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Environmental, Social, Governance

ESG fact finding

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Knowing what your clients want when it comes to ESG can be tricky. Some may have very specific ideas of markets they want to avoid, whilst others may simply want to "do good" with their investment.

We've put together some guidelines which might help you establish your clients' needs. There's also a guidance sheet for clients, to help them decide what they want.

General scene-setting

1. What is the client's main aim – to get the best return on their investment, to invest responsibly but with a very healthy return, or responsible investing only – even if returns are far lower?

2. How much do they already know about ESG? Do they have clear ideas about the impact they want their investment to have? Maybe it's more of a general desire to invest their money in funds that promote ESG, without knowing the exact aspects of ESG they want to focus on.

3. Do clients who want to "do good" understand that this is possible through ESG investing? There is often more emphasis on the 'E' of ESG – a client who feels strongly about human rights in different countries may not realise that they could make this an ESG consideration when it comes to their investment.

4. If the client wants to strike a balance between ESG factors and making a profit, what are the areas of ESG they would be most comfortable disregarding?

ESG

1. How much do clients actually know about ESG and what it encompasses? ESG investing is not just about wanting to save the planet or get more people recycling – it can have an effect on the working conditions of employees, the responsibilities companies have to the communities around them and the way the companies themselves are held to account.

2. What are the main drivers behind a client's wish to embrace ESG? Environmental issues are easy to relate to but may not be what a client really wants to focus on. If clients are struggling to relate ESG to their own lives, real-life examples can often help.

- Examples of social measures include employee conditions – health and safety, employee rights or maybe diversity in the workplace. You can read real-life case studies around how Aviva Investors are using their voice to power change in this area **here**

- Governance focuses on the way a company operates, including the way boards are run and the influence companies can have on government policies. Read some relatable examples around the impact Aviva Investors are having in this area **here**

Fund performance – responsible investing

1. Are clients choosing the right type of investment for their money? Responsible investing, like most forms of investing, relies on long-term commitments generating long-term changes – this would make it ideal for younger clients looking to invest pension funds, or for older clients wanting to make investments that would provide legacies for loved ones.

2. Do clients want to ensure they don't invest in particular markets, or are they more interested in companies that actively promote ESG measures? This is an important distinction to make – moving investments away from one market will mean the client's money isn't invested there, but it may have more of an impact if the client's investment then goes to a company that operates in opposition to that market.

   For example, a client choosing not to invest in fossil fuels but instead investing in solar energy companies will have more of an effect than if they invest instead in an unrelated field.

3. Are clients focused on moving all their existing funds to ESG investing? Do they need advice on deciding what to move and what to leave in place? Traditionally, pension funds for those nearing retirement age are moved to more conservative funds, to decrease the risk of losses – have clients considered whether these funds could become part of responsible investing too?

We've provided a separate document (below) that can be passed onto your clients to help them begin to understand what is important for them in terms of ESG and responsible investing.

For more information and useful tips on navigating ESG, why not take a look at our **ESG Resource Hub**?

Getting started with ESG investing

Ethical investment, responsible investing, green investments, ESG – there are many terms within the financial world that might be used to describe ways to invest that have a degree of moral responsibility attached to them. Fighting your way through the jargon to get to the real issues can be tricky.

If you want your investments to "do good" in the world, you need to know more about the choices available to you. We've put together some questions – finding the answers may help you understand how you can make your investment make a difference.

Investment motives

1. How important is it to invest in companies that take environmental, social and governance - or 'ESG' factors - into account? Is it one of your top priorities, or is a fund's performance more important? Would you be happy if strong returns happened to come via ESG funds or do you want to be more proactive than this?
2. Are there any particular sectors or industries you'd wish to avoid, even if meant you would potentially earn less on your investment? For example, fossil fuels might make a good profit on your investment, but the impact on the environment is high and mining companies in some countries have poor human rights records.
3. Similarly, do your investment preferences extend beyond the company making the product? Do you want to steer clear of companies that sell that product? How about other companies working for the product-making company?

ESG

Environmental:

How much does a company's record on environmental issues matter to you? Are their efforts to combat climate change issues you feel strongly about? How about those using suppliers who don't have the same commitment to environmental issues? Would you still be comfortable investing in the main company?

Social:

Will a company's human rights record have a direct effect on your willingness to invest in a fund? Social issues include employee benefits, equal opportunities and community relations, but they also encompass health and safety and employee rights. For example, some clothing companies have recently been challenged for using factories which pay low wages or have poor health and safety measures. Would such factors be important to you when choosing a fund?

Governance:

What are your views on the way companies are run? Do you have an opinion on boards which actively embrace diversity amongst their members? Is it important to you to know how whistleblowers are treated within a company – or if there is even a whistleblower policy in place? How about the way a company addresses lobbying or political contributions – do you feel their actions are taken in good conscience or could they be using their influence to their advantage?

Fund performance – responsible investing

1. How long are you looking to remain invested in a fund? A responsible investing approach looks at how investments that incorporate ESG can help improve the world through those ESG measures. This isn't something that will happen overnight – are you prepared to invest your time as well as your money?
2. Are you interested in ESG for new investments only? Many investors tend to leave existing investments where they are, but this potentially misses an opportunity to have a significant impact on the markets by making all investments ESG-aware.

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