Media Title : The Edge CEO Morning Brief

Headline : MAKING ESG INVESTMENTS WORK FOR YOU

Date : 7 December 2021

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MAKING ESG INVESTMENTS WORK FOR YOU

Do investors have a responsibility to make the world a better place? According to Standard Chartered's Sustainable Investing Review 2021, 72% of investors it surveyed believe they do. In fact, 75% of them feel it is possible to do good and make money at the same time.

These results underscore the growing interest that investors have in sustainable investing. Up to 20% of the bank's clients, for instance, intend to invest over a quarter of their total portfolios in sustainable investment solutions, according to the review. This is a significant increase from 9% in 2020.

To better help its clients put their money to good use, Standard Chartered has introduced various frameworks and tools in recent years to address their needs.

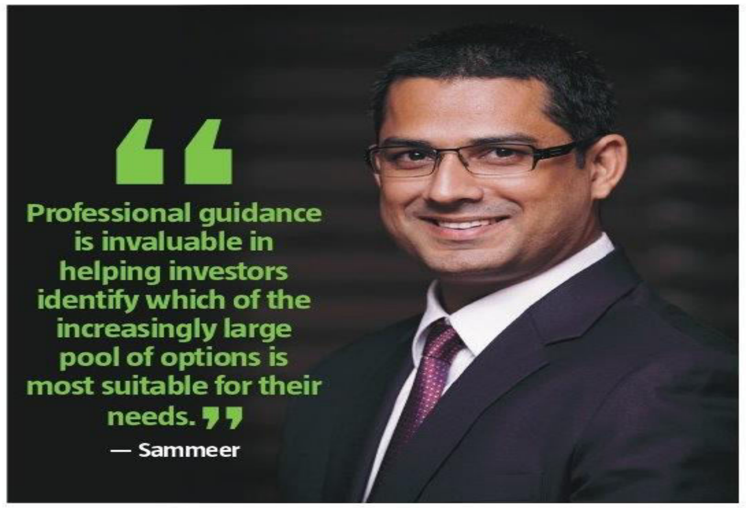
The ESG Select framework, for instance, was launched in 2020. It is an in-house proprietary framework to evaluate solutions and conduct deep-dive analyses of products to prevent "ESG washing" or misleading information about a product's ESG credentials.

"As the number of sustainable funds increases, the discipline of selecting a sustainable and ESG-integrated fund requires resources and expertise. This discipline will prove rewarding to investors by helping them to select funds that can outperform and encourage companies to move towards a sustainable model over the long term," says Sammeer Sharma, head of consumer, private and business banking at Standard Chartered Malaysia.

ESG Select benchmarks products against established frameworks that are aligned with the bank's position and ensures ongoing monitoring and reviews are in place.

Prior to this, the bank had already incorporated ESG scores into its wealth management investment advisory trade notes for equities and fixed income products since 2019. While it was originally only available for private bank clients, it has now been expanded to affluent clients.

More recently in 2021, the bank launched the Sustainable Investments Classification framework. Using data from third-party ESG and corporate governance data providers such as Morningstar and Sustainalytics, the framework helps Standard Chartered have more informed conversations with its clients and addresses their apprehensions about sustainable investing.



How to get started?

There are a few approaches to sustainable investing that investors can explore, Sammeer observes. Exclusionary screening is where investors can avoid companies that do not align with their values, such as alcohol or tobacco producers.

ESG integration involves the incorporation of environmental, social and governance factors with traditional financial analysis in the investment process. Sustainable thematic investing focuses on sustainability issues such as climate change, clean water or education.

"There is also impact investing that may focus on specific themes and puts a premium on positive social and environmental change. The primary focus is on the intended positive environmental and social outcomes," he says.

Investors should identify their areas of interest and start from there, Sammeer adds. "Professional guidance is invaluable in helping them identify which of the increasingly large pool of options is most suitable for their needs."

In fact, the review found that 74% of investors would be more comfortable with sustainable investments if they received professional guidance.

Another interesting statistic from the review is that 47% of investors have concerns about the financial performance of sustainable investments. But it is a common misconception that sustainable investing is driven by "heart" and that ESG investments underperform, says Sammeer.

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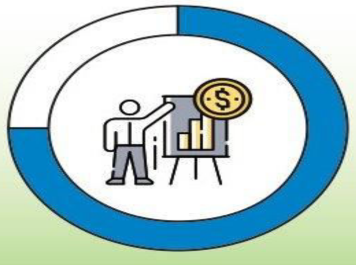
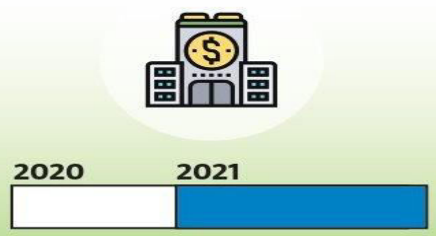


75%

of investors believe it is possible to do good and make money at the same time.



