

Client Trend – Sustainable and Responsible Investing

RESPONSIBLE INVESTING IS NOT ONLY ABOUT RESPONSIBILITY. IT MAKES INVESTMENT SENSE.



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Responsible Investing (RI) is the latest investor buzzword and on the back of the recent devastating and destructive Australian bushfires and heightening global concerns of the impact of climate change, Sustainable and Responsible Investing have come to the forefront.

Our clients who have traditionally concentrated their investing fundamentals around performance, capital preservation, strategic asset allocation and risk verse reward are now shifting focus to the Environmental, Social and Governance (ESG) factors from their underlying investments.

Investors are calling for greater transparency about how and where their money is invested, asking us questions like: Do I have exposure to tobacco, palm oil, coal mining or banks who lend to these companies? How do I get exposure to invest in sustainable and ethically run organisations?

This demand is further driven by growing knowledge that ESG factors have a positive influence on company value, reputation and most importantly, returns.

Corporate Governance is sometimes overlooked when thinking about sustainability and responsibility. This is evident from Facebook's issue in 2018, where Cambridge Analytica was able to harvest personal data from millions of users without their consent, resulting to increased measures of anti-trust regulations and cyber security. As shown with this example, Corporate Governance or in this case, lack of, can have a significant effect to organisations reputation and their market value.

Businesses are under increasing pressure to respond to growing stakeholder demands to focus their core business values in line with ESG principles and increase their reporting standards. Businesses are pivoting away from acting in the interest of shareholders, to a much broader range of other stakeholders including; employees, communities, governments and suppliers.

WHAT IS RESPONSIBLE INVESTING?

When looking at RI, professional investors often look towards the Principles for Responsible Investment (PRI), a world leading independent body that encourages and supports the uptake of

responsible investment practices in the investment industry. PRI defines responsible investment as; a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership.

- **Environment** - Climate change, resource depletion, waste, pollution, deforestation

- **Social** - Human rights, modern slavery, child labor, working conditions, employee relations

- **Governance** - Bribery and corruption, executive pay, board diversity and structure, political lobbying / donations and tax strategy

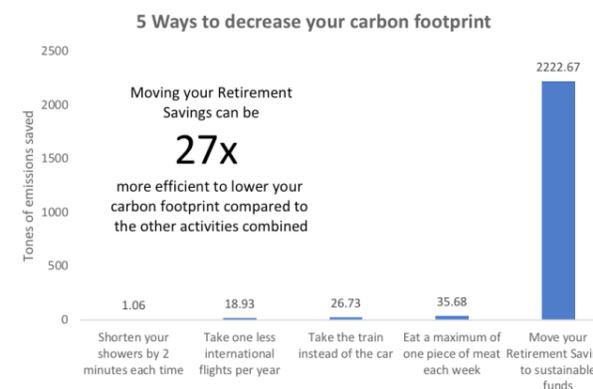
WHY IS IT IMPORTANT TO OUR CLIENTS?

In reference to what defines ESG principles above, it is not difficult to understand why it is important for people to find a sense of fulfilment and doing their part for the planet or for society.

Reports have shown that we are currently using 1.75 planets worth of resources (Source: Global footprint Network 2018-2019). It is stated that through technology, science, social change and regulation, we will be able to reduce this back down to one planet and have growth within our limits.

At the 2020 World Economic Forum, it was voted that all the top 5 Global Risks in terms of likelihood to impact the economy were environmental based; extreme weather, climate action failure, biodiversity loss, natural disasters and human made environmental disasters. Whereas if we look at the top 5 Global Risks in 2009, three of these risks were Economic; asset price collapse, China economic slowdown and deglobalisation, one social; Chronic diseases and one Geopolitical; global governance gaps, with no Environmental risk flagged in their top 5 – clearly environmental risks are defining the times for our world today.

We find that our clients want to make a positive impact in relation to sustainability by looking at ways to reduce their carbon footprint in general. As shown in the chart, there are several different ways in which to achieve this, noticeably there is a potential 27x increase in impact on carbon footprints if they select to invest in RI funds.



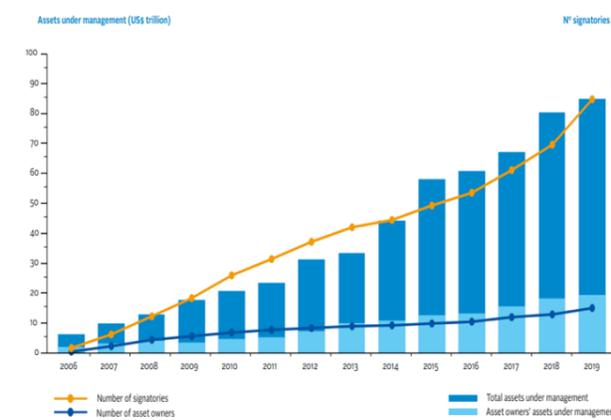
Source: <https://www.nordea.com/en/sustainability/sustainability-news/Use-your-savings-to-lower-your-carbon-footprint.html>

RESPONSIBLE INVESTING MARKET GROWTH

The RI market is rapidly increasing. The PRI market has grown from approximately USD \$30 trillion in 2013 to over USD \$80 trillion in 2019 (as shown below), and now over half of the worlds institutional investors are signatories to PRI. We believe this trend will continue to grow given the global focus to reduce the impact of climate change and increased corporate governance practices.

These markets are growing because of this disruption by new businesses or businesses who are adapting to this change; examples of this are:

- Transportation > Electric vehicles
- Agriculture > Organic foods, sustainable farming and meat substitutes
- Technology > Enhanced productivity, digital infrastructure and access to finance
- Power > Solar and wind



Source: <https://www.unpri.org/pri/an-introduction-to-responsible-investment/what-is-responsible-investment>

RESPONSIBLE INVESTING PERFORMANCE

When looking at MSCI All Country World Index (ACWI) (the most common Global Equity Index) vs the MSCI ACWI ESG Leaders, the MSCI ACWI ESG Leaders index has outperformed by 1.06% per annum over the 11 years shown below.



Source: <https://www.msci.com/msci-esg-leaders-indexes>

It is important to note that past performance should not be an indicator to future performance.

The trend of RI is here to stay as the world shifts its focus. At Select Investors, we have taken the initiative to be more responsible when investing money on our client's behalf with a A+ rating by PRI and over 90% of our clients Funds Under Management are managed in accordance with the PRI.

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