Santander Asset Management

RETHINK INVESTING

Good for the world, good for you

Evidence increasingly shows that sustainable investing can help you make the most of your money in more than one way, delivering good returns as well as helping to do good in a broader sense.

Research by Morningstar, comparing 4,900 funds investing in different types of shares and global regions found that nearly 60% of sustainable investments outperformed their traditional peers over the ten years to the end of 2019. It was a similar story over shorter time periods too with nearly two-thirds of sustainable investments outperforming over one, three and five years[1] .

If you're not already familiar, sustainable investments are those that have strong environmental, social and governance (ESG) credentials.

We remind you

Environmental

How companies approach climate change and how their operations impact the planet through things like waste, contamination and deforestation.

Social

How a company operates in its community, covering matters such as working conditions, health and safety, employee relations, human rights and modern slavery.

Governance

Company leadership in issues including executive pay, bribery and corruption, diversity culture and supporting policies, political lobbying and payment of taxes.

[1] Morningstar – **Do Sustainable Funds Beat Their Rivals?** (en inglés) 16/6/2020

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Sustainable investing in the age of Covid

The ten-year period covered by that research was one of largely positive market growth. This year, on the other hand, has proved a sterner test for investors thanks to the global economic impact of the Covid-19 pandemic. But here too investments with strong ESG credentials appear to have fared better than some of the more conventional.

The MSCI ACWI ESG Universal index is a global investment index made up of companies demonstrating both a robust ESG profile as well as a positive trend in improving that profile. It increased by 5.31% between the start of January and the end of August 2020, ahead of the wider MSCI AC World index –which grew by 3.64% over the same period[2]. Remember, though, that past performance is not a guide to future performance.

How sustainability can help boost profits

There are many good reasons why companies striving to make a positive impact on the world - or at least responding positively to challenge by shareholders and customers who think they should - can also be better placed to deliver positive financial returns. Here are just a few of them.

[2] Trustnet – **ESG funds beating their conventional rivals in most sectors this year**, 3/9/20

Reducing costs

Companies focused on sustainability will often act to reduce their use of energy and, in turn, greenhouse gas emissions. For example, Santander Group is working to become carbon neutral and expects to cut all emissions in half by 2025. In doing so we have cut our use of electricity and our buildings are being made more energy efficient[3]. A positive side-effect of changes like these tends to be a long-term reduction in costs.

Increasing productivity

By 2029, according to employee benefit specialists Mercer, those younger generations placing ever greater importance on sustainability – Millennials and Generation Z - will form 72% of the world's workforce, compared to 52% in 2019. Businesses with strong ESG credentials should be better placed to retain and attract like-minded employees. Being an active part of something they believe in is likely to foster greater motivation and performance than it being just a job[4].

Protecting reputation

Companies with weak ESG practices may be more prone to controversies and regulatory sanctions that can damage their reputation and market value. According to Bank of America, a total of $500bn has been wiped off the value of American companies over the last five years by ESG controversies[5]. Ethical controversies can put companies at more risk of consumer boycotts too. Research amongst UK consumers has shown more than half who are disappointed by a brand's words or actions on a social issue make a complaint, with that number rising to 75% among Generation Z[6]. What brands stand for and how they act are increasingly high profile with social media providing the ideal platform to share views and experiences.

Future proofing

Rising to sustainability challenges can drive positive business change too. Fossil Fuel companies, for example, face continuing protest from environment groups. Many of the biggest are now investing heavily, each spending billions of dollars on projects to develop renewable energy resources, with wind and solar power playing an increasingly important role[7].

Let's be clear

Different generations are often given different labels for research and marketing purposes. Broadly speaking, Millennials are the generation born in the 1980s and early to mid-1990s who are now dominating the global workforce. Generation Z are the generation born since. They are now coming of age, entering the workforce and so rising in prominence and influence in the world.

(3) Santander – **Santander commits to becoming carbon neutral in 2020**, 11/12/19
(4) Mercer – **ESG as a Workforce Strategy**
(5) FT.com – **ESG controversies wipe $500bn off value of US companies**, 14/12/19
(6) Accenture – **From we to we: The rise of the purpose-led brand**, 5/12/18
(7) NS Energy – **How the six major oil companies have invested in renewable energy projects,** 16/1/20

Sustainable investing is here to stay

Institutional investors – those who invest our money on our behalf through pension and investment funds, are increasingly clear on the financial as well as the social benefits of sustainable investing and acting on them too.

Research conducted with 70 senior executives at 43 global large-scale professional investment firms, including fund managers and government pension funds in the Netherlands, Japan and Sweden, found "that ESG was almost universally top of mind for these executives." Many of those interviewed described how they were integrating sustainability into their investment criteria[8].

Making it work for you

If you're convinced on the potential benefits of sustainable investment, there's a lot to think about when it comes to selecting the right approach you, from being clear on the issues that matter to you to finding the right investment provider. A financial adviser can help.

You may also like to read our other articles in this series.

Your guide to ESG: an introductory guide.

The Sustainable Investment Movement: what's involved.

A closer look at sustainable investment: how to get started.

Whatever works for you, the evidence all points to sustainable investing having a potentially positive role to play as part of any well-diversified portfolio today.

Investing for the future

At Santander Asset Management we use our own ratings model to look at how companies score on ESG factors as part of our ongoing investment process.

We do that as standard whether a fund is labelled sustainable or not, because we recognise the potential benefits of sustainable business practices for all our investors.

[8] Harvard Business Review – **The Investor Revolution**, May-June 2019

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