SIX WAYS TO SUCCEED WITH SRI

JANUS HENDERSON

Investing sustainably requires a clearly defined approach that is aligned with the financial goals of all parties and then implemented with discipline and consistency. The Global Sustainable Equity team at Janus Henderson Investors outline how this can be achieved.

With so many acronyms associated with sustainable investing, it is easy to see why it can be confusing – even frustrating – to know how to invest through an environmental and social lens.

From ‘SRI’ to ‘ESG’ to ‘SDG’, the industry arguably creates more barriers for itself than some investors are probably willing to try to overcome. Further, sustainable investing covers a wide spectrum of issues and considerations that can be incorporated differently into various asset classes and investment strategies.

While the goal is to invest with the triple bottom line of social, environmental and governance rewards in mind, alongside financial returns, there is no single way to achieve this.

Instead, we have outlined six key components for investors to keep in mind and implement when looking to develop a sustainable investment mind-set and strategy:

1 Alignment

A key factor as a starting point for investors is ensuring alignment. This comes in multiple ways: between an investor's financial goals and their own values and beliefs relating to the strategy; between an investor's financial goals and its fiduciary duty in meeting the financial objectives of stakeholders; between the investor and fund manager in terms of delivering on the mandate given and process outlined; and between the investor and the management teams of the investee companies.

2 Integration

The use of environmental, social and governance (ESG) factors needs to be integral to day-to-day operations and investment decision making, rather than a stand-alone consideration, or perhaps an afterthought. This includes integrating ESG risk factors into the broader risk management framework via formal, quantifiable and realistic limits.

3 Buy-in

Investors need to subscribe to the concept of incorporating ESG factors into their investment approach – in whatever way they do it – as a way to enhance their ability to generate stronger risk-adjusted returns for clients. Given environmental and social factors will, by their nature, play out over several years or decades, this involves investors having a sensible time horizon and also expectations.

4 Clarity of purpose

The mission and goals of ESG need to be incorporated, articulated and documented in a clear philosophy and investment process. This needs to be visible to all internal and external stakeholders, so they can understand why and how any of the 'E', 'S' or 'G' factors form part of the investment strategy and are involved in the process of generating performance.

5 Reporting

Transparency is essential in relation to the required reporting. There is an onus on investors to demonstrate that they are doing what they say they will do. Since the multiple definitions and approaches to investing sustainably can become a blur for many people, evidence of the consistency between how they articulate their philosophy and how decisions impact investment outcomes will clearly differentiate strategies.

6 Collaboration

The value of effective external partnerships is integral to delivering on the investment goals of the strategy. This means setting out a blueprint to ensure clear and effective coordination and communication with the fund manager, trustees and investment committee, and any other partners.

While there are many ways for investors to incorporate ESG factors in their portfolio, we believe in approaches that are practical and focused on making sustainable investing achievable for all types of institutions.

This will help investors ensure they can create and manage a sustainable investment strategy in a structured and consistent manner.