrastructure and real estate, as the asset classes which will be the focus of decarbonization over the next one to two years, ahead of bonds and alternative assets. Two-thirds (66%) of investors say that global equities will be a focus of decarbonization for the next one to two years, while for domestic equities, just over half (51%) of investors see this as a decarbonization focus for the next one to two years. After global equities, real assets (infrastructure and real estate) as seen the focus for decarbonization by 57% of investors.

Global equities and real assets are leading decarbonization efforts in the next 1-2 years



Which of the following asset classes do you expect to focus decarbonisation in the next 1-2 years?

There are several reasons why investors are most likely to see these assets classes as their focus for decarbonization in the near future. Firstly, investors have experience in taking account of environmental factors when investing in equities for some time, when using ESG investing, through approaches such as positive or negative screening, or integrating ESG criteria into an investment process. Investors also have a good supply of managers and strategies that can take account of decarbonization, such as strategies with a thematic approach or indices which are constructed as low-carbon versions of existing equity indices.

Fewer investors plan to make fixed income or alternative assets a decarbonization focus in the near future, with 42% giving corporate debt as a focus, ahead of 39% for private markets, 36% for emerging market equities, following by alternative assets such as commodities (23%), hedge funds (21%) and then three more fixed income sectors. But as said, investors will soon want to decarbonize their investments in these asset classes over time.

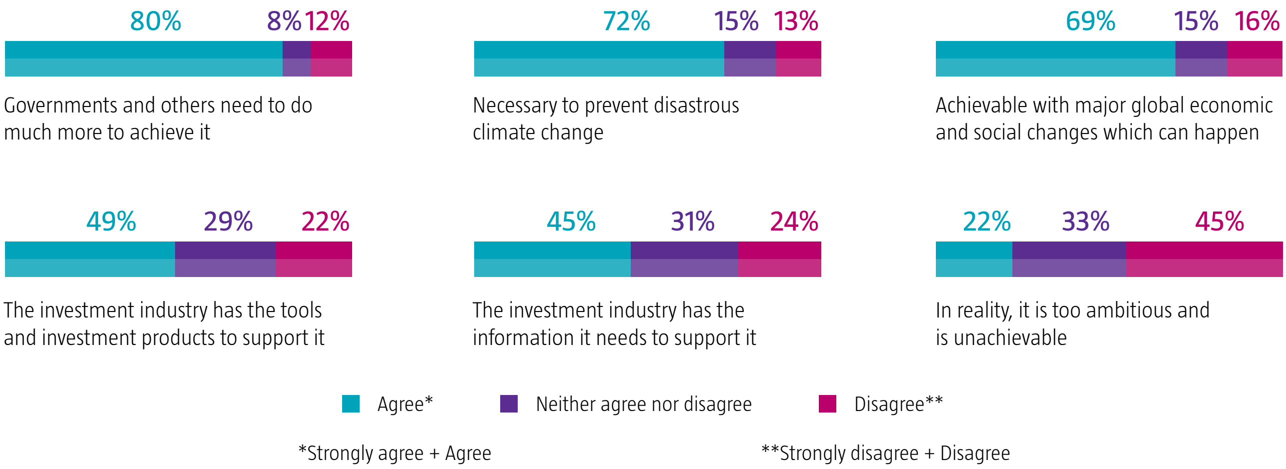
"As a member of the Net Zero Asset Owner Alliance, we have committed to reduce greenhouse gas emissions by 25% by 2025 for public equities and corporate debt. For real estate, we are following the CRREM [Carbon Risk Real Estate Monitor] pathway, which is in line with the 1.5° target. Those three asset classes cover roughly 35% of the total portfolio and we will gradually expand it over time, adding further asset classes." **Carsten Quitter, Group Chief Investment Officer, Allianz Investment Management**

3. Investors on achieving climate change progress

One difference between decarbonization and other aspects of ESG investing is greater importance of climate change as an issue for humanity. While investors may be strongly motivated on all aspects of ESG or sustainability, decarbonization is part of a global drive, led by governments, to reduce its use of fossil fuels in order to avoid the worst effects of global warming.

