

WHY DOES ESG INVESTING MATTER?

As the global financial landscape continues to evolve, integrating Environmental, Social, and Governance (ESG) criteria into investment processes has emerged as a pivotal approach for investors seeking positive societal impact alongside financial returns.

Integrating non-financial ESG factors into investment analysis processes can significantly enhance risk management. Companies prioritising environmental sustainability, social responsibility, and robust governance structures are generally better equipped to navigate regulatory changes, environmental challenges, and social shifts. This foresight reduces the likelihood of facing litigation, regulatory fines, or reputational damage, leading to more stable and resilient investment portfolios.

Cohen and Serafeim published an article in Harvard Business Review that discusses the significant effect of environmental costs on the profitability of major international airlines and other industries. It highlights the work of the Impact-Weighted Accounts Initiative (IWI) at Harvard Business School, which aims to measure the effects that companies have on society and the environment, and attach a financial value to those effects. The analysis reveals that many companies' environmental costs exceed their profits, urging a shift towards impact transparency. This will allow more effective taxation of companies, more accurate pricing in capital markets, and enable consumers to select ethical companies.

However, risk management is not the only benefit of ESG investing. A growing body of evidence points to companies with strong ESG performance tending to deliver superior long-term financial returns. By focusing on sustainable

practices, these companies often achieve greater operational efficiencies, lower costs, and attract a more loyal customer base, translating into competitive financial performance over time.

Incorporating ESG factors can also make investment funds more appealing to responsible investors. As awareness grows around global challenges such as climate change, income inequality, and corporate governance issues, more investors seek to align their portfolios with their values. By offering ESG-integrated investment options, asset managers can attract a wider pool of investors committed to driving positive change alongside financial returns.

As governments and regulatory bodies around the world increasingly emphasise the importance of sustainability, integrating ESG into investment processes can help investors stay ahead of regulatory requirements. Moreover, some jurisdictions offer financial incentives, such as tax breaks or subsidies, for investments in sustainable projects and companies. Staying compliant and capitalising on these incentives can enhance the overall attractiveness and profitability of ESG-focused investment strategies.

In conclusion, including ESG criteria in investment processes offers many benefits, ranging from improved risk management and financial performance, to attracting responsible investors and contributing to a better society. As the investment landscape evolves, embracing ESG considerations will likely become indispensable to successful and sustainable investment strategies – to the extent that failing to include ESG could cripple an investment strategy.