ESG INVESTING WITH A SENSE OF RESPONSIBILITY

LFA
SWISS Wealth Management for US Clients

ESG INVESTING WITH A SENSE OF RESPONSIBILITY

ENVIRONMENTAL

Environmental criteria is taking a close look at what the company does (or doesn't do) to protect the environment.

- Natural resource use
- Carbon emmissions
- Energy efficiency
- Pollution/waste
- Animal testing
- Sustainability initiatives

SOCIAL

Social criteria has to do with how well the company treats people.

- Workforce health and safety
- Diversity/opportunity polices
- Gender equality
- Employee training
- Human rights
- Privacy/data security
- Community programs
- Stakeholder relations

MONITORING

Review investments for any changes which may adversely affect them.

GOVERNANCE

Governance criteria deals with the way the company runs the business.

- Board independence
- Board diversity
- Shareholder tights
- Conflicts of interest
- Business ethics
- Management compensation policy

IMPLEMENTATION

Create an ESG portfolio with the selected investments or review an existing portfolio with ESG criteria and make adjustments.

ANALYSIS BEYOND THE NUMBERS

Research of selected companies with the information and assessment of over 150 global analysts of the MSCI ESG Research to understand the true-long-term value of an investment.

CUSTOMIZATION

Define personal preferences to invest on issues that matter to investors and avoiding investments in companies they disapprove of, when an ESG-dedicated mandate is selected.

MASSIMO BORGHESI, CIO

WHAT DOES ESG STAND FOR?

ESG stands for Environmental, Social and Governance. ESG refers to the three central factors in measuring the sustainability and ethical impact of an investment in a company or business. These criteria help to better determine the future financial performance of companies (return and risk). Today more than 20,000 companies have an ESG rating. The higher the rating the more sustainable is the business practice of a given company or institution. Factors that ESG is focusing on are:

Environmental: climate change, greenhouse gas emissions, resource depletion, waste and pollution
Social: work environment, community impact, diversity, gender equality, health and safety concerns
Governance: board structure, executive pay, legal issues ...and many more.

WHY DOES ESG INVESTING MAKE SENSE?

In general, investing in companies and institutions that have a high ESG-rating ensures a sustainable and positive development of our environment. By integrating ESG in an investment portfolio, every investor can actively contribute to a better world for the next generation.

CAN INVESTORS BRING IN THEIR OWN VALUES OF SUSTAINABILITY AND HAVE THEIR PORTFOLIO MANAGED ACCORDINGLY?

Yes, LFA is able to deliver an individualized, sustainable and responsible investing strategy. Flexibility is one of the pillars in our company's philosophy, therefore we are able to coordinate, share and personalize investment guidelines and decisions, according to each of our clients' individual values.

WHY DOES LFA INTEGRATE ESG INTO ITS INVESTMENT POLICY?

Because it's a win-win strategy. First of all, in matching our clients' demands, we feel good in contributing towards the improvement of our planet. Secondly, sooner than later, asset managers and authorities will set standards and will adopt a self-evaluation method regarding responsible investments, like it is today for performances' certification or research independence and we want to be ready for that. But the main reason is that investing in a portfolio made of "good" or "sustainable" business models and companies will deliver a higher return and a lower risk to our clients. Higher performance occurs when there is a higher demand for these companies' securities and "more sustainable" also means "higher value". The increasing awareness of ESG factors within communities and public authorities will lead to incentives for good companies and higher taxes for bad companies. Lower risk is due to the lower probability of being invested in companies suffering from litigations, fines, lawsuits etc.

HOW DOES LFA INTEGRATE ESG INTO ITS INVESTMENT PROCESS?

LFA has access to an enormous analytical database, covering single issuers and investment vehicles. In each step of our investments selection, the environmental, social and governance behavior of a company or a government are critical factors, as are traditional fundamental analysis toolkits. In our philosophy, the basic step is excluding those players with business involvements that are not considered sustainable. The next step is the selection of those companies with a sustainable and responsible profile. Part of our investments are directed to those companies, which aim for a positive impact for our planet through long-term profitable projects.

IS THERE ANY DOWNSIDE TO ESG, E.G. LOWER PERFORMANCE OR HIGHER COST?

Adopting an ESG approach in the investment process requires the use of additional human and technological resources. The relative additional costs are minimal compared to the advantages that can be extracted from the investments in the medium term, namely performance and, especially, lower risk: losses due to unexpected events, not even taken into consideration through traditional investment analysis, can be reduced massively.

HOW IS ESG INVESTING EVOLVING?

The rise of ESG investing has been constant and relentless since the term was coined in 2005. Today, ESG investing is estimated at over USD 20 trillion in assets under management. Also the criteria defining the investments are constantly evolving: from simple negative only screens (e.g. no firearms, no tobacco) to more comprehensive factors involving corporate governance, quality of management, gender equality and much more.

WHAT IS NEXT FOR ESG INVESTING? HOW DOES LFA DEAL WITH THIS?

ESG investing is part of what one calls "socially responsible investments (SRI)". LFA can incorporate ESG factors into every investment decision. We implement an in-depth monitoring of the databases from which we get the most transparent and reliable information, so we can make a selection of the investments/securities. Another part of SRI is "impact investing".
Impact investing refers to investments made in companies, organizations and investment funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return.
Impact investments provide capital to address social and/or environmental issues. They can be made in either emerging or developed markets, and depending on the goals of the investor, can target a range of returns from below-market to above-market rates. Impact investors actively seek to place capital in businesses, nonprofits, and investment funds in industries such as renewable energy, basic services including housing, healthcare, and education, microfinance, and sustainable agriculture. Impact investing occurs across asset classes; for example, private equity/venture capital, debt, and fixed income. At LFA we are working together with some of the leaders in impact investing enabling our clients to invest their funds with an active social impact on one hand and getting a market return on the other. We are currently putting more emphasis in this area to be able to widen the range of investment opportunities further.

IS THERE SPECIFIC ESG REPORTING FOR THE ESG INVESTMENT PORTFOLIO?

Yes, LFA is able to deliver a state-of-the-art portfolio and single investment reporting, with a frequency chosen by our clients. We can deliver a comprehensive overview of the ESG profile of the portfolio and its constituents, the business involvement analysis and a summary of the severity level of legal controversies. The report can go from a short summary to an extensive and deep analysis, according to the client's wish. The report is a valid tool to verify the improvement in our clients' portfolios.

LEARN MORE ABOUT IMPLEMENTING ESG INVESTING AND CONTACT LFA

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