The importance of decarbonization is shown by the finding that 72% of investors see the Paris agreement target of limiting global warming to well below the 2°C as necessary to prevent disastrous climate change. Added to this, a similar proportion, 69%, see the Paris agreement target as achievable with major economic and social changes, while 80% agree that governments and others need to do much more to achieve it.

Global warming targets are achievable but much more needs to be done



What is your view on the target set by the Paris agreement on limiting global warming (well below 2°C above pre-industrial levels in this century)?

As well as the Paris agreement target, another key target for investors and others is net zero carbon emissions by 2050. On this target, almost two-thirds of investors (65%) see this as ambitious but achievable.

But around eight-in-ten investors see net zero carbon emissions as achievable by some but not all; 82% think it is achievable for some countries and 78% see it as achievable for some companies but not all.

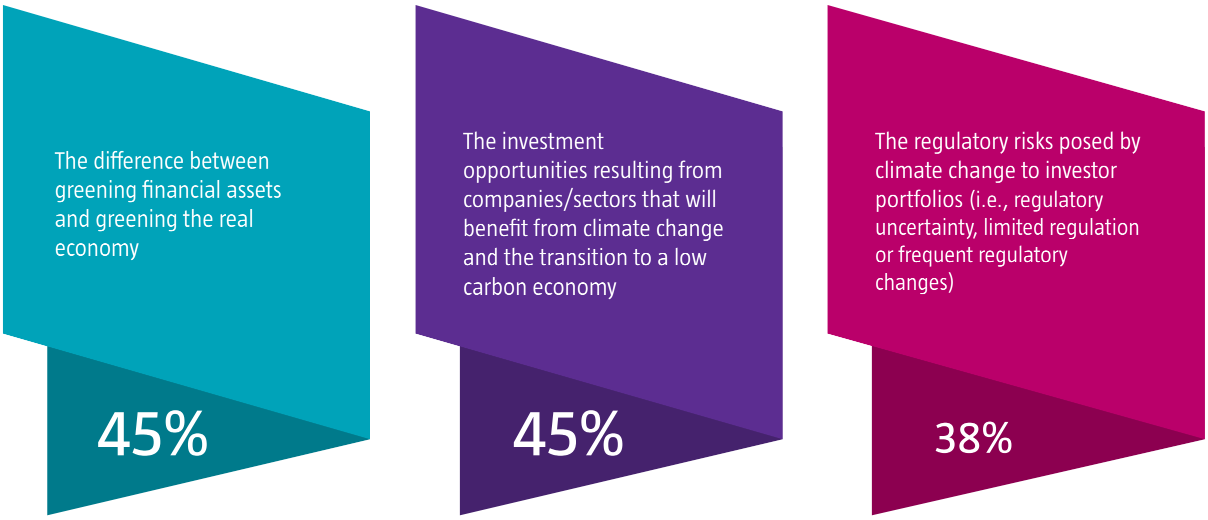
"We recognize the push from the world around us, from clients, the regulator, the public and political lobbies. At least as important is that we feel the need for sustainable investing in order to provide a good pension in a livable world. We also believe it makes sense to be at the forefront, cooperating with other big institutional investors to create a road going forward. The SDI Asset Owner Platform is a good example of such a cooperation that sets and owns a taxonomy of products and services (solutions) that contribute to the UN Sustainable Development Goals. That taxonomy helps us to do well by doing good."
Han van Manen, Investment Director, External Management, PGGM

Climate change knowledge gaps

If investors and others are to achieve ambitious targets on decarbonization, there needs to be a good level of knowledge and understanding on what is required, as well as the determination to implement any changes needed.

On the biggest gaps in their knowledge and understanding of decarbonization and climate change, the difference between greening financial assets and greening the real economy is ranked in the top three by over four-in-ten investors across each region and wholesale and institutional investors, and by 45% overall. The same figure overall sees one of the biggest knowledge gaps as the investment opportunities resulting from companies and sectors that benefit from climate change and the transition to a low carbon economy, but this rises to around 50% in Europe and Asia Pacific but falls to 36% in North America. Investors also identify a knowledge gap around regulatory risks to their portfolios from climate change, in that uncertainty or sudden regulatory changes could have a negative impact. Wholesale investors (48%) are more likely to see this as an issue compared to institutional investors (33%), while European investors are more concerned about it than those in other regions.

