

Is sustainable investing going mainstream?

By Shawn Phillips, Research & Investment Analyst at Glacier by Sanlam

Some say that it doesn't matter what you think about investing in terms of Environmental, Social and Governance (ESG) principles as it is already taking shape in the global investment arena. According to Morningstar, flows into ESG funds quadrupled in 2019 in comparison to 2018. This trend seemed to accelerate in 2020. Part of this has been driven by regulation, particularly in the case of Europe. However, I also think that we as humans have played a role in this as well, as we reflected on our impact on the environment and our social impact in light of the COVID-19 pandemic. With this in mind, there seem to be two main questions when it comes to ESG investing:

1. Will I make money? – Will integrating ESG be beneficial or detrimental to the financial performance of a company?
2. Am I only doing this to feel good? – Hoping to decrease our negative footprint on the world.

With the release of the new tranche of the Glacier Sustainable World Enhancer, we thought it would be fitting to unpack the index a bit and focus on a few of the counters or companies in the index. We advocate for this to be part of a client's diversified portfolio, with an emphasis on ESG as a theme. The concept of ESG investing is constantly evolving, influenced by new information, regulation and consumer expectations. However, one can argue that initially ESG investing was about protecting the environment, but it has morphed to embrace a comprehensive definition which includes themes such as no poverty, zero hunger and gender equality. Today, it is more about a focus on delivering competitive investment returns that are also sustainable.

The Solactive Sustainable Development Goals World Index

The overall objective of the index is to select a diversified selection of companies that display high environmental, social and governance standards with a positive financial outlook. These companies also contribute to the achievement of the 17 United Nations sustainable development goals (SDGs).

Index methodology: this is assessed by Vigeo Eiris, (international provider of ESG research and services)

ESG control – exclusion of companies:

- involved in alcohol, guns, gambling, pornography, tobacco or if they are involved in critical controversies.
- that are part of the most intensive carbon emitters unless they have a robust energy transition strategy.

2. Selection of companies contributing to the SDGs –

- a significant part of their activity is dedicated to sustainable products.
- Or, they are leading sustainable behaviour in their sector.

3. Financial filters –

There are filters on liquidity, low volatility, as well as geographical and sectoral diversification.

What is the final result?

The end result is an equally weighted index comprising of 50 companies that are rebalanced on a yearly basis. There is an element of volatility control with the aim of generating stable performance. The index targets a volatility close to 8%, which is managed by switching between the equity index and cash. In practice, if volatility is low, then the index will be predominately invested in the equity index and very little cash, and vice versa. At first glance of the 50 companies, there are some familiar counters such as CVS Health Corporation, Danone, L'Oréal, SAP, Novartis and Colgate-Palmolive. With the broader counters in mind, an investor ends up with exposure to the medical industry, pharmaceutical industry, biotechnology, energy (renewables) and transport.

Let's take a closer look at two of the counters: CapitaLand Limited and Orsted.



Where is the company based?

Headquartered and listed in Singapore.

What do they do?

CapitaLand is one of Asia's largest diversified real estate groups.

Additional comments

They started their sustainability journey in 2000. CapitaLand has a 2030 Sustainability Master Plan. It aims to build a resilient and resource-efficient real estate portfolio, enable thriving and future-adaptive communities, and accelerate sustainability innovation and collaboration.



Where is the company based?

Headquarters are in Denmark.

What do they do?

Orsted is the largest energy company in Denmark.

Additional comments

Twelve years ago, Orsted (previously called DONG Energy) made most of its money from fossil fuels. Today, it is the world's leading offshore-wind power producer. Their vision is to create a world that runs entirely on green energy.

Click [here](#) for a closer look at the performances of the current constituents of the index. These returns are total return and based in euro. Please note that this does not represent the total portfolio and is intended for information purposes.

Click [here](#) to watch a video for more information on the Solactive Sustainable Development Goals World RC 8 EUR Index.

References:

- Investing in an ESG World – UBS Asset Management
- Investor Presentation – Capital Land
- Investor Presentation - Orsted
- Solactive

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