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How to secure a sustainable recovery

The human and economic costs of the Covid-19 pandemic have refocused minds on the challenges facing societies globally. They also remind the asset management industry of our core purpose. As stewards of our clients' assets, we must help secure their future and the future of the planet – and investing responsibly will be a vital part of our collective success. In the post-Covid economic recovery, this means focusing on sustainable investing, managing risk and providing customised solutions.

Sustainable investing must be a priority

Although sustainable investing was once seen as a separate category, it is becoming an intrinsic part of many more investment strategies – a trend that is accelerating. According to Morningstar, sustainable funds attracted more than USD 20 billion in new assets in 2019, compared with USD 5.5 billion the year before.

Institutional investors increasingly prioritise environmental, social and governance (ESG) factors in their decision-making – not just to manage risk, but to drive returns by funding opportunities with long-term potential.

We also see increased demand from a young generation of retail investors who refuse to separate investment outcomes from responsibility – a trend further fuelled by regulation.

The United Nations Sustainable Development Goals (SDGs) provide a blueprint for directing investments towards global challenges that need funding – from climate action to improving access to food and clean water – and the pandemic has only increased the urgency.

Meanwhile, private market investments will be critical for building the social, environmental and energy projects that will support the well-being of future generations.

As active asset managers, we can help structure these deals in a way that multiplies their financial and societal impact, and we can form new and innovative partnerships to deliver these results.

Risk management is critical

As the crisis crystallises investors' priorities, risk management should be at the top of the list. Today, a wide array of approaches exists, ranging from dynamic risk management to tail-risk hedging. The asset management industry must reinforce the need for a holistic risk management strategy – one that considers the entire portfolio, not just a sleeve. Only then can correlations be taken fully into consideration and managed against investors' risk budgets.

As investors push into new means of diversification, they need help understanding the implications on their portfolios' risk-return profiles. This is especially true when it comes to sustainability – investors want to know that they are achieving their goals because of their responsible investment strategy, not despite it.

At the same time, we think active asset management has an ever-more critical role to play. Passive investment strategies must, by definition, track their respective index – regardless of what the index contains. Yet this crisis has shown that investors need to be selective and choose the companies that are most able to weather unexpected storms.

Customisation is king

One common thread that links these emerging trends is the need for customisation. With the help of technology and academic research, asset managers have a greatly improved ability to optimise portfolios and investment strategies for institutional clients. Digitalisation and new developments in the areas of machine learning and artificial intelligence will allow us to bring this customisation gradually to retail channels.

What cannot be automated, however, is the first step in any successful investment strategy: understanding clients' investment goals, risk profiles and constraints.

This can be solved through education and dialogue – and a commitment from industry and regulators to work together. As the world focuses on securing a post-Covid recovery, such collaboration will be more important than ever. ●