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by Standard Chartered's Chief Investment Office

Sustainable investing tips based on Sun Tze's Art of War

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As a teenager, my parents decided that rather than buying me presents, they would purchase equities as my birthday and Christmas gifts. That started my foray into investments. I was an idealistic teenager and one of the early decisions I made was to exclude companies that were involved in practices and industries I did not believe in within my portfolio. I made one such decision which turned out to be a great decision in years to come. That said, the exclusions approach has not always worked out for investors and one of the comments I commonly get is whether sustainable investments will perform well or is it just about feeling good. Can one really do good and do well?

Taking inspiration from Sun Tze's Art of War, here are some considerations for investors thinking about sustainable investing.

1 "In the midst of chaos, there is also opportunity"

In 2020, amidst the Covid-19 pandemic, ESG funds outperformed their traditional counterparts. A BlackRock study found that 94% of sustainable indexes outperformed in Q1 2020's Covid-19 market drop[1]. Three-quarters of sustainable indexes also did better than traditional indexes in market downturns from 2015 through 2018. Diversifying your portfolio to include sustainable solutions can help improve the resilience of your investments.

2 "Opportunities multiply as they are seized."

There is an increased focus on ESG issues and investors who understand and seize this can stay ahead of key trends. Take for example the theme of climate, there is a $29 trillion opportunity to capture in the transition to a low carbon economy. With the ongoing Russia-Ukraine war, there is a renewed focus on renewable energy and clean energy and governments and companies worldwide continue to sign up to net zero commitments. We also see an increase in climate regulation and these factors are driving the momentum behind climate investing.

3 "The greatest victory is that which requires no battle."

Companies that manage well their ESG risks are those that will be the winners of tomorrow, minimising reputational or regulatory battles. A 2019 study showed that ESG controversies wiped US$500 billion off value of US companies[2], while a report from Refinitiv estimates US$4 trillion worth of carbon taxes to be paid by firms, which could translate to a hit of revenue of as much as 13% for companies. ESG factors such as physical climate risks, supply chain disruptions can have a significant material impact on companies if not managed well and investors should be aware of what these issues are.

A number of years have now passed since I was an idealistic youth and my approach to sustainable investing has evolved beyond just exclusions.

What I have learnt over the years is being clear on what I would like to achieve with sustainable investing is critical. "Know yourself and you will win all battles". Some investors are keen on making a difference with their capital and aligning their values with their investments. Others see sustainable investing as an opportunity to build a more resilient portfolio, taking into consideration material environmental, social and governance factors for both risk management and the capturing of opportunities brought about by macro structural trends. Whatever the objective, it is important that you choose the approach and strategies that best align with the outcomes you target.

1 Source: Sustainable investing: resilience amid uncertainty, BlackRock, May 2020
2 Source: ESG controversies wipe $500 billion off value of US companies, Financial Times, Dec 2019

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