



A closer look at sustainable investment

Once you've made a decision to get involved in sustainable investment and have some idea of what your priorities are, the next step is finding the right approach for you.

Every year more and more sustainable funds are being launched, and more and more investment providers are embedding sustainability into all that they do, giving investors an ever-increasing range of options to choose from. However, making comparisons requires some careful thought.

Sustainable funds, for example, can have a variety of labels (like socially responsible, green or ethical) and there is yet no standardised way of rating them or verifying their credentials.

These are a few pointers that may help you on your journey to finding the right approach for you, and that will be explain throughout this article



Find out more

You can read more about identifying your priorities as a sustainable investor in [The Sustainable Investment Movement](#).

1. Research your investment provider

There is much more to sustainable investment than the different types of sustainable funds you can choose from. It's worth researching how committed any investment fund provider is to embedding sustainability across their business.

This can cover everything from how they deal with suppliers and treat their staff, to diversity on their board, to the things they take into account as standard when investing your money, whether it's in a fund that's specifically labelled sustainable or not.

One important element is a dedicated sustainable investment research team, particularly where a provider has developed their own methodology with those attitudes, priorities and values embedded throughout the investment process.

Leading by example

Santander Group's annual report¹ is a useful example, containing easy to access information on our values, our actions and how we benefit others.

We also have a supplement² which looks at our environmental, social and governance practices in more detail. Making ourselves and our actions transparent to our customers is a key part of our journey towards sustainability.

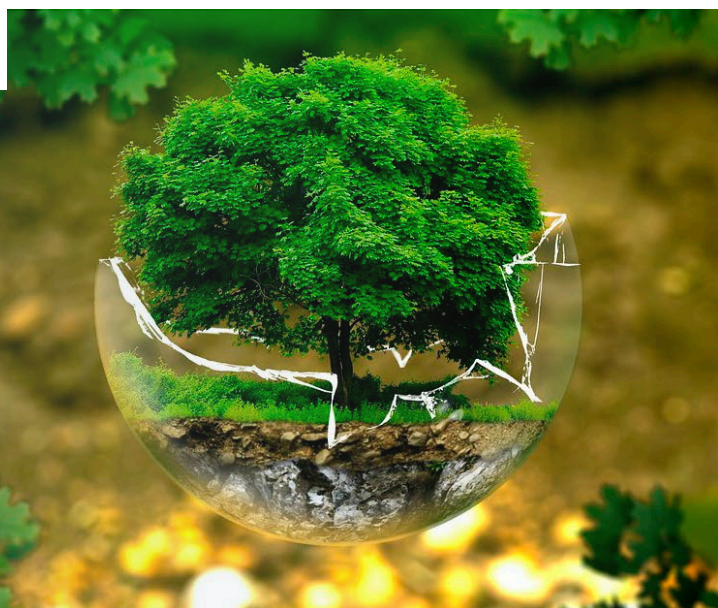
There's a growing belief that embedding sustainability into businesses can contribute towards investment returns. Studies have shown that companies operating on strong positive principles with good governance are more likely over the long term to be more profitable than those which do not³. They can also be subject to less reputational risk – for example from incidents such as environmental damage or accusations of poor working conditions.

Research will also help you weed out any potential investment providers paying lip service and identify the companies that are truly embracing sustainability and putting it into practice. Our global Sustainable and Responsible Investment (SRI) policy, sustainability policy and engagement policy are open to all on the [Santander Asset Management](#) website.

Watch out for greenwashing

This is when a company makes false or misleading claims about its sustainability. You can find out more about how to spot greenwashing in

[Your guide to ESG](#)



⁽¹⁾ Santander – [2019 Annual Report](#)

⁽²⁾ Santander – [Environmental, Social and Governance Supplement 2019](#)

⁽³⁾ Pensions & Investments – [ISS study links ESG performance to profitability](#), 9/1/20



2. Consider your investment style

It's possible to be a sustainable investor following a passive or an active management style. Whether one or the other, or a mix of both is right for you will depend on your personal circumstances.



Passive Funds

Will track one or more market indices, such as the MSCI Environmental, Social and Governance (ESG) indices.

The sustainability credentials of passive funds rely on the decisions that third-party index providers have made. You would need to research the index provider's approach to understand if you were comfortable it aligned with your sustainable priorities.



Active Funds

Are constantly analysing data to make expert, researched decisions about which companies the fund invests in to meet its investment objectives.

Sustainability credentials depend largely on two things. The provider's depth of commitment to sustainability across its business, as we've already seen, and the specific investment objectives, priorities and process for each individual fund it offers.

One thing you could look for is whether they use a sustainability ratings model of some kind (as we do at Santander Asset Management, where we have developed our own methodology) and how that works. Another thing you can do is check on the fund's largest holdings – this information is commonly made available and gives you the opportunity to look into the sustainability credentials of each of these holdings directly if you wish.

Regulators in markets around the world require funds to provide information to investors so they can make an informed decision on whether it is right for them. You'll need to read this to research passive and active funds and it will include information on the charges you can expect to pay too.

3. Sustainable investment credentials may not be obvious

When you think of the types of companies you might expect to be held in sustainable investment funds, a few obvious ones likely spring to mind: manufacturers of renewable energy for example.

But many companies and industries are now incorporating sustainability into their culture, including the largest. Tech giants such as Apple and Microsoft integrate ESG factors into their business models.

Another example is real estate. The sector is adopting various ESG-friendly measures into house building such as using sustainable materials and renewable energy.

A look back at history

Looking back at the history of sustainable investment, particularly its roots, reveals examples of investing in companies in line with beliefs and values.

One of the earliest sustainable funds, PAX World, was set up in 1971 by two United Methodist ministers to avoid investing church funds in companies that were contributing to the Vietnam war.⁴

The idea of socially responsible investment (SRI) has continued to develop ever since, often driven by political movements. Wide-spread divestment of funds from South Africa in the 1980s is considered to have been instrumental in bringing about the end of the apartheid regime.⁵

As sustainable investment moves farther from niche to mainstream, the range of investment options, what they invest in and their providers will continue to expand. It's important to know what to look for when making investment decisions.

4. You can always ask for help

If you're unsure about choosing sustainable investments you may want to speak to a professional financial adviser. They can help you to work through your priorities and do your research, so you can be confident you are investing into options that are suitable for both your priorities as a sustainable investor and your broader financial planning needs.

A model for the future

Santander Asset Management was the first asset manager in Spain to integrate ESG factors into our research, our investment platform and product range. Building from there we've used our years of experience and expertise to develop our own ESG ratings model for use across our global business.



⁽⁴⁾ Influence Watch – Pax World Funds

⁽⁵⁾ S&P Global – Sustainability in South Africa – 23 July 2019

Disclaimer

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