The case for...

Sustainable investing

A more mindful way to invest

Important information

The value of investments and the income from them can go down as well as up, so you may get back less than you invest. This information is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment you should speak to an authorised financial adviser. A focus on securities of companies which maintain strong environmental, social and governance (ESG) credentials may result in a return that at times compares unfavourably to the broader market. No representation nor warranty is made with respect to the fairness, accuracy or completeness of such credentials. The status of a security's ESG credentials can change over time. Investors should note that the views expressed may no longer be current and may have already been acted upon.

The investment opportunity

2020 proved to be a pivotal year for sustainable investing, and one in which its role in shaping our economic and financial futures became more urgent.

The Covid-19 outbreak and lockdowns of entire economies around the world has sharpened the focus on companies' societal responsibilities. The CEOs of many of the largest corporations, some of which appear almost to rival governments in their reach and influence, have said that running them solely for the benefit of equity owners is no longer an option. For a start, it risks alienating non-shareholders if the long-term impact of a business on the community and environment in which it operates is a negative one.

This doesn't mean that shareholders' interests are not important – they do matter and will continue to do so. But they are not the only interests that matter. This is no brief moment in the spotlight, but a serious reappraisal of capitalism, of how enterprises are run and for what purpose.

Three reasons to consider a sustainable approach to investing

1

Aligning investments with personal values

Before the pandemic hit, investors' interest in environmental, social and governance (ESG) investing was growing in all regions of the world, and the biggest issue for many was the impact of climate change and how to address it.

This trend has accelerated in the subsequent months as Covid-19 has brought ESG issues to the forefront of people's minds with unexpected urgency. In particular, the 'S' in ESG has taken on a new prominence with a much greater focus on the societal responsibility of businesses in a global crisis. Priorities – for corporations, households and governments – have changed dramatically.

The trend of aligning investments with personal values is in place and a number of asset managers are adapting to this. For example, at Fidelity we have moved to integrate sustainability analysis more broadly into our investment process – alongside traditional financial metrics – in recognition that companies with strong sustainability credentials are most likely to survive and thrive in the long run.

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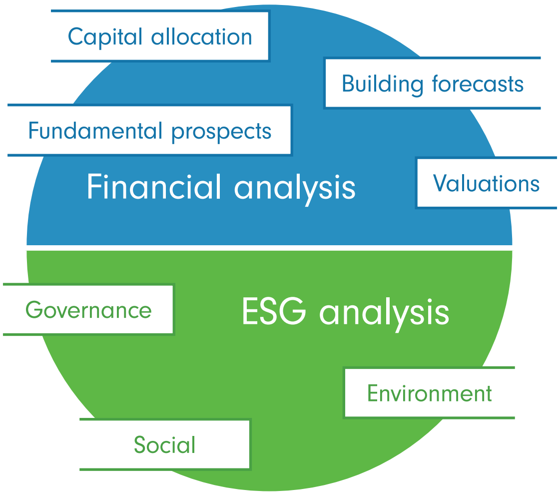

The new normal when it comes to analysing equities and fixed income

Source: Fidelity International

2 Resilient returns

A growing body of evidence indicates that companies with high ESG standards are more resilient, typically have a lower cost of capital, and may offer high quality, long-term returns. Both before and during the crisis, companies with higher ESG scores have outperformed the laggards, according to Fidelity research.

3 Looking to the long-term

Covid-19 and climate change are both planetary events that directly challenge and impact the way we live. This has presented an opportunity for companies and investors to embrace sustainable capitalism, think longer-term and reset incentives for senior executives that are tied to achieving specific ESG goals.

Sustainability factors are fundamentally a proxy for quality management. Corporate leadership teams that prioritise broader stakeholder outcomes are likely to be best placed to survive and thrive in the long-term, ultimately offering the most stable and sustainable returns for shareholders.

So what?

The length of time you invest for is the single biggest factor that determines growth opportunity – the longer the better, although of course there are no guarantees. Your savings can also benefit from compounding if the funds you invest in are the type that generate income which you use to reinvest rather than it being paid out to you. Over time this will compound, as effectively you’re getting interest on interest, helping your savings to grow even faster.

As a result, for investors focused on the long-term, the quality and integrity of a business model and the team employing it are paramount. This means avoiding companies with subpar checks and balances on their accounts, or those risking the reliability of long-term quality growth in favour of chasing short-term profits.

In this sense, sustainable investing is all about identifying trustworthy and dependable, quality companies that are built to last and integrated into transforming the world around them. In the long term, what is good for stakeholders will be good for shareholders too. This is not a zero-sum game.

There is a wide selection of sustainable funds to choose from. So it is really important to discuss with your financial adviser what your financial goals are and the outcome you are trying to achieve. Your adviser will also help you assess your risk appetite and capacity for loss based on your investment goals and time-horizon.

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