A closer look at sustainable investment

Once you've made a decision to invest sustainably and have some idea of what your priorities are, the next step is finding the right approach for you.

Every year more and more sustainable funds are being launched, and more and more investment providers are embedding sustainability into all that they do, giving investors an ever-increasing range of options to choose from. However, making comparisons requires some careful thought.

Sustainable funds, for example, can have a variety of labels (like socially responsible, green or ethical) and yet there is no standardised way of rating them or verifying their credentials.

These are a few pointers that may help you on your journey to finding the right approach for you, and these will be explained throughout this article

1 Research your investment provider

2 Consider your investment style

3 Sustainable investment credentials may not be obvious

4 You can always ask for help

Find out more

You can read more about identifying your priorities as a sustainable investor in **The Sutainable Investment Movement.**

1. Research your investment provider

There is much more to sustainable investment than the different types of sustainable funds you can choose from. It's worth researching how committed any investment fund provider is to embedding sustainability across their business.

This can cover everything from how they deal with suppliers and treat their staff, to diversity on their board, to the things they take into account as standard when investing your money, whether it's in a fund that's specifically labelled sustainable or not.

One important element is a dedicated sustainable investment research team, particularly where a provider has developed their own methodology with those attitudes, priorities and values embedded throughout the investment process.

Leading by example

> Santander Group's annual report[1] is a useful example, containing easy to access information on its values, actions and benefit to others.
>
> The annual report includes information for all business units on environmental, social and governance practices to create a wide and transparent view for customers on Santander's journey towards sustainability as a whole.

There's a growing belief that embedding sustainability into businesses can contribute towards investment returns. Studies have shown that companies operating on strong positive principles with good governance are more likely over the long term to be more profitable than those which do not[2]. They can also be subject to less reputational risk – for example from incidents such as environmental damage or accusations of poor working conditions.

Research will also help you weed out any potential investment providers paying lip service and identify the companies that are truly embracing sustainability and putting it into practice.

Watch out for greenwashing

This is when a company makes false or misleading claims about its sustainability. You can find out more about how to spot greenwashing in

Your guide to ESG

(1) Santander – **2019 Annual Report**
(2) Pensions & Investments **– ISS study links ESG performance to profitability**, 9/01/20

RETHINK INVESTING

2. Consider your investment style

It's possible to be a sustainable investor following a passive or an active management style. Whether one or the other, or a mix of both is right for you will depend on your personal circumstances.

Passive Funds	Active Funds
Will track one or more market indices, such as the MSCI Environmental, Social and Governance (ESG) indices.	Are constantly analysing data to make expert, informed decisions about which companies the fund invests in to meet its investment objectives.
The sustainability credentials of passive funds rely on the decisions that third-party index providers have made. You would need to research the index provider's approach to understand if you were comfortable it aligned with your sustainable priorities.	Sustainability credentials depend largely on two things. The provider's depth of commitment to sustainability across its business, and the specific investment objectives, priorities and process for each individual fund it offers.

Find out more

You can learn more about passive investing and how it differs to active investing in **About investing - A quick guide to index investing.**

Regulators in markets around the world require funds to provide information to investors so they can make an informed decision on whether it is right for them. This information is designed to help you understand the fund's objectives, charges and so on, so that you can make an informed decision.

3. Sustainable investment credentials may not be obvious

When you think of the types of companies you might expect to be held in sustainable investment funds, a few obvious ones are likely spring to mind: manufacturers of renewable energy for example.

But many companies and industries are now incorporating sustainability into their culture, including the largest. Tech giants such as Apple and Microsoft integrate ESG factors into their business models.

Another example is real estate: the sector is adopting various ESG-friendly measures into house building such as using sustainable materials and renewable energy.

A look back at history

> Looking back at the history of sustainable investment, particularly its roots, reveals examples of investing in companies in line with beliefs and values.
>
> One of the earliest sustainable funds, PAX World, was set up in 1971 by two United Methodist ministers to avoid investing church funds in companies that were contributing to the Vietnam war.[4]
>
> The idea of socially responsible investment (SRI) has continued to develop ever since, often driven by political movements. Wide-spread disinvestment of funds from South Africa in the 1980s is considered to have been instrumental in bringing about the end of the apartheid regime.[5]

As sustainable investment moves further from niche to mainstream, the range of investment options, what they invest in and their providers will continue to expand. It's important to know what to look for when making investment decisions.

An model for the future

> In Spain, Santander Asset Management was the first asset manager to integrate ESG factors into its research, investment platform and product range. And building from years of experience and expertise the Madrid based Global SRI team developed and established its ESG ratings model with the potential for use across the global business.

Returns are not guaranteed and you might lose more than you put in.

(4) Influence Watch – **Pax World Funds**
(5) S&P Global – **Sustainability in South Africa** – 23/07/2019

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