

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) GUIDE TO INVESTING



In society there are those who invest to make a change in the world and expect nothing in return, they are called philanthropist. Then there are investors whose sole interest is to get a financial gain and are completely unbothered by any positive or negative impacts of their selected investment, which is the opposite spectrum to Philanthropist. However, a majority of the investors fall in the middle, this group can benefit from Environmental, Social and Governance (ESG) investing.

By definition, ESG is a set of standards for a company's behavior used by socially conscious investors to screen potential investments. Another could define it as the umbrella term for sustainable, responsible financing. It is where a company discloses their impact and added value in the areas of environment, social and governance factors alongside the financial factors in the investment decision making process.

As sustainability is the front-runner or the buzzword in recent years and the essence of these words work perfectly with ESG investing.

Adopting ESG principles to a company's strategy would enable them to focus more on taking steps to lower pollution, reduce CO2 footprint, reduce waste and increase the use of renewable energy. While having a diverse and inclusive workforce, fair wages and operating an ethical supply chain to having a diverse board of directors and taking steps to embrace corporate transparency and accountability are just a few. Even though ESG is costly and time-consuming to implement, a company that turns sustainable are able to stand the test of time, as they are able to change with the times and it would be rewarding in the future.

CURRENTLY IN SRI LANKA, ESG REPORTING

IS NOT MANDATORY



Currently there are a few ESG standards available through numerous institutions such as the Global Reporting Initiative (GRI); Sustainability Accounting Standards board (SASB), European Financial Reporting Standards and International Financial Reporting Standard. Where they have form standards and defines the materiality to facilitate incorporation of ESG factors into the investment process.

Currently in Sri Lanka, ESG reporting is not a part of mandatory financial reporting; however, there are increasing number of companies that are disclosing their annual reports along with a stand-alone sustainability report.

The Securities and Exchange Commission (SEC), The Colombo Stock Exchange and CFA Society Sri Lanka (CFASL) have entered into a MOU to educate investor on ESG, the importance of effective ESG practices and the disclosure of sustainable reporting by listed companies. While encouraging listed companies to adopt CFA Institute's Global ESG Disclosure Standards for Investment Products and to introduce ESG- related new products, standards and regulations to further strengthen ESG focus in the Sri Lankan capital market.

In addition, Colombo Stock Exchange have shared a Sustainability Guide to assist and guide listed companies on how to approach the topic of sustainability.

Even though sustainability, corporate responsibility has been around for some time, ESG investing is quite a new concept; as a result, there is limited information and data available for investors to assess. Checking a company's annual reports or their sustainable report would be a good start. At the same time as investors, you should consider that the ESG factors might vary in importance when it comes to where you sit in the responsible investment spectrum, from being more environmentally responsible or whether it is for social change.

Therefore, investors could conduct research prior to investing in a company by screening the companies by their business practice and their ethical criteria.



An investor could also look into how a company directly and indirectly affects the community and its development and by assessing financial viability of an investment through the factors of the ESG framework.



ESG investing has become the new benchmark when it comes to assessing a company's corporate social conscience, which will eventually transform into a more sustainably run operation in the future. This is why investors and corporates should start paying more attention to ESG issues and address them to have a more well rounded approach to a sustainable future.



In fact, an investor no matter how he/she decides to manage their investments, conducting proper research would enable them to make informed decisions or help evaluate their investment advisor's advice. Like any other investment it is important to regularly check to make sure that the company is still align with your financial and risk profile.

As an investor who has already invested in a company, one could advocate and push for reforms into a company's corporate culture, to invest in supply chain reforms to support environmental friendly practices, or steer clear of businesses that are thought to pose negatively on ESG standards by exercising their shareholder rights.

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