Seven key trends within responsible investments

Sustainability

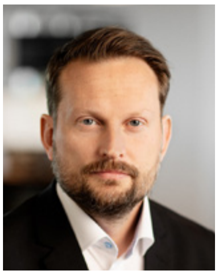
At Danske Bank Asset Management, we have an unequivocal aim to be a market leader in responsible investments – so what are the most important themes we are focusing on this year? Erik Eliasson, Head of Responsible Investments, shares his insights.

1: Double materiality balancing act becoming increasing precarious

When it comes to responsible investments, almost all asset managers have for years focused on financial materiality in their investment analyses. To manage sustainability risks and optimally protect the value of investments, asset managers must take material ESG factors into account when analysing a company from a financial perspective. That is common knowledge.

However, in the past 3-4 years, we have experienced a growing awareness of how companies impact society in relation to environmental and social factors, etc. – both negatively and positively. Increasingly integrated into asset managers' analyses of companies, the impact of companies on society and vice versa is termed double materiality. Acting as a catalyst for the focus on double materiality, the EU's Action Plan on Sustainable Finance has prompted the development of concepts and regulatory initiatives like SFDR, sustainable investments and the EU taxonomy.

In 2023, we in Danske Bank Asset Management reported on 16 mandatory indicators for our investments' Principle Adverse Impacts (PAI) on environmental and social factors, plus 6 voluntary indicators – and the complexity of this agenda looks set to increase in the years to come, as a growing range of indicators that measure environmental and social materiality further complicate the research work of asset managers.



Erik Eliasson
Head of Responsible Investments
Danske Bank Asset Management

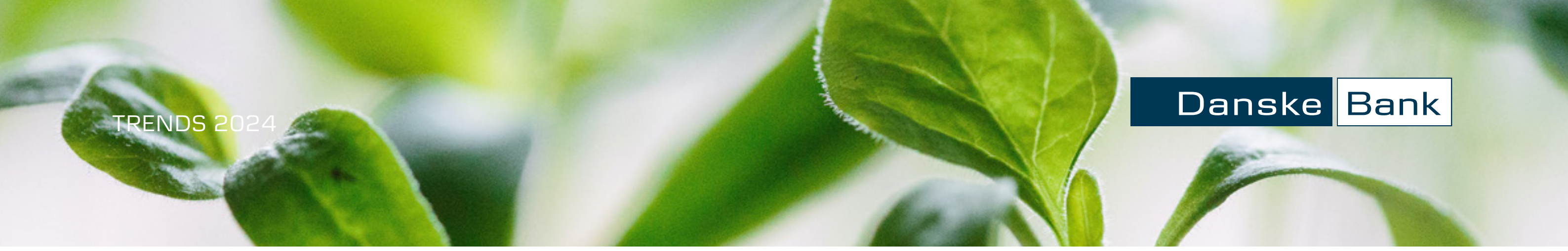
We therefore expect the industry to consolidate to some extent, probably as early as this year, as asset managers, ourselves included, are forced to select particular areas to focus on and set targets for. With no definitive answer to how environmental and social materiality should be addressed, this will very much be left to the individual asset manager to define.

2: Geopolitics and conflict firmly on the agenda in 2024

As we have seen with the wars in Ukraine and the Middle East, for example, geopolitical conflicts can also have myriad consequences for investors – and they require specific and individual analyses and involve perspectives that are rather alien to the traditional investment universe.

Historically, such conflicts have not significantly affected our investment approach, as the overlap between the conflict zones and our sphere of investment has not been particularly significant. However, that all went out the window in February 2022 with Russia's invasion of Ukraine, which was not compatible with Danske Bank's responsible investment policy and resulted in the exclusion of Russian equities and bonds from our investment universe.

We expect the geopolitical agenda to remain a core issue in 2024, with potential conflicts looming in various geopolitical hotspots – not least, China/Taiwan.



3: Polarisation and anti-wokeism

2023 saw increased polarisation in the US with regard to the ESG agenda and the alleged wokeism it is said to represent. Indeed, the issue of wokeism is probably the most unifying factor within the Republican Party right now.

ESG issues are viewed on the right of the political spectrum as the left's backdoor to imposing a politically driven social and green ideology on the American people. As a result, many Republican politicians argue that publicly managed US pension funds, for example, be banned from taking ESG factors into account in their investment decisions. And indeed, certain major asset managers have reduced their focus on ESG aspects and now concentrate to a much greater extent on generating return.

We expect this trend to emerge in Europe, too, and create polarisation in the European investment industry.

4: Regulatory landscape continues to evolve

So far, the EU Action Plan on Sustainable Finance has very much been directed at the financial sector with, not least, SFDR being a key component to address and adopt. The new Corporate Social Responsibility Directive (CSRD) and the EU taxonomy mean companies across all sectors will now have to increase their reporting on relevant sustainability aspects – which is good news for asset managers, as it will enhance disclosure on material ESG aspects and therefore help in the analysis of these companies.

Furthermore, we expect the announced overhaul of SFDR in 2024 to be extensive. For instance, we see a significant likelihood of minimum criteria being introduced in relation to Article 8 and 9, as this would satisfy the legislator's desire to reduce the confusing flexibility of the current setup. In other words, we expect more harmonised standards for exactly what asset managers have to report on and comply with when it comes to promotion of environmental and/or social characteristics (Article 8), or chasing a sustainable investment objective (Article 9).

5: From green investments to transition financing

In our view, 2024 will offer clearer guidelines for the financing of so-called transition cases, i.e. businesses that are undergoing a sustainable transition from "brown" to "green". So far, the regulatory landscape has tended to support the financing of already green companies, but we are expecting a clearer specification of when a transition can be characterised as sustainable, which could eventually have ramifications for the definition of a sustainable investment.

6: Social agenda set to be strengthened

We expect the social agenda to be further strengthened – particularly with respect to human rights. In connection with this, we also believe that companies will start setting specific targets in the social area and that this in turn will foster discussions on data needs and developing the right analysis model. This will most likely be a theme in the years to come, as at least some of aspects of the social agenda are essentially underdeveloped at present.

7: Fear of greenwashing could lead to green bleaching

The focus on greenwashing is here to stay and will definitely be a major focus area in 2024, too. However, we should also mention the opposite perspective, so-called green bleaching, where companies actually underreport on their sustainability initiatives and achievements for fear of being accused of greenwashing. We view green bleaching as a potentially serious consequence of the ongoing focus on greenwashing and something that will very probably become more common practice in 2024.

As an investment manager, increased green bleaching will, all else being equal, make our work more difficult, as we are dependent on companies providing full disclosure so we can conduct accurate analyses, including in relation to sustainability factors. This is crucial for us to be able to make the best possible investment decisions on behalf of our customers.