

Video transcript

## **ESG INVESTING**

**Featuring Ben Constable-Maxwell, Head of Sustainable and Impact Investing at M&G Investments.**

### **WHAT IS ESG AND WHO IS IT FOR?**

So quite simply ESG is a framework for investors to use to take into the account the extra financial and non-financial issues that face their investments as well as the financial issues.

As the name suggests there are three parts to it. E stands for environment, S stands for social, G stands for governance and sets the environmental social governance issues that companies face, that investors really need to take into consideration. Because those issues can have hugely, material impacts on the long term performance of those businesses. Both operationally and of course financially also.

### **WHAT ARE THE DIFFERENT STRATEGIES ESG INVESTORS CAN EMPLOY?**

So investors can think about a broad range of different types of ESG strategy to implement in their investment approaches. and they range from everything from exclusionary approaches where you're essentially screening out poor performing, or sometimes people think of them as sort of sin sector stock. Then you move up through ESG Integration and engagement. That's where we at M&GPrudential really think you start to add value as an investor. And then you can actually move up the spectrum of strategies, all the way up to sustainability themes or impact investing. And that's in those sort of areas you're really having more of a primary focus on delivering outcomes to society or environment. Whereas the previous scenarios are more about thinking about ESG as a set of risks in your portfolio management.

### **WHY NOW. WHAT ARE THE DRIVERS BEHIND ESG?**

So we think ESG is really an idea whose time has come and we think it's a trend and something that's really here to stay for the long term. There are there are a number of different drivers behind that. I think one of the major ones is really a shift in societal expectations around what investors have a responsibility to do and the problems that the world faces. Whether they're environmental or social problems.

We also think that legislation is, and policy, are really important drivers. The world's policymakers and governments and regulatory authorities are all really focusing on environmental social governance issues, as potentially major risks not just to companies and sectors, but actually to the whole global economy and the financial system. So this is really, heavily increasing scrutiny on this, which investors have to respond to.

The final element which I think is actually probably one of the most compelling for us as investors, is that the evidence is increasingly showing that taking an ESG focused approach results in certainly not worse returns. And increasingly the expectations are for better returns, over the long term. So investors who consider ESG issues have a better risk return profile. Have better we would say expectations of long term delivery of financial returns.

While also taking concern of some of the world's major problems which we think is a, you know a win win situation.

### **GIVE SOME EXAMPLES OF ESG INVESTING IN PRACTICE**

So, ESG is a broad term drilling down into the specific issues that we look at as investors and splitting them between E, S and G briefly - on the environmental side of things I think climate change really is becoming and is already at the top of the agenda.

It's such a major issue that companies across sectors are really going to have to deal with over time. But it's not just climate change. Other forms of environmental impacts, pollution natural resource scarcity, how we use water, those are all very much part of the 'E' piece .

On the social side the 'S' in ESG the kind of again a broad range of issues, but it's really again about thinking about the company's range of stakeholders both employees but also local communities, customers. So how do how does a company and how to us as investors how do we think about the impacts and responsibilities towards those broader stakeholders.

And I think actually, you know the 'G' in ESG comes at the end, but it's almost the most fundamental element. The 'G' is about getting the right governance of the company, ensuring the right people are managing the business and leading it forward; setting the strategy and ensuring that those people are incentivised and managing the business responsibly in the interests of shareholders. But also in the interest of that broad range of stakeholders.

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