

Balancing profit and planet

Striving to use impact to boost investment returns

ESG (Environmental, Social and Governance) investing, a socially responsible investing approach, seeks to harmonise financial returns with a company's environmental impact, stakeholder relationships and global footprint. Our planet faces numerous challenges, from climate change to a rapidly growing and ageing population.

Understanding and incorporating ESG risks and opportunities into your investment strategy improves decision-making and enables you to seek more beneficial investment outcomes. By examining and synthesising ESG data, we can help you to make more informed and sustainable investment choices.

PREPARING FOR FUTURE CLIMATE CHANGE

Responsible investing is aligning investments with personal values, investing in what is deemed right, and steering clear of industries or practices that contradict those values. Such issues were highlighted at COP28 last year during the 28th annual United Nations (UN) climate meeting, where governments discussed limiting and preparing for future climate change.

The summit was held in the United Arab Emirates (UAE) from 30 November until 12 December 2023 and reviewed the Paris Agreement progress – the landmark climate treaty concluded in 2015 – charting a course of action to reduce emissions and protect lives dramatically.

APPROACH TO THREE CRITICAL FACTORS

ESG investing is a method of investing that prioritises companies that stand out in their approach to three critical factors. The environmental aspect considers a company's energy use, sustainability policies, carbon emissions and efforts towards resource conservation.

The social component of ESG investing highlights a company's relationships with its employees and the communities it serves. It examines factors like employee welfare, workplace safety and the company's contribution to the community. Governance, the

third pillar of ESG, scrutinises a company's leadership, executive pay, audits, internal controls, independence, shareholder rights and transparency.

COMMENDABLE RECYCLING POLICY

However, ESG categorisations can be open to interpretation, complicating matters for investors with specific ethical requirements. For instance, you could unknowingly invest in a sugary drinks manufacturer with a commendable recycling policy, earning it high 'E' scores. But are sugary drinks beneficial for society? Responsible investing can be subjective, with different issues holding varying levels of importance for different individuals.

The growing popularity of ESG investing has also attracted opportunists who falsely represent themselves as ESG businesses or funds. This practice, known as 'greenwashing,' is a pitfall that responsible investors need to sidestep.

GUARD AGAINST GREENWASHING

How can ESG investors guard against greenwashing? The key lies in selecting companies with products or services that genuinely address global challenges. This is where 'impact investing' comes into the picture. Impact investing involves choosing companies that aim to impact the planet and its inhabitants positively. It encourages positive inclusion, naturally excluding exposure to undesirable sectors.

It's about investing where there is potential for a positive contribution. By seeking out companies actively working to make a difference, you can be more confident that your investments contribute positively, rather than supporting companies that merely slap on an ESG label without genuinely striving to improve the world. ■

READY TO LEARN MORE ABOUT ESG AND IMPACT INVESTING?

Feel confident in your investments with the right professional financial advice. Please get in touch with us if you want to learn more about ESG and impact investing or need help navigating this investment landscape. We're here to guide you in making informed, responsible investment decisions.

THIS ARTICLE DOES NOT CONSTITUTE ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH.

THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

THE TAX TREATMENT IS DEPENDENT ON INDIVIDUAL CIRCUMSTANCES AND MAY BE SUBJECT TO CHANGE IN FUTURE.