BIZCOMMUNITY

Investing for a sustainable future

By Inge West

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Asset managers who consider, evaluate and address sustainability issues are better informed about the potential risks and opportunities related to the underlying assets they invest in and are therefore better positioned to deliver superior risk-adjusted returns.

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The 2015 Responsible Investing survey by Investment Solutions, gauges the behavioural approach of fund managers by tracking their progress towards integrating environmental, social and governance (ESG) factors into their investment decisions.

Most asset managers surveyed believe that considering ESG factors reduces risk. Some 88% of local and 86% of global fund managers surveyed, believe that weighing up ESG factors results in a better assessment of risk.

This result is borne out by the fact that the majority of fund managers (82% local and 86% global), said they would avoid buying shares in companies if there were serious environmental, social and governance concerns. Further, a material number of fund managers (42% local and 64% global) have bought or sold a company based on environmental, social and governance issues in the past year.

Managers are thinking holistically about the sustainability of the businesses they invest in. There are a number of definitions and strategies found in the responsible investing space, including negative and positive screening, active engagement/ownership and integration:

- Negative screening involves fund managers excluding certain companies from their investment universe because of ethical concerns. For example, they may decide to bypass tobacco and alcohol companies altogether.
- Positive screening (also called best-in-class screening), involves fund managers choosing the top performing companies in a sector, such as the best performing retailer from an environmental, social and governance perspective.
- Active engagement/ownership requires fund managers to use their influence as shareholders to positively influence a company's conduct - through engagement and proxy voting.
- Integration involves the consideration of all three ESG factors during the investment analysis as well as the decision-making process.

Previously, in defining responsible investing, fund managers placed a greater weighting on governance factors and using negative and positive screening strategies. This can be a difficult strategy to use in the local market given the limited universe of companies in which to invest, relative to more developed markets.

Responsible investing

The current survey highlights that managers are now thinking more holistically about the sustainability of businesses they invest in by considering all three ESG factors. This trend is supported by the numbers with 79% of local and 77% of global fund managers surveyed believing responsible investment requires that all three factors are considered when assessing a business during the investment process.

However, while most managers believe that considering ESG factors results in a better assessment of risk, only 50% of local and 45% of global fund managers believe that considering the ESG factors enhances returns. However, this result increased by 9% amongst local managers from last year's survey.

The survey also highlights that responsible investing is receiving increased attention - from fund managers, their clients and the companies they invest in:

- 85% of local and 86% of global fund managers have reported an increase in client interest (up from 69% and 74% respectively).
- 100% of local and 95% of global fund managers engage with companies as part of their ownership responsibilities.
- All local and global fund managers believe that companies are starting to feel pressured to be more aware of ESG issues.

Accurate data is a challenge

Despite the increased attention to - and awareness of - responsible investing, managers have highlighted a number of barriers to responsible investing:

- 67% of local and 55% of global fund managers believe there is a lack of reliable and accurate ESG information.
- 61% of local and 27% of global fund managers believe there is low investor education on ESG issues.
- 67% of local and 18% of global fund managers believe clients are too focussed on the short term.
- 61% of local and 45% of global fund managers believe there is a lack of buy in for responsible investing.

ABOUT THE AUTHOR

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