From values to value: The risk of not investing sustainably

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The COVID-19 pandemic and its impact on economies, companies and individuals globally have grown to be a catalyst for sustainability becoming more intrinsic to how we do business and live our lives. The pandemic has undoubtedly refreshed and deepened our perspectives on sustainability. It can even be said the impact of COVID-19 has been an inflexion point for those previously sitting on the fence when it comes to the need for tangible action on sustainability issues.

For many investment professionals and asset owners, the focus on sustainability is increasingly viewed less as just another risk mitigation tool. When proactively and properly applied, sustainable investments can add value or alpha to portfolios.

Indeed, with sustainability gaining ground as a megatrend in recent years and becoming more pervasive among individuals, businesses and governments in their decision making, it is now a business risk *not* to be investing sustainably.

Governments stepping up their act

The incoming US President Biden has placed climate change high on his agenda. While there may be challenges in implementation, it is evident that the US will play a greater role in leading global efforts in climate action.

Encouragingly, in Asia, more countries and in particular governments and regulators, are also stepping up, joining traditional trendsetters such as Japan and South Korea in the sustainability drive. China on its part, is boosting its climate action efforts with its September promulgation to achieve carbon neutrality before 2060. It is worth noting that China made its pledge ahead of Japan and South Korea, even though its 2060 aim is 10 years behind that of its North Asian neighbours.

At home, Singapore's renaming of the Ministry of the Environment and Water Resources to the Ministry of Sustainability and the Environment is a clear statement of our government's intent and response to what Prime Minister Lee Hsien Loong referred to as an "existential" threat in his National Day Rally speech in 2019 – climate change.

We should not underestimate the collective top-down impact from such actions as these public authorities have the power to employ both carrots and sticks to propel the momentum in the drive towards sustainability.

Greater urgency to deal with ESG issues

For its part, the investment community has an integral role in channelling funds to support sustainable enterprises and business models.

Amid the impact from the pandemic in 2020, there has been a greater urgency for companies to devote more attention towards issues such as environmental impact, labour conditions and human capital management. The need for more sustainable and responsible business practices stems from an enlightened view of a world in which our future generations can thrive.

With the greater access to capital comes higher expectations and bigger responsibilities. Companies will be better incentivised to manage the impact of environmental, social and governance (ESG) issues on their business policies, processes and practices.

In 2020, we have also seen the push for a more structured approach to achieve the United Nations' (UN) Sustainable Development Goals (SDGs). The UN-supported Principles for Responsible Investment (PRI) released a new framework that highlights how investors can help drive the SDGs through their investment decisions, stewardship of investees and engagement with key stakeholders. The PRI further issued guidelines and consultations to help asset owners systemically inject ESG considerations into their mandates when dealing with investment managers.

To that end, more asset owners in Asia – from sovereign wealth funds and public institutions to family offices and corporate investors – have taken the cue and are now taking a much more proactive stance towards incorporating sustainability into their investments.

Complementary, not conflicting

The focus of sustainability in investments has also evolved from simple negative screening and exclusion – excluding particular objectionable assets in investment portfolios – to a more holistic approach through integration of definable ESG criteria and methodology into investment processes. It adds another dimension to the reputational risks at stake for investment managers if the investee companies are impacted negatively by their missteps in any of the ESG domains.

Investment processes can also be further refined to incorporate non-financial indicators such as those relating to climate risks and social impact, for instance employee healthcare, workplace equality and community development.

In essence, sustainability is not in conflict but should rather be seen as complementary to traditional investment concepts and financial performance yardsticks.

Role of technology in sustainable investing

The advancement of technology means it can play a bigger role in enabling sustainable investing. For example, the use of big data analytics can help to enhance data gathering to capture the necessary information for investment managers and investors to evaluate how their sustainable investing goals can be met.

In this respect, financial technology (FinTech) companies can play a pivotal role in the development by working with both asset owners and investment managers. At UOB Asset Management, we are already exploring such collaborative partnerships, such as with Value3 Advisory to tap FinTech in order to embed ESG considerations into our credit rating model for bonds.

Change in mindset required
While sustainable investing may have edged closer to the fore of the mainstream, there are still investors and even investment professionals who remain sceptical and perceive ESG as being at odds with the delivery of investment performance.

For me, I view it as a cup half full in that sustainable investing is a relatively nascent trend in Asia and that the hurdles of doubt and inertia are surmountable in the long term. As the global experience with COVID-19 has revealed in our collective human nature, we can overcome the natural resistance to change and to discover new thinking and behaviours.

I am a believer of the notion of “from values to value.” I see a strong nexus between our human values on the common good and the financial value which investment professionals take pride in assessing during the course of our work. This is why at UOB Asset Management, sustainability is an expression of our focus on quality in our investment philosophy.

As a signatory to the UN-supported PRI, we strive to develop our internal capabilities continually through initiatives such as our newly set-up Sustainability Academy. We also offer and constantly enhance our sustainable investing solutions to help our clients make a meaningful difference through their investments.

That in a nutshell is what sustainable investing should aspire to – forging a sustainable future for ourselves and for the generations to come.