STRIVING TOWARDS A GREEN TREASURY:

Integrating ESG into cash and liquidity management

THE GLOBAL TREASURER
From the GTNews team

in association with

AVIVA INVESTORS

CONTENTS

EXECUTIVE SUMMARY

While Environmental, Social and Governance (ESG) has always been on many treasurers' wish lists in their cash and liquidity management strategies, the pandemic has pushed its importance into the background.

Today, however, there are strong signs that it is firmly back on the agenda for many companies, which are now keen to pursue sustainable outcomes, galvanised not only by their corporate boardrooms but also company stakeholders.

The EU's Sustainable Finance Disclosure Regulation (SFDR) and Article 8, which is designed to ascertain which funds are truly following an ESG policy, has made some major inroads into helping them achieve this, though concerns about "greenwashing" persist.

For many treasurers, however, the best step forward is to work closely with an asset manager so they can be certain of getting the advice, updates and fund monitoring they need to ensure their cash and liquidity management strategies meet their full objectives in terms of security, liquidity and performance and put them firmly on the path towards net zero.

KEY FINDINGS

Only **12.8 percent** of treasurers consider ESG is firmly embedded into their cash and liquidity management strategies.

Over **two thirds** of those surveyed describe achieving sustainable outcomes as desirable within the context of their investment strategies.

Over **60 percent** of respondents consider having an Article 8 rating under the Sustainable Finance Disclosure Regulation (SFDR) important.

Security, liquidity and yield still rank above ESG performance in corporate treasuries cash investment strategies.

Nearly **two thirds** of those surveyed said they are prepared to sacrifice yield in favour of ESG performance, while a quarter of respondents said they would not sacrifice it at all.

Approximately **90 percent** of respondents believe it is important for asset managers to partner with them to help set net zero ambitions.

The majority of corporates have left their **short-term investment strategies largely unchanged** despite the prospect of higher interest rates and central bank tapering.

ABOUT THE RESEARCH

The analysis in this report is compiled using responses to a global survey of corporate treasurers conducted between November 2021 and January 2022.

The survey was carried out by The Global Treasurer in partnership with Aviva Investors to assess what organisations require from asset managers to assist with their day-to-day cash and liquidity management, and the importance of ESG issues within their treasury management and investment strategies.

The report also sheds light on treasurers' progress towards achieving ESG in their cash and liquidity management strategies, as well as their future goals in this arena.

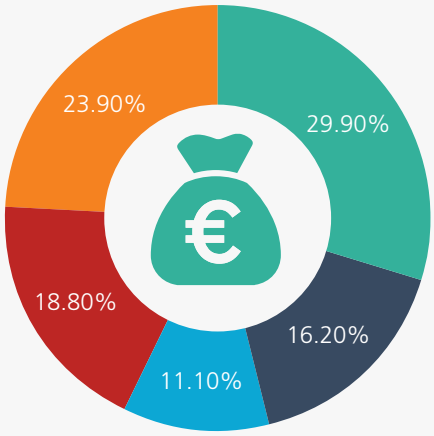
Survey respondents worked across a mix of geographies and organisation sizes, with the lion share (42 percent) coming from companies with an annual turnover of more than €1bn.

However, the vast majority of survey respondents had either relatively small treasury teams of 1-10 employees (44.8 percent), or very large departments of more than 100 people (33.6 percent), with very few in the mid-range.

42%

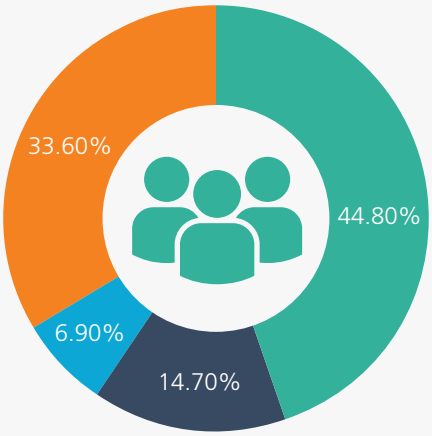
of survey respondents from companies with an annual turnover of more than €1bn

Annual turnover of your company?



- Less than €100m
- €100m - €500m
- €500m - €1bn
- €1bn - €5bn
- Over €5bn

Number of employees in your liquidity management and treasury function?



