2020 Q4 OUTLOOKS

RESPONSIBLE INVESTING IN A POST-PANDEMIC WORLD

PGIM

Webinar Summary




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Institutional investors are increasingly evaluating their portfolios and asset class exposures through the lens of ESG, a trend that has only grown in the wake of the COVID-19 outbreak. While there is still a wide variety of opinions as to the best approach to Environmental, Social and Governance investing, the integration of various ESG factors into portfolios is here to stay. PGIM brought together a handful of thought leaders to discuss the rapidly evolving ESG space and to review the changes in the approach investors are taking towards greater sustainability and impact. Following are some highlights of the conversation, and the entire webinar can be watched here.

- **A false dichotomy:** ESG acts as a tax on performance: ESG mandates are similar to other investment mandates, having different investment objectives that are both financial and non-financial in nature. Over a market cycle, however, ESG investments can actually perform better. In the case of impact investing – whereby investors proactively attempt to achieve a positive social and environmental outcome – there are ways to select for those investments that have those dual qualities that also drive positive investment performance. Overall, ESG should act as a means of enhancing analysis and understanding of a company and the quality of management, and should be able to support better risk-adjusted returns in the long run.

- **The less-obvious upside of ESG:** While ESG can clearly act as a return driver, it can also be useful from a risk-management perspective, allowing investors to avoid tail-risk exposure in their strategies. Meanwhile, the notion of a "positive feedback" mechanism may become more prevalent. As investors increasingly integrate ESG into their decision-making process, more companies will realize its importance. Those companies that don't have an attractive ESG profile can take steps to improve their ESG standards, and that improvement can result in better outcomes for employees, customers, suppliers and the environment
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- **Impact of COVID-19 on ESG:** The pandemic has forced us to see the connections between the health of the global economy and social factors, especially surrounding inequality and racial justice. COVID has had a much worse impact on marginalized and vulnerable communities, so investing in ways that address those issues – such as affordable housing and transformative real estate development targeted to help people of modest means – is a positive development. ESG strategies have also performed well through the crisis, and while there may be a perception that it's more of a defensive strategy, performance has kept pace while the market has been rebounding. While pre-crisis there was generally more focus on the 'E' component of ESG, there is now a greater focus on the social aspect.

- **Still in the early days:** The ESG space continues to gain momentum, despite ongoing challenges. Moving forward, institutional investors may adopt more of a solutions-oriented mindset, as opposed to a product-specific view. It's also important to ensure the approach of the investment manager is authentic and congruent with how they approach their broader investment strategies, instead of it simply being an afterthought.

To see all of PGIM's thought leadership on responsible investing, view our ESG page here. You can also view our 4Q market outlooks page here.

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