



Redefining the mainstream

We start 2021 with more cases of COVID and consequently more punitive lockdowns. Disruption, loneliness, uncertainty, grim weather and dark afternoons look to be the norm for some time yet. We all hoped the start of 2021 and the news of vaccines would bring a new dawn, but for now we must wait with patience and strength.

Whilst the short-term outlook for our daily lives seems bleak, investment markets are rallying on the forecasts of our more positive post-pandemic existence. What we are already seeing change dramatically, despite the pandemic or perhaps because of it, are attitudes towards sustainability.

During the first lockdown, Satya Nadella, CEO of Microsoft, said that his business had seen two years of digital transformation in two months. We also saw the same level of transformation within sustainability. What happened last year has paved the way for 2021, a year in which we believe we will see even more widespread adoption of sustainable investing, thinking and spending.

The green transition is here

Following the devastating impact of the virus, governments all over the world started committing vast amounts of money to re-build economies. For them to be redesigned, re-engineered, to be stronger, greener, more resilient and more sustainable. Europe allocated 30% of the region's COVID recovery package to green infrastructure spending. The UK committed to investment in green jobs and transition to a low carbon economy through policies such as the 10-point plan. Biden as President-Elect has very ambitious plans to spend \$4trillion over the next four years, China committed to net-zero by 2060 and even Putin ordered Russia to cut emissions by 30%.

Major investable themes:



**Sustainable
infrastructure**



**Renewable
energy**



**Energy
efficiency**

Held in LGT Vestra sustainable portfolios, these environmental themes have performed very strongly in response to the 2020 government commitments, and even since the start of 2021 are outperforming standard markets. However, we do not view this hugely important area of investment to be a short-term investment trend. We expect governments to continue increasing their spend in this

space for decades to come, we expect corporates to continue to focus on enhancing the sustainability of their operations and consumers to increasingly demand more sustainable goods and services. We are not solely reliant on government spending to stimulate demand. McKinsey expects \$4.2trillion of private capital to be spent on renewable power generation alone over the next 20 years.¹

Projected renewable power generation investment by 2040



SOEs – state-owned-enterprises
Source: McKinsey

Sustainability as a metric of risk management

As we collectively work towards a more 'sustainable' world, our role as active portfolio managers in seeking those businesses that are committed, and avoiding those that aren't, is paramount. The changing nature of the political and regulatory environment around sustainability means that the LGT Vestra sustainable portfolios will dynamically change and evolve as we take in to account new areas such as carbon and plastic taxes, circular economies and the transition towards the use of new fuels such as green hydrogen. Understanding of the impact of ESG (environmental, social & governance) risks and opportunities are not only vital to the development of sustainable growth, but are likely to have potentially far-reaching implications on underlying asset values for all investors.

2021 and beyond

We look forward to the year ahead and beyond with much excitement, and hope. Vaccine distribution looks like a viable solution to the current pandemic, which will bring with it renewed consumer and investor confidence. We believe the current focus on de-carbonising economies will continue and the investment in this space will be sustained. Whilst 2020 was an extraordinary year, one that was been very tough for the majority of us, it has brought with it a new perspective and focus on the long-term sustainability of our planet and its people.

We believe this will lead more of us to want to invest in companies that are focused on not just profit, but purpose and progress.



Intentionality



Integration



Impact

Important information

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Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invested.

¹ McKinsey Energy Insights Global Energy Perspective, December 2019