The state of sustainable investments 2022: Key takeaways

Sustainable investments seem to be on everyone's agenda. With new, complex frameworks, increasing legislation and regulations, and stakeholders' expectations higher than ever – there is a rising need to manage portfolio impact and risks, boost ESG performance, and assess data and comparability.

Our Chief Client Officer, James Gow, sat on the panel of 'The state of sustainable investments 2022 – ESG challenges, trends and insights', a recent webinar hosted by our ESG and sustainability platform partner, Worldfavor. Here are his key takeaways:

Materiality: focus on what's relevant

While standardisation is important, adopting a one-size-fits-all approach to all industries and sectors may result in missing out on important data and reducing your chances to make a genuine impact. With a wide range of non-traditional data sets spanning the full spectrum of environmental, social and governance factors to consider, determining which are most relevant will be more effective and give more accurate results. For example, a tech company will need to be assessed against very different factors to a manufacturing company in order to determine the real ESG performance of each. The ability to measure relevant ESG performance is essential to improve the sustainability performance of your portfolio.

ESG data helps to drive performance

The organisations that are really leading the way are those that link ESG data to real outcomes, instead of just seeing it as a data collection exercise. Stakeholders are more likely to engage with the process of data collection if it drives change, value and if they're able to compare their progress to peers or industry benchmarks. ESG data can be a useful tool in making more informed investment decisions, by painting a bigger picture of an organisation, current or future financial and reputational risks and its socio-economic impact compared to its peers.

Conversation and collaboration are key

Sustainability reporting shouldn't solely be geared towards what investors and regulators want to know. Identifying and talking to those who affect and are affected by a company's actions can play a vital role in shaping reporting practices. For example, there needs to be alignment and communication between the investors and portfolio company to understand the impact and challenges that a portfolio company is having towards sustainability. Joining forces with all your stakeholders and opening up dialogue is critical to driving engagement and, therefore, change.

ESG KPIs are no longer an afterthought

Financial reporting and sustainability reporting are becoming more and more interlinked, and CFOs are now often taking clear responsibility for both financial and non-financial reporting. Strengthening financial reporting to reflect the impact of ESG considerations can assist in recognising the financial consequences of sustainability risks and opportunities. Ultimately, sustainability KPIs need to be fully integrated on the agenda and given equal footing with other KPIs.

Standardisation is on the way

Aligning your portfolio with reporting frameworks will make it easier for important stakeholders to access, interpret and compare relevant data, and help your organisation internally, too. We're seeing clients consider a range of frameworks but there is a move towards standardisation, as an example through the Data Convergence Project, plus the recent announcement from the International Financial Reporting Standards Board (IFRS) of a new International Sustainability Standards Board (ISSB), which will develop a comprehensive global baseline of sustainability standards. These are important developments that hopefully start to add much needed standardisation for sustainability reporting.

Shades of green: impact investing vs investing with impact

There is a difference between investing in an impact fund and investing in an ESG committed fund. Investors need to understand how and why to invest in solutions that address the global challenge, but also need to assist companies on their journey to becoming more sustainable. Transforming existing companies is just as important as investing in solutions that address the global challenge.

Outsourcing is on the rise

Our clients are being asked for more and more information by investors, regulators and financial institutions, which is in turn driving the need for more up to the minute ESG data. This causes increased time commitments for back office and middle office roles, and many don't have the resources of dedicated teams to do this work in-house. Outsourcing sustainability reporting allows those with limited resources to focus on other business critical matters, while ensuring that they have the support to stay on top of the rapidly changing ESG landscape and regulatory obligations.

Find out more about our alliance with Worldfavor **here**.