Understanding responsible investing

"Responsible Investing involves considering environmental, social and governance (ESG) issues when making investment decisions and influencing companies or assets (known as active ownership or stewardship). It complements traditional financial analysis and portfolio construction techniques." - UN PRI

Traditional investing vs responsible investing

Let's start by looking at how responsible investing fits with the traditional investing we're more familiar with.

Traditional investing

Focused entirely on financial returns, with no restrictions on the type of companies

Responsible investing

Focused on financial returns but only from companies that meet certain criteria

Philanthropy

Focused on the environmental and social returns of an investment, rather than financial returns

From this, we can see that responsible investing means ruling out investing in some companies. But which companies? This depends on the type of responsible investing involved.

The responsible investing spectrum

At 7IM, we consider there to be four main approaches that fall within the term responsible investing. These sit within a spectrum of increasing levels of screening.

01

Ethical investing

Ethical investing is about screening out companies with a material, or sometimes even any, exposure to areas like tobacco and armaments – so called 'sin stocks'. Other common exclusions include alcohol, gambling and fossil fuels.

02

ESG investing

ESG stands for Environmental, Social and Governance. ESG investing involves screening companies based on how they perform in relation to these three factors and choosing those companies which are leaders.

How might these areas look in an investment portfolio?

Ethical

Excluding a company that derives more than 10% of its revenues from tobacco.

ESG

Favouring a packaging company that is managing environmental risks by using recyclable materials.

The responsible investing spectrum

03

Thematic investing

Thematic investing involves investing to positively address concerns like climate change, or the ageing population, thereby also gaining exposure to growth areas for the future. This could mean investing in renewable energy or healthcare, for example.

04

Impact investing

Impact investing looks beyond sustainability and ESG to what positive impact an investment has. This may be an environmental impact through the provision of clean water and sanitation, or socially, by helping to alleviate poverty.

How might these areas look in an investment portfolio?

Thematic

Investing in a company that is decarbonising its supply chain.

Impact

Gaining exposure to an education provider that is raising literacy in the developing world.

Our approach to responsible investing

At 7IM, we use a blend of investments from across the responsible investing spectrum in our solutions. Our approach means:

- You have a base level of ethical screens, thereby minimising controversial activities.
- Investments focus on companies who are leaders in managing their financially material ESG risks, thereby showing support for those companies conducting themselves in a responsible way.
- There is a focus on long-term themes such as healthcare and carbon reduction, which we believe will become increasingly important for a sustainable future.
- Investments include those in the impact space, therefore driving positive change for the environment and society.

Capital at risk

You should be aware that the value of investments may go up and down and you may receive back less than you invested originally. Past performance is not a guide to future performance.

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