ESG factors ‘often mispriced by market’

By Andrew Mason (SRI analyst at Standard Life Investments)

Why should consumers consider responsible investing as a strategy to generate returns?

If we accept that environmental, social and governance (ESG) issues can have a positive or negative impact on a company’s financial performance, we must also accept we have a fiduciary duty to consider these impacts.

The types of events to look out for can include a pharma giant gaining its licence to operate through social initiatives, or a bank receiving a fine due to poor governance. We have a responsibility to exercise our rights as asset owners, and part of that is to encourage companies to act upon ESG issues, and by doing so offer long-term financial success.

What are the Principles for Responsible Investment?

The Principles for Responsible Investment (PRI) were developed by an international group of investors and convened by the UN Secretary General. Six key principles are at its core, aiming to ensure there is recognition environmental, social and governance issues can affect investment performance.

Members represent over $30trn of AUM.

How has a focus on ESG improved investment processes?

According to a report by the International Integrated Reporting Council, the market value of intangible assets for S&P 500 companies increased from 17% to 80% between 1975 and 2010. ESG indicators offer a useful instrument to evaluate these assets and how they are being managed.

One of the most predominant means of assessment applied to the investment process is through active ownership and engagement.

Over the past ten to 15 years, we have seen the increased growth of active ownership on environmental and social issues

ESG factors are often mispriced by the market as well, and that means promoting improved ESG practices can add financial value and offer better long-term returns.

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