

Insights by Brooks Macdonald

Why investing
responsibly is
more important
than ever

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For professional advisers only



BROOKS MACDONALD

Why investing responsibly is more important than ever

The once niche market for environmental, social and governance (ESG) investments is exploding, and the outbreak of Covid-19 could prove to be a major turning point for accelerating client interest.

Sustainable funds attracted record inflows in the first quarter amid the market turmoil, according to data from Morningstar¹, and many of these funds are outperforming the broader market for the year.

At our recent [Connected webinar](#), we asked the 188 adviser attendees whether they thought the current pandemic would speed up a transition to a greener, more equitable society. The response was unequivocal, with 90% saying yes.

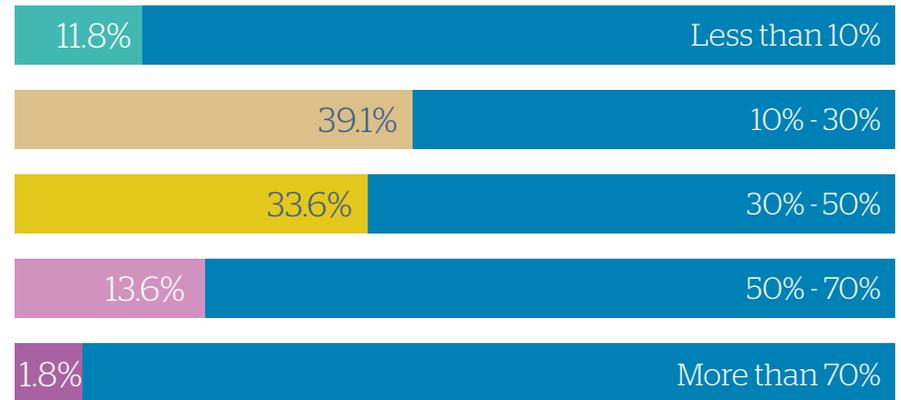
This poll chimes with research by global fund data provider FE fundinfo². It found that 55% of IFAs increased the amount of client money in ESG investments in 2019. And more than four-fifths of advisers expected demand for ESG options to rise in the coming year.

Morningstar figures have borne this out. Investors across Europe poured a record €120bn into sustainable investment options in 2019¹, while flows in the second quarter of 2020 more than doubled to \$54.6bn compared to the same period the year before³.

\$54.6bn
into sustainable funds Q2 2020

1. Morningstar. Record-Shattering Year for Sustainable Investments. February 2020.
2. FE fundinfo. Financial advice industry grew in 2019 despite rising costs and increasing regulation. April 2020
3. Morningstar. Sustainable Fund Flows Hit Record in Q2. August 2020.

We asked the following questions to 188 advisers at our recent Connected webinar: What percentage of your client bank do you think may be interested in incorporating ESG preferences into their investment portfolio ?



Do you think the COVID-19 pandemic will speed up transition towards a greener more equitable society ?



ESG issues thrown into the spotlight

The 2015 Paris Agreement was an historic turning point in the fight against climate change. Considerable public and corporate policy has since been directed towards restricting greenhouse gas emissions. This is evidenced by the numerous commitments to become net-zero between now and 2050, and the EU's 'Green Deal' focus on clean energy, transportation and smart infrastructure. Meanwhile, consumer demand for 'green' products and services continues to flourish.

The pandemic has reinforced these trends. As DWS strategists observed in a recent research note⁴, country lockdowns have "shown the ways in which the world can adapt without many of the carbon intensive activities enjoyed before the crisis."

Companies with a focus on sustainability and digitalisation are set to benefit. 'Old economy', fossil fuel-dependent corporations face being saddled with stranded assets and soaring capital costs.

But it is not just the 'E' in ESG that is receiving the focus. The pandemic and Black Lives Matter movement have amplified attention on the 'S' and 'G', putting diversity and social equality (including employment conditions and healthcare) centre stage. This focus has translated into more shareholder votes on social proposals and greater success, according to Morgan Stanley analysis⁵.

Such an emphasis can have a major impact on the bottom line. In a 2018 white paper with the University of Hamburg⁶, DWS found that corporate reputation had the strongest positive correlation with financial performance. "Consequently, how companies respond and support their employees and customers during the pandemic could have important implications for company performance," said the strategists.

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4. DWS. How Covid-19 could shape the ESG landscape for years to come. April 2020.
 5. ESG Clarity US. Long-term investors having greater impact during COVID-19. August 2020.
 6. Digging Deeper Into The ESG-Corporate Financial Performance Relationship. September 2018.

Money talks

History is already showing the performance benefits investors can achieve with an ESG-oriented strategy, and the investment case will only get stronger with time. Once seen as a values versus performance trade-off, evidence now shows investors can enjoy strong investment returns at the same time as supporting businesses that are contributing to a more sustainable planet.

Morningstar data⁷ examining almost 5,000 Europe-based funds revealed close to 60% of sustainable funds have done better than their non-ESG peers over one, three, five and 10 years.

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7. Morningstar. How Does European Sustainable Funds' Performance Measure Up? June 2020.

Why advisers should act now

ESG is the hottest topic in the investment industry at the moment, so it is vital advisers start engaging with clients on responsible investing.

- **Changing regulations** - the exact shape of future regulatory changes is not yet clear, but current proposals indicate that assessing clients' 'sustainability preferences' will become mandatory⁸.
 - **Strengthen client relationships** - discussing personal interests and values provides opportunities to build closer relationships with clients and engage them in a fresh way.
 - **Future proof your business** - a 2019 Brooks Macdonald survey of 800 individuals' views on responsible investing found that, while interest was high across age groups, among the under 40 category it was particularly marked, with 94% saying they already used a responsible investing solution or would be interested in doing so. Responsible investing therefore gives you an opportunity to connect with the next generation of clients.
 - **Performance benefits** - a growing body of evidence suggests responsible investing solutions may provide superior longer-term returns, which is broadening client motivations and interest.
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8. Draft delegated regulation amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms.

We believe that developing an approach now to assess clients' responsible investment preferences will strengthen your proposition, and help meet the needs of a growing proportion of current and future clients, and will appeal to millennial investors.

How we can help

Your clients need your advice on this critical topic. We can help you give it.

Responsible investing and ESG is rapidly developing into the issue of our times, so to help you engage with clients and assess their interest, we have developed a responsible investing suitability discussion guide which you can [download here](#).

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Contact

Please get in touch to find out how we can help guide your sustainable investment journey. We would be delighted to hear from you!

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