- 1-10
- 11-30
- 31-100
- 100+

ESG BACK ON THE AGENDA POST-PANDEMIC

How embedded are ESG and climate related issues within your organisation's cash and liquidity management strategy?

Despite a slow start towards treasurers fully embedding ESG into their cash and liquidity management strategies, signs show that this was pushed back by the pandemic and is now firmly back on many corporate agendas.

In fact, our survey found that only 13 percent of respondents believe that ESG and climate-related issues are now firmly embedded in their cash and liquidity management strategies, with the rest admitting that more must be done.

Nearly 70 percent did, however, acknowledge that achieving sustainable outcomes is an influential factor when investing cash, with some companies being proactive in embedding ESG into their cash and liquidity management strategies.

At Tideway, group treasurer **Ines Faden da Silva**, believes that her company was a front-runner in implementing ESG and points out it was already selecting funds based on their green credentials prior to the pandemic.

"Sustainability is core to what we do and also to our investment strategy, so we were looking at funds objectively many years ago to ensure they did have a green strategy in place," she says, pointing out that the company's policy is to invest in cash and cash equivalents, making Money Market Funds (MMFs) a dominant vehicle.

"We were having discussions around where our money is invested and was one of the first companies to start asking questions. For us, looking at the overall ESG performance of a fund is vital and fits in with our overall net zero strategy, and wider reputational strategy regarding our carbon position, which has trickled down into everything we do."

Meanwhile, according to **Anthony Callcott**, global head of liquidity client solutions at Aviva Investors, although there has been a growing momentum towards embedding ESG for many years, it was suppressed by the pandemic. Today, interest in adopting it in cash and liquidity management is closer to 30-40 percent, he says.

> Before the pandemic, there was growing interest in ESG when it came to cash and liquidity management, but then many companies changed their priorities altogether,"
>
> Now that we are resolving the issues arising from the pandemic, ESG is coming back to the forefront again."
>
> At Aviva Investors, ESG is considered to be of paramount importance, and we are doing all we can to reach net zero."
>
> **Anthony Callcott**, *Global head of Liquidity Client Solutions,* **Aviva Investors**

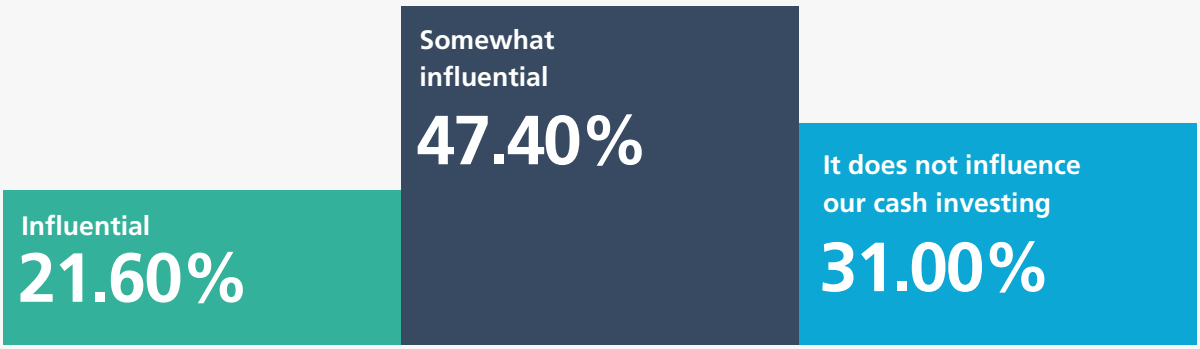
He explains that Aviva Investors has a large corporate client base, spanning sectors that include financials (insurance companies and pension funds), energy, as well as local governments and charities – all of which are now stressing their commitment to ESG investment.

"Many large companies realise that they need the right ESG principles in place to satisfy their customers and their investors. Insurance companies and pension funds in particular, are coming under pressure from stakeholders and their investment teams are looking for strategies that underline a commitment to achieving net zero. However, no one company is exempt in this area," says **Callcott**.

"There are other types of organisations such as insurance companies and pension funds that have to follow this type of policy, in line with changing regulations," adds **Faden da Silva** whose organisation has secured huge investment from UK pension funds.

"For pension funds in particular it represents a fiduciary duty."

How influential are sustainable outcomes when it comes to your organisation investing cash?



SFDR APPROACH

Our survey also considered the importance corporates place on funds achieving compliance with Article 8 under the EU's Sustainable Finance Disclosure Regulation (SFDR), and whether they would write Article 8 and 9 into their own investment guidelines.

