AXA Investment Managers

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Press Release

TOTAL RETURN TO OVERSHADOW INDEX APPROACH: AXA Investment Managers

SYDNEY: Australian institutional investors are shifting to a total return, long term approach to managing portfolios across the cycle rather than benchmark referenced performance, according to AXA Investment Managers (AXA IM).

Hosting a series of roundtables for Australian institutional clients and consultants across the country this week, AXA IM has identified that institutional investors are mirroring the long-held strategies of large-scale investors, such as insurers, to enhance risk-adjusted returns over the course of a cycle and across asset classes.

As investors prepare for a potential market downturn in the short term, AXA IM highlighted the key issues institutional investors should consider in regard to responsible investment, equities and real assets, to ensure long-term sustainable outcomes.

Responsible investment: Urgency of responsible investing will increase with UN Sustainable Development Goals to become a key investment reference

Institutions will face increased pressure to shift investment strategies towards creating a more sustainable world. Speaking in Sydney, AXA IM's Global Head of Responsible Investment, Matt Christensen said that the transition from environmental, social and governance (ESG) integration to impact investing – where investments are selected based on their positive impact potential– is inevitable.

"The enormity of the global challenges we face – from climate change to water shortage and poverty – cannot be understated and it is estimated that the world will need to invest trillions by 2030 to combat these", said Mr Christensen. "A key aspect to closing the significant financing gap will be private sources of finance. We are starting to see large institutions – including AXA Group – making investment decisions based on both value and values."

AXA IM believes institutional investors can effectively utilise the UN Sustainable Development Goals (SDGs) to identify investable opportunities where capital can make a meaningful contribution.

"SDG will be the next evolution of responsible investment, following ESG integration. Over time, we are developing new tools as well as reporting methods that clearly illustrate the link between investments and UN SDG-aligned impact," said Mr Christensen. "For example, we are testing a new climate metric tool which captures the 'warming potential' of investments across any sector."

Mr Christensen said that a more focused investment approach would be one of the outcomes of the shift to impact investing. "The large-scale nature of the global challenges and constrained timeframes for addressing issues will create greater investment focus and very specific objectives. The evolution of SDG-based data will better enable industrialised solutions to align with the UN SDGs."

Equities: Understanding the earnings cycle and anchoring to the UN Sustainable Development Goals will help investors navigate current risks and remain focused on the long run

Institutional investors now face the difficult task of meeting the challenges of the late cycle environment while remaining true to the long-term. According to AXA IM Rosenberg Equities, factor investing in equities remains a wise approach.

"Even in this arguably late stage of the earnings cycle, we believe factor investing in equities is still the right strategy for institutional investors", said Kathryn McDonald, Head of Sustainable Investing, AXA IM Rosenberg Equities. "Factors are common characteristics among stocks such as low volatility, quality, value and momentum that are persistent drivers of risk and return and are a long-established, low-cost way to improve equity returns.

"While individual factor performance can vary significantly in the short term, our research shows that momentum and quality stocks still exhibit performance strength late in the cycle, while quality and low volatility stocks exhibit performance strength in bear environments. So, the case for factor investing in equities at this point continues to strengthen, especially for those who are legitimate long-horizon investors and require broad equity exposures."

Ms McDonald added that the next phase of the earnings cycle will be the first test of ESG strategies outside of an expansionary period.

"ESG has risen to popularity over the last ten years during an extended bull market run in listed equities, and the test of ESG in a prolonged down-market environment is yet to come", said Ms McDonald.

"Understanding ESG through a factor lens should be helpful to set expectations going forward. We believe that ESG will be additive to equity strategies in a bear market environment, but quite possibly those aspects may more closely align with earnings quality and near-term earnings growth."

Ms McDonald said that while it was important for investors to understand the cycle to enable them to diversify and manage the near-term, equal focus should remain on the long-term.

"This is where anchoring on the UN SDGs will help. The combination of factor-led investing and SDG alignment are the keys to building strategies that can weather market storms while still maintaining positions in companies that will benefit from long-run market forces."

Locally, AXA IM is managing the Australian domiciled pooled fund, AXA IM Sustainable Equity Fund – a fully integrated ESG equity fund offering local investors a more efficient way of capturing long term equity market returns while incurring lower volatility than a capitalised weighted benchmark. For the full year 2018, the Fund outperformed the MSCI ACWI ex-Australia index by 4.90% gross of fees.

Real assets: Long term approach will enable investors to leverage structural shifts in real estate as returns to slow

Global real estate returns will slow in the next few years, and income is expected to take centre stage, according to AXA IM's Chief Executive Officer, Real Assets, Ms Isabelle Scemama.

In Australia, returns from commercial real estate are expected to drop to 6% pa between 2019-2021, down from 12.5% in 2015-2017.

"Globally, property markets are in the mature stage of the occupancy cycle, and the driver of returns has shifted from yield compression to underlying income and rental value growth," said Ms Scemama.

As well, Ms Scemama noted that structural shifts are occurring in real estate demand, which are dramatically impacting traditional sectors such as retail and supporting new 'alternative' property types.

"In Australia, the retail sector is under increased pressure with a large pipeline of assets currently available or expected to come onto the market. A key area which we continue to explore – both in Australia and elsewhere – is the alternative sectors which include student accommodation, rented residential, logistics, healthcare and senior housing. The alternative sectors are supported by long-term thematic trends, including demographics and structural shifts occurring in the economic landscape. These demand tailwinds are likely to allow these sectors to outperform retail should an economic downturn materialise."

There are significant challenges ahead for asset managers to continue to generate value from commercial real estate. "Globally, buildings and construction together account for 39% of energy-related carbon dioxide (CO_2)*. The energy intensity per square metre needs to improve on average by 30% by 2030 to be on track to meet global climate ambitions outlined in the Paris Agreement*. Again, the UN SDGs on climate will be useful guidance, and asset managers will need to engage closely with tenants and take direct action to ensure these assets remain viable and continue to generate value", said Ms Scemama.

**International Energy Agency, Global Status Report 2017*

Notes to editors

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About AXA Investment Managers

AXA Investment Managers (AXA IM) is an active, long-term, global, multi-asset investor. We work with clients today to provide the solutions they need to help build a better tomorrow for their investments, while creating a positive change for the world in which we all live. With approximately €750 billion in assets under management as at end of March 2019, AXA IM employs over 2,350 employees around the world and operates out of 30 offices across 21 countries. AXA IM is part of the AXA Group, a world leader in financial protection and wealth management.

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