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Active beats passive on net zero, says CEO

Akira Sugano, CEO of AMO, says active funds have an advantage amid the push towards ESG investing

By Robert Van Egghen | 16 November 2021

Passive funds will struggle to achieve net-zero carbon emissions across their portfolios, according to the chief executive officer of one of Japan's largest asset managers.

Akira Sugano, president and CEO of Asset Management One, says passive funds will "of course" find it more difficult to reach net-zero targets than active managers.

Policymakers and regulators have upped pressure on asset managers in recent years to channel their investments into companies that do not harm the environment. The ongoing COP26 climate summit has seen a number of initiatives being announced to reduce carbon emissions in portfolios.

AMO, which runs a number of Luxembourg-domiciled Ucits funds, was the first Asian fund firm to sign the Net Zero Asset Managers initiative and has around 60 per cent of its assets under management in passive funds.

"With passive you cannot divest, you need to engage with all the companies in the portfolio," says Mr Sugano.

However, he says engagement with every company in the portfolio is not feasible due to the sheer number of companies that can be contained in an index.

"It is not practical to engage with every company," he says.

Jonathan Doolan, a managing partner at asset management consultancy Indefi, agrees, saying there is also a "challenge" for passive firms in how they "credibly" act as an ESG investor.

Mr Doolan says it is difficult for passive funds to "build a shareholder activism or engagement team that can talk to every single company you own".

"How many people would you need to support a Russell 3000 benchmark, and talk to every single company you own and every finance team," he says.

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Mr Sugano says AMO instead picks a selection of companies from the Topix, the Japanese stock price index, and encourages them to improve the environmental impact of their operations.

Engaging on ESG issues with companies like Toyota that have large supply chains can then have a "spillover" effect on other companies and sectors, he adds.

Mr Suagno adds that there will be "a remnant" of companies in a passive portfolio that are unlikely to ever meet net-zero obligations due to the nature of their activities.

He says asset managers will instead have to deploy the "trick" of using carbon offsets, which allow institutions to finance initiatives that cut carbon emissions in order to make up for emissions somewhere else.

Green campaigners have called for passive funds to do more to challenge index providers to make their indexes more climate friendly.

Lara Cuvelier, sustainable investment campaigner at Reclaim Finance, told *Ignites Europe* that asset managers should band together to "ask index providers to identify and exclude coal laggards from main standard indexes".

Ms Cuvelier adds that passive funds could expose clients to "stranded asset risks" by not removing environmentally harmful companies from their portfolios.

Additional reporting by Ed Moisson.