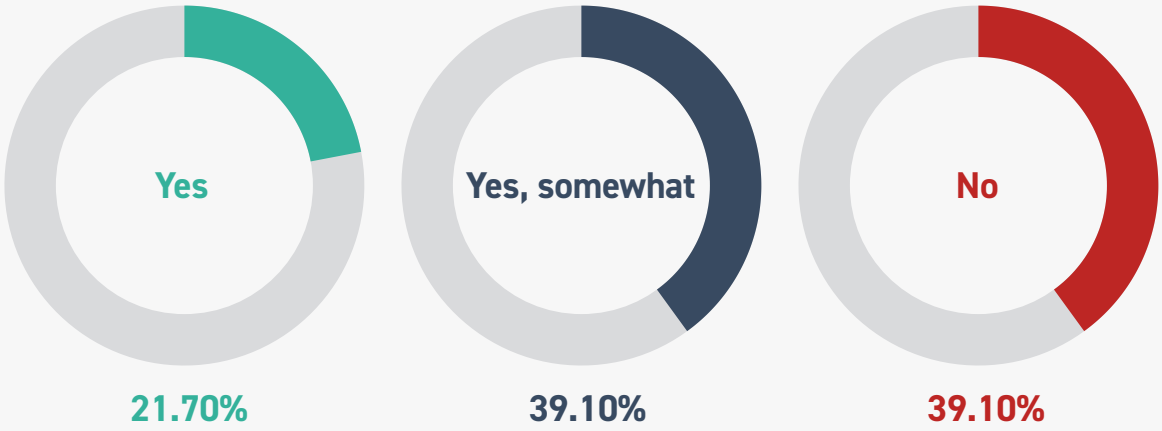
Here, it found that the majority of survey respondents (60.8 percent) do place value on an Article 8 investment fund rating, with the proportion that did not attributing this to the need for a more defined SFDR framework for Article 8 funds. Consequentially, 41 percent of respondents said they would write Article 8 and 9 into their investment guidelines, while the rest said they would not (59 percent).

At financial services company, Apex Group, group treasurer **Marcus Worsley,** signals his support for SFDR.

"We support the EU Commission with the implementation of the fund classification system," he says.

> Under the SFDR if a fund classifies itself as an Article 8 it now has to provide the necessary disclosures in order to back up this status."
>
> **Marcus Worsley**, *Group Treasurer,* **Apex Group**

Do you view Article 8 Funds under the EU's Sustainable Finance Disclosure Regulation (SFDR) as an important rating for an investment fund?



At Tideway, **Faden da Silva** also believes that the new SFDR regulation has made it easier for investors to ascertain the green credentials of funds.

"In relation to Article 8, a lot of companies have been thinking about this type of regulation for some time. We were always ahead on this regulation having started our own journey so early and were already following these guidelines," she says.

Both **Worsley** and **Faden da Silva** argue that Article 8 will play a significant role in reducing greenwashing. However, our survey found that over 50 percent of respondents believe that Article 8 is still too vague to decrease the risk of greenwashing.

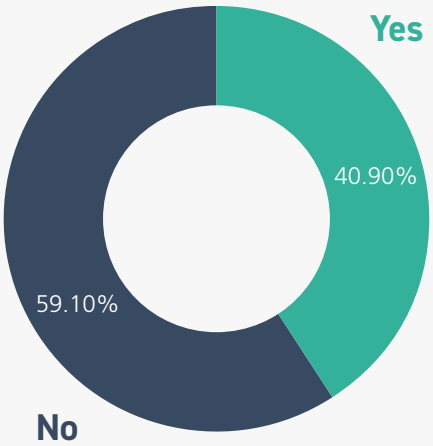
"Investing in funds has always represented a risk. Funds could say they were green, but were slack in ensuring it. What SFDR has done is create a more level playing field," says **Faden da Silva**.

> To say that there is a lack of clarity in the SFDR rules is an excuse to gain time. There may need to be some fine-tuning to it, but the overall details are all there."
>
> **Ines Faden da Silva**, *Group Treasurer,* **Tideway**

Many companies with very high ESG principles in place are only allocating to Article 8 funds, according to **Callcott**.

"There is much more of a pull towards sustainable investment, with achieving an Article 8 rating now seen as being a minimum criterion by many investors."