Investors identify knowledge gaps in several areas



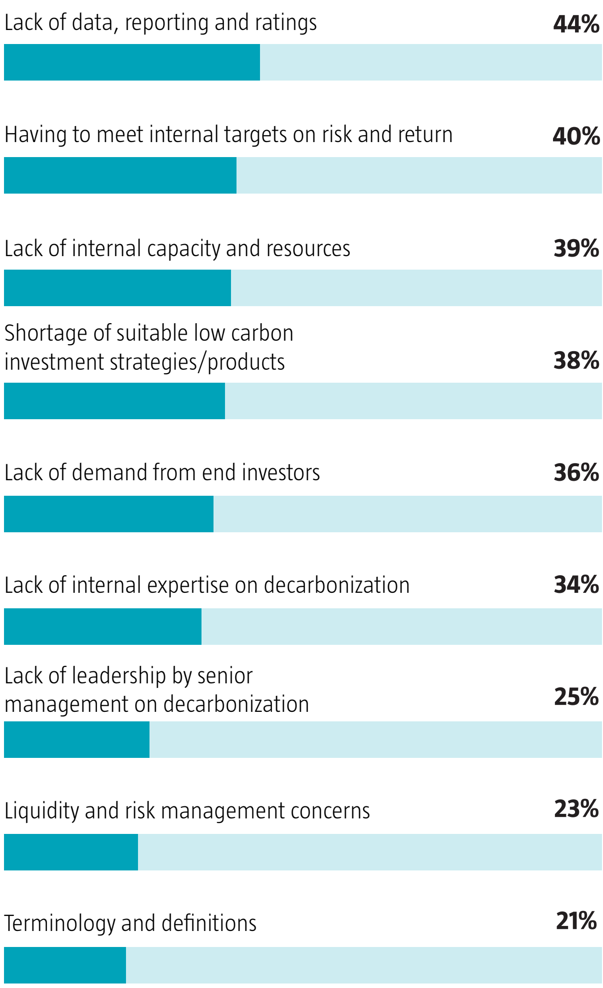
Where are the biggest gaps in you and your investment colleagues' knowledge and understanding of climate change and decarbonization?

"We are all on a learning path here. If you were to ask me today, how can the Allianz portfolio of more than €800 billion get to net zero by 2050, I don't have the full answer. But we are working on it, step by step, and we will learn along the way. We have to work together with other institutional investors and join forces with the politicians and the scientists. We have to find approaches we can agree on, because there is not one truth out there. You can use the divestment logic of the Pareto distribution and kick out the three worst polluters in your portfolio to cut emissions, but that is not sustainable as a strategy. We all have to learn and we have to work together to close the knowledge gaps." **Carsten Quitter, Group Chief Investment Officer, Allianz Investment Management**

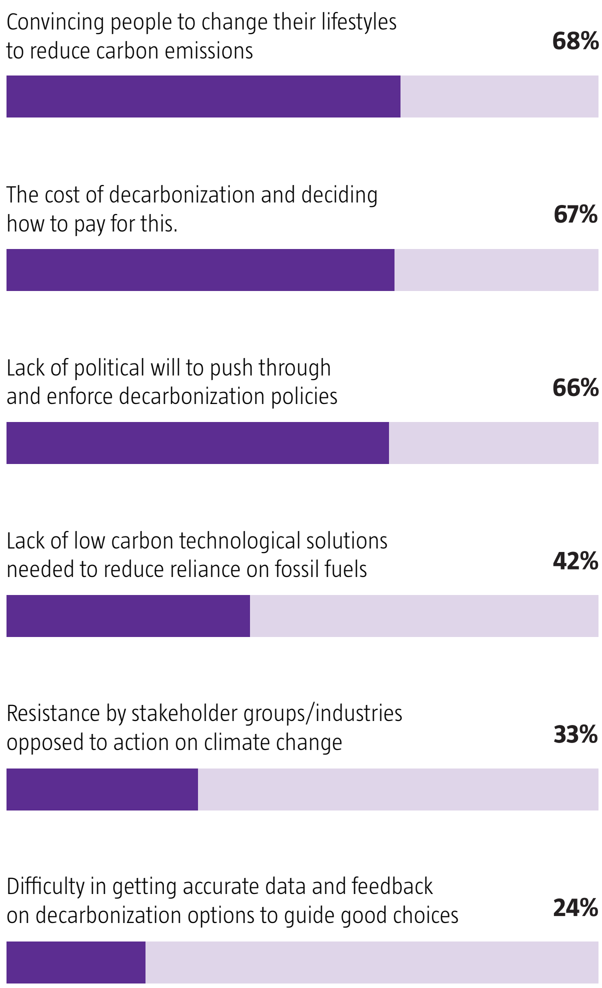
"We make a strong distinction between a portfolio that is invested sustainably and then what we call impact investments. For us, impact investments are designed around having a demonstrable, positive and measurable impact on society, in addition to all the metrics you would measure around performance. It's a separate bucket but we wrestle with things like that as well because investing in green bonds for a mega-cap tech company arguably does not have the impact of a start-up providing healthcare in a developing nation. We recognize the difference and we cater to clients who increasingly feel the same way." **Mark Haefele, Chief Investment Officer, UBS Global Wealth Management**

