Aspirations Wealth Group

Build and Protect your Wealth

Fact Sheet

Responsible Investing

Responsible investing is about achieving certain social, environmental, corporate governance or ethical objectives in addition to making financial gains.

The purpose of this fact sheet is to help you understand basic information on responsible investing. This includes:

- ⇒ Definition
- ⇒ Statistics
- ⇒ Approaches
- ⇒ Responsible investing and returns

Definition

Responsible investing is a process that takes into account environmental, social, governance (ESG) and ethical issues into the investment process of research, analysis, selection and monitoring of investments.

Investment analysts believe that the growing popularity of responsible investing is being driven by three key areas.

Climate change

There is compelling scientific evidence that climate change is real and the global community is beginning to realise that to solve this problem we must act collectively.

Increased action from Governments and private sector

There is the 2021 UN Climate Change Conference, the launch of the European Green Deal and other calls to action across the globe that has the potential to change the way that capital flows.

Generational change

Gen X, Gen Y and Millennials have a greater interest in responsible investing compared with any other demographic. With the greatest transfer of wealth in Australia currently occurring, those who are statistically more interested in responsible investing now have the funds to do so.

Responsible investors believe that companies or assets won't perform well whilst ignoring environmental issues (pollution, climate change, water and other resources scarcity), social issues (local communities, employees, health and safety), corporate governance issues (prudent management, business ethics, strong boards, appropriate executive pay) or ethical issues.

Statistics

39% of investors globally

56%
Ages 18-34

54%
$50m+ in assets

Approaches

There are a large number of investment approaches used in responsible investing, all in addition to fundamental financial analysis. Increasingly, investors are using a combination of the approaches listed below.

Best in class screening

Investment in sectors, companies or projects selected from a defined universe for positive ESG performance relative to industry peers.

Corporate engagement and shareholder action

Shareholder power is used to influence corporate behaviour, including through direct corporate engagement, filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines.

ESG integration

The systematic and explicit inclusion by investment managers of environmental, social and governance factors into the investment decision-making process.

Impact investing

Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

Minimum standards

Screening of investments against minimum standards of business or government practice, for example as based on international norms such as those issued by the UN, ILO, OECD and NGOs (e.g. Transparency International) and may include exclusions of investments that are not in compliance with norms or standards.

Positive and negative screening

Positive: inclusion in a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria such as the goods and services a company produces, or how well a company or country is responding to emergent opportunities such as the roll out of low and zero carbon energy assets.

Negative: exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria, such as what goods and services a company produces, or how inadequate a company or country response is to emergent risks such as climate change impacts.

Sustainability

Investment in themes or assets and programs specifically related to improving social and environmental sustainability (e.g. safe and accessible water, sustainable agriculture, green buildings, lower carbon tilted portfolio, community programs).

Responsible investing and returns

A common concern surrounding responsible investing is that incorporating ESG factors into the investment process, or screening out certain companies, may compromise investment performance. However, recent research shows that assets under management using a responsible investment approach are outperforming mainstream funds over most time frames and asset classes.

While most responsible investments will target market-rate financial returns, some impact investments will intentionally deliver below market-rate returns in order to maximise the social or environmental impact.

It's important to note though that many of these investment options are still relatively new and most haven't been around longer than 10 years. This means their long-term performance is unknown at this stage.

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