Will your organisation write Article 8 and 9 into its investment guidelines?



Do you believe that Article 8 under SFDR will decrease the risk of "greenwashing"?

Yes, it will decrease the risk of greenwashing

49.60%

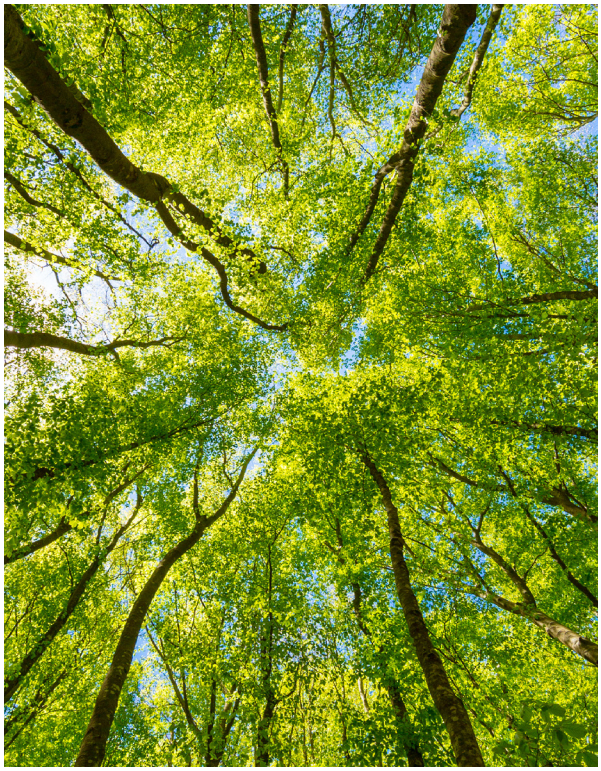
No, the definition under Article 8 is too vague to decrease the risk of greenwashing

50.40%

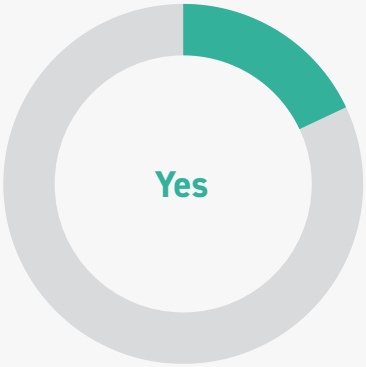
Callcott concurs with **Faden da Silva** on the efficacy of SFDR, pointing out that it is much more difficult today for fund managers to claim they have an ESG strategy and argues that Article 8 does present a "hard and fast" set of rules to follow.

"I do think the rules relating to greenwashing under Article 8 of SFDR are pretty clear, and it is possibly poetic license to say they have been diluted. The Article 8 criterion feeds directly into the investment process, making greenwashing impossible to disguise," he says.

> SFDR is very important to us at Aviva, and we have embedded it into what we do, and enhanced this by creating a proprietary system for achieving Article 8 compliance."
>
> **Anthony Callcott**, *Global head of Liquidity Client Solutions,* **Aviva Investors**



Do you think that SFDR 'Level 2' measures will improve the situation?



14.00%

67.50%

18.40%

YIELD VS ESG AMBITIONS

Our survey examined which criteria corporate treasurers consider as most important when investing short-term cash.

Here, it found that security, liquidity and yield are considered more important than ESG when it comes to overall investment strategies, with security coming out on top. Liquidity, ranked second, achieving about half of the "importance" level attributed to security, followed by yield and then ESG performance, with similar levels of importance attached to both.

"The team does not solely focus on yield performance when managing the group's cash balances," says **Worsley**.

> Treasury engages with various providers to invest in a diverse group of funds/products balancing risk and yield reward, whilst optimising portfolio performance – ESG is part of this investment strategy alongside the various other objectives."
>
> **Marcus Worsley**, *Group Treasurer,* **Apex Group**

Item	Overall Rank	Rank Distribution	Score	No. of Rankings
Security	1		329	105
Liquidity	2		305	107
Yield	3		243	106
ESG/Climate	4		192	109

Lowest Rank Highest Rank

Source: Aviva Investors: Internal

He continues:

