

# **Aligning Your Values To Your Investments With ESG Investing**

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If you feel strongly about clean energy and social issues, then ESG investing may be for you. Read on to get some insight into ESG investing and how you can apply it with Crea8.

## **What is ESG investing about?**

ESG stands for 'Environmental', 'Social' and 'Governance'. The strategy involves investing in companies that can provide positive investment returns as well as a positive long-term impact on the environment, society and the business itself.

## **The appeal lies in the impact**

Many investors today aren't just interested in the financial outcome of their investments. There is also a deep interest in the role these investments have to play in promoting positive global change such as addressing global warming. This is especially true for the millennial generation.

## **Upholding ESG standards will become increasingly important for businesses**

A study by Deloitte on millennial spending habits indicated that 42% of this generation were more likely to continue engaging a business if they believed the business had a positive impact on society. When millennials overtake baby boomers as the largest spending demographic, companies that are not ESG friendly may stand to lose out.

## **ESG investors have numerous elements of a company to research and analyse**

Broadly speaking, ESG investors have three considerations – the environmental and social impact of the company as well as the governance standards it upholds. Within those broad areas, there are a host of company-specific elements an investor needs to research and analyse before a company can be certified ESG friendly.

### **E stands for environment**

The environmental component requires research into a company's impact on the earth. This includes:

- Climate change policies, plans, and disclosures;
- Greenhouse gas emission goals, and transparency into how the company is meeting those goals;
- Usage of renewable energy including wind and solar;
- Recycling practices;
- Extent of use of green products, technologies, and infrastructure; and
- Environmental benefits for employees such as cycling programs and environmental-based incentives.

## S stands for social

The social component, on the other hand, requires research into the company's culture and the impact this has on its employees, customers and society. This includes:

- Employee pay, training and perks;
- Employee safety policies;
- Diversity and inclusion in hiring and in awarding advancement opportunities and raises; and
- Ethical supply chain sourcing, such as conflict-free minerals and responsibly sourced food and coffee.

## G stands for corporate governance

The corporate governance component relates to how the company's management and board relate to different stakeholders, how the business is run, and whether the corporate incentives align with the business's success. Governance research includes:

- Executive compensation, including bonuses;
- Whether executives are entitled to golden parachutes (huge bonuses upon exit);
- Diversity of the board of directors and management team;
- Whether chairman and CEO roles are separate;
- Transparency in communicating with shareholders, and history of lawsuits brought by shareholders; and
- Relationship and history with regulatory bodies.

Clearly, there is a vast amount of research and analysis that needs to be conducted before a company can be considered ESG friendly. The amount of research can seem daunting, but it should not stop you from expressing your values through your investments.

## There are a few ways to integrate ESG principles into the investment process

The techniques used to integrate ESG principles into the investing process have evolved over time. While early ethics-based approaches such as negative screening remain relevant today, other strategies have since been developed.

We describe a few of these approaches in the following paragraphs.

### Negative Screening

Negative screening involves excluding certain sectors or companies from a portfolio on the basis of specific ESG criteria (e.g. weapons and tobacco manufacturers).

### Positive Screening

Positive screening involves including certain sectors, companies, or practices in a fund or portfolio on the basis of specific minimum ESG criteria (e.g. renewable energy firms).

### ESG Integration

This involves a systematic and explicit inclusion of ESG factors into financial analysis and portfolio construction.

## Sustainability themed investing

This involves carving out certain stocks that are specifically related to ESG factors, such as clean energy, green technology, or sustainable agriculture into a separate basket.

## Norms based screening

Using this way, stocks are selected based on ESG performance relative to industry peers and against minimum standards of business practise based on international norms, such as those issued by the OECD, ILO, UN and UNICEF.

## Corporate engagement and shareholder action

Shareholders exercise their power to influence corporate behaviour through direct corporate engagement (i.e., communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is directed by ESG guidelines.

## Crea8 can align your values with your investments

Crea8 provides you with access to professionally built ESG strategies through our [Goal based](#) and [Factor based](#) investing services. Our selection of ETFs and stocks span over multiple regions, including Asia, US and Europe, ensuring diversification benefits accrue to you.

If you want to put together your own ESG strategy, we offer you the option to do so as well. Crea8's Analytics function empowers you to easily classify and identify ESG shares and ETFs while Crea8's Advisory function allows you to use our algorithm to construct optimal ESG portfolios based on different themes, industries and markets.

## Set up an investment plan at the same time and invest in a goal

With Crea8's [Goal based](#) investing service, you get to invest in an ESG related theme and grow your wealth through a personalised investment plan at the same time.

You can set up a personalised investment plan and choose to invest in an ESG related theme as part of the plan. Alternatively, you could switch to other themes if you wish.

## Crea8's Advice

If you are changing your daily habits to be more environmentally and socially responsible, why not apply the same principles to your investment portfolios.

Let Crea8 help you invest based on your values through our [Goal based](#) and [Factor based](#) services. If you would like to know more about our approach to applying ESG principles, check out our methodology paper, [Sustainable Investing](#)

## Reference

Deloitte. 2020. *Deloitte Global Millennial Survey 2019*. [online] Available at: <<https://www2.deloitte.com/global/en/pages/about-deloitte/articles/millennialsurvey.html>> [Accessed 29 April 2020].

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