

ESG: hype or pathway to a better future?

There is hardly a conference or investment discussion lately that does not put environmental, social and governance (ESG) factors front and centre. There is a myriad of good reasons why this is the case, although I do sometimes share the view that the ESG discussion is driven more by the marketing agenda than from an investment perspective.

As a broad basket of principles, I am totally on board with the intent of ESG. Environmental issues are real, and we need to address them or we will gift our children a future of turbulent weather and a planet that is more uncomfortable to live on than it is today. Looking at social factors, we cannot have a stable society if there are glaring inequalities between people.

One of the future challenges will be intergenerational wealth transfer as the younger generation will have fewer opportunities compared to their parents in a more competitive and winner-takes-all environment. Governance and the proper functioning of business and ultimately markets is a key factor for the accumulation and growth of wealth.

How should investors think about ESG and differentiate between the hype and real-world impacts?

All participants need to get their fair share and bad governance allows different sets of stakeholders to get a disproportionate share of economic benefits, either through preference mechanisms or, in the worst-case scenario, through corruption.

One of the challenges of ESG is that the three different components sometimes do not align and in other cases pull in opposite directions. As an example, addressing environmental concerns can have detrimental effects on the social factor. The transitioning away from coal can lead to job losses in areas that are dependent on the business and power stations that rely on coal as an energy source.

How should investors think about ESG and differentiate between the hype and real-world impacts? To me, the obvious test is whether there is evident intent and transparency. A credible approach to ESG needs to be deliberate with a clear-cut approach and palpable outcomes. These outcomes and evidence should be shared openly and transparently. It is also important to recognise that there are many trade-offs involved and when evaluating whether the ESG

approach undertaken by an investment manager is credible, it must be apparent that these trade-offs and conflicts need to be managed carefully.

At Momentum Investments, we follow an integrated approach and consider how best and practically to apply ESG in different asset classes and investment vehicles. We have a climate change policy that incorporates a just transition, which recognises that action on environmental issues needs to consider the social impact, as well as incorporate the concept of fair share, meaning the main contributors to carbon emissions – the developed world – need to take the brunt of actions to address climate change. Fair share is not only a philosophical approach but also a practical one – the developed world has financial resources that are just not available in the emerging world.

We therefore believe the right approach is a nuanced approach. We invest in renewable energy projects to address environmental issues but also recognise that we need to invest in Eskom bonds (government guaranteed of course), because energy security is important and currently one of the biggest threats to economic growth.

Can adoption of ESG drive positive change and shape our future world? In my view undoubtedly so, but it needs to be a considered approach.

At Momentum Investments, we drive both intentionality and transparency and openly share the progress (and pitfalls) that we have made in integrating ESG. For more information, visit our Responsible Investing page on momentum.co.za.

At Momentum Investments, we take our role of managing clients' money very seriously. We continuously assess what the best approaches and practices are to prudently manage clients' capital. Through sustainable investment practices we can deliver real results for clients that ultimately benefit all stakeholders, because with us, investing is personal. ■



**Mike Adsetts, Acting
Chief Investment Officer,
Momentum Investments**