Standard Life
There's a lot to look forward to

ESG and sustainable investing: the basics

What's ESG?

An overarching investment process used to analyse a company's approach to environmental, social and governance (ESG) factors.

Investment managers use it to help better manage risk and to help generate sustainable, long-term returns.

A fundmental process for risk assessment

Will a company's impact (positive or negative) on the environment, society and people affect its future performance?

Are its activities and practices presenting investment opportunities or exposing it to risks?

What's sustainable investing?

We use this term to cover the many different types of funds that combine aiming to achieve a financial return with a specific ethical, environmental or social outcome.

Investors can choose these funds to reflect their personal values.

Individual funds focused on specific outcomes

These funds can be based on selection criteria, which may exclude certain 'negative' investments (eg weapons, tobacco, animal testing).

Or they can search out 'positive' companies which have a good impact on the environment or society (eg cleaner energy or sustainable transport).

Please remember that the value of all investments can go down as well as up, and could be worth less than originally invested.
If you're unsure about any of these descriptions, you might want to speak to a financial adviser, although there's likely to be a cost for this.

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What's ESG?

Financial assessment and risk management across all funds

Investment managers look for potential risks and opportunities that could affect the future performance of a company. So they investigate:

Environmental factors: a company's impact on land, sea, air, wildlife, plant life and the climate. For instance, a company's energy consumption, waste disposal, land development and carbon footprint.

Social factors: a company's relationship with people; its employees, suppliers, and the communities in which they operate. For instance, a company's approach to labour practices, human rights, supply chain issues and local communities. Examples could include initiatives for employee health and well-being, and how supplier relationships align with company values.

Company governance factors: the issues that affect or could affect the successful management and processes of a company such as executive leadership, operational and financial due diligence, and remuneration and strategy setting.

These factors are important in uncovering risks and opportunities affecting returns to investors. So they're important to all investors – not just 'ethical' investors.

What's sustainable investing?

Individual funds focused on what specific companies do

Below are the broad types of sustainable funds. Some funds might use a mix of these approaches depending on their objective.

Ethical funds: tend to avoid investing in companies connected to activities like animal testing, tobacco, weapons or similar. Some funds also look for companies which contribute positively to the environment and society – and some use a combination of negative and positive criteria.

Socially responsible investment (SRI) funds: invest in companies which balance their business interests with the effect they have on the environment and the community.

Faith-based funds: invest according to religious principles or laws – for instance Shariah investing, which aligns its investment principles with Islamic law.

Impact funds: invest in companies intending to make a positive – and measurable – contribution to the environment or society; solving problems through products, services and business operations.

Something to consider: **Are you looking for an investment company that uses a strong ESG process to manage risk and return across all funds? Or are you looking for an individual fund with a specific values-based objective?**

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