



Retirement News Highlights

Tuesday, August 23, 2022

ESG: It's really quite simple

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August 22, 2022

Fiona Reynolds, long-time CEO of the PRI and now CEO of publishing firm Conexus Financial*, responds to the rising denunciation of ESG investing and claims that over-thinking, over-regulation and over-standardisation is complicating what is actually a very simple investment philosophy.

Along with many interested observers I have been following the debate that has been raging around ESG issues with some interest and lots of eye rolling. Whether it's been about "woke capitalism" or reducing ESG to "one simple measure" there is a familiar pattern, in that they all oppose or more often than not just fundamentally misunderstand what I at least consider ESG is all about.

My initial reaction was that I was just going to sit in the corner and watch the debate unfold from afar, knowing that this little storm in a teacup would soon pass. But as I watch the development of ESG investing, sustainable investment or call it what you will, it is with some concern, and not all of that concern is because of the detractors, who are in some cases either politically motivated, acting on behalf of lobbyists, misguided or just plain ill informed.

My concern mainly stems from attempts to over complicate, overregulate and over standardize the ESG space. We are never going to be able to capture the value of an investment or every issue taking place within a company in a simple data point, score, or other measurement. Evaluating ESG issues are much more nuanced than that. My concern is that these attempts, or in what I call the 'financialization' of ESG issues, just might lead to its demise, as people just want to be able to tick the regulatory box, be compliant and move on.

ESG at its core has always been a simple concept, investors who are investing over a long-time horizon, need to consider the material risks that environmental, social and governance issues may have on their investments, and they need to understand how externalities will impact those investments, as investors don't operate in a vacuum.

That the private sector has a role to play in ensuring that we create a fairer and more equitable world and put simply, that it's not ok, to profit from exploiting people or the planet. In addition, investors have leverage and the responsibility to use it, whether that is with individual investee companies, with

governments or as asset owners with the fund managers they chose to employ to manage their portfolios.

Of course, this doesn't mean that implementing ESG issues is simple or straightforward and to be able to assess ESG issues investors need data, tools and access to information from the companies they invest in. In fact, the more demand there is from investors for better data the better it will become and, in my view, the right role for regulators in this space is to ensure that we have meaningful data, so that investors can make their own informed decisions.

This is happening but as we all know there is much more to be done, but in the meantime, we cannot wait for perfect data – and of course, data is only one aspect. We should also remember a very important point that Einstein once made: 'Not everything that can be counted counts and not everything that counts can be counted.'

Investors also need governments to set the broad policy directions, for example to set Net Zero targets and then provide the industry policies and framework for investors to deploy clean capital across the economy. But beyond this, do investors really need endless regulations and legislation to tell what the right thing to do is?

Do they need governments to tell them that no its not acceptable to have modern slavery in supply chains? Or that the planet is choking, and we need to stop investing in polluting industries and invest in clean energy and technology and agricultural solutions? Or that we should invest in companies or with asset managers who are contributing to solutions for the future and who want to have a positive impact?

ESG principles can all be boiled down to a few simple truths: we all have responsibilities as citizens, and we should all act ethically, and we should invest in ways that don't contribute to human suffering or to the detriment of the planet we all inhabit. Do we really need endless regulations and legislation to understand these basic concepts before acting? I hope the answer is no.

An investor's role is not to solve the world's biggest problems, which is ultimately the role of governments. But investors do have a role, in ensuring the sustainability of their investments and considering externalities particularly negative ones in managing those investments.

As a concept, it really is that simple.

**Conexus Financial is publisher of www.top1000funds.com*

[Back to top](#)