

# Sustainable investing

30 May 2022 | Dean de Nysschen, Senior Research & Investment Analyst at Glacier by Sanlam | Siobhan Cleary, ESG Specialist at Baillie Gifford

Dean de Nysschen outlined the Glacier team's approach to sustainable investing and thereafter posed some questions to Siobhan Cleary. We share some of the highlights below.

Glacier International subscribes to the benefits of sustainable, or ESG (environmental, social, governance) investing. The key point for the team is that while the investment process should contribute to the broader benefit of society as a whole - there needs to be an alignment with investor risk-return needs.

The team spends a considerable amount of time building ESG questions into the various levels of engagements they have with their investment management partners. This includes ESG-related questions being included in due diligence documentation, pragmatically making use of third-party ESG data, but most importantly requiring ESG related insights from in-person manager engagements.

The team ensures that all funds that are part of Glacier International's Navigate range explicitly incorporate ESG principles into their investment process. They acknowledge the need to do this pragmatically, though, given that not all managers will incorporate these principles in the same way i.e. fundamental managers would be expected to apply ESG integration differently to quantitatively oriented managers.

They also ensure that the portfolio managers are held to account with regards to engagement, for example when a value manager is materially exposed to the materials or energy space. The team has the objective of understanding the extent to which fund managers are playing a role in helping to create a more just and sustainable energy or materials sector.

## Q&A

Q – Baillie Gifford is long-term oriented and growth focused. How does this (long holding periods) lend itself to looking for opportunities in ESG forward businesses?

A – There are two ways to look at this. We are long-term, active investors so our primary focus is on identifying and holding long-term, growth businesses that we think will enjoy sustainable,

competitive advantages. To identify these companies, we look beyond current financial performance and do in-depth research to build up our understanding of an individual company and what the likely long-term prospects are. We also try to understand what the broader sustainability themes are, that will create specific sets of investment opportunities, e.g. the need to address climate change – how the world is responding to the climate crisis offers huge potential for innovation and disruption of existing business models – whether because of changing regulation or shifts in consumer preference.

Q – How do you balance the longer-term philosophy with the shorter-term transitions that present opportunities?

A – We always have to get back to the basics. Our primary objective is to generate long-term investment returns for clients. Different strategies will look at this and think about it in different ways. We won't say categorically that we won't invest in certain industries, but it must align with our investment philosophy. Within certain of our portfolios, we've made specific net zero commitments, but we don't exclude companies or sectors if we believe that there's a genuine long-term investment proposition. Even if the company is relatively carbon intensive, we'll look to see if we can work with them to bring the intensity down over time. The focus is always primarily on whether we believe the specific company can generate long-term investment returns for our clients.

Q – How are ESG issues typically flagged and managed within the investment process?

A – The starting point would always be to consider what impact this would have on our investment thesis for the company, but we do look to engage. That will usually start with fact-finding and trying to understand what the specific issue is. Thereafter we engage with management to understand if they're taking appropriate action – and whether that action is suitable in the context of the specific issue we're looking at. If, over time, we don't see sufficient levels of ambition, then we may vote against them or over the longer-term we may divest from the portfolio. But we always try to engage first, to effect change. It's not only about managing downside risk; it's also about identifying opportunity. Companies that disrespect the environment or cause harm to society, will probably be regulated out of business or find consumers abandoning them over time. So really what we're looking for, is companies that are going to survive because of the shifts that we see happening, for example plant-based industries and electric vehicle providers.

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