20%

of the bank's clients intend to invest over a quarter of their total portfolios in sustainable investment solutions.

THE BUILDING BLOCKS OF ISLAMIC FINANCE ARE STRONGLY ALIGNED TO THE CORE PRINCIPLES OF ESG, SUCH AS

- The need to benefit society.
- Avoid potentially harmful or exploitative practices or those that cause damage to the environment.

LEVERAGING THE STRENGTHS OF BOTH CAN GENERATE STRONG RETURNS FOR BOTH ISSUERS AND INVESTORS WHILE ALSO BUILDING A BETTER WORLD FOR ALL OF US.

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ESG investments have, in some cases, proven to be more resilient during market shocks, he adds. There is also increasing evidence that shows how sustainable funds provide returns in line with comparable traditional funds, while reducing downside risks.

"During the Covid-19 market downturn in 2020, data from Morningstar showed that more than half of the ethical and sustainable funds beat the MSCI World Index. The MSCI World stock index fell 14.5% in March but 62% of global environmental, social and governance-focused large-cap equity funds outperformed the global tracker," he says.

Through sound management of environmental and social issues, these companies have more resilience to tide them through times of crises.

How to prevent greenwashing?

As sustainable investing takes off, it is unavoidable that some asset managers may begin rebranding their funds as sustainable or ESG to attract investors when, in reality, they have not integrated ESG considerations into their funds.

"The practice of 'ESG washing', or greenwashing, puts a spin over substance and includes misleading claims — and it is growing. Left unchecked, it could lead to investor disillusionment, should the so-called ESG funds not only underperform but also fail to demonstrate any impact," says Sammeer.

Standard Chartered wants to help its clients prevent this through its ESG Select framework. Sammeer also has a few suggestions for investors when evaluating funds.

First, they should decide what is important to them and know where to draw the line when it comes to choosing sectors that should be excluded from the ESG funds.

"Understand the fund's ESG strategy in terms of the fund manager's intent, how ESG factors affect the portfolio and how the weighting of metrics should differ according to certain sectors," he says.

"The ESG investment team should have a large central team and strong industry knowledge. There should be clear articulation of how ESG factors are integrated, how companies are selected for the fund and how involved the fund houses are in the process."

There should also be availability of quantitative and qualitative data on how the social and environmental impact of the fund is being measured.

The bank is eager to help its clients navigate this landscape, especially as many are still new to sustainable investing.

"In Malaysia, we have embarked on a journey to include sustainable investing in our advisory framework and solutions to help clients embrace ESG. We have seen a tenfold increase in ESG-integrated funds' assets under management since the beginning of 2021," says Sammeer.

"We believe driving greater adoption of ESG creates the potential for society to solve challenges, and one of the most pressing challenges facing the planet today is climate change."

The bank is also working on its net-zero carbon emissions goal for its operations by 2030 and financing by 2050. It aims to reduce its financed emissions by decreasing absolute financed thermal coal mining emissions by 85% by 2030, for instance, and reducing emissions intensity in other high-carbon sectors.

It will also mobilise US$300 billion to help its clients reach their net-zero targets and accelerate new solutions. For the latter, that includes launching sustainable products and doubling sustainable investing assets under management, as well as integrating sustainability considerations into its wealth management advisory activities by 2025.

"We will also deploy a transition acceleration team to provide clients in carbon-intensive sectors with deep expertise on how to accelerate their low-carbon transition journey," says Sammeer.

"Similar to how we've been incorporating ESG scores into our wealth management advisory, we're also helping companies implement more sustainable practices across their ecosystems and build more resilient supply chains."

Under its Sustainable Trade Finance Proposition, for instance, it is using rigorous metrics to support selected companies and industries that engage in international trade.

Begin your ESG investment journey and find out more here or get in touch with us.

INITIATIVES TO HELP STANDARD CHARTERED'S CLIENTS EMBRACE ESG:

Reduce financed emissions

- Reduce absolute financed thermal coal mining emissions by 85% by 2030
- Reduce emissions intensity in other high-carbon sectors

Finance transition projects

- Mobilise USD300 billion to help clients reach their net zero targets

Accelerate new solutions

- Double sustainable investing assets under management by 2025
- Provide clients with expertise on accelerating low-carbon transitions