Obstacles to decarbonization include peoples’ lifestyles and lack of data

The main obstacles to decarbonization at investor organisations



The biggest obstacles to net zero carbon emissions by 2050



What are the main obstacles to implementing decarbonization in investment portfolios at your organisation? / and moving to a global economy with zero carbon emissions by 2050?

Lack of data is no excuse

“We don’t have the luxury of being able to wait. We have been investing in emerging markets for very many years and there have always been complaints about the lack of data. You cannot use the lack of data as an excuse anymore.” **Tina Rönnholm, External Partnerships and Innovation, AP1**

“One of the main obstacles on the road ahead is the difficulty in getting the alignment between three relevant parties. One is on the political side, which is obviously not one party, but various countries have to be aligned if there is to be a global regulatory framework. The other relevant parties are on the industrial side and then comes the financing side. I think the biggest obstacle will be getting the alignment right between these three parties.” **Carsten Quitter, Group Chief Investment Officer, Allianz Investment Management**

Conclusion

From being a point of controversy a few years ago, tackling climate change by moving towards a low-carbon economy is now a priority for many investors. Institutional and wholesale investors normally have a long-term perspective and they now accept that action is urgently needed to avoid climate change risk adversely affecting investments and, indeed, the lives of their end investors over the medium to long-term. As a result, climate change is now moving to the front and centre of investment policies.

The results of this mindset are that investors will increasingly divest from carbon-intensive assets and look for investment opportunities in decarbonization drivers, such as renewable energy and low-carbon transportation, among others. At present, investors are focusing on equities and real assets, but they are likely to apply a decarbonization filter to all asset classes in their portfolios.

Moving to a low-carbon economy will be a global effort, with governments, regulators, the corporate sector and individuals all playing their part. It must be hoped that this year's COP26 talks in Glasgow will build on the Paris Agreement forged at COP21 and that ambitious, but necessary, targets for net zero carbon emissions by 2050 can be reached. The survey findings show that investors support these initiatives, but they are also aware that they might not be reached by all countries or companies. The chances of success will increase though, if investors can overcome the gaps in knowledge and understanding highlighted in this survey, along with the provision of better data and other tools to support decarbonization.

This survey has highlighted some of the key issues for investors and those working with them on decarbonization. We hope it helps stimulate discussion and a clearer understanding of what needs to be done, if the investment industry is to play a constructive and important role in tackling climate change.

About Robeco

Robeco is a pure-play international asset manager founded in 1929 with headquarters in Rotterdam, the Netherlands, and 17 offices worldwide. A global leader in sustainable investing since 1995, its unique integration of sustainable as well as fundamental and quantitative research enables the company to offer institutional and private investors an extensive selection of active investment strategies, for a broad range of asset classes. As at 31 December 2020, Robeco had EUR 176 billion (USD 215 billion) in assets under management, of which EUR 160 billion (USD 196 billion) is committed to ESG integration.

Important information

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