

ESG Integration: What is Working?

How do investment directors actively integrate environment, social, and governance into their investment decisions? At the ESG Integration panel, we heard from four industry leaders on their approaches to incorporating this strategy into their own portfolios. Let's take a look at what is working for them.

Antti Savilaakso, partner at Auriel Capital, runs an ESG based market neutral long/short hedge fund. Auriel's strategy is to be "long on the good and short on the bad", as Savilaakso told the audience. In his view, the current system does not breed sustainable development, and that ESG investing is prudent, under appreciated, and is the right thing to do. This point is further emphasized in light of the global shift from "carbon heavy" to "carbon light" economies and decreasing energy intensity; ESG investing positions oneself to capitalize on this shift. In Savilaakso's view, decarbonizing portfolios are a good start, but by shorting the "bad" and using the premiums to take long positions in the "good", investors can leverage their impact as far as their risk appetite allows.

Sandra Carlisle, of Newton Investment Management, however, takes a different approach to ESG integration. Her fund is a long only equity and fixed income plain vanilla fund. The fund has been practicing ESG for over 40 years, and, like Antti Savilaakso, Carlisle believes that ESG investing is simply a better investment strategy – not by taking a moral position, but rather the risk adjusted returns are simply better. Carlisle also emphasized the importance of taking an active role in using proxy votes to change company behaviors as another means of promoting ESG in their investments.

Shinya Tsujimoto of Nippon Life Global Investors Singapore Limited shared a very different experience with ESG investing. Unlike Carlisle and Savilaakso, who's portfolios are focused on Western markets, Tsujimoto's Eastern focus brings along a set of unique challenges. As he highlighted, ESG in Eastern markets is less well known and less practiced, largely due to cultural, language, and regulatory differences. However, there are indeed enough opportunities to invest using positive selection screens and to create alpha. In Tsujimoto view, ESG opportunities in Eastern markets are underestimated and are a worthwhile investment.

Fredric Nyström, head of responsible investment at Öhman, a family owned fund, like the other panelists, believes that ESG performance and financial performance go hand in hand. Moreover, ignoring ESG and prioritizing profits breeds scandals such as VW's Dieselgate and BP's gulf coast oil spill. Companies who do choose to focus on ESG tend to innovate sustainable business models and have a long term positive impact on the real economy and climate change.

While each panelist believes in the fundamental value of ESG investing, they also showed us that there is more than one way to skin the proverbial cat.

Guest Blog Post by Andrew G. Wong about the workshop "ESG Integration - What is working?" at TBLI CONFERENCE NORDIC 2016 in Stockholm. The moderator, Ulrika Hasselgren: Managing Director, Head of Sustainable & Responsible Investment - ISS Institutional Shareholder Services - Sweden was joined on the panel by Antti Savilaakso: Partner at Auriel Capital, Sandra Carlisle: Head of Responsible Investment at Newton Investment Management, Shinya Tsujimoto: CEO of Nippon Life Global Investors Singapore Limited, and Fredric Nostrum, Head of Responsible Investment at Öhman.

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