BIZCOMMUNITY

How to invest in things you believe in

By Ebeth van Heerden

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The Covid-19 induced short-term return to single-use plastic is just a blip, according to our sustainability experts, what the world needs is to urgently ramp up disclosure, ambition and action.

Ebeth van Heerden

So, as part of my effort to live more sustainably, I've been looking into the various sustainable investing strategies out there.

Believe me, there are a lot of them and it's not always easy to immediately distinguish the differences between them. Luckily for you, I've done the research. And it turns out that "sustainable investing" is really a broad umbrella term that covers a variety of approaches.

You just need to figure out which approach best suits your financial and sustainability goals. Now I can't tell you which one to choose, but I can run you through some of the main strategies out there.

Environmental, social and governance (ESG) integration

This is a general approach to investing that incorporates ESG considerations alongside traditional financial analysis.

Broadly speaking, environmental factors include issues such as climate change, deforestation, biodiversity and waste management.

- Social factors include issues such as labour standards, nutrition and health and safety.
- Governance includes issues such as company strategy, remuneration policies and board independence or diversity.

ESG integration is about understanding the most significant factors that an investment is exposed to, and making sure that you're compensated for any associated risk.

Sustainable investing

Although sustainable investing involves ESG integration, it takes things further by focusing on the most sustainable companies that lead their sector when it comes to ESG practices.

Both the ESG integration and sustainable investing approaches are about engaging with company management to make sure the firm is being run in the best possible way. This can mean challenging a company on its sustainability practices to encourage improvements where necessary.

Screened investing

Screening is when you decide to invest, or not to invest, based on specific criteria.

Let's say you only want to invest in companies that promote workplace diversity. Your criteria might be substantial representation of women and minorities in management-level positions, and/or the existence of diversity and inclusion policies.

You (or your fund manager) will use these factors to deliberately exclude investments that don't meet these criteria (negative screening). Or they might purposefully include those that do (positive screening).

Ethical investing

Ethical investing is an example of where screening is commonly used. Investors screen out investments that they deem unethical because they don't fit in with their ethics or values (it's also called values-based investing).

People commonly exclude so-called "sin stocks" such as alcohol, gambling, weapon manufacturing, tobacco or adult entertainment companies because they view these activities as immoral.

Impact investing

Impact investing is about putting your money to work in a way that has a specific, measurable and positive benefit to society or the environment.

This isn't to be confused with a charitable donation though. You also want to generate a return on your investment as well as promote social good.

Let's say you're passionate about education in rural communities. You can put your money into a fund that invests in companies or projects that are working towards delivering quality education in rural communities around the world. Or you can invest directly in these companies or projects yourself.

Impact investing is more common in private markets (not the stock market). Recipients tend to be small companies with clear social goals that otherwise may not have access to capital.

Thematic investing

Yup, you guessed it. This is about investing according to your chosen investment theme. Maybe your theme is “health and wellness”. In this case you’ll only want to consider funds that invest in healthy food brands or those companies focused on developing new vaccines.

Or perhaps your theme is “green investing”. If so, you’ll only invest in companies and technologies that are considered good for the environment (alternative energy generators or energy-saving technology manufacturers, for example).

The above is hardly an exhaustive list of the sustainable strategies available out there. But it should serve as a good starting point to help you understand the differences between some of the common approaches.

ABOUT THE AUTHOR

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