ESG investing goes mainstream – the Guernsey Green Fund

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Until recently, ethical investing was seen as an expensive fad, sacrificing returns for principles. However, the fad has not gone away. In fact it seems to be gaining in validity and attracting increasing amounts of investment capital. There is also mounting evidence that investing in companies that are actively working to improve the environment and society and those that are operating according to good governance principles (collectively called ESG investments) over the long term is actually producing returns which match more traditional strategies in 'sin stocks' such as companies producing tobacco, guns and alcohol.

Many mainstream banks and large fund managers now have an ESG investment strategy platform, including JP Morgan, PIMCO, Blackrock, Bank of America and Morgan Stanley and asset allocations have followed. According to the Global Sustainable Investment Alliance 3rd report there were $22 trillion of assets managed under responsible investing strategies globally in 2016, which was up 25% from 2014. According to JP Morgan, the majority of this investment has been in the bond market and over half of ESG investments are managed in Europe. Separately, JP Morgan has seen the AUM of global ESG ETFs increase from $4.97 billion in January 2016 to $11 billion AUM in global ESG ETFs by mid-2017, suggesting the growth in such strategies is continuing apace.

But what is meant by ESG investing?

Part of the criticism of ESG investing is that the terms environmental, social and governance investing are hard to define and are used fluidly. Furthermore, there can be difficulty in determining if a particular investment actually falls squarely within the category as many investments have a mixed character when applying ESG criteria. As a result, benchmarking performance of ESG funds can be difficult as there is no consistent set of criteria and can lead to investor confusion and scepticism.

The issue of what comprises an ESG investment has been looked at by various bodies including the UN, which has set out its own Principles for Responsible Investing. Other groups have concentrated on defining specific activities, including the joint finance group of multilateral development banks, who have produced a list of activities which seeks to provide a comprehensive framework of activities which encompasses climate change mitigation. This latter list has been adopted as the first set of standards by the Guernsey Financial Services Commission for their new Guernsey Green Fund wrapper for authorised and registered Guernsey funds. The Guernsey Green Fund is available to funds which have the objective of a net positive outcome on the planet's environment and at least 75% of their investments fall within the development bank's list. It is designed to provide certainty and clarity regarding the investment parameters of investment portfolios bearing the kitemark. The Guernsey Green Fund designation is understood to be the first of its kind and, in addition to providing investors with a valuable assurance, should allow for accurate benchmarking within the sector if adopted by enough funds.

There is no doubt that investors are increasingly looking to invest in companies and fund products that align with their views and lifestyles and which are promoting a cleaner, safer and more equal future. In addition, government funded grants for research and development of clean technologies continue to be made. Given this, the sector looks set to continue to grow, to the benefit of us all and contributing to a net positive outcome on the planet's environment.

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