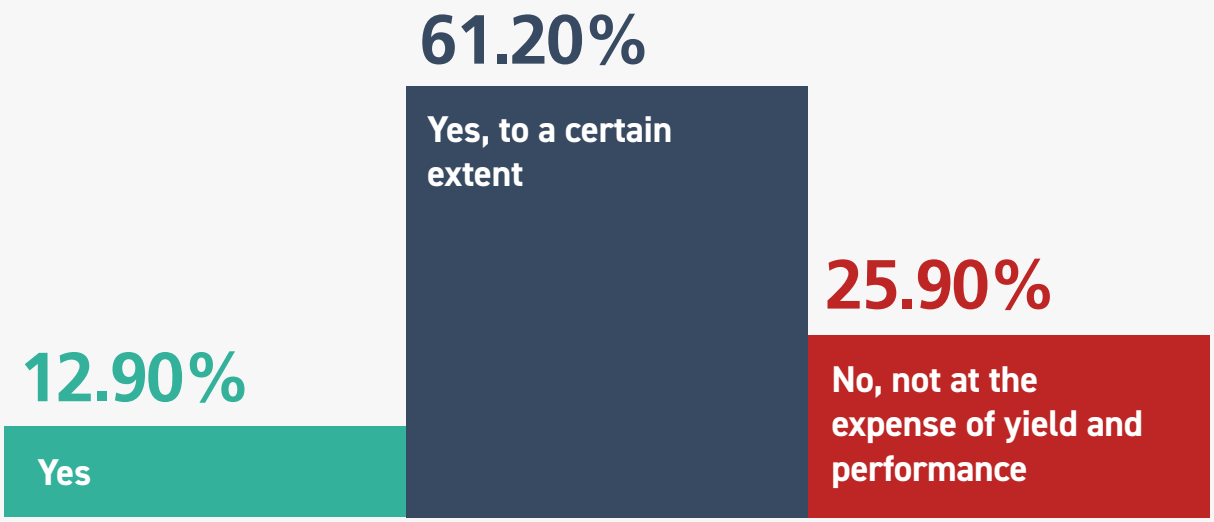
"Cash is held and invested centrally by the team, with surplus cash put to work in various products. Maintaining security of principal has outweighed yield performance over the past few years," noting that security of principal – especially during the current Ukraine crisis – is still the most critical aspect of the company's investment strategy.

In response to Russia's invasion of Ukraine, **Nigel Green**, CEO of financial services group deVere, points out that security and portfolio diversification is becoming even more critical to investors today.

"Markets are see-sawing as investors weigh the unfolding tragedy in Ukraine," he says.

> "The heightened turbulence triggered by monumental geopolitical developments which have far-reaching consequences mean that now more than ever investors should be diversified as much as possible in order to maximise returns relative to risk."
>
> **Nigel Green**, *CEO of Finanial Services,* **deVere Group**

Is your organisation prepared to sacrifice yield and performance to achieve its climate ambitions?



Our survey also found that most organisations are still only prepared to sacrifice yield and performance to a certain extent (61.2 percent) in their pursuit of ESG with a little over a quarter of respondents admitting they were simply not prepared to do so.

However, at Tideway, **Faden da Silva** points out that her treasury already ranks ESG performance above yield in its cash management strategy.

"For us, security is fundamental, followed by liquidity, but after that, if a cash investment offers one to two basis more, then it is not as important as ensuring ESG," she says.

> ESG is the third most important factor in our cash and liquidity management strategy."
>
> **Anthony Callcott**, *Global head of Liquidity Client Solutions,* **Aviva Investors**

"Today, there are slightly lower concerns over performance as a higher degree of relevance is being placed on ESG," concurs **Callcott**.

"MMFs were always set up to be seen as a viable alternative to bank deposits as they met the three basic requirements of security, liquidity and yield as well as offering some diversification, but today ESG is coming through as a fourth factor in investment strategies. This includes ensuring an Article 8 classification under SFDR."

VITAL ROLE FOR ASSET MANAGERS

The role of asset managers in advising corporates on investment strategies saw an overwhelming response in our survey, with nearly 90 percent of respondents agreeing that it is important for asset managers to partner with them to help set their net zero ambitions.

"It is very important to have a good relationship with an asset manager so that you can approach them for advice, and it is easy to solve problems. The quality of ongoing advice and reporting is very important to us," says **Faden da Silva**

She points out that Tideway looks to invest in funds, which it can monitor closely and understand where its cash is invested.

"We were very quick to identify whether we have any exposures to Russia," she notes.

