PJ AIKEN LTD
INDEPENDENT FINANCIAL ADVISERS

Understanding ESG

Like any investment decision, we believe the first and most important step in aligning your investments with your values starts with you. That’s why, at P J Aiken, we take time to not only understand your individual circumstances, and goals, but to understand your values, beliefs, and your priorities. The desire to invest responsibly has never been stronger among investors. While socially responsible investing (SRI) can take on many forms, it generally involves integrating some combination of environmental, social and governance (ESG) factors, ethical values, or investing in a way that impacts or promotes global sustainability.

What factors does ESG incorporate?

Environmental	Social	Governance
Climate change, pollution & waste, urbanisation, resource scarcity	Human rights, labour conditions, health & safety, equal opportunities, data security	Board independence, executive compensation, accounting practices, business ethics

Types of socially responsible investing

In today’s constantly changing investment landscape, a diverse range of terms is often applied to different styles of values based investing. However, the similarity in each case is that various non- financial factors are incorporated into the investment process with the intent of delivering superior financial as well as social return. There are four main approaches to SRI , namely ESG factors, ethical investing, sustainable investing, and impact investing. This framework allows us to clearly and rigorously tailor your portfolio to help align your investments with your values.

A guide to the four main approaches to SRI are summarised overleaf.

Understanding ESG

Socially responsible investing

ESG Factors	Ethical investing	Sustainable investing	Impact investing
MAXIMISING FINANCIAL PERFORMANCE	FOCUSING ON YOUR PRINCIPLES	SOLVING GLOBAL CHALLENGES	MAXIMISING CHANGE
While there is an overlay of social consciousness, the main objective is financial performance, as well as protecting you from reputational and operational risk. Having in-depth knowledge of the ESG dimensions of a company will give you valuable insight into that firm's strengths and weaknesses.	Ethical investing goes one step further than ESG by actively eliminating or selecting investments according to specific ethical guidelines. Your ethical principles, such as religious or personal values, become the primary filter for the selection of investments. While ESG factors are typically used as a positive screen, your values are often applied as a negative screen to the investment universe.	Sustainable investing can be a broad term for investments that typically consider ESG factors, but also their impact on society. Increasingly, sustainable investing focuses on identifying investments that are consistent with achieving the sustainable development goals outlined by the United Nations in 2015. Themes include affordable and clean energy, alleviating poverty, and hunger, reducing inequality and industry innovation.	With impact investing, positive outcomes are of the utmost importance. Investments are made into companies and funds with the intention of generating environmental and social impact as well as a financial return. Return expectations can range from risk-adjusted market returns through to below-market returns, where achieving significant measurable results involves sharing of financial outcomes. Impact investing is sometimes considered an extension of philanthropy.

Why invest responsibly?

Investing ethically is nothing new. The first UK ethical fund, the F&C Stewardship Growth Fund, was launched back in 1984. However, the desire to invest ethically or socially responsibly as it is now more commonly described, has grown rapidly in the intervening period. For many years, the widely held view was that funds that invest ethically tend to underperform those with wider investment mandates. Indeed, many have seen ESG as a way of investing in line with their beliefs and values rather than as a serious investment strategy. The Covid-19 pandemic in 2020 changed that perception. What became increasingly clear at the start of the Coronavirus outbreak was that well managed sustainable businesses with sound balance sheets have better growth prospects and are more resilient.

One of the major reasons that investors have embraced more socially, and environmentally responsible investing is that they have recognised the sustainability challenges of global population growth and stressed resource availability.

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Companies are also facing pressure to lift standards of operation. This is no longer confined to manufacturing and industrial sectors but now includes financial services where companies are being asked to do more to incorporate climate change scenarios in their own risk assessments.

A growing body of research suggests that responsible investing doesn't negatively impact client returns and instead may enhance long term portfolio performance. Not only can ESG signals identify future risks that are not otherwise evident, but companies striving for excellence in this space also possess a natural drive towards innovative behaviour.

Investing responsibly is no longer confined to equities. Awareness of responsible investing is broadening beyond thinking only about equity investments to also considering fixed interest as well as credit instruments.

Our Approach

At P J Aiken, we work with a wide range of investors and understand that there are different approaches to investing responsibly. Some of our clients wish to fully align their investments with their values, while others are looking to progressively shift their portfolios on to a more responsible footing.

Whatever your goals, factoring ESG and other ethical values at the overall portfolio level is a complex process and can vary significantly depending on your beliefs, , and priorities. As such, we believe the first and most important step is to fully understand your individual circumstances, as well as your values, so we can best advise you how to achieve your goals.

Once, we have a clear understanding of your goals, your ESG and ethical values sit alongside more traditional objectives of risk and return, and help guide asset allocation, portfolio construction and security selection.