ESG investing

Your guide to Environment, Social and Governance investing

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Environment, social and governance (ESG) investing is on the rise. Here's what you need to know about this approach to investing your money sustainably.

The value of an investment is no longer just about how much money it can make you – but also about the positive impact it can have on the world. And that's where ESG investing comes in.

Taking an ESG approach to investing means that an investor will take environmental, social, and governance criteria into account when they're considering investing in an asset.

So, if an investor was looking at putting their money into a company, they'd assess the organisation's environmental factors, like the business' energy consumption, their policy on climate change, or their waste production.

They'd look at social factors, like the company's community engagement, how well they protect human rights, or employee relations.

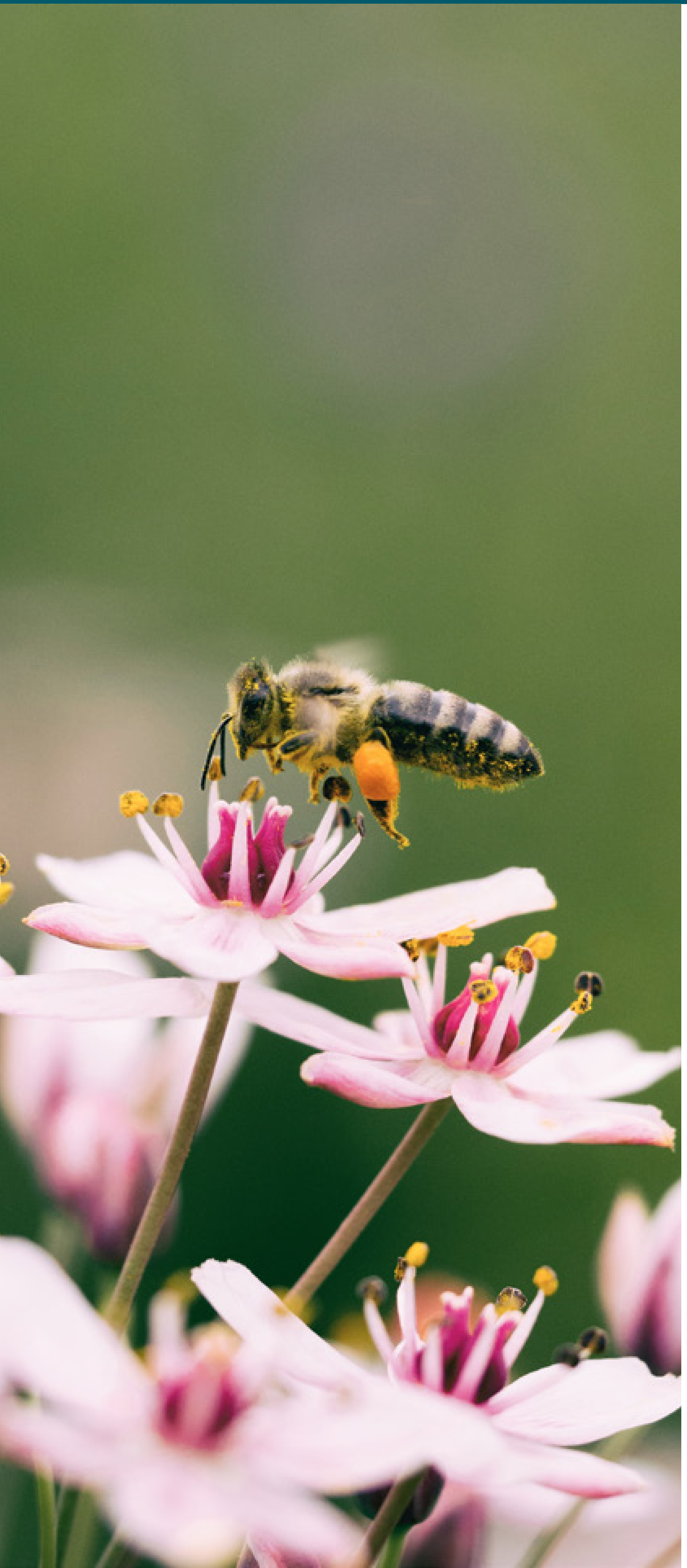
And they'd look at the company's governance – the way the business is run – such as the quality of management, diversity of the board, or conflicts of interest.

ESG: return on investment

Evaluating ESG criteria is a way of enhancing traditional financial analysis, not replacing it. The aim isn't solely to make sure that investment is ethical; the main objective of ESG, as with any investment, is financial performance.

The logic here is that companies who care about the environment, society and good governance should perform better in the long-term than companies who don't prioritise those things – making responsible organisations a better investment all-round.

Of course, as with any investment, the value of ESG funds could always go down as well as up and you could get back less than you put in.



ESG vs other responsible investments

Unlike ESG, some responsible investments are focused on specific sustainable outcomes.

For example, some ethical investments try to exclude so-called sin stocks, like investments in tobacco, oil, or gambling. ESG, meanwhile, goes one step further. Instead of focussing on excluding the bad, it positively includes the good.

Rather than simply removing all sin-stocks, an ESG approach seeks to include assets that score highly on those all-important environment, social and governance factors. So you can be assured that your money is being put into companies that have been actively identified as doing good.

From a financial point of view, ethical investments may prioritise social responsibility over profits and are sometimes criticised for the difficulty that presents in building a truly diverse investment portfolio.

ESG instead puts potential returns on investment and responsible investment on more equal terms.

With all investments, it's worth speaking to your financial adviser first to make sure it's the right choice for you.

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