Success in sustainable investing requires a focus on governance, data and talent

Succeeding in sustainable investing requires a sound strategy and effective investment practices. Today, investment managers and asset owners are struggling with enabling factors like governance, data, and the people necessary to execute on both.

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As the market for sustainable investing matures, investors are better able to set clear and consistent impact ambitions, linking objectives to standards like the UN SDGs and Science-Based Targets, and are working to integrate sustainability into their overall corporate strategies. They are moving rapidly to allocate assets, screen for sustainability-aligned products, and outline policies for ESG risks. But despite progress in these areas, which we refer to as Strategy and Investment Practices, investors are struggling to put into place the structures and processes which allow them to execute on all the above.

Three important challenges are governance, data, and talent. Why is that and what are potential solutions for each?

> 'Investors are struggling to access and make use of the right talent.'

Governance

Good governance enables people to make the decisions necessary to achieve stated sustainability goals and manage ESG risk. As a topic well within the control of organizations, it is also highly scrutinized by external parties and by definition an ESG outcome in itself. It is also good for business: companies report a link between strong sustainability governance with both financial performance and progress on sustainability ambitions.[1,2]

Investors can begin by embedding incentives at the top with outcomes related to the firm's sustainability goals tied to executive evaluation and compensation. Boards should integrate their most material sustainability topics directly into their official duties, and each board member should be responsible for contributing to the stated goals. Ownership should be defined lower down as well, by designating topic owners with the right expertise, support, and agency within the organization. As investors look to identify people within the organization who bear responsibility for specific sustainability topics, it is sensible to also revisit the firm's operating model at the same time.

Data

Data is of paramount importance throughout the investing process, supporting activities as diverse as ESG integration,

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risk management, and impact measurement. Issues of data availability and quality are made more severe by the emerging nature of the sustainable investing industry and the inherent difficulty in measuring externalities.

Sustainable investors report a lack of market data as a top concern.[2] They lack the data needed to define and measure their intended impact, and the effectiveness of their stated ESG goals.[3] As a result, asset owners and managers are left in the difficult position of either limiting the ambitions of their impact goals or flying blind about the true impact of their investments.

Data which is available is often sourced from external providers who fail to offer the consistent and tailored data that asset owners and managers can believe in.[4] This leads to trust issues, with 58% of asset owners identifying a lack of trust in data quality as the most challenging factor to meet regulatory requirements, a sentiment which translates to pressure for investment managers.[3]

To solve this, managers have four options: finding their own data, pooling resources, managing expectations, or – ideally – all of the above. Some organizations are working with scientific partners like geospatial providers to track land and natural capital change, or environmental engineers to measure carbon and methane movements connected to physical assets, a necessary but expensive way to solve issues of data availability. Others are working together in non-competitive ecosystems to share data and agree on standards that can serve to improve data comparability within an industry. Many hope to make use of new corporate reporting coming from recent EU sustainability legislation and collectively create pools of needed ESG data. Regardless of the method used, managers should communicate, early and often, to key stakeholders, like asset owners, end-customers, and assurance providers, to set expectations on what data is available, how that data is being used and what assumptions were made along the way.

Talent

Finally, investors are struggling to access and make use of the right talent amid the need to modernize, feeling both resource-constrained and understaffed.[5,6] In part, this is because leaders lack the necessary knowledge themselves to know what skills to look for. When asked in a Deutsche Bank survey, only 3% of CIO respondents identified themselves as ESG experts, while 72% admitted having insufficient or no knowledge of sustainability and ESG.[7] Even those who know what they need are having difficulty finding it in the market. According to LinkedIn's Global Green Skills Report, job postings requiring 'green' skills have grown at nearly twice the rate in which those skills are entering the job market.[8]

Rather than wait for supply to meet demand and miss vital talent to competition, investors expect to expand hiring investment consultants and outsourcing across front, middle, and back offices.[5,6] Mature investors will only do so after first determining which capabilities are worth investing in internally and which are best left to external vendors.

Others are partnering and creating ecosystems as a way to pool resources and lighten the load of big, universal projects, like upcoming sustainability legislation. Asset owners and their managers can work together to increase transparency and develop best practices.[6] Still others are looking outside the industry, connecting with academic institutions and non-profit organizations to tap into deep sustainability expertise.

Whatever the choice, it remains critical that investors articulate internally who will be the experts and how knowledge will be disseminated throughout the organization.

It is encouraging to see investors – asset owners and managers alike – maturing in their core sustainability goals and getting their strategy and investment practices in order. Now it is time for leaders to set up the right governance throughout the organization, find new, reliable ways to access the data they need, and bring in the right talent to make it all work. ■

1 EY, How can effective governance unlock value from sustainability?: tinyurl.com/FI2024-1-g
2 Pitchbook, Sustainable Investment Survey 2023: tinyurl.com/FI2024-1-a
3 London Stock Exchange, Sustainable Investment Asset Owner Survey 2023: tinyurl.com/FI2024-1-b
4 EMS Institute, Rating the Raters Yet Again: Six Challenges for ESG Ratings: tinyurl.com/FI2024-1-c
5 Deloitte 2024 Investment Management Outlook
6 Casey Quirk, 2023 CIO Sentiment Survey: tinyurl.com/FI2024-1-d
7 Deutsche Bank, CIO Special: tinyurl.com/FI2024-1-e
8 LinkedIn, Global Green Skills Report 2023: tinyurl.com/FI2024-1-f

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SUMMARY

Asset owners and investment managers are struggling with the governance, data and talent required for sustainable investing.

Sustainability governance should be fully integrated into board and leadership teams.

Data may need to be procured first hand, or through partnerships, but either way expectations on quality and availability must be set.

An understanding of what talent to grow, and what to outsource, is vital before larger recruitment strategies are deployed.

PHOTOS: ARCHIVE DELOITTE