AN INVESTMENT APPROACH GAINING IN STRENGTH

Responsible Investing (RI) is an investment approach that has expanded in broader appeal over the past three decades, with investors showing greater awareness of and willingness to consider Environmental, Social and Governance (ESG) factors as part of their investment process.

RI considers ESG factors by using its inherent principles as guidance on investment decisions and active ownership of companies; factors that can ultimately offer benefits not only to the long-term sustainability of the company, but also to the sustainability of the world and its inhabitants.

UNDERSTANDING THE NUANCES OF RI APPROACHES

Although sustainability considerations play an increasingly important role in investing, there is no uniform consensus or standardization on how responsible investing is carried out. Investors are faced with a variety of approaches to responsible investing, and yet while similar in description, each may offer differing levels of complexity, considerations and outcomes.

THE ENVIRONMENTAL IMPACT

The issues affecting the natural environment, such as climate change, greenhouse gas emissions, resource depletion and water scarcity, waste and pollution, biodiversity and deforestation.

THE SOCIAL IMPACT

The issues affecting people: human rights, working conditions including slavery and child labour, human capital management, diversity and inclusion, health and safety, conflict zones and local communities.

THE GOVERNANCE IMPACT

The issues relating to how companies 'govern' themselves, which include the composition and skillset of its board members, executive remuneration, bribery and corruption policies, board diversity and tax and audit practices.

SEVEN CLASSIFICATIONS FOR RESPONSIBLE INVESTING

To help define the different approaches, the Global Sustainable Investment Alliance (GSIA[1]) has established seven classifications for responsible investing.

INCLUSIONARY ESG INVESTING

#	Classification	Examples
1	**ESG INTEGRATION** Considers ESG risks and opportunities as part of financial analysis and the investment decision-making process	All sectors have potential
2	**ACTIVE OWNERSHIP** Uses shareholder power, which is guided by ESG considerations, to influence corporate behaviour through proxy voting and engaging with senior management and boards	All sectors have potential
3	**THEMATIC INVESTMENT** Investment in themes or assets that are related to improving social or environmental sustainability	• Clean Energy • Green Technology • Sustainable Agriculture
4	**POSITIVE SCREENING (BEST-IN-CLASS)** Commences with the selection of best-in-class sectors, companies or projects based on ESG or sustainability performance, followed by financial analysis	• Renewable Energy • Sustainable Land and Agriculture • Sustainable Water and Low Carbon

EXCLUSIONARY ESG INVESTING

#	Classification	Examples
5	**NEGATIVE SCREENING** Commences with an existing portfolio and applies a systematic exclusion of certain sectors, companies, countries, or issuers based on activities that do not meet specific criteria(s)	• Weapons • Fossil Fuels • Nuclear
6	**NORMS-BASED SCREENING** Includes screening of investments that do not meet minimum standards of business practices, such as international norms and conventions	• UN Global Compact • Paris Agreement • UN Declaration of Human Rights

IMPACT INVESTING

#	Classification	Examples
7	Targets investments with the explicit intention of generating positive social and/or environmental impact, as well as financing businesses with a clear social or environmental purpose	• Green Bonds • Social Bonds • Sustainability Bonds

Source: Global Sustainable Investment Alliance.

[1] GSIA is a collaboration of membership-based sustainable investment organizations around the world who monitor financial markets for sustainable and equitable economic practices.

GUARDIAN CAPITAL