

Sustainable Investing Approaches

4IP Group Briefing Note No.2

In this Brief, we summarize:

- **what sustainable investing is in a nutshell**
- **what motivations you may have to implement sustainable investing approaches**
- **some types of sustainability issues you may want to consider**

Sustainable investing is on the rise. Globally, sustainable investing assets reached \$30.7 trillion at the beginning of 2018, up from \$22.9 trillion in 2016.¹ But what is sustainable Investing exactly? Many terms are used for describing sustainable investments depending on factors like the investing approach used and the type of investor, such as: values-based investing, socially responsible investing, Environment, Social and Governance (ESG) investing or impact investing.

Despite the nuances that exist between these terms, they all describe investment approaches that pursue two things:

1. Financial sustainability
2. Environmental and social sustainability

As a Family Office Wealth Manager or as an Asset Manager you may be most interested in preserving assets and enhancing the performance of returns. Integrating ESG issues to your investment process will benefit your financial sustainability, as sustainable companies can be better at managing risk and have less systemic volatility than their conventional peers, making them better overall investments.² Your clients may also be interested in taking into account environmental and social sustainability issues through their investments to align them more with their values.

Whatever the priority is, these motivations can lead to three types of sustainable investing approaches:

1. Avoiding investments that cause harm
2. Focusing on investments that perform better on ESG issues
3. Engaging with funds or companies on sustainability issues

The question is then what ESG issues matter more to you. If you are primarily concerned with enhancing the financial sustainability of your investments, you will want to focus on the most material ESG issues that impact the economic sectors included in your portfolio. The Sustainability Accounting Standards Board (SASB) has identified 26 ESG issues across key industry sectors that are likely to affect the financial condition or operating performance of companies. They are displayed in the Materiality Map³ and are shown in Figure 1, grouped under five sustainability dimensions.

¹ Global Sustainable Investment Alliance (GSIA) (2019). 2018 Global Sustainable Investment Review.

² Holder, Michael (2018). "Evidence links ESG performance to better investments". GreenBiz. January 10, 2018. MSCI (2017). Foundations of ESG Investing. Part 1: How ESG Affects Equity Valuation, Risk and Performance. Giese, Linda-Eling Lee, Dimitris Melas, Zoltan Nagy, and Laura Nishikawa. November 2017.

³ <https://materiality.sasb.org/>

Environment

- GHG Emissions
- Air Quality
- Energy Management
- Water & Wastewater Management
- Waste & Hazardous Materials Management
- Ecological Impacts

Leadership & Governance

- Business Ethics
- Competitive Behavior
- Management of the Legal & Regulatory Environment
- Critical Incident Risk Management
- Systemic Risk Management



Business Model & Innovation

- Product Design & Lifecycle Management
- Business Model Resilience
- Supply Chain Management
- Materials Sourcing & Efficiency
- Physical Impacts of Climate Change

Social Capital

- Human Rights & Community Relations
- Customer Privacy
- Data Security
- Access & Affordability
- Product Quality & Safety
- Customer Welfare
- Selling Practices & Product Labeling

Human Capital

- Labor Practices
- Employee Health & Safety
- Employee Engagement, Diversity & Inclusion

Figure 1. SASB sustainability topics⁴.

If you are motivated to do good with your investments, you may want to focus on ESG issues you already care about such as climate change or gender equality, or on those that contribute to certain Sustainable Development Goals (SDGs). As there are 17 SDGs, it is easier to get familiar with them using the following thematic groupings⁵:

1. People: ending poverty and hunger and promoting health, equality, and education;
2. Planet: protecting the earth from degradation;
3. Prosperity: ensuring that all lives are fulfilling and prosperous;
4. Peace: promoting peaceful, just and inclusive societies; and
5. Partnership: participation of all countries, stakeholders and people in achieving the goals.

Each of these thematic groups covers activities that are in some way related to capital markets. So whatever sustainability issues concern you the most, there is a way to integrate them to your investment process and help you have a positive impact on the world.

⁴ <https://www.sasb.org/standards-overview/materiality-map/>

⁵ <https://sustainabledevelopment.un.org/sdgs>