

# Environmental, Social, Governance Investing

## ESG INVESTING EXPLAINED

Environmental, social and governance (ESG) considerations have gained more recognition in recent years. More and more, investors want to invest sustainably: they want to combine investing for a financial return while making a positive contribution to the environment, society or both. It is now widely recognised that the ESG aspects of a company's activities can have a material influence on its ability to deliver long-term returns to its investors.

ESG factors are useful indicators of a company's overall strength, how it is likely to perform in the future, as well as risks that could impact its prospects.

ESG factors are constantly evolving, but can include the following:



### Environmental – a company's approach to conservation and sustainability:

- management of waste and pollution, including greenhouse gases
- contribution to or controls of impact on climate change
- management of natural resources including water



### Social - a company's consideration of people and relationships:

- treatment of employees and their working conditions
- valuing human rights and its stance on child labour and slavery
- considerations as to impact on wider stakeholders and society, including local communities and animal welfare



### Governance – a company's standards for the way they run their business:

- approaches to diversity and how it structures its board
- rewards and payment of executives
- limits its exposure to corrupt practices and deals with bribery
- makes, declares or avoids political donations

## THE BENEFITS OF AN ESG APPROACH

### Opportunity for better long-term returns

There was once a widely held perception that investors might need to sacrifice the potential for decent investment performance in order to invest ethically.

This debate has moved on considerably in recent years and there is now a weight of research showing companies that take their ESG responsibilities seriously are more likely to outperform their less well-managed peers.

Selecting companies that focus on the social and economic impact of their activities does not have to mean compromising on performance; in fact quite the opposite can be true.

### An indicator of quality

By scoring companies on ESG factors, investment managers can gauge if a company may be exposing itself to risks that could impact its earnings. They can also be excellent indicators of any 'red flag' warnings that could affect future investment performance of a company, such as deterioration in operations or possibility of bankruptcy – ultimately helping reduce long-term investment risk. Considering ESG issues helps to significantly improve the assessment of a company's quality.



## Transparency

An ESG investment approach by its very nature encourages transparency, with investors increasingly demanding clarity on where and how their money is being invested. Companies that take their corporate responsibilities seriously tend to operate more openly, have measurable outcomes and are able to publicly communicate their ESG practices.

Financial Advice Centre engage with top investment companies to ensure we have fund solutions available to our clients that meet the highest possible standards.

For instance we work with our investment partners to ensure:

- Investment managers have signed up to the United Nations Principles for Responsible Investment (PRI) and we review recent assessment reports.
- We review their processes and policies outlining how they incorporate (ESG) issues into the investment decision making as well as how they monitor and evaluate compliance with the policy.
- We are fully abreast of any voting and exclusion policies and voting track record.
- We review their engagement policy and are updated regularly on the ESG research and sources used to make decisions.

At Financial Advice Centre, we are passionate about social responsibility so ESG investment ties in perfectly with our company ethos. We are happy to provide you further information in line with your individual needs and financial objectives.

## Questions to consider when speaking to your Adviser about ESG Investing

- How strongly do you feel about environmental factors such as climate change, and a company's environmental footprint and activities?
- How strongly do you feel about issues involving corporate governance (the way a company is run)? What about social issues such as diversity, equal opportunities and working conditions?
- How important is it to you to invest in companies that take environmental, social and governance - or 'ESG' factors - into account?

## ABOUT FINANCIAL ADVICE CENTRE

Financial Advice Centre is a team of Worcestershire based Independent Financial Advisers (IFA's) and Wealth Managers. Founded in 1999, the team has grown to become a leading West Midlands based firm recognised for progressive thinking and a refreshing, transparent approach to managing and advising on client funds. Our team of IFA's have deep technical expertise and offer an innovative approach to financial advice as seen through our proven pedigree of successful strategies in these areas:

- Bespoke Investment Strategies
- Retirement Planning Solutions
- Pension Drawdown and Freedoms
- Wealth Management
- Inheritance Tax Planning
- Mortgages
- Life Assurance and Protection

We are active Advisers with a unique charging structure focussed on building long term relationships and consistently adding value to clients' investment propositions. Our aim is to provide a service that is both forward-thinking and independent to help clients achieve their financial objectives. Clients choose to work with us because we simplify a complicated financial environment and consistently deliver results in a way that's easy to understand.

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