Making a difference

Maria Municchi considers ESG and its impact in multi-asset strategies

Pension schemes, looking to deliver retirement incomes, are also increasingly keen to demonstrate greater responsibility in their investment strategies. They recognise the appeal of approaches that not only target attractive returns, but invest responsibly, or sustainably, a practice that spans from ethical investing principles through environmental, social and governance (ESG) characteristics, to impact considerations.

Ethical investing usually centres on company or sector-level exclusions and typically focuses on the "moral return" over the financial return, often based on an investor's underlying beliefs.

Broad scope of ESG investing

For us, the aim of ESG investing is to identify those companies operating more sustainably and those more capable of adapting to a changing world where incorporating ESG behaviours is standard procedure.

ESG-based investing may be achieved by simple application of screens, negative or positive, to filter investments out or in. Screens can help to inform the investment decision, to ensure all factors affecting risk and return, financial and non-financial, are accounted for, focusing on whether companies meet certain qualifying characteristics, or on how their standards compare to sector peers.

Then, fundamental analysis may illuminate to how a company operates, how it uses resources, treats its workers or customers, or how transparent it is. Engagement extends that and represents working with a company trying to encourage improvement and positive action.

Proactive approach of positive impact

Impact investing takes sustainable investing further still, in considering the positive impact an investment is expected to make.

We assess investment candidates using a three-factor approach known as iii-analysis. The quality and viability of each potential investment is scrutinised alongside the declared impactful intentions (and practices) of the business and the materiality of the impact its activities have in a number of social and environmental categories, mapped against the UN Sustainable Development Goals (SDGs). Both equities and bonds may be assessed using this methodology, as can other, less-well known instruments such as green bonds and green infrastructure.

One of M&G's sustainable approaches, our positive impact strategy, seeks to deliver attractive long-term returns by investing in a concentrated portfolio of shares in companies that aim to deliver positive societal impacts.

Sustainable multi-asset strategies seeking multiple objectives

M&G's sustainable multi-asset approach integrates the benefits of flexible and diversified asset allocation with a responsible investment approach, aiming to deliver attractive long-term total returns, while considering ESG factors.

First, we filter out companies in breach of the UN Global Compact principles on human rights, labour, environment and anti-corruption. Second, we exclude companies producing goods or providing services in certain sectors. We then consider whether the ESG rating, attributed to the company or government by MSCI, meets a minimum threshold.

The ESG-screened assets within the strategy are combined with dedicated positive impact assets that we expect to deliver towards achieving the UN SDGs. This approach gives investors the opportunity of seeking attractive financial returns while contributing to a more sustainable society.

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