Santander Asset Management

RETHINK INVESTING

Your guide to ESG

Sustainable investment and you

As sustainable (or ESG) investment becomes increasingly prominent and accessible, we see a greater preference for investment solutions aligned to factors that make a positive difference.

We're all aware of some of the more challenging issues facing humankind today. Reports of plastic suffocating the oceans, increases in social inequality and questionable corporate practices have each made headlines in recent times. You may want to play a part in making things better for the future and sustainable investment is one route you can consider for doing so.

What is sustainable investment?

Although the concept's been around for longer than you might think, participation in sustainable investment has increased significantly in recent times. There's plenty of choice too. In June 2020 there were nearly 3,500 dedicated sustainable investment funds around the world, and that number is expected to increase.[1]

Sustainable investment is about making decisions to invest based on environmental, social and governance (ESG) factors:

Environmental:
How companies approach climate change and how their operations impact the planet through things like waste, contamination and deforestation.

Social:
How a company operates in its community, covering matters such as working conditions, health and safety, employee relations, human rights and modern slavery.

Governance:
Company leadership in issues including executive pay, bribery and corruption, diversity culture and supporting policies, political lobbying and payment of taxes.

1 Morningstar – Global Sustainable Fund Flows Report, Q2 2020 (p2).

The evolution of sustainable investment

1970s

The first sustainable funds are launched amid increased demands for responsible corporate behaviour.

1980s

The Exxon Valdez oil spill leads to the founding of the Coalition of Environmentally Responsible Economies (Ceres), focusing on sustainable business practices and achieving a low-carbon economy. America bans investing in South Africa in protest against apartheid, a move that is believed to have played a key role in ending the regime. More sustainable funds are launched.

1990s

The Kyoto Protocol, an agreement among nations to reduce carbon emissions, is signed. Sustainable investment options continue to grow, but slowly.

2000s

The United Nations (UN) launches the Global Compact to bring environmental, social and corporate governance into business, coining the term 'ESG investment'. In early 2005 it invites some of the world's largest institutional investors to help develop its Principles for Responsible Investment (PRI). Participation in these begins to grow consistently from their beginning in 2006.

2010s

Companies are increasingly expected to behave ethically and transparently, looking after the environment and those who contribute to their business.

2015

Sees two key milestones influencing the rise of sustainable investment. The UN's 17 Sustainable Development Goals, a blueprint for achieving a better and more sustainable future for all, are approved by 193 countries. And, under the Paris Agreement, 196 countries agree a common goal of limiting global warming to 1.5ºC above pre-industrial levels.

2018

The European Commission publishes its sustainable finance action plan, contributing to Europe's status as the global centre for sustainable investment. By the end of June 2020 Europe accounts for nearly 80% of sustainable funds and 86% of the money flowing into them.[2]

2020

A growing appetite for ESG investment during the Covid-19 pandemic is seen in sustainable funds around the world attracting $71.1 billion between April and June. A total of $1,061.5 billion is in sustainable funds as at the end of June – a record high and an increase of 23% from March.[3]

2 Morningstar – Global Sustainable Fund Flows Report, Q2 2020 (p2).
3 As above.

RETHINK INVESTING

Making a positive difference

Investing is about making the most of your money over the long term. That's as true for ESG investment as for any other approach. But with ESG you also have the opportunity to make a positive difference to others in ways that matter to you, remembering that investment performance is never guaranteed and investments go down as well as up.

Sustainable and Responsible Investment (SRI) is an umbrella term you may come across to describe ESG investment. It's defined by Eurosif, an organisation promoting sustainability through European financial markets of which Santander Asset Management is a part, as:

> "an investment approach that integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio in order to better capture long-term returns for investors and to benefit society by influencing companies' behaviour."

In fact there are a lot of terms used around different approaches to ESG investment. Here are some others you might find it helpful to know about.

A brief A-Z

Activist investment	Where a large investor such as an investment fund or pension company will try to change things from within as a shareholder. Also known as active ownership it can involve engaging with companies on issues of concern and voting to address them at shareholder meetings.
Blue investment	Contributing to preserve biodiversity in the oceans and to help cleaning our seas by investing mainly in a specialist type of bonds known as Blue Bonds.
Ethical investment	Narrowing down investment options based on a set of principles.
Green investment	Making investment decisions that support the environment. Green funds can range from light green to dark green as the selection criteria used become stricter.
Impact investment	Seeking a measurable social and environmental impact alongside a financial return.
Screening	This may be positive or negative and is one of the most common approaches to ESG investment you may come across. Positive screening actively includes investment options based on ESG criteria, while negative screening excludes them.

A global priority

As our focus on the evolution of sustainable investment shows, one reason for its rise is the ever-increasing role sustainability plays in public policy in different countries around the world.

At a global level, the UN's 2030 Agenda for Sustainable Development consists of 17 Sustainable Development Goals to promote peace and prosperity for people and the planet.[4]

The UN Principles for Responsible Investment (PRI) is a voluntary commitment by investment providers to factor six principles into how they look at potential investments and then place clients' money.

> There are now more than 3,000 companies signed up which collectively control $90 trillion.[5]

Don't be fooled by greenwashing

One thing to be careful of is 'greenwashing,' where a company makes false or misleading claims about its sustainability. You can spot potential greenwashing if you know what to look for. Some of the signs include:

- **'green' images on adverts and brochures,** but no facts or accreditations to back them up.
- **general claims of 'doing good'** but with no details or evidence.
- **being selective with the facts, for example, an 'ethical' fund** with only a small percentage invested ethically and the vast majority not so**.**

For ESG to make a difference it must run through everything a company does, how they think, what they base their decisions on and how they benefit those around them – their employees, suppliers, clients and the communities they operate in.

When it comes to choosing the right ESG investment or service provider for you, those who are genuine and truly committed to ESG will be transparent about how they do business, what they do well and what they are still working to improve.

4 United Nations – The 17 Sustainable Development Goals.
5 Principles for Responsible Investment .

Investing for the future

Santander Asset Management carries this same DNA and is committed to its sustainable journey too. We were the first asset manager in Spain to integrate ESG into our research, our investment platform and product range and building from there we've used our years of experience and expertise to develop our own ESG ratings model for use across our global business.

This year we also became a proud signatory to the United Nations' Principles for Responsible Investments and part of the European Institutional Investors Group on Climate Change. It's all part of the journey Santander Asset Management is on to embed sustainability across all the services we provide. We believe that's fundamental to achieving a better future for our clients and tomorrow's world.

The most sustainable bank in the world

In fact, Banco Santander is the most sustainable bank in the world according to the 2019 Dow Jones Sustainability Index (DJSI) which assesses the economic, environmental and social impact of more than 175 banks around the world. It's the 19th year Santander has been included and the highest ranking was previously 3rd in 2018.[7]

Santander also increased its score to 4.3 out of 5.0 for the FTSE4Good sustainability index. The index was launched by the London Stock Exchange in 2001 and helps investors identify companies that go beyond ESG investment offerings to build sustainability into the fabric of their business.[8]

Santander Group – living our standards

At Santander Group we've a long-standing commitment to doing business responsibly, putting ESG principles into practice for a positive impact. Our sustainability work supports the United Nation's Sustainable Development Goals and the Paris Agreement to combat climate change. [6]

Let's shape a better future together

6 European Commission – Paris Agreement .
7 Santander press room – 14 September 2019. The 2020 DJSI is due to be announced in November.
8 Santander, progress we are proud of, 10 August 2020.

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