Five Sustainable Investing Myths

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Given the dramatic rise in popularity of sustainable investing, it's perhaps no surprise that a few misconceptions have come along for the ride.

Sustainable investing – sometimes known as "ESG" investing because it considers environmental, social and governance risks and opportunities – has become increasingly important.

Last year, Schroders found two-thirds of investors had increased their sustainable investments over the previous five years.

However, the Global Investor Study 2018, a survey of more than 22,000 investors, also suggested many are confused about what related terms mean.

More than half (57 percent) said a lack of information was the reason they don't invest more in sustainable investments or have them in their portfolio.

We're here to bust some myths about sustainable investing so you can better understand your options and their impact.

Myth 1: Sustainable investing is only about protecting the environment

Yes, the "E" of "ESG" is indeed "environment", but sustainable investing is about more than just protecting physical aspects of the planet.

It *is* about encouraging companies to properly consider the impact of environmental issues. But this could mean analyzing how consumers becoming more aware of their carbon footprint will impact long term business strategies for airlines, for example.

The "S" and "G", ("social" and "governance"), are also fundamental to sustainable investing.

Social factors could be considerations such as demographics, data security, or nutrition and obesity or how well a company looks after its employees, for instance.

Governance factors relate to the internal policies and processes companies have designed to ensure management acts in the best interests of its shareholders.

Myth 2: Sustainable investing is simply NOT investing in something (or “screening” investments)

Yes, there are investment products that make a point of ONLY or NOT investing in certain types of companies or industries.

This is “screening” or “positive indexing” and these investments are mostly referred to as “ethical” or “socially responsible investments” (“SRI”). What is considered ethical or socially responsible is determined by an investor or group of investors’ own principles or beliefs, for example religious beliefs.

Sustainable investing, on the other hand, is a broad investment approach that is considered at all stages of the investment process.

From choosing what to invest in to monitoring and engaging with investee companies and adjusting forecasts, it can take many forms including “thematic investing”, “impact investing”, “active ownership” and more.

Thematic investing involves investing in companies that can be grouped under a particular investment theme such as renewable energy, waste and water management, education or healthcare innovation.

Impact investing aims to achieving specific, positive social benefits while also delivering a financial return. Impact investments create a direct link between portfolio investment and socially beneficial activities. Historically most of the activity has occurred in unlisted assets (i.e. investments that are not traded on the stock exchange).

Active ownership, through voting and *engaging* with companies, instead of just divesting, is a big part of sustainable investing.

As owners of their shares, investors have the right to vote on company issues and engage with management in order to protect and enhance the value of investments.

The focus can be on anything that has a material impact on a company’s success and could include business practices, management, executive compensation, or policies related to climate change, the environment or social issues.

Myth 3: Sustainable investing is all about an investor’s values, not good performance

Sustainability analysis, when integrated with more traditional methods of measuring a company’s prospects, has the potential to improve judgment and enhance performance.

It has been suggested firms that consider ESG issues can increase returns and/or reduce risks compared to those that don’t. Research from the Journal of Sustainable Finance & Investment and more recently Morningstar Financial Research, a fund research company, supports this.

Morningstar Financial Research compared the performance of their ESG-screened indices to their non-ESG equivalents and found that 73 per cent of the ESG-screened indices outperformed their non-ESG equivalents.

Consumer perceptions from the Global Investor Study 2018 also counter this myth. Only one in four respondents believed that sustainable investment products do not offer as profitable returns as non-sustainable investments.

This makes sense because ensuring companies, industries or markets are operating within their means and maintaining stability over the long term *is* about their long-term performance.

It might mean excluding certain companies or industries on the basis that they face deep-seated problems that make them poor long-term investments.

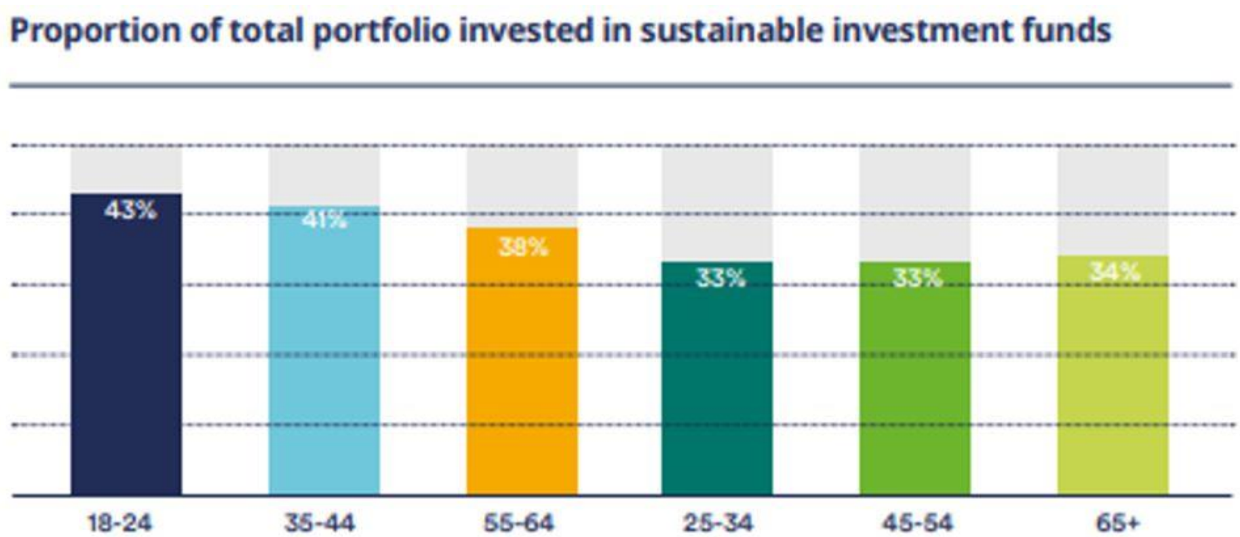
Considering sustainability factors should allow investors to better assess the long-term potential of investments and identify the performers that'll help them meet their financial goals.

Of course, they still have to consider that the value of investments and the income from them may go down as well as up. They may not get back the amounts originally invested.

If you are unsure as to the suitability of any investment speak to a financial adviser.

Myth 4: Sustainable investing is just for millennials

Interest in sustainable investing spans age groups. Millennials are leading the demand and are allocating an average of 41 per cent of their portfolios to sustainable investments, according to Schroders' 2018 Global Investor Study. But across all age groups people still allocate at least 30 per cent to sustainable products overall.



Source: Schroders Global Investor Study 2018

Myth 5: Sustainable investing is only applicable to equities (i.e. stocks or shares)

We tend to think mostly about equities, but it doesn't end there. With bonds, for instance, ESG analysis helps identify risks to a borrower's ability and willingness to repay debts that may have otherwise gone unnoticed.

Put simply, a well-managed company should be less likely to stumble into value-destroying disasters, meaning their returns are more stable and they are better positioned to repay investors.

With the private equity asset class – i.e. companies that are not publicly-traded – capital is locked up for years. Considering ESG factors here is crucial as investors want to be confident that companies are managing future or long-term risks that may not have materialized yet. Private companies also face less regulatory oversight, so analysis of their corporate governance can provide important insights to private equity investors.