

# Sustainable investment in multi-asset strategies

## ✓ Maria Municchi discusses ESG considerations within multi-asset investing

Many schemes use multi-asset strategies to target growth and manage volatility throughout market cycles. Sustainable asset allocation solutions can combine the benefits of that flexible and diversified approach to pursue those outcomes with responsible investment that also considers environmental, social and governance (ESG) factors. However, such strategies take many forms. They may be tightly focused on specific initiatives or target outcomes, while others have a broader perspective for beneficial action.

### The spectrum of responsible investing



Source: M&G, illustrative as at September 2019

Asset allocation decisions are intended to be the foundations for achieving attractive long-term total returns. A sustainable approach will usually build on these foundations by constructing and dynamically managing the asset allocation from a universe of securities that meet high sustainability standards.

### Screening, integration and engagement as a foundation

A first step in achieving a portfolio with good ESG qualities is to filter out companies and governments that breach fundamental qualifying requirements or fail to meet certain standards. This could be achieved by implementing negative screens, cutting out the detrimental direct or indirect impacts on other parties of a company's activities. By the same token, a positive screen can help support organisations recognised to be doing good, or better than others, in a particular field, capturing positive influences. Overall we aim to identify those companies operating more sustainably and those more capable of adapting to a changing world where incorporating ESG behaviours is standard procedure.

Integrating ESG considerations into investment decisions that are ultimately driven by fundamental analysis and assessments of value is another step along the spectrum of sustainable investing. ESG analysis scrutinises the material extra-financial factors that may present risks and opportunities for companies and public entities, helping to inform our investment decisions and their suitability for inclusion in portfolios.

Undertaking active engagement goes further still, working with companies to encourage responsible behaviour and improvements in their processes, so they

can deliver positive outcomes.

We make use of all these tools in our sustainable multi-asset approach to asset selection and portfolio construction.

### Capturing positive impact

Impact investing takes sustainable investing further still to foster good outcomes and positive change. It focuses on companies or funds that proactively deliver or target a positive environmental or societal impact.

Investing via listed equities can make access to impact investment easier for smaller scale pension schemes, where formerly it was frequently the preserve of larger portfolios.

M&G's impact team uses a methodology that examines potential investments, bonds, equities or other instruments such as green infrastructure. We consider their quality and viability, the impactful intentions (and practices) of the business, and the materiality and measurability of the impact its activities have in a number of social and environmental categories, mapped against the UN Sustainable Development Goals. Our multi-asset strategy dedicates between 10-30 per cent of its capital to positive impact investing.

By identifying assets that demonstrate that they actively make a positive contribution, we can build a portfolio that truly encapsulates responsible investing. This approach aims to give investors the opportunity of seeking attractive financial returns while actively contributing to a more sustainable society.



Written by Maria Municchi, fund manager, multi-asset team, M&G

In association with



#### For Investment Professionals only. Not for onward distribution.

This article reflects M&G's present opinions of current market conditions. They are subject to change without notice and involve a number of assumptions which may not prove valid. Past performance is not a guide to future performance. The distribution of this article does not constitute an offer or solicitation and should not be considered as investment advice or as a recommendation of any particular security, strategy or investment product. Information given in this article has been obtained from sources believed to be reliable although M&G does not accept liability for the accuracy of the contents.

M&G Investments is a business name of M&G Investment Management Limited and is used by other companies within the Prudential Group. M&G Investment Management Limited is registered in England and Wales under number 936683 with its registered office at 10 Fenchurch Avenue, London EC3M 5AG. M&G Investment Management Limited is authorised and regulated by the Financial Conduct Authority.