> We already had an understanding that we were not invested in Russia, but that is not to say that other companies were aware of their exposures."
>
> **Ines Faden da Silva**, *Group Treasurer,* **Tideway**

Meanwhile, at Aviva Investors, **Callcott** points out that building a close relationship with corporate client investors is core to the company's philosophy.

"We create strong relationships with clients and see them as our business partners, while always taking a holistic approach to ESG," he says.

> We recognise that both parties have to be together on this journey and need to help one another – no-one can do this alone. This is achieved through regular debates and meetings with our clients as well as other activities."
>
> **Anthony Callcott**, *Global head of Liquidity Client Solutions,* **Aviva Investors**

How important is it for asset managers to partner with corporate clients to help set net zero ambitions?

Very important	45.20%
Somewhat important	44.30%
Not important	10.40%

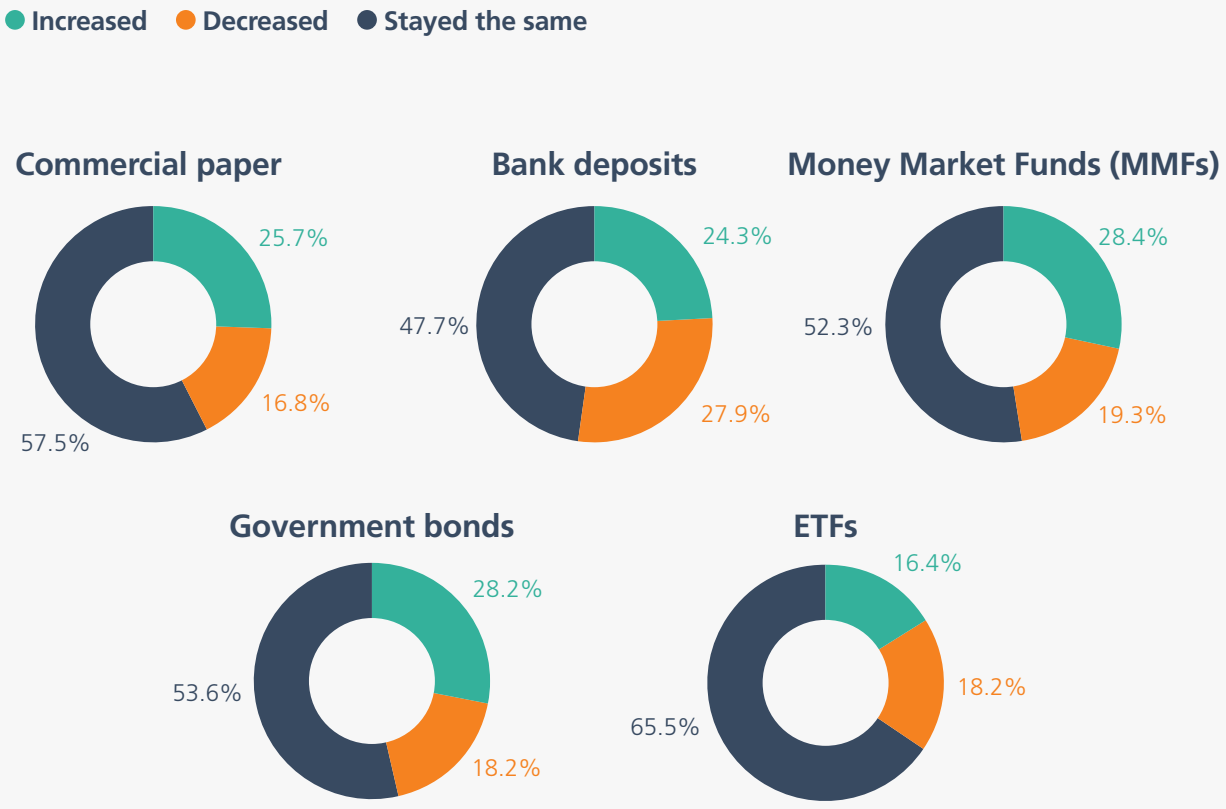
SHORT-TERM INVESTMENT STRATEGY

Our survey examined where corporates are investing their short-term cash in today's low interest rate environment, and the impact of central bank tapering.

Here, it found that many companies have left their short-term investment strategies largely unchanged, although some have diversified their investments slightly.

