The ‘end of easy’ and critical perspectives on ESG

Institutional investors expect future returns to be lower than in the past decade and harder to achieve. Meanwhile, a sizeable majority of them view environmental, social, and governance (ESG) investing as largely a risk-reduction tool, rather than as a source of enhanced returns, according to new research sponsored by Carillon Tower Advisers and Investment & Pensions Europe at IPE’s Summer Pensions Congress 2020.

When respondents were asked how they evaluate ESG investing, 59% stated they see it as a form of risk reduction. About 27% see it as a way to enhance returns. Meanwhile, about 12% dismissed it as a marketing term, and 2% said they don't use ESG considerations while investing.

Cooper Abbott, CFA, CAIA, CFE, Chairman and President of Carillon Tower Advisers, was not surprised by the results on ESG, but urged investors to move beyond the risk-reduction mindset and actively choose companies that have potentially transformative impact.

“Companies that are ahead of the curve can participate not just in a risk-reduction aspect but also business growth,” he said.

Finding ways to improve returns may be especially important, since 96% of investors surveyed expect returns going forward will be harder to achieve than in the last 10 years. Moreover, 82% expect those harder-won returns also will be lower than the past decade, while 14% think they will be higher. Only about 5% of respondents think returns will be higher and easier to come by.

“Feedback from clients and from consultants in the U.S., in Europe and the U.K., in Asia, and Australia, is that markets have reached the ‘end of easy,’ ” said Abbott, who went on to detail opportunities for optimism. “I’m confident that while generating pension results may be more challenging, we can still get the results together by taking an active, research-based approach.”

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