ESG INVESTING

ESG investments performing better than traditional ones: study

Three-quarters of survey respondents say pandemic will raise general interest in ESG over next three to five years

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THE Covid-19 pandemic may have spurred a greater shift towards more sustainable investing, but investors themselves are also beginning to realise that such investments are yielding better returns than traditional ones.

A global study conducted by The Economist Intelligence Unit (EIU), covering 450 institutional investors across the globe, found that almost three-quarters (74 per cent) of these investors said that their company's investments that integrate ESG (environment, social and corporate governance) factors performed better financially than equivalent traditional investments in the three years prior to 2020.

UBS Asset Management, which backed the study, said that this held true in 2020 as well, with similar numbers of respondents saying that their company's ESG integrated investments performed better financially last year than equivalent traditional investments.

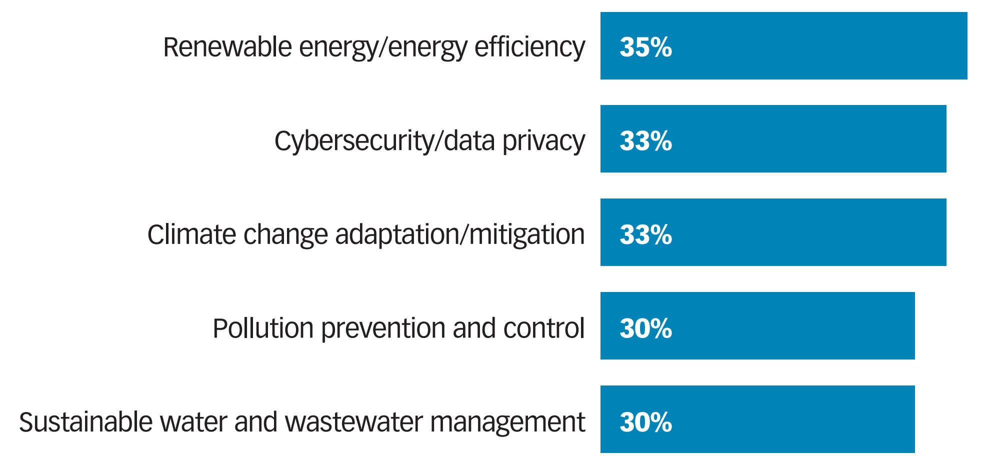
Three-quarters of respondents also said that the current pandemic would accelerate the general interest in ESG and capital inflows into sustainable investments over the next three to five years.

The study, "Resetting the agenda – How ESG is shaping our future", surveyed institutional investors working in asset and wealth management firms, corporate pension funds, endowment funds, family offices, government agencies, hedge funds, insurance companies, pension funds, sovereign wealth funds and reinsurers, across North America, Europe and the Asia-Pacific.

It found that North American investors appeared to be ahead of their counterparts in other regions in terms of ESG integration, with 41 per cent having at least half their assets under management (AUM) currently integrating ESG criteria, compared with a quarter in Asia-Pacific and just 18 per cent in Europe.

Opportunities arising from ESG integration

Top 5 themes for future investment



Source: EIU

The numbers are expected to grow. While over a quarter (28 per cent) of institutional investors globally have used ESG factors in the investment process for at least half their AUM in the past three years, almost a third (32 per cent) will do so next year. This figure rises to 65 per cent for respondents who plan on integrating ESG into at least one-quarter of their AUM for the next 12 months, the study said.

Improved management of ESG related risks has been the main driver of ESG investments in the three years prior to 2020, respondents said; the next two top drivers were the diversification of investments and enhanced financial returns.

Over the next year, the drivers for further ESG integration are expected to shift in the light of the wide-ranging impacts of the pandemic, the study said. Enhanced returns are still in the top three, but mitigation of the recession induced by the pandemic, cited by 26 per cent of respondents, jumps to the top of the list.

Candice de Monts-Petit, senior editor of The EIU, said: "The silver lining of the Covid-19 pandemic is the opportunity that investors have been given to reset their agenda.

"Our research shows that the importance of integrating ESG factors into investment decisions is now well understood.

"Investors are increasingly developing methodologies to assess non-financial performance, aligning with impact frameworks such as the UN SDGs (the United Nations' Sustainable Development Goals), and proactively engaging with companies to implement positive change. This shift towards sustainable finance is supporting a better future for people and the planet."

The UN SDGs have, in fact, taken centre-stage in ESG investing: Respondents in The EIU's study ranked fulfilment of the SDGs as second in the list of drivers for ESG integration post-2020; 74 per cent said the SDGs are a main guiding framework in the defining and measuring of the positive impact of their investments.

The SDGs are 17 interlinked goals adopted by the UN in 2015 as "a universal call to action to end poverty, protect the planet and ensure that, by 2030, all people enjoy peace and prosperity".

The respondents in the study picked the following five themes for future investment, of which four are related to the environment: renewable energy and energy efficiency, climate-change adaptation and mitigation, pollution prevention and control, and sustainable water and wastewater management. Cybersecurity and data privacy ranked second.

They said that current challenges to greater integration of ESG into their investment processes are beginning to decline. While cost is likely to remain an impediment, they felt that two of the other top barriers – the lack of clarity around ESG standards, taxonomy and metrics, and the lack of awareness and understanding of ESG and its role within the company – are weakening.

And, obstacles that would have rated more highly in the past, such as inadequate data, lack of regulatory guidance and lack of clear assessment around impact, are now concerns for less than a fifth of respondents.

Still, 70 per cent of respondents felt that there are too many frameworks when it comes to measuring and reporting on impact and nonfinancial performance.

And, the range of guidelines used by survey respondents showed the challenge that asset owners face in selecting frameworks to guide their investments processes. For example, while 10 out of the 12 standards are used by at least a quarter of respondents, even the most popular – by the Sustainability Accounting Standards Board – is used by just over a third of respondents.