"We did shorten maturities in our portfolio during Covid-19 and now that interest rates are rising, and the Bank of England is expected to increase rates again, we are staying with short maturities," says **Faden da Silva**, stressing that her treasury invests cash primarily in MMFs, as well as having bank deposits, and that little has changed in its approach.

How has the low interest rate environment impacted your engagement with of short-term investment instruments?



"Short-duration and longer term investment strategies are important to group treasury in maintaining liquidity and capital in a highly acquisitive business," adds **Worsley**, noting that Apex's treasury operates target balance cash sweeping principals to maximise any interest return globally.

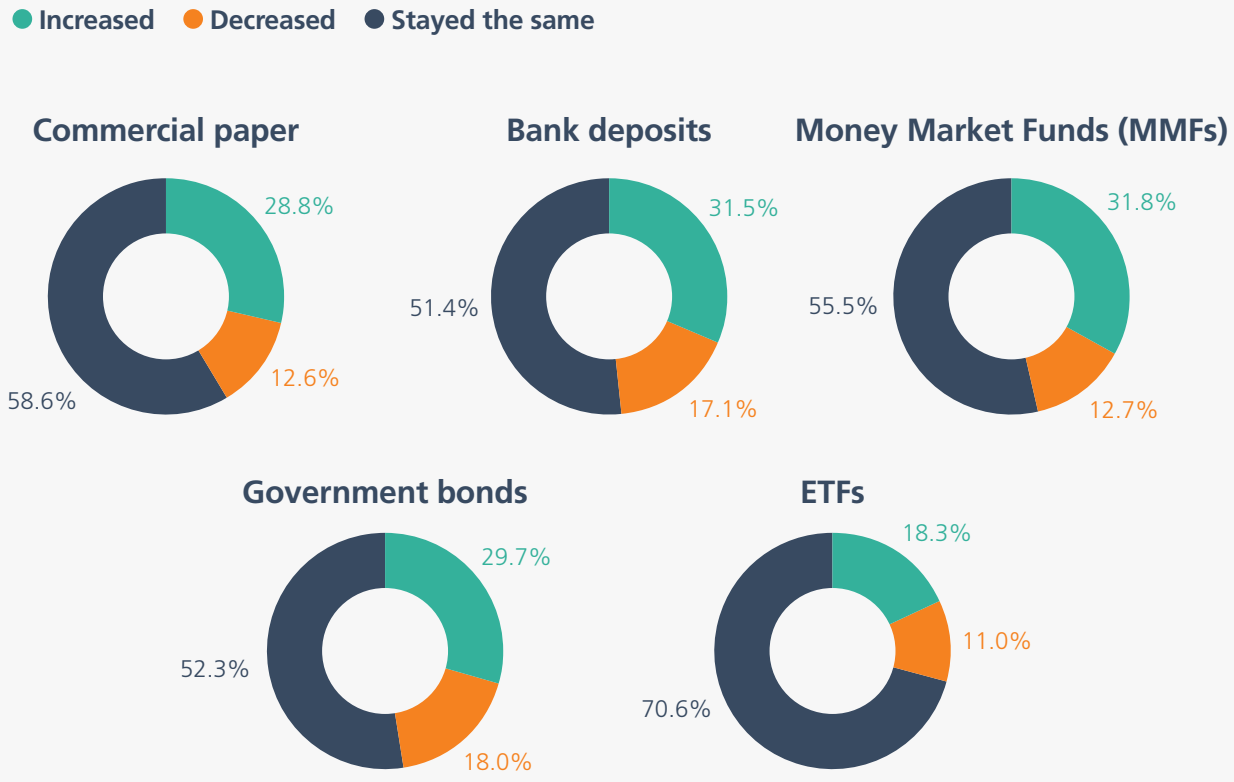
"Treasury has been able to nimbly adjust to the 2022 hawkish rate environment - particularly in the US - and looks to attract the finest yield and spreads as markets shift," he continues, but also stresses the importance of security in today's geopolitical crisis scenario and the backdrop of central bank tapering.

"We do not invest that much in government bonds so tapering will not affect us that much," says **Faden da Silva**.

In the UK, it is now possible that the government will sell off more of its corporate bond holdings, which may have an impact on other investors, but we will stay limited to MMFs and bank deposits."

Ines Faden da Silva, *Group Treasurer,* **Tideway**

Conversely, with central banks signalling tapering is on the horizon, how will that impact your engagement with short-term investment instruments?



