

BIDEN TO PUT ESG FRONT AND CENTRE



PERPETUAL ASSET MANAGEMENT
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While 2020 has been called a “tipping point” for the ESG investing mega-trend, many are expecting 2021 to be the year that environmental policies truly underpin sustainable investment globally. The Joe Biden presidency is likely to be a catalyst for an ESG boom as he has described climate change as “the number one issue facing humanity” during his campaign and recommitted the US to the Paris Climate Accord as one of his first acts in office. This is excellent news for ethical or socially responsible investors who may have already seen good gains from green companies throughout 2020.

While the integration of environmental, social and governance factors is new to many investment managers, the consideration of these and other risk factors has long been part of the investment process at Barrow Hanley. Perpetual acquired a 75% stake in the Dallas-based investment manager last year and it now manages our global equity portfolios. Barrow Hanley has a 35-year track record in managing socially responsible mandates and employing ESG factors to our analysis in the construction of equity and fixed income portfolios. It currently manages more than USD\$3.8 billion (as of June 30, 2020) in SRI related assets across investment strategies and continues to manage “negative screened” portfolios for clients with specific restrictions and guidelines. This partnership will allow Australian retail and institutional investors to access Barrow Hanley’s proven investment strategies.

The US market expects Biden’s initiatives will initially help steer investors to low carbon and fossil fuel-free portfolios. Investments in funds focused on renewable energy will also likely increase. This puts a premium on managers’ ability to perform firsthand, internal analysis, a vital part of the Barrow Hanley research process and often where the value is created on a fundamental, stock-by-stock basis. Barrow Hanley’s internal bottom-up analysis, along with third-party ESG scores, forms the basis for their proprietary ESG composite scoring system. This research-intensive process uniquely enables Barrow Hanley to understand the ESG risks specific to each company in which they invest. This methodology aims to hold them in good stead as both asset managers and companies face more scrutiny over their ESG commitment.

Generating sustainable returns over time requires a sharper focus not only on governance, but also on environmental and social factors facing companies. This experience and ability to come to proper valuations will be critical as more companies look to meet

ESG criteria, for example, traditional energy funds branching out to include more renewables in their offering. Shareholder engagement is also not expected to diminish as these investors will feel they have a powerful ally in the White House. Biden's cabinet choices, such as John Kerry as special presidential envoy for climate, have also pleased ESG proponents. And the underlying figures are encouraging. Total US-domiciled assets under management employing ESG investing strategies increased 42% over the past two years, to \$17 trillion in 2020 up from USD\$12 trillion at the start of 2018. The figure represents 33% of all US assets under professional management, meaning that one in three investing dollars is invested in this manner.

ESG has generally outperformed in Australia as well, proving it can deliver a competitive return despite headwinds. This can be seen in our Perpetual Ethical SRI fund, which aims to provide long-term capital growth and regular income through investment predominantly in quality shares of Australian ethical and socially responsible companies. Net performance for FY21 to 31 January was 21.7%, comfortably ahead of the benchmark S&P/ASX 300 Accumulation Index, which recorded 14.1%. The investment process is based on extensive bottom up fundamental company research and active stock selection focusing on quality, undervalued companies that meet our ethical SRI screening criteria.

Find out more about [Perpetual's Ethical SRI Fund](#).