

GREEN INVESTING: DISCUSS THE RISE OF ESG INVESTING PLATFORMS AND THE IMPACT ON CAPITAL ALLOCATION

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In the world of investment, Environmental, Social, and Governance (ESG) investing has emerged as a powerful force driving change and reshaping investment strategies. According to an ESG report from Bloomberg Intelligence (BI), global ESG assets are projected to exceed \$40 trillion by 2030. This remarkable growth trajectory, with ESG investments, pegged at the \$30 trillion mark in 2022 by the Global Sustainable Investment Review 2022 report released in November 2023, underscores the increasing prominence of ESG considerations in investment decisions—particularly in non-US markets, which marked a 20% growth in 2022 compared to 2016. This growth is led by countries in the EU region, Japan, New Zealand, and Australia.

In the upcoming decade, the future of ESG investing appears promising, with a projected compound annual growth rate (CAGR) of 12.9%. By 2026, ESG assets are expected to constitute 21.5% of total global Assets under Management (AuM), as highlighted in PwC's Asset and Wealth Management Revolution 2022 report and 25% by 2030 of the global AUM. This represents a significant shift in the asset and wealth management (AWM) industry, with ESG-oriented AuM growth set to outpace the market's growth as a whole.

The rapid growth of ESG investing is driven by several factors, while one of the key drivers continues to be Investors. This sphere of stakeholders is rapidly expanding, with ESG-savvy customers and skilled talent, alongside investors, increasingly prioritising companies that demonstrate transparency and accountability in their ESG practices by a significant margin of up to 50%. One of the focal turning points that is enabling this movement is technology innovation. With the growth of artificial intelligence (AI), investors can sift through vast amounts of ESG data to analyse it and create business-grade intelligence for informed decisions.

The upcoming years will mark the maturation of the ESG investment market and the movement towards greater regulatory harmonisation across geographical regions globally. As regulatory frameworks evolve and converge, investor confidence is bolstered, creating stability and credibility in the ESG investment market. This trend also contributes to the growth of critical mass towards higher data availability and quality, as corporate sustainability disclosures mature. However, one of the key challenges to ESG investment will be overcoming the perspective, as Harvard Business Review put it “ESG Investing Isn’t Designed to Save the Planet”. Estimates suggest that on average an investment of \$3.5 trillion annually would be needed over the next 3 decades to tackle sustainability challenges. The question remains how much of this would come from the ESG investing AUM as defined today which is targeted towards shareholder return rather than planet health and social impact.

The lack of correlation in ESG scores between data providers also remains a concern. Yet, this lack of coherence presents an opportunity for wealth managers and asset managers. Those who understand and interpret ESG information effectively can capitalise on discrepancies in ESG scores, yielding higher margins of speculation and alpha. This gives them a competitive edge in portfolio rebalancing and investment decision-making, particularly in markets where ESG factors are gaining prominence.

Despite these challenges, the long-term outlook for ESG investing remains optimistic. As regulatory harmonisation progresses and corporate sustainability disclosures mature, investors can expect greater clarity and consistency in ESG investment practices. This will further drive the adoption of ESG strategies and contribute to the growth of ESG assets globally. Moreover, the societal and environmental impacts of ESG investing cannot be overlooked. By directing capital towards companies that prioritise sustainability, ethics, and governance, investors are driving positive change across industries. From renewable energy projects to social impact initiatives, ESG investing is unlocking new opportunities for sustainable growth and innovation.

In conclusion, the landscape of ESG investing is evolving rapidly, presenting both opportunities and challenges for investors and asset managers. With global ESG assets set to surpass \$40 trillion by 2030, the momentum behind ESG investing shows no signs of slowing down. By navigating the complexities of ESG data, investors can unlock the full potential of ESG investing to drive positive societal and environmental impact while creating attractive ESG market instruments for different investor asset classes.