Environmental, Social, Governance (ESG): FOMO Not Fundamentals For Some.

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Environmental, Social, Governance, or ESG, which began as lightning in a bottle, has **rapidly become a core consideration** and today falls well within the approach known as, "*Responsible Investing*".

After the economic downturn in 2008, many affluent families began to question how their investments were being managed, resulting in a growing interest in the concept of responsible investing, which was thought to be an enhanced way of preserving prosperity, bridging generational divides and creating greater cohesion for families around the continuity of their wealth, its impact and their legacy.

Following this advisors today are unsurprisingly **confronted with growing client demand for ESG integration, a tidal wave of disorderly data and uncertainty about the extent to which ESG analysis can improve investment decisions and to complicate matters**, neither these managers nor investors alike have the tools, data or proper incentives to assess and price ESG risks and opportunities effectively.

Where philosophy smacks up against reality is in the sister concept of Corporate Social Responsibility, or CSR, which is a self-regulating business model that helps a company be socially accountable, to itself, its stakeholders and the public.

CSR began as a movement in the American corporate landscape and it today acquires even more salience in light of the perceived rollback of human rights protections around the world, setbacks to the environmental movement such as the United States' rejection of the Paris Agreement on climate and the weakening of US Environmental Protection Agency (EPA) regulations under President Trump.

To harmonise these requirements, expectations and challenges, investors and their advisors need to take custody

of their own ESG requirements and seek illumination across the surface areas of their own knowledge base.

Fortunately, there are burgeoning techniques and sources of clarity which can help the savvy self-directed investor and wealth manager separate the wheat from the chaff.

Like most things in life, techniques rooted in common sense can often shed an important guiding light – for instance, when it comes to ESG selection, issues change but collective morality remains constant which means that consistent investment optimisation can only be achieved by identifying what is right opposed to what is new or on trend.

Laws and bureaucracies have been created to uphold the cause of the environment, adding institutional expansionary dynamics to moral creep.

ESG is fast becoming a regulatory and prudential requirement and these actors naturally create more regulations, both in the real economy but also in financial and investment landscapes.

An economy of green moralism has emerged, with expensive recycling schemes, eco-friendly manufacturing and all sorts of eco-taxes and this has led to "*greenwashing*", which fails CSR corporate disclosures and unsurprisingly leads to subpar performance.

Also, an investment managers skill with investing means little to nothing when ascertaining their wares when it comes to the sciences and rigour behind ESG – an easy litmus test for this is seeking out advisors whom do not lien on the outmoded reactionary and exclusionary controls that were in vogue twenty years ago.

The world and investing have changed, the bar has lifted.

Smarter investing embraces sustainability and wherever one stands on global warming or climate change, everyone can agree that outmoded practices can be improved and that a shift towards better efficiencies, smarter sciences and more innovative norms are now the better way forward.

Fortunately for Australian investors, sustainable investment assets are increasingly available, both by means of independent and audited practitioners, such as the **collaboration between Standard & Poors and SAM, a unit of RobecoSAM,** the world's preeminent sustainable investing specialist and also directly in markets ranging across Asia, the US and Europe.

Sustainable investment assets topped US$30 trillion globally in 2018, with Japan leading the way with impressive annualised growth of 114 percent annually, since 2015.

This is thanks in large part to the increased investor engagement following the launch of the Japanese "*Stewardship Code*", which took CSR and ESG disclosures one step past the current sustainability report status quo.

Mobilising private investment to generate, not just economic value but also social and environmental value, represents the best strategy for Australia and Australians, given the profound societal challenges ahead and the ever-present need to modulate the amount of accepted risk – a host of factors complicate evaluations of the relationship between ESG and financial performance but as Australian Standfirst's **Posthumous Patron, Professor Michael McKenzie** taught us, "*The main tip is to have a very clear vision of what it is your portfolio is trying to achieve before you start to invest; Responsible investing begins and ends with you.*" ■

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