BLACKFINCH GROUP

An Introduction to Screening

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We're adamant that a portfolio must deliver on its investment objectives, without a detrimental impact on society and the wider environment.

Screening is a method used to include or reject investment opportunities to meet this objective.

Over the last few years, Environmental, Social, Governance (ESG) has increasingly been used as a catch-all term for investing with a 'responsible' or 'ethical' screen.

ESG is not just a trend. We believe it's a key consideration for strong future business performance. Companies that strive to improve their ESG management carry less reputational risk. They'll appeal more to consumers wishing to buy from those that support and protect the environment and improve society. In contrast, companies that don't manage their ESG impacts face a shrinking customer base, increased regulatory oversight and potentially higher operational costs.

In turn, we believe that investing in companies strongly aligned with ESG considerations can lead to superior returns. We know there's a strong correlation between companies which improve their ESG factors and share-price performance.

How do we implement screening as a tool for ESG credibility?

We draw on several sources including the Principles for Responsible Investment (PRI) and the United Nations Global Compact and Sustainable Development Goals (UN SDGs) and translate them into relevant factors to assess potential investments using either positive or negative screening.

Positive screening

We focus on positively screening investments. This involves selecting firms that demonstrate good environmental management and socially responsible business practices. We aim to ensure that the fund managers behind the investments we select can, and do, exercise their power as shareholders to help shape the direction of investee companies. Such firms also often encourage other companies, like their suppliers, to engage with and improve their own ESG impact. Our approach highlights that companies need to consider the impact of their business practices and that stakeholders can collectively help steer them in the right direction. It also helps us to find investments where the company's impact on and legacy in the world is of great importance. We're highly committed to positive screening. We believe that, as stewards of capital, we have a pivotal role in ensuring that those we invest in are answerable to ESG concerns.

Negative screening

We automatically screen out investments that are prohibited under international treaties. Wherever possible, we avoid companies that create negative impacts considered incompatible with the UN Global Compact Principles, outlined below. We expect the firms in which we invest to meet fundamental responsibilities in the areas of human rights, labour, environment and anticorruption. We believe that responsible businesses enact the same values and principles wherever they have a presence. We also know that good practice in one area does not offset harm in another.

The UN Global Compact Principles:

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labour; Principle 5: the effective abolition of child labour; and
Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote greater environmental responsibility; and
Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Each investment must pass our rigorous research process to ensure that it fits our policy. We use quantitative and qualitative research to capture not just sustainability 'leaders', such as those with exemplary credentials, but also 'improvers'.

Our aim is to invest in funds that either have a focus on improving sustainability issues, or businesses that have strong metrics relating to ESG criteria. Positive screening allows us to identify investments aligned with the UN Global Compact principles informing our criteria. We also use it to question and interview each underlying fund manager. This means we can be comfortable that their investment process and views on ESG implementation align with ours.

In this way, we can find investments that set a positive example. This could be through eco products, socially responsible business practices or strong corporate governance infrastructures. We continue to seek out fund managers who invest in businesses aligned with ESG principles, that are working towards a more sustainable future. It's not just about recognising what is being done by businesses today. It's about encouraging firms to keep ESG considerations at the forefront of what they do over the long term. This helps to ensure that they continue to strive to achieve high ESG standards.

Myths around screening and ESG

It's just a fad

While ESG investing has been around in some form for decades, the recent pace of change has been remarkable. This is reflected in the growth in public awareness in sustainable lifestyles and social justice causes driven by high profile individuals, organisations and social media campaigns. Leading companies recognise that ESG is here to stay, and that a strong ESG proposition can safeguard their long-term success. Managing ESG risks and identifying opportunities can lead to growth in customer bases, markets, reduce operational costs, attractive for retaining the best employees and greater investment potential. ESG factors are increasingly being incorporated into government legislation and financial industries worldwide. In the UK, new legislation around responsible investing is expected to be announced in 2022. Furthermore, ESG offerings from investment managers have increased exponentially in recent years and continued growth is expected.

It will result in lower returns

Investing in companies that prioritise ESG considerations in their management responsibilities can lead to superior returns, and there is a strong correlation between companies looking to improve their ESG management and share-price performance. At Blackfinch, we believe that companies demonstrating, or working towards, the highest of ESG standards will be the winners of the future. Conversely, companies that score poorly on ESG factors are more likely to suffer reputational and operational risks as well as shrinking customer bases.

Only young investors care about ESG and screening

While younger investors have driven this interest, ESG is increasingly a focus for investors of all ages. Environmental campaigns such as those highlighted by Sir David Attenborough can reach all generations. This is reflected in more clients interested in passing on more of their wealth to children and grandchildren to protect their future. Additionally, even clients that do not have strong ESG preferences still wish to take advantage of superior long-term returns. Companies looking to improve their ESG credentials are more likely to benefit from increased profit generation and decreased business risk, and will logically, likely return sound profits. Questions surrounding ESG are increasingly being incorporated into most client fact-finds so advisers will find themselves having conversations on these topics more frequently. It is likely that clients of all ages will show an interest.

If you're interested in learning more about responsible investing in asset management and tax-efficient investments then speak to one of our team. Our investment products and services can be combined in a number of different ways to help your clients reach their financial goals whilst also providing a positive impact on society and the environment.

View all Blackfinch Asset Management Literature

Your capital is at risk. The value of your investments could go up as well as down and you may not receive back the full amount you invest.

IMPORTANT INFORMATION