

Providing fund solutions that are future fit through ESG



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Environmental, Social, and Governance (ESG) is by no means the newest catchphrase. It could even be construed as somewhat of a worn out theme. Although it may have not been fully appreciated or taken seriously enough in the past, the integration of ESG is now a fundamental consideration for investors. Overhyped or not – it's undeniable that ESG is the right way forward and real progress has been made

Whilst some companies/industries have taken a more proactive approach in addressing or establishing “valid” ESG credentials, others have been slower to respond - trying to incorporate ESG practices or principles into existing well-oiled processes can be challenging yet, it is a necessity in the current market.

The demand for companies to integrate ESG standards/practices has shifted out of neutral and into a higher gear. Investors (and regulators) are taking a stronger interest in asking companies to take a more mindful interest in ESG and to look beyond just profitability. The intent is a mindset shift beyond this, with investors having the ability to engage and affect change in company policy, from the business-as-usual approach, to drive and to seek new or additional forms of value creation.

In the quest for profit, there needs to be an appreciation for sustainable practices that will benefit consumers, employees, the environment as well as investors.

However, practicality and cost are key considerations in making meaningful change. Investment professionals (asset managers and similar) are in a strong position to promote dialogue, enlighten and effect change and these asset managers have taken different approaches to their ESG journey to meet the wide range of investor needs.

It is suggested that ESG could be at a crossroads. Whilst there is a focus on responsible practice, there still is an impetus of poor disclosure, irresponsible behaviour, lack of alignment in ESG ratings (even with an increase in demand) and even anti-ESG legislation (currently primarily in the US). Despite these challenges, companies that embrace ESG are more likely to be resilient and future ready in this ever changing world. Being mindful of ESG considerations, at a minimum lends itself immediately to risk identification and management which could lead to improved downside outcomes.

Asset managers face a future characterised by accelerated change and in this environment, there is an urgency to adapt business models to succeed. Some have adopted a multi-strategy approach to money management merged with the mantra of “taking the appropriate risk at the appropriate time.”

In advocating this multi-strategy approach, there is an intentional slant into traditional and non-traditional asset classes, including partnerships with entities that have specialised skills and expertise for niche investment strategies. For many, the entry into impact investing is a deliberate move to position ESG and sustainability investing as an important part of their investment offerings. Impact investing allows the integration of ESG, alongside financial returns while making a positive, material and measurable difference. This form of active management is a deliberate investment practice that takes a practical ESG consideration into decision making.

These initiatives need to be more than just a box-ticking exercises and the outcomes must be evidenced and measured, for example, the creation of temporary and permanent jobs.

There remains undoubtedly much more work to be done in this space. The investment industry cannot argue that it bears no responsibility for the choices that it makes beyond financial outcomes – to do so would be to ignore its broader social and economic function as an allocator of capital in market based economies.

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