Sustainable investing - making money and doing good

There is no doubt that interest in responsible investments is growing. Not only in Australia but globally, investors are increasingly interested in how a company makes its money, not simply how much it makes.

While some investors may focus on the longer-term viability of a company and its behavior, others may hold particular values they want their investments to mirror. How these two strategies play out in the investments context can be different.

Sustainable investing: changing investors' perception

Even at the highest level, investors are shifting from only looking at short-term returns to a broader focus on long-term value creation, including the impact a company is having on those around them.

In his 2017 letter to the CEOs of the companies his firm invests in - Blackrock CEO, Larry Fink, highlighted this exact issue noting that "To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate".

More and more investors are asking CEOs to focus not only on creating shareholder value, but also on long-term vision for the company, and, by extension, the impact it will have on society via investing sustainably.

Sustainable investing: it's not a new idea

Today, many investment managers, including BT, use environmental, social and corporate governance (known collectively as ESG) knowledge and data. It can help to inform the analysis of important areas including rist and innovation to engagement and voting practices.

Examples may include a company's interaction with the environment, such a water and air pollution, social factors like employee diversity or safety standards, along with the company's governance structure, such as how the board is composed and compensation structures. This approach seeks to add value or manage risks through broader, more comprehensive investment analysis, decision-making and engagement with companies.

Sustainable investing opportunities

For investors, navigating the world of responsible investment can be complex. Terms like ethical, sustainable and impact investing are often used interchangeably by investors seeking to ensure that their money is invested in companies or funds that mirror their values and beliefs. In reality, these terms each relate to a specific type of responsible investing - depending on what the investment is trying to achieve.

Ethical investing verses sustainable investing
Arguably, the most well-known responsible investment strategy among investors is ethical investing. This strategy's primary purpose is to exclude certain industry sectors, companies, practices or even countries that meet specific criteria from a fund or portfolio, based largely on the client's preference not to be invested in these activities. Traditional ethical investment strategies seek to avoid issues like tobacco, weapons, gambling, and pornography, however, investors are increasingly interested in strategies that avoid sectors linked to climate change or abuse of human rights.

Sustainable investing, in contrast, is a type of responsible investing that considers ESG issues in an investment, alongside standard financial measures when assessing a company's performance. This might include how a company approaches employee relations, executive remuneration and anti-money laundering legislation.

Sustainable investing also lends itself to longer term investment horizons and strategies. If more investors use a sustainable strategy in their investment decision-making, more and more companies will be encouraged to behave sustainably and address ESG concerns and opportunities in their business.

Impact investing is a rapidly developing field
You may also have heard about the rapidly developing field of impact investing. Impact investments preference the social or environmental purpose of an investment over or alongside its financial results. Whilst there are currently few opportunities to access impact investments for most retail investors, many people are attracted to the idea of investments that aim to deliver a positive outcome as an alternative, or complement to traditional philanthropic funding.

Source: BT, April 2019

Everyone's approach to investing is different. If you have any questions, please call Shaun or Vicky to see if they can help.

We will guide you with a tailored approach that works for your circumstances. Give us a call on 4927 4588 (Rockhampton) or 4939 1766 (Yeppoon) to see how we can help.

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