Sustainable investing - fast becoming a non-negotiable for younger investors

Issued by Glacier by Sanlam

The term “sustainable investing”, describes investments that aim to produce positive returns as well as a positive long-term impact on society, the environment and the overall performance of a business.

The relevance of ESG factors

Some asset managers began including ESG (environmental, social, governance) factors in their company analysis a few years back, to determine if these are relevant to the company’s performance. As an example, San Francisco-based Dodge & Cox – the manager behind the Glacier Global Stock Feeder Fund – believes governance factors are material for every company. The asset manager invests for the long term and looks for sustainable practices in the companies it invests in. Key is to understand how decisions are made and how key risks are managed.

Environmental factors include emissions and pollution; raw material sourcing; and supply chain management.
Social factors include community relations; customer satisfaction; and safety practices.
Governance factors include board structure; management incentive structures; shareholder rights; and capital allocation.

According to a recent paper from McKinsey and the World Economic Forum it’s clear that changing climate conditions and nature loss are closely linked. We’ve also seen an increasing commitment from the private sector to look at ways to reduce their collective carbon footprint.

Looking beyond the COVID-19 pandemic, there’s a general consensus that curbing greenhouse-gas emissions and protecting the natural environment are critical to an overall global economic recovery. According to the World Economic Forum’s 2021 global risk report, extreme weather, climate action failure and human environmental damage are rated as the top risks, most likely to happen and with the most material impact.

Francis Marais, Head of Glacier Research, says that sustainable investing is about creating long-term sustainable value for the companies, the consumers and investors, as well as the environment. "Understandably someone drawing a retirement income is going to be more focused on higher returns, whereas a younger investor who is a lot further away from retirement is likely to be more focused on the environment," he says. "But it doesn't have to be a trade-off – sustainable investing can also deliver good returns."

How are companies responding?

While the pandemic has brought challenges and suffering, it has also caused people to be more aware of how they live, what they consume and how they allocate their spending, and companies are taking note of this. Overall, we're seeing more and more instances of companies proactively taking steps to improve the sustainability of their operations. A few examples include the following:
In 2010, a major US motor manufacturer set a goal to use 30% less water per car by 2014. We also saw a personal-care products manufacturer partner with a water-technology company to assist in meeting its sustainability goals for one of its plants in a water-scarce area of Mexico. In 2014, a leading clothing manufacturer set sustainability reporting standards for its suppliers by requiring them to meet certain limits in terms of recycling (especially with regards to water) and reusing materials.

A new generation of investors seeks sustainable investments

Millennials have been seen to care more about sustainability than previous generations. According to the World Economic Forum, they are twice as likely to invest in companies with ESG goals; 90% want sustainable investing as an option on their retirement plans (or 401K plans as they are known in the US); 75% believe investments can influence change; and 84% believe it can alleviate poverty.
Much has been said about the upcoming wealth transfer. Over the next two decades, baby boomers in the US will transfer at least $30 trillion in wealth to the next generation. This has vast implications for sustainable investing and for investment managers and advisers too.

What about performance?

With the global pandemic came a level of market volatility last seen with the global financial crisis. Interestingly, sustainable investments (using the MSCI ACWI ESG Leaders Index as a proxy) outperformed regular investments (using the MSCI ACWI Index as a proxy) in Q1 of 2020. While the ESG Leaders Index experienced a drawdown, this drawdown was not as severe as the MSCI ACWI. Over the longer term, the ESG Leaders Index has kept pace with the MSCI ACWI and has marginally outperformed the index over the past seven years and ten years as at the end of April 2021. This return was 10.12% and 9.60% in US dollars, respectively.

Despite the increased attention, sustainable investing still has a way to go to become mainstream – particularly in South Africa. This is largely due to incorrect perceptions that there has to be a trade-off between performance and sustainability.

In a 2019 study, Morgan Stanley noted that eight out of ten respondents were interested in sustainable investing, but that only 52% of respondents were actually doing so. These figures are higher when it comes to millennials. 95% of millennials were interested in sustainable investing and 67% were actually going ahead with those investments.

It is expected that this trend will increase at a faster pace once the global pandemic settles and as investors become more aware of, and interested in, how companies operate, how they treat their employees and other stakeholders and how sustainable their business practices are.

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The Glacier Sustainable World Enhancer

The **Glacier Sustainable World Enhancer (**open to investments until 23 July 2021, with more issues to follow in 2021) lets investors grow their capital while contributing to global sustainable development goals at the same time.

It is a five-year, tax-efficient, structured investment that provides the certainty of capital protection and is set up in the Glacier Vantage Plan (a sinking fund policy underwritten by Sanlam Life Insurance Limited).

The Glacier Sustainable World Enhancer caters to investors' changing demands when it comes to investing. At the core of the Glacier Sustainable World Enhancer are the ESG factors that are essentially the solutions behind the problems facing us.

Click here to access the latest brochures or to watch a video on the Solactive Sustainable Development Goals World RC 8 EUR Index.

Read more about the role of the Glacier Sustainable World Enhancer in a diversified portfolio here and more about the index here.

Sources:
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The Glacier Sustainable World Enhancer is set up in a sinking fund policy underwritten by Sanlam Life Insurance Limited

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