Meanwhile, **Callcott** points out that the prospect of higher interest rates and central bank tapering does signal changing market forces for investors.

"Investors are likely to favour floating rate markets as central banks look to control the rate of inflation with higher rates," he says.

"As central banks cease buying assets under their Quantitative Easing programmes, we should enter an environment where more government securities are issued and this will also impact the rates of interest achieved," he continues.

> "It is true that some central banks will not move as quickly as others and the impact will be faster in some global regions than others."
>
> **Anthony Callcott**, *Global head of Liquidity Client Solutions,* **Aviva Investors**

ESG IMPACT ON SHORT-TERM INVESTMENT

The survey also revealed that most respondents believe that ESG will become more important when it comes to choosing short-term investments over the next 12 months, but indicates that they also want to see greater standardisation and clarity around ESG investing.

Worsley agrees with our survey findings:

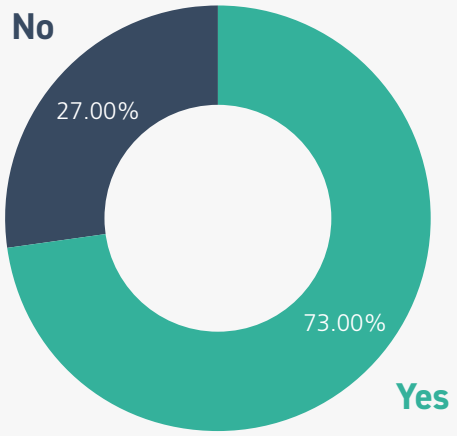
> "The short answer is yes – our overall investment strategy has ESG as a key metric when choosing any short-term investment, and now more than ever it is key that the firm is directing its assets at making a beneficial difference where it can."
>
> **Marcus Worsley**, *Group Treasurer,* **Apex Group**

Faden da Silva, meanwhile, points out that many companies are being pressed to follow an ESG strategy by their own stakeholders.

"We find that more questions are being asked about our ESG strategy – particularly from our investors – and this has brought ESG to the fore. Many investors in companies today recognise they are at risk if there is an ESG risk," she says.

"Where a company has a good ESG strategy, meanwhile, this represents a good opportunity. For an enlightened CEO, pursuing an ESG strategy must be seen as critical to their business," she adds.

Over the next 12 months, do you believe that ESG or "green" criteria will become more important when choosing short-term investments?



CONCLUSION

Our survey revealed that many corporates still have some way to go in embedding ESG into their cash and liquidity management strategies, but our findings suggest that moving towards net zero is still on high on their agendas.

It is clear that some corporates are taking the matter more seriously than others, however, depending largely on their overall ESG strategy and the expectations of stakeholders, particularly investors.

While Article 8 of the EU's SFDR regulation may yet need fine-tuning, it does provide the overall context to help corporates ascertain the ESG adherence of the funds they invest in. Having a close partnership relationship with an asset manager that provides regular updates and advice is a huge step towards achieving this, and other objectives in terms of security, liquidity and yield.

12.8%

of treasurers consider ESG is firmly embedded into their cash and liquidity management strategies.

73%

believe that ESG or "green" criteria will become more important when choosing short-term investments.

90%

believe it is important for asset managers to partner with them to help set net zero ambitions.

74%

of organisations are prepared to sacrifice yield and performance, to some extent, to achieve its climate ambitions.

ABOUT AVIVA INVESTORS

Aviva Investors is a global asset management business dedicated to building and providing our clients with focused investment solutions. Our clients range from large corporate and institutional investors including pension schemes and local government organisations to wealth managers to individual investors. We have more than 1500 employees based in 14 offices, across 19 countries, so our investment professionals are well placed to understand the complexities of local markets.

ABOUT THE GLOBAL TREASURER

The Global Treasurer is the leading global knowledge resource for over 40,000 treasury, finance, payments and cash management professionals. The publication is updated daily and provides subscribers with access to an archive of over 9,000+ treasury articles, special reports, commentaries, research, polls, news, webinars, and whitepapers – all with a global focus.

The Global Treasurer editorial team encourage industry experts to share their knowledge on key issues facing treasury and finance professionals, including best practice in cash and liquidity management, corporate financial planning and analysis, regulatory changes, trends in the financial supply chain, risk management and the pursuit of internal efficiencies.